



## Sale of 1/3 of Southern at NAV

CIF sold one-third of CIF's stake in Southern Water for £100 million (approximately \$221.4 million<sup>1</sup>) at the 30 June 2008 Net Asset Valuation (NAV)<sup>2</sup>. Proceeds from the sale are being utilised to:

- repay 50% of the redeemable preference securities (RPS) on issue;
- fund an on-market buy-back of CIF securities; and
- potentially fund future opportunities within CIF's existing assets or fund further capital management initiatives.

'Over the course of 2008 CIF has undertaken a number of capital management initiatives designed to maximise securityholder value. The first example was the sale of three minority assets at a collective premium to NAV earlier this year, highlighting the embedded value in the portfolio and reducing CIF's net proportional debt by over \$1.1 billion. The sale of a third of our interest in Southern Water at NAV is another example of CIF's capital management efforts, resulting in de-risking and de-leveraging of the fund and a further \$560 million reduction of CIF's proportional net debt,' said Steve Bickerton, Chief Executive of Challenger Infrastructure Fund (CIF).

### Repayment of 50% of RPS and Extension of Maturity Date

Prior to the sale of one third of CIF's interest in Southern Water, £100.8 million of RPS was outstanding which matures in April 2010.

£50.4 million of the RPS has been repaid with the proceeds of the sale of one-third of CIF's stake in Southern Water. The term of the outstanding balance will be extended by 12 months to April 2011 and refinanced into A\$118.5 million. See CIF website for further details on the RPS.

<sup>1</sup> Assuming FX Rate at 17 December 2008 of AUD/GBP 2.2144.

<sup>2</sup> Assuming NAV is calculated using foreign exchange rate at 30 June 2008 of AUD/GBP 2.0738 and proceeds are translated at 17 December 2008 foreign exchange rate of AUD/GBP 2.2144.

### Buy-Back

CIF's intention is to undertake an on-market buy-back of up to 10% of its ordinary securities<sup>3</sup> over the next twelve months.

Brenda Shanahan, Chairperson of Challenger Listed Investments Limited, CIF's responsible entity, said: 'The Board believes that an on-market security buy-back is the most effective method to return capital to securityholders, as participation is optional, and there are benefits for both participating and non-participating securityholders.'

### Other Initiatives

CIF had in place a \$260 million undrawn acquisition senior debt facility. Given current market conditions and CIF's current focus on optimizing existing assets, the expectation was that the acquisition facility is unlikely to be utilised in the medium term and hence the facility has been cancelled. This provides CIF with some cash savings from the avoidance of commitment fees.

Remaining proceeds from the sale of one third of CIF's stake in Southern Water may be applied to fund opportunities in CIF's existing assets and further capital management initiatives.

<sup>3</sup> This represents up to 34.7 million securities, or up to 10% of the smallest number of ordinary securities on issue in the previous 12 months.



## Les Dawson awarded title Officer of the Order of the British Empire

Les Dawson, Chief Executive Officer of Southern Water has been awarded in the New Year's Honours List the title of OBE – Officer of the Order of the British Empire. The title was awarded to Les for his services to the Energy and Water Industries. Les has had an extensive career in the electricity and water industries before joining Southern Water in 2005. Since then, he has been instrumental in major changes to the culture and performance of Southern Water, drawing on his utility and commercial experience, innate abilities and undoubted commitment.

'This is a magnificent achievement for Les both personally and professionally. The entire CIF team would like to congratulate him on his new title!' said Mr Bickerton.

## Southern recognised in two categories of the 2008 International Business Awards

From an entry of over 1,700 organisations and individuals in more than 30 countries, the company was awarded two finalist certificates.

Southern Water was the only UK company to be recognised in the Best Management Team category, joining firms from the USA, Mexico and Canada.

In the award for Best Communication Team, the company won recognition along with firms from Canada, Indonesia, Turkey and South Korea.

The International Business Awards are renowned as 'the only global, all-encompassing business awards programme honoring great performances in business.' They were judged by Donald Trump and a team of judges from across the world.

Southern Water Director of Communications Geoff Loader, said: 'Being a finalist in such a prestigious award is a great achievement and to have done so in two different categories is a credit to the hard work of every member of staff at Southern Water.'

## Southern Water Community Initiatives



A youth club for five to 12-year-olds has been launched in Hampshire with a helping hand from Southern Water.

The club has been set up at St Denys Community Centre, in Portswood, where young children are suffering from a lack of facilities and activities out of school hours.

It came about after Police Community Support Office Collette Craddock spent time talking to children in the St Denys area and discovered the problems they were facing.

Hampshire Police then teamed up with HydeMartlet, Western Challenge Housing and St Denys Community Association to launch the youth club, with additional support from councillors and residents.

A pot of money has been secured to employ a lead worker and local residents have signed up as volunteers to staff the project. The pot was supported by a donation from Southern Water's Community Chest grant scheme to purchase equipment for the club.

Cathy Michaels, Regeneration Co-ordinator for Hyde Plus, said: 'It was clear the young people wanted a youth club, we just had to deliver so we were delighted to hear our bid to Southern Water for the purchase of equipment was successful.'

Helen Sparkes, Southern Water's Community Programmes Officer, said: 'We were very impressed by the efforts of the community to work together to get the youth club project off the ground and are delighted to lend our support.'

Southern Water gives small grants to organisations in the South East to support projects and initiatives, particularly those focusing on the environment, education and charitable events.



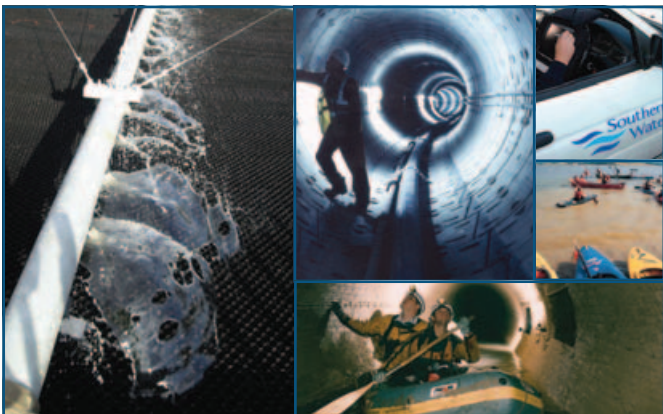
## CIF announces estimated 2009 interim distribution of 12 cents per security

CIF announced on 22 December 2008 an estimated distribution of 12 cents per stapled security for the six months ending 31 December 2008.

The interim distribution and the final distribution for 2009, will both be 100% funded from operating cash flow, ensuring a clear alignment of securityholder returns with the underlying performance of the fund's assets. Given the volatility in global equity and financial markets, the CLIL Board has prudently decided that it will not reconfirm current distribution guidance for the year ending 30 June 2009.

The estimated components of the interim distribution and the amount of tax deferral will be notified to securityholders at the time of payment in February 2009.

The 12 cent distribution will be paid to securityholders on 27 February 2009.



## CIF capital hedges up to 50% of its net foreign currency assets<sup>1</sup>

CIF's portfolio is comprised of Sterling and Euro investments which generate Sterling and Euro distributions, exposing CIF's Net Asset Value (NAV) to foreign currency movements.

CIF has previously hedged 5 years of future distributions. In response to a significant depreciation of the Australian Dollar against both Sterling and Euro, CIF has extended its foreign exchange hedging and entered into capital hedges of £108 million and £76.8m maturing between September 2010 and December 2011.

Distribution Hedging



Capital Hedging



CIF's NAV is ~ 70% hedged against currency movements

CIF's foreign exchange hedging is now comprised of hedging forecast foreign currency distributions that CIF expects to receive from its assets for the next 5 years, combined with capital hedging of up to 50% of its net foreign currency assets<sup>1</sup>.

'The extension of CIF's foreign exchange hedging demonstrates CIF's active approach to capital management. A combination of capital and distribution foreign exchange hedging has enhanced the protection of CIF's NAV from currency fluctuations whilst continuing its financial flexibility' said Steve Bickerton, Chief Executive of CIF.

The combined effect of CIF's foreign currency distribution hedging and capital hedging results in CIF's NAV being approximately 70% hedged against currency movements.

<sup>1</sup> Net foreign currency assets net of market value of current foreign currency distribution hedges.



## Changes to board of Challenger Listed Investments Limited

Challenger Listed Investments Limited (CLIL), the responsible entity of CIF, has had some changes to its composition in recent months.

Mr Russell Hooper resigned from the CLIL Board in early October 2008 after nearly four years as an independent non-executive director of CLIL. CLIL Chair Ms Brenda Shanahan said: 'Russell has made an enormous contribution to the establishment and management of Challenger's listed funds including CIF. On behalf of members of the CLIL Board, I would like to thank Russell for his commitment and valued input.'

In late November the CLIL Board announced the addition of another independent Director, Mr Michael Cole, to CLIL's majority independent Board. Mr Cole has extensive experience in the financial services and funds management sectors, having worked as a consultant to the industry since retiring from Bankers Trust Australia in 1997 where he held senior management roles over an 18 year period.

Mr Cole is currently Chair of Platinum Asset Management Ltd, Ironbark Capital Limited, and IMB Ltd (Illawarra Mutual Building Society). As well, Mr Cole is a director of NSW Treasury-Corp and a director of State Super Financial Services Australia Ltd. In 2007 Mr Cole retired as Chair of SAS Trustee Corporation, a position he held from 2000.

**Further information on the CLIL Board composition is available on CIF's website under the 'Board of Directors' tab.**

<http://www.challenger.com.au/content/ChallengerInfrastructureFund/CIFBoardOfDirectors.asp>

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### Events Calendar

17 February 2009	Half Year 2009 Results Presentation
27 February 2009	Payment date for 2009 financial year interim distribution
24 June 2009	Ex-date for 2009 financial year final distribution
30 June 2009	Record date for 2009 financial year final distribution