

# Challenger Infrastructure Fund (CIFCA)

## Half-year results to 31 December 2005



Steve Bickerton, Chief Executive  
Paul Rogan, Chief Financial Officer

24 February 2006

# Key messages

- ➔ On track to deliver on Full Year Forecasts
- ➔ Asset performance in line with our expectations
- ➔ Highly predictable distributions with growth potential
- ➔ Capacity to execute
  - flexible approach
  - experienced Infrastructure team
  - robust investment criteria
  - alignment to Challenger Group
- ➔ Disciplined acquisition strategy & strong pipeline

# Financial Highlights

Period\* ended 31 December 2005

	Actual *	PDS Forecast Full Year
	\$m	\$m
EBITDA	26.9	46.6
Operating cash flow	20.8	28.6
Distribution (cents per unit)	6.05	14.2

\* For the period from 19 August to 31 December 2005

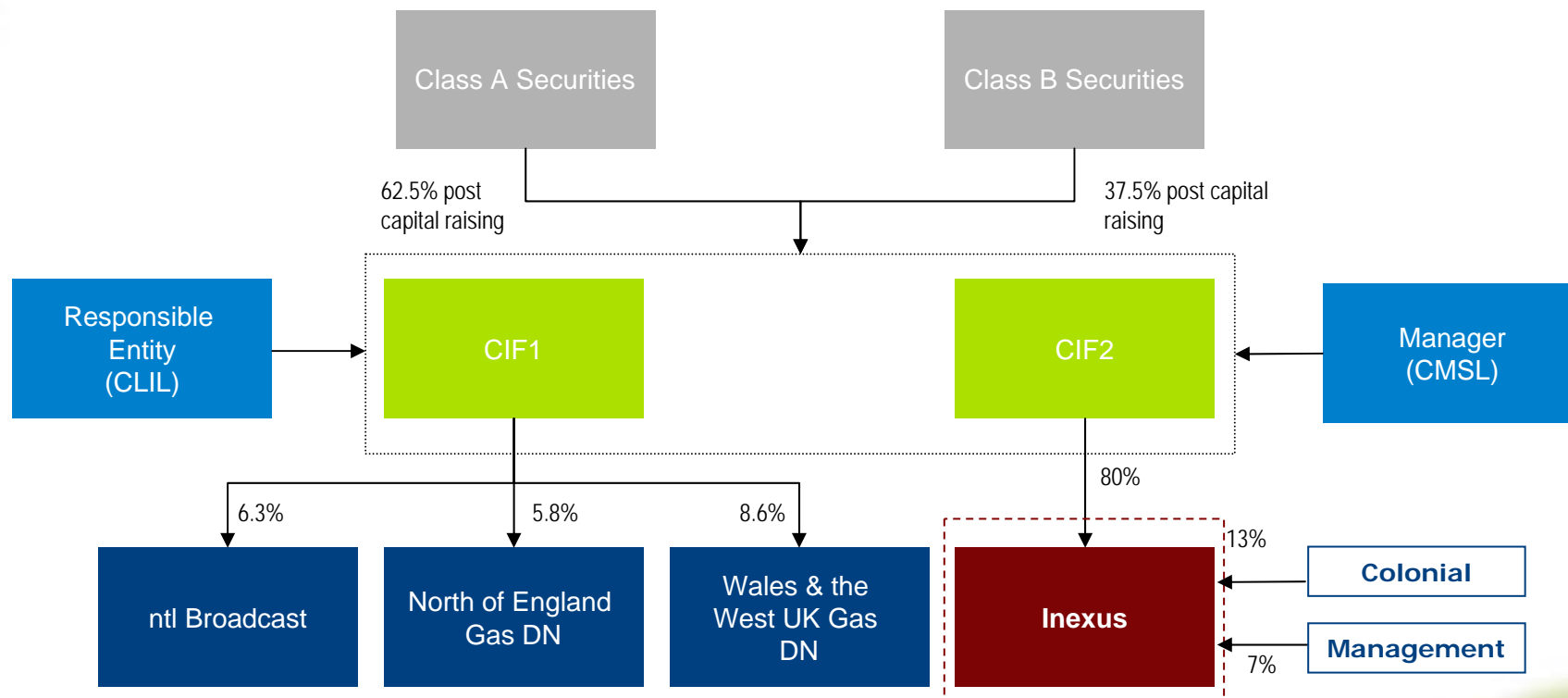
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# Fund Overview

# Responsible Entity Strengthened

- Key appointments
  - Majority of independent directors
  - Appointment of Ian Moore and Geoff McWilliam



# Challenger Infrastructure Fund to Date

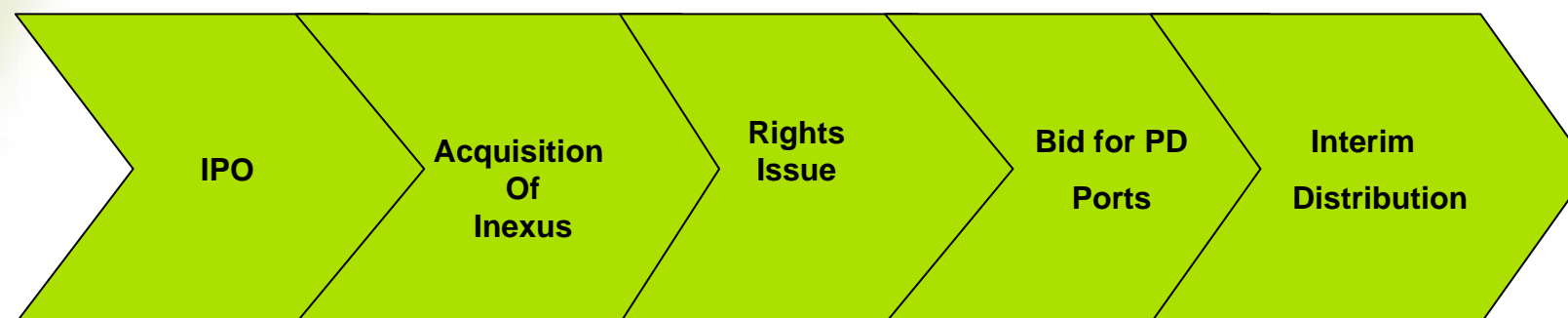
August '05

September '05

October '05

November '05

December '05



\$630m raised

Acquisition of 3  
quality Seed  
Assets

1.75 Partly Paid

UK's leading  
independent gas  
transporter

Total EV of £465m

A\$365m equity  
Investment

Management  
invested 6%

\$210m raised

Partial  
repayment of  
bridge debt

\$130m bid

Controlling stake

Disciplined  
approach  
to valuation

6.05c

# Fund Profile

CIF was established to provide investors with access to a global portfolio of infrastructure and to deliver long term predictable yields with growth

Attribute		
Yield	√	9.5% for the year ending 30 June 2005 Interim distribution of 6.05c with final of 8.15c in line with PDS
Growth	√	Inexus and Arqiva
Long term predictable Cash flows	√	All assets are owned outright (no concessions) with revenues linked to inflation and or GDP
Ability to execute	√	Seed assets (Wales and West, Northern Gas and Arqiva) Acquisition of Inexus, bid for PD Ports
Management Capability	√	Challengers Infrastructure Team
Pipeline	√	Excellent pipeline of high quality investments

# Portfolio

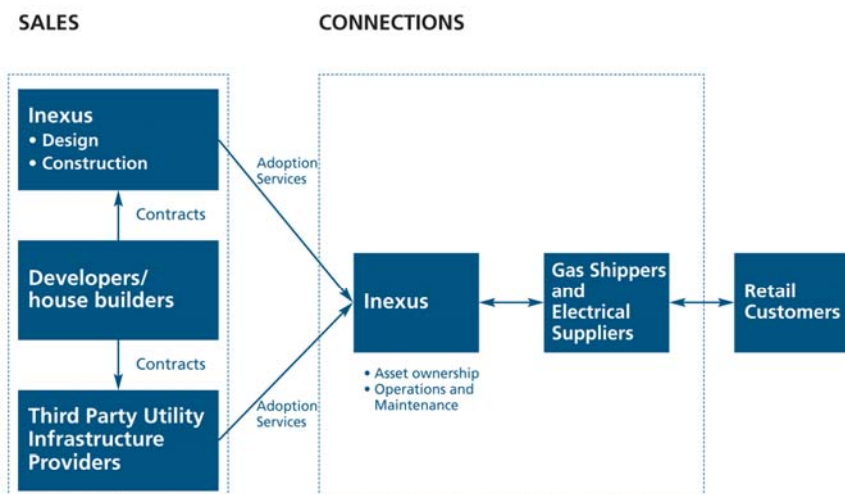
Asset	Equity ownership	Equity Investment	Consortium	Description of Business
<b>Inexus</b>	80.1%	\$A363m	Arranged by Challenger, with CIF the lead investor. Colonial (13.2%) and Inexus management (6.7%)	Leading independent gas transporter and independent utility infrastructure provider in the United Kingdom
<b>Arqiva (formerly ntl Broadcast)</b>	6.3%	\$A125m	Macquarie Communications Infrastructure Group (54%)	One of the leading national broadcast transmission and site leasing infrastructure operators United Kingdom
<b>Northern Gas Networks</b>	5.8%	\$A87m	CKI (40%). Asset managed by United Utilities plc (15%)	Regulated gas distribution business located in the North of England
<b>Wales and West Utilities</b>	8.6%	\$A91m	MEIF (31%) the lead investor. Asset managed by Wales and West Utilities.	Regulated gas distribution business located in Wales and the South West of England

# Asset overview and Update

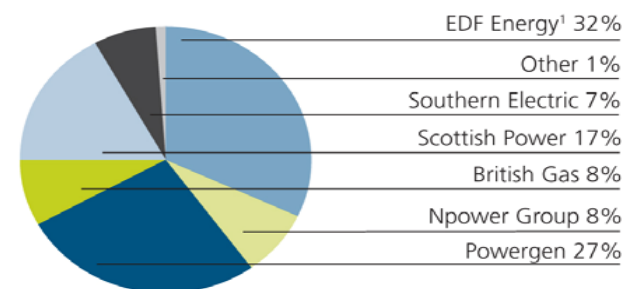
# Inexus Summary

Inexus is the leading independent gas transporter in the UK

- Revenue is derived primarily from the ownership of the Last Mile of gas pipes and electricity cables (fully linked to inflation)
- Focuses primarily on providing services to new build domestic housing estates
- Inexus' customers are the gas shippers or electrical suppliers – it has no exposure to retail customers
- Experienced Senior Management team



Key Customers (shippers) – based on 2005 revenues



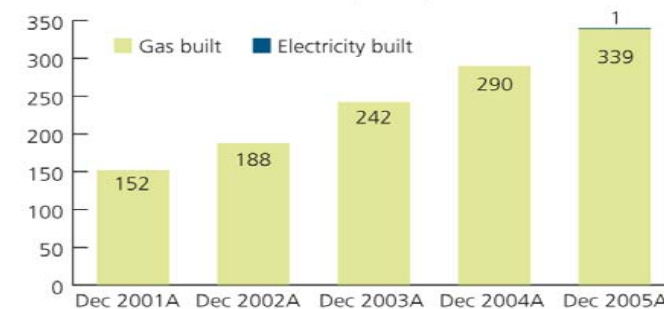
<sup>1</sup> Comprises London Energy and Seeboard Group

# Inexus - Update

- Integration now complete
- Record connections and sales in year ending December 2005
  - 76,000 sales (66,000 gas, 10,000 electricity)
  - 49,000 connections
- Electricity growth potential demonstrated
- Double digit growth in EBITDA

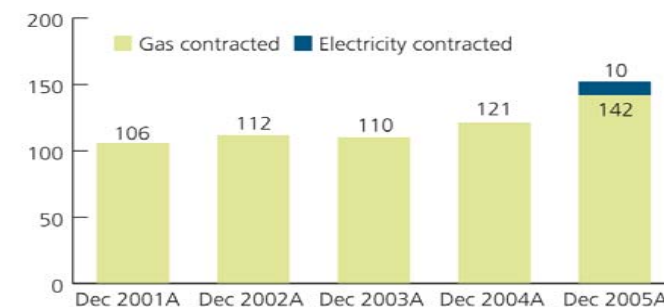
## Completed Connections

Growth in connections built ('000s)



## Order Book

Growth in contracted sales ('000s)



# Arqiva - Overview

Arqiva – the leading owner and operator of broadcast infrastructure in the UK

## Media Solutions

- Services for TV and radio broadcasters, including distribution transmission, digital multiplexing and a range of satellite services
- Provides all analogue commercial TV transmission (BBC networks are supplied by CCUK) and approximately 82% market share in the commercial radio market
- Well placed to benefit from growth in digital television and radio

## Wireless Solutions

- Second largest independent portfolio of wireless site towers and sites available for lease in the UK under long term contracts (5% market share in a highly fragmented market)

## Public Safety

- Largest provider of radio communications managed services in the UK public safety sector

# Arqiva - Update



- Overall the business continues to perform well against forecasts
- Business continues to pursue growth opportunities in Analogue and Digital radio
- Increase in revenues has been driven by acquisition of Inmedia
- DSO continues to progress well – next stage negotiation/ contracts
- Heads of Agreement has been signed with D3&4
- Public safety reorganisation has been completed

## Radio Analogue

- New FM radio licences being announced (28 to date)
- Successful in winning business from all 14 available contracts

## Radio Digital

- 91% market share of contracts awarded so far
- Ofcom announced 3 new blocks of VHF spectrum for new services

## Wireless

- 10 yr deal with T-Mobile for 3G for Glasgow
- 3G enabled for '3' - London Excel Exhibition venue

## TV – Analogue and Digital

- 'Five' analogue contract due for renewal – Arqiva preferred supplier
- Digital 3&4 signed Heads of Agreement
- Reference Offer for site access published Dec-05
- Tender for BBC Digital submitted in December

## Satellite/ Playout

- Inmedia integration progressing on track
- GBP14m of broadcast contracts signed in 1<sup>st</sup> half
- British Eurosport and NTL Home contracts have been renewed for 7 and 5 years respectively

# UK Gas Distribution Networks

## *Distribution Networks*

The Distribution Networks are responsible for owning, maintaining and extending the network of pipes and associated infrastructure required to distribute gas within designated geographic areas.

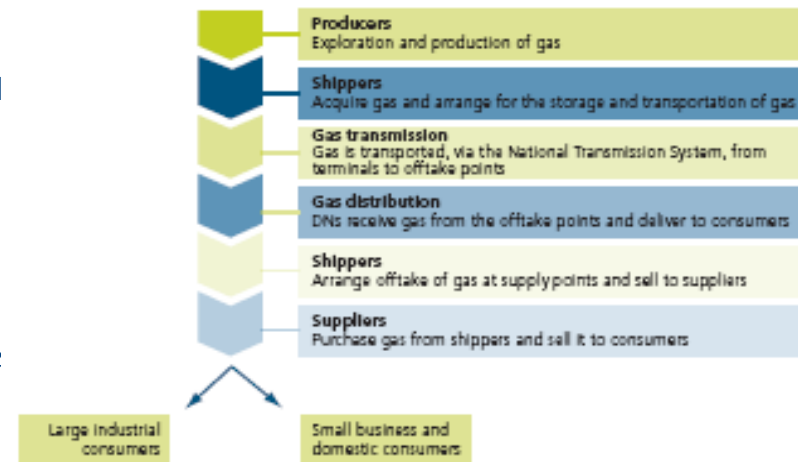
## *Business Model*

The networks act as regional monopolies: regulated by Ofgem.

Each gas distribution network will typically have opportunities to outperform regulatory targets and retain the benefits for a price control period by optimising their capital structures and outperforming operating, replacement and capital expenditure regulatory allowances.

## *Key features*

- Essential infrastructure
- Strong demand base
- Mature regulatory environment
- Robust demand growth
- Experienced management teams



# Gas Distribution Networks

	Wales & West Utilities	Northern Gas Networks
<b>Geographic Region</b>	Includes the whole of Wales and a large part of the south-West of England. The network comprises approximately 34,000km of pipelines servicing a population of approximately 7.4 million people.	Extends south from the Scottish border to South Yorkshire and has coastlines on both the east and west sides of the region. The network comprises approximately 36,000km of pipelines servicing a population of approximately 6.7 million people.
<b>Operator</b>	Wales & West Utilities	United Utilities
<b>RAV estimate at 31 Mar 04</b>	£1.08 billion	£1.21 billion
<b>Allowed return on RAV</b>	6.25%	
<b>Key highlights to 31 Dec 05</b>	<ul style="list-style-type: none"> <li>▪ Successfully transitioned to new management and operating standards</li> <li>▪ Performance in accordance with distribution forecasts</li> </ul>	

# Financials

# Result

Period ended 31 December 2005

	Actual \$m	PDS Forecast Full Year \$m
Investment revenue	15.5	14.9
Gross profit	19.1	49.5
Net revenue	34.6	64.4
Operating expenses	(7.7)	(17.8)
<b>EBITDA</b>	<b>26.9</b>	<b>46.6</b>
Depreciation & amortisation	(5.9)	(13.3)
Unrealised losses on hedging**	(14.7)	(3.7)*
<b>EBIT</b>	<b>6.3</b>	<b>29.6</b>
Interest expense	(22.4)	(57.9)
<b>NPBT</b>	<b>(16.1)</b>	<b>(28.3)</b>
Tax	0.7	(0.1)
<b>NPAT</b>	<b>(15.4)</b>	<b>(28.4)</b>

\*Includes \$0.3m forecast realised hedge gains

\*\*Comprised of unrealised fair value movements in interest rate and foreign currency hedging

# Seed Assets

Result for the period from 19 August to 31 December 2005

	Actual \$m	PDS Forecast Full Year \$m
Investment revenue		
- Arqiva	8.6	5.4
- North DN	3.4	1.7
- Wales & West DN	2.5	7.8
- Other	1.0	-
Total revenue	15.5	14.9
Operating expenses	(1.5)	(3.3)
<b>EBITDA</b>	<b>14.0</b>	<b>11.6</b>
Unrealised gains on hedging	1.1	1.1*
<b>EBIT/NPBT</b>	<b>15.1</b>	<b>12.7</b>

\*Includes \$0.3m forecast realised hedge gains

# Inexus

Result for the period from 1 September to 31 December 2005

	Actual \$m	PDS Forecast Full Year \$m
Transportation income	21.1	56.7
Other income	0.3	-
Cost of sales	(2.3)	(7.2)
Gross profit	19.1	49.5
Operating expenses	(6.2)	(14.5)
<b>EBITDA</b>	<b>12.9</b>	<b>35.0</b>
Depreciation and amortisation	(5.9)	(13.3)
Unrealised losses on hedging	(15.8)	(4.8)
<b>EBIT</b>	<b>(8.8)</b>	<b>16.9</b>
Interest expense	(22.4)	(57.9)
<b>NPBT</b>	<b>(31.2)</b>	<b>(41.0)</b>
Tax	0.7	(0.1)
<b>NPAT</b>	<b>(30.5)</b>	<b>(41.1)</b>

# Cash Flow

Period ended 31 December 2005



	Actual \$m	PDS Forecast Full Year \$m
NPAT	(15.4)	(28.4)
- Non cash items *	20.6	20.6
- Working capital	15.6	36.4
<b>Cash flow from operations</b>	<b>20.8</b>	<b>28.6</b>
Inexus debt drawdowns and prefs	1,169.5	1,198.6 <sup>^</sup>
Acquisition of Inexus	(1,160.8)	(1,160.8) <sup>^</sup>
Entitlement offer proceeds**	98.6	98.4
Repayment of bridge debt	(70.3)	(98.4)
Capex	(4.6)	(30.0)
Distributions to holders	-	(16.8)
Net cash flow	53.2	19.6
Acquired cash	13.6	26.0
<b>Closing cash</b>	<b>66.8</b>	<b>45.6</b>

\* Includes unrealised losses on hedging

\*\* Net of transaction costs

<sup>^</sup> Shown net in PDS

# Balance Sheet

As at 31 December 2005

	<b>Consol. \$m</b>
Cash	67
Receivables	440
Fixed assets	243
Seed Assets	291
Inexus Goodwill	968
<b>Total Assets</b>	<b>2,009</b>
Hedging (net)	65
Payables	83
Preference shares	72
Inexus debt	1,018
<b>Total Liabilities</b>	<b>1,238</b>
<b>Net Assets</b>	<b>771</b>
Net Assets / security-first instalment	\$1.46

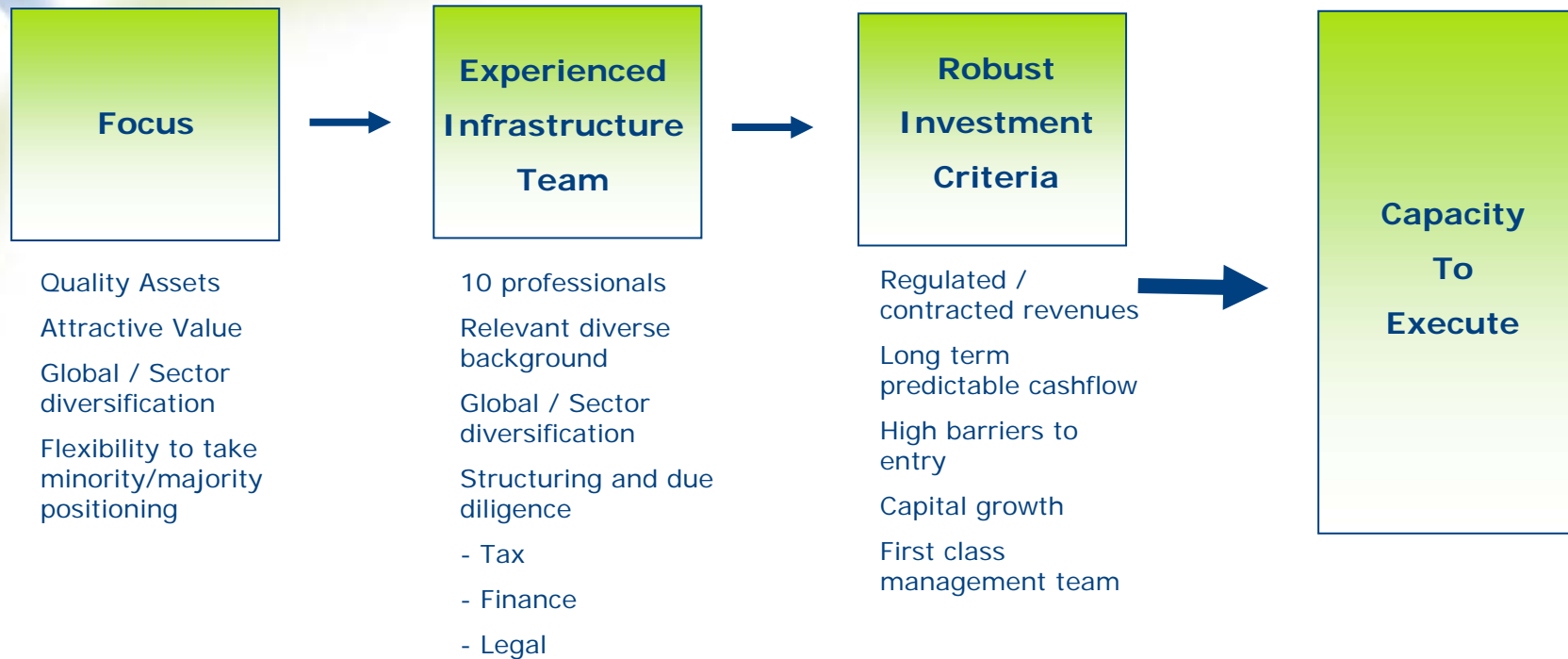
## Flexible growth funding options

- ✓ 2nd instalment due 21 August 2006 - \$420m
- ✓ Co-investment agreement with Challenger Life

<b>Reconciliation</b>	<b>\$/sec</b>
Issue price	1.75
Capital raising costs	(0.08)
FX translation	(0.07)
Fair value hedge	(0.08)
Net profit pre hedging	(0.00)
Distribution	(0.06)
<b>Net Assets – first instalment</b>	<b>\$1.46</b>

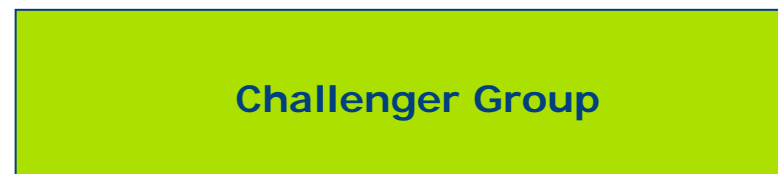
# Strategy and Outlook

# CIF – Investment Management Approach

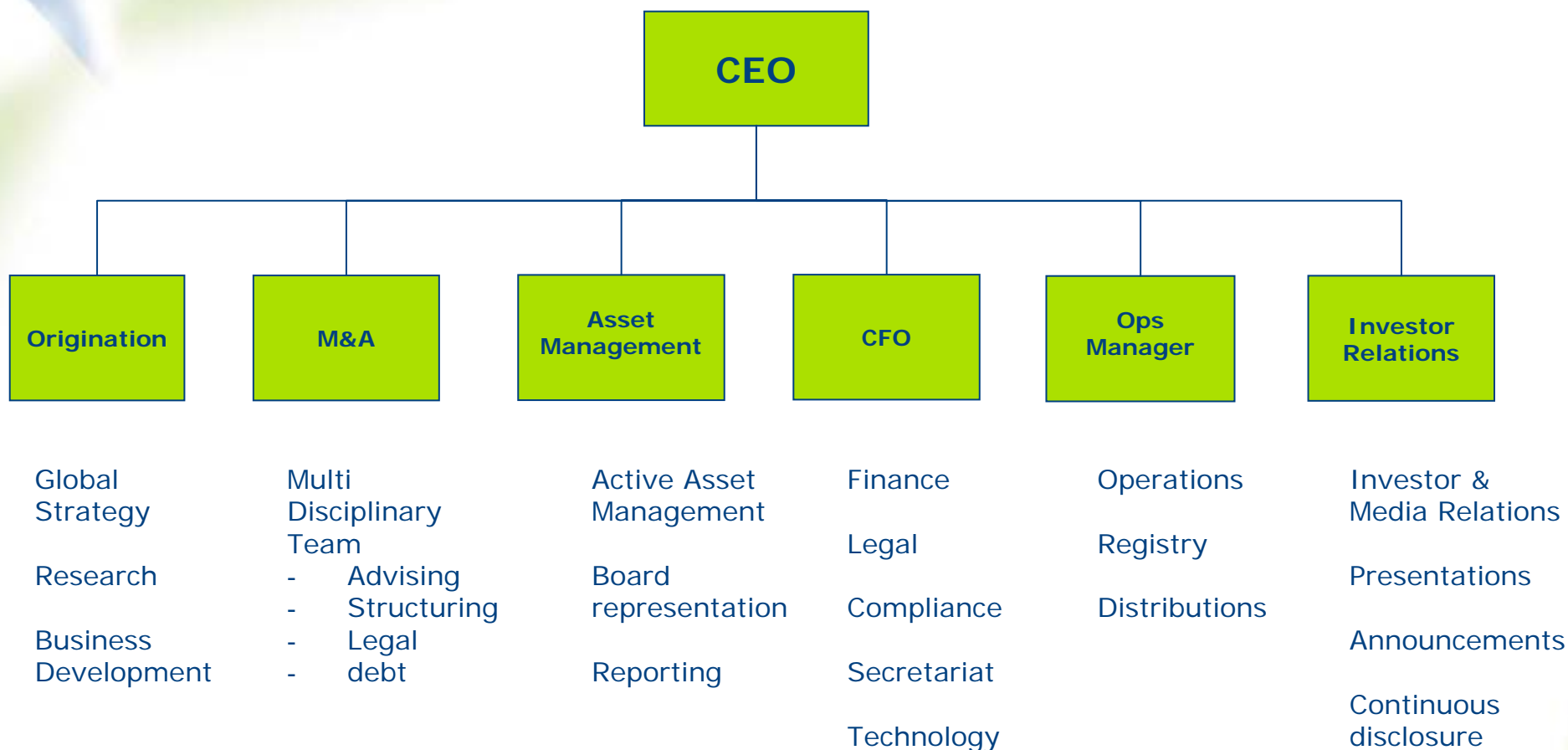


Alignment with Challenger

Co-invest agreement

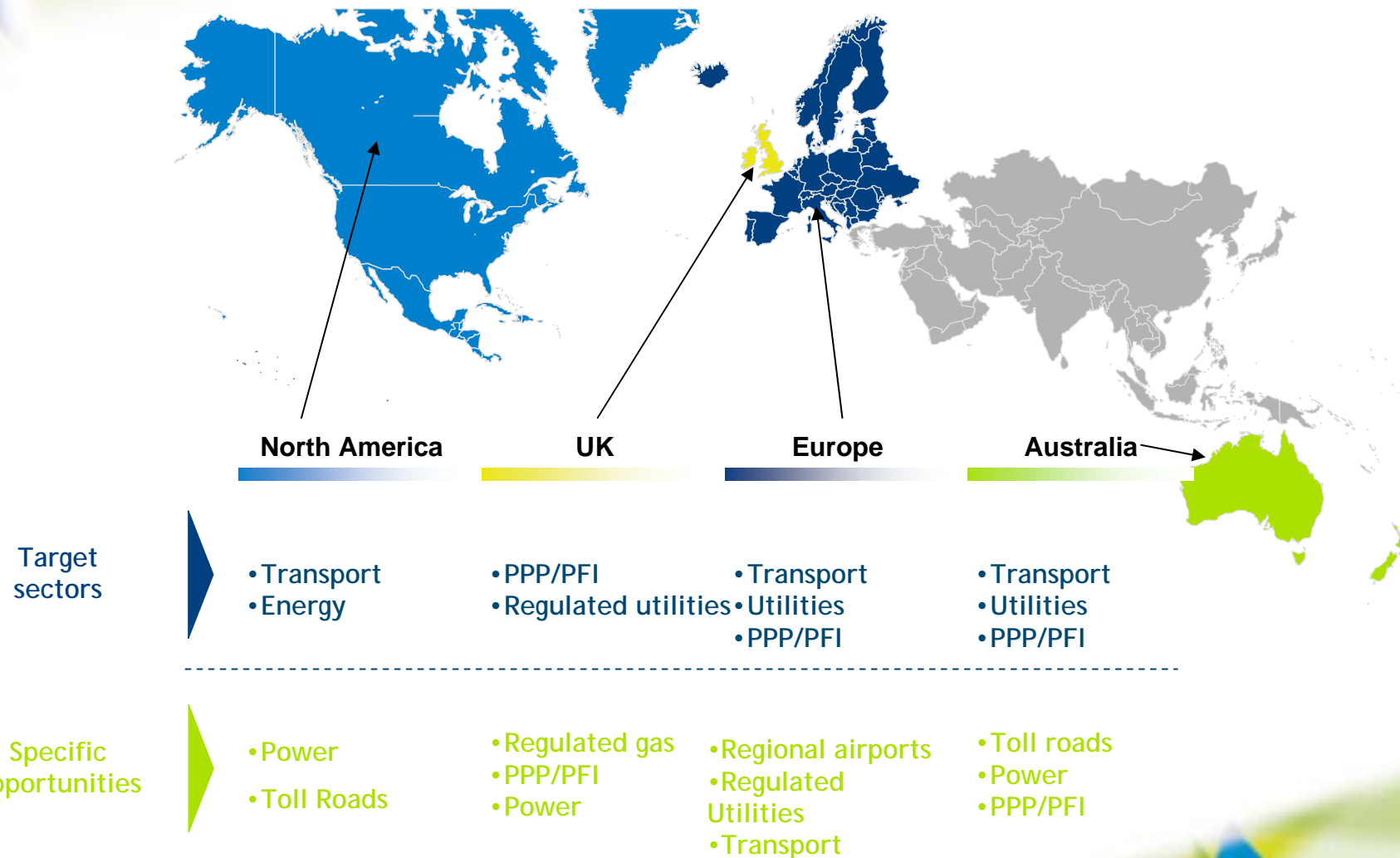


# Infrastructure Team



# Global investment opportunities

Challenger has identified significant potential investment opportunities



# Outlook for 2006

- On track to meet full year distribution forecasts
- Assets performing well
- Strong pipeline of investment opportunities
- Financial capacity and flexibility to meet growth targets

# Key messages

- ➔ On track to deliver on Full Year Forecasts
- ➔ Asset performance in line with our expectations
- ➔ Highly predictable distributions with growth potential
- ➔ Capacity to Execute
  - flexible approach
  - experienced Infrastructure team
  - robust investment criteria
  - alignment to Challenger Group
- ➔ Disciplined Acquisition strategy & strong pipeline

# Thank you

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# Appendix: Inexus swap hedging

- CIF has entered into three interest rate swaps to hedge Inexus long term exposure to interest rates
- Swaps are 25 years in duration reflecting the fact that Inexus will remain geared well beyond the expiry of the current debt facilities (which run for 5 years)
- Swaps represent an effective economic hedge structured to protect the value of the Inexus business to movements in real interest rates
- Due to the term of the swaps and nature of the hedged items certain Inexus swaps have not satisfied the onerous hedge accounting requirements of AASB139