



Challenger Infrastructure Fund

Annual Report 2006

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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Contents

Chairman's letter	3
Chief Executive's report	4
Inexus	7
Arqiva	10
Gas distribution networks	13
Investment strategy	16
Financial results	17
About Challenger	21
Corporate governance statement	22
Financial report	27
Securityholder information	75
Additional information	78
Directory	Inside back cover

*Operating within highly regulated environments, the Fund's assets have generated **strong and predictable** cash flows.*

Management expertise at both the Fund and asset level has led to the identification of additional operating efficiencies.

Importantly, it has also provided the opportunity to

***capitalise on new growth opportunities**, particularly*

in Inexus, in which CIF has a controlling interest.

*These factors contributed to the **generation of sound,***

***recurring revenues** and positive valuation movements*

*for all assets in the CIF portfolio. The **performance** of the*

Fund's existing assets has provided a solid platform from

*which to **explore future global opportunities** in the*

year ahead.

Chairman's letter

Dear securityholders,

I am pleased to present the first annual report for the Challenger Infrastructure Fund (CIF or the Fund) following its listing on the Australian Stock Exchange on 19 August 2005.

Upon listing, the Fund held three seed investments in Wales and West Utilities (8.6% interest), Northern Gas Networks (5.8% interest) and Arqiva (6.3% interest). These investments were attractive investments for the Fund as they met several key investment objectives, including the generation of stable cash flows via long-term contracts and/or highly transparent regulatory pricing structures.

The seed investments have all performed in line with expectations, and have all experienced a valuation uplift since they were acquired by the Fund.

The purchase of an 80.3% interest in Inexus on 31 August 2005 marked the first investment in which CIF holds a majority ownership position, presenting the Fund with an opportunity to enhance its distribution profile and providing a strong platform from which to generate future returns. Inexus' operating performance has been strong, with new gas and electricity connection sales exceeding forecasts. The high degree of revenue certainty and continued organic growth has contributed to a 12.4% uplift in valuation in the 10 months since this asset was acquired.

The Fund distributed a total of 14.2 cents per unit for the period, in line with the forecasts in the Entitlement Offer Product Disclosure Statement issued on 19 October 2005.

Receipt of the second instalment proceeds of \$420 million in August 2006 has refreshed the Fund's borrowing capacity and provided a further \$131 million of cash to fund new investment opportunities.

The Fund's security price traded below the issue price during the period, driven by a number of factors including the current position in the investment cycle, uncertainty regarding interest rate movements and competition for equity by a number of other infrastructure funds launched during the period. As CIF continues to build on its track record in infrastructure investment and management we believe that its strong underlying asset portfolio, disciplined investment strategy and focus on maximising investor returns should increase its appeal to a broader range of investors.

In the year ahead, CIF will continue to focus on extracting further value from its existing assets and sourcing new opportunities consistent with its investment criteria.

On behalf of the Board of Challenger Listed Investments Limited, I would like to thank you for your support of the Challenger Infrastructure Fund.

Yours sincerely,



Stephen Gerlach
Chairman

Chief Executive's report

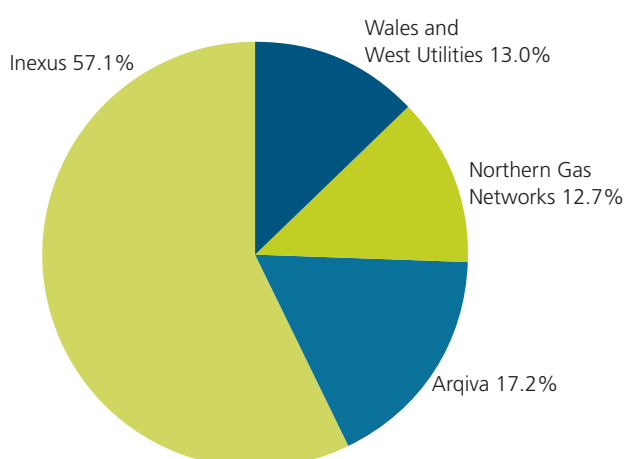
Dear securityholders,

In its first year of operation, Challenger Infrastructure Fund (CIF or the Fund) has delivered financial performance ahead of expectations, underpinned by a combination of strong regulated and contracted operating cash flows from its portfolio of quality infrastructure assets.

The Fund currently has interests in four assets, three of which were acquired as seed assets at the time of the initial public offering. These assets provided a solid foundation for the Fund, operating in markets where they have significant competitive advantages, and providing exposure to highly regulated and/or contracted revenue streams. The acquisition of an interest in the Fund's fourth asset, Inexus, added a new dimension to the Fund, providing a sound recurring revenue base with significant organic growth potential.

The composition of the Fund's portfolio is detailed in the pie chart below. A full description of each of the assets in the portfolio commences on page 7 of this report.

CIF portfolio composition



Distribution

Consistent with the forecast in the Entitlement Offer Product Disclosure Statement (PDS) issued on 19 October 2005, CIF has paid a distribution for the period to 30 June 2006 of \$34.1 million, equating to 14.2 cents per security. A total of 81.5% of this distribution was tax deferred.

Financial results

The Fund's earnings before interest, tax, depreciation and amortisation (EBITDA) of \$56.7 million was \$9.8 million higher than the PDS forecast of \$46.9 million. After taking into account one-off impacts, the Fund's normalised EBITDA of \$49.5 million was \$2.6 million above the PDS forecast. The key variances to the PDS forecast were higher than forecast investment revenues from the seed assets (including one-off items), receipt of interest income from cash held on balance sheet, higher gross profits from Inexus and higher than forecast realised gains from favourable currency movements. These factors were partially offset by higher operating expenses within Inexus.

The Fund generated a net loss after tax of \$20.7 million for the period ended 30 June 2006. This was better than the forecast net loss of \$28.4 million in the PDS.

Summary of key financial results for period ended 30 June 2006

	Actual	PDS forecast
Total revenue (\$m)	82.6	71.6
EBITDA (\$m)	56.7	46.9
Normalised EBITDA (\$m)	49.5	n/a
Net loss after tax (\$m)	(20.7)	(28.4)
Distributions to securityholders (\$m)	34.1	34.1
Distribution per security (cents)	14.2	14.2

A detailed comparison of the Fund's financial performance against PDS forecasts is contained in the Financial results section of this report (pages 17-20).

Capital structure

The Fund's initial public offering (IPO) in August 2005 raised a total of \$630 million, payable in two equal instalments. The \$315 million in proceeds from the first instalment were used to fund the acquisition of the seed assets and issue costs associated with the IPO.

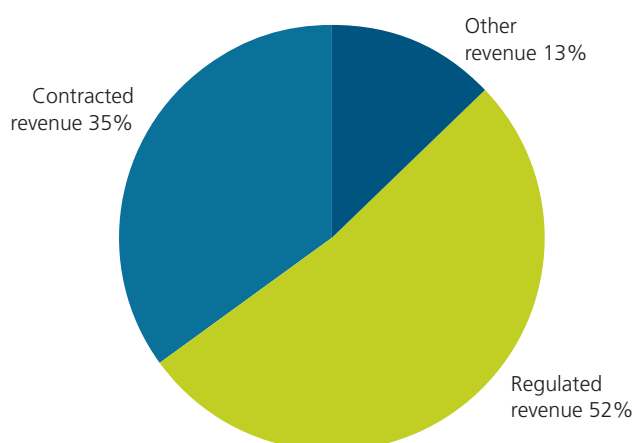
The Fund undertook an Entitlement Offer for a further \$210 million in October 2005, also on an instalment basis. The first \$105 million instalment was used to partially fund the Inexus acquisition. The remainder of this acquisition was funded via an initial draw on the bridging debt facility of \$294.5 million.

Receipt of the \$420 million proceeds of the second instalments from the IPO and the Entitlement Offer on 21 August 2006 were used to pay down the bridging debt facility. The remaining \$131 million will be available to fund future investments that meet the Fund's investment criteria.

Stable asset performance

Operating within stable regulatory environments, CIF's assets have generated predictable cash flows. As illustrated in the pie chart below, over 87% of the Fund's revenue for the period was derived from regulated or contracted income. This percentage is expected to rise above 90% in 2007 as revenues from Inexus are derived for a full 12 month period and its new gas connection sales from prior periods are built out.

CIF portfolio by revenue source



The generation of strong inflation hedged revenues within the assets was complemented during the year by the identification of new sources of revenue and the realisation of operating efficiencies.

Management expertise at both the Fund and asset level provided the opportunity to capitalise on new growth opportunities, particularly in Inexus and Arqiva. The ongoing renewal of the Inexus gas connection order book via new gas connection sales, combined with the promising take-up of the 'dual-connection' offering of both gas and electricity connections, supports strong forecast growth in Inexus' recurring revenue base. Arqiva has broadened its revenue base, predominantly through capitalising on opportunities created by digital switchover, and also through participation in growth in wireless communication.

Importantly, management have also identified additional operating efficiencies, particularly in the gas distribution networks, where the transition from public to private ownership has resulted in an increased focus on operational efficiency and capital management discipline.

Asset valuation uplift

The Fund's assets were independently valued during the period. The growing revenue base within each asset, together with the development of new organic growth opportunities, particularly within Inexus, has contributed to an overall positive portfolio valuation uplift of 8.0%.

Notably, the 12.4% increase in the value of Inexus was due to growth in its gas connections base during the period, greater certainty around completion of the order book and the substantial level of electricity connection sales following the launch of this component of the business in 2005. Whilst accounting standards preclude the recognition of any uplift in the Inexus valuation on the CIF balance sheet, this valuation supports the valuation of Inexus on acquisition and highlights the significant organic growth potential within this business.

Uplift from asset valuations

	CIF ownership interest %	Carrying value of investment pre-valuation uplift \$m	Carrying value of investment post-valuation uplift \$m	Uplift from independent valuation	
				\$m	%
Arqiva	6.3	126.5	127.5	1.0	0.8
Northern Gas Networks	5.8	90.6	94.4	3.8	4.2
Wales and West Utilities	8.6	92.8	96.6	3.8	4.1
Inexus	80.3	377.8	424.5	46.7	12.4
Total		687.7	743.0	55.3	8.0

* Asset valuations were undertaken in GBP and converted to AUD at 2.4890.

Details of the valuation results are contained in the table above.

Following this revaluation uplift, the Fund's net asset value per security¹ increased \$0.23 to \$3.65 at 30 June 2006.

Positive outlook

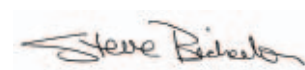
The Fund's outlook is positive. Its portfolio of assets continues to generate highly predictable cash flows from the strong, recurring revenue base which exists within each asset. In addition, opportunities for revenue growth are being driven by the identification of both operational efficiencies and in the case of Inexus and Arqiva, expansion into new markets.

CIF's experienced team will continue to source global investment opportunities in growth oriented utilities and infrastructure, backed by the Fund's strong balance sheet and clear investment mandate.

The Fund remains on track to deliver on its distribution guidance for the 2007 financial year of 28.8 cents per security².

Thank you for your support of the Challenger Infrastructure Fund.

Yours sincerely,



Steve Bickerton
Chief Executive

¹ Net asset value per security is calculated as the total value of all CIF investments including the valuation increase in Inexus and foreign exchange movements, divided by the number of securities on issue at 30 June 2006.

² Assumes \$131 million of second instalment proceeds held as cash and earning cash rate.

Inexus

CIF owns 80.3% of Inexus.

Inexus is the leading independent gas transporter (IGT) in the United Kingdom (UK), providing the 'last mile' of gas connections to existing and new dwellings. Revenue is derived from charging the gas shippers an 'access charge' to ship their gas to customers through Inexus' 'last mile' gas connections network.

Inexus derives its revenue from ownership of existing gas connections. This revenue is highly predictable, with the 'access charge' paid by gas shippers subject to regulation by the UK Office of Gas and Electricity Markets (Ofgem). Under legacy settlement arrangements that Inexus has entered into with Ofgem, this 'access charge' has been fixed in real terms and indexed to inflation for all revenues contracted prior to 1 January 2004. This pricing regime will remain in place for the majority of legacy assets until December 2018.

For all connections contracted post-1 January 2004, Ofgem benchmarks the price that an IGT can charge against the level that the incumbent national gas transporter, National Grid Transco, prices its own gas connections.

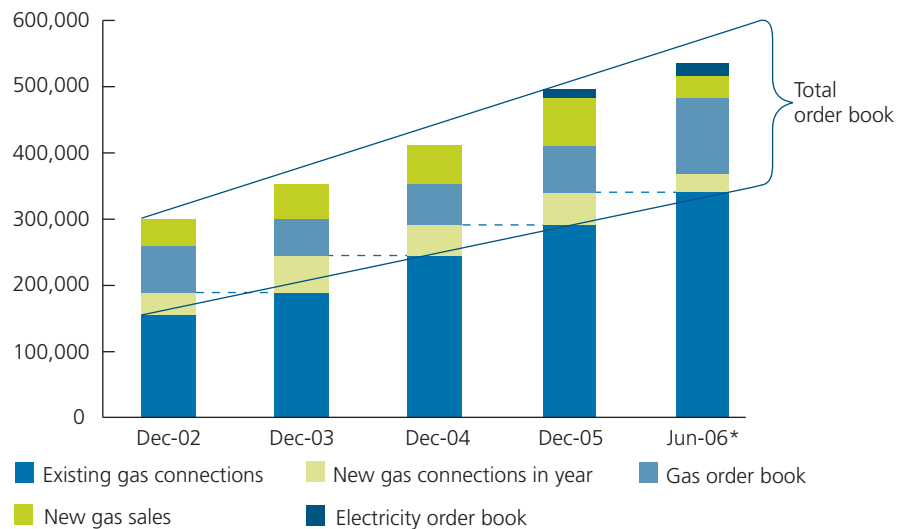
Growth in Inexus' revenue is generated by building of connections for new dwellings, which once completed and in the ground add to Inexus' recurring revenue base. Revenue growth is therefore highly predictable over the medium term, with the lag between the sale of a connection (when developers are beginning their project) and its eventual construction essentially providing a rolling two to three year transparent outlook for growth in the recurring revenue base.

The chart below illustrates the high degree of predictability of future revenues. Over time, it is possible to predict the revenue from the existing connections, and the additional revenue as the newly built connections transfer from the order book to the existing connections revenue base.

The stability of the order book over time is a reflection of new connection sales made each year. The order book is continually renewed via new sales as construction of existing orders is completed.

As the revenue per connection is set by the regulator, competition for construction of new connections (and the associated future revenue stream) is based on the price at which each transporter can bid to developers. Ownership of the largest independent gas connections base in the UK provides Inexus with significant scale advantages when bidding for new connection contracts. As a scaleable business, the construction of each additional connection improves the fixed cost leverage across its operating platform, effectively reducing the cost per connection that Inexus can bid for construction of new connections with developers.

Inexus total connections and sales



Contribution to CIF's performance

Revenues from Inexus are indexed to inflation, and borrowings have been 100% hedged for a 25 year period. CIF's forecast distributions from Inexus are protected from foreign exchange rate fluctuations with a rolling five year foreign exchange hedge.

Key results

30 June 2006

Distribution to CIF (\$m)	9.3
Value of CIF's interest (\$m)	424.5

CIF's distribution from Inexus was \$9.3 million for the 2006 financial year, marginally above the PDS forecast of \$9.2 million.

CIF's share in Inexus was independently revalued at 30 June 2006, with an uplift of 12.4% in value recorded since its acquisition in August 2005 (after the exclusion of the impact of foreign exchange movements).

Outlook

The outlook for Inexus remains strong. The existing recurring revenue base and significant order book provides a high level of predictability around future revenues. Inexus' dominant position in the market for new gas connection sales remains stable, underpinned by its competitive cost advantages in bid pricing for new connections and the positive outlook for construction of new dwellings in the UK over the medium term.

Electricity sales are progressing ahead of expectations, with the bundling of gas and electricity connections during the dwelling construction phase proving an attractive option for developers. The finalisation of the regulated pricing regime for this market in the next 12 months should provide greater certainty around the future revenues from this division.

In the year ahead, the Inexus management team will continue to focus on maintaining its market share in new gas connection sales and enhancing operating efficiencies to further leverage its fixed cost base. This will be supported by the growing momentum in electricity connection sales, and the exploration of further opportunities to 'bundle' utility services in the 'last mile' network.

The Inexus management team has a reputation for quality and innovation. As a pioneer of the independent gas transport market, Inexus has developed a strong relationship with new dwelling developers and the regulator. Recently, the Inexus management team has devoted significant energy to the development of the independent electricity connections market. Currently, Inexus is the only active licensed and accredited Independent Distribution Network Operator (IDNO) for the provision of new electricity connections within the UK. Inexus' ability to offer a bundled gas and electricity connection to developers is a key competitive advantage when bidding for new contracts with developers, and is expected to drive growth in new electricity and gas connection sales in the future.

Performance

At 30 June 2006, Inexus had 365,000 gas connections, and retained its market leading position in new gas connection sales throughout the year. For the first six months of the 2006 calendar year, new gas connection sales have totalled 34,854, and Inexus remains on track to meet budgeted new gas connection sales of 66,000 for the 2006 calendar year.

The launch of the electricity connections business in 2005 has seen promising take-up by developers. For the six months to 30 June 2006, 10,537 electricity connection sales were made. This is above Inexus' expectations, with this division well placed to meet its initial forecasts for the 2006 calendar year of 20,000 connections.

Regulated industry: The IGT sector is regulated by Ofgem, which regulates the price that IGTs can charge gas shippers to pass gas through the connection. Existing connections contracted prior to 1 January 2004 are subject to a legacy pricing settlement that will remain in place until December 2018. For all connections contracted from 1 January 2004, Ofgem benchmarks the price that the IGT can charge against the level that the incumbent national gas transporter, National Grid Transco, prices its own gas connections.

Market position: Inexus is the leading independent transporter of 'last mile' gas connections to new dwellings in the UK. Once built, the transporter has a monopoly on the gas pipes that connect the dwellings to the gas distribution networks.

Long-term, predictable cash flows: Energy suppliers pay Inexus an 'access charge' to use Inexus' connections to access their own customers. Revenues are highly regulated and indexed against inflation, ensuring maintenance of real income.

Growth potential: The certainty implicit in the order book on a two to three year basis provides continual growth in the recurring revenue stream. In addition to the traditional gas connections business, Inexus will generate further organic growth via the rollout of its 'dual connection' offering of gas and electricity. Further growth potential may also exist in bundling additional utility connections within the Inexus offering.

Ownership: CIF has a controlling interest in Inexus, providing it with opportunity to participate in strategic decision making within the business, and to leverage its operating platform to explore future opportunities within the UK utilities sector. CIF co-invests in Inexus alongside the Inexus management team, who via its equity interest has a long-term alignment to CIF's core objective of maximising returns from this asset.

Arqiva

CIF owns 6.3% of Arqiva.

Arqiva is one of the two leading national broadcast transmission and site leasing infrastructure operators in the UK.

Arqiva derives the majority of its revenue from the leasing of its broadcast towers, teleports and wireless sites on long-term contracts to transmitters of analogue and digital broadcast content and wireless communication providers 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. Arqiva's customers include all major commercial television and radio

broadcasters, the leading UK mobile wireless operators and a range of public safety organisations (including police, fire, ambulance and coastguard services).

Arqiva has five revenue-generating divisions; terrestrial media, satellite media, wireless solutions, public safety and mobile media.

The terrestrial media division

provides analogue and digital broadcast services to television and radio broadcasters. This division primarily generates its revenues from leasing space on its broadcast towers and the transmission of broadcast content. By 2012, the UK Government has determined that the switch from analogue to digital

terrestrial television will be complete. Arqiva is using this period of change to leverage into long-term digital contracts with broadcasters.

The satellite media division

provides media content management and distribution services for 500 satellite services globally, including 180 channels on BSkyB. Revenue is generated through the provision of broadcasting satellite content through four teleports located within the UK and leveraging off Arqiva's 70 major uplinks, studios, post production, outside broadcast and playout facilities.

The wireless solutions division

provides wireless infrastructure systems and services to mobile telecoms, broadband and transport industries. Revenue is generated from long-term contracts with wireless providers who pay rent for the use of Arqiva's 2,400 towers, masts and managed sites, enabling the provision of their wireless network. Additional revenue is also generated through the design, planning and installation of customer equipment and antennae on Arqiva's towers.

Contribution to CIF's performance

Revenues from Arqiva are partially indexed to inflation and 95% of Arqiva's borrowings are hedged until 2009, with additional hedges in place over 50% of forecast borrowings for a further five years. CIF's forecast distributions from Arqiva are protected from foreign exchange rate fluctuations with a rolling five year foreign exchange hedge.

Key results

	30 June 2006
Distribution to CIF (\$m)	18.5
Value of CIF's interest (\$m)	127.5

CIF's distribution from Arqiva was \$18.5 million for the 2006 financial year. This was \$1.7 million above the \$16.8 million forecast in the PDS as a result of stronger than expected operating performance.

CIF's share in Arqiva was independently revalued at 30 June 2006, with an uplift of 0.8% in value recorded since its acquisition in August 2005 (after the exclusion of the impact of foreign exchange movements).

The public safety division is the leading provider of frontline communications services and support for 'blue light' emergency services, government and industry bodies within the UK and Ireland. Customers of this division include police, fire brigade, ambulance and coastguard services.

The mobile media division was recently created to capture the growing demand for video, audio and data broadcasting to mobile and hand-held devices. This technological development provides the opportunity for new revenue sources for Arqiva as suppliers of content and mobile operators move to deliver new services to their customers.

Performance

Arqiva performed ahead of expectations in the 2006 financial year. Importantly, the negotiation of a number of significant new contracts across its business divisions has enhanced the longevity of its revenue base in the years ahead. The average length of contracts is currently 12 years.

Arqiva's offering to analogue TV and radio broadcasters continued to source new revenue during the year. In a significant achievement, television's Channel 5 renewed its analogue contract for services through to the switch to digital transmission in 2012. In addition, in May 2006, Arqiva successfully negotiated the position of preferred supplier for British Broadcasting Corporation's (BBC) distribution network and managed transmission services for digital terrestrial television. This was a major

achievement for Arqiva, and recognition of its strong competitive position in the UK market.

Arqiva's ability to offer a fully outsourced radio transmission service also resulted in Arqiva securing a range of new metropolitan FM radio licences in Belfast, Edinburgh and Manchester. In addition, Arqiva successfully secured contracts with a number of existing radio broadcasters. Arqiva continues to dominate the UK's radio transmission market, with analogue and digital market shares of 80% and 91% respectively.

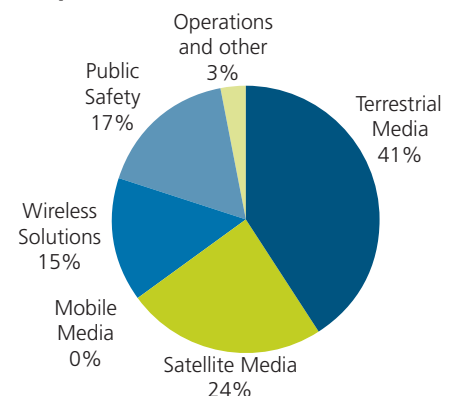
Satellite media continued to strengthen its market position following the acquisition of Inmedia Communications in July 2005. This acquisition has provided Arqiva with an internationally focused client base in satellite services, as well as expertise in direct to home satellite broadcasting. On the back of its expanded offering, Arqiva secured satellite contracts with UKTV, NTL Home, Channel 6, and Niji Entertainment in March 2006.

The rollout of 3G technology gained further momentum throughout the year, increasing the space required by wireless service providers on Arqiva's wireless towers, masts and managed sites. Arqiva's reach and capacity enhances its ability to offer strategically placed sites to mobile operators.

Arqiva's public safety division continues to be the number one provider of frontline communications in the UK. This leading position was reinforced with the appointment of Arqiva as an accredited supplier by the Office of Government Commerce. This status has the advantage of shortening the procurement process for government departments, emergency services and other public sector bodies who wish to use the Arqiva network.

The chart below shows the contribution of each division to Arqiva's 2006 revenue.

Arqiva 2006 revenue base



Regulated industry: Provision of communications infrastructure and services is regulated by the Office of Communications (Ofcom). Ofcom regulates the site sharing agreement which exists between Arqiva and National Grid Wireless. In addition, some of Arqiva's broadcast contracts are subject to regulatory pricing.

Market position: Arqiva is one of two broadcast transmission and site leasing infrastructure operators in the UK. The high sunk costs associated with communication assets, when combined with the scarcity of suitable new sites and the significant efficiencies of scale available to the two incumbent operators, create significant barriers to entry in this market.

Long-term, predictable cash flow: Long-term contracts with television and radio broadcasters for both analogue and digital transmission and to wireless providers for site access provide predictable and stable income streams.

Growth potential: Arqiva's scale and reach provide it with an efficient operating base from which to compete for new business. Arqiva is well placed to win further contracts as the transition from analogue to digital transmission gains pace. It has also created a strong platform within its wireless solutions and mobile media division to capitalise on new markets which develop from advances in technology.

Ownership: CIF is able to participate in strategic planning and decision making via its seat on the Arqiva board. This board representation allows CIF to closely monitor and manage any risks that might arise within this investment. The investment in Arqiva is through a consortium of like-minded investors, also ensuring that this asset is managed to maximise its returns to all investors.

Outlook

The required transition to digital transmission by 2012 continues to provide opportunities for Arqiva to establish new long-term digital contracts with broadcasters. Arqiva's multi-layered offering presents an attractive option to broadcasters, offering both a quality analogue service whilst also developing solutions to meet the broadcaster's digital needs.

New opportunities will also continue to arise in radio broadcasting, with the issue of additional analogue and digital radio licences. In addition, the roll out of third generation (3G) networks by the five mobile network operators will continue to drive growth in the wireless communication market.

Arqiva continues to be at the forefront of innovations in the transmission of video, audio and data content. During the year the mobile media division successfully trialled broadcasting of television to mobile phones. Following the success of this trial, Arqiva is continuing to explore its viability as a large scale commercial enterprise.

Gas distribution networks

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

Wales and West Utilities and Northern Gas Networks are two of the eight regulated gas distribution networks (GDNs) in the United Kingdom. Each GDN 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.

Each of the GDNs receives gas from off-take points from the National Transmission System and delivers it to consumers, deriving revenue by charging gas shippers a volume related transportation charge. This charge is set by Ofgem, and is escalated annually at inflation less an efficiency target, which is reset every five years.

The base transportation charge at the start of each reset period is set by Ofgem, after taking into account the operating, replacement and capital expenditure requirements of the GDNs. By setting the price the GDNs may charge, Ofgem effectively regulates the revenue that the GDNs receive but not their profits, which are determined by the performance of the individual GDN against the efficiency target. Throughout the five year period, each GDN has the potential to outperform this target via optimisation of their capital

structure and outperformance against the operating, replacement and capital expenditure targets implicit within the efficiency target.

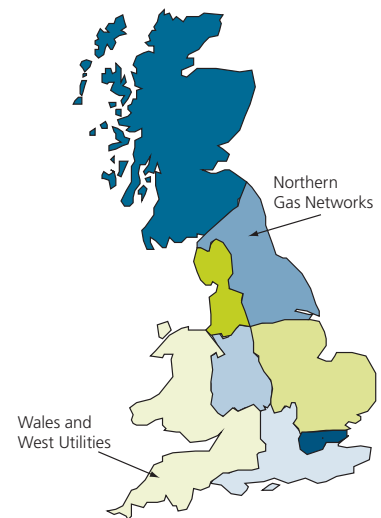
Each GDN makes a submission to Ofgem at the price control review, detailing performance against the efficiency target set at the previous review. An interim 12 month price control review is scheduled for April 2007, followed by a full price control review in April 2008.

Wales and West Utilities

Wales and West Utilities distributes gas to approximately 2.3 million domestic and commercial customers across Wales and a large part of the south-west of England, including the counties of Devon and Cornwall and the major cities of Cardiff, Bristol and Exeter. The network consists of 34,000 kilometres of gas distribution mains.

Northern Gas Networks

Northern Gas Networks distributes gas to approximately 2.4 million domestic and commercial customers in a region that spans from the Scottish border to South Yorkshire and has coastlines on both the east and west sides of the region. The geographical area contains a mixture of large cities such as Newcastle and Leeds, and rural areas including North Yorkshire and Cumbria. The network consists of 36,000 kilometres of gas distribution mains.



Performance

Following their move from public to private ownership in June 2005, both Wales and West Utilities and Northern Gas Networks completed successful transitions to new management structures in the 2006 financial year. This transition has resulted in an increased focus on operational efficiency and capital management discipline.

The UK has experienced above average temperatures in 2006. The warmer than normal winter has placed pressure on gas volumes, which resulted in a slight negative impact on the GDNs' revenues. However, it is expected that the majority of this revenue shortfall should be recouped in the medium term via the regulatory process.

Contribution to CIF's performance

Revenues from the gas distribution networks are indexed to inflation with prices directly linked to inflation via increases of RPI less an efficiency factor. 90% of Wales and West Utilities' borrowings are hedged until March 2008, with additional hedges in place over 80% of forecast borrowings until 2012. 100% of borrowings for Northern Gas Networks are hedged for the current price control period which ends in March 2008 then 55% to 2027. CIF's forecast distributions from both gas distribution networks are protected from foreign exchange rate fluctuations with a rolling five year foreign exchange hedge.

Key results – Wales and West Utilities

30 June 2006

Value of CIF's interest (\$m)	96.6
Distribution to CIF (\$m)	6.7

CIF's distribution from Wales and West Utilities was \$6.7 million for the 2006 financial year. This was \$1.1 million below the \$7.8 million forecast in the PDS as a result of the pull forward of capital expenditure scheduled for the 2007 financial year (\$0.8 million) and slightly weaker than forecast operating performance (\$0.3 million).

CIF's share in Wales and West Utilities was independently revalued at 30 June 2006, with an uplift of 4.1% in value recorded since its acquisition in August 2005 (after the exclusion of the impact of foreign exchange movements).

Key results – Northern Gas Networks

30 June 2006

Value of CIF's interest (\$m)	94.4
Distribution to CIF (\$m)	5.6

CIF's distribution from Northern Gas Networks was \$5.6 million for the 2006 financial year. This was \$3.8 million higher than the PDS forecast due to the one-off impact of the cash received via acquisition settlement adjustments (\$1.7 million) and the shift towards the payment of dividends twice a year (\$2.1 million).

CIF's share in Northern Gas Networks was independently revalued at 30 June 2006, with an uplift of 4.2% in value recorded since its acquisition in August 2005 (after the exclusion of the impact of foreign exchange movements).

Gas shrinkage has also impacted revenues during the year. In colder weather gas volume declines, resulting in gas shrinkage. The GDN is required to make good the lost gas volume that occurs during the distribution phase. The purchase of this additional gas by the GDNs has been impacted by the current record high global gas prices.

This is an industry wide issue and the GDNs continue to work with the regulator to transfer the costs associated from gas shrinkage from the GDNs to the gas shippers.

Regulated industry: The GDNs are regulated by Ofgem. Ofgem is focused on achieving a balance between consumer interests and ensuring that the GDNs remain financially viable and are able to finance their operations and capital expenditure requirements. Ofgem regulates prices so that they increase annually at inflation less an efficiency target which is reset every five years. The length of the price control periods, combined with the underlying stable demand for gas, ensures the long-term predictability of the cash flow generated from these assets.

Market position: The GDNs are regulated regional monopolies that provide transportation networks for the distribution of gas from the National Transmission System to industrial and retail consumers.

Long-term, predictable cash flow: The GDNs operate as a regional monopoly within a highly regulated industry, with ongoing demand for gas and price regulation providing certainty of income.

Growth potential: Growing demand for gas from both the retail and industrial customers reflects the price competitiveness of gas versus more traditional fuel sources.

Ownership: CIF is able to participate in strategic planning and decision making via representation on the boards of both Wales and West Utilities and Northern Gas Networks. This board representation also allows CIF to closely monitor and manage any risks that might arise within this investment. In addition, CIF's Manager has been able to share its expertise in capital management and financial modelling with the management teams of both GDNs.

Outlook

The proportion of the UK's primary energy consumption satisfied by gas is expected to increase from 40% to 46% by 2010. Gas throughput via the GDNs is forecast to grow 15% over the 10 years to 2013, driven by the increased usage by the power generation sector, increased levels of economic activity and increased domestic demand reflecting the economic competitiveness and environmental benefits of gas over more polluting fossil fuels such as coal and oil.

The next 18 months will have a strong regulatory focus. Ofgem has delayed the timing of the initial full price control review from April 2007 to April 2008, deciding to have an interim 12 month price control review in April 2007 instead. This delay of the full price control review provides a period of stability to the new owners.

Investment strategy

CIF's investment objective is to invest in growth oriented utility and infrastructure assets which offer a combination of long-term, predictable income streams and potential for capital growth.

In identifying and assessing potential investment opportunities against this objective, the Manager focuses on the following key investment criteria:

- near monopoly market position with high barriers to entry;
- operation within a regulated industry;
- strong cash generation and attractive targeted cash returns;
- predictable ongoing revenues underpinned by long-term contracts with creditworthy counterparties;
- opportunity to capitalise on future organic growth and/or existence of expansion opportunities;
- first class management teams with strong alignment to asset performance; and
- ownership provisions which provide an opportunity to influence strategic direction and monitor and manage risks.

To achieve its investment objective, CIF may acquire whole assets or participate in investment consortia comprising leading industry players (strategic, financial and operational) to acquire controlling or strategic stakes.

To date, the Manager's disciplined approach to infrastructure investment has resulted in the acquisition of interests in four assets that meet CIF's investment criteria. The majority of these assets have been sourced from within the UK utilities sector.

The Manager is currently looking to add to CIF's strong infrastructure investment base, and anticipates that future opportunities for CIF will predominantly arise within the utilities sectors of OECD countries.

Financial results

As this is CIF's first year of operation, it is not possible to compare its performance to prior periods. To provide meaningful analysis, where appropriate CIF's financial performance is assessed against the forecasts in the Entitlement Offer Product Disclosure Statement (PDS) dated 19 October 2005.

The Fund owns an 80.3% interest in Inexus. As this is deemed a controlling interest under accounting standards, the financial performance and position of Inexus are consolidated with the remaining Fund assets and performance into the CIF financial statements.

EBITDA

The Fund delivered earnings before interest, tax, depreciation and amortisation (EBITDA) of \$56.7 million. This is \$9.8 million higher than the PDS forecast of \$46.9 million. After taking into account one-off impacts to investment revenues the Fund's normalised EBITDA of \$49.5 million was \$2.6 million above the PDS forecast.

The key variances to the PDS were higher than forecast investment revenues from the seed assets (including one-off items), receipt of interest income from cash held on balance sheet, higher gross profits from Inexus and higher than forecast realised gains from favourable currency movements. These factors were partially offset by higher operating expenses within Inexus. These variances are illustrated in Table 2 and explained in further detail below.

Higher than forecast investment revenue from the seed assets

The Fund received investment revenue from the seed assets of \$24.8 million. This was significantly higher than the PDS forecast of \$14.9 million, largely as a result of the accounting classification of the August 2005 Arqiva dividend of \$5.5 million as investment income rather than as cash acquired in the balance sheet (as assumed in the PDS). In addition, the investment revenue from Northern Gas Networks included \$1.7 million in acquisition settlement adjustments which were not included in the PDS.

After adjusting for these one-off impacts, the Fund's investment revenue exceeded the PDS forecast by \$2.7 million. This variance was the net result of:

- \$2.2 million higher than forecast dividends received from Northern Gas Networks due to the change in timing of dividend payments;
- \$0.9 million higher than forecast dividends received from Arqiva due to stronger than anticipated operating performance; and
- \$0.4 million lower than forecast dividend and interest income received from Wales and West Utilities due to the pull forward of capital expenditure previously scheduled to occur in the 2007 financial year. This variance is expected to be reversed in the 2007 financial year.

Receipt of interest income

The Fund generated \$2.0 million in interest income through the holding of higher than forecast cash balances during the period.

Table 1**Earnings before interest, tax, depreciation and amortisation (EBITDA)**

	Allotment to 30 June 2006 actual \$m	Allotment to 30 June 2006 PDS forecast \$m	Variance to PDS \$m	Variance %
Investment revenue				
– Arqiva	11.8	5.4	6.4	118.5
– Northern Gas Networks	5.6	1.7	3.9	229.4
– Wales and West Utilities	7.4	7.8	(0.4)	(5.1)
Interest income	2.0	–	2.0	n/a
Operating revenue	26.8	14.9	11.9	79.9
Transportation revenue	55.8	56.7	(0.9)	(1.6)
Total revenue	82.6	71.6	11.0	15.4
Cost of sales	(5.7)	(7.2)	1.5	(20.8)
Gross profit	76.9	64.4	12.5	19.4
Operating expenses	(21.8)	(17.8)	(4.0)	22.5
Realised gains on foreign currency hedges	1.6	0.3	1.3	433.3
EBITDA	56.7	46.9	9.8	20.9
Accounting reclassification of August 2005				
Arqiva dividend	(5.5)			
Northern Gas Networks acquisition settlement adjustments	(1.7)			
Normalised EBITDA	49.5	46.9	2.6	5.5

Higher than forecast gross profit from Inexus

Transportation revenue from Inexus was \$55.8 million for the period. This was 1.6% below the PDS forecast of \$56.7 million, as a result of slightly lower than expected connections completed in the forecast period. Importantly, the corresponding cost of sales of \$5.7 million was 20.8% lower than the \$7.2 million forecast in the PDS. As a result, the gross profit from Inexus was \$0.6 million higher than forecast, despite the revenue base being lower than forecast in the PDS.

Higher than forecast realised gains on foreign currency hedges

The Fund realised a gain on foreign currency hedges of \$1.6 million during the year. This was significantly above the PDS forecast of \$0.3 million, as a result of favourable currency movements during the period relative to the hedging profile in place.

Higher operating expenses within Inexus

The Fund's operating expenses for the period totalled \$21.8 million. This was significantly higher than the PDS forecast of \$17.8 million. This increase was largely driven by the funding of strategic initiatives within Inexus, and a corresponding increase in business overheads to ensure adequate infrastructure is in place to accommodate future growth opportunities.

Net loss after tax

As outlined in the PDS, following the acquisition of Inexus, the Fund was forecast to experience a net loss after tax of \$28.4 million for the period. The Fund's actual net loss after tax was significantly better at \$20.7 million. This variance can be explained in part by the factors which resulted in the stronger than forecast EBITDA result. In addition, the net loss after tax also included favourable variances to PDS forecast interest expenses and taxation impacts. Offsetting these positive variances were larger than expected amortisation charges and the larger than forecast impact of unrealised gains and losses on financial instruments incurred during the period.

Key variances to the PDS forecast are detailed in Table 2 and outlined in greater detail below.

Lower than expected interest expense

The Fund entered into a bridging loan to fund its \$363.1 million equity investment in Inexus (until receipt of the proceeds of the second instalment). Earlier than forecast pre-payment of a portion of this loan and interest expense from available cash resulted in a lower interest expense than forecast for the period.

Given the high level of certainty of future revenues from existing and order book connections, borrowings were also undertaken at the asset level to fund the acquisition and ongoing capital expenditure requirements of Inexus. These borrowings, and the associated interest expense, were favourable compared to the forecast in the PDS.

Recognition of a tax benefit

The Fund derived an overall tax benefit of \$5.2 million, attributable predominantly to the recognition of tax losses incurred by certain subsidiaries. These benefits were not forecast in the PDS.

Higher than expected amortisation charges

The Fund incurred higher than expected amortisation charges for the period as a result of higher than anticipated loan issue costs associated with the Fund's bid for an interest in PD Ports. These loan issue costs were capitalised into existing debt facilities.

Larger than expected impact of unrealised losses on financial instruments

The Fund has entered into foreign currency and interest rate hedges to protect distribution income from being adversely impacted by currency and real interest rate movements.

As detailed in the PDS, the market value of these hedges fluctuates with market movements in exchange rates and real interest rates. During the period, these movements resulted in unrealised losses of \$13.8 million. This compares to a PDS forecast net unrealised loss on financial instruments of \$4.0 million.

Table 2
Net loss after tax

	Allotment to 30 June 2006 actual \$m	Allotment to 30 June 2006 PDS forecast \$m
EBITDA	56.7	46.9
Depreciation	(9.2)	(9.4)
Amortisation	(3.5)	(2.8)
Unrealised movements on employee share scheme	(1.1)	(1.1)
Unrealised losses on financial instruments	(13.8)	(4.0)
Interest expense		
– Preference shares	(4.6)	(4.6)
– Interest bearing liabilities	(50.4)	(53.3)
Profit/(loss) before tax	(25.9)	(28.3)
Tax benefit	5.2	(0.1)
Net profit/(loss) after tax	(20.7)	(28.4)

Annual distribution

The Fund has paid an annual distribution of \$34.1 million for the period, equivalent to 14.20 cents per security. This is consistent with the PDS forecast. A total of 81.5% of the Fund's distribution was tax-deferred.

The Fund's actual distributable cash of \$42.9 million exceeded the PDS forecast by \$8.0 million. Key variances in distributable cash from the Fund's assets include:

- higher than forecast dividend and interest income from Arqiva due to stronger than expected operating performance (\$1.7 million);
- the receipt of additional cash via acquisition settlement adjustments for Northern Gas Networks (\$1.7 million);
- higher than forecast dividend income from Northern Gas Networks due to a change to half-yearly rather than annual dividends (\$2.1 million); and
- lower than forecast dividend and interest income from Wales and West Utilities due to the pull forward of capital expenditure scheduled for the 2007 financial year (\$0.8 million).

In addition, the Fund benefited from \$1.8 million in interest income and \$1.6 million in realised foreign exchange gains.

As outlined at the time of the Inexus acquisition, a portion of the distribution from Inexus is currently being funded out of borrowings. This is possible due to the high level of certainty surrounding future recurring operating revenues, which comprise ongoing revenue from existing connections and new revenue from future connections currently in the Inexus order book. This certainty is embedded in the regulatory pricing structure, under which a high proportion of Inexus' recurring revenues are fixed in real terms and indexed to inflation.

The certainty of these future revenues within Inexus has provided the opportunity to smooth the distribution profile from this asset over the medium term. This distribution of capital will diminish over time as the existing Inexus connection order book is built out and operating revenues rise. The higher than forecast cash available for distribution in this period will reduce reliance on borrowings to fund this component of the distribution in future years.

The composition of the distribution and key variances to the PDS forecast are detailed in Table 3 below.

Table 3
Composition of CIF distribution

	Allotment to 30 June 2006 actual \$m	Allotment to 30 June 2006 PDS forecast \$m
Distributions from seed assets		
– Arqiva*	18.5	16.8
– Northern Gas Networks	5.6	1.8
– Wales and West Utilities	6.7	7.8
Distribution from Inexus	9.3	9.2
Interest income	1.8	0.0
Realised foreign exchange gains	1.6	0.0
Cash operating expenses	(0.6)	(0.7)
Cash available for distribution	42.9	34.9
Distributions to CIF securityholders	(34.1)	(34.1)
Cash surplus	8.8	0.8

* The PDS considered that a dividend declared and payable by Arqiva in July 2006 would be included into the period ended 30 June 2006 as it formed part of the distributable cash for the full year and was prior to the final distribution paid on 29 August 2006. CIF received a dividend declared and paid on 4 August 2006 of \$4.0 million which is included in the above calculation.

About Challenger

Responsible Entity and Manager

Challenger Listed Investments Limited (CLIL) is the Responsible Entity of the Challenger Infrastructure Fund. CLIL has appointed Challenger Management Services Limited (CMSL) as Manager of CIF.

Both CLIL and CMSL are 100% owned by Challenger Financial Services Group Limited (Challenger). CMSL draws on the investment management expertise and resources of Challenger's Asset Management division to manage CIF.

Challenger Financial Services Group

Listed on the Australian Stock Exchange (ASX), Challenger is an established player in Australian financial services. It is dedicated to providing smarter solutions to financial intermediaries and their clients, offering a broad spectrum of financial products and services.

Challenger's Asset Management division, which has assets under management of \$3.7 billion, has particularly strong expertise in infrastructure and property and continues to develop specialist funds for institutional and retail investors. It is also an investor in its own right, raising capital through retail and wholesale annuities and other sources to invest in assets which are under valued for risk or have value add potential.

Through its annuity products, Challenger has built a strong reputation in the retirement market. Today, Challenger is the second largest provider of retail annuities in Australia. This reputation also extends to the other investment products and wealth management services that it offers.

Challenger, which has total funds under management of over \$12.8 billion, is highly regarded as a quality investment manager in its own right. And it also acts as a gateway to other expert investment managers. This means that Challenger can offer a range of funds to help meet investment needs, across not only a variety of asset classes, but also across different investment styles.

Challenger is one of Australia's largest non-bank mortgage lenders, funding commercial loans as well as a range of residential mortgage products offered by a network of preferred lenders under their own brands. Challenger has a mortgage book of \$20.9 billion.

Challenger's commitment to quality ensures clients get outstanding access to top level solutions, an ethos that is also carried into its range of financial planning services.

Challenger is always striving to challenge the status quo and deliver a smarter way forward.

Corporate governance statement

Introduction

The ASX Corporate Governance Council has developed a set of guidelines entitled Principles of Corporate Governance and Best Practice Recommendations (ASX principles).

The ASX principles are non-prescriptive, however, listed entities (including the Fund) are now required in their annual report to disclose the extent of their compliance with the ASX principles and to explain why they have not adopted a particular recommendation. Most of the recommendations contained in the ASX principles are relevant to the Fund and have been adopted. However, several are either not relevant or the Responsible Entity has decided that it is appropriate not to implement them.

Other than where specifically stated to the contrary, the Responsible Entity's corporate governance structure as described below complies with the ASX principles.

Where it is indicated a policy is available on the Fund's website. For further information on corporate governance policies adopted by the Responsible Entity, refer to our website www.challenger.com.au/cif.

The Fund

Role of the Responsible Entity

The role of the Responsible Entity is to manage the Fund in the securityholders' best interests in accordance with the Fund's constitution and the Corporations Act 2001 (Act). The Act empowers the Responsible Entity to engage agents on its behalf, however, it remains fully responsible for the actions of those agents. The Responsible Entity has appointed Challenger Management Services Limited (CMSL) to manage the Fund. CMSL and the Responsible Entity are wholly owned subsidiaries of Challenger Financial Services Group Limited (CFSG).

The Fund's constitution governs among other things, how the Fund will operate, how the Responsible Entity's remuneration will be calculated and the rights of securityholders. The Responsible Entity must also prepare and lodge a compliance plan with the Australian Securities and Investments Commission (ASIC). The compliance plan sets out the mechanisms the Responsible Entity has in place to ensure compliance with the Fund's constitution and the Act.

Board structure

Relationship with Challenger Financial Services Group

The corporate governance structure adopted by the Responsible Entity reflects its role as the responsible entity of a listed infrastructure fund. In several ways, this will be different to the corporate governance structure of a listed company.

CFSG has expertise in developing and managing specialist investment funds in areas of infrastructure and property. The Responsible Entity makes extensive use of the resources available within CFSG in managing the Fund.

The resources provided to assist the Responsible Entity to fulfil its role include the services of senior executives and responsible officers. CFSG in consultation with the Responsible Entity may also appoint appropriately skilled independent directors and executives to ensure that the Fund continues to be managed to maximise returns to securityholders within the Fund's stated strategy and mandate.

Composition of the Board

Please see the Directors' Report for profiles of the directors, including details of their skills, experience and expertise.

Nominations and appointment of directors

The Responsible Entity is a wholly owned subsidiary of CFSG. As a result, the Board has not appointed a formal nominations committee.

The Board will draw upon the CFSG nominations committee recommendations for new directors. Such recommendations are referred to the Board of the Responsible Entity for approval prior to any appointment. This represents a departure from the ASX principles.

In determining the appointment of new directors, the Board must comprise:

- directors with an appropriate range of skills, experience and expertise; and
- directors who can understand and competently deal with current and emerging statutory developments.

Independent directors

The Board has adopted an Independence Policy. This policy meets the ASX principles with the exception of the substantial securityholder test. The Board has considered this departure from the ASX principles and the Independence Policy gives an explanation as to why the directors believe it is appropriate for the Responsible Entity. The policy states that an independent director is not a director who is a related party of, or associated directly with, a substantial securityholder of the Fund, except where the person is a director of a related party with a substantial securityholding in the Fund and the directors have resolved that the director is independent of management and free of any

business relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

Based on this policy, there is a majority of independent directors on the Board.

Board Charter

The Board has adopted a formal Board Charter which details the functions and responsibilities of the Board with respect to its oversight and management of the Fund.

The topics covered in the Board Charter are:

- board size and composition;
- board's role and responsibilities;
- audit and compliance committee;
- directors;
- conflicts;
- access to information and independent advice by directors;
- ethical standards; and
- role of approved auditor.

The Board has delegated to the Fund's Chief Executive the authority and powers necessary to implement the strategies approved by the Board for the Fund and to manage the business affairs of the Fund within the policies and specific delegation limits specified by the Board from time to time.

A summary of the Charter is available on the Fund's website.

Independent professional advice

All directors have unrestricted access to the Responsible Entity's and Fund records and information. The Company Secretary provides directors with guidance on corporate governance matters and developments and on all other matters reasonably requested by the directors. The Board or each individual director has the right to seek independent professional advice at the Responsible Entity's expense to assist them to discharge their duties.

Code of Conduct

The Responsible Entity is committed to maximising returns to securityholders whilst also promoting securityholder and general market confidence in the Fund. As a wholly owned subsidiary of CFSG, the Responsible Entity, its directors and executives are subject to the Code of Conduct of CFSG. The Code of Conduct, as it applies to the Fund, is designed to ensure:

- high standards of corporate and individual behaviour are observed by all directors and executives in the context of their roles; and
- staff are aware of their responsibilities to the Fund and always act in an ethical and professional manner.

The Code of Conduct requires directors and executives to report any actual or potential breach of the Act, the Code of Conduct or other policies. The Responsible Entity promotes and encourages ethical behaviour and provides protection for those who report violations.

A summary of the Code of Conduct is available on the Fund's website.

Review of Board and senior management performance

An induction program has been implemented to assist new independent directors. Existing directors are encouraged to pursue continuing education to update and improve their skills and knowledge.

The CFSG executives on the Board, the Chief Executive and other CFSG executives performing services for the Fund are subject to annual performance evaluation. This is part of CFSG's employee evaluation process. For independent directors, a formal methodology for review is currently being considered.

Audit and Compliance Committee

The Board has established an Audit and Compliance Committee (Committee) which is responsible for advising the Board on internal controls and appropriate standards for the management of the Fund. The Committee oversees the financial reporting process, the system of internal control and risk management, the audit process and the Responsible Entity's processes for monitoring compliance with laws and regulations. The Committee also assists the Board to discharge its responsibilities under the Compliance Plan adopted by the Responsible Entity. The Committee works on behalf of the Board with the external auditor and reviews non-audit services provided by the external auditor to confirm that they are consistent with maintaining external audit independence.

The Committee is comprised of a majority of independent members. The Committee is currently comprised as follows:

- Ian Martens – chairman – independent director
- Ian Moore – independent director
- Russell Hooper – independent director
- Paul Rogan – executive director.

During the reporting period, the Committee met six times. All Committee members attended all meetings they were entitled to attend.

The Committee has adopted a Charter. The Charter outlines the duties and responsibilities of the Committee. The duties and responsibilities of the Committee outlined in the Charter include:

A summary of the attendance of the directors at the CLIL Board Meetings and Committees are as follows:

Director	Notes	Board		Audit and Compliance Committee	
		Eligible to attend	Attended	Eligible to attend	Attended
S Gerlach		14	12		
I Martens		14	10	6	6
D Hall	1	12	7	5	4
T Foster	2	8	7	3	3
R Woods		14	14		
P Polson	3	14	8		
R Hooper		14	10	6	6
I Moore	4	7	6	1	1
P Rogan	5	6	4	3	3
G McWilliam	6	4	3		
G Martin	7	1	1		

¹ David Hall resigned from the Board on 16 May 2006

² Tim Foster resigned from the Board on 23 November 2005

³ Peter Polson resigned from the Board on 4 August 2006

⁴ Ian Moore was appointed to the Board on 18 November 2005

⁵ Paul Rogan was appointed to the Board on 23 November 2005

⁶ Geoff McWilliam was appointed to the Board on 23 February 2006

⁷ Greg Martin was appointed to the Board on 14 June 2006 and resigned from the Board on 4 August 2006

- reviewing the financial statements of the Fund for the half year and full year and considering whether they are complete and consistent with information known to the Committee members;
- monitoring the extent to which the Responsible Entity complies with the Fund's Compliance Plan, the Act and the Fund's constitution and reviewing the effectiveness of the system for monitoring compliance with laws and regulations;
- considering the overall risk management framework for the Fund and reviewing its effectiveness in meeting sound corporate governance principles and identifying, managing and monitoring the key risks to the Fund; and
- meeting separately from management with the external auditor at least once a year to discuss any matters the Committee and the auditor believe should be discussed privately.

To assist the Board and the Committee in discharging their respective responsibilities, the Chief Executive and Chief Financial Officer of the Fund are required to provide the Board and Committee with a letter of representation in relation to the financial statements of the Fund. The letter of representation confirms that the Fund's financial reports present a true and fair view in all material respects of the Fund's financial condition and operational results and are in accordance with relevant accounting standards. The letter describes the process the

Chief Executive and Chief Financial Officer have adopted to satisfy themselves on these matters.

A summary of the Charter is available on the Fund's website.

Investment Committee

The Board has established an Investment Committee. Responsibilities of the Investment Committee include assessing and making recommendations to the Board on existing assets and potential acquisitions in light of the Fund's investment criteria. The Investment Committee is also responsible for identification, monitoring and reporting on risks within existing assets as well as approval of hedging transactions for the Fund.

The Investment Committee currently comprises five members, of which three are members of the Board.

Risk management

The Responsible Entity believes that the management of risks is fundamental to the Fund's operations and to building securityholder value. The Board is responsible for the Fund's risk management strategy and management is responsible for implementing the Board's strategy and for developing policies and procedures to identify, manage and mitigate risks across the Fund's operations.

The Board has adopted the CFSG Operational Risk Framework and formal policies in respect of compliance and operational risk management. Risks at both the Responsible Entity and Fund level are managed through the CFSG Operational Risk Framework and include:

- regulatory and reporting risks;
- financial risks (such as liquidity, interest rate, currency and investment);
- legal risks (such as contract enforceability, covenants);
- operational risks (such as people, processes, infrastructure, technology); and
- reputation risk (such as investor relations, media management).

The Responsible Entity as a subsidiary of CFSG is subject to periodic review by the CFSG internal audit function.

At the time of approving the financial statements of the Fund, the Board requires representation letters from management (see above) to address risk management and internal compliance and controls relevant to risk.

Disclosure of remuneration

The Responsible Entity is entitled to be paid base and performance fees under the terms of the Constitution for managing the Fund. All executives involved in the management of the Fund are employees of CFSG and are not remunerated by the Fund.

As the Fund does not pay any remuneration directly to executives of the Responsible Entity, the Responsible Entity considers that the requirement to disclose its remuneration policies (pursuant to recommendation 9.1 of the ASX principles), to establish a remuneration committee (pursuant to recommendation 9.2) and to distinguish the nature of executive remuneration from that of non-executives (pursuant to

recommendation 9.3) are not relevant to the Fund. In addition, the Fund does not have an equity based executive remuneration scheme in operation and thus the disclosure required by recommendation 9.4 is also not relevant to the Fund. These represent departures from the ASX principles.

Please see the Financial Report for details on the calculation of Responsible Entity fees.

Independent directors' fees

Independent directors are paid an annual fee for their service on the Board and all committees of the Board. Independent directors are not provided with retirement benefits other than statutory superannuation and do not receive options or bonus payments.

All independent director remuneration is paid by the Responsible Entity and is not an expense of the Fund.

Staff Trading Policy

The Board has adopted the CFSG Staff Trading Policy. Directors and staff are subject to restrictions under the Act relating to dealing in securities, including the securities issued by the Fund if they are in possession of inside information. The policy applies to all directors and staff and places restrictions and reporting requirements on staff, including limiting trading in securities in the Fund and CFSG shares to specific trading windows and in a specified manner and requiring those staff designated as potentially having access to inside information to seek prior approval to trades in other securities.

A summary of the Staff Trading Policy is available on the Fund's website.

Communications with securityholders

Consistent with the Fund's Continuous Disclosure Policy, the Responsible Entity is committed to communicating to securityholders in an effective and timely manner so as to provide them with ready access to information relating to the Fund.

The Fund lodges with the ASX market sensitive information including annual and half year profit announcements, financial reports and analysts' presentations as soon as they are available.

The Responsible Entity has a practice of ensuring that all information to be given by the Responsible Entity in relation to the Fund at analyst and investor briefings is first released to the ASX to ensure that the market is fully informed.

The Responsible Entity is not required to hold annual general meetings for the Fund, however, it may convene general meetings from time to time. Where the Responsible Entity convenes a general meeting for the Fund, securityholders are strongly encouraged to attend and participate in such meetings. The Responsible Entity will provide securityholders with details of any proposed meeting well in advance of the relevant date.

If securityholders cannot attend formal meetings, they may lodge a proxy in accordance with the Act. Proxy forms can be mailed or lodged by facsimile.

The external auditor attends securityholder meetings and is available to answer securityholder questions.

Financial report

Directors' report

The directors of Challenger Listed Investments Limited (CLIL) ABN 94 055 293 644, the Responsible Entity of the CIF Investment Trust 1 (ARSN 114 139 703) (CIF1) and CIF Investment Trust 2 (ARSN 114 139 632) (CIF2), collectively known as the Challenger Infrastructure Fund (CIF), submit their report together with the financial report for CIF, for the period from registration on 19 May 2005 to 30 June 2006.

Principal activities

The principal activity of CIF during the period was the investment of funds in a diversified portfolio of global infrastructure assets.

During the period, CIF purchased and held a majority investment in the UK Independent Gas Transport sector and minority investments in the UK Broadcast Infrastructure sector and the UK Gas Distribution Network sector.

Scheme information

Challenger Infrastructure Fund (CIF) consists of two stapled Australian registered managed investment schemes: CIF1 and CIF2. Each security consists of one unit in CIF1 and one unit in CIF2. Units are stapled together so that one cannot be transferred, or otherwise dealt with, without the other. Challenger Infrastructure Fund Investment Trust 1 has been nominated the parent entity to CIF. Challenger Infrastructure Fund Investment Trust 2 has been nominated the parent entity to Challenger Infrastructure 2 consolidated (CIF2 Consolidated) entity.

Challenger Listed Investments Limited (CLIL), the responsible entity of the Scheme, is incorporated and domiciled in Australia. The registered office of the Responsible Entity is located at Level 41, 88 Phillip Street, Sydney, NSW 2000.

Directors

The following persons held office as directors of CLIL during the period and up to the date of this report:

- Stephen Gerlach
Chairman
- Tim Foster
(resigned 23 November 2005)
- David Hall
(resigned 15 May 2006)
- Russell Hooper
- Ian Martens
- Ian Moore
(appointed 18 November 2005)
- Peter Polson
(resigned 4 August 2006)
- Paul Rogan
(appointed 23 November 2005)
- Robert Woods
- Geoff McWilliam
(appointed 20 February 2006)
- Greg Martin
(appointed 14 June 2006;
resigned 4 August 2006).

Director and executive profiles

CLIL has considerable expertise in the infrastructure, property and funds management sectors as illustrated by the experience of its directors.

The names and details of the directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Directors

Stephen Gerlach
LLB, FAICD
Chairman
Independent,
Non-executive Director

Mr Gerlach has extensive experience as a corporate advisor and company director, holding positions on the boards of several public companies, including Santos Limited (Chairman), Futuris Corporation Limited (Chairman), Elders Australia Limited (Chairman), Elders Rural Bank Limited.

Mr Gerlach is the former Managing Partner of Adelaide legal firm Finlaysons, and is a former director of Equatorial Mining Limited (Chairman), Penrice Soda Products Limited (Chairman), Southcorp Limited and Brunner Mond Holdings Limited (UK).

Tim Foster
FCA, BA (dual honours)

Mr Foster is a Chartered Accountant, and was the Chief Financial Officer of Challenger Financial Services Group. His responsibilities included leading the Finance, Legal and Compliance Divisions within the Challenger Group. He was also a member of the Compliance Committees for three other responsible entities of managed schemes within the Challenger Group. Mr Foster was a member of the Audit and Compliance Committee.

Mr Foster resigned on 23 November 2005.

David Hall
FCA, FAICD
Independent,
Non-executive Director

Mr Hall is a Chartered Accountant, Managing Director of Roche Group Pty Ltd and is on the board of public companies Brickworks Investment Co Limited, Pacific Strategic Investments Limited, Undercoverwear Limited and was a former director of Ainsworth Game Technology Limited. Mr Hall was a member of the Audit and Compliance Committee.

Mr Hall resigned on 15 May 2006.

Peter Polson
BCom (SAf), MBL (SAf)
Independent,
Non-executive Director

Mr Polson has had a wide-ranging career in the global financial services industry. Prior to his retirement in October 2002, Mr Polson held the position of Group Executive, Investment and Insurance Services at the Commonwealth Bank, where he had responsibility for all investment and insurance services for the Group, including the funds management, master funds, superannuation, insurance and third party support services for brokers, agents and financial advisers. Prior to joining the Colonial Group in 1994, Mr Polson was the Managing Director of National Mutual Funds Management (International) Limited.

Mr Polson is currently the Chairman of Challenger Financial Services Group Limited and Challenger Life No. 2 Limited, and a director of AWB Limited, AWB International Limited and Professional and Indemnity Company Australia Limited. Mr Polson was previously a director of Australian Leisure and Hospitality Group Limited.

Mr Polson resigned on 4 August 2006.

Russell Hooper
FAICD, FCPA, FAIBF
Independent,
Non-executive Director

Mr Hooper has extensive experience in financial services, including over 13 years at St George Bank Limited and Advance Bank Limited, where he held senior management positions in life insurance, wealth management and listed investment trusts, including the role of Chief General Manager, Funds Management.

Mr Hooper is also a director of Challenger Financial Services Group Limited and Challenger Life No. 2 Limited, and was previously a director of (and Chairman of the Audit Committee for) Commonwealth Insurance Limited, a subsidiary of the Commonwealth Bank. Mr Hooper is a Fellow of the Australian Institute of Company Directors, the Australian Society of Certified Practising Accountants and the Financial Services Institute of Australasia.

Mr Hooper is a member of the CLIL Audit and Compliance Committee.

Ian Martens
FCA, FAICD
Independent,
Non-executive Director

Mr Martens is a chartered accountant and was a senior partner at BDO Chartered Accountants (SA), where he is now a consultant. Throughout his career Mr Martens has advised a broad range of public and private companies on financial measurement and reporting, strategy development and evaluation and merger and acquisitions activities.

Mr Martens is currently Chairman of RAA Insurance Ltd and a director of RAA Investments Pty Ltd and the Royal Automobile Association of SA Inc.

Mr Martens is Chairman of the CLIL Audit and Compliance Committee.

Ian Moore
BA, FIA, FIAA
Independent,
Non-executive Director

Mr Moore has extensive experience in investment banking and structured finance. Mr Moore was Head of Corporate Finance at Bankers Trust Investment Bank where he was responsible for all forms of corporate, project and asset backed financings.

Mr Moore is currently a director of Artesian Capital Management and a Fellow of the Institute of Actuaries of Australia and the Institute of Actuaries in London.

Mr Moore is a member of the CLIL Audit and Compliance Committee.

Geoff McWilliam
BE(Civil)
Independent,
Non-executive Director

Mr McWilliam has had an extensive career in the Australian property investment industry. Most recently, Mr McWilliam spent 10 years building the Commonwealth Bank's property funds management division, Colonial First State Property. As head of this business, he was responsible for the management and performance of over \$16 billion in listed and unlisted property funds. Prior to this, Mr McWilliam spent 23 years with Lend Lease Corporation in a variety of senior management roles.

Mr McWilliam is a director of Lend Lease Real Estate Investments Limited, the Property Industry Foundation and the Düsseldorf Skills Forum, and a Fellow of the Australian Property Institute.

Robert Woods
BCom
Non-independent,
Executive Director

Mr Woods is Chief Executive, Asset Management at Challenger Financial Services Group Limited.

In this role, Mr Woods is responsible for managing Challenger Asset Management's Life Company and specialist funds business. As head of this business, he is responsible for managing a portfolio of assets with a combined value of \$3.7 billion across property, infrastructure and fixed income.

Prior to joining Challenger, Mr Woods was a founder of Zurich Capital Markets Asia, where he was responsible for the alternative asset business. Prior to this, Mr Woods spent 11 years with Bankers Trust in investment banking.

Paul Rogan
BBus, FCPA
Non-independent,
Executive Director

Mr Rogan is the Chief Financial Officer of Challenger Financial Services Group Limited and its subsidiaries. In this role, Mr Rogan is responsible for leading the Business Services division, which includes responsibility for Finance, Legal, Tax, Compliance and Operational Risk, Secretariat, Investment Services and Capital Risk and Treasury.

Mr Rogan is a member of the CLIL Audit and Compliance Committee.

Mr Rogan has over 20 years experience in financial services both in Australia and overseas, including Chief Executive and Chief Financial Officer roles with the National Australia Bank and Lend Lease Corporation.

Greg Martin
BEC, LLB
Non-independent,
Executive Director

Mr Martin is the Chief Executive, Infrastructure at Challenger Financial Services Group. Mr Martin joined Challenger in May 2006 after a career spanning more than 25 years with The Australian Gas Light Company (AGL). While at AGL, Mr Martin held a variety of senior roles both in Australia and overseas and within a number of AGL's associated entities.

Most recently, Mr Martin headed the company as Managing Director and Chief Executive Officer. He has extensive experience in the gas and utilities sector having also previously worked for the Newcastle Gas Company and Wollongong Gas. Mr Martin is a non-executive director of Energy Developments Limited and is Chairman of the NSW Royal Botanic Gardens & Domain Trust.

Mr Martin resigned on 4 August 2006 and remains however as Chief Executive Infrastructure at Challenger Financial Services Group.

Chris Robson
BA, LLB (Hons), LLM
Company Secretary

Mr Robson is a qualified solicitor and is the Group Company Secretary and General Counsel of Challenger Financial Services Group Limited and its subsidiaries. He is also a non-independent director of certain subsidiaries of the Challenger Group. His responsibilities include leading the legal and company secretariat teams within the Business Services division of the Challenger Group.

Steven Bickerton
BBuild, MBA
Chief Executive

Mr Bickerton is the Chief Executive of CIF and has overall day to day responsibility for the management of CIF. He has previous experience as the Director of Project Finance at Calyon Australia Limited, previously Credit Agricole Indosuez, specialising in the financing of large infrastructure projects.

Mr Bickerton is a director of Inexus, Arqiva and Wales and the West Gas Limited.

Corporate governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of CLIL support and have adhered to the ASX Corporate Governance Council's Principles of Corporate Governance and Best Practice Recommendations. The corporate governance statement is contained in the corporate governance section of this report.

Review and results of operations

The consolidated loss before tax for the period from registration on 19 May 2005 to 30 June 2006 attributable to the stapled securityholders of CIF was \$25,933,136. CIF derived a loss before tax of \$12,121,617 after adding back the \$13,811,519 of unrealised losses on inflation and foreign exchange hedge contracts. The following table provides an analysis of the result:

	CIF1 Consolidated 19 May 2005 to 30 June 2006 \$'000	CIF2 Consolidated 19 May 2005 to 30 June 2006 \$'000	CIF Investment Trust 1 19 May 2005 to 30 June 2006 \$'000	CIF Investment Trust 2 19 May 2005 to 30 June 2006 \$'000
Total Revenue	82,569	56,425	35,976	1
EBIT	32,477	14,179	33,280	1
Profit/(Loss) after tax attributable to stapled securityholders of CIF	(20,685)	(23,892)	33,280	1
Distributions to securityholders	34,077	–	34,077	–
Interim Distribution – paid on 27 February 2006 in respect of 31 December 2005 (cents per security)	6.05	–	6.05	–
Final Distribution – to be paid on 29 August 2006 in respect of 30 June 2006 (cents per security)	8.15	–	8.15	–

Distributions

The distribution for the period ended 30 June 2006 is 14.20 cents per stapled security. An interim distribution of 6.05 cents per stapled security was paid on 27 February 2006. On 22 August 2006, the directors resolved to pay a final distribution of 8.15 cents per stapled security on 29 August 2006 in respect of the period ending 30 June 2006.

Application of AIFRS for financial reporting

During the period, CIF applied Australian equivalents to International Financial Reporting Standards (AIFRS) for financial reporting purposes.

Stapled securities on issue

239,977,147 stapled securities of CIF were on issue at 30 June 2006. During the period, 149,985,717 Class A stapled securities were issued and 89,991,430 Class B stapled securities were issued totalling 239,977,147 and no stapled securities were withdrawn.

Earnings per security versus securities on issue

Basic earnings per security amounts are calculated by dividing the net profit after tax attributable to securityholders by the weighted average number of securities outstanding during the period.

As there were no outstanding options on issue for CIF, diluted earnings per security is the same as basic earnings per security.

The following reflects the income and security data used in the basic and diluted earnings per security computations.

	CIF1 Consolidated 19 May 2005 to 30 June 2006	CIF2 Consolidated 19 May 2005 to 30 June 2006	CIF Investment Trust 1 19 May 2005 to 30 June 2006	CIF Investment Trust 2 19 May 2005 to 30 June 2006
Net Profit/(Loss) after tax attributable to security holders (\$'000)	(20,685)	(23,892)	33,280	1
Time weighted average number of securities for basic and diluted earnings per security at 30 June 2006 (No. of securities in thousands)	171,433	171,433	171,433	171,433
Basic earnings per security for net profit attributable to securityholders (cents per security)	(12.07)	(13.94)	19.41	0.00
Diluted earnings per security for net profit attributable to securityholders (cents per security)	(12.07)	(13.94)	19.41	0.00

There have been no other transactions involving securityholders since the reporting date and before the completion of these financial statements.

Scheme assets

At 30 June 2006, CIF held assets to a total value of \$2,104,483,550.

The basis for valuation of the assets is disclosed in note 2 to the financial statements.

Fees paid to the Responsible Entity and associates

During the year, fees amounting to \$2,483,833 were paid to CLIL as responsible entity. In accordance with the CIF1 and CIF2 constitutions, a management agreement and a fee sharing agreement entered into by CLIL with Challenger Management Services Limited (CMSL) and Challenger Group Services United Kingdom Limited (CGSUK), the following management and expense fees were paid by CIF out of scheme property for the financial period ended 30 June 2006:

Fee paid to Responsible Entity and associate	Total fee paid
Management Fees paid to CLIL from CIF under the CIF Trust Constitution and Fee Sharing Agreement	\$124,226
Management Fees paid to CMSL from CIF under the CMSL Management Agreement and Fee Sharing Agreement	\$2,327,928
Management Fees paid to CGSUK under UK Management Agreement and Fee Sharing Agreement	\$31,679

Transaction advisory fees of \$19,252,545 were paid to CMSL for transaction advisory services provided to CIF in respect of the acquisition of Inexus.

In addition to the above, interest of \$1,632,004 was paid to Challenger Treasury Limited (a related entity of CLIL) in respect of equity bridge funding of CIF as part of the acquisition of Inexus.

All of the above fees and services were conducted on an arm's length basis at market rates.

Interests held in CIF by the Responsible Entity and its associates

The following related entity of CLIL holds interests of 5% or more in CIF.

- Challenger Life No. 2 Limited – 53.89%.

Challenger Life No. 2 Limited (CL2) and CLIL are wholly owned subsidiaries of Challenger Financial Services Group Limited.

Significant changes in the state of affairs

Initial Public Offering

On 15 July 2005, CLIL announced an initial public offering (IPO) for CIF. The IPO was completed on 19 August 2005, on which date CIF was admitted to the official list of the Australian Stock Exchange Limited (ASX) and the securities (ASX: CIFCA) commenced trading. The IPO resulted in the issue of 179,982,860 stapled securities at a partly paid issue price of \$1.75. The second instalment of \$1.75 was received in respect of these securities on 21 August 2006.

Entitlement Offer

On 19 October 2005, CLIL announced an Entitlement Offer (EO) for CIF. The EO was completed on 24 November 2005. The EO resulted in the issue of 59,994,287 Class A securities at an issue price of \$1.75 with a second instalment of \$1.75 payable on 21 August 2006. The proceeds from the EO were used to repay bridge debt finance transacted to facilitate the acquisition of Inexus Group (Holdings) Limited (IGHL).

The second instalment of \$1.75 was received in respect of these securities on 21 August 2006.

Acquisition of controlled entities

- **Challenger Wales and West Gas Limited (CWWGL) Acquisition**

On 14 July 2005, CIF1 acquired 100% of the issued capital of Challenger Wales and West Gas Limited (CWWGL). This acquisition was funded from the proceeds of the IPO. CWWGL holds an 8.6% interest in the Wales and West Utilities.

- **Challenger Northern Gas Limited (CNGL) Acquisition**

On 14 July 2005, CIF1 acquired 100% of the issued capital of Challenger Northern Gas Limited (CNGL). This acquisition was funded from the proceeds of the IPO. CNGL holds a 5.8% interest in the North of England Gas Distribution Network.

- **Challenger Towers Limited (CTL) Acquisition**

On 14 July 2005, CIF1 acquired 100% of the issued capital of Challenger Towers Limited (CTL). This acquisition was funded from the proceeds of the IPO. CTL holds a 6.3% interest in Arqiva.

- **Inexus Group (Holdings) Limited (IGHL) Acquisition**

On 1 September 2005, a consortium consisting of CIF, Colonial First State Wholesale Infrastructure Income Fund, Colonial First State Private Capital Limited and IGHL management completed the acquisition of 100% of the issued capital of IGHL.

As part of the acquisition, CIF2 acquired an 80% interest in IGHL. As a result IGHL is a controlled entity which is required to be consolidated into the results of CIF.

Significant events after the balance date

The second instalment on issued securities was received by CIF1 on 21 August 2006. This was made in accordance with the requirements in the CIF Product Disclosure Statement and Entitlement Offer.

There has been no other matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may affect, CIF's operations in future financial years, the results of those operations or CIF's state of affairs in future financial years.

Likely developments and expected results

Further information on likely developments in the operation of CIF and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to CIF.

Environmental regulation and performance

The operations of the Scheme are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory. There have been no known significant breaches of any other environmental requirements applicable to the Scheme.

Indemnification and insurance of directors and officers

The Responsible Entity (RE) has insured the directors and officers against liabilities incurred in their role as directors and officers of the RE. The RE is prohibited by the insurance contract itself from disclosing the nature of the liabilities covered and the amount of the premium. The auditor of CIF is in no way indemnified out of the assets of the Scheme.

CEO and CFO declaration

The Chief Executive Officer and Chief Financial Officer have given a declaration to the Board of Directors that in their opinion the financial records of CIF have been properly maintained in accordance with section 286 of the Corporations Act 2001, and the financial statements and notes for the financial period ended 30 June 2006 comply with accounting standards and give a true and fair view.

Rounding of amounts in the directors' report and the financial report

CIF1 and CIF2 are registered schemes that are of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission (ASIC), relating to the 'rounding off' of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that class order, unless otherwise indicated.

This report is made in accordance with a resolution of directors of Challenger Listed Investments Limited.



Russell Hooper

Director
Sydney
22 August 2006

Auditor's Independence Declaration

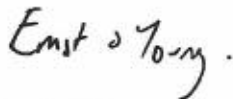
In relation to our audit of the financial report of Challenger Infrastructure Fund for the period ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Non-Audit Services

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Tax compliance services:	\$887,200
Due diligence services:	\$1,909,158
Total non audit services	\$2,796,358



Ernst & Young



Graeme McKenzie
Partner
22 August 2006

Income Statement

For the period 19 May 2005 – 30 June 2006

	Notes	CIF1 Consolidated 19 May 2005 to 30 June 2006 \$'000	CIF2 Consolidated 19 May 2005 to 30 June 2006 \$'000	CIF Investment Trust 1 19 May 2005 to 30 June 2006 \$'000	CIF Investment Trust 2 19 May 2005 to 30 June 2006 \$'000
Investment revenue		26,754	610	35,976	1
Transportation revenue		55,815	55,815	–	–
Total revenue	3(i)	82,569	56,425	35,976	1
Cost of sales		(5,755)	(5,755)	–	–
Gross profit		76,814	50,670	35,976	1
Operating expenses	3(ii)	(21,799)	(18,776)	(2,696)	–
Realised gains on foreign currency hedges		1,640	409	–	–
Earnings before interest, tax, depreciation, amortisation and unrealised gains/(losses) on financial instruments		56,655	32,303	33,280	1
Depreciation	3(ii)	(9,223)	(9,223)	–	–
Unrealised movements in employee share scheme	3(ii)	(1,144)	(1,144)	–	–
Unrealised losses on foreign currency hedges	3(ii)	(10,168)	(4,114)	–	–
Unrealised losses on inflation hedge contracts	3(ii)	(3,643)	(3,643)	–	–
Earnings before interest and tax		32,477	14,179	33,280	1
Interest expense – preference shares	3(ii)	(4,595)	(4,595)	–	–
Interest expense – debt	3(ii)	(50,364)	(37,417)	–	–
Amortisation of loan issue costs	3(ii)	(3,451)	(1,326)	–	–
Profit/(Loss) before tax		(25,933)	(29,159)	33,280	1
Tax benefit	4	5,248	5,267	–	–
Net Profit/(Loss) after tax		(20,685)	(23,892)	33,280	1
Net Profit/(Loss) after tax attributable to:					
Securityholders of CIF1		3,207	–	33,280	1
Securityholders of CIF2		(23,892)	(23,892)	–	–
Minority interests	2(iii)	–	–	–	–
		(20,685)	(23,892)	33,280	1
Basic earnings per unit (cents)		(12.07)	(13.94)	19.41	0.00
Diluted earnings per unit (cents)		(12.07)	(13.94)	19.41	0.00

The above Income Statement should be read in conjunction with the accompanying notes on pages 41 to 71.

Balance Sheet

As at 30 June 2006

	Notes	CIF1 Consolidated 19 May 2005 to 30 June 2006 \$'000	CIF2 Consolidated 19 May 2005 to 30 June 2006 \$'000	CIF Investment Trust 1 19 May 2005 to 30 June 2006 \$'000	CIF Investment Trust 2 19 May 2005 to 30 June 2006 \$'000
Assets					
Cash	7	36,593	12,272	2,135	25
Trade and other receivables	8	438,142	17,320	440,595	24
Inventory	9	831	831	–	–
Investments	10	318,486	–	399,223	–
Property, plant and equipment	11	273,047	273,047	–	–
Intangible assets	12	1,030,387	1,030,387	–	–
Deferred tax assets	4	6,998	6,998	–	–
Total assets		2,104,484	1,340,855	841,953	49
Liabilities					
Trade and other payables	14	76,511	72,549	1,817	–
Provisions	16	447	447	–	–
Deferred tax liabilities	4	10,527	10,527	–	–
Distribution payable	5	19,558	–	19,558	–
Interest bearing liabilities	15	1,058,046	1,131,899	–	–
Preference shares	15	76,976	76,976	–	–
Hedge contracts at market value	21	59,492	53,438	–	–
Total liabilities		1,301,557	1,345,836	21,375	0
Net assets		802,927	(4,981)	820,578	49
Equity					
Contributed equity	17	821,423	48	821,375	48
Retained profits/(accumulated losses)	19	(54,762)	(23,892)	(797)	1
Reserves	18	36,266	18,863	–	–
Total equity		802,927	(4,981)	820,578	49
Comprised of :					
CIF1		807,908	–	820,578	49
CIF2		(4,981)	(4,981)	–	–
Minority interests	2(iii)	–	–	–	–
Total equity		802,927	(4,981)	820,578	49

The above Balance Sheet should be read in conjunction with the accompanying notes on pages 41 to 71.

Statement of Changes in Equity

For the period 19 May 2005 – 30 June 2006

	Notes	CIF1 Consolidated 19 May 2005 to 30 June 2006 \$'000	CIF2 Consolidated 19 May 2005 to 30 June 2006 \$'000	CIF Investment Trust 1 19 May 2005 to 30 June 2006 \$'000	CIF Investment Trust 2 19 May 2005 to 30 June 2006 \$'000
Total Equity at 19 May 2005		–	–	–	–
Transaction costs	17	(18,497)	–	(18,497)	–
Distributions paid to securityholders	5	(34,077)	–	(34,077)	–
Cash flow hedge reserve	18	6,195	6,195	–	–
Asset Revaluation Reserve	18	8,618	–	–	–
Exchange translation differences on of foreign operations	18	21,453	12,668	–	–
Total income and expense for the period		(16,308)	18,863	(52,574)	–
Net Profit/(Loss) after tax		(20,685)	(23,892)	33,280	1
Total income and expenses for the period recognised in equity		(36,993)	(5,029)	(19,294)	1
Contributions of equity	17	839,920	48	839,872	48
Total equity at 30 June 2006		802,927	(4,981)	820,578	49

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes on pages 41 to 71.

Cash Flow Statement

For the period 19 May 2005 – 30 June 2006

	Notes	CIF1 Consolidated 19 May 2005 to 30 June 2006 \$'000	CIF2 Consolidated 19 May 2005 to 30 June 2006 \$'000	CIF Investment Trust 1 19 May 2005 to 30 June 2006 \$'000	CIF Investment Trust 2 19 May 2005 to 30 June 2006 \$'000
Cash flows from operating activities					
Receipts from customers		58,518	58,518	–	–
Payments to suppliers		(21,759)	(21,624)	(192)	–
Interest received		9,757	610	610	1
Dividends received		16,132	–	14,710	–
Interest paid		(19,539)	(4,081)	–	–
Tax paid		(29)	–	–	–
Net cash flow from operating activities	25	43,080	33,423	15,128	1
Cash flows from investing activities					
Acquisition of available for sale investments	27	(300,427)	–	–	–
Purchase of controlled entities (net of cash acquired)	10,27	(1,149,698)	(1,149,698)	(399,223)	–
Payments for purchase of property, plant and equipment		(27,973)	(27,973)	–	–
Net cash flow from investing activities		(1,478,098)	(1,177,671)	(399,223)	–
Cash flows from financing activities					
Net proceeds from issue of securities		401,463	24	401,439	24
Proceeds from issue of preference shares		73,974	73,974	–	–
Proceeds from borrowings		1,202,992	736,877	–	–
Repayment of borrowings		(194,277)	–	–	–
Loan from related party		–	357,822	(690)	–
Distributions Paid		(14,519)	(9,305)	(14,519)	–
Net cash flow from financing activities		1,469,633	1,159,392	386,230	24
Net increase in cash assets held					
Cash and cash equivalents at beginning of year		–	–	–	–
Net foreign exchange differences		1,978	(2,872)	–	–
Cash and cash equivalents at end of year	7	36,593	12,272	2,135	25

The above Cash Flow Statement should be read in conjunction with the accompanying notes on pages 41 to 71.

Notes to the Financial Statements

1. Corporate information

The financial report for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors dated 22 August 2006.

Challenger Infrastructure Fund is a trust limited by securities incorporated in Australia whose securities are publicly traded on the Australian Stock Exchange.

The principal activity of CIF during the period was the pooling of investors' funds in CIF through the public issue of securities and the investment of CIF funds in UK infrastructure assets.

2. Summary of accounting policies

The policies which have been adopted in the preparation of the financial statements are stated to assist in providing a general understanding of this report.

(i) Basis of accounting

The financial report is a general purpose financial report, which has been prepared in accordance with the Constitution and the requirements of the Corporations Act 2001, which includes applicable Accounting Standards. The financial report has been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale financial assets that have been measured at fair value.

The financial report has been prepared based on a business combination by the parent entity, and in recognition of the fact that the securities issued by CIF1 and CIF2 have been stapled and cannot be traded separately. CIF1 and CIF2 are included as part of equity attributable to equity holders of the stapled group, in accordance with UIG 1002: 'Consolidated Financial Reports in relation to Post-Date-of-Transition Stapling Arrangements.

CIF1 accounts are included as the ultimate parent entity to the CIF structure.

CIF2 accounts are included as the ultimate parent entity to the CIF2 Consolidated structure and these accounts are consolidated into CIF1.

The Balance Sheet is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current, additional information regarding this is included in the relevant notes.

The financial statements have been prepared in accordance with ASIC Class Order 05/642 which allows issuers of stapled securities to include their financial statements and the consolidated or combined financial statements of the stapled group in adjacent columns in one financial report.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to CIF under ASIC Class Order 98/100. CIF is an entity to which the class order applies.

(ii) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

(iii) Basis of Consolidation

The Fund has elected to apply AASB 127: Consolidated and Separate Financial Statements and UIG 1002 to the stapling of CIF1 and CIF2. For the purposes of statutory reporting the stapled entity reflects the consolidated entity (Fund). The parent entity in this arrangement is CIF1.

The consolidated balance sheet and consolidated income statement comprises the financial position and performance of CIF1 and its subsidiaries, and CIF2 and its subsidiaries, collectively known as CIF.

The financial statements of subsidiaries are prepared for the same reporting period as CIF1 and CIF2, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

Subsidiaries are consolidated from the date on which control is transferred to CIF and cease to be consolidated from the date on which control is transferred out of CIF. Where loss of control of a subsidiary occurs, the consolidated financial statements include the results for the part of the reporting period during which CIF had control.

Minority interests do not have a binding obligation to reimburse CIF for losses and accordingly losses applicable to the minority interest in excess of their interest in the equity of the subsidiary's equity are allocated against the parent interest. Minority interests in the profits of the relevant subsidiary are recognised once the minority's share of losses previously absorbed by CIF has been removed.

(iv) Comparatives

CIF was registered on 19 May 2005 and first became operational from 14 July 2005 with no trading occurring prior to 14 July 2005. The period from 19 May 2005 to 30 June 2006 represents CIF's first financial reporting period. Accordingly there are no comparatives for these financial statements.

(v) Investments in financial assets Available for Sale

CIF investments in Arqiva, Wales and West Utilities and Northern Gas Networks are classified as available for sale. Available for sale investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. After initial recognition, investments are measured at fair value.

Fair value movements in available for sale investments are recognised as a separate component of equity in the balance sheet until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported on the balance sheet is included in the income statement.

Independent valuations of available for sale assets are obtained annually. The directors of the Responsible Entity make reference to these independent valuations when making their assessment of the fair value of the available for sale assets at each reporting date.

Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the consolidated entity has transferred substantially all risks and rewards of ownership.

(vi) Derivative financial instruments

CIF uses derivative financial instruments such as foreign currency contracts, interest rate swaps and inflation swap contracts to hedge its risks associated with foreign currency, interest rate and inflation fluctuations. Such derivative financial instruments are stated at fair value.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of inflation and interest rate swap contracts is determined by reference to market values for similar instruments.

For the purposes of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to cash flow hedges to hedge firm commitments which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit and loss, for example, when the future sale actually occurs.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

Financial Instruments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the consolidated entity has transferred substantially all risks and rewards of ownership.

(vii) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to CIF and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Transportation and other operating revenue

Transportation and other operating revenue from the supply of goods and services is recognised in the income statement on an accruals basis.

Dividend and distribution revenue

Dividend and trust distributions are recognised when the securityholders' right to receive the payment is established.

Interest revenue

Interest revenue is recognised to the extent that it is probable that the economic benefits will flow to CIF and the revenue can be reliably measured. Interest income is brought to account on an effective interest accruals basis.

(viii) Expense recognition

Expenses are recognised in the income statement when CIF has a present obligation as a result of a past event that can be reliably measured. Expenses are recognised in the income statement if expenditure does not produce future economic benefits that qualify for recognition in the balance sheet.

(ix) Interest costs

Interest costs are recognised as an expense when incurred.

(x) Cash and cash equivalents

For purposes of the Balance Sheet and the Statement of Cash Flows, cash includes cash on hand and in banks, deposits at call with financial institutions and other highly liquid investments with short periods to maturity of three months or less that are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

(xi) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(xii) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- raw materials – purchase cost on a first-in, first-out basis; and
- finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

(xiii) Infrastructure

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Infrastructure assets are amortised on a straight line basis over their estimated useful lives detailed below. This is done on a project by project basis with amortisation commencing when the company starts receiving transportation income from the project. The estimated useful lives are as follows:

Infrastructure	40 yrs straight line
Meters	20 yrs straight line

Depreciation is provided on other tangible fixed assets, at rates calculated to write off the cost or valuation, less estimated residual value based on prices prevailing at the date of acquisition, of each asset over its estimated useful life as follows:

Computer software	4 yrs straight line
Plant and machinery	4 yrs straight line
Motor vehicles	4 yrs straight line
Fixtures and fittings	4 yrs straight line
Direct contracting plant and machinery	5 yrs straight line

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(xiv) Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the net identifiable assets, liabilities and contingent liabilities. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(xv) Acquisition of assets

All assets acquired, including property, plant and equipment and intangibles other than goodwill, are initially recorded at the cost of acquisition at the date of acquisition. Cost is determined as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

Where equity instruments are issued in an acquisition, the fair value of the instruments is the market price as at the acquisition date, except where the notional value at which they could be placed in the market is a better indication of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity, subject to the extent of proceeds received, otherwise expensed.

(xvi) Leased assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Operating leases

Payments made under operating leases are expensed on a straight line basis over the term of the lease.

Finance leases

No assets are held under finance leases.

(xvii) Trade and other creditors

These amounts represent liabilities for goods and services provided to CIF prior to the end of the financial period whether or not billed to CIF which are unpaid.

Payables are recognised for amounts to be paid in the future for goods and services received and include outstanding settlements on the purchase of investments and distributions payable.

Amounts payable at balance date that are denominated in foreign currencies have been converted to local currency using the rates of exchange ruling at the end of the financial period.

(xviii) Provisions

Provisions are recognised when CIF has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where CIF expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(xix) Employee entitlements

Defined contribution stakeholder pension scheme

CIF's subsidiary Nexus Group (Holdings) Limited (IGHL) operates a defined contribution stakeholder pension scheme. Employee contributions are based on various percentages of their gross salaries. Contributions made by IGHL are expensed as incurred. Nexus has no liability beyond its contributions.

Wages, salaries and non-monetary benefits

Liabilities for wages and salaries, including non-monetary benefits, are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

(xx) Share based payment transactions

Challenger Connections Limited (a subsidiary of the CIF Group) provides benefits to employees of IGHL in the form of share based payment transactions, whereby employees render services in exchange for shares or rights over shares within IGHL.

Under the Employee Incentive Equity Scheme the employees have an option to receive their vested shares paid as cash. As such, the Employee Incentive Equity Scheme is treated as a cash settled share based scheme.

The liability is measured, initially and at each reporting date until settled, at the fair value of the share appreciation rights, by applying an option pricing model, and the extent to which the employees have rendered services to date. Changes in fair value are recognised in profit or loss.

(xxi) Interest bearing liabilities

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised and through the amortisation process.

(xxii) Preference shares

On the issue of the redeemable preference shares, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost.

(xxiii) Deferred taxation

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future;
- deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised;
- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(xxiv) Goods and Services Tax and equivalent foreign taxes

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST) except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(xxv) Terms and conditions on securities

Each Class A and Class B Security issued confers upon the securityholder an equal interest in the Scheme, and is of equal value. A security does not confer any interest in any particular asset or investment of the Scheme. The Class A Securities and Class B Securities rank equally in all respects. Effective from 1 January 2007, half of the Class B Securities issued to Challenger Life will become Class A Securities. As of 1 July 2008, both the Class A Securities and the remaining Class B Securities will become Ordinary Stapled Securities.

Class A and Class B securityholders have various rights under the Constitution and the Corporations Act 2001, including the right to:

- receive income distributions;
- attend and vote at meetings of securityholders; and
- participate in the termination and winding up of the Scheme.

(xxvi) Distributions

A provision is made by CIF for the amount of any distribution payable under the Constitution on or before the end of the financial period but not distributed at the balance date.

(xxvii) Earnings per security

Basic earnings per security is calculated by dividing net profit after tax for the year attributable to ordinary securityholders of the company by the weighted average number of ordinary securities outstanding during the financial period.

There were no outstanding options during the year. Accordingly, diluted earnings per security equate to basic earnings per security.

(xxviii) Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences in the consolidated financial report are taken to the income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the overseas subsidiaries listed in note 27 is Great British Pounds (GBP). As at the reporting date the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of CIF (AUD) at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the period. The exchange differences arising on the retranslation are taken directly to a separate component of equity.

(xxix) Significant accounting judgements, estimates and assumptions

The carrying amount of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Impairment of goodwill

The consolidated entity assesses whether goodwill is impaired at least annually in accordance with the accounting policy in note 13. These calculations involve an estimation of the recoverable amount of the cash generating units to which the goodwill is allocated.

Share based payments

The consolidated entity measures the cost of cash-settled share based transactions with employees by reference to the fair value of the ordinary shares at the date

at which they are granted. The fair value is determined using the Black-Scholes formula, taking into account the terms and conditions upon which the equity instruments were granted, as discussed in note 23.

(xxx) Application of accounting standards

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2006:

AASB amendment	Affected standard(s)
2005-1	AASB 139: Financial Instruments: Recognition and Measurement
2005-2	AASB 1023: General Insurance Contracts
2005-3	AASB 119: Employee Benefits
2005-4	AASB 139: Financial Instruments: Recognition and Measurement, AASB 132: Financial Instruments: Disclosure and Presentation, AASB 1: First-time Adoption of AIFRS, AASB 1023: General Insurance Contracts, AASB 1028: Life Insurance Contracts
2005-5	AASB 139: Financial Instruments: Recognition and Measurement, AASB 1: First-time Adoption of AIFRS
2005-6	AASB 3: Business Combinations
2005-9	AASB 4: Insurance Contracts, AASB 1023: General Insurance Contracts, AASB 139: Financial Instruments: Recognition and Measurement, AASB 132: Financial Instruments: Disclosure and Presentation
2005-12	AASB 1023: General Insurance Contracts, AASB 1038: Life Insurance Contracts
2005-13	AASB 25: Financial Reporting by Superannuation Plans
2006-1	AASB 121: The Effects of Changes in Foreign Exchange Rates
2006-2	AASB 1: First-time Adoption of AIFRS

The following standards and amendments were available for early adoption but have not been applied by the consolidated entity in these financial statements:

- AASB 7: Financial Instruments: Disclosure replacing the presentation requirements of financial instruments under AASB 132: Financial Instruments: Disclosure and Presentation. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2005-10: Amendments to Australian Accounting Standards makes consequential amendments to AASB 132: Financial Instruments: Disclosure and Presentation, AASB 101: Presentation of Financial Statements, AASB 114: Segment Reporting, AASB 117 Leases, AASB 133: Earnings per share, AASB 139: Financial Instruments: Recognition and Measurement, AASB 1: First-time Adoption of AIFRS, AASB 4: Insurance Contracts, AASB 1023: General Insurance Contracts and AASB 1028: Life Insurance Contracts, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.

3. Net result from ordinary activities

	CIF1 Consolidated 19 May 2005 to 30 June 2006 \$'000	CIF2 Consolidated 19 May 2005 to 30 June 2006 \$'000	CIF Investment Trust 1 19 May 2005 to 30 June 2006 \$'000	CIF Investment Trust 2 19 May 2005 to 30 June 2006 \$'000
(i) Total Revenue				
Investment revenue				
– Arqiva	11,742	–	–	–
– Northern Gas Networks	5,580	–	–	–
– Wales and West Utilities	7,422	–	–	–
Interest income	2,010	610	610	1
Revenue from Controlled Entities	–	–	35,366	–
Operating revenue	26,754	610	35,976	1
Transportation revenue	55,815	55,815	–	–
Total revenue	82,569	56,425	35,976	1
(ii) Total Expenses				
Operating expenses				
Management fees and expenses	(2,484)	–	(2,452)	–
Salaries and wages	(10,058)	(10,058)	–	–
Contributions to defined benefit scheme	(514)	(514)	–	–
Operating lease payments	(1,135)	(1,135)	–	–
Other operating expenses	(7,608)	(7,069)	(244)	–
Total operating expenses	(21,799)	(18,776)	(2,696)	–
Depreciation and unrealised items				
Depreciation of property, plant and equipment	(9,223)	(9,223)	–	–
Unrealised movements on employee share scheme	(1,144)	(1,144)	–	–
Unrealised losses on foreign currency hedges	(10,168)	(4,114)	–	–
Unrealised losses on inflation hedge contracts	(3,643)	(3,643)	–	–
Total depreciation and unrealised items	(24,178)	(18,124)	–	–
Borrowing costs expense				
Preference shares	(4,595)	(4,595)	–	–
Interest bearing liabilities – external	(50,364)	(33,424)	–	–
Interest bearing liabilities – related entities	–	(3,993)	–	–
Amortisation of loan issue costs	(3,451)	(1,326)	–	–
Total borrowing costs expense	(58,410)	(43,338)	–	–
Total expenses	(104,387)	(80,238)	(2,696)	–

4. Income tax

Major components of income tax expense are:

	CIF1 Consolidated 30 June 2006 \$'000	CIF2 Consolidated 30 June 2006 \$'000	CIF Investment Trust 1 30 June 2006 \$'000	CIF Investment Trust 2 30 June 2006 \$'000
Income statement				
Current income tax				
Current income tax charge	(82)	(63)	–	–
Deferred income tax				
Relating to the origination and reversal of temporary differences	5,330	5,330	–	–
Income tax benefit reported in income statement	5,248	5,267	–	–

A reconciliation between tax expenses and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting profit/(loss) before tax	(25,933)	(29,159)	33,280	1
At the statutory income tax rate of 30%	7,780	8,748	(9,984)	–
Unrecognised tax losses	(2,711)	–	–	–
Expenditure not allowable for income tax purposes	(19,775)	(3,656)	(5,509)	–
Non-assessable items	19,798	–	15,493	–
Other	156	175	–	–
Income tax benefit reported in income statement	5,248	5,267	–	–

Deferred Income Tax

Deferred income tax at 30 June 2006 relates to the following:

CIF1 Consolidated 30 June 2006	Balance Sheet \$'000	Income Statement \$'000
Acquired deferred tax liabilities on acquisition of subsidiary	(8,859)	–
Accelerated depreciation for tax purposes	(1,668)	(1,668)
Deferred Income Tax Liabilities	(10,527)	
Deferred losses on hedge contracts	1,234	1,234
Losses available for offset against future taxable income	5,764	5,764
Deferred Income Tax Assets	6,998	
Deferred tax income/(expense)		5,330

4. Income tax (continued)

CIF2 Consolidated 30 June 2006	Balance Sheet \$'000	Income Statement \$'000
Acquired deferred tax liabilities on acquisition of subsidiary	(8,859)	–
Accelerated depreciation for tax purposes	(1,668)	(1,668)
Deferred Income Tax Liabilities	(10,527)	
Deferred losses on hedge contracts	1,234	1,234
Losses available for offset against future taxable income	5,764	5,764
Deferred Income Tax Assets	6,998	
Deferred tax income/(expense)		5,330

CIF Investment Trust 1 and CIF Investment Trust 2 contain \$nil deferred tax asset and deferred tax liability figures and as a result there are no disclosures to present.

The consolidated entity has unrecognised tax losses of \$2,710,810 that are available to offset against future taxable profits of companies in which the losses arose. In addition, Inexus has not recognised available capital allowances that may be utilised in the future.

5. Distributions paid and proposed

	CIF1 Consolidated 30 June 2006 \$'000	CIF2 Consolidated 30 June 2006 \$'000	CIF Investment Trust 1 30 June 2006 \$'000	CIF Investment Trust 2 30 June 2006 \$'000
(a) Distributions to securityholders				
Distributions to securityholders	34,077	–	34,077	–
(b) Components of distribution				
Interim stapled distribution paid for the period ended 31 December 2005 (paid on 27 February 2006)	14,519	–	14,519	–
Final stapled distribution declared for the period ended 30 June 2006 (payable on 29 August 2006)	19,558	–	19,558	–
	34,077	–	34,077	–
	Cents per security	Cents per security	Cents per security	Cents per security
Interim stapled distribution proposed for the period ended 31 December 2005 (paid on 27 February 2006)	6.05	–	6.05	–
Final distribution declared for the period ended 30 June 2006 (payable 29 August 2006)	8.15	–	8.15	–
	14.20	–	14.20	–

6. Earnings per security

Basic earnings per security amounts are calculated by dividing net profit after tax for the year attributable to the ordinary equity holders of the entity by the weighted average number of ordinary securities outstanding during the year.

Diluted earnings per security amounts are calculated by dividing the net profit attributable to ordinary securityholders by the weighted average number of ordinary securities outstanding during the year.

The following reflects the income and security data used in the total operations basic and diluted earnings per security computations:

	CIF1 Consolidated 19 May 2005 to 30 June 2006 \$'000	CIF2 Consolidated 19 May 2005 to 30 June 2006 \$'000	CIF Investment Trust 1 19 May 2005 to 30 June 2006 \$'000	CIF Investment Trust 2 19 May 2005 to 30 June 2006 \$'000
Net profit attributable to securityholders of the parent	(20,685)	(23,892)	33,280	1
Interest on convertible non-cumulative redeemable preference securities	–	–	–	–
Net profit attributable to ordinary securityholders for diluted earnings per security	(20,685)	(23,892)	33,280	1
Weighted average number of ordinary securities for basic earnings per security	171,433	171,433	171,433	171,433
Effect of dilution:				
Security options	–	–	–	–
Redeemable preference securities	–	–	–	–
Adjusted weighted average number of ordinary securities for diluted earnings per security	171,433	171,433	171,433	171,433
Weighted average number of converted, lapsed or cancelled potential ordinary securities included in diluted earnings per security	–	–	–	–
Basic earnings per security (cents)	(12.07)	(13.94)	19.41	0.00
Diluted earnings per security (cents)	(12.07)	(13.94)	19.41	0.00

7. Cash and cash equivalents

	CIF1 Consolidated 30 June 2006 \$'000	CIF2 Consolidated 30 June 2006 \$'000	CIF Investment Trust 1 30 June 2006 \$'000	CIF Investment Trust 2 30 June 2006 \$'000
Cash at bank and on hand	36,593	12,272	2,135	25

8. Trade and other receivables

	CIF1 Consolidated 30 June 2006 \$'000	CIF2 Consolidated 30 June 2006 \$'000	CIF Investment Trust 1 30 June 2006 \$'000	CIF Investment Trust 2 30 June 2006 \$'000
Initial Public Offer – 2nd Instalment	314,970	18	314,952	18
Entitlement Offer – 2nd Instalment	104,990	6	104,984	6
Trade Receivables	2,319	2,319	–	–
Accrued Income	9,312	9,312	–	–
Interest Receivables	6,531	5,665	–	–
Distribution Receivables	–	–	20,656	–
Other Receivables	20	–	3	–
Total	438,142	17,320	440,595	24

The 2nd instalment receivable amounts for the Initial Public Offer and the Entitlement Offer were received on 21 August 2006.

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Interest receivables are comprised of accrued interest on minority investments, deposits and swaps hedge contracts.

Distribution receivables are related party movements between CIF1 Sub Trusts and CIF1 Parent which are expected to occur in August 2006.

9. Inventory

	CIF1 Consolidated 30 June 2006 \$'000	CIF2 Consolidated 30 June 2006 \$'000	CIF Investment Trust 1 30 June 2006 \$'000	CIF Investment Trust 2 30 June 2006 \$'000
Raw Materials (at cost)	831	831	–	–
Total inventories at the lower of cost and net realisable value	831	831	–	–

10. Investments

	CIF1 Consolidated 30 June 2006 \$'000	CIF2 Consolidated 30 June 2006 \$'000	CIF Investment Trust 1 30 June 2006 \$'000	CIF Investment Trust 2 30 June 2006 \$'000
Available for Sale Assets				
Carrying value of investments:				
– Wales and West Utilities	96,591	–	–	–
– Northern Gas Networks	94,434	–	–	–
– Arqiva	127,461	–	–	–
– Investments in Controlled Entities	–	–	399,223	–
Total	318,486	–	399,223	–

Independent valuations of the available for sale assets were obtained as at 30 June 2006 from KPMG Corporate Finance (Aust) Pty Limited (KPMG). The directors of the Responsible Entity made reference to these valuations when determining the fair value of the available for sale assets at 30 June 2006. The directors have adopted GBP denominated valuations. The following table reports the Australian dollar equivalent of these valuations at the AUD/GBP spot rate at 30 June 2006.

	30 June 2006 \$'000
Wales and West Utilities	
Investment at cost	90,935
Fair value increase	3,827
Foreign currency translation*	1,829
Carrying value of investment	96,591
Northern Gas Networks	
Investment at cost	86,559
Fair value increase	3,780
Foreign currency translation*	4,095
Carrying value of investment	94,434
Arqiva	
Investment at cost	125,462
Fair value increase	1,011
Foreign currency translation*	988
Carrying value of investment	127,461

* These exchange differences arise from the foreign currency translation of GBP denominated assets into Australian dollars. They are recognised in a separate component of equity (foreign currency translation reserve). Foreign currency movements reflect the impact of currency movements from acquisition date to 30 June 2006.

11. Property, plant and equipment

	CIF1 Consolidated 30 June 2006			CIF2 Consolidated 30 June 2006		
	Infrastructure assets \$'000	Other plant and equipment \$'000	Total \$'000	Infrastructure assets \$'000	Other plant and equipment \$'000	Total \$'000
Carrying amount 19 May 2005	–	–	–	–	–	–
Additions	27,934	2,462	30,396	27,934	2,462	30,396
Disposals	–	–	–	–	–	–
Additions through acquisition of entity	237,955	3,221	241,176	237,955	3,221	241,176
Depreciation/amortisation expense	(8,123)	(1,100)	(9,223)	(8,123)	(1,100)	(9,223)
Exchange translation of foreign PPE	10,508	190	10,698	10,508	190	10,698
Carrying amount 30 June 2006	268,274	4,773	273,047	268,274	4,773	273,047

CIF Investment Trust 1 and CIF Investment Trust 2 contain \$nil property, plant and equipment figures.

There are no restrictions surrounding the ownership or use of property, plant and equipment. All property, plant and equipment commitments are disclosed in note 22.

12. Intangible assets

	CIF1 Consolidated 30 June 2006 \$'000	CIF2 Consolidated 30 June 2006 \$'000	CIF Investment Trust 1 30 June 2006 \$'000	CIF Investment Trust 2 30 June 2006 \$'000
Goodwill on acquisition of Inexus Group (Holdings) Limited	992,476	992,476	–	–
Foreign currency translation	37,911	37,911	–	–
Total	1,030,387	1,030,387	–	–

13. Impairment test for goodwill

Goodwill acquired through business combinations has been allocated to the Inexus cash-generating unit for impairment testing.

Inexus impairment testing

The recoverable amount of the Inexus cash-generating unit has been determined based on a value in use calculation.

To calculate this, cash flow projections are based on financial budgets approved by senior management covering a 30 year period. A 30 year period has been used given the long-term, predictable cash flow characteristics of the asset and the matching of the time periods against the derivative instruments in place. Further, the business' financial budgets and forecasts are modelled from 30 year forecasts.

A discount rate has been applied to cash flow projections which has been provided as a mid-point within a range completed by an independent external valuer. The factors considered in calculating the discount rate are the risk free rate, market equity risk premium and company specific adjustments.

Key assumptions used in value in use calculation for 30 June 2006

As part of the directors' assessment of impairment, the directors have relied upon an independent valuation of Inexus that was completed by KPMG at 30 June 2006. The following table provides comparison between the mid-point enterprise valuation provided by KPMG and the current enterprise value included in the accounts recognised on the purchase of Inexus.

	Enterprise value 31 August 2005 GBPm	Independent valuation mid-point 30 June 2006 GBPm
Inexus	470.1	544.4

The following describes each key assumption used on which management has based its cash flow projections to undertake impairment testing of goodwill:

- Budgeted distribution amounts – the basis used to determine the value assigned to the budgeted distributions is the projected distribution amounts factoring in broader regulatory and commercial considerations.
- Bond rates – the yield on a 10 year government bond rate at the beginning of the budgeted year is utilised. This long timeframe is consistent with the period by which the cash flows are being valued.
- Market risk premium – this is included as an appropriate measure of the investment climate in the United Kingdom.
- Company specific premium – this is included as an appropriate margin to assess the risks surrounding the Inexus cash-generating unit.

14. Trade and other payables

	CIF1 Consolidated 30 June 2006 \$'000	CIF2 Consolidated 30 June 2006 \$'000	CIF Investment Trust 1 30 June 2006 \$'000	CIF Investment Trust 2 30 June 2006 \$'000
Trade creditors and accruals	49,144	46,359	2,507	–
Interest payable	27,283	25,810	–	–
Current tax	84	62	–	–
Amounts payable to controlled entities	–	318	(690)	–
Total	76,511	72,549	1,817	–

Trade Creditors and accruals represent liabilities for goods and services provided to CIF prior to the end of the financial period which are unpaid.

Payables are recognised for amounts to be paid in the future for goods and services received, whether or not billed to CIF, and include outstanding settlements on the purchase of investments and distributions payable.

Interest payable is normally settled quarterly throughout the financial year.

Amounts payable to controlled entities comprise on-charged services that at the end of the period were unpaid. The carrying period is dictated by market conditions and is generally less than 30 days.

15. Interest bearing liabilities

	CIF1 Consolidated 30 June 2006			CIF2 Consolidated 30 June 2006		
	Outstanding \$'000	Facility \$'000	Unused \$'000	Outstanding \$'000	Facility \$'000	Unused \$'000
Bank Loans						
Bridge Debt	284,363	320,819	36,456	–	–	–
Senior Bank Debt	679,005	1,095,367	416,362	679,005	1,095,367	416,362
Junior Bank Debt	87,131	87,131	–	87,131	87,131	–
Less Capitalised Line Fees	(7,114)	–	–	(6,720)	–	–
Total Bank Loans	1,043,385	1,503,317	452,818	759,416	1,182,498	416,362
Non-bank Loans						
Loan Notes to Inexus minority shareholders	14,661	–	–	14,661	–	–
Related party	–	–	–	357,822	363,134	5,312
Total Non-bank Loans	14,661	–	–	372,483	363,134	5,312
Total Interest Bearing Loans and Borrowings excluding Preference Shares	1,058,046	1,503,317	452,818	1,131,899	1,545,632	421,674
Preference Shares issued to Inexus minorities	76,976	–	–	76,976	–	–
Total Interest Bearing Loans and Borrowings	1,135,022	1,503,317	452,818	1,208,875	1,545,632	421,674

CIF Investment Trust 1 and CIF Investment Trust 2 contain \$nil balances and as a result there are no disclosures required.

Security for borrowings

Bridge Debt

Bridge Debt Facilities amounting to \$320,819,206 which are secured by a guarantor relationship with CLIL as Responsible Entity for CIF1 and CIF2. Any outstanding liability can be enforced against the Guarantor only to the extent to which it can be satisfied out of Trust Property of CIF1 or CIF2 out of which it is actually indemnified for the liability.

All amounts owing under the Senior Facilities must be repaid on 28 August 2006 (Termination Date) from the proceeds from the Second Instalment.

Senior and Junior Bank Debt

The Senior Bank Debt Facility amounting to £440,000,000 and the Junior Bank Debt Facility amounting to £35,000,000 are secured by fixed and floating charges granted by Challenger Connections Company Limited, Challenger Connections Mid Company Limited, Inexus Group (Holdings) Limited and its material subsidiaries over all assets (excluding relevant assets in regulated subsidiaries).

16. Provisions

	CIF1 Consolidated 30 June 2006		CIF2 Consolidated 30 June 2006	
	Other provisions \$'000	Total \$'000	Other provisions \$'000	Total \$'000
Carrying amount 19 May 2005	–	–	–	–
Provisions acquired on acquisitions	1,161	1,161	1,161	1,161
Arising during the year	–	–	–	–
Amounts utilised	(714)	(714)	(714)	(714)
Restatement in provision	–	–	–	–
Carrying amount 30 June 2006	447	447	447	447

CIF Investment Trust 1 and CIF Investment Trust 2 contain \$nil balances and as a result there are no disclosures required.

17. Contributed equity

	CIF1 Consolidated 30 June 2006 \$'000	CIF2 Consolidated 30 June 2006 \$'000	CIF Investment Trust 1 30 June 2006 \$'000	CIF Investment Trust 2 30 June 2006 \$'000
IPO (Class A Securities) – 19 August 2005	157,485	9	157,476	9
IPO (Class B Securities) – 19 August 2005	157,485	9	157,476	9
IPO (Class A Securities) – 2nd Instalment due 21 August 2006	157,485	9	157,476	9
IPO (Class B Securities) – 2nd Instalment due 21 August 2006	157,485	9	157,476	9
IPO transaction costs – 19 August 2005	(12,048)	–	(12,048)	–
Entitlement Offer (Class A Securities) – 24 November 2005	104,990	6	104,984	6
Entitlement Offer transaction costs – 24 November 2005	(6,449)	–	(6,449)	–
Entitlement Offer (Class A Securities) – 2nd Instalment due 21 August 2006	104,990	6	104,984	6
Total at 30 June 2006	821,423	48	821,375	48
	Number of stapled securities '000			
Class A Securities on issue at the beginning of the period	–			
IPO – 19 August 2005	89,992			
Entitlement Offer – 24 November 2005	59,994			
Total Class A Securities on issue at 30 June 2006	149,986			
Class B Securities on issue at the beginning of the period	–			
IPO – 19 August 2005	89,991			
Total Class B Securities on issue at 30 June 2006	89,991			
Total Stapled Securities on issue at 30 June 2006	239,977			

Please refer to note 2 (xxv) for the terms and conditions attached to Class A and Class B Securities.

18. Reserves

	CIF1 Consolidated 30 June 2006 \$'000	CIF2 Consolidated 30 June 2006 \$'000	CIF Investment Trust 1 30 June 2006 \$'000	CIF Investment Trust 2 30 June 2006 \$'000
Cash flow hedge reserve	6,195	6,195	–	–
Asset revaluation reserve	8,618	–	–	–
Foreign currency translation reserve	21,453	12,668	–	–
Total	36,266	18,863	–	–
Movements in reserves				
Cash flow hedge reserve				
Opening balance	–	–	–	–
Changes in fair value	6,195	6,195	–	–
	6,195	6,195	–	–
Asset revaluation reserve				
Opening balance	–	–	–	–
Changes in fair value				
– Wales and West Utilities	3,827	–	–	–
– Northern Gas Networks	3,780	–	–	–
– Arqiva	1,011	–	–	–
	8,618	–	–	–
Foreign currency translation reserve				
Opening balance	–	–	–	–
Changes in fair value	21,453	12,668	–	–
	21,453	12,668	–	–

Nature and purpose of reserves

Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Asset revaluation reserve

This reserve includes the cumulative net change in the fair value of available for sale investments until the investment is derecognised or sold.

Foreign currency translation reserve

This reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the company.

19. Retained profits/(accumulated losses)

	CIF1 Consolidated 30 June 2006 \$'000	CIF2 Consolidated 30 June 2006 \$'000	CIF Investment Trust 1 30 June 2006 \$'000	CIF Investment Trust 2 30 June 2006 \$'000
Opening balance	–	–	–	–
Net Profit/(Loss) after tax	(20,685)	(23,892)	33,280	1
Distributions declared	(34,077)	–	(34,077)	–
Balance at end of year	(54,762)	(23,892)	(797)	1

20. Segment information

Geographic segment

The consolidated entity operates predominantly in one geographical segment being the United Kingdom. Accordingly, no geographical segment information is presented.

Business segment

The principal activity of CIF is investment in infrastructure assets.

21. Financial instruments

(a) Financial risk management objectives and policies

The Group's principal financial instruments, other than derivatives, comprise bank loans, cash and short-term deposits.

The main purpose of these financial instruments is to raise finance for CIF's investments. CIF has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. CIF also enters into derivative transactions, principally interest rate swaps and foreign exchange hedge contracts. The purpose is to manage the interest rate and currency risk arising from CIF's operations and its sources of finance. It is, and has been throughout the period, CIF's policy that no trading in financial instruments shall be undertaken. The main risk arising from the CIF's financial instruments are cash flow interest rate risk, inflation risk, liquidity risk, foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below and in the directors' report.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial assets, financial liability and equity instruments are disclosed in note 2 to the financial statements.

(b) Cash flow interest rate risk

CIF's exposure to the risk of changes in market interest rates relates primarily to CIF's long-term debt obligation with a floating interest rate.

CIF's policy is to manage its interest cost using fixed rate debt. Floating interest contracts are aligned to matching swap contracts to hedge against fluctuations in interest rate movements.

CIF hedges variable interest rate exposures arising from interest bearing liabilities using interest rate swaps. The interest rate swaps are designated as a cash flow hedge.

At 30 June 2006, CIF had a total hedge liability set out in the following table:

	CIF1 Consolidated 30 June 2006 \$'000	CIF2 Consolidated 30 June 2006 \$'000	CIF Investment Trust 1 30 June 2006 \$'000	CIF Investment Trust 2 30 June 2006 \$'000
Inflation Hedge contracts	55,396	55,396	–	–
Interest Rate Hedge contracts	(6,072)	(6,072)	–	–
Foreign Exchange Hedge Contracts	10,168	4,114	–	–
Total	59,492	53,438	–	–

21. Financial instruments (continued)

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments recognised in the financial statements.

Year ended 30 June 2006	Weighted average rate %	Floating interest rate %	Fixed interest maturing in:				Non-interest bearing \$'000	Total \$'000
			<1 year \$'000	>1-<2 years \$'000	>2-<5 years \$'000	>5 years \$'000		
CIF1 Consolidated								
Financial assets								
Cash		4.93%	36,593	–	–	–	–	36,593
Receivables		–	–	–	–	–	419,960	419,960
Available for sale assets	12.31%	–	–	–	–	70,584	247,903	318,487
			36,593	–	–	70,584	667,863	775,040
Financial liabilities								
Derivatives in hedging relationships		–	–	–	–	–	(59,492)	(59,492)
Interest bearing liabilities:								
– Bank loans		5.51%	(284,364)	–	(766,136)	–	7,114	(1,043,386)
– Non-bank loans	7.50%	–	–	–	–	(14,661)	–	(14,661)
Preference shares	7.50%	–	–	–	–	(76,976)	–	(76,976)
			(284,364)	–	(766,136)	(91,637)	(52,378)	(1,194,515)
Net financial assets (liabilities)			–	(247,771)	–	(766,136)	615,485	(419,475)
CIF2 Consolidated								
Financial assets								
Cash		4.63%	12,270	–	–	–	–	12,270
Receivables		–	–	–	–	–	24	24
			12,270	–	–	–	24	12,294
Financial liabilities								
Derivatives in hedging relationships		–	–	–	–	–	(53,438)	(53,438)
Interest bearing liabilities:								
– Bank loans		5.21%	–	–	(766,136)	–	6,720	(759,416)
– Non-bank loans	7.42%	–	–	–	–	(79,661)	(292,822)	(372,483)
Preference shares	7.50%	–	–	–	–	(76,976)	–	(76,976)
			–	–	(766,136)	(156,637)	(399,540)	(1,262,313)
Net financial assets (liabilities)			–	12,270	–	(766,136)	(399,516)	(1,250,019)

Year ended 30 June 2006	Weighted average rate %	Floating interest rate %	Fixed interest maturing in:				Non- interest bearing \$'000	Total \$'000
			<1 year \$'000	>1-<2 years \$'000	>2-<5 years \$'000	>5 years \$'000		
CIF Investment Trust 1								
Financial assets								
Cash		5.50%	2,135	–	–	–	–	2,135
Receivables		–	–	–	–	–	419,936	419,936
Available for sale assets		–	–	–	–	–	399,223	399,223
		–	2,135	–	–	–	819,159	821,294
Financial liabilities								
		–	–	–	–	–	–	–
Net financial assets (liabilities)		–	2,135	–	–	–	819,159	821,294
CIF Investment Trust 2								
Financial assets								
Cash		5.50%	25	–	–	–	–	25
Receivables		–	–	–	–	–	24	24
		–	25	–	–	–	24	49
Financial liabilities								
		–	–	–	–	–	–	–
Net financial assets (liabilities)		–	25	–	–	–	24	49

(c) Inflation risk

CIF has inflation risk exposure to income generated within Inexus IGHL business due to the nature of the long-term fixing of prices in real terms until 2018. It also has exposure to inflation risk on the debt facility within Inexus as it is calculated at a real rate of interest.

CIF's policy is to manage this inflation risk with the use of an inflation rate swap which is linked to real interest rates.

(d) Foreign currency risk

CIF has transactional currency exposure as a result of the functional currency of its UK operations being GBP. CIF has foreign currency hedges with Challenger Life No. 2 Limited (a related entity) which effectively fixes the foreign exchange rate of the distributions being paid to a nominated amount of Australian dollars over a five year period. The current foreign exchange hedges are due to expire on June 2010.

(e) Credit risk

CIF's exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the statement of financial position.

The main source of credit risk involves customer and trade receivables that result from Inexus operations. These are monitored by Inexus management in accordance with accounting policy at note 2.

(f) Liquidity risk

CIF's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans.

21. Financial Instruments (continued)

(g) Fair values

The fair values of the Company and consolidated entity's financial assets together with the carrying amounts shown in the Balance Sheet are as follows:

CIF1 Consolidated	Carrying amount 30 June 2006 \$'000	Fair value 30 June 2006 \$'000
Cash and cash equivalents	36,593	36,593
Receivables	438,142	438,142
Investments	318,486	318,486
Derivatives in hedging relationships	(59,492)	(59,492)
Payables	(76,511)	(76,511)
Interest bearing liabilities:		
– Bank loans	(1,043,385)	(1,043,385)
– Non-bank loans	(14,661)	(14,661)
Preference Shares	(76,976)	(76,976)
	(477,804)	(477,804)

CIF2 Consolidated		
Cash and cash equivalents	12,272	12,272
Receivables	17,320	17,320
Derivatives in hedging relationships	(53,438)	(53,438)
Payables	(72,549)	(72,549)
Interest bearing liabilities:		
– Bank loans	(759,416)	(759,416)
– Non-bank loans	(372,483)	(372,483)
Preference Shares	(76,976)	(76,976)
	(1,305,270)	(1,305,270)

CIF Investment Trust 1		
Cash and cash equivalents	2,135	2,135
Receivables	440,595	440,595
Investments	399,223	399,223
Payables	(1,817)	(1,817)
	840,136	840,136

CIF Investment Trust 2		
Cash and cash equivalents	25	25
Receivables	24	24
	49	49

Market values have been used to determine the fair value of listed available for sale and held for trading assets. The fair values of derivatives and interest bearing liabilities have been calculated by discounting the expected future cash flows at prevailing interest rates. The fair value of receivables and payables with a remaining life of less than one year is deemed to be the notional amount.

22. Commitments for expenditure

Operating leases

Inexus Group (Holdings) Limited entered into a commercial operating lease for the rental of property on 9 February 2004. The lease has a life of 10 years (expires 8 February 2014) with an upward rent review due 8 February 2009.

The entity leases motor vehicles and commercial vehicles under operating leases. These leases have a life of three years.

Details of the relevant commitments are contained below:

	CIF1 Consolidated 30 June 2006 \$'000	CIF2 Consolidated 30 June 2006 \$'000
Lease commitments		
Commitments payable in relation to leases contracted for at the reporting date but not recognised as liabilities:		
Not later than one year	404	404
Later than one year but not later than two years	275	275
Later than two years but not later than five years	702	702
Later than five years	738	738
	2,119	2,119
Representing:		
Non-cancellable operating leases	2,119	2,119
Future finance charges on finance leases	–	–
	2,119	2,119
Operating leases		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Not later than one year	404	404
Later than one year but not later than two years	275	275
Later than two years but not later than five years	702	702
Later than five years	738	738
Less: Liability recognised for surplus lease space and estimate of sub-lease liabilities on relocation	–	–
Commitments not recognised in the financial statements	2,119	2,119

Note: There are no finance leases within CIF1 consolidated, CIF2 Consolidated, CIF Investment Trust 1 and CIF Investment Trust 2.

22. Commitments for expenditure (continued)

	CIF1 Consolidated 30 June 2006 \$'000	CIF2 Consolidated 30 June 2006 \$'000
Capital Expenditure commitments		
Commitments payable in relation to capital expenditure commitments contracted for at the reporting date but not recognised as liabilities:		
Not later than one year	32,139	32,139
Later than one year but not later than five years	72,593	72,593
Later than five years	32,701	32,701
	137,433	137,433

CIF Investment Trust 1 and CIF Investment Trust 2 do not have any commitment disclosures required.

23. Employee entitlements

Balances for employee entitlements are nil as annual leave and sick leave are to be used within the year accrued.

Employees of the consolidated entity totalled 227 at balance date arising from the consolidation of the Inexus business.

Management Equity Incentive Plan – Share based scheme

Challenger Connections Limited (a subsidiary of the CIF Group) provides benefits to employees of IGHL in the form of share based payment transactions, whereby employees render services in exchange for shares or rights over shares within IGHL.

Under the Employee Incentive Equity Scheme the employees have an option to receive their vested shares paid as cash. As such, the Employee Incentive Equity Scheme is treated as a cash settled share based scheme.

The liability is measured, initially and at each reporting date until settled, at the fair value of the share appreciation rights, by applying an option pricing model, and the extent to which the employees have rendered services to date. Changes in fair value are recognised in profit or loss.

The carrying amount of the liability relating to the cash-settled share based payment at 30 June 2006 is \$1,143,723.

24. Related party disclosures (continued)

The adjusted equity value is calculated as Equity Value less Uncommitted Cash where Equity Value is the arithmetic average of the daily volume weighted average price of Class A Securities on ASX over the Valuation Period multiplied by the total number of Securities (including Class B Securities before 1 July 2008) outstanding at the end of the Valuation Period. The Valuation Period is defined as the first 10 business days for which the Class A Securities are quoted on an 'ex' basis for the Distribution whose record date is closest to the end of the fee period. The Responsible Entity can elect that the Valuation Period be the last 10 business days of the fee period.

All costs associated with custodial and management services are paid for by CMSL. CMSL is entitled to recover all out of pocket expenses as included in the Management Services Agreement. CLIL is entitled to recover costs from CIF under the Constitution.

Transactions between CLIL, CMSL and CIF result from normal arm's length dealings with that company as the Responsible Entity. CLIL is an Australian Financial Services Licence holder.

Challenger Treasury is a wholly owned subsidiary of Challenger Financial Services Group (CFSG) and is an associate of CLIL.

The attached table discloses all fees and expenses paid by CIF to CLIL, CMSL and CGSUK through the fee sharing arrangement and payments made to Challenger Treasury.

	CIF1 Consolidated 30 June 2006 \$'000	CIF2 Consolidated 30 June 2006 \$'000	CIF Investment Trust 1 30 June 2006 \$'000	CIF Investment Trust 2 30 June 2006 \$'000
(a) Management Fees Paid to CLIL from CIF under the CIF Trust Constitution and Fee Sharing Agreement	124	–	124	–
(b) Management Fees Paid to CMSL from CIF under the CMSL Management Agreement and Fee Sharing Agreement	2,328	–	2,328	–
(c) Management Fees Paid to CGSUK under UK Management Agreement and Fee Sharing Agreement	32	–	32	–
Total Management Fees paid or owing at 30 June 2006	2,484	–	2,484	–
Total Management Fees owing at 30 June 2006	2,484	–	2,484	–
(a) Transaction advisory fees paid to CMSL in respect of the acquisition of Inexus	19,253	–	19,253	–
(b) Interest paid to Challenger Treasury in respect of equity bridge funding as part of acquisition of Inexus	1,632	–	–	–
Total Related Party Expenses paid at 30 June 2006	20,885	–	19,253	–

d) Interests in the shares and options of the company and related bodies corporate

As at the date of this report, the following related parties held the following interests in CIF:

Key Management Personnel	CIF1 Consolidated *		CIF2 Consolidated		CIF Investment Trust 1		CIF Investment Trust 2	
	30 June 2006		30 June 2006		30 June 2006		30 June 2006	
	('000)		('000)		('000)		('000)	
	Class A – Ordinary securities	Class B – Ordinary securities	Class A – Ordinary securities	Class B – Ordinary securities	Class A – Ordinary securities	Class B – Ordinary securities	Class A – Ordinary securities	Class B – Ordinary securities
	30 Jun 06	30 Jun 06	30 Jun 06	30 Jun 06	30 Jun 06	30 Jun 06	30 Jun 06	30 Jun 06
CL2 (*)	39,338	89,991	39,338	89,991	39,338	89,991	39,338	89,991
S Gerlach	40	–	40	–	40	–	40	–
IM Martens	19	–	19	–	19	–	19	–
DC Hall	20	–	20	–	20	–	20	–
R Woods	72	–	72	–	72	–	72	–
T Foster	–	–	–	–	–	–	–	–
G Martin	–	–	–	–	–	–	–	–
P Polson	195	–	195	–	195	–	195	–
R Hooper	40	–	40	–	40	–	40	–
I Moore	150	–	150	–	150	–	150	–
P Rogan	25	–	25	–	25	–	25	–
G McWilliam	25	–	25	–	25	–	25	–
S Bickerton	75	–	75	–	75	–	75	–

*Challenger Life No. 2 Limited owns 53.89% of CIF.

(e) Related party loans

As at the date of this report, the following related party guarantees were applicable to CIF and its controlled entities.

Facility	Borrower	Lender	Available facility	Terms and conditions
Working Capital Facility Agreement	CLIL as Responsible Entity for Challenger Investment Trust 1 and Challenger Investment Trust 2	Challenger Life No. 2 Limited	Lesser of 1% of the paid up capital and \$7,500,000	Interest payable at market rates
Standby Facility Agreement	Challenger Towers Limited	Challenger Life No. 2 Limited	£2,000,000	Interest payable at market rates

24. Related party disclosures (continued)

(f) Related party guarantees

As at the date of this report, the following related party guarantees were applicable to CIF and its controlled entities.

Facility involving guarantee	Other contractual party	Borrower	Lender	Guarantor relationship	Total facility commitment
Challenger Infrastructure Club Facilities	N/A	Challenger Property Nominees ATF CIF Lastmile Trust	CBA/Calyon	CLIL as guarantor to Challenger Infrastructure Club must pay immediately on demand from Lender. CLIL must pay any outstanding monies which are unpaid when due.	Tranche A – \$294,500,000 Tranche B – \$26,319,200 Tranche C – \$99,120,794
Parties to Deed of Direction, Guarantee and Undertaking	Challenger Life No.2 Ltd/ Class B securityholders, ie Challenger Property Nominees ATF Challenger Infrastructure Unit Trust	Challenger Property Nominees ATF CIF Lastmile Trust	CBA/Calyon	CLIL acts as guarantor. The liability can only be enforced against the total of the CIF1 and CIF2 Trust Property.	N/A

25. Statement of cash flows

Reconciliation of Loss after Tax of CIF to Net Cash Flows from Operating Activities

	CIF1 Consolidated 30 June 2006 \$'000	CIF2 Consolidated 30 June 2006 \$'000	CIF Investment Trust 1 30 June 2006 \$'000	CIF Investment Trust 2 30 June 2006 \$'000
Net loss from continuing activities after income tax expense	(20,685)	(23,892)	33,280	1
Depreciation	9,223	9,223	–	–
Amortisation	3,451	1,326	–	–
Unrealised movements in employee share scheme	1,144	1,144	–	–
Unrealised (losses)/gains on foreign currency hedges	10,369	4,114	–	–
Unrealised (losses)/gains on inflation hedge contracts	3,442	3,643	–	–
Change in assets and liabilities				
Increase in receivables	(5,561)	(3,767)	(20,659)	–
Increase in payables and other liabilities	41,697	41,632	2,507	–
Net cash flow from operating activities	43,080	33,423	15,128	1

26. Auditor's remuneration

Amounts received or due and receivable by Ernst & Young for:

Audit or review of the financial report of the consolidated entity	213	156	40	–
Taxation services	887	–	887	–
Due Diligence services	1,909	271	1,638	–
	3,009	427	2,565	–

27. Investments in controlled entities

Name of entity	Year end	Country of incorporation	Class of shares/ securities	Equity holding 30 June 2006 %
CIF UK Towers Trust	30 June	Australia	Ordinary	100
CIF North of England Gas Trust	30 June	Australia	Ordinary	100
CIF Wales and the West Gas Trust	30 June	Australia	Ordinary	100
Challenger Towers Limited	30 June	United Kingdom	Ordinary	100
Challenger Northern Gas Limited	30 June	United Kingdom	Ordinary	100
Challenger Wales & West Gas Limited	30 June	United Kingdom	Ordinary	100
CIF Australian Lastmile Holding Company Pty Limited	30 June	Australia	Ordinary	100
CIF Lastmile Trust	30 June	Australia	Ordinary	100
Challenger Connections Top Company Limited	30 June	United Kingdom	Ordinary	80
Challenger Connections Mid Company Limited	30 June	United Kingdom	Ordinary	80
Challenger Connections Limited	30 June	United Kingdom	Ordinary	80
Inexus Group (Holdings) Limited	30 June	United Kingdom	Ordinary	80
Independent Pipelines Limited	30 June	United Kingdom	Ordinary	80
Connect Utilities Limited	30 June	United Kingdom	Ordinary	80
Quadrant Pipelines Limited	30 June	United Kingdom	Ordinary	80
Independent Metering Limited	30 June	United Kingdom	Ordinary	80
Inexus (EST) Limited	30 June	United Kingdom	Ordinary	80
Independent Power Networks Limited	30 June	United Kingdom	Ordinary	80
Inexus Group Limited	30 June	United Kingdom	Ordinary	80
Inexus Limited	30 June	United Kingdom	Ordinary	80
Inexus (Licence) Limited	30 June	United Kingdom	Ordinary	80
Inexus Employee Benefit Trust	30 June	United Kingdom	Ordinary	80
Challenger Employee Share Ownership Plan Trust	30 June	United Kingdom	Ordinary	80
Inexus Gas Infrastructure (Holdings) Limited (formerly Anglian Connections Limited)	30 June	United Kingdom	Ordinary	80
Inexus (Services) Limited	30 June	United Kingdom	Ordinary	80
Envoy Asset Management Limited	30 June	United Kingdom	Ordinary	80

Acquisition of Inexus Group (Holdings) Limited

On 1 September 2005, a consortium comprising of CIF, Colonial First State Wholesale Infrastructure Income Fund, Colonial First State Private Capital Limited and Inexus Group (Holdings) Limited management completed the acquisition of 100% of Inexus Group Holdings Limited (IGHL). As part of the acquisition, CIF2 acquired an 80% interest in IGHL.

27. Investments in controlled entities (continued)

Net tangible assets and liabilities acquired

	1 September 2005 \$'000
Cash and other assets	11,992
Property, plant and equipment	232,060
Receivables	14,339
Work in progress	9,704
Payables and other liabilities	(98,631)
Provisions	(1,175)
Total	168,289
Goodwill recognised on acquisition	992,476

Consideration:	
Consideration before costs	1,116,883
Acquisition costs	43,882
Total	1,160,765

Cash Outflow on acquisition of IGHL	
Net cash acquired with subsidiary	11,067
Consideration before costs	(1,116,883)
Transaction costs	(43,882)
Total	(1,149,698)

Funding of CIF's investment in IGHL

CIF funded the IGHL acquisition by drawing on bridge loan facilities totalling \$365,060,987.

A component of the bridge loan financing included a \$69,158,908 facility provided by Challenger Treasury Limited (a related entity of CLIL). This facility was entered into at arm's length terms and repaid on 30 November 2005 using a portion of the proceeds from CIF's Entitlement Offer.

From the date of acquisition, IGHL has contributed a loss after tax of \$23.9 million to the net profit of CIF1 Consolidated.

Acquisition of CWWGL, CNGL and CTL

On 14 July 2005 CIF 1 acquired 100% of the issued capital of Challenger Wales & West Gas Limited (CWWGL), Challenger Northern Gas Limited (CNGL) and Challenger Towers Trust (CTL). These investments were funded from the proceeds of the Initial Public Offering on 19 August 2005.

Net Assets acquired

	14 July 2005 \$'000
Challenger Wales & West Gas Limited	90,935
Challenger Northern Gas Limited	86,559
Challenger Towers Limited	125,462
Total	302,956

Cash Outflow on acquisition of CWWGL, CNGL and CTL

Net cash acquired with subsidiaries	2,529
Cash paid	(302,956)
Total	(300,427)

From the date of acquisition CWWGL, CNGL and CTL have contributed \$24.7 million to the net profit of CIF1 Consolidated.

28. Events subsequent to balance date

The second instalment was received by CIF1 on 21 August 2006. This was made in accordance with the requirements in the CIF Product Disclosure Statement and Entitlement Offer.

The directors are not aware of any other matter or circumstance not otherwise dealt with in the financial report that has occurred since the period end that has significantly affected the operations of CIF or the state of affairs in periods subsequent to the period ended 30 June 2006.

29. Contingencies

As at balance date there are no material contingent liabilities or contingent assets.

Statement by the Directors of the Responsible Entity of CIF

On the Financial Report of the Challenger Infrastructure Fund

In accordance with a resolution of the directors of Challenger Listed Investments Limited (the Responsible Entity of the CIF Investment Trust 1 and CIF Investment Trust 2, collectively known as the Challenger Infrastructure Fund ('CIF')), I state that:

1. In the opinion of the directors:
 - (a) The financial statements and notes of the Challenger Infrastructure Fund are in accordance with the Scheme Constitutions and the Corporations Act 2001, including:
 - (i) giving a true and fair view of the CIF Investment Trust 1, CIF Investment Trust 2 and the consolidated entity's financial position as at 30 June 2006 and of its performance for the period ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
 - (b) There are reasonable grounds to believe that the Challenger Infrastructure Fund will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial period ending 30 June 2006.



Director
Sydney
22 August 2006

Independent audit report to unitholders of Challenger Infrastructure Fund

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for the stapled securities CIF Investment Trust 1 and CIF Investment Trust 2, collectively known as Challenger Infrastructure Fund and the entities they controlled, for the period from registration on 19 May 2005 to 30 June 2006.

The directors of the Responsible Entity are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of Challenger Infrastructure Fund, and that complies with Accounting Standards in Australia, in accordance with the Corporations Act 2001 and the fund's constitution. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion to the unitholders of Challenger Infrastructure Fund. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001 and the fund's constitution, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of Challenger Infrastructure Funds' financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.



We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of Challenger Infrastructure Fund.

Independence

We are independent of Challenger Infrastructure Fund and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

In our opinion:

1. the financial report of Challenger Infrastructure Fund is in accordance with:
 - (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of Challenger Infrastructure Fund and the consolidated entity for the period from registration on 19 May 2005 to 30 June 2006 and of their performance for the period ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
 - (b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Graeme McKenzie
Partner
Sydney
22 August 2006

Securityholder information

ASX listing

Challenger Infrastructure Fund (CIF) is listed on the Australian Stock Exchange (ASX). The Fund's Class A securities trade under the code 'CIF'. Security 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 security 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 as follows:

Challenger Infrastructure Fund
C/- Link Market Services Limited
Locked Bag A14
SYDNEY SOUTH NSW 1235
Telephone: 1800 114 027
Telephone (outside Australia): +61 2 8280 7111
Facsimile: +61 2 9287 0303

If you have any questions relating to the management of the Fund, please contact Challenger on +61 8 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.

Annual taxation statements

The taxable income shown on your Annual Taxation Statement is taxable in the year of entitlement rather than the year of receipt. This means that taxable income included in distributions paid in February 2006 and August 2006 is assessable in the taxation year ending 30 June 2006.

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.

Securityholder complaints

If you are dissatisfied with a service or process relating to your investment, please let us know. Complaints can be made either verbally or in writing by contacting:

Complaints Manager
Challenger Infrastructure Fund
Level 41
Aurora Place
88 Phillip Street
SYDNEY NSW 2000
Telephone: +61 2 9994 7000
Facsimile: +61 2 9994 7777
Email: cif@challenger.com.au

There is no charge to make a complaint.

The Responsible Entity is also a member of the Financial Industry Complaints Service (FICS), an external complaints resolution scheme. If you are not satisfied with the resolution of your complaint by the Responsible Entity, you may refer your complaint to FICS.

Substantial securityholdings as at 17 August 2006

Company name	Effective date	Number of securities	% issued capital
Challenger Group	24 November 2005	129,329,140*	53.89%
Questor Financial Services	12 December 2005	7,840,076	5.23%

* Includes 89,991,430 Class B securities which are subject to a voluntary escrow arrangement until 1 January 2007. As of 1 January 2007, half of the Class B securities become Class A securities and subject to an application being made to ASX, will be quoted on ASX. As of 1 July 2008, both the Class A and remaining Class B securities will become ordinary securities.

Top 20 securityholders as at 17 August 2006

Class A securities

Number	Name	Number of securities	% issued capital
1	Challenger Life No.2 Limited <Shareholder Fund A/C>	32,997,143	22.0
2	National Nominees Limited	14,268,252	9.51
3	ANZ Nominees Limited <Cash Income A/C>	7,238,650	4.83
4	Questor Financial Services Limited <TPS RF A/C>	6,682,677	4.46
5	J.P. Morgan Nominees Australia Limited	6,591,608	4.39
6	Challenger Life No.2 Limited <Ordinary Pool A/C>	6,340,567	4.23
7	UBS Nominees Pty Ltd	5,623,874	3.75
8	Cogent Nominees Pty Limited	3,588,934	2.39
9	IAG Nominees Pty Limited	3,369,360	2.25
10	Ecapital Nominees Pty Limited <Settlement A/C>	2,000,000	1.33
11	Irrewarra Investments Pty Ltd <Strategic 1 A/C>	1,501,370	1.00
12	UBS Wealth Management Australia Nominees Pty Ltd	1,245,482	0.83
13	Perpetual Trustees Consolidated Limited <Alliance A/C>	1,025,100	0.68
14	RBC Dexia Investor Services Australia Nominees Pty Limited <BKCust A/C>	1,007,074	0.67
15	Questor Financial Services Limited <TPS PIP A/C>	972,942	0.65
16	Brispot Nominees Pty Ltd <House Head Nominee No 1 A/C>	953,462	0.64
17	Invia Custodian Pty Limited <Black A/C>	866,667	0.58
18	HSBC Custody Nominees (Australia) Limited – GSCO ECA	812,000	0.54
19	Irrewarra Investments Pty Ltd <Strategic 2 A/C>	752,666	0.50
20	Citicorp Nominees Pty Limited	746,304	0.50

Class B securities (unquoted)

Number	Name	Number of securities	% issued capital
1	Challenger Property Nominees Pty Limited <ATF Challenger Infrastructure Unit Trust A/C>	89,991,430	100.00

Spread of securityholders as at 17 August 2006

Class A securities

Holding	Number of securityholders	Number of securities fully paid	% of issued capital
1 – 1,000	59	42,839	0.03
1,001 – 5,000	1,008	3,508,865	2.34
5,001 – 10,000	1,081	8,374,775	5.58
10,001 – 100,000	1,142	27,628,408	18.42
100,001 and over	72	110,430,829	73.63
Total	3,362	149,985,716	100.00

There were eight securityholders each holding less than a marketable parcel of 385 securities.

Class B securities

Holding	Number of securityholders	Number of securities fully paid	% of issued capital
1 – 1,000	–	–	–
1,001 – 5,000	–	–	–
5,001 – 10,000	–	–	–
10,001 – 100,000	–	–	–
100,001 and over	1	89,991,430	100.00

Voting rights

On a show of hands, holders of Class A and Class B securities in CIF have one vote each. On a poll, each holder of Class A and Class B securities is entitled to a number of votes proportionate to the size of its holding.

Distribution history

Period ended	Class A securities		Class B securities
	Distribution cpu	Tax-deferred component %	Distribution cpu
31 December 2005	6.05		6.05
30 June 2006	8.15		8.15
Total	14.20	81.5	14.20

Issue of securities

Date	Issue	Class	Number of securities	Price
22 August 2005	IPO listing	Class A	89,991,430	\$3.50*
22 August 2005	IPO listing	Class B**	89,991,430	\$3.50*
24 November 2005	1 for 3 entitlement offer	Class A	59,994,286	\$3.50*

* Consisting of two instalments of \$1.75 per security.

** Class B securities are subject to a voluntary escrow arrangement until 1 January 2007. As of 1 January 2007, half of the Class B securities become Class A securities and subject to an application being made to ASX, will be quoted on ASX. As of 1 July 2008, both the Class A and remaining Class B securities will become ordinary securities.

Additional information

The following disclosures are made in accordance with the listing rules of Australian Stock Exchange Limited (ASX), and waivers to these listing rules granted to the Responsible Entity at the time of the listing of CIF on ASX.

Use of proceeds of initial public offering

In accordance with ASX listing rule 4.10.19, the Responsible Entity confirms that cash or assets readily convertible to cash held at the time of admission of CIF to the official list of ASX have been used in line with the business objectives set out in the Product Disclosure Statement dated 15 July 2005.

Stapling

In accordance with the terms and conditions of waivers granted by ASX in relation to the listing of CIF on ASX, the Responsible Entity notes that ASX reserves the right (but without limiting its absolute discretion) to remove any or all of the stapled trusts comprising CIF from the official list if any of the securities in the trusts cease to be stapled together, or any equity securities are issued by either of the trusts which are not stapled to equivalent securities in the other trust.

Co-investment Agreement

In accordance with the terms and conditions of waivers granted by ASX in relation to the listing of CIF on ASX, the Responsible Entity provides details of the material terms of the co-investment agreement between CIF, Challenger Management Services Limited (CMSL) and Challenger Life No.2 Limited (Challenger Life).

Co-investment rights

Unless it is prohibited from doing so under the terms of the relevant investment opportunity or applicable law, Challenger Life must offer CIF the opportunity to co-invest if Challenger Life proposes to invest in any entity or asset that fits within CIF's investment mandate. Challenger Life must offer to CIF at least 30% of the value of the total investment opportunity available to Challenger Life, or an equivalent economic interest. However, CIF is not obliged to invest in any such opportunity.

Pre-emption rights

If CIF is subject to a change of control (including CLIL or a related body corporate of CLIL ceasing to be the responsible entity of CIF, a change of control of CLIL or the winding up of CIF), Challenger Life may require CIF to transfer some or all of CIF's co-investment interests to Challenger Life at fair value. The transfer will be subject to any conditions or obligations owing to third parties in relation to the co-investment interest, applicable law and regulatory requirements.

Negotiation of future arrangements

If CIF accepts an offer to co-invest, CIF and Challenger Life will co-operate to the extent appropriate and desirable in the investment process, including in negotiation and the carrying out of due diligence. Any common costs will be shared between CIF and Challenger Life in proportion to their investment opportunity or as otherwise agreed.

Termination

The agreement will terminate on the earlier of:

- agreement between the parties;
- CLIL ceasing to be the responsible entity of CIF; or
- 10 years from the effective date, unless extended for a further period of up to 10 years by either party.

Management Agreements

In accordance with the terms and conditions of waivers granted by ASX in relation to listing of CIF on ASX, the Responsible Entity provides details of the material terms of the Management Agreements in relation to CIF.

CMSL Management Agreement

Purpose

Under the CMSL Management Agreement, CMSL will provide certain management services to CIF.

Management services

CMSL is required to:

- perform, or supervise the performance of, the day to day administration of CIF including financial reporting, securityholder relations, registrar and transfer services and other necessary services;
- act as agent of CIF in managing the investment portfolio of CIF;

- act as agent of CIF dispersing and collecting CIF's funds, paying its debts and generally fulfilling CIF's obligations;
- retain for and on behalf of CIF the services of accountants, tax advisors, legal counsel, valuers, registrars, banks and other lenders and other service providers as and when CMSL deems it necessary and appropriate for the management and operation of CIF;
- establish and operate bank accounts in the name of CIF;
- maintain books of account for CIF in accordance with generally accepted accounting principles and arrange for the audit of CIF's financial statements; and
- perform any additional services requested by CIF and agreed to by CMSL.

Transaction advisory services

The services provided under the CMSL Management Agreement do not include identifying potential transactions or advisory services, for example, advisory services associated with acquisitions or disposals of assets, and carrying out any due diligence, negotiation, financial structuring or other services requested by CIF in connection with those acquisitions or disposals. CIF may separately engage CMSL or other advisors to provide such identification or advisory services.

Fees and expenses

For the management services, CMSL is entitled to a fee equal to the base fee and the performance fee which would be payable to the Responsible Entity if calculated in accordance with the Constitutions as drafted as at the allotment date.

Subject to conformity with a takeovers exemption discussed below, for the first three years CMSL will take its fees in the form of fully-paid Class A securities for any fees payable prior to 30 June 2008 and in the form of fully-paid ordinary stapled Securities for any fees payable for the period ending 30 June 2008. Thereafter, CMSL will take its fees either in cash or in the form of ordinary stapled securities, at the discretion of the Responsible Entity.

Payment of the management fees in Class A securities for the periods ending 30 June 2006 and, if necessary, 31 December 2006 will be deferred until the day following the second instalment payment date. The issue price and number of securities to be issued shall be determined as if the issue had not been deferred from the original payment date and the securities had been issued credited as fully paid. CMSL will receive cash compensation from CIF for any distributions CMSL would have received had it been issued the number of Class A securities on the original payment date calculated by dividing its fee entitlement by the prevailing market price of Class A securities on that date.

In addition to the base fee and the performance fee, CMSL is entitled to reimbursement of expenses properly and reasonably incurred in its performance of the services under the agreement. CMSL is not entitled to any other compensation from CIF for providing the services.

Base and performance fees will only be paid in securities to the Manager and Responsible Entity if they can rely on a relevant exemption to the takeovers provisions for the acquisition (e.g. the 3% creep exemption).

Term

The CMSL Management Agreement has a term of 10 years. It can be terminated at any time by CMSL giving one month's written notice to CIF.

The agreement can be terminated immediately at any time by CIF giving notice to CMSL:

- where CMSL has committed a material breach of the agreement that has not been remedied for a period of 180 days, including a material failure to devote adequate resources to providing the services under this agreement, a material failure to provide the services with a reasonable degree of care, diligence and skill and a material failure to comply with applicable laws and the breach has been notified in writing by CIF to CMSL within one month of the breach occurring. Where a breach is incapable of being remedied, the breach will be deemed to be remedied where the Manager is ready, willing and able to provide the services on an ongoing basis;

- where an insolvency event occurs in relation to CMSL (including being unable to pay its debts as and when they fall due, having a receiver, liquidator, administrator or similar officer appointed over all or part of its business, assets or revenues and/or an order being made for its winding up) unless CMSL is withdrawn and replaced within 15 days with a similarly constituted entity; or
- where Challenger Life and/or its controlled entities in aggregate cease to hold (directly or indirectly) at least 50% of the issued share capital of CMSL.

At the end of 10 years CMSL may require the Responsible Entity to put a resolution to securityholders to extend the agreement for an additional period of 10 years or other period up to 10 years agreed to by the parties.

After the initial 10 years, CIF may terminate the agreement at any time by giving notice to CMSL one month following the passing of a resolution of the securityholders to remove CMSL as manager and terminate the agreement unless a resolution to extend the agreement for an additional period beyond the initial 10 year term has been passed by securityholders.

Indemnity

CMSL, its members, employees and their affiliates, are not liable for any claim, liability or loss arising in connection with the provision of the services except to the extent that such claim, liability or loss is caused by or contributed to by a breach of the agreement or by the negligence, misconduct or bad faith of the relevant person in providing the services.

CIF will indemnify CMSL, its members, employees and their affiliates, against all loss arising in connection with provision of the services except to the extent that such loss is caused by or contributed to by a breach of the agreement or by the negligence, misconduct or bad faith of the indemnified person in providing the services.

UK Management Agreement

Purpose

Under the UK Management Agreement, Challenger Group Services UK Limited (CGS UK) will provide certain management services to the Jersey Companies (comprising Challenger Towers Limited, Challenger Northern Gas Limited and Challenger Wales and the West Gas Limited).

Management services

CGS UK is required to:

- perform, or supervise the performance of, the day to day administration of the Jersey Companies including financial reporting and other necessary services;

- act as agent of the Jersey Companies in managing the assets held by the Jersey Companies including providing board representatives for the joint venture companies;
- act as agent of the Jersey Companies dispersing and collecting the Jersey Companies' funds, paying its debts and generally fulfilling their obligations;
- retain for and on behalf of the Jersey Companies the services of accountants, tax advisors, legal counsel, valuers, registrars, banks and other lenders and other service providers as and when CGS UK deems it necessary and appropriate for the management and operation of the Jersey Companies;
- establish and operate bank accounts in the name of the Jersey Companies;
- maintain books of account for the Jersey Companies in accordance with generally accepted accounting principles and arrange for the audit of the Jersey Companies' financial statements if necessary; and
- perform any additional services requested by the Jersey Companies and agreed to by CGS UK.

Fees and expenses

CGS UK is entitled to a fee equal to the base fee and the performance Fee payable to the Responsible Entity under the constitutions as drafted as at the allotment date. The amount of this fee payable by the Jersey Companies when they form part of CIF will be reduced under the Fee Sharing Agreement described below.

In addition to this fee, CGS UK is entitled to reimbursement of expenses properly and reasonably incurred in its performance of the services under the agreement. CGS UK is not entitled to any other compensation from the Jersey Companies for providing the services.

Term

The UK Management Agreement has a term of 10 years. It can be terminated at any time by CGS UK giving one month's written notice to the Jersey Companies.

At the end of 10 years CGS UK may require the Jersey Companies to procure the Responsible Entity to put a resolution to security to extend the agreement for an additional period of 10 years or other period agreed to by the parties.

After the initial 10 years, the agreement can be terminated immediately at any time by the Jersey Companies giving written notice to CGS UK:

- where CGS UK has committed a material breach of the agreement that has not been remedied for a period of 180 days, including a material failure to devote adequate resources to providing the services under this agreement, a material failure to provide the services with a reasonable degree of care, diligence and skill and a material failure to comply with applicable laws;
- where an insolvency event occurs in relation to CGS UK (including being unable to pay its debts as and when they fall due, having a receiver, liquidator, administrator or similar officer appointed over all or part of its business, assets or revenues and/or an order being made for its winding up) unless CGS UK is withdrawn and replaced within 15 days with a similarly constituted entity;
- where Challenger and/or its controlled entities in aggregate cease to hold (directly or indirectly) at least 50% of the issued share capital of CGS UK; or
- one month following the passing of a resolution of the Holders to remove CGS UK as manager and terminate the agreement unless a resolution to extend the agreement for an additional period beyond the initial 10 year term has been passed by security.

Fee Sharing Agreement

Purpose

The Fee Sharing Agreement between CMSL, CGS UK, CLIL and the Jersey Companies sets out the allocation of fees payable to CMSL, CGS UK and CLIL as Responsible Entity.

Total entitlements to fees

Under the Fee Sharing Agreement the parties acknowledge that:

- CLIL, as Responsible Entity, is entitled to receive a base fee and a performance fee under the constitutions of the Trusts (RE Fees).
- CMSL is entitled under the CMSL Management Agreement to receive management fees equal to the RE Fees (CMSL Fees); and
- CGS UK is entitled under the UK Management Agreement to receive management fees equal to the RE Fees (CGS UK Fees).

Sharing of fees

The Fee Sharing Agreement provides for the fees to be shared as follows for the term of the agreement (unless otherwise agreed by the parties):

- CLIL agrees that its entitlement to fees is reduced to 5% of the RE Fees;
- CMSL agrees that its entitlement to management fees is reduced to 95% of the CMSL Fees less any fees CGS UK has received under the UK Management Agreement; and

- CGS UK agrees that its entitlement to fees is reduced to £15,000 per annum or as otherwise agreed between the parties for so long as CMSL is entitled to receive the CMSL Fees.

Waiver of additional fees

CLIL, CMSL and CGS UK each waive their rights to that amount of fees payable to them under the Constitutions, the CMSL Management Agreement or the UK Management Agreement (as applicable) which is above the amount of fees payable to them as determined in accordance with above.

Termination

The Fee Sharing Agreement terminates:

- where agreed to by each party;
- where CLIL is no longer the Responsible Entity of CIF; or
- where CMSL or CGS UK is removed under their respective management agreements,

provided that on termination CMSL will waive its entitlement to fees under the CMSL Management Agreement to the extent CGS UK is entitled to receive, and in fact receives, fees under the UK Management Agreement.

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Directory

Challenger Infrastructure Fund (CIF)

Comprising:

CIF Investment Trust 1

ARSN 114 139 703

CIF Investment Trust 2

ARSN 114 139 632

Australian Stock Exchange (ASX) code

CIF

Responsible Entity

Challenger Listed Investments Limited

ABN 94 055 293 644

AFSL 236 887

Directors of the Responsible Entity

S Gerlach (Chairman)

RRR Hooper

IM Martens

GK McWilliam

IR Moore

PD Rogan

RJ Woods

Company Secretary

C Robson

Manager

Challenger Management Services Limited

ABN 29 092 382 842

Address

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Telephone: +61 2 9994 7000

Facsimile: +61 2 9994 7777

Email: cif@challenger.com.au

Website: www.challenger.com.au/cif

Unit Registry

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Telephone (outside Australia): +61 2 8280 7111

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