Challenger Infrastructure Fund

Annual Report 2012

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)

challenger

Important notice

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

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

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

Nothing in this Report should be considered a solicitation, offer or invitation to buy, subscribe for or sell any, or a recommendation of, financial products.

All reasonable care has been taken to ensure that the facts stated and opinions given in this Report are fair and accurate. To the maximum extent permitted by law, the recipient releases CLIL, each member of the Challenger Group, their directors, officers, employees, representatives and advisers from any liability (including, without limitation, in respect of direct, indirect or consequential loss or damage or loss or damage arising by negligence) arising in relation to any recipient relying on anything contained in or omitted from this Report.

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

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

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

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

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Chair's letter

Dear Unitholder

On behalf of the Board of Challenger Listed Investments (CLIL), the Responsible Entity of Challenger Infrastructure Fund (CIF), I would like to thank our unitholders for their ongoing loyalty and support throughout the year.

CIF began the 2012 financial year by announcing a comprehensive strategic review of the Fund and its assets. The focus of the strategic review was to firstly assess the various options available to the Board and secondly to maximise unitholder value. After detailed consideration of a variety of options, the Board asked its advisers Rothschild and Challenger Management Services Limited (CMSL) to ascertain the level of third party interest in acquiring either the Fund or its assets.

LBC sale

On 5 June 2012, following a rigorous and exhaustive process spanning 10 months and involving discussions with up to 90 interested parties, CIF announced the sale of LBC. The sale of LBC was initially subject to one sale condition, which was, anti-trust approval in Europe. As per our announcement on 3 September 2012, The European Commission gave its unconditional approval for the LBC sale. The sale of LBC completed on 7 September 2012.

Inexus sale

On 25 June 2012 CIF contracted to sell Inexus to Brookfield Infrastructure Partners subject to a favourable unitholder vote, which was received at an extraordinary general meeting of CIF held on 15 August 2012. Unitholders voted 99.94% in favour of the sale of Inexus and to the consequential wind up of the Fund.

The sale of Inexus is now only conditional on the existing minority shareholders in Inexus exercising or waiving their right to match the payment terms offered by Brookfield. The minority investors have until the end of September to elect to either exercise or waive their pre-emptive right to match Brookfield's offer. Completion of the sale of Inexus to either Brookfield or the minority investors if they exercise their pre-emptive rights is expected to occur shortly thereafter in early October.

The consideration payable for Inexus has two components. The first component, a payment of £13.7 million, is payable on completion of the sale of Inexus. The second component, a payment of up to £25.6 million, is contingent on the occurrence of certain future events including a refinance of Inexus. The existing lenders have recently agreed to extend the maturity date of the company's debt facilities up to 30 November 2012 in order to give Brookfield the opportunity to complete its proposed recapitalisation and refinance.

Distribution

A final distribution of 5 cents per unit, for the second half of the financial year 2012, has been declared by the Board and was paid to unitholders on 30 August 2012, bringing the total distribution for the financial year 2012 to 10 cents per unit.

Wind up

An initial capital return of $1.29 is scheduled for the week commencing 22 October 2012 once both asset sales have completed. A further distribution of circa one cent per unit is expected to be made on completion of the wind up of CIF. This final distribution may be up to 12 cents in the event that CIF receives the contingent payment for the sale of Inexus. The cash to be distributed to unitholders is expected to deliver unitholders a substantial premium to the prevailing unit price prior to the announcement of the strategic review.

Our people

The Board, CIF management team and staff have all worked diligently during the past year to ensure a solution was found for the Fund that was in the best interests of unitholders. In this case the best outcome for unitholders has led to the distribution of cash and the wind up of the Fund.

Outlook

There is still significant work to be done before the Fund can be wound up and final distributions made. The minority shareholders in Inexus have the opportunity to match Brookfield's offer for Inexus, following which the Inexus sale can complete. The manager, Challenger Management Services Limited, will continue to assist Brookfield and/or the minority shareholders and Inexus to refinance its existing debt facilities, in order to maximise the prospect of CIF receiving the second contingent payment. I expect the team to be very busy over the coming months. The Fund will be suspended from trading once the initial distribution of $1.29 is made; although you will be unable to trade CIF it will remain listed on the ASX until completion of the wind up and the Board will keep you updated on our progress through market announcements.

Thank you for your support.

Kind regards

Michael Cole
Chair

About Challenger

Challenger Limited is an ASX-listed investment management company established in 1985. We are the largest provider of annuities and guaranteed retirement income solutions in Australia. Through our boutique funds management business, Fidante Partners and Aligned Investments, we are the tenth largest Australian fund manager.

Challenger is the leading provider of annuities and guaranteed retirement income streams in Australia. The Life business is an Australian Prudential Regulation Authority ('APRA') regulated business offering products aimed at investors seeking the security and certainty of guaranteed cash flows with protection against market, inflation and longevity risks. Annuity premiums, along with shareholder capital, are invested in a diversified and high quality portfolio of assets to deliver predictable, long-term cash flows to meet commitments to our annuitants while providing attractive returns for shareholders.

Challenger's funds management business comprises Fidante Partners and Aligned Investments, and is one of Australia's fast growing fund managers.

Fidante Partners comprise 11 co-owned, separately branded, boutique active investment managers. Challenger provides administration, distribution and business management support to the boutiques and shares in the profits of the boutique businesses through its equity ownership.

Aligned Investments develops and manages assets under Challenger's brand for the Life business and third party investors. Aligned Investments' invests in fixed income, property and infrastructure assets.

Corporate governance statement

The Responsible Entity's approach to corporate governance

The Board of the Responsible Entity (the Responsible Entity) recognises its duties and obligations to stakeholders to implement and maintain a robust system of corporate governance. The Responsible Entity believes that the adoption of good corporate governance adds real value to stakeholders and enhances investor confidence.

The Responsible Entity determines the most appropriate corporate governance arrangements for Challenger Infrastructure Fund (CIF), taking into consideration Australian and international standards. This statement reflects the Responsible Entity's corporate governance system as at August 2012.

This statement reports against the ASX Corporate Governance Council's 'Corporate Governance Principles and Recommendations' as amended in 2010. As required by the ASX Listing Rules, this statement sets out the extent to which CIF has followed the principles or, where appropriate, indicates a departure from them with an explanation.

Principle 1
Lay solid foundations for management and oversight

The role of the Responsible Entity and delegations

The role of the Responsible Entity is to manage CIF in the unitholders' best interests in accordance with CIF's constitution and the Corporations Act 2001 (Cth) (Corporations Act). The Responsible Entity is accountable to unitholders for the activities and performance of CIF by overseeing the development of sustainable fund value within an appropriate framework of risk, and regard for all stakeholder interests. The Responsible Entity has identified the key functions which it has reserved for itself. These duties are outlined below and set out in the Board Charter, a copy of which is available on CIF's website www.challenger.com.au/cif:

- approval of the strategy and annual budgets of the Funds;
- approval of accounting policies and financial reports of the Funds;
- approval of the financial and operating policies;
- approval of corporate governance structure and monitoring of the performance and effectiveness of the corporate governance policies and procedures;
- oversight of the establishment and maintenance of effective risk management policies and processes;
- evaluation and approval of acquisitions and investments and other corporate actions of the Fund;
- the power to issue units in a Scheme;
- the issuance of a Product Disclosure Statement;
- monitoring the performance of the Manager; and
- the evaluation of the performance of the Board, Board Committees and individual Directors.

The Board has established a Committee to assist in carrying out its responsibilities and to consider certain issues and functions in detail. The Board Committee is discussed in Principle 2 below.

Non-executive Directors are issued with formal letters of appointment governing their role and responsibilities. The responsibilities of the Chair and the Directors are also set out in the Board Charter.

Management responsibility

The Corporations 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 to manage CIF. Challenger Management Services Limited and the Responsible Entity are wholly owned subsidiaries of Challenger Limited (Challenger).

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

CIF's constitution governs, among other things, how CIF will operate, how the Responsible Entity remuneration will be calculated and the rights of unitholders. 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 mechanism the Responsible Entity has in place to ensure compliance with CIF's constitution and the Corporations Act.

Relationship with Challenger Group

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

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

The resources provided to assist the Responsible Entity to fulfil its role include the services of senior executives and responsible officers. Challenger appoints the executive Directors to the Responsible Entity Board and the Responsible Entity appoints appropriately skilled independent Directors to ensure

Corporate governance statement (continued)

that there is a majority of independent Directors and that CIF continues to be managed to maximise returns to unitholders within CIF's stated strategy and mandate.

Executive performance assessment

The performance of the Chief Executive, Funds Management and senior executives is reviewed at least annually against appropriately agreed and documented performance objectives and measures, consistent with the Performance Management Framework that applies to all Challenger employees. All Challenger Group employees are also assessed against the Challenger Corporate Principles (refer to Principle 3 below).

Performance evaluations for the Chief Executive, Funds Management and senior executives have taken place in respect of the 2012 reporting period in accordance with the above process.

Principle 2 Structure the Board to add value

Membership of the Board

The Board comprises Directors who possess an appropriate range of skills, experience and expertise to:

- have a proper understanding of, and competence to deal with, the current and emerging issues of the business;
- exercise independent judgement;
- encourage enhanced performance of the Fund; and
- effectively review and challenge the performance of management.

The Responsible Entity's constitution provides for a minimum of three Directors and a maximum of 12 Directors. The table below summarises the current composition of the Board. Background details of each Director are set out in the Directors' report.

Name	Position	Independent	First appointed
Michael Cole	Non-executive Chair	Yes	2008
Ian Martens	Non-executive Director	Yes	2003
Ian Moore	Non-executive Director	Yes	2005
Geoff McWilliam	Non-executive Director	Yes	2006
Brendan O'Connor	Executive Director	No	2008
Rob Woods	Executive Director	No	2004

The roles of Chair and Chief Executive Officer are not exercised by the same person.

Nominations and appointment of new Directors

The Board of the Responsible Entity appoints the independent Directors having regard to maintaining a majority of independent Directors and to ensuring an appropriate balance of skills, experience and competence on the Board. All new Directors are provided with an appropriate induction into the Responsible Entity's business.

The Board has not appointed a formal nominations committee. This represents a departure from the ASX principles.

Review of Board performance

The Board Charter sets out the requirement for a formal review of the Board and individual Directors' performance annually. A review of the Board and Directors' performance was conducted in June 2012. The review involves consideration of the effectiveness of the Directors individually, and the effectiveness of the Board and the Audit and Compliance Committee, having regard to the knowledge, skills and experience of the Directors. The outcomes of the review were provided for discussion by the Board. The review indicated that the Board is performing soundly.

Independent Directors

The Responsible Entity has adopted an Independence Policy that states that an independent Director should be independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement.

The Board regularly considers and assesses the independence of each Director in light of the interests and information which Directors disclose. In accordance with the Corporations Act, Directors are required to advise the Responsible Entity of any material personal interests they have in a matter.

In assessing independence, the Board will have regard to whether the Director has any of the following relationships with the Responsible Entity:

1. is a substantial shareholder (as defined by section 9 of the Corporations Act) of the Responsible Entity, or is a director or officer of, or otherwise associated directly with, a substantial shareholder of the Responsible Entity;

2. is employed, or has previously been employed in an executive capacity by a Challenger Group company, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
3. has within the last three years been a principal of a material professional adviser or a material consultant to the Responsible Entity or another Challenger Group company, or an employee materially associated with the service provided;
4. is a material supplier or customer of the Responsible Entity or other Challenger Group company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; or
5. has a material contractual relationship with the Responsible Entity or another Challenger Group company other than as a Director.

The Responsible Entity will state its reasons if it considers a Director to be independent notwithstanding the existence of a relationship of the kind referred to in paragraphs 1 – 5 above.

In accordance with the ASX Corporate Governance Guidance for Independence, there is a majority of independent Directors on the Board.

Conflicts of interest

In accordance with the Board Charter and the Corporations Act, any Director with a material personal interest in a matter being considered by the Board must declare such an interest and may only be present when the matter is being considered at the Board's discretion. Directors with a material interest may not vote on any matter in which they have declared a personal interest.

Meetings of the Board

During the year, the Board generally meets approximately every six weeks. In addition, the Board may meet whenever necessary to deal with specific matters needing attention between scheduled meetings. The Chief Executive, in consultation with the Chair, establishes the meeting agendas to ensure adequate coverage of strategic, financial and material risk areas throughout the year. The Fund Manager and senior management are invited to attend Board meetings and are available for contact by Non-executive Directors between meetings. The Non-executive Directors hold a private session without any executive involvement at least annually.

Board access to information and advice

All Directors have unrestricted access to the Responsible Entity's records and information. The Company Secretary provides Directors with guidance on corporate governance issues and developments and on all other matters reasonably requested by the Directors, and monitors compliance with the Board Charter. The Board, or each individual Director has the right to seek independent professional advice at the Company's expense to assist them to discharge their duties. Whilst the Chair's prior approval is required, it may not be unreasonably withheld or delayed.

Board Committees

To assist it in undertaking its duties, the Board has established an Audit and Compliance Committee.

A copy of the Audit and Compliance Committee Charter is available on CIF's website at www.challenger.com.au/cif

Principle 3
Promote ethical and responsible decision-making

The Responsible Entity's commitment to ethical and responsible decision-making is reflected in the internal policies and procedures, underpinned by the Challenger Corporate Principles of:

- commercial ownership;
- compliance;
- creative customer solutions;
- working together; and
- integrity.

Director	Board		Audit and Compliance Committee	
	Eligible to attend	Attended	Eligible to attend	Attended
M Cole	20	20	7	7
I Martens	20	19	7	7
G McWilliam	20	17	7	7
I Moore	20	17	7	7
B O'Connor	19	18	–	–
R Woods	19	19	–	–

Corporate governance statement (continued)

Code of Conduct

Challenger has adopted a Code of Conduct which applies to all Directors, executives, management and employees of the Challenger Group. The Code of Conduct articulates the standards of honest, ethical and law-abiding behaviour expected by Challenger. Employees are actively encouraged to bring any problems to the attention of management or the Board, including activities or behaviour which may not comply with the Code of Conduct, other policies and procedures in place, or other regulatory requirements or laws. A copy of the Code can be found at www.challenger.com.au/cif

Political donations policy

Challenger Group has adopted a policy of not making political donations in any country or jurisdiction in which it operates. Representatives of Challenger may on occasion attend political functions. This attendance is strictly for commercial reasons and is predicated on the price charged not being in excess of commercial value (in terms of access) of the function.

Diversity

As a wholly owned subsidiary of Challenger, and not having any employees, the Responsible Entity does not have a Diversity Policy and does not set diversity objectives. This represents a departure from the ASX principles.

Staff trading policy

The Board has approved the Challenger Group's Staff Trading Policy, which prescribes the manner in which Directors and staff can trade in the securities issued by the Challenger Group. The policy is available on CIF's website.

Principle 4
Safeguard integrity in financial reporting

Integrity of financial reporting

The Board has the responsibility to ensure truthful and factual presentation of CIF's financial position. The Board has established an Audit and Compliance Committee to assist the Board to focus on issues relevant to the integrity of CIF's financial reporting. In accordance with its charter, the Audit and Compliance Committee must have at least three members and is comprised of all Non-executive Directors and a majority of independent members. The Committee is chaired by an independent Director, who is not Chair of the Board. The background details of the Audit and Compliance Committee members are set out in the Directors' report. The Committee typically meets at least four times a year, and additional meetings are scheduled as required. The members' names and attendance at meetings are set out on page 7.

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 in discharging 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.

A copy of the Audit and Compliance Committee Charter is available on CIF's website.

Declaration by the Fund Manager and the Chief Financial Officer

The Fund Manager and the Chief Financial Officer periodically provide formal assurance statements to the Board that:

- the Fund's financial statements present a true and fair view of the Fund's financial condition and operational results; and
- the risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively.

Independent external audit

The Board requires the independent external audit to:

- provide stakeholders with assurance over the true and fair view of the financial reports; and
- ensure that accounting practices comply with applicable accounting rules and policies.

CIF's independent external auditor is Ernst & Young (E&Y). External auditors are required to rotate the engagement partner assigned to the Challenger Group on a five-year basis.

The external auditor will be invited to attend general meetings of CIF and be available to answer questions in relation to the conduct of its audit.

Principle 5
Make timely and balanced disclosure

Continuous disclosure policy

The Responsible Entity is committed to ensuring that all investors have equal and timely access to material information concerning CIF and that CIF announcements are factual and presented in a clear and objective manner.

The Board has approved and implemented a Continuous Disclosure Policy. The policy is designed to ensure compliance with the Corporations Act and ASX Listing Rules continuous disclosure requirements. The Responsible Entity has a Continuous Disclosure Committee which is responsible for:

- making decisions on what should be disclosed publicly under the Continuous Disclosure Policy;
- maintaining a watching brief on information; and
- ensuring that disclosure is made in a timely and efficient manner.

Principle 6
Respect the rights of investors

The Responsible Entity recognises the importance of enhancing our relationship with investors by:

- communicating effectively; and
- providing ready access to clear and balanced information about CIF.

As set out in Principle 5, it is CIF's policy that material information concerning the Fund will be announced to the market in a timely and objective manner. Following release to the market, the Responsible Entity publishes annual and half-yearly reports, announcements, media releases and other relevant information on its website at www.challenger.com.au/cif. Internet web-casting is provided for market briefings to encourage participation from all stakeholders, regardless of their location. CIF also encourages greater use of electronic media by providing investors with greater access to the electronic receipt of reports and meeting notices. CIF also provides a facility to ask questions about the Fund and have them answered directly via electronic means.

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

Principle 7
Recognise and manage risk

Risk management and compliance

The management of risks is fundamental to the Fund's business and to building unitholder value. The Responsible Entity recognises the broad range of risks which apply to CIF as a participant in the infrastructure industry, including, but not limited to, market risk, funding and liquidity risk, credit risk, investment, strategic and business risk, reputation, licence (compliance) and operational risk. The Responsible Entity is responsible for determining the Fund's risk management strategy. Management is responsible for implementing the Responsible Entity's strategy and for developing policies and procedures to identify, manage and mitigate risks across the whole of CIF's operations.

The Responsible Entity has adopted a Risk Management Framework. The Responsible Entity utilises centralised risk management functions to support business managers in managing and mitigating risks across the Fund. Operational, licence (compliance), credit, market, funding and liquidity risks are driven through centralised teams, providing both scale and knowledge concentration benefits. The central functions have direct line of sight into the businesses, with reporting and oversight for functions within the businesses focused on their specific activities. Management is accountable for strategic, investment and business risk management within the delegated authority framework established by the Challenger Group Board. The framework is underpinned with a robust set of policies, delivery plans and procedures.

The framework and policies are developed and approved by management, reviewed and approved by the Responsible Entity's Audit and Compliance Committee and made available to all staff of the Challenger Group. The Challenger Group risk management function has day-to-day responsibility for monitoring the implementation of the framework and policy, with regular reporting provided to the Responsible Entity's Audit and Compliance Committee on the adequacy and effectiveness of management controls for material business risk. The Committee provides reporting to the Board on compliance with the framework and policies. A summary of the Challenger Group Risk Management Framework can be found at the Fund's website.

The Audit and Compliance Committee reviews the effectiveness of the risk management and internal control system on an annual basis.

Internal audit

Internal audit services were provided to CIF by KPMG during the period.

The Audit and Compliance Committee oversees the scope of the internal audit and monitors the progress of the internal audit work program. The Committee receives internal audit reports at each meeting and monitors management's responsiveness to internal audit findings and recommendations. The internal audit function is independent of the external auditor. The internal audit function reports directly to the Group Risk and Audit Committee.

Corporate governance statement (continued)

Assurance

During the period, the Board has received formal assurance from the Fund Manager and the Chief Financial Officer that:

- CIF's financial statements present a true and fair view of the financial condition and operational results; and
- the risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively.

This assurance forms part of the process by which the Board determines the effectiveness of its risk management and internal control systems in relation to financial reporting risks.

Principle 8 Remunerate fairly and responsibly

Remuneration

The Responsible Entity is entitled to be paid fees under the terms of the constitution for managing CIF. The details of fees paid in the period are set out in the notes to the financial statements on page 56.

All executives involved in the management of CIF are employees of the Challenger Group and are not remunerated by CIF.

As CIF does not pay any remuneration directly to executives of the Responsible Entity, the Responsible Entity considers that the requirements to disclose its remuneration policies, to establish a remuneration committee and to distinguish the nature of executive remuneration from that of non-executives are not relevant to CIF. In addition, CIF does not have equity based executive remuneration in operation and thus the disclosure required by Principle 8 is not relevant to CIF. These represent departures from the ASX principles.

Management fees

Management fees and performance fees are payable to Challenger Management Services Limited in accordance with the management agreement. The details of fees paid in the period are set out in the notes to the financial statements on page 56.

Non-executive Director fees

Non-executive Directors are paid an annual fee for their service on the Board and all Committees of the Board. Non-executive Directors are not entitled to participate in incentive schemes. There are no termination payments to Non-executive Directors on their retirement from office other than payments accruing from superannuation contributions comprising part of their remuneration. All Non-executive Director remuneration is paid by the Responsible Entity and is not an expense of CIF.

The staff trading policy prohibits any executive or staff member from entering into a transaction that is designed or intended to hedge that component of their unvested remuneration which is constituted by Challenger securities.

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 reports for CIF1 and CIF2 for the year ended 30 June 2012. CIF Investment Trust 2 and its controlled entities are presented as the Challenger Infrastructure Trust Group.

Principal activity

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

Scheme information

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.

The consolidated balance sheet and consolidated income statement comprise the financial position and performance of CIF1 and its controlled entities, and CIF2 and its controlled entities, collectively known as CIF. For the purposes of this report, 'Challenger Infrastructure Fund' represents CIF1 and its controlled entities and 'Challenger Infrastructure Trust Group' represents CIF2 and its controlled entities.

CLIL, the Responsible Entity of the Scheme, is incorporated and domiciled in Australia. The registered office of the Responsible Entity is located at Level 15, 255 Pitt Street, Sydney NSW 2000.

Directors

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

- Michael Cole – Chair
- Ian Martens
- Geoff McWilliam
- Ian Moore
- Brendan O'Connor
- Robert Woods

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 and executives in office as at the date of this report are as follows.

Directors

Michael Cole
B Ec, M Ec, F Fin
Chair
Non-executive Director, Independent

Mr Cole is a Graduate of the University of Sydney in Economics and possesses a Master of Economics. He is also a Fellow of the Financial Services Institute of Australia. Mr Cole has over 30 years experience in the investment banking and funds management industry. He was an Executive Director at Bankers Trust Australia for over a decade. Mr Cole is currently Chair of Platinum Asset Management Ltd, Ironbark Capital Limited, and IMB Ltd (Illawarra Mutual Building Society). As well, Mr Cole is a director of NSW Treasury Corporation. In 2007 Mr Cole retired as Chair of SAS Trustee Corporation, a position he held from 2000.

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

Directors' report (continued)

Directors

Ian Martens
FCA, FAICD
Non-executive Director, Independent

Mr Martens is a chartered accountant and was 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 Chairman of The Creeks Pipeline Company Ltd appointed in January 2009. Mr Martens retired as Director of the Royal Automobile Association of SA Inc in February 2009.

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

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

Mr McWilliam has had an extensive career in the Australian property investment industry. Mr McWilliam spent 10 years to 2005 building the Commonwealth Bank's property funds management and corporate real estate 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 including international postings. Over the last five years, Mr McWilliam has been appointed to various property groups as an independent director.

Mr McWilliam is a director of Lend Lease Funds Management Limited, Lend Lease Asian Retail Investments Limited, Lend Lease Real Estate Investments Limited, the Gandel Group Limited, ProTen Limited, LaSalle Funds Management Limited and the Dusseldorp Skills Forum Incorporated, and is a Fellow of the Australian Property Institute.

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

Ian Moore
BA (Actuarial Studies)
Non-executive Director, Independent

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 debt, project debt and asset backed debt financings. Prior to that, Mr Moore was Head of Fixed Income at Bankers Trust, where he was responsible for the trading and placement of all government, corporate and securitised debt. Mr Moore was a member of Bankers Trust's Investment Bank Management Committee and a partner of Bankers Trust globally. Mr Moore was a non-executive director of Artesian Capital Management from 2005 to 2008.

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

Brendan O'Connor
B Bus, CA, GAICD
Executive Director

Mr O'Connor is the Chief Financial Officer for Challenger's Funds Management division. Mr O'Connor is responsible for the services that support the Funds Management business as well as the financial management and reporting for the Funds Management division's funds, including the Challenger Infrastructure Fund.

Mr O'Connor joined Challenger in 2006 as General Manager Group Finance. In 2007 Mr O'Connor was appointed as Chief Financial Officer of Challenger's Asset Management business, before assuming his current role in 2008. Prior to joining Challenger, Mr O'Connor held senior finance roles with Westpac Banking Corporation.

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Rob Woods
B Com
Chief Executive, Funds Management

Mr Woods is Chief Executive, Funds Management at Challenger. The Funds Management business manages significant investments in property, infrastructure, fixed income and mortgages, as well as partnering with 11 boutique fund managers in the Fidante Partners business.

Mr Woods joined Challenger in 2003 and was initially responsible for Challenger's Life business and the creation of Challenger's Asset Management business, before assuming his current role in 2008.

Prior to joining Challenger, Mr Woods held senior investment banking roles at Zurich Capital Markets and Bankers Trust.

Directors' report (continued)

Executives

Emil Pahljina
B Ec, LLB
Chief Executive

Mr Pahljina is the Chief Executive of CIF and is responsible for the origination, financing and management of a portfolio of global infrastructure assets.

Mr Pahljina joined Challenger in 2006, as an Executive Director, with extensive infrastructure and asset acquisition experience.

Prior to joining Challenger, Mr Pahljina was the Head of Principal Acquisitions and Investments for Westpac's Fund Management Group.

Mark Simons
B Bus, CA, GAICD
Chief Financial Officer

Mr Simons is the Chief Financial Officer responsible for the financial management and performance of CIF and its assets. Mr Simons joined Challenger in 2005 initially as CFO of Real Estate with primary responsibility for financial management of listed real estate funds and Challenger owned properties.

Mr Simons has 20 years' experience in the financial services industry including various senior finance roles at Perpetual, Tyndall and KPMG.

Company Secretary

Michael Vardanega
B Comm, LLB (Hons)
General Counsel and
Group Company Secretary

Mr Vardanega is a qualified solicitor and is the Group Company Secretary and General Counsel of Challenger Limited. In this role, he is responsible for the legal and company secretariat teams within Challenger. Since joining Challenger in 2006, he has been extensively involved in the general management of corporate actions, public entity compliance and governance matters for Challenger and its subsidiaries. Prior to joining Challenger, Mr Vardanega was a member of the corporate advisory practice at commercial law firm, Blake Dawson.

Suzie Koeppenkastrop
B Comm, LLB, LLM
Company Secretary and
Senior Legal Counsel

Ms Koeppenkastrop is a qualified solicitor and Head of the Company Secretariat team at Challenger. Ms Koeppenkastrop has over 15 years experience in legal and company secretarial roles in the financial services industry.

Directors' report (continued)

Review and results of operations

Earnings before interest expense, taxation, depreciation, amortisation (EBITDA) and fair value movements and net profit after tax are the Directors' key focus when analysing the fund and its segments' performance.

LBC Tank Terminals

Challenger LBC Terminals Jersey Limited and its controlled entities (LBC), is one of the world's largest independent operators of bulk liquid storage terminals for chemical and petroleum products based in Europe, the USA and Asia. Revenues for LBC remained strong in underlying currencies. The growth in underlying EBITDA for FY12 demonstrates the continued strong demand for bulk liquid storage in key ports.

LBC Revenues were US$253.3 million for the financial year to 30 June 2012, 4.9% higher than the prior corresponding period ('pcp'). EBITDA for FY12 was US$99.6 million, 3.8% higher than the pcp. The predominant contributors to this growth in EBITDA were the US and French terminals.

LBC's profit after tax for the year was A$7.1 million.

Inexus Group

Inexus Group Limited and its controlled entities (Inexus), is one of the largest owners and originator of utility networks in the UK and maintained growth in revenue and underlying EBITDA. Income streams are regulated and indexed to inflation. Inexus currently owns 647,334 utility connections in the UK including 24,772 new connections from the rollout of the order book during the year.

Inexus' Revenues were £69.4 million, 10% higher than the pcp. EBITDA before fair value movements in underlying currency was £51.6m, 8.6% higher than the pcp.

Inexus' loss after tax for the year was A$(132.2)m after adverse fair value movements on derivatives of A$132.8m.

The Fund

CIF entered into binding contracts to sell its interests in LBC and Inexus in June 2012. Accordingly LBC and Inexus have been classified as discontinued operations and their results disclosed in notes 4 and 5 to the financial statements.

The consolidated loss after tax from continuing and discontinued operations for the year ended 30 June 2012 was $123.5m (2011: $5.8m loss). The consolidated loss after tax attributable to CIF securityholders for the year ended 30 June 2012 was $102.1 million (2011: $0.8 million loss). The current year result has been adversely impacted by the unrealised fair value movements of Inexus derivatives.

The profit after tax from continuing operations excluding Inexus and LBC was $1.5m.

The consolidated loss after tax attributable to securityholders of Challenger Infrastructure Trust Group for the year ended 30 June 2012 was $115.3m million (2011: $4.7 million loss).

CIF Fund has $139.0m cash at year end, which has been retained for the final distribution ($15.8m) and the return of capital to securityholders on anticipated wind up of the Fund.

The following table provides an analysis of the consolidated group result:

Challenger Infrastructure Fund Year ended 30 June 2012	Inexus (Discontinued operation) $'000	LBC (Discontinued operation) $'000	Fund $'000	Total $'000
Revenue				
Interest income	1,064	360	7,258	8,682
Revenue from external customers	110,205	244,150	–	354,355
Total segment revenue	**111,269**	**244,510**	**7,258**	**363,037**
Operating expenses and cost of sales	(31,433)	(148,253)	(14,604)	(194,290)
Earnings before interest, taxation, depreciation, amortisation and fair value movements	**79,836**	**96,257**	**(7,346)**	**168,748**
Depreciation and amortisation	(14,867)	(44,243)	–	(59,110)
Financing costs	(64,986)	(40,270)	–	(105,256)
Total unrealised and realised gains (losses)	(132,751)	(2,959)	11,796	(123,914)
Profit (loss) before tax	**(132,768)**	**8,785**	**4,450**	**(119,532)**
Income tax benefit (expense)	649	(1,711)	(2,942)	(4,004)
Profit (loss) after tax	**(132,119)**	**7,074**	**1,508**	**(123,537)**
Profit (loss) after tax attributable to CIF securityholders				**(102,112)**
Distributions to securityholders				31,622
Interim distribution (cents per security)				5.0
Final distribution (cents per security)				5.0
Total distribution (cents per security)				**10.0**

On 4 June 2012, CLIL entered into a binding agreement to sell all of CIF's 66.2% interest in LBC for US$275m at 30 June 2012 multiplied by 0.0328% (compounded daily, equivalent to 12% p.a.) to completion date. Completion of the sale of LBC is expected to occur in early September 2012, subject to the receipt of European antitrust clearance, for US$281.1m (A$290.8m).

On 22 June 2012, CLIL entered into a binding agreement to sell all of CIF's interests in Inexus Group Limited. The sale of Inexus was approved by unitholders on 15 August 2012. The consideration payable has two components. The first component, a payment of £10 million (A$15.6 million), is payable on completion of the Inexus Sale. Completion of this sale is expected to occur in October 2012 following a decision by the minority shareholders in Inexus to either exercise or waive their pre-emptive right to match the terms agreed with BIP Bermuda Holdings 1 Limited (Brookfield). The second component is a payment of up to £25.6 million (A$39.2 million) that is contingent on the occurrence of certain future events including a refinancing by Inexus of its existing debt facilities and, where Brookfield is the purchaser, it having received any necessary antitrust clearance from the Office of Fair Trading in the UK.

Further information on the asset sales including the hedged proceeds, impact on the profit and loss and balance sheet is included in Notes 4, 5 and 24 to the attached financial statements.

Distributions

Interim distributions of 5.0 cents per security (2011: 7.0 cents per security) were paid during the year in respect of the half year ended 31 December 2011. On 20 June 2012, CIF announced an estimated final distribution of 5.0 cents per security (2011: 7.0 cents per security) to be paid on 30 August 2012 in respect of the year ended 30 June 2012, resulting in a total distribution of 10.0 cents per security (2011: 14.0 cents per security) for the year.

Stapled securities on issue

Total stapled and ordinary securities of CIF on issue at 30 June 2012 were 316,223,785 (2011: 316,223,785).

Earnings per security

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 year.

Diluted earnings per security during the year are the same as basic earnings per security.

Directors' report (continued)

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

	Challenger Infrastructure Fund		Challenger Infrastructure Trust Group	
	Year ended 30 June 12 $'000	Year ended 30 June 11 $'000	30 ended 30 June 12 $'000	Year ended 30 June 11 $'000
Profit (loss) after tax attributable to securityholders	(102,112)	(808)	(115,268)	(4,690)
Time weighted average number of securities for basic and diluted earnings per security at year-end	316,224	316,547	316,224	316,547
Basic and diluted profit (loss) per security for net profit attributable to securityholders (cents per security)	(32.3)	(0.3)	(36.5)	(1.5)

Scheme assets

At 30 June 2012, CIF1 held assets with a total value of $2.4 billion (2011: $2.4 billion), CIF2 held assets with a total value of $2.2 billion (2011: $2.2 billion). The basis for valuation of the assets is disclosed in Note 2 (bb) to the financial statements.

Fees paid to the Responsible Entity and associates

During the year, total management fees amounting to $3,134,127 (2011: $2,222,477) were paid or are payable to CLIL and its associates.

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 (UK) Limited (CGS UK), the following management and performance fees were paid by CIF out of scheme property for the year ended 30 June 2012:

	Challenger Infrastructure Fund		Challenger Infrastructure Trust Group	
Management fees	Year ended 30 June 12 $'000	Year ended 30 June 11 $'000	30 ended 30 June 12 $'000	Year ended 30 June 11 $'000
Management fees paid or payable to CLIL from CIF under the CIF Trust Constitution and Fee Sharing Agreement	126,167	88,748	–	–
Management fees paid or payable to CMSL from CIF under the CMSL Management Agreement and Fee Sharing Agreement	2,374,108	1,652,805	–	–
Management fees paid or payable to CGSUK under UK Management Agreement and Fee Sharing Agreement	22,952	23,491	–	–
Management fees paid or payable by LBC minority investors to CMSL under the LBC Asset Consulting Agreement (net of rebate)	610,900	457,433	1,808,388	1,653,521
Total management and performance fees	**3,134,127**	**2,222,477**	**1,808,388**	**1,653,521**

Transaction advisory fees of $1.7m (2011: nil) are payable to CMSL for transaction advisory services provided to CIF during the year. This payable was recorded in relation with the engagement letter between CIF and CMSL to advise on the sale of CIF assets. This fee will be paid to CMSL following the successful completion of the sale of LBC.

Transaction advisory fees	Challenger Infrastructure Fund Year ended 30 June 12 $'000	Challenger Infrastructure Fund Year ended 30 June 11 $'000	Challenger Infrastructure Trust Group 30 ended 30 June 12 $'000	Challenger Infrastructure Trust Group Year ended 30 June 11 $'000
Transaction advisory fees payable to CMSL in respect of the sale of LBC	1,700,000	–	1,700,000	–
Total transaction advisory fees	**1,700,000**	**–**	**1,700,000**	**–**

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

Total expenses paid by CIF to reimburse CMSL for the year ended 30 June 2012 in respect of costs paid on behalf of CIF were $164,301.

During the year ended 30 June 2012, Directors were paid $470,000 (2011: $595,207) in respect of their directorship of the Responsible Entity. This amount includes all fees paid to the Directors of CLIL in respect of their Responsible Entity Board and Committee duties for all Funds, including CIF and two other funds (Challenger Diversified Property Group and Challenger Wine Trust).

Interests held in CIF by the Responsible Entity and its associates

Challenger Life Company Limited (CLCL) held a 40.70% (2011: 40.70%) interest in CIF as at 30 June 2012. CLCL is a wholly owned subsidiary of Challenger Limited.

Significant changes in the state of affairs

A binding sale and purchase agreement was signed for the sale of CIF's share of LBC on 4 June 2012. Completion is expected to occur in early September 2012.

A binding sale and purchase agreement was signed for the sale of CIF's share of Inexus on 22 June 2012. Completion is expected to occur in October 2012.

Further information on the asset sales including the impact on the profit and loss and balance sheet is included in Notes 4, 5, and 24 to the attached financial statements.

Significant events after the balance date

The completion of the sale of LBC is subject to merger approval from the European Commission. The purchasing consortium have lodged a final application and expect to receive a favourable response in early September 2012.

On 15 August 2012, CIF securityholders approved the sale of Inexus and the consequential delisting and wind up of CIF. The completion of the sale of Inexus to Brookfield is now only conditional on the minority shareholders in Inexus exercising or waiving their pre-emptive right to match the payment terms offered by Brookfield. Completion of a sale of Inexus to either Brookfield or the minority shareholders, if they exercise their pre-emptive rights, is expected to occur in late October 2012.

Likely developments and expected results

Following the approval by securityholders on 15 August 2012 regarding the Inexus sale, the completion of the Inexus and LBC sales, and the initial return of capital ($1.29 per security) scheduled in October 2012, CIF trading will be suspended.

Inexus is seeking an extension in the repayment date of its existing debt facilities to 30 November 2012 in order to provide Brookfield with the opportunity to recapitalise and refinance the company. Negotiations with the existing lenders and swap providers are at an advanced stage. CIF expects to make a further announcement regarding these negotiations ahead of the 31 August 2012 deadline.

CIF will continue to assist the Inexus purchaser to obtain satisfactory refinance in order to receive the contingent payment on behalf of securityholders.

Following receipt of all proceeds, CIF will make a final capital return and deregister and wind up the Trusts and companies in an orderly manner.

Directors' report (continued)

Environmental regulation and performance

CIF and its related entities hold licences issued by the relevant environmental protection authorities of the various countries in which it operates. These licences cover items such as operating permits, environmental permits, air permits, water permits, hazardous waste, oil pollution, waste pollution and the different products handled at each LBC storage terminal.

There have been no known breaches of any other environmental requirements applicable to the Scheme.

Indemnification and insurance of Directors and officers

The Responsible Entity has insured the Directors and officers against liabilities incurred in their role as Directors and officers of the Responsible Entity. The Responsible Entity is prohibited by the insurance contract itself from disclosing the nature of the liabilities covered and the amount of the premium. The auditors of CIF are not indemnified out of the assets of CIF.

Chief Executive Officer and Chief Financial Officer declaration

The Chief Executive Officer and the Chief Financial Officer has 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 year ended 30 June 2012 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, 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.

Auditor's Independence Declaration

We have obtained an independence declaration from our auditors, Ernst & Young as set out on page 21.

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

Michael Cole
Chair
Sydney
29 August 2012

Auditor's independence declaration

ERNST & YOUNG

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Auditor's Independence Declaration to the Directors of Challenger Listed Investments Limited as Responsible Entity of CIF Investment Trust 1 and CIF Investment Trust 2

In relation to our audit of the financial report of the stapled securities CIF Investment Trust 1 and CIF Investment Trust 2, collectively known as Challenger Infrastructure Fund, for the financial year ended 30 June 2012, 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.

Ernst & Young

Ernst & Young

Clare Sporle
Partner
29 August 2012

Consolidated income statement

For the year ended 30 June 2012

	Notes	Challenger Infrastructure Fund 30 June 12 $'000	Challenger Infrastructure Fund 30 June 11 $'000	Challenger Infrastructure Trust Group 30 June 12 $'000	Challenger Infrastructure Trust Group 30 June 11 $'000
Continuing Operations					
Interest income		7,258	10,445	164	287
Total revenue		**7,258**	**10,445**	**164**	**287**
Operating expenses	6	(14,604)	(1,140)	(12,963)	(2)
Total operating expenses		**(14,604)**	**(1,140)**	**(12,963)**	**(2)**
Earnings before interest expense, taxation, depreciation, amortisation and fair value movements		**(7,346)**	**9,305**	**(12,799)**	**285**
Realised gains (losses)	7	(36)	(458)	–	(365)
Unrealised gains (losses)	7	11,832	(12,353)	11,541	–
Total fair value movements		**11,796**	**(12,811)**	**11,541**	**(365)**
Profit (loss) before tax		**4,450**	**(3,506)**	**(1,258)**	**(80)**
Income tax benefit (expense)	8	(2,942)	(110)	(2,942)	(111)
Profit (loss) after tax from continuing operations		**1,508**	**(3,616)**	**(4,200)**	**(191)**
Discontinued Operations					
Profit (loss) from discontinued operation (net of tax) – Inexus	4	(132,119)	6,481	(138,082)	756
Profit (loss) from discontinued operation (net of tax) – LBC	5	7,074	(8,686)	5,589	(10,269)
Profit (loss) after tax		**(123,537)**	**(5,821)**	**(136,693)**	**(9,704)**
Non-controlling interest		(21,425)	(5,013)	(21,425)	(5,013)
Profit (loss) after tax attributable to CIF securityholders		**(102,112)**	**(808)**	**(115,268)**	**(4,691)**
Profit (loss) after tax attributable to:					
Securityholders of CIF1		13,156	3,883	–	–
Securityholders of CIF2		–	–	(115,268)	(4,691)
Securityholders of CIF2 in CIF consolidated		(115,268)	(4,691)	–	–
		(102,112)	(808)	(115,268)	(4,691)
From continuing and discontinued operations					
Basic and diluted earnings (loss) per security (cents) – CIF1		4.2	1.2	–	–
Basic and diluted earnings (loss) per security (cents) – CIF2	10	–	–	(36.5)	(1.5)
Basic and diluted earnings (loss) per security (cents) – stapled	10	(32.3)	(0.3)	–	–
From continuing operations					
Basic and diluted earnings (loss) per security (cents) – CIF1		4.2	1.2	–	–
Basic and diluted earnings (loss) per security (cents) – CIF2	10	–	–	5.4	1.5
Basic and diluted earnings (loss) per security (cents) – stapled	10	3.1	(0.8)	–	–

The consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated statement of comprehensive income

For the year ended 30 June 2012

	Challenger Infrastructure Fund		Challenger Infrastructure Trust Group	
	30 June 12 $'000	30 June 11 $'000	30 June 12 $'000	30 June 11 $'000
Profit (loss) after tax	(123,537)	(5,821)	(136,693)	(9,704)
Other comprehensive income				
Net movement in foreign currency translation reserve	5,044	21,479	5,044	21,479
Other comprehensive income for the year (net of tax)	5,044	21,479	5,044	21,479
Total comprehensive income for the year	(118,493)	15,658	(131,649)	11,775
Total comprehensive income attributable to:				
Securityholders of CIF1	13,156	3,883	–	–
Securityholders of CIF2	–	–	(132,617)	(3,731)
Non-controlling interest:				
Securityholders of CIF2 in CIF consolidated	(132,617)	(3,731)	–	–
Non-controlling interest	969	15,506	969	15,506
Total comprehensive income for the year	(118,493)	15,658	(131,649)	11,775

The consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated balance sheet

As at 30 June 2012

	Notes	Challenger Infrastructure Fund 30 June 12 $'000	Challenger Infrastructure Fund 30 June 11 $'000	Challenger Infrastructure Trust Group 30 June 12 $'000	Challenger Infrastructure Trust Group 30 June 11 $'000
Assets					
Current					
Cash and cash equivalents		139,047	180,589	5,146	5,647
Trade and other receivables	12	671	2,102	5	11
Derivative financial instruments at fair value	19	12,912	–	12,741	–
Assets of Inexus classified as held for sale	4	1,055,255	1,018,870	1,055,255	1,018,870
Assets of LBC classified as held for sale	5	1,168,976	1,169,776	1,168,976	1,169,776
Current Assets		**2,376,861**	**2,371,337**	**2,242,123**	**2,194,304**
Non Current					
Deferred tax assets		–	2,936	–	2,936
Non current assets		**–**	**2,936**	**–**	**2,936**
Total assets		**2,376,861**	**2,374,273**	**2,242,123**	**2,197,240**
Liabilities					
Current					
Trade and other payables	13	11,282	894	31,245	14,621
Distribution payable	9	15,811	22,136	–	–
Liabilities of Inexus classified as held for sale	4	1,233,631	1,074,962	1,302,122	1,136,342
Liabilities of LBC classified as held for sale	5	889,582	871,954	915,457	898,923
Interest Bearing Liabilities	14	–	–	568,670	563,625
Current liabilities		**2,150,306**	**1,969,946**	**2,817,494**	**2,613,511**
Total liabilities		**2,150,306**	**1,969,946**	**2,817,494**	**2,613,511**
Net assets		**226,555**	**404,327**	**(575,371)**	**(416,271)**
Equity					
Contributed equity	15	1,183,553	1,183,553	67	67
Retained profits (accumulated losses)	17	(542,802)	(440,689)	(567,245)	(451,973)
Reserves	16	(529,717)	(502,564)	(123,714)	(128,392)
Reserves of Inexus classified as held for sale	16	103,305	107,325	103,305	107,325
Reserves of LBC classified as held for sale	16	(56,089)	(45,443)	(56,089)	(45,443)
Non-controlling interest		68,305	102,145	68,305	102,145
Total equity		**226,555**	**404,327**	**(575,371)**	**(416,271)**
Comprised of :					
CIF1		801,926	820,598	–	–
CIF2		(643,676)	(518,416)	(643,676)	(518,416)
Non-controlling interest		68,305	102,145	68,305	102,145
Total equity		**226,555**	**404,327**	**(575,371)**	**(416,271)**

The consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the year ended 30 June 2012

		Attributable to securityholders of Challenger Infrastructure Fund					Attributable to non-controlling interest	
	Notes	Contributed equity $'000	Reserves $'000	Retained profits $'000	Discon-tinued operations $'000	Total $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2010		**1,186,541**	**(417,249)**	**(439,881)**	**(8,300)**	**321,111**	**90,936**	**412,047**
Profit (loss) after tax attributable to CIF securityholders		–	–	(808)	–	(808)	(5,013)	(5,821)
Other comprehensive income		–	29,137	–	–	29,137	20,520	49,657
Total comprehensive income		**–**	**29,137**	**(808)**	**–**	**28,329**	**15,507**	**43,836**
Transactions with owners in their capacity as owners								
Acquisition of non-controlling interests – LBC		–	–	–	–	–	(3,510)	(3,510)
Securities cancelled pursuant to securities buy-back	15	(2,982)	–	–	–	(2,982)	–	(2,982)
Transaction costs of security buy-back		(6)	–	–	–	(6)	–	(6)
Discontinued operations		–	(70,182)	–	70,182	–	–	–
Distributions paid to securityholders	9	–	(44,272)	–	–	(44,272)	–	(44,272)
Dividends to non-controlling interests		–	–	–	–	–	(788)	(788)
Balance at 30 June 2011		**1,183,553**	**(502,564)**	**(440,689)**	**61,882**	**302,180**	**102,145**	**404,327**
Profit (loss) after tax attributable to CIF securityholders		–	–	(102,122)	–	(102,122)	(21,425)	(123,537)
Other comprehensive income		–	4,472	–	–	4,472	572	5,044
Total comprehensive income		**–**	**4,472**	**(102,122)**	**–**	**(97,640)**	**(20,853)**	**(118,492)**
Discontinued operations		–	–	–	(14,669)	(14,669)	(12,284)	(26,953)
Distributions paid to securityholders	9	–	(31,622)	–	–	(31,622)	(703)	(32,325)
Balance at 30 June 2012		**1,183,553**	**(529,717)**	**(542,802)**	**47,214**	**158,250**	**68,305**	**226,555**

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity (continued)

For the year ended 30 June 2012

	Attributable to securityholders of Challenger Infrastructure Trust Group					Attributable to non-controlling interest	
	Contributed equity $'000	Reserves $'000	Retained profits $'000	Discon-tinued operations $'000	Total $'000	Non-controlling interest $'000	Total equity $'000
Balance at 30 June 2010	**68**	**(87,346)**	**(447,283)**	**(8,300)**	**(542,861)**	**90,936**	**(451,925)**
Profit (loss) after tax	–	–	(4,690)		(4,690)	(5,013)	(9,704)
Other comprehensive income	–	29,137	–		29,137	20,520	49,657
Total comprehensive income	**–**	**29,137**	**(4,691)**	**–**	**24,447**	**15,507**	**39,954**
Transactions with owners in their capacity as owners							
Acquisition of non-controlling interests	–	–	–	–	–	(3,510)	(3,510)
Securities cancelled pursuant to share buy-back	(1)	–	–	–	(1)	–	(1)
Discontinued operations	–	(70,182)	–	70,182	–	–	–
Dividends to non-controlling interests	–	–	–	–	–	(788)	(788)
Balance at 30 June 2011	**67**	**(128,392)**	**(451,973)**	**61,882**	**(518,415)**	**102,145**	**(416,271)**
Profit (loss) after tax	–	–	(115,268)	–	(115,268)	(21,425)	(136,693)
Other comprehensive income	–	4,679	–	–	4,679	365	5,044
Total comprehensive income	**–**	**4,679**	**(115,268)**	**–**	**(110,589)**	**(21,060)**	**(131,649)**
Discontinued operations	–	–	–	(14,669)	(14,669)	(12,077)	(26,749)
Dividends to non-controlling interests	–	–	–	–	–	(703)	(703)
Balance at 30 June 2012	**67**	**(123,714)**	**(567,245)**	**47,216**	**(643,676)**	**68,305**	**(575,371)**

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the year ended 30 June 2012

	Notes	Challenger Infrastructure Fund 30 June 12 $'000	Challenger Infrastructure Fund 30 June 11 $'000	Challenger Infrastructure Trust Group 30 June 12 $'000	Challenger Infrastructure Trust Group 30 June 11 $'000
Cash flows from operating activities					
Receipts from customers		349,472	333,671	349,472	333,671
Payments to suppliers		(176,999)	(173,402)	(176,241)	(171,462)
Interest received		8,739	10,673	521	516
Interest paid		(86,325)	(80,617)	(86,325)	(80,617)
Tax paid		(5,234)	(3,203)	(5,234)	(3,204)
Net cash flow from operating activities	11(i)	**89,653**	**87,122**	**82,193**	**78,904**
Cash flows from investing activities					
Acquisition of Inexus non-controlling interests		(9,081)	–	(9,081)	–
Acquisition of LBC non-controlling interests		–	(3,162)	–	(3,162)
Deferred consideration for purchase of an Inexus subsidiary		(2,259)	–	(2,259)	–
Payments for purchase of property, plant and equipment		(82,226)	(88,788)	(82,226)	(88,788)
Net cash flow from investing activities		**(93,566)**	**(91,950)**	**(93,566)**	**(91,950)**
Cash flows from financing activities					
Security buy-back		–	(2,980)	–	–
Transaction costs of buy-back of securities		–	(6)	–	–
Proceeds from closing out financial derivatives		–	(741)	–	(741)
Proceeds from borrowings		53,283	11,184	64,849	11,184
Repayment of borrowings		(8,615)	(9,249)	(8,615)	(9,792)
Dividends to non-controlling interests		(677)	(844)	(677)	(844)
Distributions paid to securityholders		(37,947)	(44,439)	–	–
Net cash flow from financing activities		**6,044**	**(47,075)**	**55,557**	**(193)**
Net increase (decrease) in cash assets held		**2,132**	**(51,903)**	**44,185**	**(13,239)**
Cash and cash equivalents at beginning of year		204,400	260,745	29,459	47,800
Net foreign exchange differences		819	(4,442)	(193)	(5,102)
Cash and cash equivalents at end of year	11(ii)	**207,351**	**204,400**	**73,451**	**29,459**
For the purposes of the statement of cash flows, cash and cash equivalents comprise the following at 30 June 2012:					
Attributable to continuing operations		139,048	180,592	5,148	5,651
Attributable to discontinued operations		68,303	23,808	68,303	23,808
Total cash and cash equivalents		**207,351**	**204,400**	**73,451**	**29,459**

The consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

For the year ended 30 June 2010

Note 1 – Corporate information

The financial report for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the Directors of the Responsible Entity dated 29 August 2012.

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. CIF is publicly traded on the Australian Securities Exchange (ASX).

CIF Investment Trust 1 has been nominated parent entity to CIF. CIF Investment Trust 2 is the parent entity to Challenger Infrastructure Trust Group.

Challenger Listed Investments Limited (CLIL), the Responsible Entity of the Scheme, is incorporated and domiciled in Australia.

The principal activity of CIF during the year was the pooling of investor's funds in CIF through the public issue of securities and the investment of CIF funds in UK, European, North American and Asian infrastructure assets.

Note 2 – Summary of accounting policies

The accounting policies which have been adopted in the preparation of the financial statements are stated to assist in providing a general understanding of this report. A summary of the significant accounting policies of Challenger Infrastructure Fund are disclosed below.

(a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Constitutions, Corporations Act 2001 and Australian Accounting Standards. The financial report has been prepared on a historical cost basis, except for derivative financial instruments and land that have been measured at fair value.

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 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 AASB 127 and AASB 3. For the purposes of this report, 'Challenger Infrastructure Fund' represents CIF1 and its consolidated entities and 'Challenger Infrastructure Trust Group' represents CIF2 and its consolidated entities.

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial report is presented in Australian dollars (AUD) unless otherwise stated, 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.

(b) New reporting standards issued and/or applied during the year

Changes in accounting policy or disclosure

Amendments to the disclosure requirements of AASB101 have resulted in a change in the format of the Statement of Changes in Equity to separately show the impact of other comprehensive income on the classes of equity. The adoption of other amendments and changes which were effective during the period did not result in any material changes to the financial report.

There were no changes in accounting policy applied during the period.

Accounting standards and interpretations issued but not yet effective

There are a number of minor amendments to Australian Accounting Standards, in addition to those described below, that are available for early adoption but that have not been applied in this financial report. The amendments would have resulted in only minor disclosure impacts if they had been early adopted. The consolidated entity's assessment of the impact of the key new Accounting Standards is set out below:

- *AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income*
  Effective for annual reporting periods beginning on or after 1 July 2012. This Standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not. Initial application is not expected to result in any material impact.

Accounting standards and interpretations issued but not yet effective (continued)

- *AASB 9 Financial Instruments*
  Effective for annual reporting periods beginning on or after 1 January 2013. The Standard includes requirements for the classification and measurement of financial assets. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. CIF is required to first apply this standard from 1 July 2013 and is currently assessing the impact. The classification of a financial instrument will be assessed on the facts at the date of initial application and it is possible that the classification of some financial assets may change upon adoption of the new standard.

- *AASB 12 Disclosure of Interests in Other Entities*
  Effective for annual reporting periods beginning on or after 1 January 2013. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests. Initial application is not expected to result in any material impact.

- *AASB 13 Fair Value Measurement*
  Effective for annual reporting periods beginning on or after 1 January 2013. This Standard establishes a single source of guidance for determining the fair value of assets and liabilities and expands the disclosure requirements for all assets or liabilities carried at fair value. Application of this definition is not expected to result in different fair values being determined for the relevant assets.

Disposal groups held for sale and discontinued operations

Disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction instead of use. They are not depreciated or amortised. For an asset or disposal group to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment less previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the income statement and the assets and liabilities are presented separately on the face of the balance sheet.

Comparatives

Certain comparative information has been restated to conform with current year disclosure.

(c) Basis of consolidation

CIF1 has applied AASB 127 (2008) Consolidated and Separate Financial Statements to the stapling of CIF1 and CIF2. For the purposes of statutory reporting, the stapled entity reflects the consolidated entity. 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 controlled entities, and CIF2 and its controlled entities, collectively known as CIF. For the purposes of this report, 'Challenger Infrastructure Fund' represents CIF1 and its controlled entities and 'Challenger Infrastructure Trust Group' represents CIF2 and its controlled entities.

The financial statements of subsidiaries are prepared for the same reporting year as those of Challenger Infrastructure Fund and Challenger Infrastructure Trust Group, using consistent accounting policies.

Subsidiaries are all those entities over which CIF has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

Note 2 – Summary of accounting policies (continued)

(c) Basis of consolidation (continued)

djustments 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.

Investments in subsidiaries are accounted for at cost in the separate financial statements of the parent entity. The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the consideration paid to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the consolidated balance sheet, separately from the equity of the owners of the parent.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

(d) Investments and other financial assets

All investments designated at fair value through the income statement are initially recognised at fair value, being the amount of the consideration paid excluding transaction costs. After initial recognition, financial assets designated as at fair value through the income statement are revalued to fair value at each reporting date. Transaction costs incurred in acquiring financial assets designated at fair value through the income statement are expensed.

For investments where there is no quoted market price, fair value is determined by the Directors of the Responsible Entity. Fair values are determined by discounting estimated cash flows back to their present value using an appropriate discount rate relevant to the financing structure.

For investments designated at fair value through the income statement, any gain or loss arising from changes in fair value (including foreign exchange translation gains) are taken directly to the income statement.

(e) 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 movements in foreign currency, interest rates and inflation. Such derivative financial instruments are stated at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

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 forward exchange and interest rate contracts is calculated by an internal management system which generates a fair market value based on market source data. The fair market value is compared to the counterparty valuation.

At the inception of a hedge relationship, CIF or its operating subsidiary formally designates and documents the hedge relationship to which the entity wishes to apply hedge accounting and the risk management objectives and strategies for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair values or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair values or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

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 forecast 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.

CIF or its operating subsidiary tests each of the designated cash flow hedges for effectiveness on a semi-annual basis both retrospectively and prospectively. Under the prospective test, a matched terms approach is adopted using the hypothetical derivative method. The hypothetical derivative is an equivalent of the actual derivative that perfectly eliminates all volatility due to the hedged risks on the hedged item and it includes all other terms of the actual hedging instrument that do not cause ineffectiveness.

The assessment of matched terms is updated at every reporting date to ensure that the critical terms of the hedging relationship continue to match and that there is no adverse development regarding the risk of counterparty default and the liquidity of the hedging instrument. If the matched terms approach fails, a scenario based dollar offset test will be used. This approach involves comparing the changes in the fair value of the designated hedging instrument to the changes in fair value of the hypothetical derivative using appropriate historical rates over a pre determined period. Provided this percentage is within 80-125%, the prospective effectiveness test is satisfied.

Retrospective hedge effectiveness testing is performed by comparing cumulative changes in the fair value of the designated hedging instrument from inception of the hedging relationship to the cumulative changes in the fair value of the hypothetical derivative for the same period. This will be based on the 'cumulative dollar offset' method where the two changes in fair value are expressed against each other as a percentage. Provided this percentage is within 80-125%, the retrospective effectiveness test is satisfied.

For foreign currency cash flow hedges if the risk is over-hedged, the ineffective portion is taken immediately to other income/expense in the income statement. For interest rate cash flow hedges, any ineffective portion is taken to other expenses 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.

(f) Revenue

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent 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 are recognised in the income statement on an accruals basis.

Tank storage and service revenue

Revenue from the provision of services, mainly rental fees and additional services, is recognised in the income statement as the services are performed and according to specific contractual terms.

Investment 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 basis.

(g) Expenses

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.

Note 2 – Summary of accounting policies (continued)

(h) Finance costs

Finance costs are recognised as an expense on an effective interest basis.

(i) 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.

(j) Trade and other receivables

Trade receivables are recognised at their fair value and subsequently measured at amortised cost using the effective interest method less an allowance for any uncollectible amounts. Provision for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(k) Business combinations

The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the combination. Acquisition related cost is expensed as incurred and transaction costs arising on the issue of equity instruments are recognised directly in equity.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of the business combination over the net fair value of CIF's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than CIF's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of the consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred, and included in administrative expenses.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability are recognised in accordance with AASB 139 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

(l) 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.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(m) Property, plant and equipment

Inexus Group (Holdings) Limited (Inexus)

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

Infrastructure including meters and other mechanical assets are depreciated on a straight-line basis over their estimated useful lives detailed below. This is done on a project by project basis with depreciation commencing when the company starts receiving transportation income from the project. The estimated useful lives are as follows:

Infrastructure	40 years straight-line
Meters and other mechanical assets	20 years straight-line

Depreciation is provided on other plant and equipment, 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 years straight-line
Plant and machinery	4 years straight-line
Motor vehicles	4 years straight-line
Fixtures and fitting	4 years straight-line
Direct contracting plant and machinery	5 years straight-line

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that 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. At the end of each financial year, the assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate.

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.

Challenger LBC Terminals Jersey Limited (LBC)

Plant and equipment including buildings, tank storage and dock facilities have been recognised at depreciated replacement cost as determined by an independent valuer at the date of acquisition of LBC. These are depreciated on a straight-line basis over their estimated useful lives detailed below.

The estimated range of useful lives are as follows:

Buildings	20 - 30 years
Infrastructure (includes tank storage and dock facilities)	20 - 40 years
Other plant and equipment (includes machinery, furniture, utilities and tools)	5 - 10 years

At the end of each financial year, the assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate.

Future decommissioning costs that may arise from legal or constructive obligations are recorded as components of fixed assets and depreciated over the useful life of the installations.

(n) Land

Land is measured at fair value, based on periodic but at least triennial valuations by external independent valuers, less any impairment losses recognised after the date of the revaluation.

Any revaluation increment is credited to the asset revaluation reserve included in equity, except to the extent that it reverses a revaluation decrement for the same asset previously recognised in profit or loss, in which case the increment is recognised in profit or loss.

Any revaluation decrement is recognised in profit or loss, except to the extent that it offsets a previous revaluation increment for the same asset, in which case the decrement is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

(o) Goodwill and intangibles

Goodwill

Goodwill acquired in a business combination is initially measured at the cost of the business combination, being the excess of the consideration transferred over the fair value of the CIF's net identifiable assets acquired and liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised in the income statement.

Note 2 – Summary of accounting policies (continued)

(o) Goodwill and intangibles (continued)

Goodwill (continued)

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.

Impairment losses recognised for goodwill are not subsequently reversed.

Intangibles

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Leasehold contracts

The value of purchased leasehold contracts entered into by LBC in excess of current market premium is recognised as an identifiable intangible asset at acquisition. This asset is amortised on a straight-line basis over the term of the respective leases. The estimated amortisation periods for the value of leasehold contracts recognised as intangible assets is one to 18 years.

Software

Intangibles include amounts paid by LBC for the access to property rights for the use of software programs. The costs of externally acquired software are depreciated on a straight-line basis over a period of three years from the date of acquisition.

(p) Leases

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.

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating leases

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

Finance leases

Payments made under finance leases are capitalised at the inception of the lease at their fair value. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss. Capitalised leased assets are depreciated over the estimated useful life of the asset.

(q) Trade and other payables

These amounts represent liabilities for goods and services provided to CIF prior to the end of the financial year, whether or not billed to CIF, which are unpaid. Due to their short-term nature, payables are not discounted.

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 year.

(r) 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.

Environmental, repairs and maintenance provisions

Estimated costs relating to the remediation of site land are taken to the income statement as soon as the need is identified and a reliable estimate of the liability is able to be assessed.

For sites where there are uncertainties with respect to what remediation obligations might be or what remediation techniques might be approved and no reliable estimate can presently be made, no amounts have been capitalised, expensed or provided for.

Estimated costs relating to repairs and maintenance works associated with the prevention of environmental remediation of site land are taken to the income statement as soon as the need is identified and a reliable estimate of the liability is able to be assessed.

For future works where there are uncertainties with respect to what repairs and maintenance obligations are required and no reliable estimate can presently be made, no amounts have been capitalised, expensed or provided for.

Restructuring provisions

A provision for restructuring is recognised when CIF has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(s) Employee entitlements

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.

Pension scheme – Inexus

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

(t) Share-based payment transactions

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

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 a pricing model, and the extent to which the employees have rendered services to date. Changes in the best estimate of the liability each balance sheet date are recognised in the income statement.

(u) Interest bearing liabilities

All loans and borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method. Any gains and losses are recognised in the income statement when the liabilities are derecognised.

Note 2 – Summary of accounting policies (continued)

(v) Income taxes

Deferred income tax is provided on 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; and
- 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 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.

(w) Goods and Services Tax (GST) and equivalent foreign taxes

Revenues, expenses and assets are recognised net of the amount of GST or international equivalent taxes except where the GST or equivalent 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.

(x) Contributed equity

CIF1 and CIF2 stapled securities are classified as equity. Incremental costs directly attributable to the issue of new securities or options or the buy-back of securities are shown in equity as a deduction, net of tax, from the proceeds.

(y) Distributions

A provision is made by CIF1 for the amount of any distribution announced in accordance with the Constitution on or before the end of the financial year but not distributed at the balance date.

(z) Earnings per security

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

(aa) 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.

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 are 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 currencies of the overseas subsidiaries listed in Note 22 are British pounds (GBP), Euros (EUR), US dollars (USD), Chinese yuan (CNY) and Singapore dollars (SGD).

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 year.

The exchange differences arising on the retranslation are taken directly to a separate component of equity.

Exchange rates used

The following exchange rates are used in translating foreign currency balances and financial statements:

	Year Ended 30-Jun-12	Year Ended 30-Jun-11
AUD/GBP		
Average exchange rate	0.6517	0.6264
Spot rate at balance date	0.6535	0.6669
AUD/EUR		
Average exchange rate	0.7720	0.7252
Spot rate at balance date	0.8077	0.7384
AUD/USD		
Average exchange rate	1.0292	0.9902
Spot rate at balance date	1.0251	1.0706

(bb) Significant accounting judgements, estimates and assumptions

The carrying amounts 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 year are:

Impairment of goodwill

The consolidated entity assesses whether goodwill is impaired at least annually or if there are any signs of impairment. 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. At each subsequent reporting date the fair value of the share appreciation rights are measured by applying a discounted cash flow model.

(cc) Net assets

The Challenger Infrastructure Fund ('CIF') consists of two stapled Australian registered managed investment schemes: CIF Investment Trust 1 ('CIF1') and CIF Investment Trust 2 ('CIF2'). Each security consists of one unit in CIF1 and one unit in CIF2. Since units are stapled together so that one cannot be transferred, or otherwise dealt with, without the other, the Directors of the Responsible Entity believe the most appropriate measure of the net assets of the Challenger Infrastructure Fund are those reported as the CIF1 consolidated net assets. As at 30 June 2012, the net assets of CIF1 consolidated were $226.6m.

Notwithstanding the Fund's consolidated net assets of $226.6m, under the Corporations Act 2001 the Challenger Infrastructure Fund is required to present the financial statements of the CIF2 stapled securities as a standalone entity. As at 30 June 2012, CIF2 consolidated group reported a net asset deficiency of $575.4m. Included within the net asset deficiency as at 30 June 2012, are related party borrowings from CIF1 of $642.7m. Since CIF1 and CIF2 are stapled units together such that one cannot be transferred, or otherwise dealt with or without the other, when considering the going concern assumption in preparing the financial statements of CIF2, the Directors of the Responsible Entity are of the view that related party loans between the CIF1 and CIF 2 staple should be excluded. After adjusting for these loans, the CIF2 net assets as at 30 June 2012 is $67.3m.

Note 2 – Summary of accounting policies (continued)

(dd) Segment reporting

Operating segments have been determined based on the reports reviewed by the chief operating decision makers – being the CMSL executive management team, which are used to make strategic decisions.

CIF aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services;
- Nature of the production processes;
- Type or class of customer for the products and services;
- Methods used to distribute the products or provide the services; and if applicable;
- Nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

(ee) Interest in a jointly controlled entity

CIF has an interest in a joint venture that is a jointly controlled entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. CIF recognises its interest in the jointly controlled entity on a proportionately consolidated basis by recognising its interest in the assets and the liabilities of the joint venture. CIF also recognises the expenses that it incurs and its share of the income that it earns from the sale of goods and services by the jointly controlled entity.

Note 3 – Financial risk management

CIF's activities expose it to the following financial risks:

- market risk (currency risk, interest rate risk and inflation risk);
- credit risk;
- liquidity risk.

The Responsible Entity believes that the management of financial risks is fundamental to CIF's operations and to building securityholder value. The Board is responsible for CIF'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 CIF's operations.

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

The Board has adopted the Challenger Limited Operational Risk Framework and formal policies in respect of compliance and operational risk management. Risks at both the Responsible Entity and CIF level are managed through the Challenger Limited 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).

At the time of approving the financial statements of CIF, the Board requires representation letters from management addressing risk management and internal compliance and controls relevant to risk.

Exposure to credit, liquidity, inflation, interest rate and currency risks arises in the normal course of the CIF's business. Derivative financial instruments are used to hedge exposures to fluctuations in foreign exchange rates, interest rates and inflation rates. Instruments used include foreign exchange contracts, interest rate and inflation rate swap contracts.

Risk exposures and responses

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates. Market risk comprises three types of risk: currency risk due to fluctuations in foreign exchange rates, interest rate risk arising from fluctuations in interest rates and inflation risk arising from fluctuations in inflation.

The risk management policy of the Fund is designed to ensure that the overall risk to the Fund is monitored and appropriately hedged in accordance with the Fund's risk management policies.

(i) Currency risk

The initial Inexus sale proceeds has been hedged through an FX forward contract.

The USD sale proceeds from LBC have been hedged through an FX forward contract.

CIF is exposed to currency risk on its exposure to GBP contingent consideration in respect to the sale of Inexus, and on small fund level foreign currency bank account balances.

(ii) Interest rate risk

Interest rate risk is the risk to CIF's earnings and equity from movements in interest rates, including changes in the absolute levels of interest rates, the shape of the yield curve, the margin between the different yield curves and the volatility of interest rates.

CIF periodically analyses its interest rate exposure. Within this analysis, consideration is given to potential renewals of existing positions, alternative financing, alternative hedging positions and the mix of fixed and variable interest rates.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause financial loss to the other party by failing to discharge an obligation. CIF aims to ensure that at all times it has appropriate credit risk management in place and that the Board and senior management are appropriately informed of the credit risks. The core principles underpinning credit risk management for CIF are:

- independence from the fund manager;
- appropriate segregation practices in place to avoid conflicts of interest;
- credit exposures are systematically controlled and monitored;
- credit exposures are regularly reviewed in accordance with existing credit procedures;
- credit personnel are appropriately qualified and experienced; and
- credit exposures include such exposures arising from derivative transactions.

Credit risk for CIF arises principally from:

- customer and trade receivables from Inexus and LBC; and
- counterparty risk associated with interest rate swap and inflation swap counterparties within the Inexus business and the foreign exchange and interest rate swap counterparties within the LBC business.

When assessing counterparty credit risk, CIF makes primary use of both external and internal ratings. Internal ratings are expressed on the basis of S&P rating definitions. Where an external rating is available (predominantly from Standard & Poor's, Moody's or Fitch), the internal rating will ordinarily be no greater than the lowest external rating assigned.

The credit risk in respect of derivative transactions is mitigated by entering into trades with counterparties with an A rating or above.

Note 3 – Financial risk management (continued)

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 balance sheet. For 'Trade and other receivables', the maximum credit exposure represents the carrying value of each debtor. In respect of derivative financial instrument contracts which have a positive fair value, the maximum credit exposure is the fair value of the derivative contract.

The credit quality of all financial instruments is consistently monitored in order to identify any adverse changes in the credit quality.

Other than those security arrangements disclosed in the notes, at reporting date, no CIF entities were part of any transaction requiring collateral to be pledged or held. Similarly, no collateral was required to be pledged or held for any CIF entities in the prior period.

(c) Liquidity risk

Liquidity risk is the risk that CIF will not have sufficient liquidity to satisfy its obligations associated with financial liabilities. This may result from either the inability to sell financial assets at their carrying values; or a counterparty failing on repayment of a contractual obligation; or the inability to generate cash inflows as anticipated.

CIF aims to ensure that it has sufficient liquidity to meet its obligations on a short-term and medium-term basis. Liquidity risk within CIF is managed through the performance of monthly cash flow forecasts conducted on a rolling two year basis. CIF's subsidiaries Inexus and LBC manage their liquidity risk through the performance of a monthly cash flow forecasted out to 12 months.

Note 4 – Discontinued operations – Inexus

Details of operation held for sale

Inexus is one of the largest owners and originator of utility networks in the UK.

On the 22 June 2012, CIF entered into an exclusive sales agreement to dispose of Inexus Group Limited (Inexus). At a CIF unitholder meeting held on 15 August 2012, the securityholders voted to approve the sale of Inexus.

The disposal of Inexus is expected to be completed by October 2012 by way of an initial consideration of £10m (£6.87m hedged (net of transaction costs) at exchange rate of 0.6390, $10.75m) with a further contingent consideration of £25.6m (unhedged) upon the occurrence of certain future events including a refinancing of its existing debt facilities and where Brookfield is the purchaser, it having received any necessary antitrust clearance from the Office of Fair Trading in the United Kingdom. As at 30 June 2012, Inexus was classified as a disposal group held for sale.

Financial performance of operation held for sale

The results of the Inexus operation held for sale for the year is presented below:

	Challenger Infrastructure Fund		Challenger Infrastructure Trust Group	
	30 June 12 $'000	30 June 11 $'000	30 June 12 $'000	30 June 11 $'000
Revenue	111,269	101,242	111,269	101,242
Operating expenses and cost of sales	(31,433)	(28,430)	(31,433)	(28,430)
Earnings before interest, taxation, depreciation, amortisation and fair value movements	**79,836**	**72,812**	**79,836**	**72,812**
Depreciation and amortisation	(14,867)	(14,420)	(14,867)	(14,420)
Finance costs	(64,986)	(60,891)	(70,950)	(66,616)
Total realised and unrealised gains (losses)	(132,751)	8,215	(132,751)	8,215
Profit (loss) before tax	(132,768)	5,716	(138,731)	(9)
Income tax benefit (expense)	649	765	649	765
Profit (loss) from discontinued operation – Inexus	**(132,119)**	**6,481**	**(138,082)**	**756**

Note 4 – Discontinued operations – Inexus (continued)

Assets and liabilities – held for sale operation

The major classes of assets and liabilities of Inexus at 30 June 2012 are as follows:

	Challenger Infrastructure Fund		Challenger Infrastructure Trust Group	
	30 June 12 $'000	30 June 11 $'000	30 June 12 $'000	30 June 11 $'000
Assets				
Cash and cash equivalents	6,335	4,758	6,335	4,758
Trade and other receivables	29,906	29,105	29,906	29,105
Inventory	728	1,081	728	1,081
Deferred tax assets	1,410	1,015	1,410	1,015
Property, plant and equipment	362,961	342,046	362,961	342,046
Intangibles	653,915	640,864	653,915	640,864
Assets of Inexus classified as held for sale	1,055,255	1,018,870	1,055,255	1,018,870
Liabilities				
Trade and other payables	170,184	157,898	184,784	167,604
Interest bearing liabilities	682,177	657,321	682,177	657,321
Related party loans	–	–	53,891	51,674
Derivatives at fair value	337,766	203,745	337,766	203,745
Minority investor shareholder loans	43,503	55,997	43,503	55,997
Liabilities of Inexus classified as held for sale	1,233,631	1,074,962	1,302,122	1,136,342
Net assets attributable to discontinued operation	**(178,376)**	**(56,092)**	**(246,867)**	**(117,472)**

It has been determined that there is no impairment of goodwill carried by Inexus on the basis of the arm's length sales price.

Interest bearing liabilities

Inexus has committed debt facilities of £461.0m ($705.4m), comprising £426.0m ($651.8m) of senior debt and £35.0m ($53.6m) of junior debt facilities. Inexus is seeking an extension in the repayment date of its existing debt facilities to 30 November 2012 in order to provide Brookfield with the opportunity to recapitalise and refinance the company. Negotiations with the existing lenders and swap providers are at an advanced stage. CIF expects to make a further announcement regarding these negotiations ahead of the 31 August 2012 deadline.

The debt facilities 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). If the refinance by the purchaser is unsuccessful the lending consortium has no recourse to CIF securityholders.

Total interest bearing liabilities at 30 June 2012 was $682.2m (2011: $657.3m).

Derivatives

Inexus matches the inflation risk of its revenue streams with the use of an inflation rate swap contract. The change in fair value of the inflation-linked swap is taken directly to the income statement. Inexus' derivatives are classified as Level 3 under the fair value hierarchy, as they are valued using a model that is based on unobservable inputs.

Details of inflation-linked swaps as at reporting date are as follows:

	Notional/ Principal contract value	Fixed real interest rate	Floating interest rate	Contractual maturity date
Inflation-linked swaps – Inexus	£117.5m	3.11% pa on accruing balance	6 month LIBOR	31 August 2030[1]
	£83.8m	2.46% pa on accruing balance	6 month LIBOR	31 August 2030[1]
	£50.0m	2.86% pa on accruing balance	6 month LIBOR	31 August 2030[1]

[1] There is a mandatory termination date of 31 August 2012, extended to 30 November 2012. Please refer to extension of debt facilities discussed above.

Note 4 – Discontinued operations – Inexus (continued)

Cash flow information – held for sale operation

The net cash flows of Inexus are as follows:

	2012 Inexus $'000	2011 Inexus $'000
Net cash inflows from operating activities	29,976	33,771
Net cash outflows from investing activities	(36,144)	(43,121)
Net cash inflows from financing activities	7,648	9,747
Net cash inflow (outflow)	**1,480**	**397**

Subsequent events disclosure

On 15 August 2012, CIF unitholders approved the sale of Inexus.

Derecognition of Inexus will occur on loss of control, which is expected to be on receipt of initial sales proceeds on 4 October 2012. At this date a pro-forma statutory gain on sale of $251.6m is estimated to be recognised which includes a transfer from reserves of $103.3m, calculated using the 30 June 2012 Inexus balance sheet.

This will result in an overall increase in CIF book net assets by $148.8m, equating to 47 cents per security.

Note 5 – Discontinued operations – LBC

Details of operation held for sale

LBC is one of the world's largest independent operators of bulk liquid storage terminals for chemical and petroleum products based in Europe, the USA and Asia.

On the 4 June 2012, CIF entered into an exclusive sales agreement to dispose of its interests in LBC. Under the terms of the sale and purchase agreement for LBC, the sale price is subject to a fixed escalation adjustment for any delay in completion. The expected gross proceeds to CIF is US$281.1m based on 5 September 2012 completion date. CIF has entered into foreign exchange hedges (hedge rate of $0.9660). The Australian dollar net proceeds to CIF unitholders are currently expected to be $290.8m. The disposal of LBC is expected to complete on 5 September 2012. As at 30 June 2012, LBC was classified as a disposal group held for sale.

Financial performance of operation held of sale

The results of the LBC operation held for sale for the year are presented below:

	Challenger Infrastructure Fund		Challenger Infrastructure Trust Group	
	30 June 12 $'000	30 June 11 $'000	30 June 12 $'000	30 June 11 $'000
Revenue	244,510	241,770	244,510	241,770
Operating expenses and cost of sales	(148,253)	(145,548)	(148,253)	(145,548)
Earnings before interest, taxation, depreciation, amortisation and fair value movements	**96,257**	**96,222**	**96,257**	**96,222**
Depreciation and amortisation	(44,243)	(45,008)	(44,243)	(45,008)
Finance costs	(40,270)	(40,796)	(41,755)	(42,379)
Total realised and unrealised gains (losses)	(2,959)	(3,952)	(2,959)	(3,952)
Profit (loss) before tax	8,785	6,466	7,300	4,883
Income tax benefit (expense)	(1,711)	(15,152)	(1,711)	(15,152)
Profit (loss) from discontinued operation – LBC	**7,074**	**(8,686)**	**5,589**	**(10,269)**

Note 5 – Discontinued operations – LBC (continued)

Assets and liabilities – held for sale operation

The major classes of assets and liabilities of LBC at 30 June 2012 are as follows:

	Challenger Infrastructure Fund		Challenger Infrastructure Trust Group	
	30 June 12 $'000	30 June 11 $'000	30 June 12 $'000	30 June 11 $'000
Assets				
Cash and cash equivalents	61,968	19,050	61,968	19,050
Trade and other receivables	39,391	45,292	39,391	45,292
Derivatives at fair value	–	688	–	688
Inventory	523	562	523	562
Deferred tax assets	16,804	30,008	16,804	30,008
Property, plant and equipment	774,216	772,138	774,216	772,138
Intangibles	276,072	302,038	276,072	302,038
Assets of LBC classified as held for sale	1,168,976	1,169,776	1,168,976	1,169,776
Liabilities				
Trade and other payables	54,864	53,938	60,577	58,677
Provisions	13,147	9,675	13,147	9,675
Deferred tax liabilities	184,767	192,627	184,767	192,627
Interest bearing liabilities	623,862	585,262	623,862	585,262
Related party loans	–	–	20,162	22,230
Derivatives at fair value	2,650	19,138	2,650	19,138
Minority investor shareholder loans	10,294	11,314	10,294	11,314
Liabilities of LBC classified as held for sale	889,582	871,954	915,457	898,923
Net assets attributable to discontinued operation	**279,394**	**297,822**	**253,519**	**270,853**

It has been determined that there is no impairment of goodwill carried by LBC on the basis of the arm's-length sales price.

Interest bearing liabilities

LBC debt facilities comprises of a senior bank debt facility of US$416.6m and €88.6m (A$516.1m), junior bank debt facility of US$19.1m and €60.7m (A$93.8m) and other senior debt facilities of US$7.2m and €28.1m (A$41.8m). The debt facilities are secured by fixed and floating charges granted by Challenger LBC Terminals Holding Company Limited over the assets of LBC. The maturity of the senior and junior debt facility is 1 June 2014. The maturities of other senior debt facilities range between July 2012 and June 2016.

Total interest bearing liabilities at 30 June 2012 was $623.9m (2011: $585.3m).

Cash flow information – held for sale operation

The net cash flows of LBC are as follows:

	2012 LBC $'000	2011 LBC $'000
Net cash inflows from operating activities	55,206	44,849
Net cash outflows from investing activities	(48,341)	(48,464)
Net cash inflows (outflows) from financing activities	36,343	(9,397)
Net cash inflow (outflow)	**43,208**	**(13,012)**

Subsequent events disclosure

The sale of LBC is expected to settle on 5 September 2012 for $290.8 million gross proceeds.

Derecognition of LBC will occur on loss of control which is expected to be on settlement date. At this date a pro-forma statutory gain on sale of $66.9m is estimated to be recognised which includes a transfer from reserves of $56.1m, calculated using the 30 June 2012 LBC balance sheet.

This will result in an overall increase in CIF book net assets by $123.3m, equating to 39 cents per security.

Notes to the financial statements (continued)

Note 6 – Expenses

	Challenger Infrastructure Fund		Challenger Infrastructure Trust Group	
	30 June 12 $'000	30 June 11 $'000	30 June 12 $'000	30 June 11 $'000
Operating expenses				
Management fees	(1,368)	(571)	–	–
Strategic review costs [1]	(12,866)	–	(12,866)	–
Fund operating expenses	(370)	(569)	(97)	(2)
Total operating expenses	**(14,604)**	**(1,140)**	**(12,963)**	**(2)**

[1] Strategic review costs include Rothschild and CMSL advisory costs for LBC transaction, vendor due diligence costs, European, US and Australian legal and tax advice, performed in relation to Inexus and LBC sale transactions.

	Challenger Infrastructure Fund	
	30 June 12 $'000	30 June 11 $'000
Management fees reconciliation		
Management fees – CIF	(1,326)	(544)
Management fees – Jersey Companies	(42)	(27)
Management fees – continuing operations	(1,368)	(571)
Management fees discontinued operation – Inexus	–	–
Management fees discontinued operation – LBC	(1,808)	(1,654)
Management fees – discontinuing operations	(1,808)	(1,654)
Total management fees	**(3,176)**	**(2,225)**

[1] The management fees for LBC are gross of the fee rebate ($1.2m) as described in the related parties note.

Note 7 – Realised and unrealised gains and (losses)

	Challenger Infrastructure Fund		Challenger Infrastructure Trust Group	
	30 June 12 $'000	30 June 11 $'000	30 June 12 $'000	30 June 11 $'000
Realised gains (losses)				
Realised gains (losses) on sale of investments	–	(365)	–	(365)
Realised gain (loss) – foreign exchange	(36)	(93)	–	–
Total realised gains (losses)	**(36)**	**(458)**	**–**	**(365)**
Unrealised gains (losses)				
Unrealised gain (loss) – foreign exchange	(1,080)	(12,353)	–	–
Unrealised gain (loss) – currency derivatives	12,912	–	11,541	–
Total unrealised gains (losses)	**11,832**	**(12,353)**	**11,541**	**–**
Total realised and unrealised gains (losses)	**11,796**	**(12,811)**	**11,541**	**(365)**

CIF entered into FX forward contracts to hedge its currency risk – refer to Note 19.

Note 8 – Income tax

The major components of income tax benefit (expense) are:

	Challenger Infrastructure Fund		Challenger Infrastructure Trust Group	
	30 June 12 $'000	30 June 11 $'000	30 June 12 $'000	30 June 11 $'000
Income statement				
Current income tax				
Current income tax credit (expense)	6,624	(2,479)	6,624	(2,480)
Deferred income tax				
Relating to the origination and reversal of temporary differences	(10,628)	(12,018)	(10,628)	(12,018)
Income tax benefit (expense) reported in income statement	**(4,004)**	**(14,497)**	**(4,004)**	**(14,498)**

During the year CIF2 derecognised a deferred tax asset on carried forward tax losses as it was no longer deemed recoverable.

A reconciliation between income tax (expense) and accounting profit (loss) before income tax is as follows:

	Challenger Infrastructure Fund		Challenger Infrastructure Trust Group	
	30 June 12 $'000	30 June 11 $'000	30 June 12 $'000	30 June 11 $'000
Profit (loss) before tax	**(119,532)**	**8,676**	**(132,689)**	**4,795**
At the statutory income tax rate of 30%	35,860	(2,603)	39,807	(1,438)
Expenditure not allowable for income tax purposes	(48,440)	(18,264)	(48,440)	(18,264)
Non assessable dividend	5,739	5,360	5,739	5,360
Non assessble (deductible) intragroup trust income (losses)	3,947	1,166	–	–
Other	(1,110)	(156)	(1,110)	(156)
Income tax benefit (expense) reported in income statement	**(4,004)**	**(14,497)**	**(4,004)**	**(14,498)**

Deferred income tax at 30 June 2012 for both CIF and Challenger Infrastructure Trust Group relates to:

	Balance Sheet 30-Jun-12 $'000	Balance Sheet 30-Jun-11 $'000	Income Statement 30-Jun-12 $'000	Income Statement 30-Jun-11 $'000
Deferred tax liability arising from fair value adjustment of property, plant and equipment and provisions on acquisition of subsidiary	(121,089)	(123,835)	–	–
Deferred tax liability arising from difference between tax and book carrying value of property, plant and equipment	(52,388)	(49,533)	(2,855)	(3,580)
Deferred tax liability on leasehold contracts	(2,950)	(3,551)	601	1,806
Acquired deferred tax liabilities on acquisition of subsidiary	(4,743)	(4,980)	237	249
Unrealised gains on hedge contracts	–	(10,728)	10,728	981
Other	(3,597)	–	(3,597)	–
Deferred income tax liabilities	**(184,767)**	**(192,627)**		
Unrealised losses on hedge contracts	492	19,016	(18,524)	(10,710)
Pension provisions	1,277	1,253	24	(370)
Losses available for offset against future taxable income	16,445	13,687	2,758	(394)
Deferred income tax assets	**18,214**	**33,956**		
Deferred tax income (expense)			**(10,628)**	**(12,018)**

Note 9 – Distributions proposed and paid

	Challenger Infrastructure Fund		Challenger Infrastructure Trust Group	
	30 June 12 $'000	30 June 11 $'000	30 June 12 $'000	30 June 11 $'000
(a) Distributions paid during the period				
Distributions to securityholders	37,947	44,439	–	–
Total distribution paid during the period	**37,947**	**44,439**	–	–
Components of distributions to securityholders				
Interim stapled distribution paid	15,811	22,136	–	–
Final stapled distribution declared and payable	15,811	22,136		
Total distribution component	**31,622**	**44,272**	–	–
	Cents per security	Cents per security	Cents per security	Cents per security
Interim stapled distribution paid	5.0	7.0	–	–
Final stapled distribution declared	5.0	7.0		
	10.0	**14.0**	–	–

An interim distribution of 5.0 cents per security (2011: 7.0 cents per security) was paid during the year in respect of the half year ended 31 December 2011. On 17 June 2012, CIF announced an estimated final distribution of 5.0 cents per security (2011: 7.0 cents per security) to be paid on 30 August 2012 in respect of the year ended 30 June 2012, resulting in a total distribution of 10.0 cents per security (2011: 14.0 cents per security) for the year.

Note 10 – Earnings per security

Basic earnings per security amounts are calculated by dividing net profit (loss) after tax for the year attributable to the ordinary securityholders 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 (loss) attributable to ordinary securityholders by the weighted average number of ordinary securities outstanding during the year adjusted for any potential dilutionary securities outstanding.

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

	Challenger Infrastructure Fund		Challenger Infrastructure Trust Group	
	30 June 12 $'000	30 June 11 $'000	30 June 12 $'000	30 June 11 $'000
Profit (loss) attributable to continuing operations [1]	22,933	1,397	17,225	4,822
Profit (loss) attributable to discontinued operations – Inexus	(132,119)	6,481	(138,082)	756
Profit (loss) attributable to discontinued operations – LBC	7,074	(8,686)	5,589	(10,269)
Profit (loss) after tax attributable to CIF security holders	(102,112)	(808)	(115,268)	(4,691)
Net profit (loss) attributable to ordinary security holders for diluted earnings per security [1]	(102,112)	(808)	(115,268)	(4,691)
Weighted average number of ordinary securities for basic earnings per security	316,224	316,547	316,224	316,547
Basic and diluted earnings (loss) per security (cents) – from continuing operations and discontinued operations	(32.3)	(0.3)	(36.5)	(1.5)
Basic and diluted earnings (loss) per security (cents) – from continuing operations	7.3	0.4	5.4	1.5
Basic and diluted earnings (loss) per security (cents) – from discontinued operations	(39.5)	(0.7)	(41.9)	(3.0)

[1] The profit attributable to continuing operations is presented gross including non-controlling interests.

Note 11 – Cash flow information

i) Reconciliation of loss after tax to net cash flows from operating activities

	Challenger Infrastructure Fund		Challenger Infrastructure Trust Group	
	30 June 12 $'000	30 June 11 $'000	30 June 12 $'000	30 June 11 $'000
Net loss after income tax expense	**(123,537)**	**(5,821)**	**(136,693)**	**(9,703)**
Non-cash items				
Depreciation of property, plant and equipment and amortisation of intangibles	59,110	59,427	59,110	59,427
Amortisation of loan issue costs	4,893	5,505	4,893	5,505
Unrealised (gain) loss – derivatives	124,189	8,498	124,478	(3,855)
Other	(8,662)	(2,685)	(8,660)	(2,684)
Investing and financing items				
Realised (gain) loss on sale of investments	–	365	–	365
Realised (gain) loss – foreign exchange	88	(855)	54	(948)
Change in assets and liabilities				
Decrease (increase) in trade receivables and other assets	4,999	1,305	3,948	1,495
(Decrease) increase in trade payables and other liabilities	28,573	21,383	35,064	29,302
Net cash flow from operating activities	**89,653**	**87,122**	**82,193**	**78,904**

ii) Reconciliation of cash assets

Cash assets at the end of the year as shown in the statement of cash flows are reconciled to the following items in the balance sheet as follows:

	Challenger Infrastructure Fund		Challenger Infrastructure Trust Group	
	30 June 12 $'000	30 June 11 $'000	30 June 12 $'000	30 June 11 $'000
Discontinued operations				
Cash at bank	44,865	17,696	44,865	17,696
Term deposits at call	23,438	6,112	23,438	6,112
Continuing operations				
Cash at bank	12,084	20,469	5,148	5,651
Term deposits at 1 to 3 months maturity	126,964	160,123	–	–
Cash and cash equivalents	**207,351**	**204,400**	**73,451**	**29,459**

Note 12 – Trade and other receivables

	Challenger Infrastructure Fund		Challenger Infrastructure Trust Group	
	30 June 12 $'000	30 June 11 $'000	30 June 12 $'000	30 June 11 $'000
Related party receivables [1]	599	898	–	–
Loan and interest receivable	72	850	–	–
Other receivables	–	354	5	11
Total	**671**	**2,102**	**5**	**11**
Trade and other receivables can be classified as follows:				
– Due within 1 year	671	2,102	5	11
– Due greater than 1 year	–	–	–	–
Total trade and other receivables	**671**	**2,102**	**5**	**11**

[1] For terms and conditions of related party receivables refer to Note 20.

Note 13 – Trade and other payables

	Challenger Infrastructure Fund		Challenger Infrastructure Trust Group	
	30 June 12 $'000	30 June 11 $'000	30 June 12 $'000	30 June 11 $'000
Trade creditors and accruals	9,843	133	9,715	–
Interest payable	–	–	14,384	14,370
Related party payables	1,439	761	7,146	251
Total	**11,282**	**894**	**31,245**	**14,621**
Trade and other payables can be classified as follows:				
– Due within 1 year	11,282	894	31,245	14,621
– Due greater than 1 year	–	–	–	–
Total trade and other payables	**11,282**	**894**	**31,245**	**14,621**

Note 14 – Interest bearing liabilities

Reconciliation of interest bearing liabilities carrying amounts for the beginning and end of year are as follows:

	Challenger Infrastructure Trust Group 30 June 12 Outstanding $'000	Challenger Infrastructure Trust Group 30 June 11 Outstanding $'000
Non-financial institution loans		
Related party [1]	568,670	563,625
Total interest bearing liabilities	**568,670**	**563,625**
– Due less than 1 year	568,670	563,625
Total interest bearing liabilities	**568,670**	**563,625**

[1] Related party loans between wholly owned subsidiaries of CIF and Challenger Infrastructure Trust Group. These loans have maturity dates of May 2015 to June 2026, but have been classified as current as it is the intention that these loan will be repaid on the completion of the sales of Inexus and LBC. The loans are non-cumulative and non-capitalising.

Note 15 – Contributed equity

	Challenger Infrastructure Fund		Challenger Infrastructure Trust Group	
	30 June 12 $'000	30 June 11 $'000	30 June 12 $'000	30 June 11 $'000
Securities on issue				
Ordinary securities	1,212,758	1,212,758	67	67
Transaction costs	(29,205)	(29,205)	–	–
Closing balance	**1,183,553**	**1,183,553**	**67**	**67**

	Challenger Infrastructure Fund		Challenger Infrastructure Trust Group	
	30 June 12 Number of stapled securities '000	30 June 11 Number of stapled securities '000	30 June 12 Number of stapled securities '000	30 June 11 Number of stapled securities '000
Movement in securities on issue				
Ordinary securities on issue at the beginning of the year	316,224	318,570	316,224	318,570
Ordinary securities bought back	–	(2,346)	–	(2,346)
Total stapled securities on issue	**316,224**	**316,224**	**316,224**	**316,224**

Capital Management

Challenger Infrastructure Fund manage securityholders' equity and externally raised debt as capital to obtain exposure to international infrastructure assets. A core part of the Challenger Infrastructure Fund's strategy is the optimisation of capital management to maximise value to its securityholders. Reference to current market conditions is a key part of the capital management process undertaken by the Fund.

Challenger Infrastructure Fund is required to operate within its Constitution and is subject to covenants in respect of certain of its debt obligations. Challenger Infrastructure Fund complied with its capital and compliance obligations throughout the year.

Challenger Management Services Limited (CMSL) provides regular compliance certificates to the Directors of CLIL, the Responsible Entity for CIF. CIF's Compliance Plan is subject to annual audit.

Capital risk is monitored against policies, guidelines and externally imposed covenants.

CIF's management policy is to maintain a working capital surplus equivalent to 1 cent per security on issue at the end of each 30 June and 31 December for the future six month period. This is to be covered by cash and has been met throughout the year.

Notes to the financial statements (continued)

Note 16 – Reserves

	Challenger Infrastructure Fund		Challenger Infrastructure Trust Group	
	30 June 12 $'000	30 June 11 $'000	30 June 12 $'000	30 June 11 $'000
Cash flow hedge reserve	–	–	–	–
Capital distribution reserve	(411,204)	(379,582)	(4,279)	(4,279)
Foreign currency translation reserve	(118,513)	(122,985)	(119,435)	(124,114)
Total reserves – continuing operations	**(529,717)**	**(502,567)**	**(123,714)**	**(128,392)**
Movements in reserves:				
Cash flow hedge reserve				
Opening balance	(18,198)	–	(18,198)	–
Transfer of (gain) loss to discontinued operations	18,198	–	18,198	–
Closing balance	**–**	**–**	**–**	**–**
Capital distribution reserve				
Opening balance	(379,582)	(335,310)	(4,279)	(4,279)
Transfer of (gain) loss to discontinued operations	(2,737)	(2,737)	(2,737)	(2,737)
Distributions transferred to (accumulated losses)	(28,885)	(41,535)	2,737	2,737
Closing balance	**(411,204)**	**(379,582)**	**(4,279)**	**(4,279)**
Foreign currency translation reserve				
Opening balance	(122,985)	(81,939)	(124,114)	(83,068)
Transfer of (gain) loss to discontinued operations	57,463	82,818	57,463	82,818
Foreign currency translation	(52,991)	(123,864)	(52,784)	(123,864)
Closing balance	**(118,513)**	**(122,985)**	**(119,435)**	**(124,114)**
Reserves including discontinued operations				
Reserves of continuing operations	(529,717)	(502,567)	(123,714)	(128,392)
Reserves of Inexus classified as held for sale	103,305	107,325	103,305	107,325
Reserves of LBC classified as held for sale	(56,089)	(45,443)	(56,089)	(45,443)
Total reserves	**(482,500)**	**(440,682)**	**(76,498)**	**(66,510)**

Nature and purpose of reserves

Capital distribution reserve

This reserve is used to record amounts transferred to/from reserves on distribution resulting from distributions paid in excess of retained profits at year end.

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 Fund.

Note 17 – Retained profits (accumulated losses)

	Challenger Infrastructure Fund		Challenger Infrastructure Trust Group	
	30 June 12 $'000	30 June 11 $'000	30 June 12 $'000	30 June 11 $'000
Opening balance	(440,689)	(439,881)	(451,973)	(447,282)
Net profit (loss) after tax attributable to securityholders	(102,113)	(808)	(115,272)	(4,691)
Distributions declared	(31,622)	(44,272)	–	–
Amounts transferred (to) from capital distribution reserve	31,622	44,272	–	–
Closing balance	**(542,802)**	**(440,689)**	**(567,245)**	**(451,973)**

Note 18 – Segment information

Operating segments have been determined based on the reports reviewed by CIF's manager CMSL that are used in assessing performance and making strategic decisions.

The manager (CMSL) considers CIF from a business segment perspective. Challenger Infrastructure Fund has 3 segments comprising Inexus, LBC and Fund. Challenger Infrastructure Trust Group has 2 segments comprising Inexus and LBC.

Business segments

Inexus (Discontinued Operation)

Inexus is involved in the design, construction, ownership, operation and maintenance of utility networks and associated site infrastructure, serving new housing developments throughout the UK.

LBC (Discontinued Operation)

LBC is an independent operator of storage terminals for chemicals, base oils and petroleum globally.

Fund

Fund segment includes other activities conducted by the Fund including management of cash and the Fund.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

Note 18 – Segment information (continued)

Challenger Infrastructure Fund Year ended 30 June 2012	Inexus (Discontinued operation) $'000	LBC (Discontinued operation) $'000	Fund $'000	Total $'000
Revenue				
Interest income	1,064	360	7,258	8,682
Revenue from external customers [1]	110,205	244,150	–	354,355
Total segment revenue	**111,269**	**244,510**	**7,258**	**363,037**
Operating expenses and cost of sales	(31,433)	(148,253)	(14,604)	(194,290)
Earnings before interest, taxation, depreciation, amortisation and fair value movements	**79,836**	**96,257**	**(7,346)**	**168,748**
Depreciation and amortisation	(14,867)	(44,243)	–	(59,110)
Financing costs	(64,986)	(40,270)	–	(105,256)
Total unrealised and realised gains (losses)	(132,751)	(2,959)	11,796	(123,914)
Profit (loss) before tax	**(132,768)**	**8,785**	**4,450**	**(119,532)**
Income tax benefit (expense)	649	(1,711)	(2,942)	(4,004)
Profit (loss) after tax	**(132,119)**	**7,074**	**1,508**	**(123,537)**
Total assets per balance sheet [2]	**1,055,255**	**1,168,976**	**152,630**	**2,376,861**
Total liabilities per balance sheet	**1,233,631**	**889,582**	**27,093**	**2,150,306**
Net assets	**(178,376)**	**279,394**	**125,537**	**226,555**

Challenger Infrastructure Fund Year ended 30 June 2011	Inexus (Discontinued operation) $'000	LBC (Discontinued operation) $'000	Fund $'000	Total $'000
Revenue				
Interest income	12	208	10,445	10,665
Revenue from external customers [1]	101,230	241,562	–	342,792
Total segment revenue	**101,242**	**241,770**	**10,445**	**353,457**
Operating expenses and cost of sales	(28,430)	(145,548)	(1,140)	(175,118)
Earnings before interest, taxation, depreciation, amortisation and fair value movements	**72,812**	**96,222**	**9,305**	**178,339**
Depreciation and amortisation	(14,420)	(45,008)	–	(59,427)
Financing costs	(60,891)	(40,796)	–	(101,688)
Total unrealised and realised gains (losses)	8,215	(3,952)	(12,811)	(8,548)
Profit (loss) before tax	**5,716**	**6,466**	**(3,506)**	**8,676**
Income tax benefit (expense)	765	(15,152)	(110)	(14,497)
Profit (loss) after tax	**6,481**	**(8,686)**	**(3,616)**	**(5,821)**
Total assets per balance sheet	**1,018,870**	**1,169,776**	**185,627**	**2,374,273**
Total liabilities per balance sheet	**1,074,962**	**871,954**	**23,030**	**1,969,945**
Net assets	**(56,092)**	**297,822**	**162,597**	**404,327**

[1] There is nil intersegment revenue.

[2] Total Fund segment assets includes $139m of cash and cash equivalents.

[3] Segment information is shown net of consolidation elimination entries.

Note 18 – Segment information (continued)

Challenger Infrastructure Trust Group Year ended 30 June 2012	Inexus (Discontinued operation) $'000	LBC (Discontinued operation) $'000	Challenger Infrastructure Trust Group[2] $'000	Total $'000
Revenue				
Interest income	1,064	360	164	1,588
Revenue from external customers [1]	110,205	244,150	–	354,355
Total segment revenue	**111,269**	**244,510**	**164**	**355,943**
Operating expenses and cost of sales	(31,433)	(148,253)	(12,963)	(192,649)
Earnings before interest, taxation, depreciation, amortisation and fair value movements	**79,836**	**96,257**	**(12,799)**	**163,294**
Depreciation and amortisation	(14,867)	(44,243)	–	(59,110)
Financing costs	(70,950)	(41,755)	–	(112,705)
Profit (loss) from operating activities before tax and fair value movements	**(5,981)**	**10,259**	**(12,799)**	**(8,521)**
Total unrealised and realised gains (losses)	(132,751)	(2,959)	11,541	(124,169)
Profit (loss) before tax	**(138,731)**	**7,300**	**(1,258)**	**(132,689)**
Income tax benefit (expense)	649	(1,711)	(2,942)	(4,004)
Profit (loss) after tax	**(138,082)**	**5,589**	**(4,200)**	**(136,693)**
Total assets per balance sheet	**1,055,255**	**1,168,976**	**17,893**	**2,242,123**
Total liabilities per balance sheet	**1,302,122**	**915,457**	**599,915**	**2,817,494**
Net assets	**(246,867)**	**253,519**	**(582,022)**	**(575,371)**

Challenger Infrastructure Trust Group Year ended 30 June 2011	Inexus (Discontinued operation) $'000	LBC (Discontinued operation) $'000	Challenger Infrastructure Trust Group[2] $'000	Total $'000
Revenue				
Interest income	12	208	287	507
Revenue from external customers [1]	101,230	241,562	–	342,792
Total segment revenue	**101,242**	**241,770**	**287**	**343,299**
Operating expenses and cost of sales	(28,430)	(145,548)	(2)	(173,980)
Earnings before interest, taxation, depreciation, amortisation and fair value movements	**72,812**	**96,222**	**285**	**169,320**
Depreciation and amortisation	(14,420)	(45,008)	–	(59,427)
Financing costs	(66,616)	(42,379)	–	(108,996)
Profit (loss) from operating activities before tax and fair value movements	**(8,223)**	**8,835**	**285**	**897**
Total unrealised and realised gains (losses)	8,215	(3,952)	(365)	3,899
Profit (loss) before tax	**(9)**	**4,883**	**(79)**	**4,795**
Income tax benefit (expense)	765	(15,152)	(111)	(14,498)
Profit (loss) after tax	**756**	**(10,269)**	**(190)**	**(9,704)**
Total assets per balance sheet	**1,018,870**	**1,169,776**	**8,595**	**2,197,240**
Total liabilities per balance sheet	**1,136,342**	**898,923**	**578,247**	**2,613,511**
Net assets	**(117,472)**	**270,853**	**(569,652)**	**(416,271)**

[1] There is nil intersegment revenue.

[2] The Challenger Infrastructure Trust Group represents the holding company structure for Inexus and LBC.

Note 18 – Segment information (continued)

Revenue from external customers by geographical locations is detailed below. Revenue is attributed to geographic location based on the location of the customers.

	Challenger Infrastructure Fund		Challenger Infrastructure Trust Group	
	30 June 12 $'000	30 June 11 $'000	30 June 12 $'000	30 June 11 $'000
UK	110,205	101,230	110,205	101,230
Europe	146,429	146,455	146,429	146,455
USA	90,138	88,566	90,138	88,566
Asia	7,583	6,541	7,583	6,541
Total revenue	**354,355**	**342,792**	**354,355**	**342,792**

Note 19 – Financial instruments

Derivative financial instruments

Derivative financial instruments are used by CIF in the normal course of business in order to hedge exposure to fluctuations in foreign exchange, interest rate and inflation rate exposures.

The following table provides information on the derivative financial instruments at balance date.

	Challenger Infrastructure Fund		Challenger Infrastructure Trust Group	
	30 June 12 $'000	30 June 11 $'000	30 June 12 $'000	30 June 11 $'000
Derivative financial assets				
Foreign currency contracts				
– Fund FX hedges	12,912	–	12,741	–
Total derivative financial assets	**12,912**	**–**	**12,741**	**–**

As Inexus and LBC are held for sale at year end, their respective derivative financial instrument information has not been disclosed in this note. The amounts of the derivative liabilities outstanding for these entities are disclosed in Note 4 and 5.

CIF has entered into Fund level foreign currency hedges to hedge US and GBP denominated sales proceeds expected from the sale of LBC and Inexus. These hedges expire on 5 September 2012 and 12 September 2012, respectively.

CIF is required to fair value these hedges with movements in fair value taken to the income statement. Details of outstanding foreign exchange contracts at 30 June 2012 are as follows:

	Notional/principal contract value	
Challenger Infrastructure Fund	30 June 12 $'000	30 June 11 $'000
Buy AUD/Sell USD		
Challenger LBC Terminals Australia Pty Limited	287,581	–
Buy AUD/Sell GBP		
CIF Southern Water Trust	10,751	–

Note 19 – Financial instruments (continued)

Interest rate risk

The following table provides an overview of CIF's financial assets and liabilities exposed to variable interest rate movements. These figures reflect the gross exposure to variable interest rate risk and are not net of hedged instruments.

	Challenger Infrastructure Fund		Challenger Infrastructure Trust Group	
	30 June 12 $'000	30 June 11 $'000	30 June 12 $'000	30 June 11 $'000
Financial assets				
Cash and cash equivalents	139,047	180,589	5,146	5,647
Total financial assets exposure	**139,047**	**180,589**	**5,146**	**5,647**

Note 20 – Related party disclosures

Responsible Entity

The Responsible Entity of CIF is CLIL, a wholly owned subsidiary of Challenger Life Holdings Pty Limited.

Details of Key Management Personnel

Directors

The Directors of CLIL, the Responsible Entity of CIF are considered to be Key Management Personnel.

- Michael Cole – Chair
- Ian Martens
- Geoff McWilliam
- Ian Moore
- Brendan O'Connor
- Robert Woods

During the year ended 30 June 2012, Directors were paid $470,000 (2011: $595,207) in respect of their directorship of the Responsible Entity. This amount includes all fees paid to the Directors of CLIL in respect of their Responsible Entity Board and Committee duties for all Funds, including CIF and two other funds (Challenger Diversified Property Group and Challenger Wine Trust).

Key Management Personnel

In addition to the Directors noted above, the following were considered Key Management Personnel during the year with the authority for the strategic direction and management of the Challenger Infrastructure Fund:

- Emil Pahljina (Chief Executive – Challenger Infrastructure Fund)

Compensation of the Key Management Personnel of CIF

No amounts are paid by CIF directly to the Key Management Personnel of the Trust. Compensation paid directly to CLIL in the form of fees is disclosed below.

CLIL fees

CLIL provides strategic management and compliance infrastructure to CIF and outsources management, custodial and administrative functions to associated entities that are wholly owned by Challenger Limited. It is entitled to a fee under the CIF Trust Constitutions.

Challenger Management Services Limited (CMSL) provides custodial, administration and fund management services to CIF in accordance with the CMSL Management Services Agreement (CMSL Management Agreement).

CGS UK holds a management agreement with the CIF Jersey Companies (UK Management Agreement) whereby it will provide certain management services to the Jersey Companies as defined under the agreement. The fees are paid by the CIF Jersey Companies directly to CGS UK for management services performed.

A fee sharing arrangement is in place between CLIL, CMSL and CGS UK (the Fee Sharing Agreement). This agreement sets out the allocation of fees payable to CLIL, CMSL and CGS UK. The total base fee payable to CMSL is calculated as 1% per annum of Adjusted Equity Value as at the end of each fee period (exclusive of GST and similar foreign taxes) and is payable in cash unless CLIL determines that it should be paid in securities of CIF.

Note 20 – Related party disclosures (continued)

CLIL fees (continued)

The Adjusted Equity Value is calculated as Equity Value less Uncommitted Cash of CIF1 where Equity Value is the arithmetic average of the daily volume weighted average price of ordinary stapled securities on the ASX over the Valuation Period multiplied by the total number of securities outstanding at the end of the Valuation Period. The Valuation Period is defined as the first 10 business days for which the ordinary stapled 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.

Each six months, CMSL is eligible to earn a performance fee if the total return on CIF exceeds the return on the Benchmark Index, based on the first 10 business days for which both indices are quoted on an 'ex' basis for the Distribution whose record date is closest to the end of the fee period. The performance fee is 20% of the value of the outperformance, taking into account any carried forward deficit and is payable in securities of CIF or cash at the Responsible Entity's election. The Benchmark Index is the ASX 200 Industrial Accumulation Index (the Index).

There have been no performance fees earned by CMSL during the year ended 30 June 2012.

Transactions between CLIL, CMSL and CIF are conducted on an arm's length basis with that company as the Responsible Entity. CLIL is an Australian Financial Services Licence holder.

CMSL earned a transaction fee of $1.7 million on successful execution of a binding sale agreement for LBC during the year, payable after completion. CMSL has waived its rights to a transaction fee on the completion of the Inexus' sale and any fee is contingent upon the contingent payment being received from the purchaser.

Challenger Life Company Limited (CLCL) is a wholly owned subsidiary of Challenger Limited and an associate of CLIL. CLCL held a 40.71% (2011: 40.71%) interest in CIF as at 30 June 2012.

	Challenger Infrastructure Fund		Challenger Infrastructure Trust Group	
	30 June 12 $	30 June 11 $	30 June 12 $	30 June 11 $
Management fees				
Management fees paid or payable to CLIL from CIF under the CIF Trust Constitution and Fee Sharing Agreement	126,167	88,748	–	–
Management fees paid or payable to CMSL from CIF under the CMSL Management Agreement and Fee Sharing Agreement	2,374,108	1,652,805	–	–
Management fees paid or payable to CGS UK under UK Management Agreement and Fee Sharing Agreement	22,952	23,491	–	–
Management fees paid or payable by LBC to CMSL under the LBC Asset Consulting Agreement [1]	610,900	457,433	1,808,388	1,653,521
Total management fees paid or payable at balance date	**3,134,127**	**2,222,477**	**1,808,388**	**1,653,521**
Transaction fees				
Transaction advisory fees paid or payable to CMSL in respect of the sale of CIF assets	1,700,000	–	1,700,000	–
Total transaction fees paid or payable at balance date	**1,700,000**	**–**	**1,700,000**	**–**
Other related party				
Interest expense paid or payable to CLCL in respect of LBC junior debt	1,038,910	3,241,198	1,038,910	3,241,198
Interest expense paid or payable to CMIL[2] in respect of LBC junior debt	3,259,651	400,464	3,259,651	400,464
Total other related party payments at balance date	**4,298,561**	**3,641,662**	**4,298,561**	**3,641,662**

[1] CIF is entitled to a rebate from CMSL in respect of fees paid by LBC to CMSL under the LBC Asset Consulting Agreement, equivalent to its ownership interest in LBC. The rebate is in place such that only minority investors in LBC pay CMSL fees under the LBC Asset Consulting Agreement.

[2] Challenger Managed Investments Limited (CMIL) as Responsible Entity of the Challenger High Yield Fund. CMIL is a wholly owned subsidiary of Challenger Limited.

Total expenses paid by CIF to reimburse CMSL for the year ended 30 June 2012 in respect of costs paid on behalf of CIF were $164,301.

Note 20 – Related party disclosures (continued)

LBC Asset Consulting Agreement (ACA)

CMSL receives fees from LBC's minority investors in the LBC consolidated group for services in respect of asset management and administration services, acquisition, disposal, due diligence, debt placement and equity placement advisory services. All fees for the above services are at arm's length market rates agreed with the minority investors of the LBC group. This agreement will be terminated on the completion of the LBC sale.

LBC junior facility

CLCL is a lender to Challenger LBC Terminals Holding Company Limited under the Junior Facilities Agreement (JFA) dated May 2007. CLCL has provided a total lending commitment of €27.4m, of which €27.4m was drawn at 30 June 2012. The financing cost under the JFA is EURIBOR plus a margin of 6.0%.

Challenger Managed Investments Limited (CMIL) as Responsible Entity of the Challenger High Yield Fund has provided a total lending commitment of €6.4m to Challenger LBC Terminals Holding Company Limited under the JFA dated May 2007. As at 30 June 2012, €6.4m was drawn. CMIL is a wholly owned subsidiary of Challenger Limited.

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:

	Challenger Infrastructure Fund			Challenger Infrastructure Trust Group		
Ordinary securities held by Key Management Personnel	Held at 1 July 11	Change during 2012	Held at 30 June 12	Held at 1 July 11	Change during 2012	Held at 30 June 12
Related entities						
Challenger Life Company Limited	128,742,445	–	128,742,445	128,742,445	–	128,742,445
Challenger Management Services Limited	–	–	–	–	–	–
CLIL Directors						
M Cole	–	–	–	–	–	–
I Martens	24,166	–	24,166	24,166	–	24,166
R Woods	–	–	–	–	–	–
I Moore	150,000	–	150,000	150,000	–	150,000
G McWilliam	56,250	–	56,250	56,250	–	56,250
B O'Connor	–	–	–	–	–	–
Key Management Personnel						
E Pahljina	–	–	–	–	–	–

Related party loans

As at the date of this report, the following related party loans were in place with Challenger Infrastructure Trust Group within the CIF consolidated group.

Facility	Borrower	Lender	Amounts drawn at 30 June 2012	Terms and conditions
AUD65.0m	Inexus Australia Holdings Pty Limited	Challenger FM Nominees Pty Ltd (CFNPL) as trustee of the CIF Lastmile Trust	AUD 17,436,819	Interest payable at the rate of 9.5% [1]
AUD298.1m	Inexus Australia Holdings Pty Limited	Challenger FM Nominees Pty Ltd (CFNPL) as trustee of the CIF Lastmile Trust	AUD 197,493,175	Interest free
AUD6.5m	Inexus Australia Holdings Pty Limited	Challenger FM Nominees Pty Ltd (CFNPL) as trustee of the CIF Lastmile Trust	AUD 6,500,000	Interest free
AUD343.1m	Challenger LBC Terminals Australia Pty Limited	Challenger FM Nominees Pty Ltd (CFNPL) as trustee of the CIF LBC Trust	AUD 343,135,716	Interest payable at the rate of 9.5% [1]

[1] Interest is accrued on a cash basis and shall be limited to the cash income of the borrower for the year. For the year ended 30 June 2012 nil interest has been accrued.

Note 20 – Related party disclosures (continued)

Related party loans (continued)

On 31 August 2011, CIF increased its interest in Inexus from 82.5% to 84.998% through acquiring ordinary shares, preference shares and loan notes for £5.86m in cash. On 22 June 2012 CIF sold its interest in Inexus and completion is expected 5 October 2012, at which date CIF will cease to control Inexus.

On 4 June 2012, CIF sold its 66.2% interest in LBC to a consortium led by a Dutch Pension Fund. Completion is expected to occur on 5 September 2012 at which date CIF will cease to control LBC.

Note 21 – Parent entity information

	CIF Investment Trust 1		CIF Investment Trust 2	
	30 June 12 $'000	30 June 11 $'000	30 June 12 $'000	30 June 11 $'000
Total assets	456,713	582,089	5,845	3,015
Total liabilities	17,189	22,555	5,345	2,941
Contributed equity	1,183,486	1,183,486	67	67
Retained profits (losses)	(551,282)	(438,895)	433	8
Capital distribution reserve	(192,680)	(161,058)	–	–
Total equity	439,524	583,533	500	75
Profit (loss) from operating activities	(734)	2,249	3	3
Fair value movements	(111,653)	(68,357)	–	–
Profit (loss) before tax	(112,387)	(66,108)	3	3
Income tax benefit (expense)	–	–	422	(1)
Profit (loss) after tax	**(112,387)**	**(66,108)**	**425**	**2**
Total comprehensive income	(112,387)	(66,108)	425	2

Note 22 – Investments in controlled entities

Name of entity	Controlling parent entity	Year end	Country of incorporation	Class of shares/ securities	% Equity holding 30 June 2012	% Equity holding 30 June 2011
CIF UK Towers Trust	CIF1	30-Jun-12	Australia	Ordinary	100.0	100.0
CIF North of England Gas Trust	CIF1	30-Jun-12	Australia	Ordinary	100.0	100.0
CIF Wales and the West Gas Trust	CIF1	30-Jun-12	Australia	Ordinary	100.0	100.0
Challenger Towers Limited	CIF1	30-Jun-12	Jersey	Ordinary	100.0	100.0
Challenger Northern Gas Limited	CIF1	30-Jun-12	Jersey	Ordinary	100.0	100.0
Challenger Wales & West Gas Limited	CIF1	30-Jun-12	Jersey	Ordinary	100.0	100.0
CIF Southern Water Trust	CIF1	30-Jun-12	Australia	Ordinary	100.0	100.0
Inexus Australian Holdings Co Pty Ltd	CIF2	30-Jun-12	Australia	Ordinary	100.0	100.0
CIF Lastmile Trust	CIF1	30-Jun-12	Australia	Ordinary	100.0	100.0
Challenger LBC Terminals Australia Pty Limited	CIF2	30-Jun-12	Australia	Ordinary	100.0	100.0
CIF LBC Trust	CIF1	30-Jun-12	Australia	Ordinary	100.0	100.0
Inexus Connections Limited (formerly Challenger Connections Limited)	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5
Inexus Group (Holdings) Limited	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5
Independent Pipelines Limited	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5
Connect Utilities Limited	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5
Quadrant Pipelines Limited	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5
Independent Metering Limited	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5
Inexus (EST) Limited	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5
Independent Power Networks Limited	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5
Inexus Group Limited (formerly Challenger Connections Top Company Limited)	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5
Inexus Limited (formerly Challenger Connections Mid Company Limited)	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5
Independent Next Generations Networks Limited (formerly Inexus (Licence) Limited)	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5
Independent Service Provider Limited	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5
Independent Community Heating Limited	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5
Metropolitan Infrastructure Limited	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5
Independent Water Networks Limited	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5
Inexus Employee Benefit Trust	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5
Challenger Employee Share Ownership Plan Trust	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5
Inexus Group No. 1 Limited	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5
Inexus Group No. 2 Limited	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5
Inexus No.3 Limited (formerly Inexus Gas Infrastructure (Holdings) Limited)	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5
Inexus (Services) Limited	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5
Envoy Asset Management Limited	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5
Independent Fibre Networks Limited	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5
Exoteric Gas Solutions Limited	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5
Exoteric Holdings Limited	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5
Commercial Meters Limited	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5
Gas Engineering Services Limited	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5
Reactive Flow Controls Limited	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5
ISITE Connections Limited	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5
JLHC1 Limited	CIF2	30-Jun-12	United Kingdom	Ordinary	84.99	82.5

Note 22 – Investments in controlled entities (continued)

Name of entity	Controlling parent entity	Year end	Country of incorporation	Class of shares/ securities	% Equity holding 30 June 2012	% Equity holding 30 June 2011
LBC Holdings LLC	CIF2	31-Dec-12	United States of America	Ordinary	66.2	66.2
LBC Acquisition Corporation Inc	CIF2	31-Dec-12	United States of America	Ordinary	66.2	66.2
LBC Operations LLC	CIF2	31-Dec-12	United States of America	Ordinary	66.2	66.2
LBC Houston LP	CIF2	31-Dec-12	United States of America	Ordinary	66.2	66.2
LBC Baton Rouge LLC	CIF2	31-Dec-12	United States of America	Ordinary	66.2	66.2
LBC Belgium Holding NV	CIF2	31-Dec-12	Belgium	Ordinary	66.2	66.2
LBC Antwerpen NV	CIF2	31-Dec-12	Belgium	Ordinary	66.2	66.2
LBC-CEPSA Tankterminal Antwerpen NV	CIF2	31-Dec-12	Belgium	Ordinary	50.0	50.0
LBC Rotterdam BV	CIF2	31-Dec-12	Netherlands	Ordinary	66.2	66.2
LBC France Holding SAS	CIF2	31-Dec-12	France	Ordinary	66.2	66.2
LBC Sotrasol SA	CIF2	31-Dec-12	France	Ordinary	66.2	66.2
LBC Sogestrol SAS (LBC Sogestran)	CIF2	31-Dec-12	France	Ordinary	33.1	33.1
LBC Nantes SA	CIF2	31-Dec-12	France	Ordinary	66.2	66.2
LBC Marseille-Fos SAS	CIF2	31-Dec-12	France	Ordinary	66.2	66.2
LBC Tank Terminals Cartagena SA (formerly Terliq SA)	CIF2	31-Dec-12	Spain	Ordinary	66.2	66.2
LBC Tank Terminals Santander SA (formerly Terquisa SA)	CIF2	31-Dec-12	Spain	Ordinary	66.2	66.2
LBC Tanquipor SA	CIF2	31-Dec-12	Portugal	Ordinary	66.2	66.2
Challenger LBC Terminals Jersey Limited	CIF2	30-Jun-12	United Kingdom	Ordinary	66.2	66.2
Challenger LBC Terminals Holding Company Limited	CIF2	30-Jun-12	Malta	Ordinary	66.2	66.2
Challenger LBC Terminals Limited	CIF2	30-Jun-12	Malta	Ordinary	66.2	66.2
Challenger LBC Terminals LLC	CIF2	31-Dec-12	United States of America	Ordinary	66.2	66.2
LBC Tank Terminals Asia Pte Ltd	CIF2	31-Dec-12	Singapore	Ordinary	66.2	66.2
GEP Asia Terminals PTE Ltd	CIF2	31-Dec-12	Singapore	Ordinary	66.2	60.0
Eastern Tankstore Shanghai Shipping Co Ltd	CIF2	31-Dec-12	China	Ordinary	46.0	46.0

The % holdings above are on the look-through basis of underlying entities.

Note 23 – Auditor's remuneration

	Challenger Infrastructure Fund		Challenger Infrastructure Trust Group	
	30 June 12 $	30 June 11 $	30 June 12 $	30 June 11 $
Amounts received or receivable by Ernst & Young for:				
Audit or review of the financial report of the consolidated entity	949,104	1,187,067	796,104	1,039,067
Taxation services	162,040	85,470	162,040	85,470
Other services	20,000	32,569	–	32,569
Total amounts received or receivable by Ernst & Young	**1,131,144**	**1,305,106**	**958,144**	**1,157,106**

Note 24 – Events subsequent to balance date

Refer to discontinued operations notes 4 and 5 for Inexus and LBC subsequent events.

The completion of the sale of LBC is subject to merger approval from the European Commission. The purchasing consortium have lodged a final application and expect to receive a favourable response in early September 2012.

On 15 August 2012, CIF securityholders approved the sale of Inexus and the consequential delisting and wind up of CIF. The completion of the sale of Inexus to Brookfield is now only conditional on the minority shareholders in Inexus exercising or waiving their pre-emptive right to match the payment terms offered by Brookfield. Completion of a sale of Inexus to either Brookfield or the minority shareholders, if they exercise their pre-emptive rights, is expected to occur in late October 2012.

Post asset sales it is expected CIF will have $1.30 per securityholder available to distribute to securityholders after winding up costs. Included in the $1.30 per securityholder above is a contingent liability being the CIF sale fee payable to Rothschild of $1.6m for the sale of Inexus. If Inexus is successfully refinanced by the purchaser, an additional 11 cents per securityholder will be available for distribution. Included within the 11 cents per securityholder contingent proceeds is a contingent liability of $3.8m being the CIF sale fee to CMSL ($2.7m) and Rothschild ($1.1m).

The overall pro-forma profit on deconsolidation of Inexus and LBC is $319.3m including transfers from reserves of $47.2m, calculated using a 30 June 2012 balance sheet (excluding the 11 cents per securityholder expected on successful refinance of Inexus).

Note 25 – Contingencies

Other than the asset sale fee and CIF sale fee described in Note 24 above as a contingent liability, 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 (CIF1) and CIF Investment Trust 2 (CIF2), 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 CIF1 and CIF2 are in accordance with the Scheme Constitutions and the Corporations Act 2001, including:

      (i) giving a true and fair view of the consolidated entities' financial position as at 30 June 2012 and of its performance for the year ended on that date; and

      (ii) complying with Australian Accounting Standards as issued by the Australian Accounting Standards Board, International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and Corporations Regulations 2001; and

   (b) There are reasonable grounds to believe that CIF 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 year ended 30 June 2012.

Michael Cole
Chair

Sydney
29 August 2012

Independent auditor's report to securityholders of Challenger Infrastructure Fund

ERNST & YOUNG

Ernst & Young Centre
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

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Fax: +61 2 9248 5959
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Independent auditor's report to the stapled security unitholders of Challenger Infrastructure Fund

Challenger Infrastructure Fund (the "Combined Group") comprises the stapled securities CIF investment Trust 1 and the entities it controlled at the year end, or from time to time during the financial year ("CIF1"), and CIF investment Trust 2 and the entities it controlled at the year end, or from time to time during the financial year ("CIF2").

Report on the financial report

We have audited the accompanying financial report of Challenger Infrastructure Fund ("CIF"), which comprises the consolidated statements of financial position as at 30 June 2012, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Combined Group.

Directors' responsibility for the financial report

The directors of Challenger Listed Investment Limited, as Responsible Entity for CIF Investment Trust 1 and CIF Investment Trust 2 (collectively referred to as the "Directors") are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent auditor's report to securityholders of Challenger Infrastructure Fund (continued)

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Independence

In conducting our audit we have complied with the independence requirements of 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.

Opinion

In our opinion:

a. the financial report of Challenger Infrastructure Fund is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the Combined Group and CIF2's financial positions as at 30 June 2012 and of their performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note2(a).

Ernst & Young

Ernst & Young

Clare Sporle
Partner
Sydney
29 August 2012

Securityholder information

ASX listing

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

The CIF website

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

Unitholder enquiries

If you have queries relating to your unitholding 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 7795
Facsimile: +61 2 9287 0303

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

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

Distributions

CIF pays distributions six monthly for the periods ending 30 June and 31 December. Distribution payments can be paid by:

- direct credit to a nominated Australian financial institution account; or
- a cheque mailed to your registered unitholding 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 2012 and August 2012 is assessable in the taxation year ended 30 June 2012.

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

Unitholder 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
C/– Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Telephone: 1800 114 027
Telephone (outside Australia):
+61 2 8280 7795
Facsimile: +61 2 9287 0303

The Responsible Entity has a documented internal dispute and resolution policy in line with the Australian Standard for Complaint Handling ISO 10002_2006.

If you are not happy with how the complaint has been handled, you may contact the Financial Ombudsman Service (FOS), of which the Responsible Entity is a member. This is an independent body and is approved by ASIC to consider complaints. The contact details for FOS are:

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
Telephone: 1300 780 808
www.fos.org.au

Securityholder information (continued)

Substantial securityholdings as at 12 September 2012

	Effective date	Number of securities	% issued capital
Challenger Limited	26 August 2011	128,742,445	40.71%
Deutsche Bank Group	3 July 2012	17,979,213	5.69%
Cheyne Capital Management (UK) LLP	16 August 2012	16,000,000	5.06%

Top 20 securityholders as at 12 September 2012

Ordinary securities

Rank	Name	Number of securities	% issued capital
1	J P Morgan Nominees Australia Limited	135,304,874	42.79%
2	National Nominees Limited	32,360,062	10.23%
3	Citicorp Nominees Pty Limited	22,550,428	7.13%
4	JP Morgan Nominees Australia Limited	17,421,987	5.51%
5	Brispot Nominees Pty Ltd	10,836,326	3.43%
6	HSBC Custody Nominees	9,289,707	2.94%
7	HSBC Custody Nominees (Australia)	8,214,408	2.60%
8	DNU Nominees Pty Limited	7,169,748	2.27%
9	Credit Suisse Securities (Europe) Ltd	5,570,000	1.76%
10	Questor Financial Services Limited	5,219,654	1.65%
11	Bainpro Nominees Pty Limited	3,836,942	1.21%
12	HSBC Custody Nominees (Australia) Limited – A/C 3	3,237,759	1.02%
13	HSBC Custody Nominees (Australia) Limited – A/C 2	2,561,768	0.81%
14	RBC Investor Services Australia Nominees Pty Limited	2,000,000	0.63%
15	ABN AMRO Clearing Sydney Nominees Pty Ltd	1,536,849	0.49%
16	Stanbox Pty Limited	1,400,000	0.44%
17	Navigator Australia Ltd	1,295,522	0.41%
18	Citicorp Nominees Pty Limited	1,009,194	0.32%
19	Masfen Securities Limited	858,644	0.27%
20	Horrie Pty Ltd	700,000	0.22%
	Total	**272,373,872**	**86.13%**

Spread of securityholders as at 12 September 2012

Ordinary securities

Holding	Number of securities	% of issued capital	Number of securityholders	%
100,001 and Over	285,807,429	90.38	79	2.76
50,001 to 100,000	5,208,787	1.65	71	2.48
10,001 to 50,000	16,147,781	5.11	756	26.42
5,001 to 10,000	5,693,286	1.80	734	25.65
1,001 to 5,000	3,262,258	1.03	1,017	35.53
1 to 1,000	104,244	0.03	205	7.16
Total	316,223,785	100.00	2,862	100.00

As at 12 September 2012 there were 83 securityholders each holding less than a marketable parcel.

Voting rights

On a show of hands, securityholders of CIF ordinary securities have one vote each. On a poll, each securityholder is entitled to a number of votes proportionate to the size of its holding.

Additional information

The following disclosures are made in accordance with certain waivers to the listing rules of the Australian Securities Exchange (ASX) granted to the Responsible Entity at the time of the listing of CIF on the ASX.

Stapling

In accordance with the terms and conditions of waivers granted by the ASX in relation to the listing of CIF on the ASX, the Responsible Entity notes that the 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 the ASX in relation to the listing of CIF on the 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 Company 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 cooperate 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 the ASX in relation to the listing of CIF on the 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 advisers, 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 advisers 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 CIF constitutions as drafted as at the allotment date for the initial public offer.

Subject to conformity with a takeovers exemption discussed below, CMSL will take its fees either in cash or in the form of ordinary stapled securities, at the discretion of the Responsible Entity.

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.

Additional information (continued)

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

CMSL Management Agreement

As announced on 24 February 2012, CLIL and CMSL agreed to vary the terms of the Management Agreement so that CMSL is obliged to provide certain management services to CLIL, including in relation to the orderly wind-up of CIF. In return CMSL is entitled to a fixed supplementary management fee of A$5 million less any periodic management fees due to it from 4 June 2012 (Supplementary Management Fee).

The Supplementary Management Fee will become due and payable as follows:

- 75% of the Supplementary Management Fee will be payable on the date of the Initial Distribution[1]; and
- the balance of the Supplementary Management Fee will be payable on the date of the Final Distribution.

Once the Supplementary Management Fee is paid in full, the Management Agreement will terminate.

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 associates, 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

On 27 August 2012, Challenger Group Services UK Limited (CGS UK) provided notice to the Jersey Companies (comprising Challenger Towers Limited, Challenger Northern Gas Limited and Challenger Wales & the West Gas Limited) that it intended to terminate the UK Management Agreement. CGS UK further requested that the Jersey Companies waive the one month's notice period such that the UK Management Agreement terminated with immediate effect. The Jersey Companies agreed to waive the notice period and the UK Management Agreement terminated on 4 September 2012.

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.

Upon termination of the UK Management Agreement, all parties to the Fee Sharing Deed confirmed that they did not consider the termination of the UK Management Agreement to be a termination event under the Fee Sharing Agreement.

[1] This assumes that this distribution to Unitholders represents at least 75% of the net proceeds of both the LBC Sale and the Inexus Sale.

Directory

Challenger Infrastructure Fund (CIF)

Comprising:
CIF Investment Trust 1
ARSN 114 139 703
CIF Investment Trust 2
ARSN 114 139 632

Australian Securities Exchange (ASX) code

CIF

Responsible Entity

Challenger Listed Investments Limited
ABN 94 055 293 644
AFSL 236887

Directors of the Responsible Entity

M Cole (Chair)
IM Martens
GK McWilliam
IR Moore
B O'Connor
RJ Woods

Company Secretary

M Vardanega
S Koeppenkastrop

Manager

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