

## MARKET RELEASE

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### SALE OF ONE THIRD INTEREST IN SOUTHERN WATER COMPLETED AT NAV

22 December 2008, Sydney - Challenger Infrastructure Fund (CIF) today announced that it has sold £100 million of Southern Water (representing one-third of CIF's stake). The stake will be managed by UBS Global Asset Management, the manager of the UBS International Infrastructure Fund, on behalf of a major institutional client. Financial close occurred on Saturday, 20 December 2008.

The sale price of £100 million (approximately \$221.4 million<sup>1</sup>) for CIF's equity interest was completed at the 30 June 2008 Net Asset Valuation (NAV)<sup>2</sup>. Proceeds from the sale will be utilised to repay 50% (or £50.4 million) 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.

CIF also announced an estimated interim distribution of 12 cents per stapled security for the six months ending 31 December 2008. The interim distribution, which will be fully funded from operating cash flow, ensures a clear alignment of securityholder returns with the underlying performance of the fund's assets.

Chief Executive of CIF, Steve Bickerton said: "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.

"The sale of a third of Southern Water at NAV is a pleasing outcome for CIF, particularly in current volatile equity and financial markets. The transaction has given CIF financial flexibility to undertake an on market buy-back, repay 50% of the RPS and furthermore arm CIF with the capacity to fund future opportunities from within our existing assets. CIF will continue to actively manage its capital position for the benefit of securityholders," concluded Mr Bickerton.

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<sup>1</sup> Assuming FX Rate at 17 December 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.



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

CIF issued £97.9 million of RPS to Challenger Life No. 2 Ltd (CL2) in October 2007 to partially fund the purchase of Southern Water. The RPS matures in April 2010.

Prior to the sale of one third of CIF's interest in Southern Water, £100.8 million of RPS was outstanding. £50.4 million of the RPS will be repaid with the proceeds of the sale.

The term of the outstanding balance has been extended by 12 months to April 2011 and refinanced into A\$118.5 million. See Appendix A for further information on the RPS.

"The developments relating to the RPS improves the capital structure of the Fund and provides for a longer dated maturity profile. CIF will continue to actively manage its capital position," said Mr Bickerton.

### **Buy-Back**

CIF will undertake an on-market buy-back of up to 10% of its ordinary securities<sup>3</sup>. The amount of CIF securities which are ultimately bought back will be determined by various factors, including prevailing market conditions over the relevant period. Trading in CIF securities on ASX will continue as usual.

The buy-back will occur over the next twelve months and will be funded using part of the proceeds from the sale of one third of CIF's stake in Southern Water.

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 has in place a \$260 million acquisition senior debt facility. This acquisition facility is currently undrawn. Given current market conditions and CIF's current focus on optimizing existing assets, the expectation is that the acquisition facility is unlikely to be utilised in the medium term and hence the facility will be 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.

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<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.



## **FY2009 Distribution**

CIF has announced an estimated interim distribution of 12 cents per stapled security for the six months ending 31 December 2008. This interim distribution and the final distribution for 2009 will both be 100% funded from operating cash flow, the effect of which is a clear alignment of securityholder returns with the underlying performance of CIF'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.

*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 securityholders with exposure to assets with long term predictable cash flows. CIF's portfolio is diversified across 3 key assets: Inexus, Southern Water and LBC. For further information please visit our website: [www.challenger.com.au/cif](http://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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## APPENDIX A

### CHANGES TO REDEEMABLE PREFERENCE SECURITIES

	New terms	Old terms
<b>Issue Amount</b>	A\$118,500,500	£97,942,500
<b>Currency</b>	Australian dollars	Pounds sterling
<b>Face Value</b>	\$100,000	£67,500
<b>RPS Securities Issued</b>	1,185	1,451
<b>Ranking</b>	Unsecured and subordinated	Unsecured and subordinated
<b>Maturity</b>	30 April 2011	30 April 2010
<b>Coupon (Cash) Rate</b>	6.73% <sup>5</sup>	5.28%
<b>Yield to Maturity</b>	9.73% <sup>5</sup>	8.28%
<b>Redemption<sup>1, 2</sup></b>	Cash or securities	Cash or securities
<b>Exchange ratio<sup>3</sup> (number of CIF securities issued per RPS exchanged)</b>	22,472 (if prior to April 2010) 40,000 (if post April 2010)	34,473
<b>Exchange price<sup>4</sup></b>	\$4.45 (if prior to April 2010) \$2.50 (if post April 2010)	\$4.45
<b>Investor put</b>	Change of control or default or delisting of CIF	Change of control or default or delisting of CIF

- 1 CIF has discretion as to how it wishes to settle the RPS (that is, exchange for securities or redeem for cash).
- 2 Investor has anti-dilution protection. The redemption premium, effective issue price and exchange ratio adjust on a change of control event.
- 3 The number of securities per RPS determined as the face value/exchange price.
- 4 This is the price below which the investor would prefer to redeem for cash than exchange for securities.
- 5 Interest rate adjusted margin – margin remains constant, however the margin is to BBSW rather than LIBOR.

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