



Challenger Infrastructure Fund

Half-yearly Update 31 December 2007

Challenger Infrastructure Fund

Comprising:

CIF Investment Trust 1 ARSN 114 139 703

CIF Investment Trust 2 ARSN 114 139 632

Responsible Entity

Challenger Listed Investments Limited

(ABN 94 055 293 644)

(AFSL 236887)



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Important notice

Challenger Listed Investments Limited (ABN 94 055 293 644) (AFSL 236887) (CLIL) is the Responsible Entity of CIF Investment Trust 1 (ARSN 114 139 703) and CIF Investment Trust 2 (ARSN 114 139 632), which together form Challenger Infrastructure Fund (CIF).

CLIL, as the Responsible Entity of CIF, has prepared this Half-year Update (Update) based on information available to it. The information in this Update should be regarded as general information only. Nothing contained in this Update constitutes investment, legal, tax or other advice. It has been prepared without taking account of any person's objectives, financial situation or needs. Recipients should, before acting on any such information, consider its appropriateness, having regard to their objectives, financial situation and needs, and seek the assistance of their financial or other licensed professional adviser before making any investment decision.

Any investment in CIF is subject to investment risk and other risks, including possible loss of income and principal invested. None of CLIL, Challenger Management Services Limited (ABN 29 092 382 842) (AFSL 234678) (CMSL), Challenger Financial Services Group Limited (ABN 85 106 842 371) (Challenger) or any other member of the Challenger Group gives any guarantee or assurance as to the performance of CIF or the repayment of capital.

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Any forward looking statements included in this Update involve subjective judgement and analysis and are subject to significant uncertainties, risks and contingencies, many of which are outside the control of, and are unknown to, CLIL. In particular, they speak only as of the date of these materials, they assume the success of CIF's business strategies, and they are subject to significant regulatory, business, competitive and economic uncertainties and risks. Actual future events may vary materially from forward looking statements and assumptions on which those statements are based. Given these uncertainties, recipients are cautioned not to place undue reliance on such forward looking statements.

Any past performance information provided in this Update is not a reliable indication of future performance.

CLIL does not receive any specific remuneration for any general advice which may be provided to you in this Update. However, CLIL and CMSL receive trustee and management fees as Responsible Entity and Manager of CIF, respectively. For more details on fees, please refer to the CIF 2007 Annual Report and additional information on the Australian Securities Exchange (ASX) website www.asx.com.au. Financial advisers (including some Challenger Group companies) may receive fees or commissions if they provide advice to you or arrange for you to invest in a Challenger product (including CIF). CLIL and its associates may have an interest in the financial products referred to in this Update and may earn fees or other benefits as a result of transactions in any such financial products.

Members of the Challenger Group and their officers and directors may hold securities in CIF from time to time.

Investment strategy

To provide investors with a combination of long-term, predictable income streams and potential for capital growth via investment in a diversified portfolio of global infrastructure and utility assets.

Key investment criteria:

- regulated industry or monopolistic characteristics;
- high barriers to entry;
- strong cash generation and attractive cash returns;
- long-term predictable cash flows;
- growth potential;
- first-class management teams;
- controlling or strategic stakes which provide an opportunity to influence strategic direction and monitor and manage risks.

Chief Executive's report

Dear securityholder

On behalf of Challenger Infrastructure Fund's (CIF or the 'Fund') Responsible Entity, Challenger Listed Investments Limited (CLIL) and the Fund's Manager, Challenger Management Services Limited (CMSL), I am pleased to provide this report to securityholders on the operations and performance of the Fund for the six months ended 31 December 2007.

Despite equity and capital market turbulence it has been a positive six months for CIF, with CIF recording an EBITDA¹ of \$96.5 million. Highlights for the period include:

- CIF diversified its asset base through the purchase of a 23.4% interest in Southern Water Capital Limited (Southern Water), one of the fastest growing water and sewerage companies (WaSC) in the United Kingdom (UK).
- CIF entered the Asian market with LBC's acquisition of a majority share in a terminal in Shanghai.
- Inexus continued to be the market leader for gas connections during the period. The growth in the electricity connections business continued with connections up 116% over the period and water forward orders were also received as a result of Inexus receiving a water licence.
- Arqiva was awarded a number of digital contracts as a result of the UK broadcasting industry transitioning to digital technology.
- The two gas distribution networks (GDNs), Wales & West Utilities and Northern Gas Networks have accepted the Final Proposal from the Office of Gas and Electricity (Ofgem) and now have regulatory certainty for the five year period commencing 1 April 2008.

Financial results

The Fund delivered earnings before interest, tax, depreciation and specific items (EBITDA) of \$96.5 million for the six months ended 31 December 2007. During the period, CIF's revenue was \$196.4 million. Both EBITDA and revenue were in line with the Manager's expectations and represent an increase of \$142.4 million and \$54.3 million respectively on the prior comparative period as a result of a full six-month contribution from LBC and the continued strong performance from the existing assets.

¹ Before specific items.

Distributions

For the six months ended 31 December 2007, CIF paid an interim distribution of 14.5 cents per security, totalling \$50.3 million. The dividend reinvestment plan remained suspended for this interim period.

The forecast 2008 full-year distribution is 34 cents per security, which reflects an increase of 6% over CIF's previous year's distribution guidance of 32.1 cents per security. This distribution is expected to be 65% tax deferred.

Due to the certainty attached to the cash flows generated by the underlying assets, CIF is in a position to provide medium-term distribution guidance of 5% p.a.

Robust net asset backing

On 31 December 2007, the Fund's net asset value¹ (NAV) was \$4.05, down 1% from \$4.10 as at 30 June 2007. This decrease was predominantly driven by the negative foreign currency impacts on the valuation of the assets. The underlying asset performance was strong during the period and we expect Inexus' performance to continue to strengthen as the order book grows due to water and fibre connections, LBC's expansion continued and their utilisation rates continued to improve.


Capital management

Following the purchase of LBC in June 2007, CIF undertook a 1 for 4 entitlement offer in which it raised \$249 million. The proceeds were used to strengthen the balance sheet and repay debt facilities drawn down to partially fund the acquisition of LBC.

In October 2007, CIF purchased a key strategic interest in Southern Water for £312.1² million. The purchase was funded through the issue of £97.9 million (\$225 million) in redeemable preference securities (RPS) to Challenger and a drawdown against CIF's acquisition debt facility.

¹ Net asset value per security is calculated as the total value of all CIF investments (including goodwill in Inexus), and foreign exchange movements, divided by the number of securities on issue at 31 December 2007.

² Includes transaction costs of £12.1 million.



December saw the successful syndication of the bridge component of the acquisition debt facility. ANZ, National Australia Bank, West LB and Westpac joined existing lenders Commonwealth Bank, BOS International and Royal Bank of Scotland as participants in this acquisition facility. The bridge facility was repaid and cancelled with the proceeds received from the new lenders and the term facility increased by the same amount. The strong demand for CIF's debt resulted in an oversubscription, which allowed CIF to increase the facility limit from \$540 million to \$580 million.

Performance fee

The Fund did not attain its performance fee benchmark for the six months ended 31 December 2007 due to underperformance against the ASX 200 Industrial Accumulation Index and therefore did not recognise a performance fee for this period.

Board changes

As part of CLIL's commitment to best practice corporate governance, the CLIL Board comprises a majority of independent directors.

In December 2007, Mr Stephen Gerlach, independent Chairman of CLIL since its inception, resigned from his position as Chairman and director. Over the course of Mr Gerlach's stewardship, CIF has benefited from his strong business acumen and wide-reaching experience, both of which contributed to a strong and well functioning Board.

Following Mr Gerlach's resignation, Ms Brenda Shanahan has been appointed as a non-executive director and Chair of CLIL and replaced Mr Russell Hooper on the CLIL Audit and Compliance Committee. Ms Shanahan's extensive operational experience across the financial services industry will bring valuable insights to the Board and complement the skill set of existing Board members.

Impact of rising interest rates

CIF's investments are relatively insensitive to short-term changes in interest rates, as a significant proportion of the debt in CIF's assets is hedged.

Whilst rising interest rates will have some impact on CIF's cash flows, the high level of certainty of future revenues from CIF's assets allows for the implementation of tailored strategies to minimise the impact of rising interest rates.

The manner in which CIF's investments generate revenues also provides a natural hedge to rising interest rates. Generally, nominal interest rates will rise as a result of increases in consumer price index (CPI). For regulated networks, revenue allowances are provided in real terms, with CPI increases a cost pass-through. Higher interest costs should also be reflected in higher allowed returns on the capital base. For CIF's non-network infrastructure assets, revenues are generally linked to CPI increases, such that increases in inflation are passed through to customers.

Asset update

The key operational highlights for each asset are provided below.

Inexus

CIF owns 80.4% of Inexus.

Inexus is the leading independent multi-utility in the UK, providing the 'last mile' of gas, electricity and water connections to new dwellings. Revenue is derived from charging the gas shippers, electricity suppliers and water suppliers an 'access charge' to ship their gas, electricity and water to customers through Inexus' 'last mile' connections network.

Inexus business update

Organic growth continued during the period as Inexus maintained its market leading position in gas connections. Its electricity connections continue to grow rapidly and it has begun the rollout of the water connections business securing 970 forward orders since receiving its water inset appointment from Ofwat in October 2007. During the period, Inexus achieved its highest level of gas and electricity connections since acquisition.

Financial highlights	£m
Six months ended 31 December 2007	
Total revenue	19.9
EBITDA	11.1
EBITDA margin	55.9%

At 31 December 2007, Inexus had 456,831 gas connections in the ground, having constructed 32,882 connections in the last six months. Electricity connections total 7,560 with 3,988 constructed over the same period.

The order book continues to grow, with strong sales in gas and electricity connections. At 31 December 2007 the total order book was 228,952 connection sales, comprising 173,525 gas connection sales, 53,487 electricity connection sales and the first of Inexus' water connection sales of 970. Gas, electricity, fibre and water sales for the period are illustrated in the table below.

Sales for the period	Actual six months ended 31 Dec 07	Budget for six months to 31 Dec 07	Budget FY08
Gas	33,813	33,000	66,000
Electricity	12,132	16,500	33,000
Water	970	2,000	10,000
Fibre	970	–	–
Total	47,885	51,500	109,000

Water is an attractive market to Inexus, given its size. Not only does every new dwelling need a water connection (versus only 60% of new homes with gas connected), but it needs a wastewater connection as well. Thus water requires two connections per new dwelling. Hence Inexus is looking to leverage its existing developer relationships to offer multi-utility connections.

LBC

CIF owns a 66.2% interest in LBC.

LBC is the second largest independent operator of storage terminals for bulk liquid chemicals globally, with 2.2 million cubic metres of liquid storage capacity, of which 90% is currently dedicated to the storage of chemicals. Revenue is derived from three sources, where rental fees and throughput charges make up about 85% of revenues and value adding services, such as handling and product improvement services, make up the remainder.

Financial highlights	€m
Six months ended 31 December 2007	
Total revenue	72.0
EBITDA	27.6
EBITDA margin (%)	38.3%

In September 2007, LBC entered the Chinese tank storage market with the acquisition of 90% of GEP Asia Terminals Pte Ltd. Funding was provided by existing shareholders, with CIF contributing S\$32 million in equity.

LBC's utilisation during the six months to 31 December 2007 was 94.9%. LBC remains on track with its capacity expansion program, which is focused on the US market, where demand is currently constrained by limited capacity.

Southern Water

CIF owns a 23.4%¹ interest in Southern Water.

Southern Water is the fastest growing of the 10 water and sewerage companies (WaSCs) in the UK, with approximately 100 water treatment works and 370 sewerage treatment works supplying water to over 2.3 million people and providing wastewater services to approximately 4.3 million people. Revenues are regulated by Ofwat and are derived from charging customers a tariff for the supply of water and wastewater services. The current regulatory period ends in March 2010.

Southern Water business update

Southern Water was acquired on 15 October 2007. As at CIF's reporting date of 31 December 2007, the asset did not pay any distributions to CIF but remains on track to contribute to CIF's full-year result. Southern Water is one of only two WaSCs on track with its capex program and is expected to have strong regulated capital value (RCV) growth of 31% (real) in the current regulatory period.

Arqiva

CIF owns a 6.3% interest in Arqiva.

Arqiva is one of two leading national broadcast transmission and site leasing infrastructure operators in the UK. Revenue is predominantly derived from long term managed-service contracts for broadcast transmission and public safety communications and the leasing of wireless sites to mobile communications operators in the UK. In addition, Arqiva derives revenue through the provision of broadcast and wireless communication related design, construction and maintenance services to its customers.

¹ Originally acquired 26.6%. Equity percentage proportionately reduced due to the subscription of new equity by Cheung Kong Infrastructure, Li Ka Shing Foundation and Ketail Employees Superannuation Pty Ltd in December 2007.

Arqiva business update

Arqiva continues to take advantage of the ongoing trend in the move towards digital communications and has received a number of substantial Digital Switch Over (DSO) contracts during the last six-month period, including: Digital 3 & 4, SDN as well as network access agreement with National Grid Wireless (NGW).

Financial highlights¹	£m
Six months ended 31 December 2007	
Total revenue	223.3
EBITDA	63.4
EBITDA margin	28.4%

In April 2007, Arqiva acquired NGW for £2.5 billion. The transaction was subject to review by the UK Competition Commission (CC), with the two businesses operating independently until such decision is made. In December 2007, the CC released its provisional findings and concluded that competition issues were limited to the supply of transmission services to television and radio broadcasters. In reaching this finding, the CC did not take into account any benefits in relation to the acquisition, such as synergies and the efficient delivery of DSO. A final decision is expected in March 2008.

Gas distribution networks

CIF owns an 8.6% interest in Wales & West Utilities and a 5.8% interest in Northern Gas Networks.

There are eight regulated gas distribution networks (GDNs) in the UK. Each is responsible for owning, maintaining and extending the network of pipes and associated infrastructure required to distribute gas within a specified geographic area, over which it has a regional monopoly. The GDNs derive revenue by charging gas shippers a combination of availability and volume related transportation charges.

Gas distribution networks regulatory update

In December 2007, Ofgem released its Final Proposal for Gas Distribution Price Controls. Both Wales & West Utilities and Northern Gas Networks have accepted the Final Proposal.

¹ Financial highlights are for the Arqiva stand alone business only.

The Final Proposal outlines revenues for the five-year period commencing April 2008. The Final Proposal incorporates increased allowances compared to the draft Updated Proposal with respect to operating costs, capital expenditure and cost of capital. Forecast increases in regulated asset base (RAB) over the 2008 to 2013 regulatory period amount to 19.5% and 13.7% in real terms for Wales & West Utilities and Northern Gas Networks respectively.

Wales & West Utilities business update

Wales & West Utilities performed in line with the Manager's expectations in the six months to 31 December 2007.

Following a tender process, Wales & West Utilities secured the meter services contract with National Grid Metering (NGM) for all domestic services. Wales & West Utilities safety performance for the six months was excellent and it met all standards of service in the period.


Financial highlights	£m
Six months ended 30 September 2007	
Total revenue	106.9
EBITDA	19.3
EBITDA margin (%)	18.1%

Northern Gas Networks business update

Northern Gas Networks also performed in line with the Manager's expectations in the six months to 31 December 2007.

Financial highlights	£m
Six months ended 31 December 2007	
Total revenue	145.4
EBITDA	58.6
EBITDA margin (%)	40.3%

During the year Northern Gas Networks invested £63.8m in mains and services replacement expenditure (repex) works. This is in line with a UK long-term policy replacement programme stipulated by the UK Health and Safety Executive to improve the future reliability and safety of the network. All annual decommissioning targets were delivered and Northern Gas



Networks are currently running approximately 13km ahead of internal targets for the 07/08 Regulatory year. During 2007, Northern Gas Networks was also benchmarked as the most efficient network in the UK gas industry compared to its peers in opex and repex categories by the industry Regulator, Ofgem.

Outlook

CIF's high-quality assets continue to deliver strong and predictable cash flows via long-term contracts and/or highly transparent regulatory pricing structures. Management at both the Fund and the asset level continue to identify organic growth opportunities, operating efficiencies and step change opportunities to expand the business.

Organic growth opportunities within each of CIF's assets continue to gain momentum:

- LBC will continue to develop additional capacity at its existing terminals to accommodate increasing customer demand.
- Inexus will be able to expand its forward order book by offering developers multi-utility connections with its newly acquired water inset appointment, and look to solidify its position as the leading 'last mile' gas provider.
- Southern Water will continue to upgrade its facilities to meet new European Union directives in relation to wastewater.
- Arqiva will continue to take advantage of the ongoing trend towards digital technology and deliver synergistic benefits from the NGW merger.
- The GDNs will remain focused on delivering efficiencies which will yield operating cost reductions alongside the delivery of capital and replacement expenditure programs.

The Fund is well positioned to deliver its distribution guidance of 34 cents per security for the 2008 financial year and security of cash flows combined with near-term growth strategies support the Manager's medium-term distribution guidance of 5% p.a growth.

Thank you for your continued support of the Fund over the six months to 31 December 2007.

Yours sincerely,

A handwritten signature in black ink that reads "Steve Bickerton". The signature is written in a cursive style with a long horizontal stroke at the beginning.

Steve Bickerton

Chief Executive

Portfolio summary

Asset and valuation returns

Asset	Valuation as at 31 December 2007
Inexus (£m)	239.8
LBC ¹ (€m)	218.5
Arqiva/NGW ² (£m)	126.0
Wales & West Utilities (£m)	41.5
Northern Gas Networks (£m)	40.7
Southern Water (£m) ³	312.1

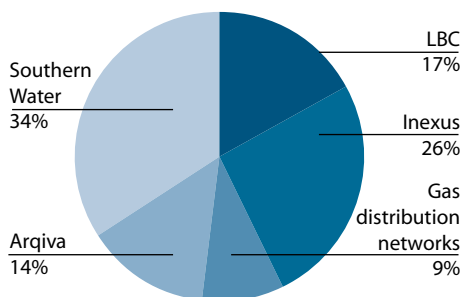
¹ Includes €10.8m acquisition of Eastern Tankstore Shanghai Shipping in September 2007.

² Includes £63.1m acquisition of pro-rata share of National Grid Wireless (NGW) in April 2007.

³ Includes capitalised transaction costs of £12.1m.

⁴ IRR calculated in local currency.

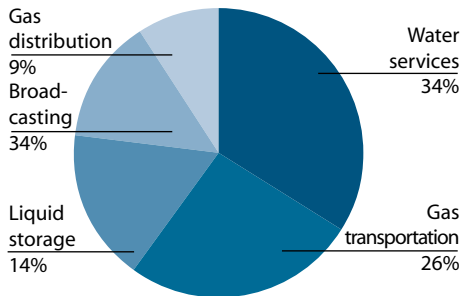
Asset diversification⁵



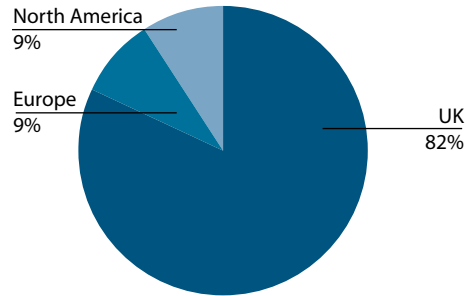


Acquisition Price	% Change since Acquisition	IRR % since Acquisition ⁴
152.0	57.8	27.8
214.7	3.8	12.5
113.9	12.1	14.7
37.3	11.3	12.3
36.4	11.8	14.9
312.1	–	N/A

Industry diversification⁵



Geographic diversification⁶



⁵ Based on Director's value as at 31 December 2007.

⁶ Based on 2007 EBITDA contribution.

Securityholder information

ASX listing

Challenger Infrastructure Fund (CIF) is listed on the Australian Securities Exchange (ASX). The Fund's units trade under the code 'CIF'. Unit prices are published daily in major Australian metropolitan newspapers, and are also accessible from the CIF website.

The CIF website

The CIF website www.challenger.com.au/cif contains important information about the Fund, including unit prices, announcements, annual reports and an overview of each asset in the CIF portfolio.

Securityholder enquiries

If you have queries relating to your securityholding or wish to provide a change of address, Tax File Number, instructions for payment of distributions or annual report elections, please contact the Registry, Link Market Services Limited, using the contact details located on the inside back cover.

Alternatively, visit the Link Investor Service Centre at www.linkmarketservices.com.au, where you can access information about your securityholding and update your holding details online.

If you have any questions relating to the management of CIF, please contact Challenger on +61 2 9994 7000, or send an email to cif@challenger.com.au.

Distributions

CIF pays distributions six monthly for the periods ending 30 June and 31 December.

Distribution payments can be paid by:

- direct credit to a nominated Australian financial institution account; or
- a cheque mailed to your registered securityholding address.

An Annual Taxation Statement is sent to securityholders in August each year. This statement includes important taxation information and should be retained by securityholders to assist in the completion of their taxation return.

Directory

Challenger Infrastructure Fund

Comprising:

CIF Investment Trust 1

ARSN 114 139 703

CIF Investment Trust 2

ARSN 114 139 632

Australian Securities Exchange (ASX) code

CIF

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