

Challenger Infrastructure Fund



Product Disclosure Statement (PDS)
15 July 2005

CIF Investment Trust 1
(ARSN 114 139 703)

CIF Investment Trust 2
(ARSN 114 139 632)

Issuer and Responsible Entity
Challenger Listed Investments Limited
(ABN 94 055 293 644)
(AFSL 236887)

Joint Lead Manager



Financial Advisor and Joint Lead Manager



Co-Managers

Citigroup Wealth Advisors Pty Limited

Commonwealth Securities Limited

Ord Minnett Limited

Important notice

Responsible Entity

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 has prepared and issued this Product Disclosure Statement ('PDS') and is the entity making the Offer under this PDS.

Important information

Investors should rely only on this PDS for information about this investment opportunity. No person is authorised to provide any information or to make any representation about the Offer that is not contained in this PDS.

Information in this PDS may change from time to time. Information regarding CIF that is not materially adverse may be updated by the Responsible Entity by placing such information on the following website at www.challenger.com.au/InfrastructureFund and/or at the website of any of the Participating Brokers, and if required by the Listing Rules, by providing it to the Australian Stock Exchange ('ASX'). A paper copy of this information is also available free of charge on request from the Responsible Entity.

Applications for Securities can only be submitted on an Application Form which is issued together with this PDS. Application Forms will only be issued with this PDS and may be obtained in paper form, on request, and/or electronically from the website of the Responsible Entity and/or any of the Participating Brokers.

If you have received this PDS electronically, a paper copy will be sent to you free of charge, on request. Please call the CIF InfoLine on 1800 114 027 (within Australia) to request a copy. This PDS can only be used by investors receiving it (electronically or otherwise) in Australia subject to applicable securities laws.

Offer restrictions

The Offer is only being made to persons in Australia. No action has been taken to register or otherwise permit a public offering of the Securities in any jurisdiction outside of Australia.

This PDS is not an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. The distribution of this PDS in countries other than Australia may be restricted by law and persons who come into possession of it who are not in Australia should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

Disclaimers

An investment in CIF is subject to investment risk and other risks, including possible loss of income and principal invested. None of the Responsible Entity, Challenger Financial Services Group 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. Investments in CIF are not investments, deposits or other liabilities of the Responsible Entity, Challenger or any other member of the Challenger Group.

Members of the Challenger Group may invest in, lend or provide other services to CIF and may be paid fees, including expenses in relation to the Offer and fees in relation to the management or the Responsible Entity performing its role. Investors should note the disclosure of Challenger's interest set out in sections 2, 7 and 8.

This PDS does not take into account the investment objectives, financial situation and particular needs of each potential investor. Accordingly, before you invest you should read this PDS and any supplementary PDS in full, especially the risk factors that could affect the financial performance of CIF as set out in section 11 of this PDS. Before making a decision to invest in CIF, you should consult a financial or other licensed professional adviser.

Any photographs in this PDS are not photographs of the assets of CIF, unless expressly stated otherwise. Diagrams appearing in this PDS are illustrative only and may not be drawn to scale.

Time and currency

Unless otherwise stated, all references to time in this PDS are to Australian Eastern Standard Time ('AEST') and all amounts are in Australian dollars.

Rounding

Some amounts in this document may not add up exactly due to rounding.

Regulatory information

This PDS is dated 15 July 2005.

A copy of this PDS will be provided to ASX. Within seven days of the date of this PDS, an application will be made to ASX to admit CIF to the official list of ASX. The fact that ASX may admit CIF to the official list of ASX is not to be taken in any way as an indication of the merits of CIF. A copy of this PDS was lodged with ASIC on 15 July 2005. ASX, the Australian Securities and Investments Commission ('ASIC') and their respective officers take no responsibility for the content of this PDS.

Exposure period

The exposure period for this PDS commenced on the day after this PDS was lodged with ASIC and will run for seven days, although it may be extended by up to a further seven days (up to a total of 14 days) by ASIC. CLIL is prohibited from issuing Securities during the exposure period. Applications received during the exposure period will not be processed until after expiry of this period.

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Offer summary and important dates

Offer summary

Offer Price per Class A Security	\$3.50
Amount of First Instalment payable on Application	\$1.75
Amount of Second Instalment	\$1.75
Number of Class A Securities available under the Offer	90.0 million
Total proceeds of the Offer	\$315.0 million
Estimated annualised cash return on First Instalment basis for the Forecast Period	9.25%
Estimated tax deferred percentage of Distributions on First Instalment basis for the Forecast Period	70.0%

Important dates

Opening Date (9.00am AEST)	25 July 2005
Closing Date (5.00pm AEST)	12 August 2005
Allotment Date	19 August 2005
Commencement of trading of Class A Securities on ASX (deferred settlement basis)	19 August 2005
Despatch of Holder statements (and refunds if required)	22 August 2005
Class A Securities expected to begin trading on normal settlement basis	23 August 2005
Second Instalment Payment Date	21 August 2006

The Responsible Entity may vary the above dates without prior notice. This may include closing the Offer early or accepting late Applications. Investors are encouraged to submit their Applications as early as possible. Payment of Second Instalment may be deferred by up to six months by the Responsible Entity on giving two months notice to Holders in writing.

Chairman's letter

15 July 2005

Dear Investor,

On behalf of the Directors, it is my pleasure to invite you to become an investor in the Challenger Infrastructure Fund ('CIF').

CIF represents an opportunity to invest in a fund specifically established to develop a diversified portfolio of global infrastructure assets. CIF may acquire whole assets or participate in investment consortia comprising leading players (strategic, financial and operational) in the global infrastructure market to acquire controlling or minority interests.

Leveraging from the Challenger Group, CIF will benefit from the skills and investment expertise of one of Australia's largest asset managers (over \$29 billion of assets and loans under management and administration at 31 March 2005) and from co-investment rights with Challenger Life.

Under this Offer, successful Applicants will receive Class A Securities. Challenger Life will subscribe for up to \$315.0 million, representing 50% of the issued equity of CIF in the form of Class B Securities (refer section 4.2).

Securities are being offered on a partly-paid basis, with \$1.75 per Security payable on Application and a further \$1.75 per Security payable on 21 August 2006, unless deferred by the Responsible Entity. The net proceeds raised by the First Instalment (including Challenger Life's subscription) will be fully committed on issue and used to acquire Seed Assets from Challenger Life, namely minority interests in:

- ntl Broadcast, one of the two major UK broadcast transmission and site leasing infrastructure operators and the UK's second largest independent wireless site leasing provider; and
- two regulated UK gas distribution networks ('DNs'), the North DN and the Wales & the West DN.

The Seed Assets are able to generate an attractive targeted return from stable cashflows underpinned by long-term contracts and transparent regulatory regimes.

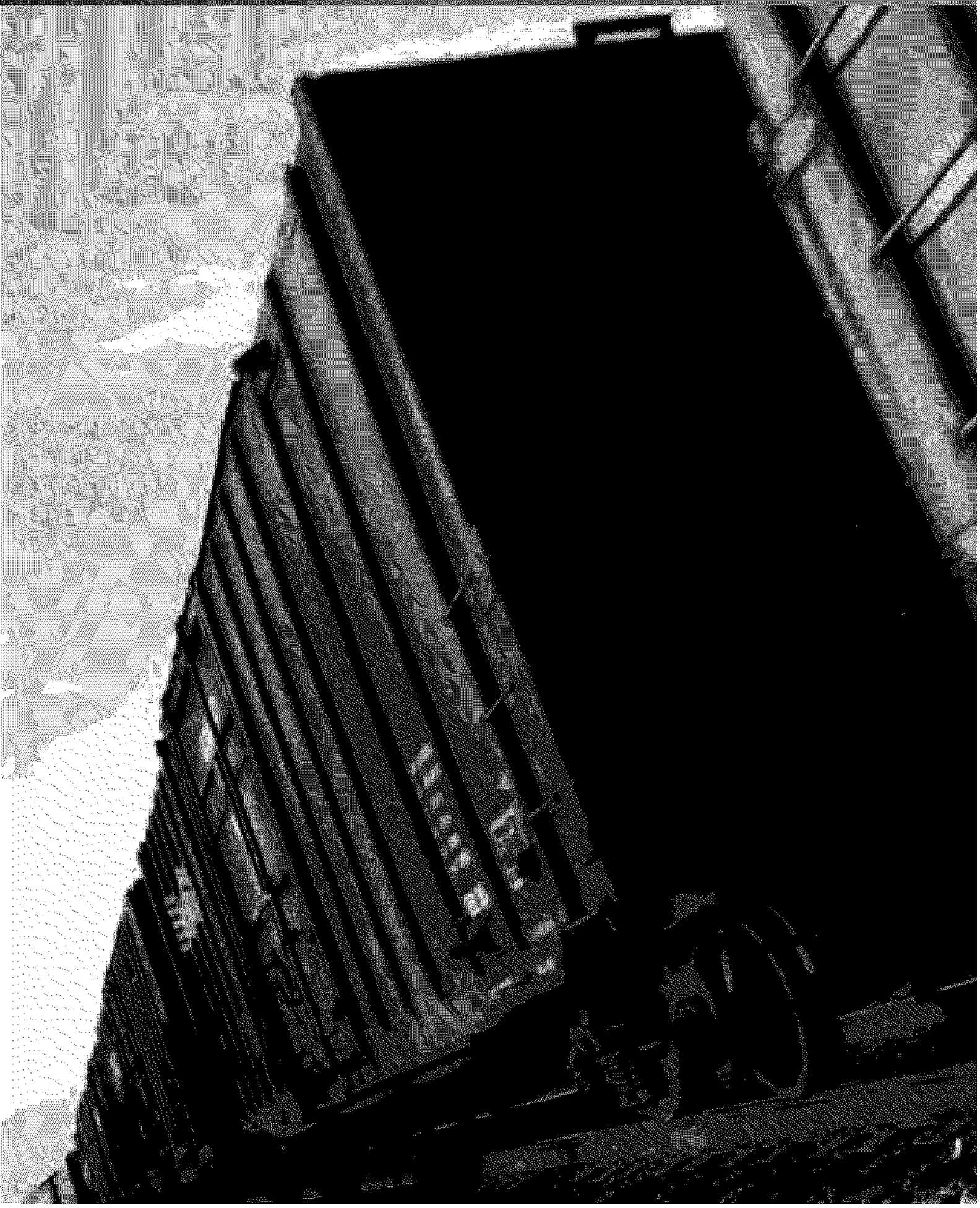
In an increasingly active market for global infrastructure assets, CIF continues to identify a robust pipeline of investment opportunities consistent with its investment criteria. Proceeds of the Second Instalment will be used to pursue such opportunities.

This PDS contains details of the Offer and CIF and provides an overview of the Seed Assets. You should read it carefully before deciding whether to invest in the Offer.

Yours sincerely,



Stephen Gerlach
Chairman
Challenger Listed Investments Limited



1 investment highlights



1. Investment highlights

This section provides a summary of the key investment highlights of CIF and the Seed Assets. Investors are urged to read this PDS in its entirety, including the risks outlined in section 11.

1.1 Attractive targeted return

CIF expects to pay an annualised cash return on the Securities of 9.25% for the Forecast Period. Refer to section 10.9 for further information about the assumptions on which the forecast is based and to section 11 for information about the risks of investing in CIF.

1.2 Tax deferred Distributions

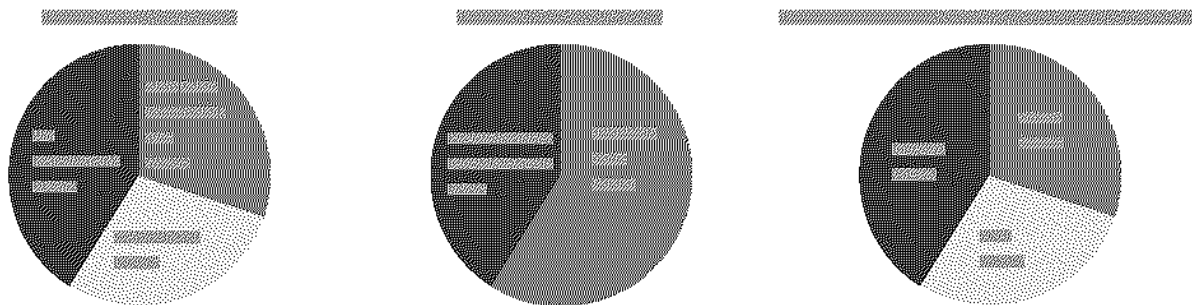
Distributions on the Class A Securities during the Forecast Period will be approximately 70% tax deferred. The tax deferred component will not be included in the assessable income of the Class A Holders, however, it will reduce the cost base of Class A Securities for capital gains tax purposes. For further information on the tax treatment of the Distributions refer to section 12.3.

1.3 Quality Seed Assets

The Seed Assets of CIF will comprise:

- a 6.3% interest in ntl Broadcast, a leading UK broadcast transmission and site leasing infrastructure operator and the UK's second largest independent wireless site leasing provider;
- a 5.8% interest in the North DN, a regulated UK gas distribution business; and
- a 8.6% interest in Wales & the West DN, a regulated UK gas distribution business.

The Seed Assets provide CIF with a diversified asset mix, as shown below:



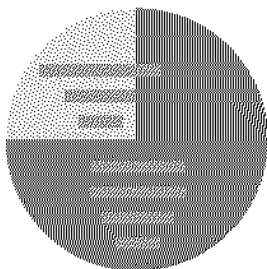
Note: Portfolio weightings based on asset value as per mid-point of Independent Valuation Report (section 12.2).



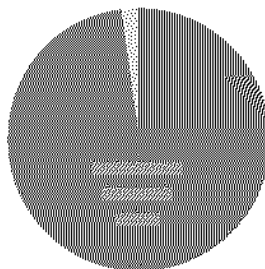
1.4 Seed Assets to deliver reliable cashflow

The DNs in the UK are regulated under a relatively transparent and stable regulatory pricing regime with the next pricing reset expected to occur in March 2008. ntl Broadcast's broadcast and wireless operating divisions have attractive revenue growth opportunities in addition to having a large proportion of cashflows in early years already secured by long-term contracts.

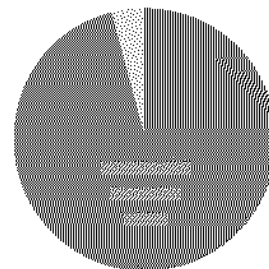
ntl Broadcast®



North DN®



Wales & the West DN®



The return expected to be generated by the Seed Assets is \$0.14 and \$0.16 per Security for the Forecast Period and the year ending 30 June 2007, respectively. Refer to section 10.9 for information about the assumptions on which the expected returns are based and to section 11 for information about the risks of investing in CIF.

CIF intends to pursue future investment opportunities with similar characteristics to the Seed Assets (refer to section 7.3 for investment criteria), which are expected to deliver predictable and reliable cashflows.

1. Investment highlights (continued)

1.5 Global investment opportunities

CIF's long-term strategy is to accumulate a diversified portfolio of global infrastructure and related assets without overexposure to any one investment, industry, region, investment partner or asset manager.

The Responsible Entity expects that CIF will enjoy a robust pipeline of investment opportunities via formal co-investment rights with Challenger Life. There are currently a number of global investment opportunities which CIF and Challenger Life are considering together. These opportunities are discussed in further detail in section 7.3.3.

The partly-paid Offer structure provides CIF with additional flexibility to pursue further investment opportunities as they arise.

1.6 Challenger commitment

Challenger Life has committed to subscribe for 50% of the issued equity of CIF and to enter into a Voluntary Escrow Agreement which restricts Challenger Life from selling or otherwise disposing of its holding in CIF before 1 January 2007 (see sections 7.2.4 and 13.5.9).

Along with other Holders, Challenger Life is required to contribute the Second Instalment on the Second Instalment Payment Date. Additionally, Challenger Life has made available to CIF a Working Capital Facility (see sections 10.8.2 and 13.5.5) and has entered into a Foreign Exchange Transaction with the CIF Sub Trusts in respect of the expected cashflows from the Seed Assets up to and including 31 July 2010 (see sections 7.7, 10.8.1 and 13.5.6). Challenger Life has also entered into a Co-investment Agreement with CIF (see sections 7.5 and 13.5.4).

Furthermore, the Manager and the Responsible Entity (which are both members of the Challenger Group) have agreed that they will be paid their share of management fees in the form of fully-paid Class A Securities for any fees payable prior to 30 June 2008 and in the form of fully-paid Ordinary Stapled Securities for any fees payable for the period ending 30 June 2008. For all subsequent fee periods, their share of management fees will be payable either in cash or in the form of fully-paid Ordinary Stapled Securities, at the discretion of the Responsible Entity. Class A Securities issued in lieu of management fees will also be subject to a Voluntary Escrow Agreement which restricts the Manager and Responsible Entity from selling or otherwise disposing of their holding in CIF before 1 January 2007 (see sections 7.2.4 and 13.5.9).

1.7 Experienced Board and management

As the Responsible Entity, the Manager and the UK Manager are all part of the Challenger Group, CIF will benefit from the skills and investment expertise of one of Australia's largest asset managers, with over \$29 billion of assets and loans under management and administration as at 31 March 2005. Challenger Life has a proven track record of infrastructure investment and of partnering with global leaders in infrastructure origination, investment and operational management.

Each of the Directors have significant investment experience. The Manager comprises a team of experienced investment professionals and includes Steven Bickerton who has been hired as Managing Director of CIF and Head of Infrastructure, Challenger Group. Mr Bickerton has over 15 years experience in the global infrastructure sector (see sections 9.1 and 9.2).

Key Seed Assets highlights

ntl Broadcast

Investment feature	Details
Strong and predictable cashflows	For the 18 months to 30 June 2006, approximately 75% of total forecast revenue has been contracted
Revenue growth opportunities	ntl Broadcast's wireless and broadcast operating divisions have attractive revenue growth prospects
Strong competitive position	ntl Broadcast is: • one of only two companies in the UK that provide broadcast transmission services to TV broadcasters; • the leading transmission services provider for commercial broadcasters; • one of the largest independent operators of wireless site leasing infrastructure; and • a market leader in the provision of managed wireless communication services to the public safety sector
Quality management team	ntl Broadcast benefits from experienced senior management who have established relationships with key participants across all segments of ntl Broadcast's target markets
Customer-driven capital expenditure requirements	The majority of ntl Broadcast's growth-related capital expenditure is committed only after related revenue contracts have been secured

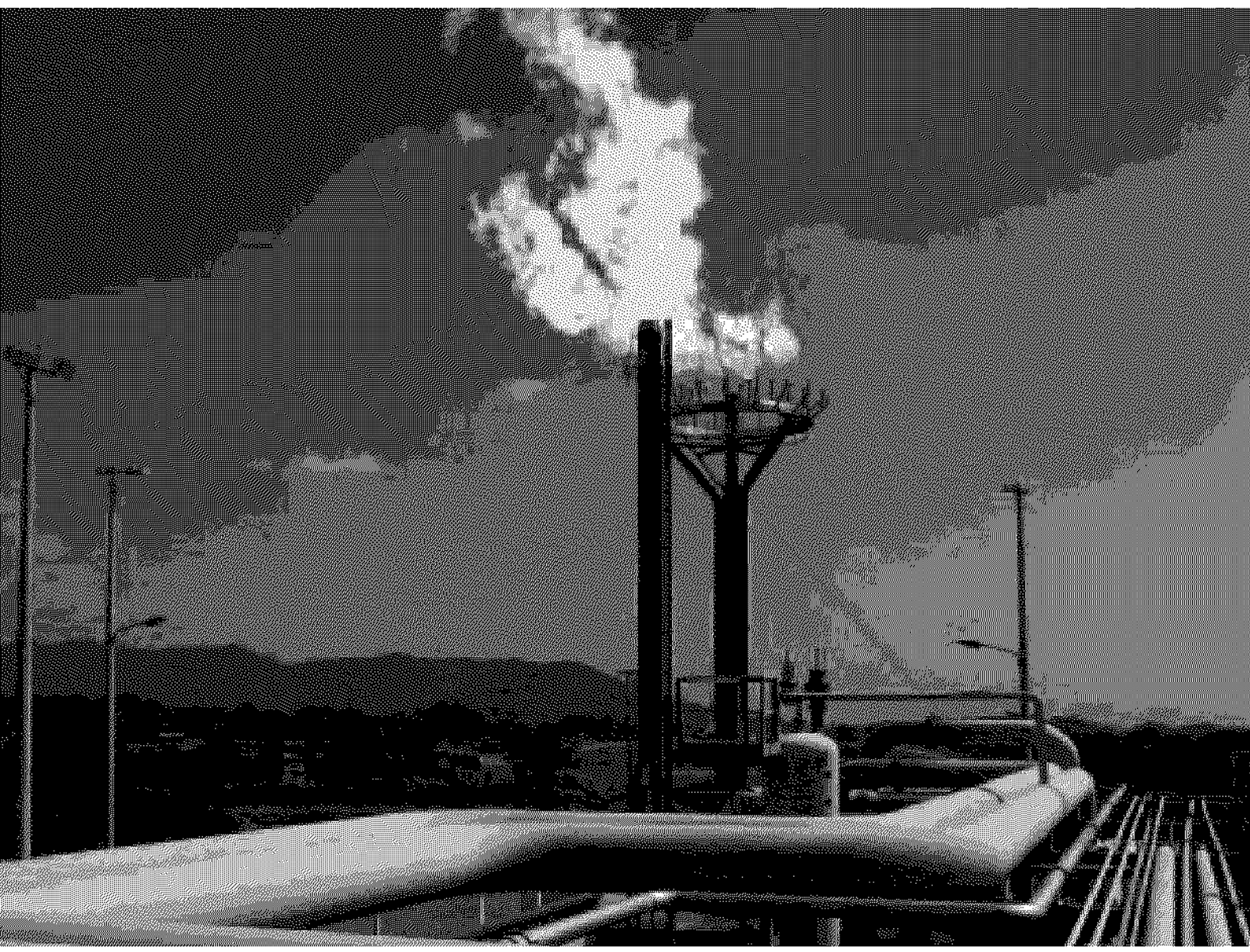


1. Investment highlights (continued)

Key Seed Assets highlights

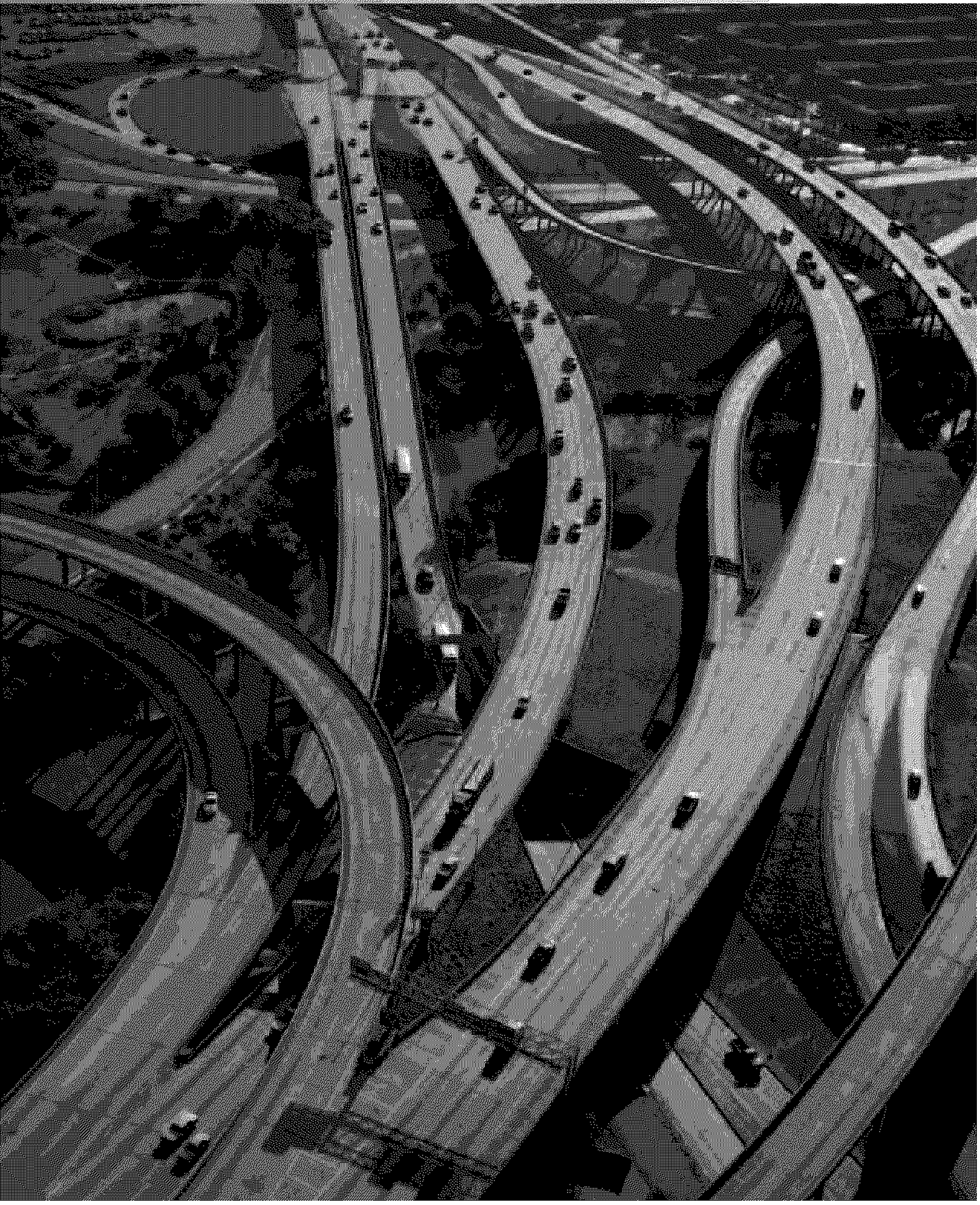
North DN and Wales & the West DN

Investment feature	Details
Essential infrastructure	Each of the DNs provides essential services and operates as a regional monopoly
Mature regulatory environment	The current regulatory regime has remained largely unchanged since the privatisation of the British gas industry in 1986, with the next pricing reset date expected to occur in March 2008
Strong demand base	Growth in gas demand (on a weather corrected basis) for each of the North DN and the Wales & the West DN over the ten years to 2002 was 34%, which was above the average growth rate of 27% for the whole of Britain
Robust demand growth	Gas demand is expected to grow, increasing by 17% in the ten year period from 2002 to 2012 for the North DN and 18% for the Wales & the West DN
Experienced management team	The network management teams of both the North DN and Wales & the West DN have significant knowledge of the gas transportation industry and extensive experience running networks in an efficient, safe and economic manner



2

summary of key information



2. Summary of key information

This section provides a summary of the key information with respect to CIF and the Seed Assets.

2.1 Overview of CIF

CIF has been established primarily to develop a diversified portfolio of global infrastructure and related assets. CIF may acquire whole assets or participate in investment consortia comprising leading industry players (strategic, financial and operational) to acquire controlling or minority interests.

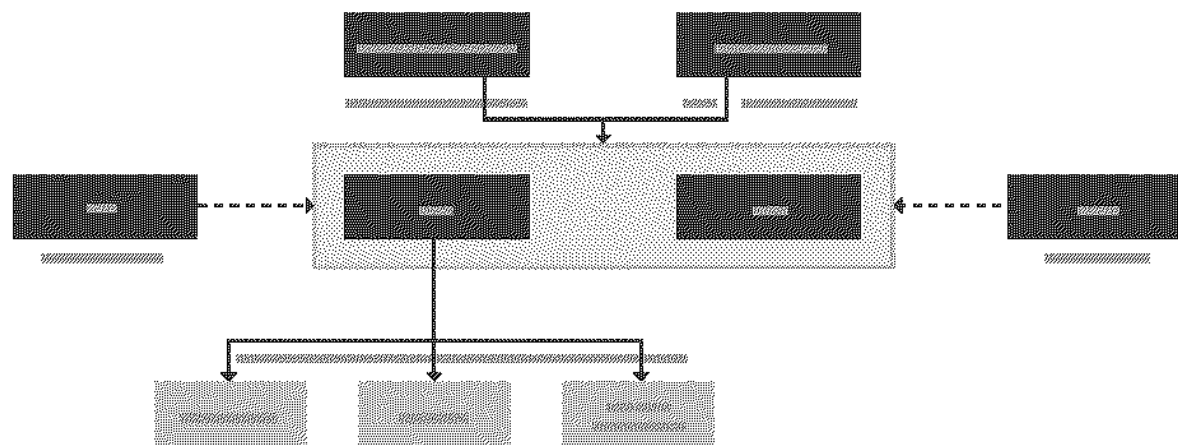
CIF has a broad mandate to invest in global infrastructure and related assets. A combination of the following investment criteria will be used to assess opportunities:

- regulated industry or near monopoly market position;
- strong cash generation and attractive targeted cash returns;
- long-term predictable cashflows;
- high barriers to entry;
- capital growth;
- first class management teams; and
- potential for board representation.

Supported by co-investment rights with Challenger Life, CIF aims to assemble a diversified portfolio of assets without significant bias towards any one infrastructure or utility sub-sector. The Manager is currently of the view that investment opportunities will continue to emerge outside of Australia.

Figure 2.1

CIF simplified structure after acquisition of Seed Assets¹



¹ Challenger Life, CLIL and CMSL are all wholly owned subsidiaries of Challenger. For more information see section 7.

2.2 CIF structure

CIF's current structure is summarised in figure 2.1.

CIF consists of two stapled managed investment schemes: CIF Investment Trust 1 ('CIF 1') and CIF Investment Trust 2 ('CIF 2'). The Responsible Entity for both CIF 1 and CIF 2 is CLIL and the Manager for both CIF 1 and CIF 2 is CMSL.

Each Security will consist of one unit in CIF 1 and one unit in CIF 2. Units are stapled together so that one cannot be transferred, or otherwise dealt with, without the other.

On the Allotment Date, CIF will issue two classes of Securities, Class A Securities and Class B Securities. Class A Securities, representing 50% of the total Securities to be issued, will be issued to successful Applicants under the Offer, whilst Challenger Life will subscribe for Class B Securities, representing the remaining 50%.

The Class A Securities and Class B Securities rank equally in all respects except that a greater proportion of the Distributions paid on the Class A Securities is expected to be tax deferred (see sections 10.6.3 and 12.3). This component of the Distributions on Class A Securities will not be included in the assessable income of the Class A Holders, however, it will reduce the cost base of Class A Securities for capital gains tax purposes (see section 12.3).

As of 1 January 2007, half of the Class B Securities issued to Challenger Life will become Class A Securities. As of 1 July 2008, both the Class A Securities and the remaining Class B Securities will become Ordinary Stapled Securities. This is not expected to give rise to a tax liability for Holders.

For further details on the taxation consequences arising from an investment in CIF, see the Taxation Report in section 12.3.

2.3 Seed Assets

Challenger Life has secured investments in three strategic infrastructure assets that will form the Seed Assets of CIF. The Seed Assets display a combination of the key investment characteristics described in section 7.3. CIF will purchase the Seed Assets from Challenger Life with the net proceeds of the First Instalment.

2.3.1 ntl Broadcast

On 1 December 2004, Challenger Life participated in a consortium arranged by Macquarie Bank which agreed to acquire a 100% interest in ntl Broadcast from ntl, Inc for £1.27 billion. ntl Broadcast is one of the leading national broadcast transmission and site leasing infrastructure operators in the UK and is the UK's second largest independent wireless site leasing provider. ntl Broadcast has access to approximately 2,000 revenue generating sites in the UK providing coverage to approximately 98.5% of the population.

The acquisition of ntl Broadcast was completed on 31 January 2005. Challenger Life's 6.3% interest in ntl Broadcast entitles it to share a board seat with a fellow consortium investor.

The acquisition price of £1.27 billion, which excludes transaction costs, was funded by £545 million of equity and £725 million of debt representing a gearing level of 57%.

2.3.2 The North DN

On 31 August 2004, Cheung Kong Infrastructure Holdings Limited ('CKI') led a consortium of investors, including United Utilities plc, which agreed to acquire 100% of the North DN from National Grid Transco plc ('NGT') for £1.39 billion.

The North DN is a regulated gas distribution business located in the North of England that transports gas on behalf of shippers. The North DN is responsible for owning, maintaining and extending the network of pipes and associated infrastructure required to distribute gas within its geographic area. Key features of the business include:

- approximately 36,000 km of gas distribution mains;
- catchment area with a population of approximately 6.7 million; and
- total headcount of approximately 1,100 employees.

The acquisition of the North DN was settled on 1 June 2005. Challenger Life's 5.8% interest in the North DN entitles it to share a board seat with a fellow consortium investor.

The acquisition price of £1.39 billion, which excludes transaction costs, was funded by £526 million of equity and £868 million of debt representing a gearing level of 62%.

2.3.3 Wales & the West DN

On 31 August 2004, Challenger Life participated in a consortium led by the Macquarie European Infrastructure Fund ('MEIF') which agreed to acquire 100% of the Wales & the West DN from NGT for £1.23 billion.

Wales & the West DN is a regulated gas distribution business located in Wales and the South West of England that transports gas on behalf of shippers. Wales & the West DN is responsible for owning, maintaining and extending the network of pipes and associated infrastructure required to distribute gas within its geographic area. Key features of the business include:

- approximately 34,000 km of gas distribution mains;
- catchment area with a population of 7.4 million; and
- total headcount of approximately 1,100 full time employees and over 500 contractors.

The acquisition of the Wales & the West DN was settled on 1 June 2005. Challenger Life's 8.6% interest in the Wales & the West DN entitles it to share a board seat with a fellow consortium investor.

The acquisition price of £1.23 billion, which excludes transaction costs, was funded by £323 million of equity and £904 million of debt representing a gearing level of 74%.

2.3.4 Additional Seed Asset payments

CIF may be invited to increase the value of its investment in the Seed Assets via rights issues or other capital raisings from time to time. Where CIF elects to participate, it may borrow from a related or third party to fund that participation.

2. Summary of key information (continued)

2.4 Summary financial information

2.4.1 Forecasts for CIF

Figure 2.2 is a summary of CIF's pro forma forecast financial information for the Forecast Period. The information in this section is a summary only. It is not certain that forecast Distributions will be achieved. Many factors which affect results may be outside the Responsible Entity's control and may not be capable of being foreseen or accurately predicted. See section 10.1 for further information on the basis of preparation of the forecast and sections 10.9 and 10.10 for further information about the assumptions on which the forecasts are based and the sensitivity of those forecasts to actual outcomes that differ from assumed outcomes. See also section 11 for discussion of the risks associated with an investment in CIF.

Figure 2.2

Financial summary

All amounts in \$ millions, unless otherwise stated	Allotment Date to 30 June 2006
Investment revenue	20.4
Management fees ¹	2.7
Profit before tax	17.6
Distributable Income	25.1
Forecast Distribution per Class A Security	
• Taxable (\$)	0.04
• Tax deferred ² (\$)	0.10
Total Distributions per Class A Security ³ (\$)	0.14
Average tax deferred percentage on Class A Securities ²	70.0%
Annualised cash Distribution return	9.25%

1 Management fees are exclusive of GST.

2 See the Taxation Report in section 12.3 for more detail on tax deferred Distributions.

3 Note that total cash Distributions for Class A Securities will be equal to those on Class B Securities.

As of 1 July 2008, Class A Securities and Class B Securities will become Ordinary Stapled Securities and will rank equally in all respects. One consequence of this will be that the tax deferred component of Distributions will be reduced. In addition, CIF's capacity to pay tax deferred Distributions will depend on the nature and form of future investments. No attempt has been made to forecast the tax deferred component beyond the Forecast Period as there is no reasonable basis on which to do so.

2.4.2 Expected return on Seed Assets

Figure 2.3 shows the expected return per Class A Security generated by the Seed Assets up to 30 June 2007. It does not represent a forecast for CIF. The actual return from CIF beyond 30 June 2006 will also depend on the timing of the Second Instalment payment and how proceeds from the Second Instalment are invested.

Figure 2.3

Expected return on Seed Assets on First Instalment basis

	Period from Allotment Date to 30 June 2006	12 month period ending 30 June 2007
Expected return per Class A Security on First Instalment basis		
• Taxable	\$0.04	\$0.05
• Tax deferred	\$0.10	\$0.11
Total expected return on Seed Assets per Class A Security	\$0.14	\$0.16
Average percent tax deferred on Class A Securities	70.0%	70.0%

2.4.3 Distribution policy

The Responsible Entity intends to distribute to Holders all Distributable Income for each financial year. Distributions will be made twice yearly, for the six month periods ending 31 December and 30 June each year.

CIF will pay Distributions to Holders within 90 days of the end of each six month period.

A Distribution Reinvestment Plan ('DRP') has been established. It is currently intended that the DRP will first be operational for Distributions payable for the half-year ended 30 June 2006. However, the Responsible Entity reserves the right to suspend the commencement of the DRP in its absolute discretion.

2.4.4 Currency hedging

The CIF Sub Trusts have entered into a Foreign Exchange Transaction with Challenger Life whereby 100% of the expected cashflows from the Seed Assets up to and including 31 July 2010 will be exchanged into Australian dollars. CIF does not specifically intend to hedge its capital investment in offshore assets. Further hedging will be in accordance with the currency hedging policy (see sections 7.7, 10.8.1 and 13.5.6 for further details).

2.5 Relationship with Challenger and Challenger Life

Challenger Financial Services Group Limited is an S&P/ASX 100 company with a market capitalisation of approximately \$1.7 billion on 30 June 2005. At 31 March 2005, Challenger had over \$29 billion of assets and loans under management and administration, including infrastructure, property, listed investments and mortgages.

Challenger Life, a wholly owned subsidiary of Challenger, is a leading provider of annuities in the Australian market. At 31 March 2005, Challenger Life had gross assets in excess of \$3.7 billion supporting its annuity portfolio.

Following completion of the Offer, Challenger Life will own 50% of CIF through Class B Securities. Challenger Life will enter into a Voluntary Escrow Agreement with CIF under which Challenger Life has agreed not to transfer or dispose of any of the Securities it holds before 1 January 2007. See sections 7.2.4 and 13.5.9 for further details.

Challenger Life and CIF have entered into a Co-investment Agreement to govern future investment activities. Under this agreement, if Challenger Life proposes to invest in any entity or asset that fits within CIF's investment mandate, unless prohibited under the terms of the investment or

applicable law, Challenger Life must offer CIF the opportunity to co-invest in at least 30% of the total investment opportunity available to Challenger Life (see sections 7.5 and 13.5.4).

Challenger Life has also made available to CIF a Working Capital Facility (see sections 10.8.2 and 13.5.5) and a Foreign Exchange Transaction to each of the CIF Sub Trusts in respect of the expected cashflows from the Seed Assets (see sections 7.7, 10.8.1 and 13.5.6).

2.6 CIF management arrangements

The Responsible Entity of CIF will be CLIL, a wholly owned subsidiary of Challenger. The Responsible Entity is also the responsible entity for the Challenger Wine Trust, which is also listed on ASX.

The Manager of CIF will be CMSL and the manager of the Jersey Companies (which are wholly owned by CIF and which will hold the interest in the Seed Assets) will be CGS UK ('UK Manager'). CMSL and CGS UK are both wholly owned subsidiaries of Challenger. In addition to management services, CMSL may also separately provide origination and advisory services (see sections 2.7, 2.8 and 13.5.3).

2.7 CIF management fees

2.7.1 Total management fees

The total fees payable for the management services provided to CIF and its subsidiaries are to be shared by the Responsible Entity, the Manager and the UK Manager in accordance with the Fee Sharing Agreement as set out below:

Base Fee

The Base Fee will be equal to 1.00% per annum of the Adjusted Equity Value of CIF (exclusive of GST), calculated at the end of each half-year period ending 31 December and 30 June. Adjusted Equity Value for any period is equal to the Equity Value of CIF (including Class A and Class B Securities) less Uncommitted Cash balances at the end of the period. See sections 8.3 and 8.4 for further details including examples showing how the Base Fee is to be calculated.

Performance Fee

In addition to the Base Fee, a Performance Fee is payable equal to 20% of CIF's outperformance of the benchmark S&P/ASX 200 Industrial Accumulation Index. See sections 8.3 and 8.4 for further details, including examples showing how the Performance Fee is to be calculated.

2. Summary of key information (continued)

2.7.2 Fee sharing

Under the Fee Sharing Agreement, each of the Responsible Entity, the Manager and the UK Manager have agreed to share the management fees, comprising the Base Fee, the Performance Fee (if any) and the CGS UK fee, as follows:

- a) CLIL, as Responsible Entity of CIF, will receive 5% of the Base Fee and the Performance Fee;
- b) CMSL, as Manager of CIF, will receive 95% of the Base Fee and the Performance Fee less any fees paid to CGS UK; and
- c) CGS UK, as UK Manager of the Jersey Companies, will receive a fee of £15,000 per annum.

If CLIL is replaced as Responsible Entity of CIF by an entity not controlled by Challenger, then CMSL and CGS UK between them will be entitled to 100% of the management fees.

See sections 8.3, 8.4 and 13.5.3 for further details.

2.7.3 Form of payment of management fees

The Manager and the Responsible Entity have agreed that they will be paid their share of management fees in the form of fully-paid Class A Securities for any fees payable prior to 30 June 2008 and in the form of fully-paid Ordinary Stapled Securities for any fees payable for the period ending 30 June 2008. They have also agreed to defer receipt of any Class A Securities until after the Second Instalment Payment Date so that the Securities issued to them will be credited as fully-paid. The Manager and the Responsible Entity will be compensated for such deferral (see sections 8.3.1 and 13.5.3). For all subsequent fee periods, their share of management fees will be payable either in cash or in the form of fully-paid Ordinary Stapled Securities, at the discretion of the Responsible Entity (subject to any relevant legal requirements). Class A Securities issued in lieu of management fees are subject to a Voluntary Escrow Agreement. For more information see sections 7.2.4 and 13.5.9.

The UK Manager will receive its fee in cash.

2.8 Advisory fees

The Responsible Entity has engaged CMSL to act as manager for CIF. It may separately engage CMSL or another advisor to provide advice in relation to identification or implementation of new investment opportunities or divestments. These advisory services are separate from the management arrangements referred to in section 2.7. The fees payable by CIF to CMSL or other advisors will be determined on an arms length basis at the relevant time.

See section 8.3.2 for further details.

2.9 Taxation

Applicants should read the Taxation Report in section 12.3 for a guide on the taxation treatment of Distributions on, and disposal of, the Class A Securities. That section explains:

- the extent to which Distributions need to be included in assessable income;
- how the tax deferred component of Distributions affects the capital gains tax cost base of Holders with respect to their interest in CIF; and
- the likely tax consequences arising upon Class A Securities being renamed Ordinary Stapled Securities from 1 July 2008.

The tax consequences arising from an investment in Class A Securities will ultimately depend upon the investor's particular circumstances and the material included in the Taxation Report is only intended as a guide.

It is the responsibility of investors to make their own enquiries concerning the taxation consequences of an investment in CIF. If investors are in doubt as to the financial or other consequences of an investment in CIF, they should consult their financial or other licensed professional advisor before investing.

2.10 Investment risks

As with any investment in the stock market, an investment in CIF as described in this PDS is subject to a number of risks, both general and specific. A number of key risks are described in section 11.

Before investing in CIF, investors should consider these risk factors carefully and read this PDS in its entirety. Before making a decision to invest in CIF, you should consult a financial or other licenced professional advisor.

2.11 Questions/further information

For enquiries about this PDS, including how to complete the Application Form or how to obtain additional copies, Applicants can contact the CIF InfoLine on 1800 114 027, or visit www.challenger.com.au/InfrastructureFund to download an electronic copy of this PDS. The CIF InfoLine will be open Monday to Friday from 8.30am until 5.30pm (AEST) from the date this PDS is lodged with ASIC until 23 August 2005.

Broker Firm Applicants should direct any questions about their Application or Allotment to their respective Participating Broker.

3

key questions and answers



3. Key questions and answers

The purpose of this section is to provide answers to key questions in relation to CIF, the Offer and Class A Securities.

Topic	Summary	Where to find more information – section(s)
What is CIF?	CIF is a fund specifically established to develop a diversified portfolio of global infrastructure assets.	See sections 2.1, 2.2, 7.1 and 7.2
Who is the Issuer?	Challenger Listed Investments Limited as Responsible Entity of CIF.	See sections 2.6 and 8.1
Who is the Manager?	Challenger Management Services Limited.	See sections 2.6 and 8.2
Who is the UK Manager?	Challenger Group Services UK Limited.	See sections 2.6 and 8.2
Who are the Joint Lead Managers and Underwriters	Citigroup Global Markets Australia Pty Limited and J.P. Morgan Australia Limited.	See section 13.5.8
What is being issued under this PDS?	Class A Securities. The Responsible Entity intends to apply for the admission of CIF to the official list of ASX and for the quotation on ASX of Class A Securities.	See sections 2.2, 4.6 and 7.2.3
What is the Offer Price?	\$3.50 per Security, payable in two equal instalments.	See sections 4.2 and 4.4
What is the First Instalment amount?	\$1.75 per Security.	See sections 4.2 and 4.4
What is the Second Instalment amount?	\$1.75 per Security.	See sections 4.2 and 4.5
When is payment of the Second Instalment due?	21 August 2006, unless deferred (for a period of up to six months) at the Responsible Entity's discretion.	See sections 4.2, 4.4 and 4.5
What happens if I do not pay the Second Instalment when it becomes due?	If you do not pay the Second Instalment on the partly-paid Class A Securities when it becomes due, you will be liable for interest, costs and any losses suffered by CIF as a result of your default. Partly-paid Securities that are not paid-up may be forfeited and sold to offset any loss suffered by CIF as a result of your default.	See section 4.5
What is the forecast cash return on the Class A Securities on a First Instalment basis?	CIF forecasts an annualised cash return of 9.25% for the Forecast Period.	See section 10.6
When will Class B Securities become Class A Securities?	As of 1 January 2007, half of the Class B Securities issued to Challenger Life will become Class A Securities.	See section 7.2.3
When will Class A Securities and Class B Securities become Ordinary Stapled Securities?	As of 1 July 2008, both the Class A Securities and any remaining Class B Securities will become Ordinary Stapled Securities.	See section 7.2.3

Topic	Summary	Where to find more information – section(s)
How does CIF intend to use the proceeds of the Second Instalment?	The Manager has identified several potential investment opportunities which fit CIF's investment criteria. Suitable investment opportunities will continue to be assessed with the view of investing the proceeds of the Second Instalment. However, if CIF cannot find suitable investments it may return the Second Instalment to Holders via a return of capital.	See section 7.3
What are the significant risks of investing in Class A Securities?	Distributions are not guaranteed. Macroeconomic and fund-specific factors may adversely affect Distributions. The financial performance of CIF will also be affected by performance of CIF's investments, including the Seed Assets.	See section 11
What are CIF's costs?	A Base Fee of 1.00% per annum of Adjusted Equity Value of CIF (exclusive of GST) is payable for management services. A Performance Fee is also payable for management services if CIF's return exceeds the performance of the benchmark S&P/ASX 200 Industrial Accumulation Index. The Responsible Entity and the Manager have agreed that they will be paid their share of management fees in the form of fully-paid Class A Securities for any fees payable prior to 30 June 2008 and in the form of fully-paid Ordinary Stapled Securities for any fees payable for the period ending 30 June 2008. They have also agreed to defer receipt of any Class A Securities until after the Second Instalment Payment Date so that the Securities issued to them will be credited as fully-paid. For all subsequent fee periods, their share of management fees will be payable either in cash or in the form of fully-paid Ordinary Stapled Securities, at the discretion of the Responsible Entity. A fee of £15,000 per annum is payable to the UK Manager in relation to management services provided to the Jersey Companies. A fee (determined on an arms length basis at the relevant time) will be payable to any advisor engaged by the Responsible Entity to identify and implement any potential investment opportunities. The fees and costs of the Offer (including selling fees and professional services in connection with the Offer) are estimated to total \$12.0 million (inclusive of GST) and will be paid directly by CIF.	See sections 8.3 and 8.4

3. Key questions and answers (continued)

Topic	Summary	Where to find more information – section(s)
Is there a DRP?	A DRP has been established. It is currently intended that the DRP will be operational for Distributions payable for the half-year ending 30 June 2006. However, the Responsible Entity reserves the right to suspend the commencement of the DRP in its absolute discretion.	See sections 7.6 and 13.6
What are the tax implications of investing in Class A Securities?	Refer to the Taxation Report.	See section 12.3
Is there a cooling-off period?	There is no cooling-off right for potential investors in CIF.	See section 4.4.9
What is CIF's currency hedging policy?	The CIF Sub Trusts have entered into a Foreign Exchange Transaction for 100% of the expected cashflows from the Seed Assets up to and including 31 July 2010. CIF does not specifically intend to hedge its capital investment in offshore assets. Further hedging will be in accordance with the currency hedging policy.	See sections 7.7, 10.8.1 and 13.5.6
What is the dispute resolution procedure to deal with Holder complaints?	Complaints can be made to the Responsible Entity. If Holders are dissatisfied with the Responsible Entity's response, they can contact the Financial Industry Complaints Service, an external complaints resolution body.	See section 13.11
What information will be published by CIF?	After CIF is listed, the Responsible Entity will publish the following information from time to time: • an annual report; • a half-yearly update; • Distribution advice statements; • an annual tax statement; and • continuous disclosure notices.	See section 13.10
How can I obtain further information?	By speaking with your financial or other licensed professional advisor. If you require assistance or require additional copies of this PDS, you should contact the CIF InfoLine on 1800 114 027 between 8.30am and 5.30pm (AEST), Monday to Friday. The CIF InfoLine will be open until 23 August 2005.	See sections 2.11 and 4.12

4 details of the offer



4. Details of the Offer

This section provides details of the Offer and its different components, and explains how and when to apply for Class A Securities.

4.1 Offer timetable

Key Offer dates

Opening Date (9.00am AEST)	25 July 2005
Closing Date (5.00pm AEST)	12 August 2005
Allotment Date	19 August 2005
Commencement of trading of Class A Securities on ASX (deferred settlement basis)	19 August 2005
Despatch of Holder statements (and refunds if required)	22 August 2005
Class A Securities expected to begin trading on normal settlement basis	23 August 2005
Second Instalment Payment Date	21 August 2006

The Responsible Entity may vary the above dates without prior notice. This may include closing the Offer early or accepting late Applications. Investors are encouraged to submit their Applications as early as possible. Payment of the Second Instalment may be deferred by up to six months by the Responsible Entity on giving Holders at least two months notice in writing.

4.2 Offer summary

The Offer is for 90.0 million Class A Securities to be issued by the Responsible Entity at an Offer Price of \$3.50 per Class A Security.

The Offer Price of \$3.50 per Class A Security is payable in two equal instalments as follows:

- First Instalment of \$1.75 per Class A Security payable on Application; and
- Second Instalment of \$1.75 per Class A Security payable on the Second Instalment Payment Date.

The Second Instalment Payment Date may be deferred by up to six months at the Responsible Entity's discretion by giving Holders written notice at least two months prior to the scheduled date for payment.

Separately, Challenger Life will subscribe for up to 90.0 million Class B Securities at a price of \$3.50 per Class B Security payable in two equal instalments on the same dates as Class A Holders.

The Class A Securities and Class B Securities rank equally in all respects except that a greater proportion of the Distributions paid on the Class A Securities is expected to be tax deferred (see section 10.6.3).

This component of the Distributions on Class A Securities will not be included in the assessable income of the Class A Holders, but will reduce the cost base of Class A Securities for capital gains tax purposes.

Refer to the Taxation Report in section 12.3 for further information.

As of 1 January 2007, half of the Class B Securities issued to Challenger Life will become Class A Securities. As of 1 July 2008, both the Class A Securities and the remaining Class B Securities will become Ordinary Stapled Securities. This is not expected to give rise to a tax liability for Holders.

4.3 Proceeds of the Offer and Challenger subscription

The net proceeds of the First Instalment will be used by CIF to acquire three Seed Assets from Challenger Life, namely interests in ntl Broadcast, the North DN, and the Wales & the West DN. These acquisitions by CIF are expected to occur on or around the Allotment Date.

The sources and applications of funds raised under the Offer and Challenger's subscription for Class B Securities are outlined below:

Figure 4.1
Proceeds of the Offer and Challenger Life subscription

	Amount (\$ million)
First Instalment	
Proceeds of the First Instalment on Class A Securities	157.5
Proceeds of the First Instalment on Class B Securities	157.5
Estimated Offer costs ¹	12.0
Net proceeds of the First Instalment	303.0
Second Instalment	
Proceeds of the Second Instalment on Class A Securities	157.5
Proceeds of the Second Instalment on Class B Securities	157.5
Net proceeds of the Second Instalment	315.0
Net proceeds of the Offer and Challenger Life subscription (First and Second Instalments)	617.9

¹ Offer expenses include legal, accounting and other professional fees (including Offer management, underwriting, printing and distribution costs), inclusive of GST. Refer to section 13 for details of Offer expenses.

Figure 4.2
Sources and applications of funds

	Amount (\$ million)
Sources	
New investor subscription for Class A Securities under the Offer ¹	315.0
Challenger Life subscription for Class B Securities ¹	315.0
Total sources	629.9
Applications	
Cash and receivables acquired	3.9
Acquisition of a 6.3% interest in ntl Broadcast	122.1
Acquisition of a 5.8% interest in the North DN	86.6
Acquisition of a 8.6% interest in the Wales & the West DN	90.4
Capital for further investments	315.0
Offer expenses	12.0
Total applications	629.9

¹ Includes both First Instalment and Second Instalment.

4. Details of the Offer (continued)

4.4 The Offer

4.4.1 Offer Price

The Offer Price per Class A Security is \$3.50, payable in two equal instalments. The First Instalment is payable on Application and the Second Instalment is due on 21 August 2006, unless deferred by up to a period of six months by the Responsible Entity (see section 4.5).

4.4.2 How to apply for Class A Securities under the Offer

To invest in CIF, please complete the Application Form accompanying this PDS. Return your completed Application Form and Application Monies, by mail or in person, to one of the addresses set out in section 4.4.5. Follow the instructions in this section and on the Application Form carefully as your Application may be rejected if you complete it incorrectly.

4.4.3 Minimum investment

The minimum number of Class A Securities you may apply for under the Offer is 1,500 Class A Securities, representing Application Monies of \$2,625 in respect of the First Instalment, and in multiples of 500 Class A Securities thereafter. The Responsible Entity, at its discretion, may waive the minimum Application requirements.

4.4.4 Application Monies

Applications other than Broker Firm Applications must be accompanied by a cheque in Australian currency drawn on an Australian branch of an Australian bank. Cheques should be crossed 'not negotiable' and made payable to 'CLIL as RE of the Challenger Infrastructure Fund'.

4.4.5 Where and when to send your Application Form

Completed Application Forms and Application Monies can be mailed to the Registry or delivered in person. The following addresses should be used for mailing and hand delivery of Applications:

Mailing address

Challenger Infrastructure Fund Offer
C/- ASX Perpetual Registrars Limited
Locked Bag A14
SYDNEY SOUTH NSW 1235

Hand delivery address

Challenger Infrastructure Fund Offer
C/- ASX Perpetual Registrars Limited
Level 8, 580 George Street
SYDNEY NSW 2000

As the mailing address is different to the delivery address, care must be taken as Applications mailed to the delivery address may not be accepted.

All Applications, whether delivered in person or mailed, must be received by the Registry no later than 5.00pm AEST on 12 August 2005, unless that date or time is varied by the Responsible Entity.

The Responsible Entity may, in its discretion and without prior notice, close the Offer at an earlier date, extend the Offer, vary the dates and times of the Offer, or accept late Applications.

4.4.6 Broker Firm Offer

A Broker Firm Offer is available to retail clients of the Participating Brokers who are offered a firm allocation of Class A Securities.

Unless otherwise instructed by their Participating Broker, Applicants under the Broker Firm Offer should either:

- make direct payment and also return their completed Application Forms to their Participating Broker; or
- make direct payment and submit an electronic application for Securities in accordance with the instructions of their Participating Broker.

4.4.7 Allocation of Class A Securities

The Responsible Entity reserves the right in its absolute discretion to allocate less than the full number of Class A Securities applied for in any Application, or to decline any Application, and to refund the portion of Application Monies for Class A Securities that were not allotted (without payment of interest).

It is expected that Securities will be allotted on the Allotment Date, 19 August 2005.

4.4.8 Interest on Application Monies

Pending the issue of Class A Securities, Application Monies will be held in a trust account. Any interest earned on this account will form part of the Distributable Income of CIF.

4.4.9 Cooling-off

There is no cooling-off period for an investment in Class A Securities.

4.5 Payment of Second Instalment

The amount of the Second Instalment is \$1.75 per Class A Security. Holders who are registered as Holders of the Class A Securities on the Second Instalment Record Date will be required to pay the Second Instalment by the Second Instalment Payment Date. The Second Instalment Payment Date is 21 August 2006. The Responsible Entity may not bring the Second Instalment Payment Date forward to an earlier date, but may defer it by up to six months by giving Holders at least two months notice in writing. The Responsible Entity will not increase the amount of the Second Instalment. The Responsible Entity will not accept payment of the Second Instalment until it is called.

If a suitable investment cannot be found subsequent to the payment of the Second Instalment, the Responsible Entity, in its absolute discretion, may choose to return all or part of the proceeds of the Second Instalment to Holders by way of a return of capital.

If Holders do not pay the Second Instalment by the Second Instalment Payment Date, the Responsible Entity may take action to recover the amounts owing. While amounts are outstanding, voting and Distribution rights may be suspended. The Responsible Entity may also sell the Class A Securities of Holders who have not paid the Second Instalment, in which case those Holders will be personally liable for any shortfall after the amount outstanding plus interest (calculated from the Second Instalment Payment Date) and the costs and expenses of sale are deducted from the sale proceeds.

4.6 ASX listing and deferred settlement trading

The Responsible Entity will apply for the Class A Securities to initially be quoted on ASX on a deferred settlement basis commencing 19 August 2005.

Trading will be on a deferred settlement basis until the Responsible Entity has advised ASX that initial transaction confirmation statements have been despatched to Holders. Normal trading on ASX is expected to commence on or about 23 August 2005.

From 8.30am on the date on which trading on a deferred settlement basis commences (expected to be 19 August 2005), Applicants will be able to call the CIF InfoLine on 1800 114 027 to find out details of their Allocation. Applicants under the Broker Firm Offer will also be able to confirm their Allocation through their Participating Broker.

4.7 CHESS and holding statements

The Responsible Entity will participate in CHESS and will maintain an electronic issuer-sponsored sub-register and an electronic CHESS sub-register.

Following the issue of Class A Securities to successful Applicants, holding statements are expected to be despatched on or about 22 August 2005. The initial holding statement will set out the number of Class A Securities allocated and will provide details of a Holder Identification Number ('HIN') or where applicable, the Securityholder Reference Number ('SRN') for issuer-sponsored holders.

No unit certificates will be issued.

4.8 Withdrawal of the Offer

The Responsible Entity may withdraw this PDS and the Offer at any time before the issue of Class A Securities to successful Applicants. If the Offer does not proceed, Application Monies will be refunded (without interest) within 21 days of withdrawal of the Offer. Any interest earned will be retained as an asset of CIF.

4.9 Brokerage, commission and stamp duty

No brokerage, commission or stamp duty is payable by Applicants on acquisition of Class A Securities under the Offer.

4.10 Foreign selling restrictions

No action has been taken to permit a public offering of the Class A Securities in any jurisdiction outside Australia. This PDS does not constitute an offer or invitation in any country in which, or to any person to whom, it would not be lawful to make such an offer or invitation.

4. Details of the Offer (continued)

The Class A Securities have not been, and will not be, registered under the US Securities Act of 1933 ('Securities Act') and may not be offered or sold in the United States ('US') to, or for the account or benefit of, US persons (as defined in regulations of that Securities Act) except in accordance with an applicable exemption from the registration requirements of the Securities Act.

Each Applicant under the Offer will be taken to have represented, warranted and agreed as follows:

- the Applicant is an Australian citizen or resident in Australia and is not acting for the account or benefit of a person in the US or any other foreign person; and
- the Applicant will not offer to sell the Class A Securities in the US or in any other jurisdiction outside Australia, except in transactions exempt from registration under the Securities Act and in compliance with all applicable laws in the jurisdiction in which such Securities are offered and sold.

4.11 Electronic PDS

This PDS may be viewed online by eligible investors, as described above, at www.challenger.com.au/InfrastructureFund

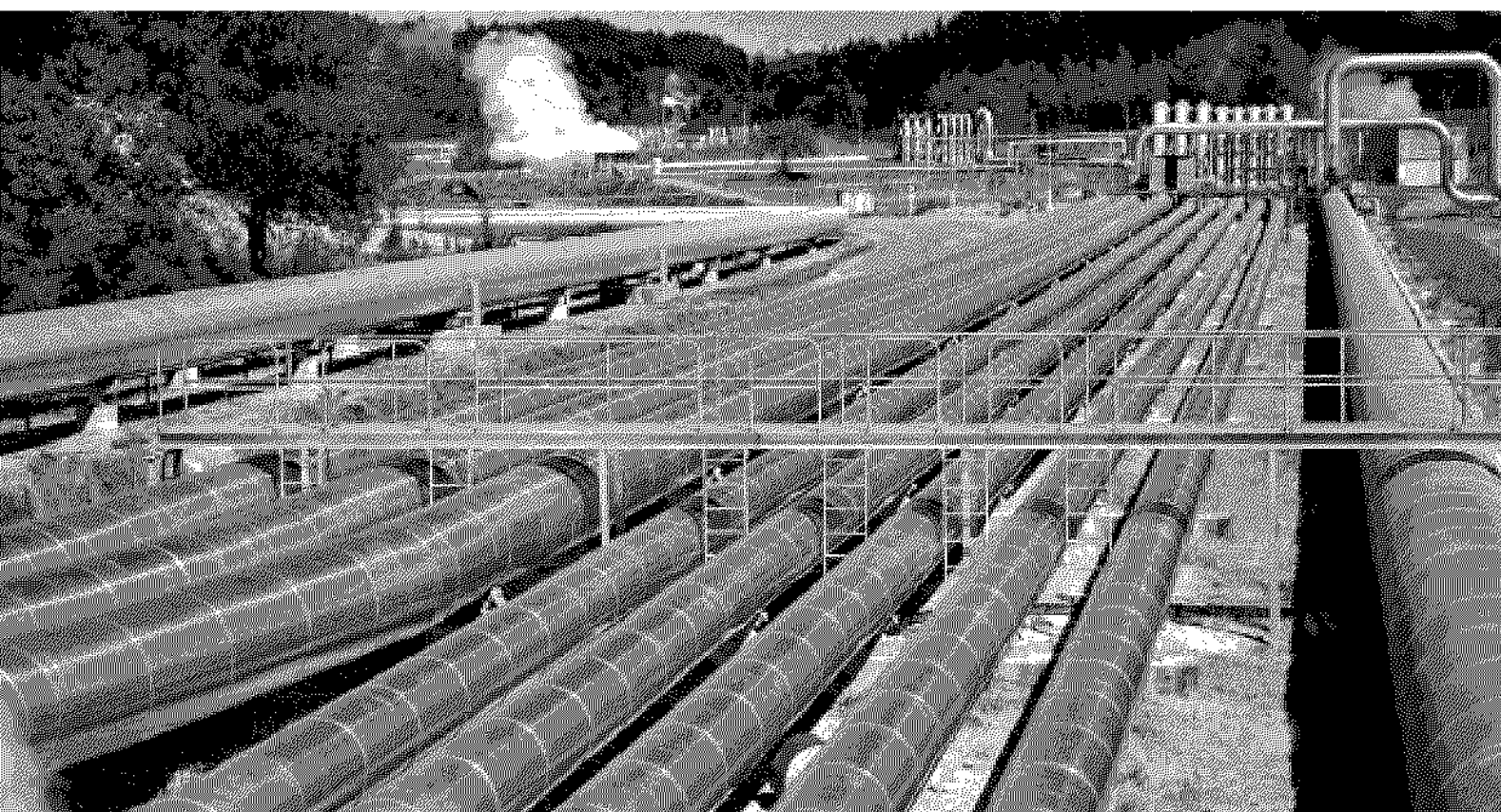
Persons who receive the electronic version of this PDS should ensure they download and read the entire PDS.

A printed copy of the PDS and the accompanying Application Form will be provided free of charge to any eligible person who requests a copy by registering their interest online at www.challenger.com.au/InfrastructureFund, calling the CIF InfoLine on 1800 114 027, or contacting the Joint Lead Managers or Participating Brokers, by mail or in person, during the period of the Offer.

4.12 Enquiries

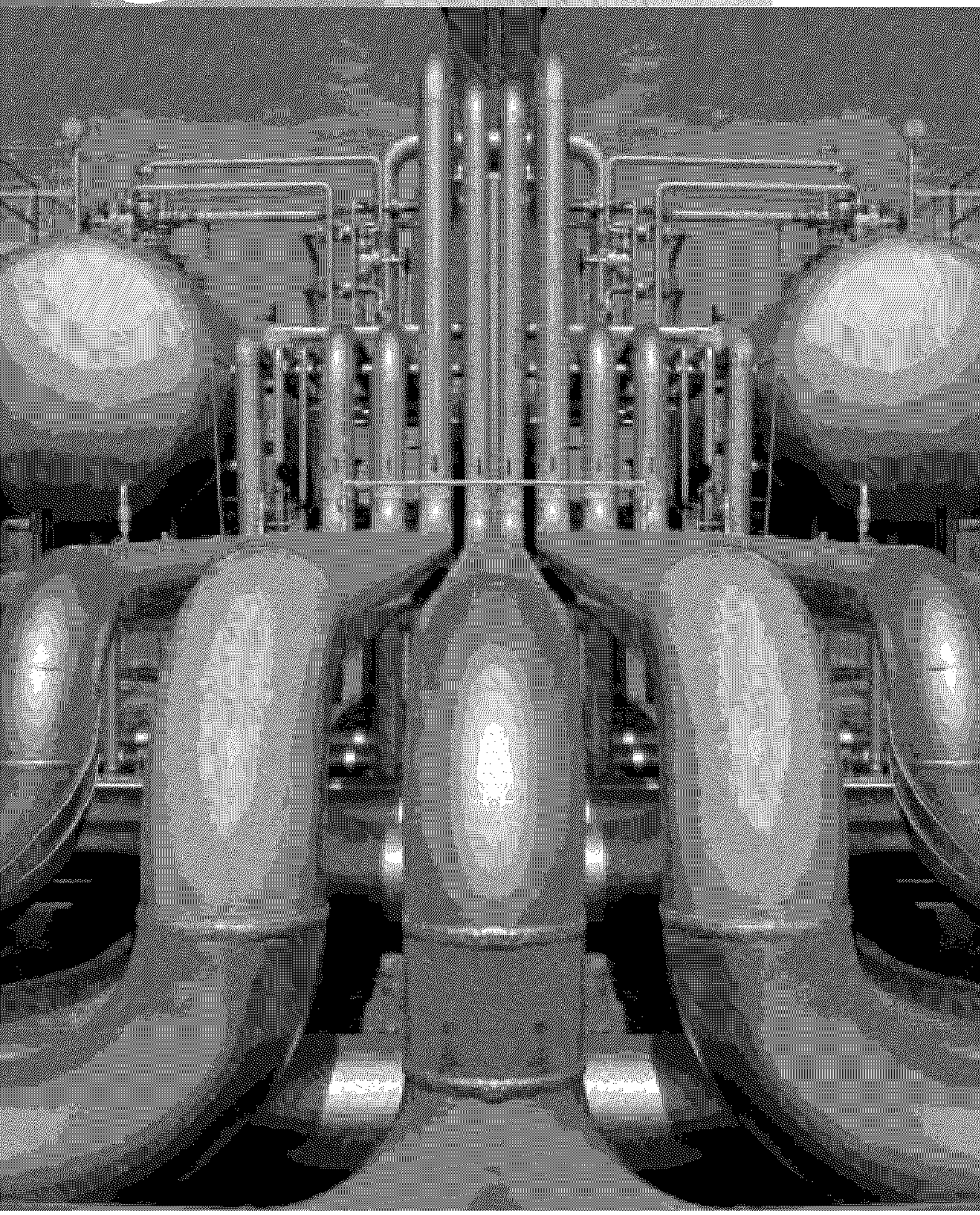
All enquiries regarding the Offer should be directed to the CIF InfoLine on 1800 114 027. The CIF InfoLine will be open from 8.30am to 5.30pm (AEST), Monday to Friday, from the date this PDS is lodged with ASIC until 23 August 2005.

If you are unclear in relation to any matter or are uncertain as to whether an investment in CIF is a suitable investment for you, you should seek advice from your stockbroker, lawyer, accountant or other licenced financial services advisor.



5

industry overviews



5. Industry overviews

This section provides a summary of the sectors that CIF is likely to invest in and the industries in which the Seed Assets operate.

5.1 Global infrastructure market

5.1.1 Infrastructure investment opportunity

The development and growth of global economies is dependent on essential infrastructure. Traditionally, governments have provided such infrastructure to the community directly via government funding and ownership. However, the trend in recent decades, particularly in OECD countries, has been to outsource this function to the private sector, with governments increasingly selling their existing infrastructure assets as well as transferring new infrastructure development to private enterprise.

Infrastructure assets and businesses typically have some or all of the following characteristics:

- **Long-term contracts:** generally operate under long-term concessions/agreements;
- **Strategic competitive advantage and high barriers to entry:** usually difficult to replicate due to high construction costs, scarcity of land for construction, legislative or regulatory requirements, environmental restrictions, long-term exclusive concessions or other barriers to entry;
- **Economies of scale:** a large proportion of the cost base is typically fixed. This means that increases in revenue are often met with disproportionately lower cost increases; and
- **Relatively inelastic demand:** demand is generally stable and often grows with underlying economic or demographic growth. This leads to stable operating cashflows and the ability to generate stable investor returns.

5.1.2 Types of infrastructure assets

Infrastructure assets can be broadly divided into four categories, depending on the nature of their major risk factor:

- **Regulated assets** are natural monopolies or dominant providers of essential services and are therefore regulated in the level of revenue earned or charges imposed. Examples of regulated assets are certain electricity and gas transportation assets. Expected returns are relatively stable during the regulated period and therefore less risky and usually lower than those on other infrastructure assets;

- **Social infrastructure assets** are those infrastructure assets required by governments to provide essential social services such as education, housing and healthcare. Examples of social infrastructure assets are schools, universities, hospitals, public housing and prisons;
- **Patronage assets** depend on a form of patronage as their main revenue source. Examples include airports, railways, toll roads, ports and water treatment facilities. These assets typically provide essential services, hence demand is relatively inelastic and cashflows can be predicted with a reasonable degree of certainty; and
- **Competitive assets** operate in a competitive product or service market. Examples include certain electricity generation and communications infrastructure. Market exposure means that the returns on competitive assets tend to be more subject to fluctuation than those on other types of infrastructure assets with price competition a key risk.

5.1.3 Investment opportunities

Infrastructure sectors that may present attractive acquisition opportunities for CIF include, but are not limited to, electricity and gas transmission and distribution networks, water and sewerage networks, airports, toll roads, contracted power generation and communications infrastructure. Opportunities may arise from both the private sector and the public sector.

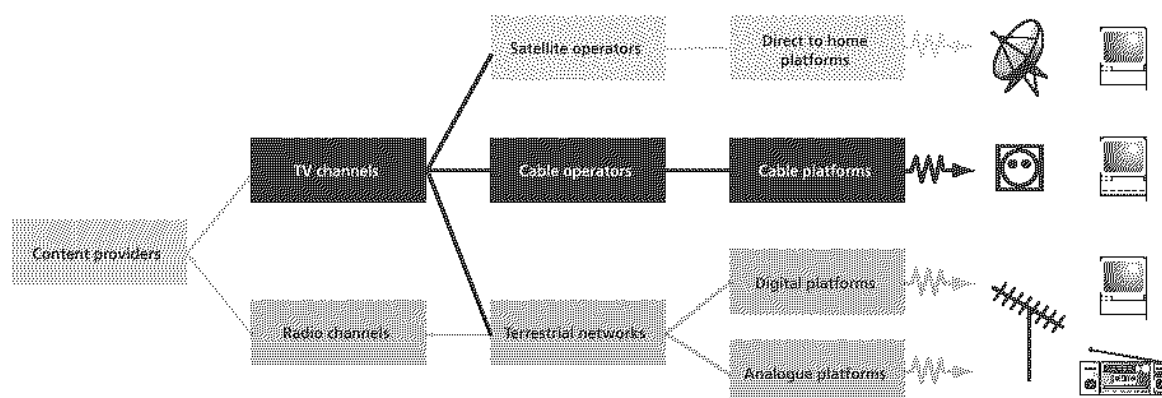
5.2 UK communications infrastructure

The communications infrastructure services industry provides the physical facilities for the carriage and delivery of electronic communications signals, such as TV and radio broadcasts and mobile and data transmission.

There are two broad categories of transmission media:

- **Wireless** – wireless transmission media are able to deliver services without physical connection by wire or cable. Such technologies use radio frequency waves to transmit electronic communications signals. Wireless communications systems can be further categorised into two distinct groups:
 - **Terrestrial** – radio and television broadcasting (using broadcast towers) and mobile phone telephony (using mobile towers) which are based on earth; and
 - **Non-terrestrial** – satellite broadcasting, which are based in space.

Figure 5.1
Communications transmission media



- **Wireline and cable** – wireline and cable transmission media deliver electronic communication signals through a physical connection by wire or cable, typically made of metal cables or fibreglass.

This section focuses on those industry sectors in which ntl Broadcast primarily operates, namely:

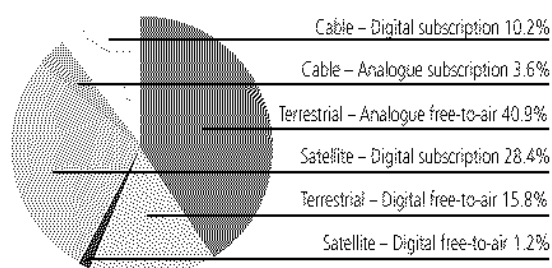
- television transmission (terrestrial and non-terrestrial);
- radio transmission (terrestrial);
- wireless site leasing; and
- public safety management services.

5.2.1 Television transmission

Television broadcast has near total coverage of the UK population (98.5%), reaching approximately 24.7 million households.

Figure 5.2 provides a breakdown of TV households by signal delivery platform.

Figure 5.2
Estimated television households in the UK by delivery platform (Q2, 2004)



Source: Ofcom

Digital free-to-air terrestrial transmission has been adjusted to exclude Ofcom's estimate of households equipped to receive digital free-to-view on more than one TV set.

Terrestrial transmission

ntl Broadcast and Crown Castle UK ('CCUK') are currently the only providers of terrestrial transmission services to TV broadcasters in the UK, for both the analogue and digital markets.

The analogue market can be broadly split into two segments:

- the publicly funded BBC providing two national services, BBC1 and BBC2 – CCUK is the sole transmission service provider for this sector; and
- the commercial sector comprising two national and one near-to-national service (ITV, 4/S4C and Five respectively) – ntl Broadcast is the sole transmission service provider for this sector.

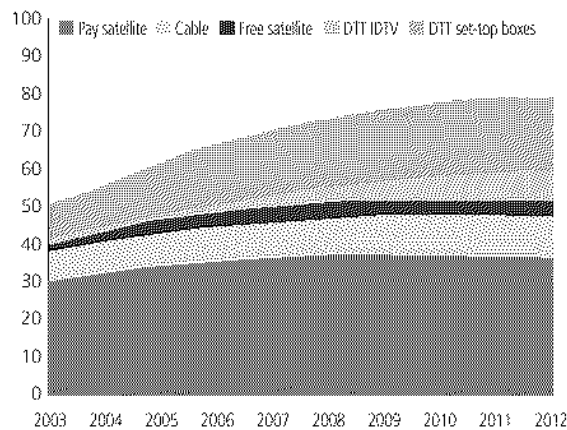
Whilst the analogue terrestrial TV market is mature, the Digital Terrestrial TV ('DTT') market is in its growth phase, and is currently responsible for the majority of growth in digital TV penetration in the UK. Revenue generated from the provision of terrestrial transmission services is based on the extent of network roll-out and population coverage, rather than the number of actual viewers of the signal or market share of the content transmitted.

The UK is considered to be one of the global leaders in digital TV adoption with over 13.7 million households currently receiving digital TV. Without regulatory intervention, the Office of Communications ('Ofcom') expects penetration of digital TV in the UK to have a natural upper limit of 85%.

5. Industry overviews (continued)

Figure 5.3

Ofcom's estimated take-up of digital TV by platform under a market-led scenario (% of TV homes)



Source: Ofcom

The UK Government intends to switch off analogue TV transmission on 31 December 2012 and replace it with digital TV (Digital Switch Over or 'DSO'). Certain pre-conditions relating to availability and affordability must be met before the DSO can take place.

Given the current proposals for regulatory intervention and compulsory switch over to digital TV, the take-up of digital TV is likely to be accelerated with Ofcom forecasting digital TV penetration of up to approximately 99% of households.

Non-terrestrial transmission

Satellite transmission service providers such as ntl Broadcast use ground facilities called satellite teleports to access satellites to provide transmission and broadcast services. Satellite teleports comprise one or more antennae and other related equipment which deliver and receive communication signals to and from satellites. ntl Broadcast has a strong focus on the Direct to Home ('DTH') services segment of the satellite market. DTH broadcasting involves the uplinking of TV channel signals from uplinking facilities to satellites positioned in a fixed orbital slot. The satellites then transmit the signal to homes in a certain coverage area. DTH services are expected to be a key driver of growth in the satellite sector as additional channels are launched on the Sky digital satellite platform.

The satellite services market is dominated by British Telecom, with other main competitors being Globecast (France Telecom) and Inmedia. Prior to its recent acquisition of Inmedia, ntl Broadcast has a market share of approximately 10% in the available satellite

services market and approximately 45% in the UK DTH service provider market.

5.2.2 Commercial radio broadcast transmission

The analogue radio market in the UK comprises BBC radio services, which are publicly funded, and commercial radio services. Approximately two thirds of the UK's adult population choose to listen to commercial radio. Of annual radio revenues, 48% is accounted for by the commercial sector and 52% by the BBC. ntl Broadcast is the main transmission service provider in the analogue commercial radio market, with a market share of approximately 82%, while the BBC is primarily served by CCUK.

Commercial digital radio commenced broadcasting in the UK in 1999. Digital radio coverage has improved significantly in recent years and has extended across the majority of the UK population. Penetration of digital radio is also expected to be assisted by increasing take-up of digital TV although, unlike digital TV, there are currently no plans for a compulsory switch over to digital.

Further growth is expected in the digital sector with additional local, regional and national digital audio broadcasting licences anticipated over the coming years. Ofcom is expected to complete a review of digital radio in 2005 which will clarify its plans for further development and licensing of digital radio.

As in the TV and analogue radio markets, ntl Broadcast is the market leader in the provision of digital audio broadcasting transmission services to commercial radio operators, while CCUK is the primary service provider for the BBC.

5.2.3 Wireless site leasing

Mobile phone network operators in the UK employ a combination of owned and leased sites to install antennae, base station and other equipment to support their network coverage. The UK wireless site leasing market is led by the mobile operators themselves, who own and operate a significant number of sites. The market is highly fragmented with ntl Broadcast being the second largest independent participant in the market with an estimated 5% market share of active sites. Consumer demand for mobile communications services is a key driver of wireless site leasing requirements. According to the International Telecommunications Union ('ITU'), there were approximately 50 million mobile subscribers in the

UK at end of 2003, translating into a penetration rate of approximately 84%, which is above the penetration rate in Australia and significantly above the penetration rate in the US. The four established second generation ('2G') mobile phone network operators all provide close to total 2G population coverage in the UK, with each having a subscriber base of approximately the same size. Third generation ('3G') mobile offerings represent a key opportunity for mobile operators to grow earnings and average revenue per subscriber and, due to the roll-out requirements of 3G and the shorter maximum distance between 3G sites, provides an important growth opportunity for those in the site leasing market.

In addition to mobile phone operators, site leasing companies such as ntl Broadcast supply site sharing services and equipment accommodation to a wide range of customers including utilities, paging companies, public safety network owners and other companies. Wireless broadband is also a developing market driving wireless site leasing opportunities and related installation services demand.

5.2.4 Public safety managed services

Public safety organisations, such as the police force, fire brigade and ambulance services, use dedicated radio communications networks in carrying out their day-to-day activities. Traditionally these networks have been analogue, however, a transition has begun towards new national digital platforms.

The trend from analogue to digital is also expected to drive increased demand for the provision of managed services to public safety organisations. This is expected to benefit outsourced service providers such as ntl Broadcast, providing both technology upgrade project related revenue as well as recurring contracted revenue relating to managed services.

ntl Broadcast is the main provider of radio communications maintenance and managed services to public safety organisations.

5.2.5 UK communications infrastructure regulation

Role of Ofcom

The UK Government implemented a new regulatory framework principally through the Communications Act 2003, which came into effect on 25 July 2003. The Communications Act established Ofcom, an independent regulator and competition authority for

the UK communications industry, with responsibilities across television, radio, telecommunications and wireless communications services in the UK. Ofcom has historically favoured a market-based approach to ensuring a competitive and fair industry, and has historically preferred the least intrusive regulatory mechanisms to achieve its policy objectives.

Ofcom's specific duties fall into six areas:

- ensuring the optimal use of the electro-magnetic spectrum;
- ensuring that a wide range of electrical communications services – including high speed data services – are available throughout the UK;
- ensuring a wide range of TV and radio services of high quality and wide appeal;
- maintaining plurality in the provision of broadcasting;
- applying adequate protection for audiences against offensive or harmful material; and
- applying adequate protection for audiences against unfairness or the infringement of privacy.

Price regulation

Ofcom may impose special conditions on providers with significant market power. The new regulatory framework obliges Ofcom to carry out a series of market reviews to determine which providers hold market power and should be subject to such conditions.

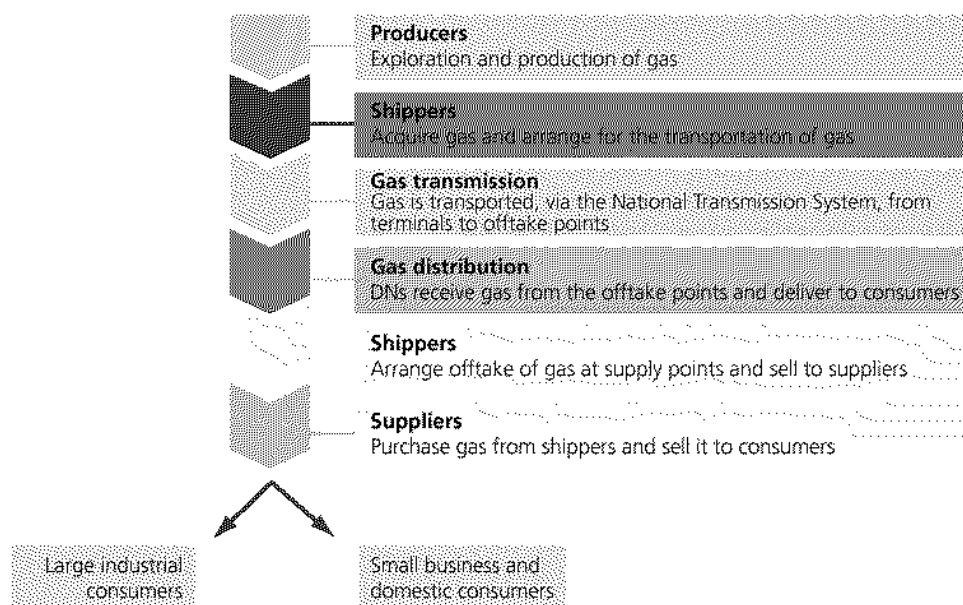
Ofcom released a Final Statement in April 2005, reaffirming previous findings that ntl Broadcast and CCUK each have significant market power in the markets for the provision of access to mast and site networks for the purposes of terrestrial broadcast transmission services on a national, regional and metropolitan basis. Ofcom's general remedies include the requirement for market participants to:

- provide network access to their respective masts and sites on reasonable request;
- not unduly discriminate;
- ensure that network access charges are reasonably derived from the costs of provision; and
- provide transparency in relation to the terms and conditions on which they are willing to enter into a contract.

5. Industry overviews (continued)

5.3 UK gas distribution

Figure 5.4
Gas supply chain in Britain



5.3.1 Industry structure

The gas market in Britain is one of the most developed in Europe, comprising a competitive market for the production and supply of gas and a highly developed regulatory framework for the transportation of gas to consumers.

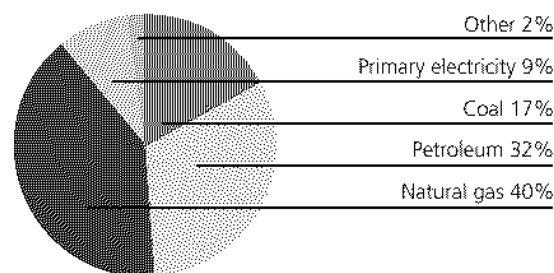
Figure 5.4 above illustrates the main participants in the gas supply chain and their roles in delivering gas from the ground to the ultimate consumer.

5.3.2 Gas usage in the UK

Natural gas is the most widely used primary fuel in the UK. The gas industry has become an essential part of the British economy with its share of UK primary energy consumption increasing from approximately 23% in 1982 to approximately 40% in 2004.

The importance of gas as a primary energy source is expected to increase over the next ten years driven by increased demand for domestic energy and power generation.

Figure 5.5
UK primary energy demand by fuel type



Source: DTI, Digest of UK Energy Statistics (DUKES) 2004

The UK is the largest gas market in Western Europe, with consumption doubling in the 20 year period to 2002.

5.3.3 Overview of gas transportation

Until recently, NGT was virtually a monopoly player in the transportation of gas in Britain. Even after the sale of four DNs, it remains the dominant player in gas transportation, which comprises:

- the high pressure National Transmission System ('NTS') which is owned by NGT; and
- the lower pressure distribution system, organised into eight regional DNs, of which NGT continues to own four. The geographic area serviced by each of the UK DNs are illustrated below:

Figure 5.6
UK gas distribution networks



Each of the eight DNs operate as regional monopolies and obtain gas from offtake sites, which are NTS exit points. The gas is then transported to consumers at supply points via an extensive network of pipelines, mains and service pipes.

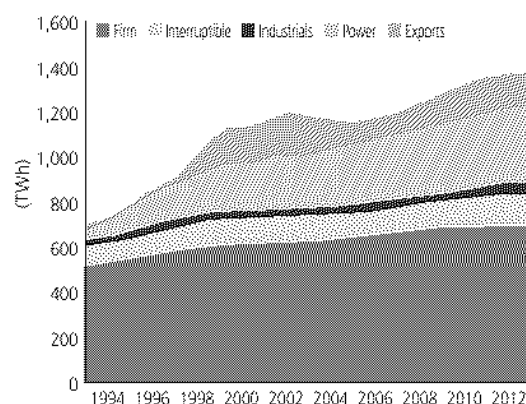
The DNs are generally physically discrete systems connected to the NTS, although there are a small number of connections between the individual DNs. Each DN has its own management team and workforce who are responsible for running the network in a safe, reliable and efficient manner.

Other gas transporters operate small transportation networks, which are usually connected to the DNs.

5.3.4 Forecast gas throughput

Gas throughput in the distribution networks, as illustrated in figure 5.7 below, is forecast to grow 15% in the ten years to 2013, an average growth rate of 1.4% per annum during this period. This is expected to increase the proportion of the UK's primary energy consumption satisfied by gas to over 46% in 2010 (currently approximately 40%).

Figure 5.7
Historical and forecast annual gas demand



Source: NGT Transportation Ten Year Statement 2004

It is expected that this forecast growth will be driven by:

- increased usage by the power generation sector (approximately 35% of the UK's total power generation is generated from gas);
- increasing levels of economic activity and fuel substitution brought about by the competitive position of gas in relation to other fuels, most notably oil;
- increasing domestic demand for gas, with its share of domestic energy consumption increasing from 46% to 69% over the 24 year period to 2002. Over 70% of all homes in the UK are now centrally heated by gas;
- new housing completions projected at approximately 180,000 per year;
- an increase in non-domestic gas consumption driven by further growth in the service sector and the manufacturing sector returning to growth after being in recession during 2001 and 2002; and
- environmental initiatives supporting interruptible demand for gas as an immediately available alternative to more polluting fossil fuels (such as coal and oil).

5. Industry overviews (continued)

5.3.5 Gas transportation industry regulatory environment

The gas industry in the UK is principally regulated pursuant to the Gas Act (1986, as amended) and the Utilities Act (2000, as amended). The industry regulator is the Office of Gas and Electricity Markets ('Ofgem').

Shippers, suppliers and gas transporters (through transmission and distribution networks) all require a licence from Ofgem. In the UK, gas transportation segments of the supply chain are highly regulated with requirements of the Gas Act having the effect that a single company cannot conduct both transportation and supply activities.

Role of Ofgem in gas transportation

Ofgem has a broad role in relation to the regulation of gas transportation which requires it to set and implement policy, monitor and, where appropriate, take enforcement action. This includes controlling prices, setting standards and preventing discriminatory and other anti-competitive behaviour. Ofgem's principal responsibility is to protect the interests of customers by promoting effective competition wherever appropriate.

Ofgem also has a statutory obligation, under the Gas Act, to ensure that the charges are sufficient for DN's to be able to finance their licenced activities and to fund their operational, capital and replacement expenditure and to earn a return on the Regulated Asset Value ('RAV'). The price control regime also features incentives which reward above average performance.

Price regulation

All UK gas distribution companies are subject to price regulation defined by Ofgem, with price reviews typically occurring every five years. This price regulation means that revenues and operating results are relatively predictable over a given price control period and ensures that DN's do not abuse their position by charging excessive prices.

Although the current price control period commenced on 1 April 2002 and was scheduled to end on 31 March 2007, Ofgem has stated this is likely to be extended by one year to March 2008 to provide a balanced workload for companies and Ofgem and allow gas distribution and transmission to be considered separately.

RPI-X formula revenue

The revenue that a DN can earn on its regulated business is restricted by the 'UK all items retail price index', less an 'X factor', representing targeted efficiencies, (collectively 'RPI-X'). The RPI-X controls prices, not profits, and is intended to encourage efficiency within the DN's. The RPI-X price control takes the retail price index (the rate of inflation) as its benchmark and constrains distribution charges to RPI plus or minus an X factor. The X factor is therefore a key variable in determining price and is a number which is negotiated between the DN's and Ofgem, however, it is ultimately set by Ofgem. Key variables in the price control are:

- RAV – represents the value for regulatory purposes of capital already invested in the DN's;
- Allowed return on RAV – estimated level of return that is required by the financial markets to provide capital to a gas distribution company;
- Operating expenditure ('Opex') – the day-to-day costs of maintaining and running the DN;
- Replacement expenditure ('Repex') – preventative maintenance of a repair nature on the existing network system; and
- Capital expenditure ('Capex') – required to improve and extend the capabilities of the network. This expenditure is then remunerated through a depreciation allowance and a return on RAV.

Other issues affecting the price that DN's can levy on their customers include:

- Pass through costs – variations in certain costs (positive or negative), including licence fees and rates, are able to be passed on directly to the customer;
- Mains replacement revenue – revenue is adjusted for efficiencies associated with replacement of gas mains;
- Volume adjustments – notwithstanding the price control, revenue is to an extent dependent on composite volume of gas transported; and
- Correction factor ('K') – over or under-recoveries of permitted revenues are subsequently adjusted for.

This methodology has remained largely unchanged since the privatisation of the UK gas industry in 1986.

6 the seed assets



6. The Seed Assets

This section provides a description of the Seed Assets.

6.1 Overview

The Seed Assets of CIF will comprise:

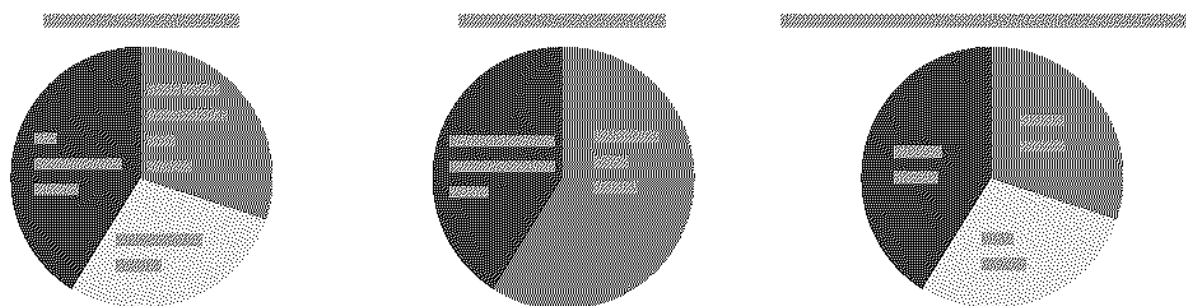
Figure 6.1

Overview of Seed Assets

Asset	Interest in asset	Consortium	Description of business
ntl Broadcast	6.3%	Arranged by Macquarie Bank, with Macquarie Communications Infrastructure Group (54%) the lead investor	- One of the leading national broadcast transmission and site leasing infrastructure operators in the UK and the UK's second largest independent wireless site leasing provider - Has access to approximately 2,000 revenue generating sites in the UK providing coverage to approximately 98.5% of the population
North DN	5.8%	Led by CKI (40%). Asset to be managed by United Utilities Plc (15%)	- Regulated gas distribution business located in the North of England that transports gas on behalf of shippers - Responsible for owning, maintaining and extending the network of pipes and associated infrastructure required to distribute gas within its geographic area
Wales & the West DN	8.6%	Arranged by Macquarie Bank, with MEIF (31%) the lead investor. Asset to be managed by Wales & West Utilities	- Regulated gas distribution business located in Wales and the South West of England that transports gas on behalf of shippers - Responsible for owning, maintaining and extending the network of pipes and associated infrastructure required to distribute gas within its geographic area

An overview of the portfolio is as follows:

Figure 6.2



Note: Portfolio weightings based on asset value as per mid-point of the Seed Asset valuations in the Independent Valuation Report (see section 12.2).

6.2 ntl Broadcast

6.2.1 Overview

ntl Broadcast has been operating in the UK since 1955. Today, ntl Broadcast is a leading owner and operator of national broadcast transmission and wireless site leasing infrastructure in the UK. Challenger Life participated in a consortium led by Macquarie Bank that acquired ntl Broadcast on 31 January 2005.

ntl Broadcast comprises three primary operating divisions: Media Solutions, Wireless Solutions and Public Safety.

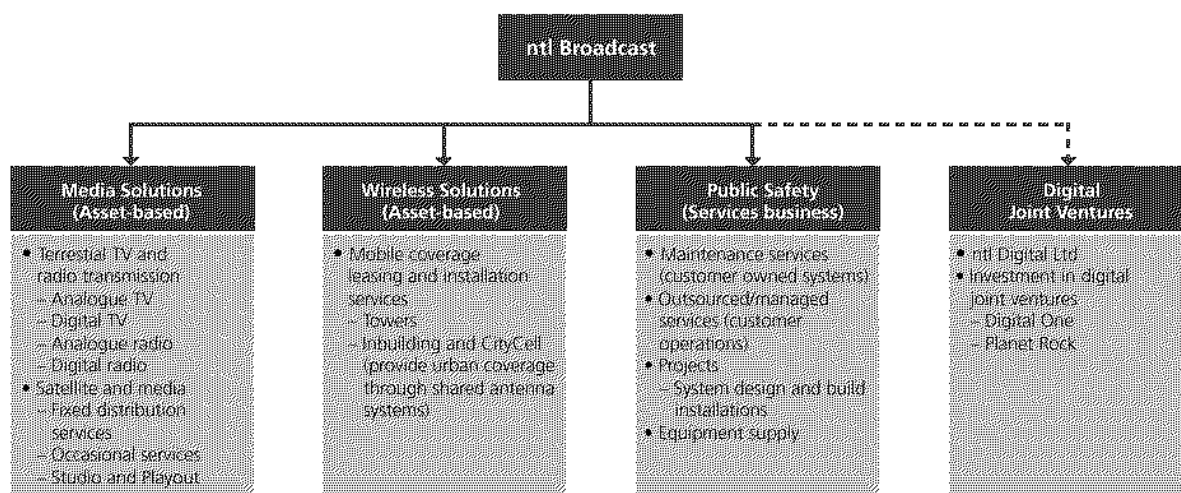
As part of the acquisition, the Consortium also acquired ntl, Inc.'s interests in digital joint ventures, which facilitate ntl Broadcast's participation in the development of the digital media landscape in the UK. These investments comprise a 36.7% shareholding in Digital One (digital radio Multiplex owner) and a 75.0% interest in Planet Rock (leading rock digital radio station).

6.2.2 ntl Broadcast consortium

Challenger Life participated in a consortium of eight investors in the acquisition of ntl Broadcast. The consortium was led by Macquarie Communications Infrastructure Group which took a stake of 54%. Other consortium members include Macquarie Bank and Industry Funds Management (Nominees) Limited. Challenger Life's interest in ntl Broadcast is 6.3%.

The acquisition price of £1.27 billion, which excludes transaction costs, was funded by £545 million of equity and £725 million of debt representing a gearing level of 57%.

Figure 6.3
Overview of ntl Broadcast group structure



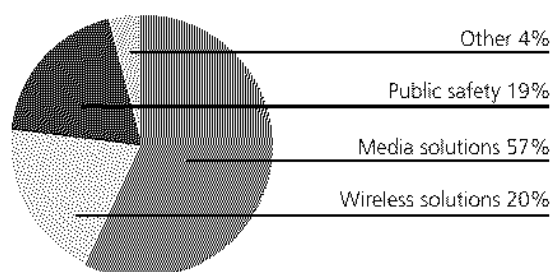
6. The Seed Assets (continued)

6.2.3 ntl Broadcast business overview

ntl Broadcast's operating divisions are summarised in figure 6.3.

As shown in figure 6.4, Media Solutions is the largest division of ntl Broadcast by revenue contribution and is expected to contribute 57% of revenues in the 2006 financial year. All but 4% of the remaining revenues are expected to be shared almost equally between Public Safety and Wireless Solutions.

Figure 6.4
ntl Broadcast revenue breakdown (FY2006F)



Media Solutions

The Media Solutions division provides services for TV and radio broadcasters (analogue and digital), including distribution transmission and digital Multiplexing, as well as a range of satellite services for DTH and cable channel broadcasters.

Analogue terrestrial television

In providing analogue TV transmission services, ntl Broadcast utilises over 1,300 towers strategically positioned across the UK to provide coverage of 98.5% of the country's population.

ntl Broadcast provides broadcast transmission services for the major analogue TV broadcasters, including ITV, Channel 4 and Five. Contracts with ITV and Channel 4 are regulated by Ofcom. The contract with Five is unregulated and pricing is determined under a formula linked to inflation.

DTT

ntl Broadcast offers an end-to-end digital terrestrial transmission service which includes:

- transmission services, Multiplexing and tower leasing;
- design, implementation and management of complex DTT compression and Multiplexing systems and the network that supports them;
- provision of distribution networks using a combination of fibre and satellite to route signals from customer studios to the terrestrial transmitters; and

- ongoing management of the DTT network. ntl Broadcast has been providing transmission services since 1998 and has long-term contracts extending until 2010. Contract pricing is related to signal population coverage and is not specifically regulated. ntl Broadcast also receives revenue from CCUK for the use of its towers and facilities to support their DTT transmission.

Analogue radio

ntl Broadcast provides the transmission of traditional AM and FM radio service, and offers a number of network services and customer distribution services. ntl Broadcast's key radio customers include the leading commercial broadcasters in the UK. ntl Broadcast is the main transmission services provider in the analogue commercial radio market, with a market share of approximately 82%, while the BBC is primarily served by CCUK.

Analogue radio transmission revenues are generally secured under long-term contracts. ntl Broadcast has recently renewed a number of contracts with its largest customers. The majority of its largest customers are now contracted until 2012.

Other

In the digital radio market, ntl Broadcast has secured contracts representing 91% of the commercial market. At a national level, ntl Broadcast is a founding equity partner (37% stake) in Digital One, the only national commercial Multiplex licenced by the government. ntl Broadcast secured the contract to provide the national transmission infrastructure for Digital One – covering over 85% of the population from 84 sites.

ntl Broadcast also provides satellite and playout services. It owns and operates satellite uplinking facilities comprising 40 fixed satellite dishes which are able to access over 50 satellites, thereby achieving global coverage.

ntl Broadcast has recently agreed to acquire 100% of Inmedia Communications Group Limited ('Inmedia') from the Carlyle Group ('Carlyle'). Inmedia is a leading UK satellite and media services and infrastructure business, offering broadcast content storage and distribution via two teleports linked by satellite to 40 national earth stations covering 90% of the world's population. The teleports are used to uplink traditional broadcast media and data traffic and Inmedia has secured dedicated satellite capacity.

The acquisition of Inmedia is a positive step for ntl Broadcast and is value accretive to the whole ntl Broadcast business. It will allow ntl Broadcast to gain critical mass in satellite uplinking and playout, creating economies of scale in terms of asset use, existing and new cross-product customer relationships, brand equity and supplier purchasing leverage. Cost savings will also be realised by merging the operations of Inmedia and ntl Broadcast.

Wireless Solutions

ntl Broadcast operates the second largest independent portfolio of wireless site towers and sites available for lease in the UK. Revenue in this division comes from two primary sources:

- site leasing and project-based installation services; and
- design, planning and installation of customer equipment and antennae on ntl Broadcast's towers.

ntl Broadcast's seven largest customers represent over three quarters of recurring site sharing revenues. ntl Broadcast's other site leasing customers include utilities, paging companies, wireless data service providers and taxi companies.

Site leasing contracts typically have terms of up to ten years. While most contracts are subject to twelve month termination clauses, customers rarely make use of these clauses except where they are reconfiguring or decommissioning their networks. It is generally uneconomic for customers to move equipment established on one site to another site. ntl Broadcast also maintains strong relationships with its site leasing customers and its large portfolio of wireless towers and sites enables it to offer sites in strategic positions.

Public Safety

ntl Broadcast is the largest provider of radio communications managed services in the UK public safety sector, having operated in the market for over 40 years. It provides radio services to approximately 400 customers, including the police, fire and ambulance services.

Public safety revenue is generated under two types of contracts – project contracts and recurring revenue contracts. Project revenues consist of installation services for analogue and digital radio equipment for public safety organisations, catalogue sales of third party radio products and transition projects in relation to digital upgrade activities.

ntl Broadcast also has a significant share of the public safety market in the Republic of Ireland.

Digital Joint Ventures

ntl Broadcast has investments in two separate joint ventures which enhance and supplement its core broadcasting business:

- **Digital One Broadcast:** 36.7% shareholding. Digital One is a leading digital radio broadcaster with transmission services that cover 85% of the UK. It holds one of the two national digital radio Multiplex licences available in the UK. It has contracted ntl Broadcast to provide it with transmission services for the remainder of its twelve year licence; and
- **Planet Rock Broadcast:** 75% shareholding. Planet Rock is the leading digital channel broadcasting on the Digital One licence. ntl Broadcast provides the transmission services for Planet Rock.

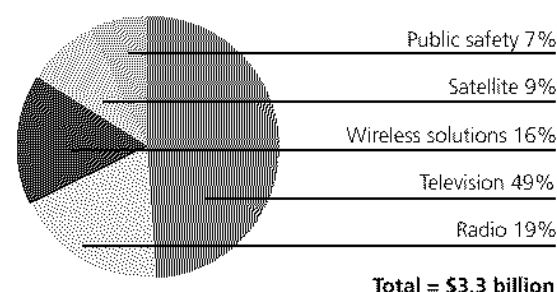
The digital joint ventures provide useful insights and input into the development of digital radio and television in the UK. They have low future funding requirements and could have substantial upside if they successfully exploit the transition to digital broadcasting.

Summary of ntl Broadcast's long-term customer contracts

ntl Broadcast's future, especially in Media Solutions and Wireless Solutions, has high revenue visibility. Within Media Solutions, contracts with TV and radio customers are typically long-term, with contract terms usually mirroring the term of the underlying broadcast licences. Altogether, ntl Broadcast has a forward order book of approximately \$3.3 billion for the 18 month period to 30 June 2006, of which the Media Solutions business comprises nearly 80%.

Figure 6.5

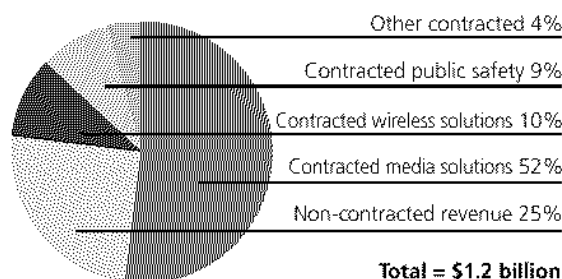
ntl Broadcast's forward order book (18 months to 30 June 2006)



6. The Seed Assets (continued)

Approximately 75% of the revenue forecast over the 18 months to 30 June 2006 represents contracted revenue, with media solutions comprising the majority of contracted revenue, supported by long-term TV, radio and satellite customer contracts typically between eight to ten years. Site leasing and maintenance contracts also support a high level of contracted revenue in Wireless Solutions and Public Safety.

Figure 6.6
Contracted and non-contracted revenue
(18 months to 30 June 2006)



6.2.4 ntl Broadcast assets

ntl Broadcast has a substantial network of towers and broadcasting sites in the UK with approximately 2,000 revenue generating sites. The cornerstone of ntl Broadcast's portfolio is the 1,300 media broadcasting towers that it has access to (634 controlled by ntl Broadcast and 666 are accessed through CCUK). ntl Broadcast's wireless network operates through 1,116 sites and the public safety business utilises 156 sites.

The mutual Site Sharing Agreement between ntl Broadcast and CCUK is fundamental to the businesses of both companies. Neither CCUK nor ntl Broadcast have direct control over sufficient sites to broadcast throughout the UK. Both companies have roughly equal geographic distributions of broadcast towers and share each other's sites so that they can meet their transmission obligations to customers. Under the agreement, reciprocal payments are made between the companies for access to each other's sites.

In addition to the media and wireless broadcast towers, ntl Broadcast utilises various other facilities to provide an end to end service to its customers. This infrastructure includes:

- **Satellite:** three teleport centres and 31 satellite dishes provide capacity for 140 channels and 19 Multiplexers;

- **Payout:** Payout services utilise several studios and post production facilities at Feltham and Langley; and
- **Fibre network:** ntl Broadcast accesses the British Telecom fibre network to provide its backhaul and connection across towers and sites.

6.2.5 Asset operator

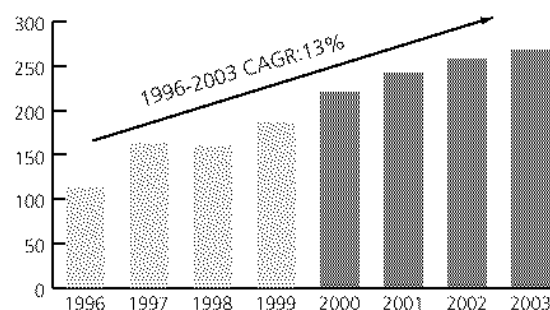
As part of the ntl Broadcast acquisition, the consortium acquired the incumbent management team.

ntl Broadcast's senior management team is highly experienced with established relationships with key participants across all segments of ntl Broadcast's target markets.

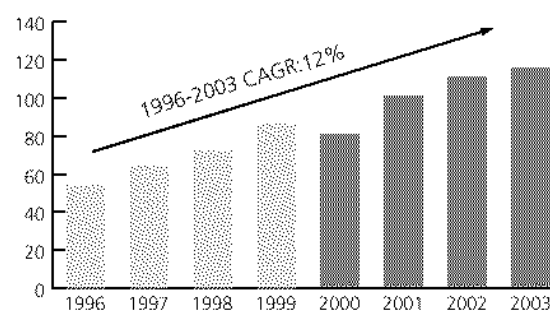
6.2.6 Financial performance

Figure 6.7
Overview of historical financial performance

Revenue growth (£ million)



Segment EBITDA¹ growth (£ million)



¹ Segment EBITDA is equal to EBITDA before allocation of indirect overheads.

6.3 North DN

6.3.1 Overview

The North DN is the third largest of the eight DNs in the UK in terms of gas throughput. The North DN region extends south from the Scottish border to South Yorkshire and has coastlines on both the east and west sides of the region. The geographical area contains a

mixture of large cities (Newcastle, Leeds, Middlesbrough, Bradford) and rural areas (including North Yorkshire and Cumbria). North DN is responsible for owning and maintaining the current gas distribution network (approximately 36,000 km) and extending the network of pipes and associated infrastructure required to distribute gas within its geographic area.

6.3.2 North DN consortium

On 31 August 2004, a consortium led by CKI entered into an agreement with NGT to acquire 100% of the North DN through Northern Gas Networks Holdings Ltd, a UK registered company. CKI acquired an initial holding of approximately 70% in Northern Gas Networks Holdings Ltd, but has subsequently reduced its interest to 40%.

On 15 November 2004, Challenger Life announced it had entered into an agreement with CKI to buy a

5.8% equity interest in Northern Gas Network Holdings Ltd. The acquisition of North DN by the consortium was completed on 1 June 2005. Consortium members include United Utilities plc and Hong Kong Electric Holdings Ltd.

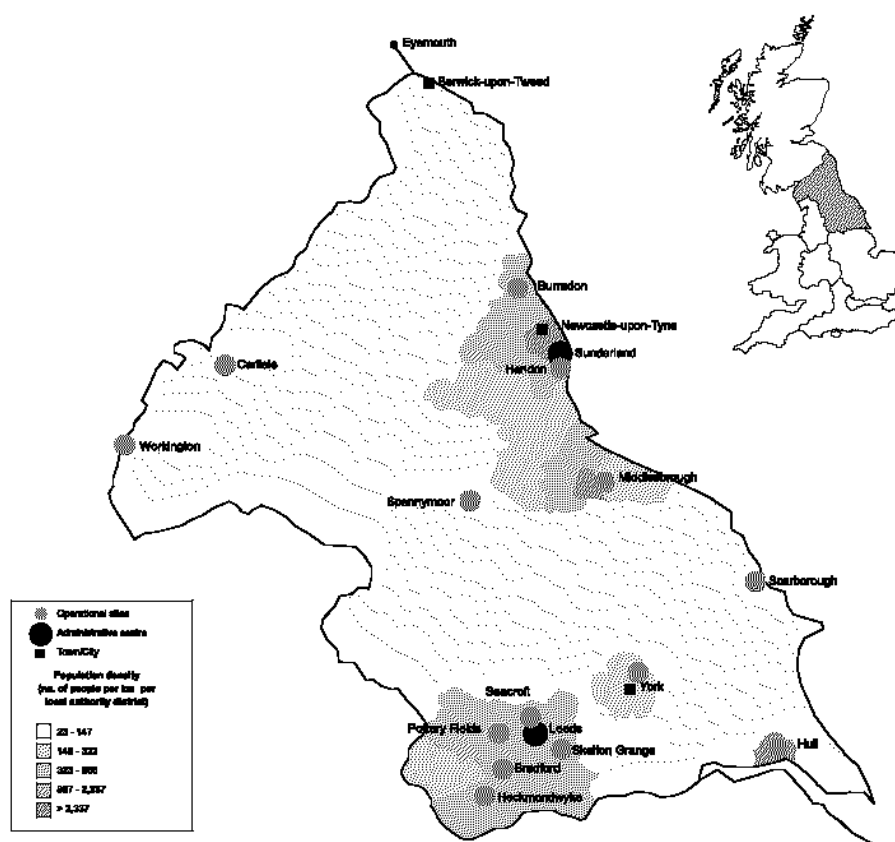
United Utilities plc holds a 15% interest in Northern Gas Network Holdings Limited.

The acquisition price of £1.39 billion, which excludes transaction costs, was funded by £526 million of equity and £868 million of debt representing a gearing level of 62%.

6.3.3 North DN business overview

The North DN has two head office locations, one in Leeds and one in Sunderland. The total headcount of approximately 1,100 full time equivalent employees is divided between these two locations and a number of operational sites.

Figure 6.8
The North DN coverage area



6. The Seed Assets (continued)

Customer profile

As at 31 December 2004, based on unaudited numbers, approximately 68% of the North DN's usage is accounted for by small users. The balance of the usage relates to large (28%) and very large (4%) users.

Historic demand

Growth in gas demand in the North DN between 1992 and 2002 was 34%, 7% more than the growth experienced in Britain as a whole. This can be broken down as follows:

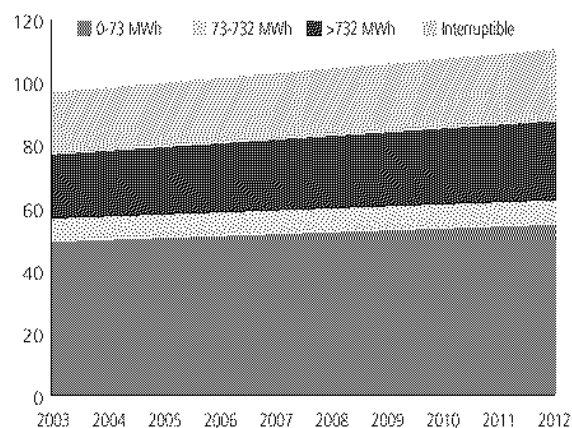
- domestic sector – 25% growth in demand (national growth rate was 21%);
- small non-domestic sector – 9% growth in demand (national growth rate was 9%); and
- larger non-domestic sector – 52% growth in demand (national rate was 39%). Growth in the period was promoted by developments in industrial sector demand and considerable inward investment in the regional economy in recent years.

Forecast demand

Gas demand in 2012 is forecast to increase by 17% compared to total demand in 2002. This is expected to be driven by growth in the larger non-domestic firm and interruptible sectors, supported by a number of power generation developments.

Figure 6.9

North DN forecast gas demand (weather corrected)



Source: Transportation Ten Year Statement 2003, NGT

6.3.4 North DN assets

The assets of the North DN include:

- the pipeline infrastructure required to transport the gas from the NTS network to the consumers' premises;
- the property, warehouse and fleet utilised in the network's operations;
- the contracts, intellectual property rights, policies and procedures and licences necessary to operate the network; and
- the existing network management team, which has extensive experience in the gas transportation industry.

6.3.5 Asset operator

United Utilities plc is the operator of the North DN post completion of sale. United Utilities plc is a member of the FTSE 100 group of UK listed companies. Its principal activities are operating and managing the regulated electricity distribution, water and wastewater networks in north-west England. The company also has a strong infrastructure management business.

6.3.6 Regulatory pricing reset

The regulatory regime administered by Ofgem exposes the North DN to periodic (currently five years) pricing resets. Although the current price control period is scheduled to end on 31 March 2007, the next regulatory reset date is likely to be extended to March 2008, providing a period of stability to new DN owners.

The key regulatory parameters set out by Ofgem in respect of the North DN for the current regulatory period are set out below:

Figure 6.10

The North DN: Regulatory pricing determination commencing 1 April 2002

Parameter	Pricing determination
Initial regulated base ²	£1,032 million
Real after tax cost of capital	6.25%
Capital Expenditure benchmark ^{1,2}	£65 million
Operating Expenditure benchmark ^{1,2}	£133 million
X-factor to be applied in RPI-X formula	2002/03: 2.9% Subsequent years: 2.0%

¹ Includes 50% of replacement expenditure.

² Per Final Proposals, 2000 prices.

Source: Ofgem

6.3.7 Financial performance and key statistics

The North DN's total revenue comprises formula and non-formula income. Formula income is regulated and is calculated as described in section 5.3.5. Whilst the North DN is essentially a regulated business, there are opportunities for it to generate a small amount of additional revenue, primarily relating to the provision of metering services.

Figure 6.11

The North DN: Profit and loss summary

12 month period	31 March 2003 (£ million)
Revenue (net of pass through costs)	226
Operating costs	89
EBITDA before Repex	137
Repex	60
EBITDA after Repex	77

Figure 6.12

The North DN: Key statistics

Length of gas distribution mains	36,000 km
Catchment area (population)	6.7 million
Headcount (employees)	1,100
Customers – Domestic/Industrial	2.4 million/ 0.05 million

6.4 Wales & the West DN

6.4.1 Overview

The Wales & the West DN region includes the whole of Wales and a large part of the south-west of England including the counties of Devon and Cornwall and the major cities of Cardiff, Bristol and Exeter.

The Wales & the West DN is responsible for owning, maintaining and extending the network of pipes and associated infrastructure required to distribute gas within its geographic area.

6.4.2 Wales & the West consortium

On 31 August 2004, a consortium including Challenger Life entered into an agreement with NGT to acquire 100% of Wales & the West DN. The consortium was led by the Macquarie European Infrastructure Fund, which acquired 31%, with other consortium members including Macquarie Global Infrastructure Fund II, Industry Funds Management, AMP Capital Investors on behalf of AMP Life, the Northwestern Mutual Life Insurance Company, and Canada Pension Plan Investment Board.

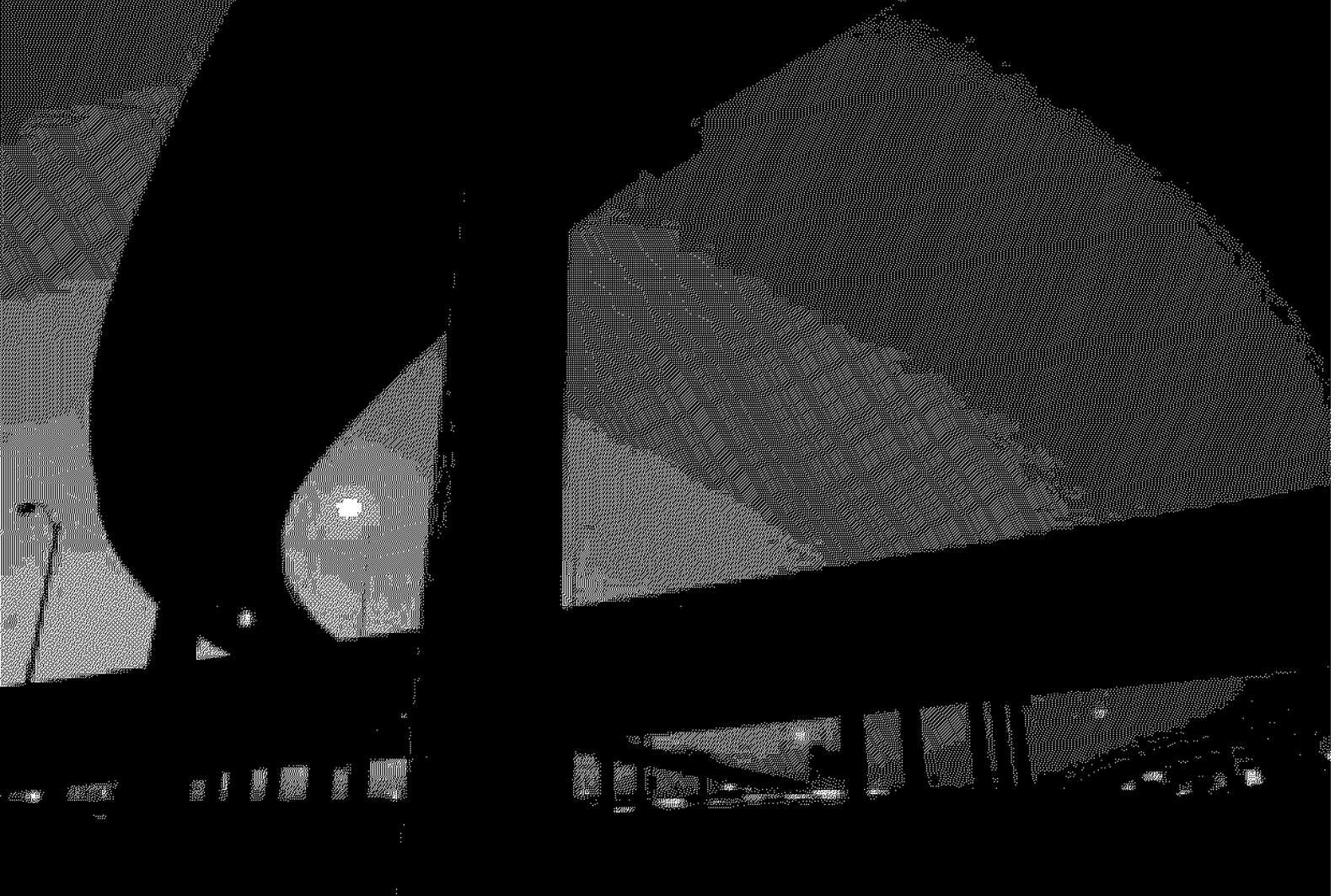
The acquisition was completed on 1 June 2005.

Through its participation in the consortium, Challenger Life acquired an effective 8.6% interest in Wales & the West DN.

The acquisition price of £1.23 billion, which excludes transaction costs, was funded by £323 million of equity and £904 million of debt representing a gearing level of 74%.

6.4.3 Wales & the West DN business overview

Wales & the West DN has two administrative centres, in Bristol and Cardiff. The total headcount of approximately 1,100 full time staff and over 500 contractors are divided between these two locations and a number of operational sites.



- small non-domestic sector – reduction in demand of 1% (national growth rate was 9%), due to changes in the underlying industrial demand base;
- larger non-domestic sector – 74% growth (national growth rate was 39%) in the period was supported by power generation and industrial developments (particularly in Wales); and
- interruptible demand – 22% growth (national growth rate was 55%), influenced by significant supply type changes.

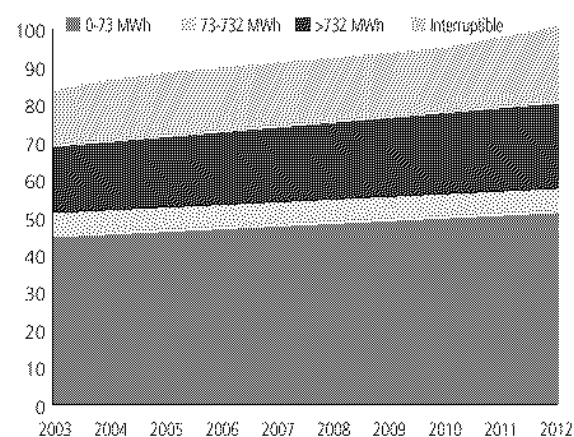
Forecast demand

By 2012, gas demand is forecast to increase by 18% compared to total demand in 2002. This is expected to be driven by:

- higher than average rates of growth in the number of supply points, particularly in the south-west, which are expected to drive strong domestic growth;
- power generation demand is forecast to support growth in the larger non-domestic firm sector; and
- interruptible demand growth is expected to remain below the national rate due to large sites switching loads from interruptible contracts to firm contracts as the network is better able to meet demand.

Figure 6.14

Wales & the West forecast gas demand (weather corrected)



Source: Transportation Ten Year Statement 2003, NGT

6. The Seed Assets (continued)

6.4.4 Wales & the West DN assets

The assets of the Wales & the West DN include:

- the pipeline infrastructure required to transport the gas from the NTS network to consumers' premises;
- the property, warehouse and fleet utilised in the network's operations;
- the contracts, intellectual property rights, policies and procedures and licences necessary to operate the network; and
- the existing network management team, which has significant knowledge of the gas transportation industry.

6.4.5 Asset operator

Wales & the West DN will be operated by Wales & West Utilities. The acquisition of Wales & the West DN included the retention of the majority of the existing network management team from NGT. Supplemented by several new senior employees, Wales & West Utilities is highly experienced in gas utilities operations and management.

6.4.6 Regulatory pricing reset

The regulatory regime administered by Ofgem exposes the Wales & the West DN to periodic (currently five years) pricing resets. Although the current price control period is scheduled to end on 31 March 2007, the next regulatory reset date is likely to be extended to March 2008, providing a period of stability to new DN owners.

The key regulatory parameters set out by Ofgem in respect of the Wales & the West DN for the current regulatory period are set out below:

Figure 6.15

The Wales & the West DN: Regulatory pricing determination commencing 1 April 2002

Parameter	Pricing determination
Initial regulated base ²	£904 million
Real after tax cost of capital	6.25%
Capital Expenditure benchmark ^{1,2}	£59 million
Operating Expenditure benchmark ^{1,2}	£120 million
X-factor to be applied in RPI-X formula	2002/03: 2.9% Subsequent years: 2.0%

¹ Includes 50% of replacement expenditure.

² Per Final Proposals, 2000 prices.

Source: Ofgem

6.4.7 Financial performance and key statistics

Wales & the West DN total revenue comprises formula and non-formula income. Formula income is regulated and is as described in section 5.3.5. Whilst the Wales & the West DN is essentially a regulated business, there are opportunities for it to generate a small amount of additional revenue, primarily relating to the provision of metering services.

Figure 6.16

Wales & the West DN: Profit and loss summary

Year ending 31 March	2003 (£ million)	2004 (£ million)
Revenue (net of pass through costs)	204	213
Operating costs (excluding restructuring costs)	90	79
EBITDA before Repex	114	134
Repex	45	40
EBITDA after Repex	69	94

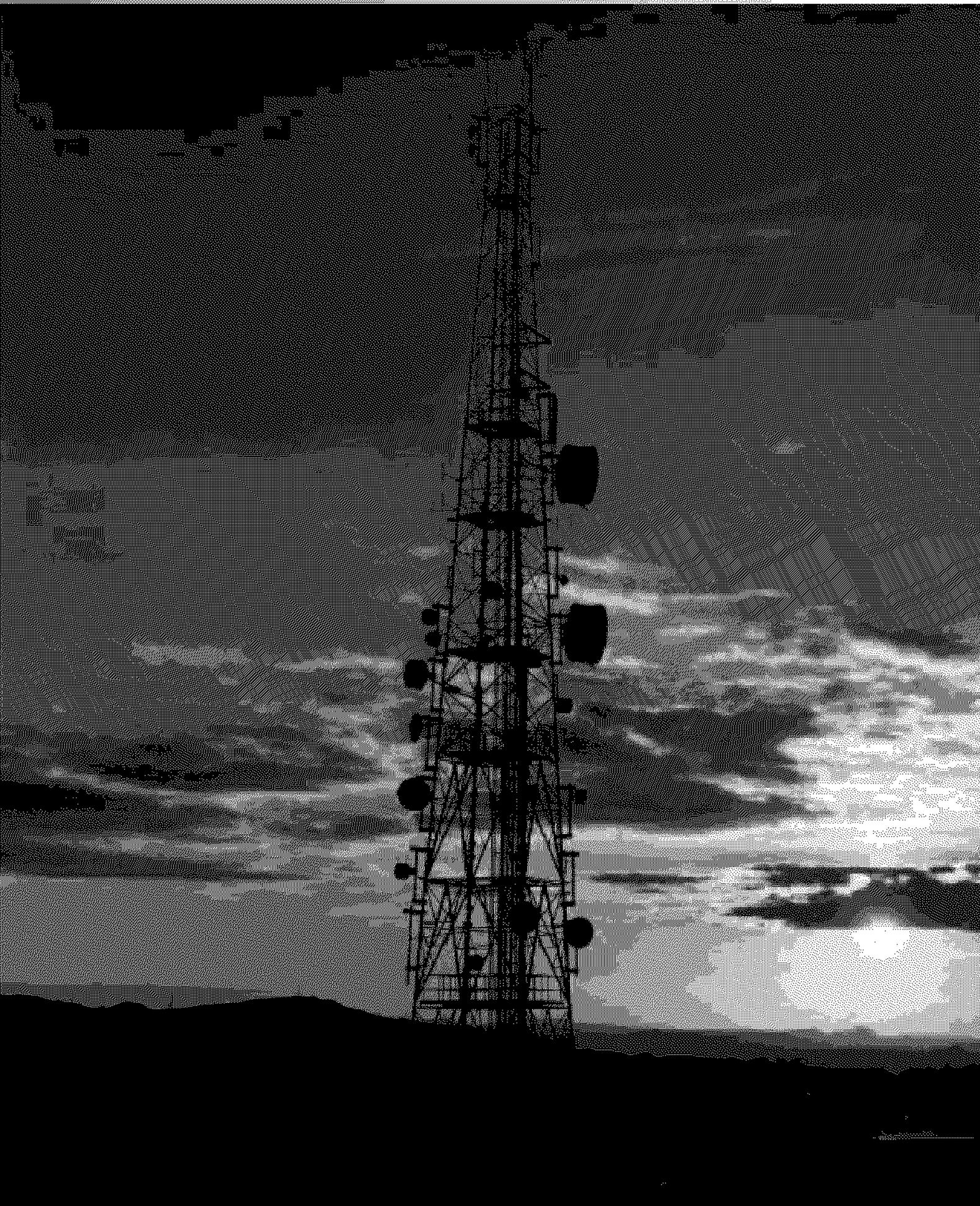
Figure 6.17

Wales & the West DN: Key statistics

Length of gas distribution mains	34,000 km
Catchment area (population)	7.4 million
Headcount (employees)	
Full time	1,100
Contractors	500
Customers — Domestic/Industrial	2.3 million/ 0.04 million

7

challenger infrastructure fund



7. Challenger Infrastructure Fund

This section provides information on CIF, including its structure.

7.1 Overview

CIF has been established with the aim of developing a diversified portfolio of global infrastructure assets. CIF may acquire whole assets or participate in investment consortia comprising leading players (strategic, financial and operational) in the global infrastructure market to acquire controlling or minority interests.

CIF intends to target regulated utilities, rail and related infrastructure, airports, toll roads, communications infrastructure and other infrastructure and infrastructure-related assets that match CIF's investment criteria.

Supported by co-investment rights with Challenger Life (see section 7.5), CIF intends to accumulate a portfolio of infrastructure investments diversified by geographic region, sector exposure, and operator.

7.2 Fund structure

7.2.1 Overview

CIF consists of two stapled managed investment schemes: CIF 1 and CIF 2. CLIL is the Responsible Entity for both CIF 1 and CIF 2. CIF will be managed by CMSL.

Each Security will consist of one unit in CIF 1 and one unit in CIF 2. Units are stapled together so that one cannot be acquired, transferred, or otherwise dealt with, without the other.

7.2.2 Structure overview

CIF 1 will, through wholly owned sub-trusts, own 100% of the equity of three Jersey Companies. These Jersey Companies hold the Seed Assets as follows:

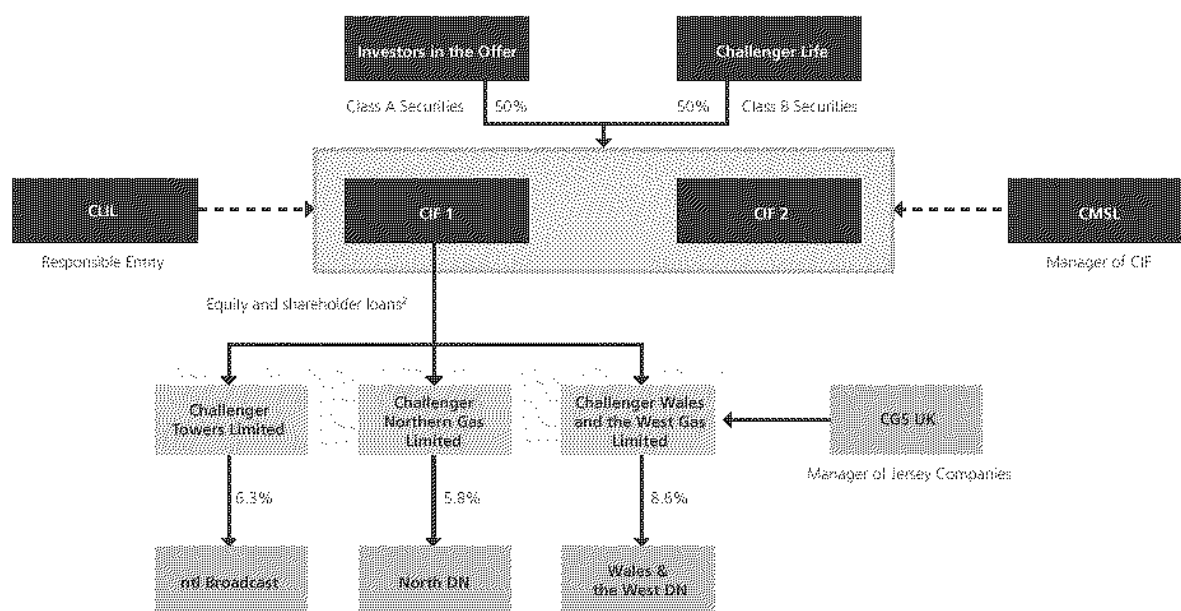
- Challenger Towers Limited holds a 6.3% interest in ntl Broadcast;
- Challenger Northern Gas Limited holds a 5.8% interest in North DN; and
- Challenger Wales and the West Gas Limited holds a 8.6% interest in Wales & the West DN.

Each of the sub-trusts will also make shareholder loans to each of the Jersey Companies.

CIF 2 is currently dormant. Future acquisition opportunities may be pursued through CIF 2.

A detailed structure diagram of CIF after acquisition of the Seed Assets is shown in figure 7.1 below.

Figure 7.1
CIF corporate structure after acquisition of the Seed Assets¹



Notes:

¹ Challenger Life, CLIL, CMSL and CGS UK are all wholly-owned subsidiaries of Challenger. For more information see section 7.4.

² CIF1's investments in Challenger Towers Limited, Challenger Northern Gas Limited, and Challenger Wales and the West Gas Limited are made through wholly owned sub trusts which have funded Challenger Towers Limited, Challenger Northern Gas Limited, and Challenger Wales and the West Gas Limited through a combination of equity and debt in the form of shareholder loans.

7.2.3 Classes of Securities

On the Allotment Date, CIF will issue two classes of Securities, Class A Securities and Class B Securities. The Class A Securities will be issued to successful Applicants under this Offer and will comprise 50% of the total Securities on issue. The balance of the Securities will be Class B Securities which will be issued to Challenger Life.

The Class A Securities and Class B Securities rank equally in all respects, except that a greater proportion of the Distributions paid on the Class A Securities is expected to be tax deferred (refer section 10.6.3). This component of the Distributions on Class A Securities will not be included in the assessable income of the Class A Holders, however, it will reduce the cost base of the Class A Securities for capital gains tax purposes. Refer to the Taxation Report in section 12.3 for further information.

The Class A Securities and the Class B Securities will be issued at the Offer Price, on a partly-paid basis. Instalments on each class of Securities will be payable in the same amount and at the same time (see sections 4.4 and 4.5 for details).

As of 1 January 2007, half of the Class B Securities issued to Challenger Life will become Class A Securities. As of 1 July 2008, both the Class A Securities and the remaining Class B Securities will become Ordinary Stapled Securities. This is not expected to give rise to a tax liability for Holders.

7.2.4 Voluntary Escrow Agreement

Challenger Life has entered into a Voluntary Escrow Agreement in respect of all the Class B Securities issued to it on the Allotment Date.

Under the Voluntary Escrow Agreement, Challenger Life may not dispose of, create security interests in, or do or omit to do any act that would have the effect of transferring ownership or control of the Class B Securities before 1 January 2007.

CLIL and the Manager have agreed that they will be paid their share of management fees in the form of fully-paid Class A Securities for any fees payable prior to 30 June 2008 and in the form of fully-paid Ordinary Stapled Securities for any fees payable for the period ending 30 June 2008. For all subsequent fee periods, their share of management fees will be payable either in cash or in the form of fully-paid Ordinary Stapled Securities, at the discretion of the Responsible Entity. Each of these parties have entered into a Voluntary Escrow Agreement in respect of the Class A Securities issued to them in lieu of management fees before 1 January 2007.

The restrictions in the Voluntary Escrow Agreements are subject to certain exceptions (see section 13.5.9).

7.3 Investment opportunities

The focus of CIF's investment strategy will be on developing a diverse portfolio of global infrastructure and related assets.

It is intended that CIF will make investments in infrastructure assets with a combination of the following key characteristics:

- regulated industry or near monopoly business;
- strong cash generation and attractive targeted cash returns;
- long-term predictable cashflows;
- high barriers to entry;
- capital growth;
- first class management teams managing assets; and
- potential for board representation.

CIF aims to assemble a diversified portfolio of assets. Whilst targeted investments will be geographically dispersed, the Manager is currently of the view that opportunities will continue to emerge outside of Australia.

While the Seed Assets represent minority interests held through investment consortia, CIF's medium to long-term strategy is to seek more substantial interests in infrastructure and related assets, including controlling interests and whole assets, with a view to actively managing those assets.

7. Challenger Infrastructure Fund (continued)

The Manager has strategically aligned itself with leading infrastructure players (strategic, financial and operational) and continues to access a growing pipeline of investment opportunities. Its multi-disciplinary team of investment professionals in Australia and the UK are dedicated to building a global network in origination, execution and management of suitable infrastructure investments including on behalf of both Challenger Life and CIF.

7.3.1 Investment analysis and due diligence on underlying assets

CIF will initially review each opportunity identified to see whether it is consistent with CIF's investment objectives and strategy. If the investment opportunity is approved for consideration, CIF will apply the following rigorous evaluation process:

- extensive asset and market due diligence;
- asset valuation;
- legal, tax and accounting analysis;
- sensitivity analysis;
- CIF investment committee approval; and
- Board approval.

7.3.2 Ongoing asset management

The Manager will manage CIF and its investments with the objective of maximising returns to Holders. CIF's present strategy is to buy and hold infrastructure and related assets, to grow CIF in size over the medium to long-term, and to divest certain assets where CIF believes it appropriate, as part of ongoing portfolio management.

In addition, the Responsible Entity may separately engage the Manager or other advisors to provide advisory services in connection with the identification and acquisition of new assets (see sections 2.8 and 8.3.2).

7.3.3 Opportunities under review

The Manager is currently reviewing several opportunities on behalf of both Challenger Life and CIF. These opportunities include, but are not limited to, water utilities and gas transportation assets in the UK, airport and related assets in Western Europe and rail and road opportunities in Australia. Whilst investments made will ultimately be a function of the transaction pipeline and the bidding process, the Manager is confident that it has identified a robust pipeline of opportunities that may crystallise into investments for CIF.



In addition, Challenger Life has recently committed €100 million to MEIF. The Manager expects that this alignment of interests between Challenger Life and MEIF will promote suitable co-investment opportunities for CIF to invest alongside MEIF and Challenger Life in Europe. MEIF currently has several investments including interests in rail, gas distribution, water, renewable energy and an airport.

7.4 Relationship with Challenger

The Manager, the UK Manager and the Responsible Entity are all members of the Challenger Group. Accordingly, Holders will benefit from the extensive experience and expertise of the Challenger Group.

Challenger is one of Australia's largest asset managers, with over \$29 billion of assets and loans under management and administration as at 31 March 2005.

Challenger's business divisions comprise:

- **Challenger Life:** Challenger Life is a leading provider of annuities in the Australian market. Challenger Life's access to CMSL's highly experienced and multi-disciplinary investment team allows it to invest in a diversified portfolio of assets including property, fixed income, mezzanine debt, listed and private equity and infrastructure;
- **Challenger Wholesale Finance:** Provides wholesale finance capability for prime residential, non-conforming residential and commercial property. Loans are originated through a network of more than 600 preferred lenders, financial planning organisations and mortgage brokers. Challenger Wholesale Finance acts as a mortgage originator and manager of loan assets for Interstar Wholesale Finance and the Howard Mortgage Trust's securitisations; and
- **Challenger Wealth Management:** Manufactures and administers investment products for both institutional and retail clients and facilitates the provision of quality advice to individuals. Challenger Wealth Management derives revenue from asset management, funds administration and financial planning.

7.5 Co-investment rights with Challenger Life

Challenger Life and CIF have entered into a Co-investment Agreement to govern future investment activities by them. Under this agreement, if Challenger Life proposes to invest in any entity or asset that fits within CIF's investment mandate, unless it is prohibited under the terms of the investment or applicable law, Challenger Life must offer CIF the opportunity to co-invest at least 30% of the total co-investment opportunity available to Challenger Life and CIF. However, CIF is not obliged to invest in any such opportunity (see section 13.5.4).

The Co-investment Agreement also includes a pre-emptive right for Challenger Life on a change of control of CIF or removal of CLIL as Responsible Entity of CIF.

7.6 Distribution policy

CIF intends to distribute to Holders all Distributable Income for each financial year. Distributions will be made twice yearly, for the six month periods ending 31 December and 30 June each year.

The intention of the Responsible Entity is to pay regular and relatively even Distributions. However, recognising that the North DN and the Wales & the West DN are anticipated to only make annual distribution payments to their respective Jersey Company, investors should be aware that the Distribution paid for the six month period ending 31 December may be less than the Distribution paid for the six month period ending 30 June.

CIF will pay Distributions to Holders within 90 days of the end of each six month period.

The first Distribution following the Offer is expected to be paid on 15 February 2006, for the period from the Allotment Date to 31 December 2005.

A DRP has been established. It is currently intended that the DRP will be operational for Distributions payable for the half-year ended 30 June 2006. However, the Responsible Entity reserves the right to suspend the commencement of the DRP in its absolute discretion. See section 13.6 for further details.

7. Challenger Infrastructure Fund (continued)

7.7 Currency hedging

CIF's income from the Seed Assets will be received in British pounds. These British pounds will be exchanged into Australian dollars before Distributions are paid. The value of the Australian dollar has been subject to significant fluctuations against the British pound in the past and may be subject to significant fluctuations in the future.

The CIF Sub Trusts have entered into a Foreign Exchange Transaction with Challenger Life whereby the forecast distributions from the Seed Assets up to and including 31 July 2010 will be exchanged into Australian dollars. The Foreign Exchange Transaction is intended to provide a degree of certainty to Holders, so that any unexpected movement in the exchange rates between the Australian dollar and British pound do not have a significant, unexpected impact on the Distributions of CIF to 31 July 2010 resulting from the ownership of the Seed Assets.

CIF's forecast financial information and cash Distributions reflect the Foreign Exchange Transaction discussed above. For the Forecast Period, British pound cashflows will be exchanged to Australian dollars at an annual \$/British pound rate of 2.4091, being the rate agreed between the facility providers and CIF.

See section 13.5.6 for further details.

It is the intention of the Manager to hedge 100%, where possible, of CIF's foreign-denominated cashflows three to five years forward. CIF does not specifically intend to hedge its capital investment in offshore assets. Challenger Life as well as other related parties and market participants may be used as hedge counterparties. CIF's currency hedging policy will be reviewed periodically by the Board for cost effectiveness.

7.8 Borrowing

CIF may use external debt to fund new Acquisitions from time to time. CIF has entered into a Working Capital Facility with Challenger Life. See section 13.5.5 for further information.

8

management fees and other service arrangements



8. Management fees and other service arrangements

This section provides information on the management of CIF.

8.1 Responsible Entity

The Responsible Entity of CIF is CLIL. CLIL is also the Responsible Entity for the Challenger Wine Trust, which is listed on ASX.

The key roles to be undertaken by the Responsible Entity in relation to CIF include:

- financial management and administration;
- governance;
- investment evaluation and implementation with the benefit of advice from the Manager;
- ASX listing management and all stock exchange compliance; and
- investor relations.

A summary of the CIF investment process is shown in figure 8.1.

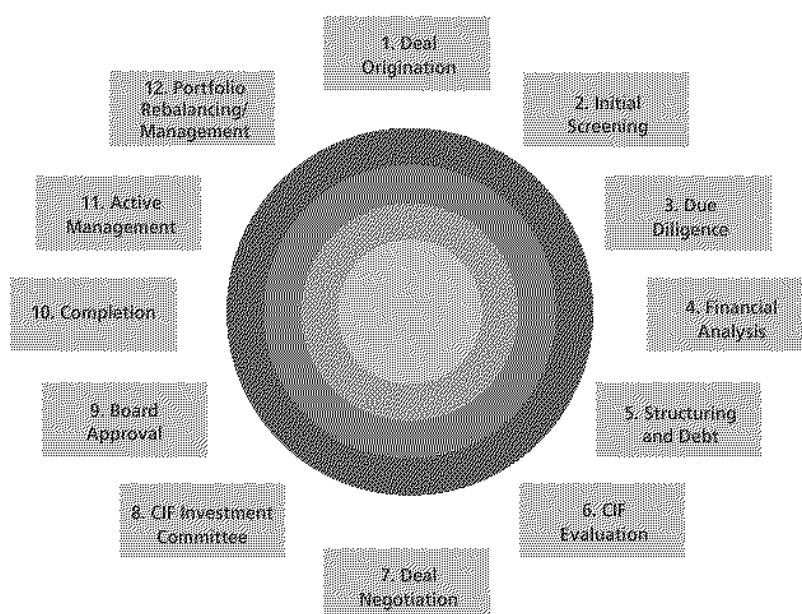
8.2 Management

CIF will be managed by CMSL, a wholly owned subsidiary of Challenger. CMSL has an Australian Financial Services Licence and currently manages Challenger Life's portfolio of fixed interest and infrastructure assets. CMSL may also separately provide identification and advisory services (see sections 2.6, 2.7, 2.8 and 13.5.3).

CMSL comprises an experienced multi-disciplinary team of investment professionals (see section 9.2). These skills combine asset origination, due diligence, negotiation, execution, financial structuring and strong operational knowledge for ongoing infrastructure investment management.

In addition, CGS UK will act as manager of the Jersey Companies. Its responsibilities will include supervising the day to day administration of the Jersey Companies, maintaining financial accounts on their behalf and acting as agent of the Jersey Companies in paying their debts and generally fulfilling their obligations.

Figure 8.1
CIF investment process



8.3 Fees and costs

8.3.1 CIF management fees and expenses

The fee structure for management of CIF is designed to align the interests of the relevant manager with those of Holders. The fee structure includes a Base Fee, Performance Fee and CGS UK fee as shown in figure 8.2.

Figure 8.2
Fees and costs

Type of fee or cost	Amount	Ultimately received by	How and when paid
Base Fee: This is the fee charged for the management services.	1.00% per annum of Adjusted Equity Value as at the end of each half-year period (exclusive of GST and similar foreign taxes).	To be shared as follows: Responsible Entity – 5% Manager ¹ – 95%	The Manager and the Responsible Entity have agreed that they will be paid their share of Base Fees in the form of fully-paid Class A Securities for any fees payable prior to 30 June 2008 and in the form of fully-paid Ordinary Stapled Securities for any fees payable for the period ending 30 June 2008. For all subsequent fee periods, their share of Base Fees will be payable either in cash or in the form of fully-paid Ordinary Stapled Securities, at the discretion of the Responsible Entity. The first Base Fee is due no more than 15 business days after 30 June 2006 for the period from Allotment Date to 30 June 2006. All subsequent Base Fee payments are due within 15 business days of each half-year end. The Manager and the Responsible Entity have agreed to defer receipt of any Class A Securities until after the Second Instalment Payment Date so that the Securities issued to them will be credited as fully-paid. ²
Performance Fee: This fee is also charged in relation to the management services and is designed to provide alignment of the interests of Holders and the relevant manager.	20% of outperformance of the benchmark S&P/ASX 200 Industrial Accumulation Index as at the end of each half-year period (exclusive of GST and similar foreign taxes). To the extent CIF underperforms the benchmark in any period, no Performance Fee is payable for that period and the value of the deficit is carried forward into future periods and must be made up before any Performance Fee becomes payable.	As above.	The Manager and the Responsible Entity have agreed that they will be paid their share of Performance Fees in the form of fully-paid Class A Securities for any fees payable prior to 30 June 2008 and in the form of fully-paid Ordinary Stapled Securities for any fees payable for the period ending 30 June 2008. For all subsequent fee periods, their share of Performance Fees will be payable either in cash or in the form of fully-paid Ordinary Stapled Securities, at the discretion of the Responsible Entity. The first Performance Fee is due no more than 15 business days after 30 June 2006 for the period from Allotment Date to 30 June 2006. All subsequent Performance Fee payments are due within 15 business days of each half-year end. The Manager and the Responsible Entity have agreed to defer receipt of any Class A Securities until after the Second Instalment Payment Date so that the Securities issued to them will be credited as fully-paid. ²

¹ CMSL's fee will be reduced by the amount of the fees paid to CGS UK.

² The Manager and the Responsible Entity will, as an additional fee, receive cash compensation from CIF for any Distributions which they would have received had they been issued the number of partly paid Class A Securities on the original payment date calculated by dividing their fee entitlement by the prevailing market price of Class A Securities on that date.

8. Management fees and other service arrangements (continued)

Type of fee or cost	Amount	Ultimately received by	How and when paid
CGS UK fee: This is the fee payable to the UK Manager in relation to management services provided to the Jersey Companies	£15,000 per annum ¹	UK Manager	The UK Manager will receive its fee in cash within 30 business days of each half-year end.
Expense and services fees: Reimbursement of certain expenses and fees.	CIF is liable for all proper expenses incurred in relation to its operation. If such expenses are paid by the Responsible Entity, the Manager or the UK Manager they can be recovered out of the total assets of CIF. These include expenses incurred in acquiring, valuing, holding or disposing of investments, issuing Securities, establishing and maintaining registers and accounting records, remunerating directors (to the extent that such remuneration is attributable to the management and administration of CIF) and remunerating and insuring the Compliance Committee members. There is no limit in the CIF Constitution on these expenses. ²	The Responsible Entity, the Manager, and the UK Manager, as applicable.	Payable out of CIF's assets in cash, as and when incurred.

¹ This is the amount to which the CGS UK fee is reduced under the Fee Sharing Agreement (see section 13.5.3). CMSL's fee will be reduced by the amount of the fee paid to CGS UK, see section 13.5.3 for further details.

² For example, if the Responsible Entity incurred expenses of \$1,000 in relation to the operation of CIF, the Responsible Entity may recover \$1,000 from the total assets of CIF.

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

The Securities will be subject to a Voluntary Escrow Agreement. See sections 7.2.4 and 13.5.9 for more detail on the escrow arrangements.

Where Base Fees or Performance Fees are received in the form of Securities, the issue price of those Securities will be the arithmetic average of the daily volume weighted average price for a Security based on all sales on ASX for the period of ten business days ending three business days before the date of issue, and if that market value is based on partly-paid Securities, plus 100% of the uncalled amount (see section 13.3.3 for further details on market value). For the Class A Securities whose issue has been deferred until after the Second Instalment Payment Date, the issue price will be determined as if the issue had not been deferred.

The Constitutions permit the issue of Securities to the Responsible Entity and the Manager in lieu of management fees.

8.3.2 Other fees and expenses

Figure 8.3
Fees and costs

Type of fee or cost	Amount	Ultimately received by	How and when paid
Advisor Fee: This is the fee payable to CMSL or any other advisor engaged by the Responsible Entity to provide advisory services (see sections 2.8 and 13.5.3).	The fees payable by CIF to CMSL or other advisors will be determined on an arms length basis at the relevant time. ¹	CMSL or any other advisor engaged by the Responsible Entity, as applicable.	As and when incurred.

¹ For example, depending upon the scope of the advisory services, if there is a transaction having a value of \$100 million and the advisor fee is between 1% and 5% of transaction value, the amount of the fee payable to the advisor would be between \$1 million and \$5 million.

8.4 Calculation of management fees

8.4.1 Details of how Base Fee and Performance Fee are calculated

Base Fee

A Base Fee (exclusive of GST) equal to 1.00% per annum of the Adjusted Equity Value of CIF is payable, where:

- Adjusted Equity Value = Equity Value less Uncommitted Cash
- Equity Value = the arithmetic average of the daily volume weighted average price of Class A Securities (Ordinary Stapled Securities from 1 July 2008) on ASX over the Valuation Period multiplied by the total number of Securities (including Class B Securities before 1 July 2008) outstanding at the end of the Valuation Period
- Uncommitted Cash = cash held by CIF at the end of the period which is not required by the Responsible Entity to pay the pending Distribution or to fund a proposed acquisition for which a contract has been entered or which has been announced to the market
- Valuation Period = the first ten business days for which the Class A Securities (Ordinary Stapled Securities from 1 July 2008) 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.

Performance Fee

A Performance Fee is payable in situations where the total return on CIF exceeds the return on the Benchmark Index.

The value of the Performance Fee (excluding GST) is equal to:

- $20\% \times (\text{CIF Return} - \text{Benchmark Return})$

where:

- $\text{CIF Return} = \text{Opening Equity Value} \times ((\text{Current Securities Value} / \text{Prior Securities Value}) - 1)$; and
- $\text{Benchmark Return} = \text{Opening Equity Value} \times ((\text{Current Benchmark Value} / \text{Prior Benchmark Value}) - 1)$.

See figure 8.4 for definitions used in the calculation of the Performance Fee.

The CIF Index is a value reflecting, in a manner consistent with the Benchmark Index, the accumulated total return received by CIF Holders, including Distributions, since listing and will be calculated for the Manager by an appropriately qualified external party.

If the CIF return is less than the Benchmark Return in any period, no Performance Fee is payable for that period and the value of the deficit is carried forward into future periods and must be made up before any Performance Fee becomes payable.

Figure 8.4

Performance Fee definitions

Equity Value	The arithmetic average of the daily volume weighted average price of Class A Securities (Ordinary Stapled Securities from 1 July 2008) on ASX over the Valuation Period multiplied by the total number of Securities (including Class B Securities before 1 July 2008) outstanding at the end of the Valuation Period
Opening Equity Value	The Equity Value for the previous fee period. For the fee period from Allotment Date to 30 June 2006, the Opening Equity Value is the First Instalment amount multiplied by the total number of Securities (including Class A Securities and Class B Securities) issued on the Allotment Date
Current Securities Value	The average closing value of the CIF Index for the Valuation Period
Prior Securities Value	The average closing value of the CIF Index for the Valuation Period for the previous fee period ¹
Current Benchmark Value	The average closing value of the Benchmark Index for the Valuation Period
Prior Benchmark Value	The average closing value of the Benchmark Index for the Valuation Period for the previous fee period

¹ For the Performance Fee calculation for the fee period from Allotment Date to 30 June 2006, the Prior Securities Value and the Prior Benchmark Value will be based on the Offer Price and average Benchmark Index closing value for the ten business days prior to the Allotment Date.

8. Management fees and other service arrangements (continued)

8.4.2 Examples of how the Base Fee is calculated

The tables below set out hypothetical examples showing how the Base Fee will be calculated. The hypothetical examples are not intended to show the actual Base Fee likely to be payable. The following examples use partly-paid Securities. The Base Fee will be calculated in the same way on fully-paid Securities. Note, the Base Fee calculated in the examples below is shown exclusive of GST.

Base Fee example 1

Base Fee period 1

(A) Equity Value	349,966,672
(B) Uncommitted Cash	—
(C) Days in period	134
Adjusted Equity Value	
= A – B	
= \$349,966,672 – 0	
= \$349,966,672	

Base Fee

$$= \$349,966,672 \times (C/365) \times 0.01$$

$$= \$349,966,672 \times (134/365) \times 0.01$$

$$= \$1,284,809$$

A Base Fee of \$1,284,809 is payable for the period.

Base Fee example 2

Base Fee period 2

(A) Equity Value	341,217,505
(B) Uncommitted Cash	20,000,000
(C) Days in period	181
Adjusted Equity Value	
= A – B	
= \$341,217,505 – \$20,000,000	
= \$321,217,505	

Base Fee

$$= \$321,217,505 \times (C/365) \times 0.01$$

$$= \$321,217,505 \times (181/365) \times 0.01$$

$$= \$1,592,887$$

A Base Fee of \$1,592,887 is payable for the period.

Base Fee example 3

Base Fee period 3

(A) Equity Value	367,465,006
(B) Uncommitted Cash	—
(C) Days in period	184
Adjusted Equity Value	
= A – B	
= \$367,465,006 – 0	
= \$367,465,006	

Base Fee

$$= \$367,465,006 \times (C/365) \times 0.01$$

$$= \$367,465,006 \times (184/365) \times 0.01$$

$$= \$1,852,426$$

A Base Fee of \$1,852,426 is payable for the period.

8.4.3 Examples of how the Performance Fee is calculated

The tables below set out hypothetical examples showing how the Performance Fee will be calculated. The hypothetical examples are not intended to show the actual Performance Fee likely to be payable. The following examples use partly-paid Securities. The Performance Fee will be calculated in the same way on fully-paid Securities. The Performance Fee calculated in the examples below is shown exclusive of GST.

Performance Fee example 1

Performance Fee period 1

(A) Opening Equity Value	314,970,005
(B) Current Securities Value	2.00
(C) Prior Securities Value	1.80
(X) Current Benchmark Value	41,500
(Y) Prior Benchmark Value	39,000

CIF Return for the period:

$$= A \times ((B/C) - 1)$$

$$= \$314,970,005 \times ((2.00/1.80) - 1.00)$$

$$= \$34,996,667$$

Benchmark Return for the period:

$$= A \times ((X/Y) - 1)$$

$$= \$314,970,005 \times ((41,500/39,000) - 1.00)$$

$$= \$20,190,385$$

Performance Fee for the period:

$$= 20\% \times (\$34,996,667 - \$20,190,385)$$

$$= \$2,961,256$$

Deficit carried forward to the next period:

$$= \$0$$

As the CIF Return for the period is greater than the Benchmark Return for the period, a Performance Fee of \$2,961,256 is payable for the period.

Performance Fee example 2**Performance Fee period 2**

(A) Opening Equity Value	349,966,672
(B) Current Securities Value	1.95
(C) Prior Securities Value	2.00
(X) Current Benchmark Value	43,500
(Y) Prior Benchmark Value	41,500

CIF Return for the period:

$$= A \times ((B/C) - 1)$$

$$= \$349,966,672 \times ((1.95/2.00) - 1.00)$$

$$= -\$8,749,167$$

Benchmark Return for the period:

$$= A \times ((X/Y) - 1)$$

$$= \$349,966,672 \times ((43,500/41,500) - 1.00)$$

$$= \$16,865,864$$

Performance Fee for the period:

$$= 20\% \times (-\$8,749,167 - \$16,865,864)$$

$$= -\$5,123,006$$

Deficit carried forward to the next period:

$$= -\$8,749,167 - \$16,865,864$$

$$= -\$25,615,031$$

As the CIF Return for the period is less than the Benchmark Return for the period, no Performance Fee is payable for the period and a deficit of \$25,615,031 will be carried forward to the next period.

Performance Fee example 3**Performance Fee period 3**

(A) Opening Equity Value	341,217,505
(B) Current Securities Value	2.10
(C) Prior Securities Value	1.95
(X) Current Benchmark Value	42,500
(Y) Prior Benchmark Value	43,500

(D) Deficit carried forward from

the previous period

\$25,615,031

CIF Return for the period:

$$= A \times ((B/C) - 1)$$

$$= \$341,217,505 \times ((2.10/1.95) - 1.00)$$

$$= \$26,247,500$$

Benchmark Return for the period:

$$= A \times ((X/Y) - 1)$$

$$= \$341,217,505 \times ((42,500/43,500) - 1.00)$$

$$= -\$7,844,081$$

Performance Fee for the period:

$$= 20\% \times (\$26,247,500 - (-\$7,844,081 + D))$$

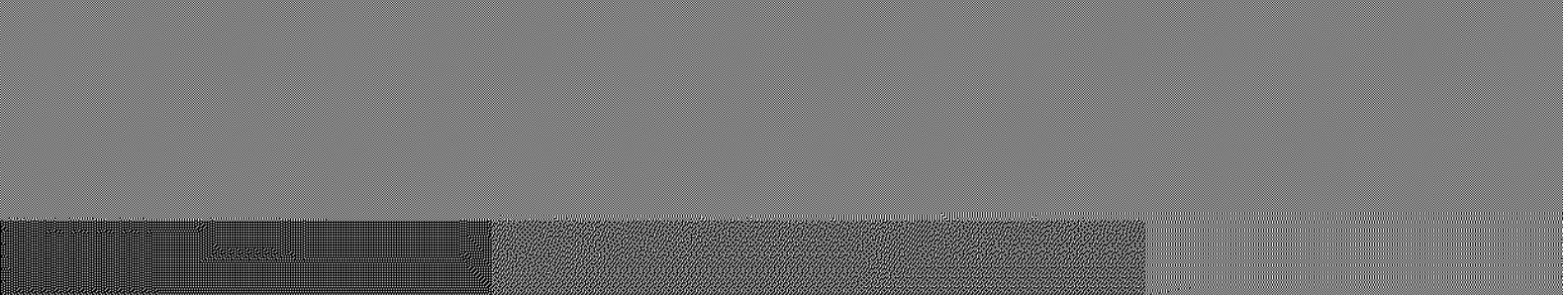
$$= 20\% \times (\$26,247,500 - (-\$7,844,081 + \$25,615,031))$$

$$= \$1,695,310$$

Deficit carried forward to the next period:

$$= \$0$$

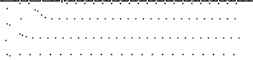
As the CIF Return is greater than the sum of the Benchmark Return for the period and the deficit carried forward from the previous period, a Performance Fee of \$1,695,310 is payable for the period.



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9

board and management



9. Board and management

This section provides a summary of the Board and Management of CIF.

9.1 Directors of Challenger Listed Investments Ltd

9.1.1 Non-executive Directors

- **Stephen Gerlach – Chairman:** Mr Gerlach is a company director and corporate advisor, holding positions on the boards of several public companies including Santos Limited (Chairman), Futuris Corporation Limited (Chairman), Riverland Water Group (Chairman), Elders Rural Bank Limited, and Elders Australia Limited (Chairman). Mr Gerlach is also a former Chairman of Equatorial Mining Limited and Penrice Soda Products Limited and a former director of Southcorp Limited and Brunner Mond Holdings Limited (UK).
- **Russell Hooper:** Mr Hooper is a director of Challenger Financial Services Group Limited, including Challenger Life, and was previously a director and Chairman of the audit committee for Commonwealth Insurance Limited, a subsidiary of the Commonwealth Bank. Mr Hooper was also Chief General Manager, Funds Management, at St. George Bank Limited and held various positions within Advance Bank Limited and St. George Bank Limited, where he was responsible for investment funds, superannuation, life insurance and ASX-listed property trusts.
- **Peter Polson:** Mr Polson is currently Chairman of Challenger Financial Services Group Limited and Challenger Life. Previously Mr Polson held the position of Group Executive, Investment and Insurance Services, at Commonwealth Bank where he was responsible for all investment and insurance services for the group, including the funds management, master funds, superannuation, insurance and third party support services for brokers, agents and financial advisors. Mr Polson is also a non-executive director of AWB Limited, AWB International Limited and Professional Indemnity Insurance Company of Australia Limited.
- **David Hall:** Mr Hall is currently the Managing Director of Roche Group Pty Limited. Mr Hall is on the board of several public companies, including Brickworks Investment Co. Limited and Pacific Strategic Investments Limited.

- **Ian Martens:** Mr Martens is a consultant with BDO Chartered Accountants. Mr Martens' advisory work included the Petaluma Group prior to its takeover by Lion Nathan and as a director to several wine companies and vineyard owners and operators both in Australia and overseas. Mr Martens is also Chairman of RAA Insurance Ltd and a Board member of the Royal Automobile Association of SA Inc.

9.1.2 Executive Directors

- **Robert Woods:** Mr Woods is Chief Executive, Challenger Life at Challenger Financial Services Group Limited. His responsibilities include the management of the Direct Property, Infrastructure and Alternative Asset Management businesses within Challenger Life. Prior to joining Challenger, Mr Woods was a founder of Zurich Capital Markets Asia, where he was responsible for their alternative asset business. Prior to this, Mr Woods spent eleven years with Bankers Trust in investment banking.
- **Tim Foster:** Mr Foster is the Chief Financial Officer of Challenger Financial Services Group Limited and its subsidiaries. Mr Foster's responsibilities include leading the Finance, Legal and Compliance Division within the Challenger Group. He is also a member of the Compliance Committees for three other responsible entities of managed investment schemes within the Challenger Group. Prior to joining Challenger, Mr Foster was Chief Financial Officer of Colonial First State Investments Limited.

9.2 Senior management

- **Steven Bickerton:** Mr Bickerton has recently joined Challenger as Managing Director of CIF and Head of Infrastructure, Challenger Life. Before joining Challenger, Mr Bickerton was Director of Project Finance at Calyon Australia Limited, previously Credit Agricole Indosuez, specialising in the financing of large infrastructure projects. Prior to that, Mr Bickerton held a variety of roles in managing large scale infrastructure-related projects. Mr Bickerton holds an MBA and a Bachelor of Building.

- **Richard Howes:** Mr Howes joined Challenger in 2003 and is the Chief Investment Officer of Challenger Life with overall responsibility for Challenger Life's investment portfolio. Prior to joining Challenger, Mr Howes held the title of Managing Director in a variety of roles at each of Zurich Capital Markets, Macquarie Bank and Bankers Trust in financial markets. Mr Howes holds a Bachelor of Commerce (Hons) and a Bachelor of Economics from the University of Queensland.
- **Andrew Jones:** Mr Jones joined Challenger in 2004 and is a Senior Manager in the Asset Origination team responsible for infrastructure investment origination and transaction management. Previously, Mr Jones was at Zurich Capital Markets where he held several roles including General Counsel focusing on structured finance transactions, mergers and acquisitions. Prior to that, Mr Jones was with Qantas specialising in aircraft financing and acquisitions. Mr Jones has also worked at the international law firm Baker & McKenzie and was admitted to the Supreme Court of NSW in 1993 after obtaining a Bachelor of Commerce and Laws (Hons).
- **Gary Kalmin:** Mr Kalmin joined Challenger in 2002 and is a Senior Manager in the Asset Origination team responsible for infrastructure investment origination and transaction management. Prior to joining Challenger, Mr Kalmin worked in corporate finance roles at PricewaterhouseCoopers in Sydney and Barclays Bank in the UK. Mr Kalmin is a member of the Institute of Chartered Accountants of Australia and has an MBA from the Australian Graduate School of Management.
- **Rory Lonergan:** Mr Lonergan joined Challenger in 2003 and is a Senior Manager in the Asset Origination team responsible for infrastructure investment origination, transaction management and transaction structuring. Previously, Mr Lonergan was at Zurich Capital Markets working in a structured finance role. Prior to this, Mr Lonergan was a director in the tax group at PricewaterhouseCoopers focusing on financial services, banking and capital markets. Mr Lonergan is a Fellow of the Institute of Chartered Accountants in Ireland.

- **Gavin Mullett:** Mr Mullett recently joined Challenger as a Manager in the Asset Origination team from Pacific Road Corporate Finance, where he was an Associate Director working on a diverse range of transactions, including project financing of resource assets in South East Asia. Prior to that, Mr Mullett worked with JPMorgan in Sydney and Greenwich Natwest in the UK specialising in infrastructure and natural resources. Mr Mullett holds a Master's in Business Studies and a Bachelor of Business and Legal Studies from University College Dublin.
- **James Sibony:** Mr Sibony has recently joined Challenger as Senior Manager in the Asset Origination team based in the UK. Before joining Challenger, Mr Sibony was Assistant Director of Ernst & Young (London) specialising in providing advice in relation to utilities infrastructure transactions. Prior to that, Mr Sibony was Associate Director with UBS London focusing on corporate advisory in the European utilities sector.

9.3 Corporate governance committees

9.3.1 Board audit and compliance committee

The Board audit and compliance committee (the 'BAC Committee') is a committee of the Board.

The BAC Committee assists the Board of the Responsible Entity with:

- effective management of financial and operational risks;
- compliance with laws and regulations;
- accurate management and financial reporting;
- facilitating an effective and efficient audit; and
- maintaining high standards of business ethics.

The BAC Committee must comprise at least three directors, with the majority being Independent Directors.

The BAC Committee will appoint a chairperson who must be an Independent Director and who may not be the chairperson of the Board. The BAC Committee chairperson or designate must report the BAC Committee's findings to the Board after each BAC Committee meeting.

9. Board and management (continued)

The BAC Committee may seek any information it considers necessary to fulfil its responsibilities. The BAC Committee has access to:

- management to seek explanations and information from management; and
- auditors to seek explanations and information from them, without management being present.

9.3.2 CIF investment committee

After conducting thorough due diligence and negotiating commercial terms for each investment, the relevant advisor to CIF will be required to present all investment decisions to the CIF investment committee and then to the Board.

The CIF investment committee consists of various senior executives within the Challenger Group and is responsible for providing a risk monitoring, reporting and approval process for the Responsible Entity. The CIF investment committee will report to the Board detailing any material market, liquidity and credit risk exposures of CIF as well as any material breaches of policy or limits.

9.3.3 Risk management system

The management of risks is fundamental to CIF's operations and to building Holder value. The Board takes an integrated approach to risk management. The Responsible Entity is responsible for CIF's risk management strategy and the Manager is responsible for implementing the Board's risk management strategy and for developing policies and procedures to identify, manage and mitigate risks across all of CIF's operations.

The Manager has adopted Challenger's Operational Risk Framework. More detail on risks of an investment in CIF is provided in section 11.

9.3.4 Continuous disclosure policy

Introduction

CIF has adopted a policy to ensure that it complies with its continuous disclosure obligations under the Listing Rules and the Corporations Act. The framework is as provided in the Listing Rules and the legislation. The formal procedures are summarised in this PDS.

Basic requirement

CIF will notify ASX of any information that a reasonable person would expect to have a material effect on the value/price of CIF Securities. The limited exceptions set out in the Listing Rules for information which is confidential qualifies this disclosure obligation, but only if all necessary conditions are satisfied. The Responsible Entity assesses the materiality of information on the basis of both qualitative and quantitative criteria. Matters which do not appear quantitatively material at first glance may be qualitatively material if their disclosure has the potential to adversely affect the decision that Holders might make regarding their investments.

Reporting channels

The Responsible Entity will determine which matters require disclosure and whether a trading halt is justified in any particular situation.

Management is required to report potentially price sensitive information to the Company Secretary and Challenger's Head of Shareholder & Media Relations. Management is required not to pre-judge reportable situations, but to report all matters that might require disclosure.

Speculation and rumours

Where media comment or speculation becomes specific or results in a movement in the market for Securities, the Responsible Entity will convene a meeting of the Continuous Disclosure Committee to consider the Responsible Entity's response. The Continuous Disclosure Committee, which comprises the Managing Director, Company Secretary and Head of Shareholder & Media Relations, will consider and provide the most appropriate response to requests for information and comments or speculation affecting the market.

Disclosure procedures

The following procedure will be followed for market disclosures:

- the Responsible Entity notifies ASX of all company announcements; and
- following acknowledgment of receipt by ASX, all announcements are promptly placed on the CIF website, emailed to the Board and to the Managing Director and his direct reports.

Unauthorised disclosure of price sensitive material may result in disciplinary action. Only certain named individuals in senior executive positions are authorised to speak on behalf of CIF.

10

financial information

Financial Information

Financial Information

10. Financial information

10.1 Introduction

This section contains a summary of certain financial information about CIF including:

- sources and applications of funds;
- pro forma forecast consolidated balance sheet;
- forecast consolidated income statement;
- forecast consolidated cash-flow statement;
- CIF Distribution policy;
- expected distributions in respect of the Seed Assets;
- general and specific assumptions underlying the forecast financial information;
- sensitivity analysis; and
- significant accounting policies.

The forecast financial information set out in this section has been prepared by the Responsible Entity for use in this document. The forecast financial information should be read in conjunction with the assumptions underlying its preparation, as set out in section 10.9, the sensitivity analysis as set out in section 10.10, the risk factors set out in section 11 and other information contained in this PDS. The Responsible Entity believes it has made reasonable enquiries in preparing this forecast financial information and considers the assumptions to be reasonable. However, the forecast financial information may vary from actual results and any variation may be materially positive or negative because the assumptions, and therefore the forecast financial information, are by their very nature subject to uncertainties and contingencies, many of which will be outside the control of the Responsible Entity. Investors are cautioned not to place undue reliance on the forecast financial information.

The Seed Assets are controlled by the board of each consortium established to acquire the Seed Assets. CIF will hold a minority interest in each of the Seed Assets and will have limited representation on the boards of each of the consortia. This information is set out in sections 2.3, 6 and 13.5.1. As a consequence, the Responsible Entity will not have management or board control over the Seed Assets and will have limited ability to influence the activities or decisions of the relevant consortium managers. The Responsible Entity's specific rights in connection with its ownership interests in the Seed Assets are set out in the relevant Consortium/Shareholder

Agreements, the material terms of which are summarised in section 13.5.1.

In preparing the forecast financial information, the Responsible Entity has made appropriate enquiries of the consortia managers and operational management of the Seed Assets. However, there may be information relevant to the forecast financial information that has not been disclosed to the Responsible Entity.

The Directors have appointed Ernst & Young Transaction Advisory Services Limited as the independent accountant to prepare a report in relation to the compilation of the forecast financial information of CIF (see section 12.1).

10.1.1 Basis of preparation

The pro forma financial information has been prepared in accordance with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standard ('AIFRS'). The pro forma financial information has not been prepared under Historical AGAAP. A discussion of the material differences between Historical AGAAP and AIFRS is included in section 10.12.

The forecast financial information has been prepared on the basis that the acquisition of the Seed Assets is completed on the Allotment Date.

The forecast financial information for the Forecast Period is primarily generated from the interests in the Seed Assets and the entitlement to distributions from these assets. The results and Distributions of CIF beyond the Forecast Period will depend on the timing of the payment of the Second Instalment and the manner in which the proceeds of the Second Instalment are invested. As neither the timing nor the nature of future investments can be forecast with a sufficient degree of accuracy, no forecast consolidated income statement has been prepared beyond the Forecast Period. In section 10.7, a discussion of the expected returns from the Seed Assets for the period from Allotment Date to 30 June 2006 and the year ending 30 June 2007 has been provided.

CIF's consolidated net profit before tax under AIFRS may be impacted significantly by future movements in foreign exchange rates due to their impact on the market value of the Foreign Exchange Transaction and on unrealised foreign exchange translation gains or losses recognised on CIF's debt investments in ntl Broadcast and the Wales & the West DN.

Investors should be aware that the above items may introduce considerable volatility into the future reported profit after tax of CIF under AIFRS and may actually cause consolidated net profit after tax for the Forecast Period to be significantly less, or greater, than forecast in section 10.4. The Directors propose to adjust AIFRS net profit after tax for these items to determine forecast Distributions. Therefore, it is not expected that these items will affect Distributable Income.

10.2 Sources and applications of funds

The net proceeds of the First Instalment will be used by CIF to acquire three Seed Assets from Challenger Life, namely equity and debt investments in ntl Broadcast and the Wales & the West DN and the equity investment in the North DN.

The sources and applications of funds raised under the Offer and Challenger's subscription for Class B Securities are outlined below in figure 10.1.

Figure 10.1
Sources and applications of funds

All amounts in \$ million	Sources
New investor subscription for Class A Securities under the Offer ¹	157.5
Challenger Life subscription for Class B Securities ¹	157.5
Total sources	315.0
	Applications
Cash and receivables acquired	3.9
Acquisition of a 6.3% interest in ntl Broadcast	122.1
Acquisition of a 5.8% interest in the North DN	86.6
Acquisition of a 8.6% interest in the Wales & the West DN	90.4
Estimated Offer costs ²	12.0
Total applications	315.0

¹ In respect of First Instalment only.

² Estimated Offer expenses include legal, accounting and other professional fees (including Offer management, underwriting, printing and distribution costs), inclusive of GST.

10. Financial information (continued)

10.3 Pro forma forecast consolidated balance sheet

The pro forma forecast consolidated balance sheet as at Allotment Date as set out in figure 10.2 has been presented on the basis of the following assumptions:

- acquisition of the Seed Assets by CIF from Challenger Life is completed on the Allotment Date;
- consideration of \$3.50 per Security is received, partly-paid to \$1.75;
- proceeds of the Offer are applied as outlined above in section 10.2;
- CIF 1, and its subsidiaries, and CIF 2, which is dormant at the Allotment Date, are consolidated; and
- no material costs or expenses are incurred prior to Allotment Date, other than the estimated Offer costs.

The significant accounting policies that have been adopted in the preparation of the pro forma forecast consolidated balance sheet are outlined in section 10.11.

Figure 10.2

Summary pro forma forecast consolidated balance sheet

All amounts in \$ million	Notes	As at Allotment Date
Assets		
Cash		2.6
Receivables	1	316.3
Available for sale financial assets	2	299.0
Total Assets		617.9
Net Assets		617.9
Holders' equity		
Holders' funds	3	617.9
Total Holders' equity		617.9

The pro forma forecast consolidated balance sheet should be read in conjunction with the notes in this section and the summary of significant accounting policies outlined in section 10.11.

Note 1: Receivables

All amounts in \$ million	As at Allotment Date
Due for Class A Securities ¹	157.5
Due for Class B Securities ¹	157.5
Receivables acquired	1.3
Total	316.3

¹ Represents the Second Instalment.

Note 2: Available for sale financial assets

All amounts in \$ million	As at Allotment Date
Investment in ntl Broadcast – equity	75.1
Investment in ntl Broadcast – debt	47.0
Investment in North DN – equity	86.6
Investment in Wales & the West DN – equity	70.7
Investment in Wales & the West DN – debt	19.7
Total	299.0

Note 3: Holders funds

All amounts in \$ million	As at Allotment Date
Class A Securities	315.0
Class B Securities	315.0
Less: estimated offer costs	(12.0)
Total	617.9

10.4 Forecast consolidated income statement

Set out in figure 10.3 is the forecast consolidated income statement for the Forecast Period, which has been prepared in accordance with the assumptions outlined in section 10.9 and the accounting policies as outlined in section 10.11.

Figure 10.3
Forecast consolidated income statement

All amounts in \$ million	Directors' forecast for Forecast Period
Investment revenue ¹	
– ntl Broadcast	10.9
– North DN	1.7
– Wales & the West DN	7.8
	20.4
Management fees (inc. GST)	(2.8)
Foreign exchange realised gains ²	0.4
Foreign exchange unrealised gains ³	0.1
Other operating expenses ⁴	(0.5)
Profit before tax	17.6
Tax expense	—
Profit after tax	17.6

1 Includes dividend income and interest on shareholder loans distributed from the Seed Assets as follows: dividend income \$13.1 million, interest income \$7.3 million. British pound amounts have been converted to Australian dollars at the forecast average exchange rate for the Forecast Period of 2.3706.

2 Gain on settlement of the Foreign Exchange Transaction.

3 Includes unrealised foreign exchange gains on translation of CIF's monetary assets (\$0.8 million), and unrealised losses on the Foreign Exchange Transaction (\$0.7 million).

4 Includes administration expenses associated with operating CIF and the Jersey Companies.

10. Financial information (continued)

10.5 Forecast consolidated cashflow statement

Set out in figure 10.4 below is CIF's forecast consolidated cashflow statement, which has been prepared in accordance with the assumptions outlined in section 10.9 and the accounting policies as outlined in section 10.11.

Figure 10.4

Summary forecast consolidated cashflow statement

All amounts in \$ million	Directors' forecasts for Forecast Period
Cashflow from operations¹	
Cash receipts from investments	21.3
Cash payments to suppliers	(0.5)
Tax paid	—
	20.8
Cashflow from investing	—
Cashflow from financing	
Working Capital Facility ²	—
Distributions to Holders	(10.0)
	(10.0)
Net cashflow	10.8
Opening cash	2.6
Closing cash	13.4
 1 Reconciliation of profit before tax to cashflow from operations	
Profit before tax	17.6
Tax paid	—
Decrease in receivables	0.6
Add back non-cash adjustments ³	2.6
	20.8

2 For discussion on the Working Capital Facility see section 10.8.2.

3 Comprised of management fees, which are to be paid in Class A Securities during the Forecast Period, and foreign exchange unrealised gains.

10.6 Forecast Distributions from CIF

10.6.1 Distribution policy

The first Distribution for the period from Allotment Date to 31 December 2005 is expected to be paid on 15 February 2006. Subsequent Distributions will be paid semi-annually within 90 days of 31 December and 30 June.

The intention of the Responsible Entity is to pay stable half-yearly Distributions. However, recognising that the North DN and Wales & the West DN make annual distributions, it is expected that the interim Distribution in each financial year will be less than the final Distribution.

10.6.2 Forecast Distributions

CIF's forecast Distributions in respect of the Forecast Period are shown in figure 10.5 below.

The forecast Distributions set out below should be read together with the assumptions set out in section 10.9, the accounting policies as outlined in section 10.11 and the risk factors set out in section 11.

Figure 10.5

CIF forecast Distributions in respect of the Class A Securities

All amounts in \$	Directors' forecasts in respect of the Forecast Period
Forecast Distribution per Class A Security ^{1,4}	
• Taxable	0.04
• Tax deferred	0.10
Total Distribution per Class A Security ^{2,4}	0.14
Average percent tax deferred	70.0%
Annualised cash distribution yield ³	9.25%

1 Includes the final Distribution for the year, which is forecast to be paid in July 2006 which is outside the Forecast Period.

2 Cash Distributions on Class A Securities and Class B Securities will be equal.

3 Annualised from Allotment Date to 30 June 2006.

4 The payment of management fees in scrip increases the number of issued Securities. The per Security calculations are based on total issued Securities of 180 million Securities at 30 June 2006.

10.6.3 Tax deferral

Distributions on the Class A Securities during the Forecast Period will include a component sourced from repayments of principal on debt securities to be issued by the Jersey Companies and to be acquired by wholly owned sub-trusts of CIF. These repayments will be financed from the forecast distributions from the Seed Assets.

This component, which will be approximately 70% during the Forecast Period, of the Distributions on Class A Securities is referred to as tax deferred and is not included in the assessable income of the Class A Holders, but will reduce the Holders' CGT cost base.

The preferred rights attaching to the Class A Securities will expire on 30 June 2008. As at 1 July 2008, Class A Securities and Class B Securities will become Ordinary Stapled Securities and rank equally in all respects. One consequence of this will be that the tax deferred component of Distributions will be reduced. In addition, the extent to which distributions by CIF will include a tax deferred component will depend on the nature and form of future investments. No attempt has been made to forecast the tax deferred component beyond the Forecast Period as there is no reasonable basis on which to do so.

Refer to the Taxation Report in section 12.3.

10. Financial information (continued)

10.7 Expected distribution in respect of the Seed Assets

Figure 10.6 shows the forecast cash distributions from the Seed Assets, the impact of the Foreign Exchange Transaction and the drawdowns on the Working Capital Facility from Allotment Date to 30 June 2006 and for the twelve months to 30 June 2007. The table below does not represent a forecast for CIF. The return from CIF beyond 30 June 2006 depends on the timing of the Second Instalment and the manner in which proceeds of the Second Instalment are invested. No attempt has been made to forecast this as there is no reasonable basis on which to do so.

Figure 10.6

Distributions expected in respect of the Seed Assets

All amounts in \$ million, unless otherwise stated	Allotment Date to 30 June 2006	12 months to 30 June 2007
Distributions from Seed Assets^{1,2}		
ntl Broadcast ³	16.8	9.3
North DN ⁴	1.8	6.0
Wales & the West DN	7.8	10.3
	26.4	25.6
Prior period distributions from Seed Assets available for distribution	—	0.8
Drawdowns on Working Capital Facility	—	3.9
Less: cash operating expenses ⁵	(0.5)	(0.7)
Cash available for distribution	25.9	29.6
Distributions from CIF ⁶	(25.1)	(29.6)
Distributions from Seed Assets available for distribution in future periods	0.8	—
Forecast nature of Seed Asset distribution		
Taxable (\$ per Security) ⁷	0.04	0.05
Tax deferred (\$ per Security) ⁷	0.10	0.11
Total Seed Asset distribution (\$ per Security) ⁷	0.14	0.16
Average % tax deferred on Class A Securities (%)	70.0	70.0
Annualised cash return on Seed Assets ⁸	9.25%	9.25%

1 British pound denominated distributions are converted to Australian dollars at the Foreign Exchange Transaction rate of 2.4091.

2 In respect of the above reporting periods, ntl Broadcast is forecast to pay distributions in December, June and July of each year, the North DN is forecast to pay distributions in March of each year and the Wales & the West DN is forecast to pay distributions in June of each year.

3 In addition to distributions recognised as revenue during the period from Allotment Date to 30 June 2006, distributions from ntl Broadcast include cash acquired (\$2.5 million), accrued revenue acquired (\$0.8 million) and dividends in respect of the year to 30 June 2006 received after 30 June 2006 (\$2.4 million) and realised foreign exchange gains in respect of ntl Broadcast distributions (\$0.2 million).

4 In addition to distributions recognised as revenue during the period from Allotment Date to 30 June 2006, distributions from the North DN include realised foreign exchange gains of \$0.1 million.

5 Includes \$0.1 million forecast GST on management fee and interest on the Working Capital Facility of \$0.2 million (2007 only).

6 Half-yearly Distributions from CIF are to be paid within 90 days of the end of the six month periods ending 31 December and 30 June with the Distributions in respect of the periods ending 30 June expected to be paid in August. The Distribution forecast for August 2006 is \$15.1 million.

7 The payment of management fees in scrip increases the number of issued Securities. The per Security calculations are based on total issued Securities of 180.5 million Securities at 30 June 2006, 181.5 million Securities at 31 December 2006 and 182.4 million Securities at 30 June 2007.

8 The annualised return on Seed Assets has been calculated by dividing the total Seed Asset distributions per Security by the First Instalment of \$1.75 per Security. It does not represent an annualised forecast for CIF or on Class A Securities generally as that will also depend on the timing of the Second Instalment and on how the Second Instalment proceeds are invested.

The purchase of ntl Broadcast by the acquiring consortium was effective 31 January 2005. When CIF acquires Challenger Life's 6.3% interest in ntl Broadcast, it will do so with the entitlement to all distributions paid by ntl Broadcast after the purchase date, 31 January 2005. Consequently, CIF will be entitled to an amount totalling \$9.0 million, representing dividends and interest on shareholder loans unrelated to the Forecast Period.

The purchase of the North DN by the acquiring consortium was effective 1 June 2005. Additionally, the consortium changed the financial year end of the North DN from 31 March to 31 December. Accordingly, the North DN distribution paid to CIF in the Forecast Period reflects the cashflow from the underlying asset for the seven months from 1 June 2005 to 31 December 2005 and is expected to be paid in March 2006.

The purchase of Wales & the West DN by the acquiring consortium was effective 1 June 2005. Accordingly, the Wales & the West DN distribution paid to CIF reflects the cashflow from the underlying asset for the ten months from 1 June 2005 to 31 March 2006 and is expected to be paid to CIF in June 2006.

10.8 Foreign Exchange Transaction and Working Capital Facility

10.8.1 Foreign Exchange Transaction

The CIF Sub Trusts have entered into the Foreign Exchange Transaction with Challenger Life whereby the forecast distributions from the Seed Assets will be exchanged into Australian dollars. The Foreign Exchange Transaction is intended to provide a degree of certainty to Holders, so that any unexpected movement in the exchange rates between the Australian dollar and British pound does not have a significant, unexpected impact on the Distributions of CIF to 31 July 2010 resulting from the ownership of the Seed Assets.

CIF's forecast financial information and cash Distribution reflect the Foreign Exchange Transaction.

Key terms of the Foreign Exchange Transaction include:

- the expected total British pound denominated cash-flows received in each year from the Seed Assets exchanged into stable Australian dollar cash-flow receipts for CIF;
- a fixed annual exchange rate of £1.00 = \$2.4091 until 31 July 2010 inclusive on a consolidated basis;
- the transaction will be entered into and will be effective upon acquisition of the Seed Assets until 31 July 2010 inclusive; and
- the transaction will be documented under 2002 ISDA Master Agreements, Schedules and Confirmations between the CIF Sub Trusts and Challenger Life.

As well as exchanging cash-flows from the underlying assets into Australian dollars, the Foreign Exchange Transaction assists CIF in paying stable half-yearly distributions, despite the fact that the timing and frequency of distributions from Seed Assets differs from the timing of Distributions to Holders. In particular, distributions from both the North DN and Wales & the West DN are received annually by CIF.

Should CIF receive greater British pound denominated distributions than forecast, the additional British pounds received would likely be converted to Australian dollars at the then prevailing spot rate. Should CIF receive fewer British pound denominated distributions than forecast, the CIF Sub Trusts will be required to make good Challenger Life for any costs associated with breaking the unused portion of the Foreign Exchange Transaction. See sections 7.7 and 13.5.6 for further detail on the Foreign Exchange Transaction.

10.8.2 Working Capital Facility

In order to provide the Responsible Entity additional flexibility regarding the nature and timing of expected cashflows from the Seed Assets and the payment of Distributions, CIF has entered into a Working Capital Facility with Challenger Life. The Working Capital Facility is designed to assist CIF in paying stable Distributions year on year. It is not anticipated that this facility will be utilised during the Forecast Period but is expected to be utilised in the year ending 30 June 2007.

10. Financial information (continued)

Key terms of the Working Capital Facility include:

- maximum amount able to be drawn under the facility at any point in time is limited to 1% of the Paid-Up Capital of CIF, with an absolute cap of \$7.5 million;
- rate of interest of the Bank Bill Swap Rate plus 0.7% per annum;
- maximum term of four years from Allotment Date, at which point the facility must be repaid in full unless otherwise agreed; and
- funds drawn under the facility will be in Australian dollars.

See section 13.5.5 for further detail on the Working Capital Facility.

10.9 Preparation of forecast financial information

The forecast financial information included in sections 10.3, 10.4 and 10.5, the forecast Distributions in section 10.6 and the discussion of the expected distributions in respect of the Seed Assets in section 10.7 has been prepared on the basis of material best estimate assumptions set out below.

10.9.1 General assumptions:

Acquisition of Seed Assets

Acquisition of Seed Assets will be completed on the Allotment Date.

Economic and political environment

There will be no significant changes in the prevailing economic and political environment or the rate of economic growth in UK.

Inflation – Retail Price Index

RPI for the 12 months ended 31 December 2004 was 3.0%. The consortium leaders, who are responsible for updating forecasts have settled on slightly different RPI figures, primarily as a result of the timing of their respective budgeting processes. CIF, for its own purposes has not sought to reforecast on a consistent basis as all figures are considered to be within a reasonable range.

Legislation

There will be no change in the legislative regimes and regulatory environments (including taxation) in the jurisdictions in which CIF or the key customers or suppliers of the Seed Assets operate which may materially impact the forecast financial information.

Acquisitions, investments and disposals

It is assumed that there will be no acquisitions, investments or disposals undertaken during the Forecast Period that have a material impact on the forecast financial information.

Accounting policies and standards

The pro forma financial information has been prepared in accordance with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standard ('AIFRS'). The forecast financial information has been presented in abbreviated form, insofar as it does not comply with all the disclosures required under AIFRS. It has been assumed that there will be no material change in Accounting Standards or other mandatory professional reporting requirements or the Corporations Act that would materially affect the forecast financial information other than as set out in, or contemplated by, this PDS.

Competitive environment

There will be no significant change in competitive activity in the market in which CIF or the Seed Assets operate.

Material agreements

There will be no significant amendment to any material agreement or arrangement relating to CIF or its Seed Assets. The parties to those agreements and arrangements are assumed to continue to comply with terms of all material agreements and arrangements.

Key personnel

Key personnel will be retained or recruited as required.

Continuity of operations

There will be no significant disruptions to the continuity of operations of any of CIF's entities or the Seed Assets.

Insurance

Appropriate insurance arrangements are in place to mitigate operational risk during the Forecast Period.

Litigation and contingent liabilities

During the Forecast Period, CIF will not incur any material liability in relation to any claims against it. No additional material litigation or contingent liabilities will arise other than as set out in this PDS.

10.9.2 Specific assumptions – CIF

In addition to the assumptions relating to the Foreign Exchange Transaction and Working Capital Facility as discussed above in section 10.8, specific assumptions for CIF include:

- CIF will distribute all Distributable Income in any financial year;
- the Jersey Companies will recognise distributions from the Seed Assets in the form that they are received. The Directors' Forecast is based on the Directors' best estimate of the quantum, form and timing of these distributions as advised by the Seed Asset managers. However, CIF does not have direct control over the Seed Assets. To the extent the form of the distribution changes, recognition in the income statement may change. Changes in the form of distributions from the Seed Assets do not necessarily impact cash available for CIF to distribute to Holders. However, changes in the timing or quantum of distributions from the Seed Assets may impact the cash available for CIF to distribute to Holders;
- the value of the Foreign Exchange Transaction will be marked to forecast movements in market foreign exchange rates and any resulting gains/losses are included in the income statement as CIF has elected not to apply the principles of hedge accounting contained in AASB 139 Financial Instruments: Recognition and Measurement during the Forecast Period;
- CIF has entered into an agreement to pay a Base Fee to certain Challenger Group entities equal to an annualised rate of 1.00% per annum (exclusive of unrecouped GST) of the Adjusted Equity Value. The first of these management fee payments will be accrued for the period from Allotment Date to 30 June 2006 and paid on the day following the Second Instalment Payment Date, with future payments being half-yearly and payable within 15 business days of 31 December and 30 June of each year. Additionally, a Performance Fee may be payable in certain circumstances (see section 8.3). During the Forecast Period, the management fees will be taken in Class A Securities and as such will have a minimal impact on cashflow from CIF. However, the issue of additional Securities to any Challenger Group entities will dilute the ownership interests of the Class A Holders;
- in calculating the management fee for the Forecast Period, CIF has assumed that market capitalisation will equal the value of funds raised in the First Instalment and that there will be no change in the value between Allotment Date and 30 June 2006. The forecast financial information does not include recognition of a Performance Fee. Refer to section 8.3 for details of the terms of the Performance Fee;
- CIF will incur expenses relating to the operation and administration of the Jersey Companies and CIF itself. These expenses are forecast to include registrar fees, listing fees and general administration expenses. These are forecast to be approximately \$0.5 million per annum during the Forecast Period;
- the estimated Offer costs will be charged against equity;
- CIF will pay no tax during the Forecast Period; and
- there will be no significant change in CIF's funding or capital structure other than as set out in, or contemplated by, this PDS during the Forecast Period.

The assumptions specific to the Seed Assets disclosed below relate to the business operations of the underlying assets and the distributions expected to be received by CIF from the Seed Assets as discussed in section 10.7.

10. Financial information (continued)

10.9.3 Specific assumptions – ntl Broadcast Television broadcast revenue

The majority of TV revenue is supported by long-term analogue and digital TV contracts including with ITV, Channel 4, S4C, Five, Digital 3&4 and SDN. Contract pricing is generally linked to RPI, with an adjustment factor. Regulated analogue TV contracts have RPI-X adjustment clauses which have had a negative inflationary impact in recent years. The 'X' Factor for these contracts will decrease in future periods based on agreement with Ofcom and the TV broadcasters, reducing the negative impact of the pricing clauses.

Radio broadcast revenue

The majority of radio revenue is supported by long-term analogue and digital radio contracts. Contract pricing is generally linked to RPI movements. Growth in analogue radio revenue is expected as a result of the current issue of up to 35 new analogue licenses in the FM band.

Continued network expansion by existing digital radio and expansion of the BBC network is forecast to drive additional growth under the site sharing agreement with CCUK.

Satellite revenue

A large portion of Satellite services revenue is backed by existing contracts. The forecast assumes these contracts are fulfilled. New DTH channel launches are anticipated to drive revenue growth in satellite services revenue. This will comprise additional DTH uplinking and Payout service revenue. An additional Payout studio facility is also expected to drive Payout revenue growth.

Wireless revenue

Mobile network operators are assumed to continue with existing site leasing contracts and create demand for additions, upgrades and new sites as a result of ongoing 2G/2.5G infill requirements and 3G network expansion by the five major mobile operators. An increase in installation revenue and recurring site leasing revenue is expected as a result.

Churn is forecast to allow for attrition relating to radio networks (e.g. paging networks) which are in the process of being decommissioned.

Demand for infill coverage products, CityCell and InBuilding, is also anticipated in relation to 2G and 3G networks.

Additionally, fixed wireless developments are anticipated to drive extra demand for growth, including the development of the UK broadband fixed wireless network.

Public safety revenue

Recurring revenues within Public Safety are anticipated to increase as digital transition projects carried out for various police services are converted to ongoing managed service and maintenance contracts. At the same time, project revenue relating to these transaction projects is expected to decline.

Non-contracted project revenues are expected to decline based on the completion of major projects for the police, ambulance and fire sectors.

Demand for new, emerging applications for these organisations has also been assumed, driving product sales and software license revenues.

The forecast financial information does not reflect any additional revenue from current opportunities in relation to the procurement and development of new digital networks for the fire and ambulance services.

Overheads

Employee costs have been forecast on the basis of resourcing requirements, taking into account expected remuneration levels, adjusted for RPI.

Costs of sales reflect existing costs adjusted for growth linked to revenue assumptions. This includes additional staff required in the Public Safety business to support new project revenue.

Other costs also reflect the level of resources considered necessary to accommodate ntl Broadcast's future growth opportunities.

Capital expenditure

Maintenance and unallocated central division capital expenditure is based on historic experience requirements based on discussions between the consortium manager and operational management.

Expansion of capital expenditure is based on expectations of capital expenditure required for new customer revenue. This will typically only be incurred when there is a high level of certainty of related revenues.

Media capital expenditure is expected to be driven by the growth opportunities in radio as well as fixed satellite services and Playout.

Capital expenditure is also anticipated in order to acquire new sites for CityCell and InBuilding and support requirements for the Asset Management Group and wireless broadband opportunities.

Financing assumptions

Leverage

At acquisition, ntl Broadcast was geared to 57%. The gearing level is expected to increase to reflect the drawdown of additional debt to finance capital expenditure and the part payment of distributions.

Forecast debt structure

Forecast senior debt facilities of \$1,409 million, with interest calculated at a fixed margin over LIBOR. Forecast junior debt facility of \$368 million, with interest calculated at a fixed margin over LIBOR. Capital expenditure facility of up to \$294 million, with interest calculated at a fixed margin over LIBOR. A working capital facility of up to \$49 million, with interest calculated at a fixed margin over LIBOR. Working capital facility is repaid in full at year end on a revolving basis.

10.9.4 Specific assumptions – Wales & the West DN and North DN

Regulatory Asset Value (RAV)

This represents the value for regulatory purposes of the capital already invested in the DN.

Cost of capital (pre-tax WACC)

Ofgem determines cost of capital on a pre-tax basis making assumptions about taxation rates and debt to equity ratios. Companies have been able to outperform the allowed cost of capital by efficient tax management and by adopting higher geared financial structures. Ofgem approved pre-tax real rate of return WACC of 6.25% applies until the next regulatory reset in 2008.

Formula revenue

Formula income is the recovery of the allowed revenue. Charges are made to shippers for the delivery of gas to supply points based on the price control set by Ofgem, with tariffs varying for different 'load bands' or levels of annual gas throughput. The transportation charge methodology is governed by the GT licence and comprises two main elements:

- capacity charges – charges for a share of the pipeline capacity based on the daily peak kWh transported to a supply point; and
- commodity charges – charges to shippers based on the daily volume of gas transported, an important determinant of which is the weather. Commodity charges typically account for two thirds of formula income.

Transportation charges are set on the basis of projected gas throughput, taking account of forecast changes in underlying demand and assuming weather conditions are seasonally normal. Variances between projected and actual demand are likely to cause formula income to be over or under-recovered. This difference is billed (or 'collectable') and allowed income in any given time period is known as 'K' and is taken into account when calculating price adjustments so as to ensure that collected income remains in line with allowed revenue.

In the current formula, allowed income is 35% variable with regard to composite volume whereas collectable income is approximately 65% variable reflecting the proportion of volume based commodity charges. Hence a positive volume variance caused by the weather will cause collectable income to rise (and conversely a negative variance to fall) faster than allowed income, with the difference impacting 'K'. Given the current tariff structure and volume mix, approximately half of the financial effect of unseasonally cold or warm weather will flow through to 'K' and will be repayable to or recoverable from shippers in future periods.

10. Financial information (continued)

Operating expenditure

This comprises the day to day costs of maintaining and running the DNs. This expenditure can be divided into 'controllable costs', such as staff costs, and payments to subcontractors, and 'less controllable costs' which constitute prescribed rates and Ofgem's gas transport licence fee. Controllable costs are incentivised whereas less controllable costs are passed through. In setting the price control, the efficient level of costs that the DN is projected to be able to achieve over the price control period is determined following submissions from the DN, Ofgem efficiency studies and public consultation.

Repex

This is preventative maintenance of a repair nature on the existing network systems. The repex allowance is determined by Ofgem following consultation with the individual DN, industry and other interested parties, principally the Health and Safety Executive ('HSE').

Capex

This is required to improve and extend the capabilities of the network. Projected new capex less customer contributions and net proceeds from asset disposals is added to the RAV. This expenditure is then remunerated through a depreciation allowance and a return on RAV.

Financing assumptions

Leverage

North DN is forecast to hold its senior debt levels at or slightly below 70% of RAV until June 2007. As RAV increases during that period, the senior debt will increase (but remain at or slightly below 70% of RAV). The increase in senior debt will, amongst other things, partly fund capital expenditure and distributions to equity holders.

Wales & the West DN is forecast to increase its senior debt from 78% of RAV in March 2005 to at or slightly below 80% of RAV by June 2007. The increase in senior debt will, amongst other things, partly fund capital expenditure and distributions to equity holders.

10.10 Sensitivity analysis

The forecast financial information has been based on certain economic and business assumptions about future events. A summary of the assumptions underlying the forecast financial information is set out in section 10.9. Investors should be aware that where assumptions have been made about future events, the outcome of such events cannot be predicted with certainty and, as a result, deviations from the forecasts presented are to be expected. The forecast financial information presented above is sensitive to changes in key assumptions used in preparing those forecasts. Set out below is a summary of the forecast impact on CIF's forecast cash-flows for the Forecast Period from possible changes to some of these assumptions. The sensitivity analysis is intended to provide a guide only and variations in actual performance could exceed the ranges shown.

Extreme care should be taken in interpreting this information. This analysis treats each movement in an assumption in isolation from possible movements in other assumptions, which may not be the case. Movements in one assumption may have offsetting or compounding effects on other variables, the effects of which are not reflected in the following analysis. In addition, it is possible that more than one assumption may move at any one point in time, giving rise to cumulative effects, which are also not reflected in this analysis. Typically, the Responsible Entity would respond to any material adverse change in conditions by taking appropriate action to minimise, to the extent possible, any adverse effect on Distributable Profit and Distributions. The effect of any such mitigating action has been excluded from the following analysis.

Figure 10.7
Sensitivity table

	Change in assumption	Change in distributions from Seed Assets for Forecast Period
Inflation – RPI	–50bps	(2.2%)
	+50bps	2.2%
Interest rates	–50 bps	0.2%
	+50 bps	(0.2%)
Capital expenditure	5%	(1.2%)
	–5%	1.2%
Opex	1%	(1.6%)
	–1%	1.6%
Gearing	–5%	(2.5%)
ntl Broadcast		
New projects – Public Safety	Win 1 new digital transition project	1.9%
Revenue on new initiatives	5%	0.3%
	–5%	(0.3%)
DNs		
Unregulated revenue	5%	0.4%
	–5%	(0.4%)
Throughput (volume)/Weather (seasonality)	1%	1.0%
	–1%	(1.0%)

10. Financial information (continued)

10.11 Accounting policies

The pro forma forecast consolidated balance sheet and forecast consolidated income statement have been prepared in accordance with AIFRS.

Investments

Investments of CIF are classified as available for sale. Investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. After initial recognition, investments are measured at fair value.

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

For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash-flows of the underlying net asset base of the investment.

Foreign currency translation

Both the functional and presentation currency of CIF is Australian dollars (\$). Transactions in foreign currencies are recorded in the functional currency at the forecast exchange rates ruling at the date of the transaction. Monetary assets denominated in foreign currencies have been retranslated at the forecast rate of exchange ruling at the balance sheet date and exchange differences on monetary items are recognised in the income statement.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences on available for sale non-monetary assets are recognised in equity.

Revenue

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

Interest

Revenue is recognised as the interest accrues using the effective interest method.

Dividends

Revenue is recognised when the shareholder's right to receive the payment is established.

Derivative financial instruments

CIF uses derivative financial instruments to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are stated at fair value. The fair value of derivative contracts is calculated by reference to current market rates for contracts with similar maturity profiles.

The principles of hedge accounting as required by AASB 139 Financial Instruments: Recognition and Measurement have not been applied in the preparation of the forecast consolidated income statement in section 10.4. Accordingly, the forecast movement in the market value of the Foreign Exchange Transaction during the forecast period has been recognised in the forecast consolidated income statement in section 10.4.

Basis of consolidation

The pro forma forecast consolidated balance sheet and forecast consolidated income statement comprise the financial position and performance of CIF 1, and its subsidiaries, and CIF 2.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

10.12 Comparison between AIFRS accounting policies and Historical AGAAP

All forecast financial information for CIF has been prepared under AIFRS as CIF will report under AIFRS from its inception. AIFRS requires derivatives to be recognised at fair value with changes included in the income statement when the principles of hedge accounting are not applied. This results in the mark to market loss on the hedging arrangements being recognised in the income statement. Under Historical AGAAP, only the net settlements of the derivative would be recognised in the income statement.

11 risk factors

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11 risk factors

11. Risk factors

This section provides a summary of the risks associated with an investment in CIF. Investors are urged to read this PDS in its entirety and carefully consider the risk factors in this section in light of their personal circumstances. Seek professional advice from your accountant, stockbroker, lawyer or other licenced professional advisor before deciding to invest.

There is no guarantee that CIF will achieve its stated objectives, that forecasts will be met, that Distributions will be paid or that forward looking statements will prove accurate.

Investing in Securities exposes Holders to a number of risks.

These risks can broadly be classified as:

- general risks of investing in stock market listed securities;
- risks specific to an investment in CIF;
- risks of investing in communications infrastructure, gas distribution infrastructure, and other infrastructure and utility asset-types, both in the UK and globally; and
- risks specific to the Seed Assets.

These risks may, individually or in combination, have a material adverse effect on CIF's future financial performance, financial position, cashflows, or Distributions or on the price of Securities and consequently on the outcome of an investment in CIF.

This section is not an exhaustive list of the risks associated with an investment in CIF. Many of these risks are outside the control of the Responsible Entity and cannot be mitigated.

11.1 General risks relating to an investment in the stock market and CIF

11.1.1 Stock market fluctuations

The Securities may trade on ASX at higher or lower prices than the Offer Price, whether on a partly-paid or fully-paid basis. The price at which the Securities trade on ASX may be affected by external factors such as movements or changes in domestic and international share markets, domestic and international interest rates, exchange rates, domestic and international economic conditions, including levels of inflation, the competitive environment of the industries in which CIF invests or is

proposing to invest, general operational and business risks, regulations, taxation, and government policies.

In particular, share prices are subject to wide fluctuations, which in many cases may reflect a diverse range of non-company specific influences such as global hostilities and tensions, acts of terrorism and the general state of the economy. Such market fluctuations may materially adversely affect the market price of the Securities. No assurances can be made that CIF's market performance will not be adversely affected by any such market fluctuations or factors. None of the Responsible Entity, its Directors or any other person guarantees CIF's market performance.

11.1.2 Liquidity and realisation

There can be no guarantee that an active market in the Securities will develop or that the price of the Securities will increase. There may be relatively few or many potential buyers or sellers of the Securities on ASX at any time. This may increase the volatility of the market price of the Securities. It may also affect the prevailing market price at which Holders are able to sell their Securities. This may result in Holders receiving a market price for their Securities that is less or more than the price that Holders pay under the Offer.

11.1.3 Dilution

Investors may be diluted by future capital raisings by CIF. CIF may also issue Securities to finance future acquisitions which may dilute the value of Holders' interests if the business value received in the acquisition is less than the value given up by issuing Securities to finance the acquisition. Future Acquisitions may also dilute the tax deferred nature of Distributions. Investors' interests will also be diluted to the extent that management fees are paid in Securities (see section 8.3).

11.1.4 Foreign currency

To the extent that CIF invests outside Australia without hedging exchange rate movements (see section 7.7 for CIF's currency hedging policy), adverse movements in currency exchange rates have the potential to reduce investment returns and to have a material adverse effect on CIF and its ability to make Distributions. In particular, CIF does not specifically intend to hedge its capital investment in offshore assets.

11.1.5 Taxation

The investment structure used by CIF to invest in the Seed Assets assumes that the income derived by the

entities comprising the investment structure will be subject to tax based on the current tax laws, regulations and policies of the applicable jurisdictions. It is noted that a change in tax laws, regulations and policies of the applicable jurisdictions, or a change in the interpretation thereof, may adversely impact the taxation implications in relation to the underlying investments made by CIF, CIF itself, and/or Distributions to Holders. Investors should be aware that CIF has not, and will not, apply for a ruling (public or private) from the ATO or any applicable revenue authority in relation to the taxation outcomes of the investment structure.

11.1.6 Tax deferred Distributions

It is expected that approximately 70% of the Distributions on Class A Securities over the Forecast Period will be tax deferred (refer to section 12.3). As of 1 July 2008, both Class A Securities and the remaining Class B Securities will become Ordinary Stapled Securities. One consequence of this will be that the tax deferred component of Distributions will be reduced. In addition, CIF's capacity to pay tax deferred Distributions will depend on the nature and form of future investments. No attempt has been made to forecast the tax deferred component beyond the Forecast Period as there is no reasonable basis on which to do so.

11.1.7 Asset liquidity

CIF has committed to invest in, and may again invest in, assets that are not listed on a stock exchange or for which there are only a limited number of potential purchasers. The realisable value of an asset may therefore be less than the full value indicated by CIF's expectations of its future cashflows.

11.1.8 Operator

Under CIF's structure, individual investments are operated by separate management and CIF's performance is partially dependent on the continued efforts of these management teams. Each of the Seed Assets is dependent on certain key personnel, and the loss of key personnel, or the inability to retain or replace qualified employees, could have an adverse effect on these businesses and the level of their distributions, which could adversely affect the results of operations and CIF's ability to generate cash and pay Distributions. Furthermore, CIF will be dependent on the operating management teams of businesses in which it may invest in the future.

11.1.9 Concentration

While it is the intention for CIF to diversify its investments further, CIF will initially have interests in three Seed Assets. This degree of portfolio concentration means the performance of CIF, and its ability to make Distributions to Holders, is heavily reliant on the performance of each Seed Asset. To the extent that one or more of the Seed Assets underperforms there may be a material adverse effect on CIF. Additionally, two of the three Seed Assets are UK DNs. This leaves CIF heavily exposed to the performance of this asset class, at least until further Acquisitions are made.

11.1.10 Asset acquisition

CIF intends to acquire additional infrastructure and related assets which meet CIF's investment criteria. CIF expects to face competition for acquisition opportunities. Some of the competing bidders may have greater financial resources or access to financing on more favourable terms than CIF. This competition may limit CIF's acquisition opportunities.

11.1.11 Political, security and civil disturbances

The operation of the Seed Assets may be affected by sovereign or political risk. Major disturbances such as wars, riots, strikes, blockades, acts of terrorism or outbreak of associated military or responsive action have the potential to adversely affect the costs or revenues of the Seed Assets, which could have a material adverse effect on the earnings of CIF and its ability to make Distributions.

11.1.12 Litigation

Financial performance of each of CIF's investments may be affected from time to time by litigation such as contractual claims, occupational health and safety claims, public liability claims, environmental claims, industrial disputes, tenure disputes and legal action from special interest groups.

11.1.13 Limited track record of the Manager

CMSL has not previously managed a listed infrastructure vehicle. As such, it does not have a relevant operating history by which its past performance may be judged. CMSL's track record, in terms of its ability to manage the Seed Asset investments and to effectively source new investment opportunities, is relatively short and untested. However, the Responsible Entity is confident the Manager has assembled a team which has the ability to effectively

11. Risk factors (continued)

manage CIF and its underlying investments.

The appointment of Steven Bickerton as Managing Director of CIF and a team of investment professionals with prior infrastructure experience, is expected to allow the Responsible Entity to fulfil its strategy of building a track record in the infrastructure sector.

11.2 Risks relating to infrastructure or utility industries

11.2.1 Leverage

Investment consortia often use a leveraged capital structure (i.e. with outside borrowings) to acquire infrastructure assets. Details of the gearing levels pertaining to the Seed Assets are set out in sections 6.2.2, 6.3.2 and 6.4.2. Any investment made with a leveraged capital structure will have increased exposure to adverse economic factors such as a rise in interest rates, a downturn in the economy or a deterioration in the condition of its investments. The value of any leveraged investment of CIF could be significantly reduced or even lost altogether if that investment was unable to generate sufficient cashflow to meet the principal and interest payments on the borrowings, or unable to refinance assets on the maturity of the debt, or if interest rate increases cannot be recovered through corresponding adjustments to the tariffs applicable to the assets, or if CIF is unable to appropriately hedge against adverse movements in interest rates.

11.2.2 Capital expenditure

A certain level of capital expenditure is required to maintain infrastructure assets and meet industry changes and technical innovations of customers and competitors. In some instances this capital expenditure will be funded by consortia debt or from the operating cashflow of the underlying asset. Should debt facilities or operating cashflows be unavailable at the time this capital expenditure is required to be spent and/or the capital expenditure required is greater than forecast, then this may have a material adverse effect on CIF.

11.2.3 Regulatory

Changes to existing laws, or the introduction of new laws or regulations, changes to regulated access pricing, or changes to regulatory policy may adversely affect CIF's operating businesses.

11.2.4 Insurance

Each of the investment consortia carry material damage, business interruption and liability insurance to cover their assets with policy specifications and insured limits customary for similar assets. However, there may be losses that are outside the scope of this insurance, or not insured to full replacement cost, or have large deductibles. Accordingly there is a risk that CIF may suffer loss which is not adequately covered by insurance policies.

11.3 Risks relating to Seed Assets

11.3.1 Risks relating to all the Seed Assets Distributions

The quantum of the distributions received by CIF from the Seed Assets are subject to the discretion of the consortia boards of directors. As a minority investor in each of the consortia, CIF shares one board seat with a fellow consortium investor on each of the consortia boards and therefore has limited ability to influence the distribution policy of the consortia. Therefore, there is no guarantee that distribution levels from the Seed Assets will be maintained. Any change in the distribution levels from the Seed Assets will affect the ability of CIF to make Distributions to Holders.

Board seat sharing arrangement

CIF is a minority shareholder in the Seed Assets and shares one board seat on each of the consortia boards with one other consortium investor. This arrangement for the sharing of a board seat may be terminated at any time by either consortium investor. Therefore, there is a risk that CIF could lose this seat. This would reduce CIF's ability to influence the management of the Seed Assets.

Achievability of forecasts

The forecasts are based on a number of assumptions for the Forecast Period. If the assumptions are not achieved or do not occur, the forecasts may not be achieved and this may have a material adverse effect on CIF.

Customer payment

If a customer is unable or chooses not to meet its financial obligations, cashflows from the Seed Assets may be adversely impacted. CIF does not anticipate problems with payment from customers of the Seed Assets, having regard to the quality of their customer bases and the essential nature of the services being provided.

Consortium

Each Seed Asset is held by a consortium, with a number of investors. The different investment objectives of the investors may result in disagreements as to the operations, distribution profile and direction of the underlying assets. The Responsible Entity will not have management or board control over the Seed Assets and will have limited ability to influence the activities or decisions of the relevant consortium managers.

Information provided by third parties

The financial and other information about the Seed Assets in the PDS has been derived from information made available by various parties during the due diligence process conducted in relation to acquisition of interests in those assets by Challenger Life and from publicly available sources. To the extent that this information may be incorrect, inaccurate or misleading, there is a risk that the future financial performance, cashflows and prospects of the Seed Assets may differ (including in an adverse way) from CIF's expectations as reflected in this PDS.

Pre-emptive rights on change of control

In the event of a change of control of CLIL as responsible entity or removal of CLIL as responsible entity of CIF, co-investors in the Seed Assets may be able to exercise pre-emptive rights to acquire the Seed Assets from CIF at fair value (see section 13.5.1).

11.3.2 Risks relating to ntl Broadcast

Competition – broadcast transmission

The UK broadcast transmission business operates in competitive markets. Competition comes from alternative providers of terrestrial transmission assets or services and site leasing services and from providers of other transmission and communication platforms such as satellite and cable. There is a risk that changes in the actions of existing competitors or the entrance of new competitors, or new technologies such as wireless broadband and TV over the internet, may have a material adverse effect on CIF.

There is also a risk that ntl Broadcast's competitors could establish new competing infrastructure or use existing available infrastructure to compete with them. In this regard, ntl Broadcast's site sharing arrangements with CCUK mean that CCUK can compete on a national basis for ntl Broadcast customers whether or not CCUK has a tower located in a given location.

Reliance on key customers

A substantial portion of ntl Broadcast's revenues are derived from a small number of customers. The loss of any of these customers may have a material adverse effect on CIF.

Future investments

ntl Broadcast operates in a dynamic industry and may seek to take advantage of further investment opportunities as they arise. Any pursuit of such opportunities may result in further capital raisings of debt and/or equity that may have an impact on Distributions.

Contract tender

ntl Broadcast intends to tender for customer contracts. Contracts for some projects are awarded after a competitive tender process, which requires ntl Broadcast to make an estimate of the required costs for the project. While ntl Broadcast is experienced in competitive tender processes, there may be contracts for which the costs are underestimated and ntl Broadcast may earn a lower margin, zero margin or negative margin on these contracts which may have a material adverse effect on ntl Broadcast and the level of distributions that it may pay.

Digital switch over

The UK is transitioning from analogue to digital transmission for TV services. This is expected to lead to a compulsory switch-off of analogue TV services in 2012. Analogue TV transmission services currently comprise a significant proportion of the revenue of ntl Broadcast. If revenues derived from the analogue TV transmission market are not replaced with other revenues (primarily digital TV transmission) or the digital TV transmission market does not develop as expected, analogue switch-off may have a material adverse effect on ntl Broadcast and the level of distributions that it may pay.

Development and roll-out of 3G mobile telephony services

The roll-out of 3G mobile transmission networks has begun and is expected to continue until approximately 2010. It is possible there may be delays in the roll-out or that the level of roll-out may be less than expected.

A further risk is that the 2G networks may be switched off to free up spectrum. This might have significant effect on a number of ntl Broadcast's 2G site leasing tenants. The loss of 2G tenants may not be fully replaced by the introduction of new 3G entrants. Such delays or reductions may have a material adverse effect on ntl Broadcast and the level of distributions that it may pay.

11. Risk factors (continued)

Environmental and planning regulation

CIF could be materially adversely affected if a Seed Asset business is found not to comply with environmental laws and regulations.

A significant potential environmental and planning risk that faces CIF is the concern that communications infrastructure assets may pose health risks to the community due to the emission of electromagnetic energy ('EME'). There is a risk that the actual or perceived health risk associated with transmission towers could lead to litigation involving ntl Broadcast or could hinder them in installing and/or operating existing infrastructure or new transmission infrastructure. If ntl Broadcast is not in compliance with regulations associated with EME, faces legal action or the threat of legal action or takes measures to reduce the likelihood of legal action and insurance coverage is inadequate or not possible, there may be a material adverse effect on CIF.

Supply and network operational

ntl Broadcast is exposed to operational risks including a failure to achieve operational efficiencies, structural obsolescence of broadcast towers and other facilities (which may result if digital roll-out is delayed significantly) and equipment failures (due to technical or natural disasters). ntl Broadcast is exposed to events such as terrorism, fire, flood, storm, heatwaves, earthquakes and landslides. Operational disruptions experienced by ntl Broadcast, as well as supply interruptions from third parties, could result in a loss of revenue for CIF. The cost of repairing or replacing damaged or obsolete assets could be considerable (depending on insurance coverage). Repeated or prolonged outages may potentially result in permanent loss of customers, substantial litigation or penalties for regulatory or contractual non-compliance which could have a material adverse impact on CIF.

Real property and tenure

ntl Broadcast's rights to occupy transmission tower sites from which they operate are not all based on freehold title (which has the greatest security of tenure). To the extent that rights are contractual (such as via lease, licence or shared site agreements) most have fixed terms and rights to renew. A small number of sites are occupied under undocumented arrangements or enable the licence to be terminated on notice for convenience.

There is a risk that upon termination (whether by expiry of contractual terms or termination) or, in a small number of cases for ntl Broadcast, where the landlord transfers land upon which ntl Broadcast has an unregistered interest, ntl Broadcast may or may not be able to obtain new contractual terms to occupy a site and may have to vacate a site without compensation. This could affect ntl Broadcast's ability to provide transmission services.

Refinancing

As part of the acquisition of ntl Broadcast, the consortium arranger, Macquarie UK Broadcast Limited, has entered into various finance agreements. The terms of these arrangements vary. The majority of these facilities will need to be refinanced within six years. If the amount of funding available at the time of refinancing is lower than the amounts to be refinanced, or if the terms upon which funding can be obtained are materially inferior to current terms, this could potentially have a material adverse effect on CIF.

Regulatory

Communication infrastructure assets are subject to legislation, regulation (including economic regulation) and governmental supervision. Failure to comply with laws and regulations may lead to penalties or to ntl Broadcast being in breach of contractual provisions.

Operation of communications infrastructure typically requires a licence, permit or authorisation. There is a risk that CIF's return from investments in communications infrastructure may be adversely affected by failure to comply with, or changes to, licensing requirements.

The provision of analogue TV transmission services by ntl Broadcast to ITV and Channel 4/54C has been subject to price control by Ofcom. Ofcom has the power to introduce regulation in other areas such as digital broadcast transmission. Ofcom released a Final Statement in April 2005 which confirmed an earlier preliminary finding that ntl Broadcast and CCUK, individually or together, have 'significant market power' in certain markets, and outlined general remedies, which include the requirement for market participants to:

- provide network access to their respective masts and sites on reasonable request;
- not unduly discriminate;
- ensure that network access charges are reasonably derived from the costs of provision; and

- provide transparency in relation to the terms and conditions on which it is willing to enter into a contract.

Financing

ntl Broadcast's holding company has two primary acquisition facilities, a senior credit agreement, including a Capex facility, and a junior credit agreement. The availability of the Capex facility is subject to a number of conditions which if not met would result in a material detriment to ntl Broadcast as it may not be able to fund Capex. These conditions include the type of Capex to be incurred, the performance of ntl Broadcast and the earnings to be derived from the Capex.

Each of the credit agreements contain numerous default clauses which if breached could require early repayment of the debt. Such breaches could have a material adverse impact on CIF.

Gearing – ability to pay Distributions

ntl Broadcast generates cash for distribution through operations and the draw down on debt. There is flexibility within the current bank debt facilities to continue with the part payment of distributions by the draw down of debt. Although this form of capital structure is not unusual in these types of investments, there is a risk that the lead consortium member could choose to repay debt or retain current debt levels rather than maintain distributions. There is also a risk that the current bank debt facility limits will be reached at some time in the future. CLIL is confident that these limits will not be reached during the Forecast Period. In either instance, CIF's ability to pay Distributions may be materially affected.

IT transition

ntl Broadcast is still undergoing a transition process from the vendor of the business. One of the most costly elements of the transition is IT, particularly transition of ntl Broadcast's financial records and installation of a new system. ntl Broadcast has entered into a contract with IBM to facilitate the transfer of financial data from the vendor to ntl Broadcast. Cost estimates have been obtained for this process, however, there is a risk that these estimates could be exceeded. In addition ntl Broadcast has been required to provide a £4 million indemnity to the vendor for any damage that it causes to its financial system as part of the transition.

11.3.3 Risks relating to the North DN and Wales & the West DN

Regulatory pricing reset

All UK gas distribution networks are subject to price regulation governed by Ofgem. The current price control period is expected to be extended to March 2008 (originally planned for 2007) providing a period of stability to new DN owners. Whilst the regulatory process is relatively mature and transparent, there is a risk that Ofgem may adopt a pricing regime that differs adversely from the consortia investment cases.

Regulatory treatment of certain operating costs

Whilst the operations of a Gas DN are regulated, it is not yet clear how certain costs will be treated in the regulatory process. Examples of such costs include the treatment of gas shrinkage and pension costs. The DN business plans are based on specialist technical advice and regulatory correspondence, however should the regulator adopt an approach materially different to those assumed within the DN business plans, this may have an adverse impact on Distributions.

Gearing – ability to pay Distributions

The North DN and the Wales & the West DN are geared with senior debt at or slightly below 70% and 78% of RAV, respectively. The limit under the North DN senior debt covenants is 70% of RAV. Wales & the West DN is forecast to increase to at or slightly below 80% of RAV by 2007, the limit under its senior debt covenants.

Generally, it is the intention of the consortia to retain senior debt levels as a percentage of RAV going forward. This flexibility is permitted under the senior debt facilities available to each consortium. Distributions to shareholders may therefore be partly funded by the draw down of bank debt as the RAVs on the respective assets increase.

Although this form of capital structure is not unusual in these types of investments, there is a risk that the lead consortium member could choose to repay debt or retain current debt levels rather than maintain distributions. In such an instance, CIF's ability to pay Distributions may be materially affected.

11. Risk factors (continued)

Operational

The DNs are exposed to supply and operational risks associated with the gas distribution pipelines, such as equipment failure, accidents, pipeline damage by third parties, fire, flood, earthquake, landslide or other disaster. Gas distribution also relies on the use of sophisticated systems and equipment for distribution and monitoring of gas flows, and of compression and other equipment which regulates the flow or delivery of gas. These systems and related equipment can fail. Incidents affecting the pipelines or other equipment could affect revenues or give rise to costs and might also lead to claims by customers.

Gas supply and demand

Whilst regulated, the revenue forecasts for the distribution networks are to an extent based on demand forecast assumptions which may not be met. Reasons for variations in the demand forecasts include but are not limited to differences in the number of new connections assumed, economic growth, weather variations and substitution to alternate sources of energy.

Availability of gas reserves to meet demand is essential for the ongoing use of gas pipelines. Supply forecasts in the UK have historically centred on UK Continental Shelf supplies, supplemented with increasing volumes of imports. It is likely that the UK will become increasingly reliant on gas imports which will be subject to the inherent uncertainties in relation to the timing and volume of such import projects.

Documentation

The acquisition of the North DN and Wales & the West DN is governed by a complex set of legal documents and contracts. As a result, there is a risk of misunderstandings and disputes over interpretation and of failure of parties to comply with their obligations under the documents and contracts. In particular, if any of the debt agreements fall into default, CIF, through its investment in the North DN and Wales & the West DN, may be adversely affected.

Licences and permits

Since all the DNs were previously owned by a single company, NGT, the regulatory framework is being adapted to treat the DNs as stand-alone entities.

If the appropriate licences and permits are not maintained, operation of the asset may be adversely affected, which may in turn adversely affect its value and returns to CIF.

Post completion process

The DN assets were acquired effective 1 June 2005 and are still subject to a post-completion process with NGT. Should complications develop or the DN cost estimates in relation to this process be too low, this may have an adverse impact on Distributions.

Transition

The transition of the North DN and the Wales & the West DN from NGT is expected to continue for a further 12-18 months. There is a risk that the transition will be delayed or that complications will develop. In addition, the estimate of increased costs associated with operating the DNs as stand-alone businesses in the forecasts may be too low. A delay in the transition or increased complications or increased costs relating to the transition may have a material adverse effect on CIF.

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experts' reports and taxation

by Dr. G. J. van der Pijl

and Dr. J. A. M. van der Pijl

12. Experts' reports and taxation

12.1 Independent Accountant's Report on the compilation of the forecast financial information



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TRANSACTION ADVISORY SERVICES

GPO Box 2646
Sydney NSW 2001

15 July 2005

The Directors
Challenger Listed Investments Limited
Level 41 Aurora Place
88 Philip Street
SYDNEY NSW 2000

Dear Directors

Independent Accountant's Report on the Compilation of the Forecast Financial Information and Financial Services Guide

PART 1 – INDEPENDENT ACCOUNTANT'S REPORT ON THE COMPILATION OF THE FORECAST FINANCIAL INFORMATION

Ernst & Young Transaction Advisory Services Limited has prepared this Independent Accountant's Report (the "Report") in relation to the compilation of the forecast financial information of Challenger Infrastructure Fund ("CIF") including forecast financial statements for CIF for the period from Allotment Date to 30 June 2006 and forecast distributions from the Seed Assets for the period from Allotment Date to 30 June 2006 and the year to 30 June 2007. This Report is to be included in a product disclosure statement to be dated on or about 15 July 2005 (the "PDS") relating to the initial public offering of stapled securities in CIF. Our review does not include an opinion on the best-estimate assumptions underlying the forecast financial information.

Expressions defined in the PDS have the same meaning in this Report.

The nature of this Report is such that it can be given only by an entity, which holds an Australian Financial Services Licence under the Corporations Act. Ernst & Young Transaction Advisory Services Limited holds the appropriate Australian Financial Services Licence.

Scope

You have requested Ernst & Young Transaction Advisory Services Limited to prepare a report, for inclusion in the PDS covering the following information:

- the compilation of the pro forma forecast consolidated balance sheet of CIF as at Allotment Date, as set out in Section 10.3 of the PDS and which assumes the completion of the contemplated acquisition of the Seed Assets disclosed in section 10.2 of the PDS; and
- the compilation of the forecast consolidated income statement and cashflow statement of CIF for the period from Allotment Date to 30 June 2006, as set out in Sections 10.4 and 10.5 of the PDS, respectively.

collectively referred to as "the Directors' Forecast" and

- the compilation of the forecast distributions from the Seed Assets for the period from Allotment Date to 30 June 2006 and the year to 30 June 2007, as set out in Section 10.7 of the PDS.

Together the Director's Forecast and the forecast distributions from the Seed Assets are referred to herein as the "Forecast Financial Information".

The Directors' Forecast set out in Sections 10.3, 10.4 and 10.5 is presented in accordance with Australian International Financial Reporting Standards ("AIFRS"). The principal differences between AIFRS and Historical AGAAP are set out in Section 10.12 of the PDS.

Responsibility

The Directors of the Responsible Entity are responsible for the preparation and presentation of the Forecast Financial Information, including the best-estimate assumptions, which include the pro forma transactions, on which they are based. The Forecast Financial Information has been prepared for inclusion in the PDS. We disclaim any assumption of responsibility for any reliance on this Report or on the Forecast Financial Information to which it relates for any purposes other than for which it was prepared. This report should be read in conjunction with the full PDS.

Ernst & Young Transaction Advisory Services Limited is liable for the content of this Report. The Responsible Entity is liable for the remainder of the PDS.

Review of Compilation of Forecast Financial Information

Our review of the compilation of the Forecast Financial Information was conducted in accordance with Australian Auditing and Assurance Standard AUS 902 "Review of Financial Reports" and APS 9 "Statement on Compilation of Financial Reports". Our procedures consisted primarily of enquiry and comparison and other such analytical review procedures we considered necessary. These procedures included discussion with the Directors and management of the Responsible Entity and other procedures and have been undertaken to form an opinion whether anything has come to our attention which causes us to believe that:

- (a) in all material respects, the Forecast Financial Information is not properly compiled on the basis of the Responsible Entity Directors' best-estimate assumptions;
- (b) the assumptions disclosed in the PDS are not consistent with those used in compiling the Forecast Financial Information;
- (c) the Directors' Forecast is not presented fairly in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, AIFRS and the accounting policies of CIF disclosed in Section 10.11 of the PDS as applied in Australia for presenting forecasts in PDS documents; and
- (d) the pro forma forecast consolidated balance sheet has not been properly prepared on the basis of the assumptions set out in Section 10.3 of the PDS.

The Forecast Financial Information has been prepared by the Directors of the Responsible Entity to provide investors with a guide to CIF's potential future financial performance based upon the achievement of certain economic, operating, developmental and trading assumptions about future events and actions that have not yet occurred and may not necessarily occur. There is a considerable degree of subjective judgement involved in the preparation of the Forecast Financial

12. Experts' reports and taxation (continued)



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Information. Actual results may vary materially from those forecast and the variation may be materially positive or negative. Accordingly, investors should have regard to the Risk Factors set out in Section 11 of the PDS and the Sensitivity Analysis set out in Section 10.10 of the PDS.

The Directors' Forecast set out in Sections 10.3, 10.4 and 10.5 of the PDS is presented in accordance with AIFRS. The principal differences between AIFRS and Historical AGAAP are set out in Section 10.12 of the PDS.

Our review of the compilation of the Forecast Financial Information, which does not include an opinion on the best-estimate assumptions, is substantially less in scope than an audit examination conducted in accordance with Australian Auditing and Assurance Standards. A review of this nature provides less assurance than an audit. We have not performed an audit and we do not express an audit opinion on the Forecast Financial Information included in the PDS.

Statement

Based on our review of the compilation of the Forecast Financial Information as set out in Sections 10.3, 10.4, 10.5 and 10.7 of the PDS, which is not an audit, nothing has come to our attention which causes us to believe that:

- (a) in all material respects, the Forecast Financial Information is not properly compiled on the basis of the Responsible Entity Directors' best-estimate assumptions;
- (b) the assumptions disclosed in the PDS are not consistent with those used in compiling the Forecast Financial Information;
- (c) the Directors' Forecast is not presented fairly in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, AIFRS and the accounting policies of CIF disclosed in Section 10.11 of the PDS as applied in Australia for presenting forecasts in PDS documents; and
- (d) the pro forma forecast consolidated balance sheet has not been properly prepared on the basis of the assumptions set out in Section 10.3 of the PDS.

The underlying assumptions are subject to significant uncertainties and contingencies often outside the control of CIF and the Directors of the Responsible Entity. If events do not occur as assumed, actual results achieved and distributions provided by CIF may vary significantly from the forecast. Accordingly, we do not confirm or guarantee the achievement of the Forecast Financial Information, as future events, by their very nature, are not capable of independent substantiation.

Subsequent Events

Apart from the matters dealt with in this Report, and having regard to the scope of our Report, to the best of our knowledge and belief no material transactions or events outside of the ordinary business of CIF have come to our attention that would require comment on, or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

Independence or Disclosure of Interest

Ernst & Young Transaction Advisory Services Limited does not have any interest in the outcome of the proposed transaction other than in connection with the preparation of this Report and the preparation by Ernst & Young of an Independent Taxation Report for the PDS. Ernst & Young Transaction Advisory Services Limited will receive a professional fee for the preparation of this Report and Ernst & Young will receive a fee for the preparation of the Independent Taxation Report. Ernst & Young also acts as the statutory auditor of Challenger and provides taxation advice to Challenger.

Yours faithfully
Ernst & Young Transaction Advisory Services Limited

A handwritten signature in black ink, appearing to read 'P. Siviour'.

Paul Siviour
Director and Representative

12. Experts' reports and taxation (continued)



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TRANSACTION ADVISORY SERVICES

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THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE
INDEPENDENT ACCOUNTANT'S REPORT

PART 2 – FINANCIAL SERVICES GUIDE

Issue date: 15 February 2005 (version 3)

1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an Independent Accountant's Report ("Report") in connection with a financial product of another person. The Report is to be included in documentation being sent to you by that person.

2. Financial Services Guide

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging to deal in securities.

4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

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5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits referred to above, neither Ernst & Young Transaction Advisory Services, nor any of its directors, employees or associated entities receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young Transaction Advisory Services is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the Compliance and Legal Manager and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Industry Complaints Service or the Insurance Brokers Disputes Limited for general insurance product advice.

Contacting Ernst & Young Transaction Advisory Services	Contacting the Independent Dispute Resolution Schemes:
Compliance and Legal Manager Ernst & Young 680 George Street Sydney NSW 2000	Financial Industry Complaints Service Limited PO Box 579 – Collins Street West Melbourne VIC 8007 Telephone: 1800 335 405
Telephone: (02) 9248 5555	Insurance Brokers Disputes Limited Level 10 99 William Street Melbourne VIC 3000 Telephone 1800 064 169

This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572

12. Experts' reports and taxation (continued)

12.2 Independent Valuation Report



The Directors
Challenger Listed Investments Limited
(as responsible entity for the Challenger Infrastructure Fund)
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28 June 2005

The Directors

Net asset valuation of the Challenger Infrastructure Fund

1. Introduction

The Directors of Challenger Listed Investments Limited (CLIL), the responsible entity of Challenger Infrastructure Fund (CIF), have appointed PricewaterhouseCoopers Securities Ltd (PwCS) to prepare a report expressing our opinion as to the expected net asset value (NAV) of the Class A and Class B Securities (collectively, the Securities) in the CIF as at 19 August 2005 (the Valuation Date).

2. Purpose of our report

Our report is to be included in the Product Disclosure Statement (PDS) issued in connection with the initial public offering (IPO) of securities in CIF. Notwithstanding the absence of any regulatory requirement to provide a net asset valuation report, the Directors of CLIL have requested our report to provide readers of the PDS with information to assist them in their determination of whether to invest in the Class A Securities of CIF.

This report is also required to assist the Directors of CLIL establish the NAV of the Securities in accordance with the requirement of CIF's constitution and for financial reporting purposes.



The Directors
Challenger Listed Investments Limited
28 June 2005

3. Background and approach

As at the date of this report, we understand that CIF's assets will consist solely of investments in three infrastructure assets located in the United Kingdom (collectively, the Infrastructure Assets), namely:

- An 8.6% interest in MGN Gas Networks (UK) Limited (MGN),
- A 5.8% interest in Northern Gas Networks Holdings Limited (NGN), and
- A 6.3% interest in Macquarie UK Broadcast Holdings Limited (MBH).

The Infrastructure Assets are described in detail elsewhere in the PDS in which this report is included.

As at the date of this report, we understand that as at the Valuation Date, CIF will have no other assets besides the Infrastructure Assets and that CIF will have no liabilities.

To estimate the NAV of the Securities in CIF, we have aggregated the expected fair market value of the individual assets and liabilities of CIF at the Valuation Date. Fair market value is defined as the amount at which an asset would change hands between a knowledgeable willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arms length.

In view of the stable nature of the operations of the Infrastructure Assets and the availability of long-term cashflow projections for those businesses, we have applied a discounted cashflow method to value the Infrastructure Assets.

In addition, we have considered a number of other valuation methods to provide further evidence of the expected fair market value of the Infrastructure Assets. These included considering recent similar asset sales and regulated asset values (RAV) for MGN and NGN, and operating earnings multiples implicit in recent asset sales and at which comparable listed entities are trading for MBH.

4. Valuation of the Infrastructure Assets

Discounted cashflow methods estimate fair market value by discounting a company's future cashflows to a net present value using an appropriate risk adjusted discount rate.

12. Experts' reports and taxation (continued)



The Directors

Challenger Listed Investments Limited

28 June 2005

In applying the discounted cashflow method, we have relied upon models prepared by the bidding consortia for the purposes of acquiring the Infrastructure Assets in late 2004 and updated by Challenger management for subsequent events. In each case, the financial models for the Infrastructure Assets forecast equity cashflows for more than 15 years from the Valuation Date. In addition to the financial models, we have relied upon the most recent equity distribution forecasts provided in the board papers for the Infrastructure Assets.

The discount rates used to determine the present value of the future equity cashflows reflect the risk adjusted rate of return demanded by a hypothetical equity investor in each of the Infrastructure Assets. In our assessment of the discount rates, we have included a premium to reflect an arm's length management fee arrangement consistent with that payable by CIF.

In selecting the discount rates, we considered rates of return on the equity of comparable listed entities, specific business and financing risks of the respective Infrastructure Assets, capital structures used to fund the underlying businesses and capital structures adopted by comparable listed companies.

We have cross checked the ranges of fair market values for the Infrastructure Assets with reference to the implied RAV and EBITDA multiples of comparable listed companies and transactions involving similar businesses.

Based on the foregoing, our estimates of the fair market values of CIF's investments in the Infrastructure Assets are set out below.

Table 1 – Summary of the ranges of fair market value

	Low	High
Fair market value of the Infrastructure Assets	\$m	\$m
MGN Gas Networks (UK) Limited – 8.6%	91	96
Northern Gas Networks Holdings Limited – 5.8%	87	91
Macquarie UK Broadcast Holdings Limited – 6.3%	124	134
Fair market value of the Infrastructure Assets (total)	302	321

Source: PwCS Analysis

Our estimates of fair market value assume that there will be no material changes in the financial and operating performance of the Intangible Assets between the date of this report and the Valuation Date.

The Directors
 Challenger Listed Investments Limited
 28 June 2005

5. Securities on issue

CIF is seeking to raise \$629.9 million (payable in two equal instalments) through the issue of 179.98 million securities (89.99 million Class A Securities and 89.99 million Class B Securities) at a price of \$3.50 per security, of which \$1.75 is payable at the IPO with the balance due on 1 July 2006 unless delayed by CLIL. Challenger Life will subscribe for the Class B Securities with the Class A Securities being offered to the public under the PDS. The full terms and conditions which attach to the Securities are detailed in the PDS.

As of 1 January 2007, half of the Class B Securities issued to Challenger Life at IPO will become Class A Securities. As of 1 July 2008, both the Class A Securities and the remaining Class B Securities will become Ordinary Stapled Securities.

6. Net asset value calculation of the CIF

Our calculation of the NAV of the Securities in CIF is set out below.

Table 2 – Summary of the net asset value

	Low	High
Net Asset Value of the Securities	\$m	\$m
Infrastructure Assets	302	321
Less: liabilities	N/A	N/A
Net Asset Value (total)	302	321
Securities on issue (millions)	179.98	179.98
Net Asset Value (per Security)	\$1.68	\$1.78

Source: PwCS Analysis

In our opinion, based on the analysis discussed above, the NAV of the Securities in CIF can be reasonably expressed in the range of \$1.68 and \$1.78 per Class A and Class B Security as at 19 August 2005.

12. Experts' reports and taxation (continued)



The Directors

Challenger Listed Investments Limited

28 June 2005

It is likely that the initial value of the CIF Class A Securities listed will differ from our analysis of the NAV of the Securities because of a range of factors, including, but not limited to:

- Diversification benefits from holding a portfolio of infrastructure assets diversified by location and type,
- Perceived value in CIF as a platform for future acquisitions of other assets,
- Perceived management skills of MGN, NGN and MBH, especially with regard to the ability to negotiate with regulators and customers,
- Investor sentiment, including demand for off-shore infrastructure investments, and
- The expected tax deferred distribution yield for the CIF.

7. Qualifications, declarations and consents

This report has been prepared at the request of the CLIL and is to be included in the PDS for the IPO of the Class A Securities in CIF. The directors of CLIL may also rely on it for the purpose of the CIF's constitution as described in Section 2. This report should not be used for any other purpose. Readers of this report should be aware that it has been prepared without taking account of their individual objectives, financial situation or needs.

The report represents solely the expression by PwCS of its opinion as to the expected NAV of CIF as at the Valuation Date. PwCS has consented to this report being included in the PDS in the form and context in which it appears.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, PwCS has relied upon the information provided by the directors and executives of the CLIL, Challenger Life and the managers of the bidding consortia for MGN, NGN and MBH which PwCS believes, on reasonable grounds, to be reliable, complete and not misleading. PwCS does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our report were issued to the directors and management of CLIL for confirmation of factual accuracy.

In preparing our report we have had limited access to the members of the bidding consortia for the Infrastructure Assets and have not discussed our findings with the management of the Infrastructure Assets. Accordingly, we may not have become aware of all information that may be relevant to our valuation of this entity. Accordingly the conclusions reached in our report could differ to those reached had we had full access to the management of MGN, NGN and MBH.



The Directors
Challenger Listed Investments Limited
28 June 2005

To the extent that this report refers to prospective financial information we have considered the prospective financial information and the basis of the underlying assumptions. The prospective financial information and the underlying assumptions are the sole responsibility of the directors of CLIL. Our procedures are limited primarily to inquiries of Challenger Group personnel and analytical procedures applied to the financial data. Our procedures and enquiries do not include verification work nor constitute an audit in accordance with Australian Auditing Standards (AUS), nor do they constitute a review in accordance with AUS902 applicable to review engagements and accordingly we do not express any opinion on any financial data or other information referred to in this report.

Actual results are likely to be different from the forecasts and projections of MGN, NGN and MBH used for the purpose of this report, since anticipated events frequently do not occur as expected and the variation may be material. The achievement of forecasts is dependent on the outcome of the assumptions. Accordingly, we express no opinion as to whether the forecasts will be achieved.

Furthermore, recognising that PwCS may rely on information provided by and on behalf of CLIL and their officers and/or associates, CLIL and its directors have agreed to make no claim against PwCS to recover any loss or damage which CLIL or its directors may suffer as a result of that reliance and also has agreed to indemnify PwCS against any claim arising out of this assignment, except where the claim has arisen as a result of any fraud, wilful misconduct, negligence, breach of the engagement or contravention of law by PwCS.

PwCS is a licensed securities advisory business, wholly owned by the partners of PricewaterhouseCoopers. PricewaterhouseCoopers is an international firm of chartered accountants which provides a broad range of accounting and advisory services.

12. Experts' reports and taxation (continued)



The Directors
Challenger Listed Investments Limited
28 June 2005

Neither PwCS, PricewaterhouseCoopers, nor any partner or executive or employee thereof has any financial interest in the outcome of the proposed transactions which could be considered to affect our ability to render an unbiased opinion in this report.

Yours faithfully

A handwritten signature in black ink, appearing to read "K. D. Reeves".

Kevin Reeves
Authorised Representative
PricewaterhouseCoopers Securities Ltd

A handwritten signature in black ink, appearing to read "Ian Clark".

Ian Clark
Authorised Representative
PricewaterhouseCoopers Securities Ltd



Financial Services Guide

This Financial Services Guide is dated 28 June 2005

About us

PricewaterhouseCoopers Securities Ltd (ABN 54 003 311 617, Australian Financial Services Licence no 244572) (PwCS) has been engaged by Challenger Listed Investments Limited (CLIL) to provide a report (the Report) expressing our opinion as to the expected net asset value of the equity securities in the Challenger Infrastructure Fund as at 19 August 2005. You have not engaged us directly but have been provided with a copy of the Report as a retail client because of your connection to the matters set out in the Report.

This Financial Services Guide

This Financial Services Guide (FSG) is designed to assist retail clients in their use of any general financial product advice contained in the Report. This FSG contains information about PwCS generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the Report, and how complaints against us will be dealt with.

Financial services we are licensed to provide

Our Australian financial services licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities, interests in managed investment schemes, derivatives, superannuation products, foreign exchange contracts, insurance products, life products, managed investment schemes, government debentures, stocks or bonds, and deposit products.

General financial product advice

The Report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs. You should consider your own objectives, financial situation and needs when assessing the suitability of the Report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

PwCS charges fees to produce reports, including this Report. These fees are negotiated and agreed with the entity who engages PwCS to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us.

Directors or employees of PwCS, PricewaterhouseCoopers, or other associated entities, may receive partnership distributions, salary or wages from PricewaterhouseCoopers.

12. Experts' reports and taxation (continued)



Associations with issuers of financial products

PwCS and its partners, employees and associates may from time to time have relationships with the issuers of financial products. For example, PricewaterhouseCoopers may be the auditor of, or PwCS may provide financial advisory services to, the issuer of a financial product in the ordinary course of its business. However, PwCS has no existing professional relationship with CLIL that would preclude us from providing advice.

Complaints

If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner. In addition, a copy of our internal complaints handling procedure is available upon request.

If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Industry Complaints Service (FICS), an external complaints resolution service. You will not be charged for using the FICS service.

Contact details

PwCS can be contacted by sending a letter to either of the following addresses:

Kevin Reeves
PricewaterhouseCoopers Securities Ltd
201 Sussex Street
SYDNEY NSW 2000

or

Ian Clark
PricewaterhouseCoopers Securities Ltd
201 Sussex Street
SYDNEY NSW 2000

12.3 Taxation Report



■ Ernst & Young Centre
680 George Street
Sydney NSW 2000
Australia

GPO Box 2646
Sydney NSW 2001

■ Tel 61 2 9248 5555
Fax 61 2 9248 5959
DX Sydney Stock
Exchange 10172

The Directors
Challenger Listed Investments Limited
Responsible Entity of Challenger Infrastructure Fund
Level 41 Aurora Place
88 Phillip Street
Sydney NSW 2000

Dear Sirs

Australian Tax Report

This report has been prepared for inclusion in the PDS for the Offer of Class A Securities in CIF that CLIL intends to issue in August 2005. Capitalised terms used in this report have the same meaning as elsewhere in the PDS, unless otherwise indicated.

This report provides a general summary of the principal Australian Income Tax, Stamp Duty and GST implications for an investor that acquires Class A Securities in CIF pursuant to the offer made in this PDS and who holds the securities on capital account, and is either an Australian resident individual or a complying superannuation fund (“Investor”). This report does not comment on the implications for Holders other than Investors. This report does not address all Australian tax implications for Holders. Potential Holders should read Section 4 below which outlines limitations on the scope of this report.

References to legislation in this report are to the Tax Act, unless otherwise stated.

This report is general in nature and does not constitute taxation advice to any party. The individual circumstances of each Holder may affect the taxation implications in relation to an investment in CIF. Accordingly, each potential investor should seek appropriate independent professional advice that considers the taxation implications in light of their own specific circumstances.

The information contained in this letter is confined to taxation issues and taxation is only one of the matters that Investors need to consider in making an investment in CIF. Under the Corporations Act, this advice is not required to be provided by a holder of an Australian Financial Services Licence (“AFSL”). Accordingly, each potential investor should seek appropriate independent professional advice prior to making a decision about investing in CIF.

12. Experts' reports and taxation (continued)



2

1. TAXATION OF CIF

The trustee of CIF should not be subject to income tax provided:

- a) The Holders of securities issued by CIF are presently entitled to all of the net income of CIF on the last day of each Financial Year;
- b) CIF is not a corporate unit trust (as defined in Division 6B of the Tax Act);
- c) CIF does not carry on a "trading business" (as defined in Division 6C of the Tax Act) causing CIF to be a public trading trust; and
- d) CIF does not control either directly or indirectly the affairs or operations of another person carrying on a "trading business" (as defined in Division 6C of the Tax Act), which may otherwise cause CIF to be a public trading trust.

CIF is intended to be established and managed in a manner such that the above requirements will be satisfied. On this basis, CIF should be treated as a "flow through" entity for Australian tax purposes. Accordingly, although it will be required to calculate its net taxable income for each income year, the income and gains should effectively flow through CIF and retain their character in the hands of Investors and any income tax liability will generally be imposed upon the Investor in proportion to their interest in CIF and any special rights attaching to the Class A Securities.

The calculation of CIF's net taxable income will include interest and dividends derived by CIF from the Jersey Companies. Where the income derived by CIF is subject to foreign withholding taxes, the amount of such taxes will be included in CIF's net income calculation in order to "gross up" the interest and dividends to their pre-withholding tax amounts. A foreign tax credit ("FTC") will be available to Investors for a proportionate share of any withholding tax if the requirements discussed in Section 2.2 of this report are met.

Any repayment of loans by the Jersey Companies should not be included in CIF's net income calculation. Such repayments simply reduce the amount of the loans outstanding. Similarly, distributions paid out of the share capital or share premium account of the Jersey Companies, should not be included in CIF's net income calculation. Instead, such amounts should be treated as reducing CIF's CGT ("**Capital Gains Tax**") cost base in those shares by that amount. Once the CGT cost base of the shares has been reduced to zero, further returns of capital will constitute a CGT gain to be included in CIF's net taxable income calculation.

If CIF's net income calculation for a year results in a negative amount, the resulting tax loss is not distributable to Investors. Instead, it can be carried forward by CIF for offset in future years' net taxable income calculations provided that the trust losses carry forward requirements of the Tax Act are met at the time.

2. TAXATION OF INVESTORS

2.1 Acquisition of Class A Securities

Investors should not be liable for Stamp Duty or GST in respect of acquiring Class A Securities under the Offer. Each Class A Security will constitute a CGT asset. An Investor's CGT cost base in a Class A Security should include the amount the Investor paid to acquire the Class A Security, plus any capital acquisition costs.

2.2 Holding Class A Securities

Investors should include in their assessable income the proportionate share of CIF's net taxable income to which they become entitled to at the end of the Financial Year, even though CIF's distribution for that year may not be received until after year end. The Investor will be assessed in the same year in which CIF derived the income. The rate of tax on this assessable income will depend on the Investor's specific circumstances.

Each component of CIF's net taxable income (such as foreign source interest, dividends and capital gains) will retain its character when assessed in the hands of Investors. CLIL intends to provide a tax statement to Holders each year setting out their proportionate share of CIF's net taxable income components and any foreign taxes paid by CIF.

Investors may be entitled to a FTC in respect of any foreign taxes incurred by CIF. The FTC that may be claimed by an Investor in a given year is calculated as the lesser of:

- a) The Investor's share of the amount of foreign taxes incurred by CIF; and
- b) The Australian tax payable on foreign income of the same class derived by the Investor.

To the extent that a FTC cannot be used by an Investor in a given year (for example, because the foreign taxes paid exceed the Australian tax payable in respect of a class of foreign income derived) the excess FTC may be carried forward for a period of five years for offset against future Australian tax payable on foreign income of the same class.

If a net capital gain is included in CIF's net taxable income, Investors will be treated as having derived a capital gain equal to their proportionate share of such net capital gain. If discount capital gains treatment has applied in calculating the net capital gain included in CIF's net taxable income, Investors will be required to include an additional amount in their assessable income to gross up the amount of the net capital gain (i.e. reverse the effect of the discount at the CIF level). This is required so that the applicable CGT treatment may be applied at the Investor level in accordance with their particular circumstances (e.g. with respect to any Investor capital losses and discount capital gains treatment as discussed at Section 2.4 below).

Where a distribution to an Investor exceeds the Investor's proportionate share of CIF's net taxable income ("Excess"), the distribution is said to include a 'tax deferred' component equal to the amount of the Excess. The 'tax deferred' component will reduce the Investor's CGT cost base in the relevant Class A Security by the amount of the Excess (except to the extent the Excess relates to

12. Experts' reports and taxation (continued)



4

a discount capital gain) rather than being included in assessable income. If the Investor's cost base in the Class A Security has previously been reduced to zero, a capital gain will arise for the Investor equal to any further excess distributions (except to the extent the Excess relates to a discount capital gain). Any such capital gain will need to be included in assessable income, but may qualify for discount capital gains treatment depending on the Investor's circumstances.

2.3 Preferential Rights of Class A Securities

Preferential rights attaching to the Class A Securities will expire on 30 June 2008. As from that date Class A Securities and Class B Securities will become Ordinary Stapled Securities and will rank equally in all respects.

The expiry of the preferential rights attaching to the Class A Securities should not result in any Australian CGT implications for the Investors. Furthermore, the expiry will not cause the 12-month holding period for purposes of the discount capital gains concession to recommence.

2.4 Disposing of Class A Securities

Investors should not be liable to Stamp Duty or GST by reason of the disposal of a Class A Security.

If an Investor disposes of a Class A Security, a capital gain will arise to the extent that the capital proceeds on disposal exceed the Investor's CGT cost base in the Class A Security. A capital loss will arise if the disposal proceeds are less than the Investor's CGT reduced cost base in the Class A Security. An Investor may qualify for discount capital gains treatment in respect of Class A Securities that have been held for at least 12 months, and are not disposed of under an agreement entered into within 12 months of their acquisition. Under this treatment, the amount of a capital gain (after offset of any capital losses of the Investor) is reduced by one half for individuals or one third for complying superannuation funds.

3. WITHHOLDING OF TAX FROM DISTRIBUTIONS

Investors have the option of advising CLIL of their tax file number ("TFN"), Australian Business Number ("ABN") or a relevant exemption. However, if they do not, CLIL will be required to deduct withholding tax from distributions to such Investors at the rate of 48.5% of the gross distribution. The requirement to withhold tax will continue until such time as the relevant TFN, ABN or exemption notification is provided to CLIL. Investors should be entitled to claim an income tax credit or refund in respect of any such tax withheld.

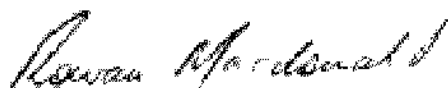
4. SCOPE

This report is based on Tax Laws at the date of this letter. It does not take into account or anticipate changes to Tax Laws and we are not under any obligation to revise this report for such changes. This report does not deal with taxes of a jurisdiction other than Australia. This report summarises the Australian tax implications of the Scheme as described in the PDS. Subsequent amendments to the Scheme may impact the tax implications of the Investors.

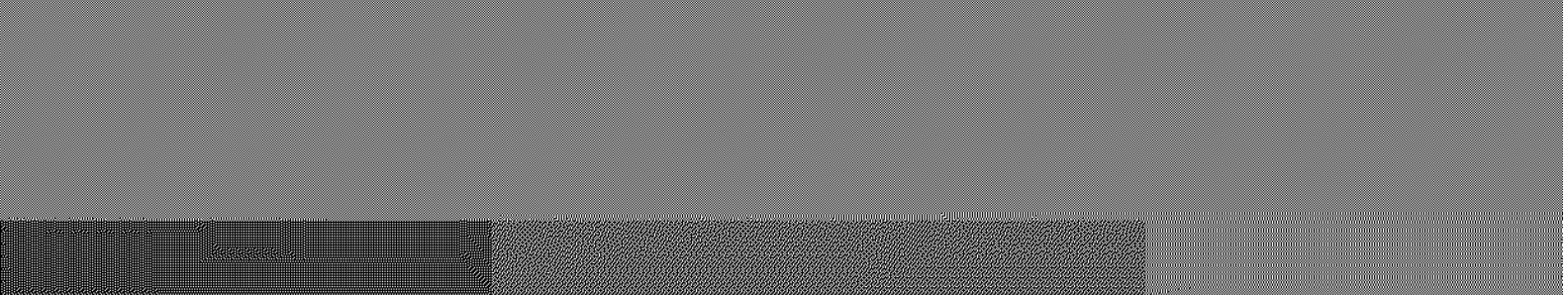
This report does not address the tax implications of investing in Class A Securities for tax residents of jurisdictions other than Australia or persons holding Class A Securities on revenue account or as trading stock. Nor does this report address the tax implications of investing in Class A Securities for insurance companies, banks, investment companies or securities traders. We have not independently verified or audited the facts upon which we have relied in preparing this report.

The inclusion of this report in the PDS is subject to the terms of our consent for its inclusion and to be named in the PDS as set out in Section 13.9.2 of the PDS.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Rowan Macdonald'.

Rowan Macdonald
Partner – Ernst & Young

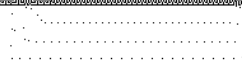


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13

additional information

continued from page 12



13. Additional information

13.1 Regulatory waivers and exemptions

13.1.1 ASX waivers and approvals

ASX has given 'in principle' approval to the following waivers from the Listing Rules:

- a waiver from Listing Rules 7.1 and 10.11 to allow Securities to be issued to the Responsible Entity and the Manager in lieu of management fees without Holder approval on the following conditions:
 - a) the provisions of the Constitutions that allow for the issue of Securities in lieu of management fees and the relevant management arrangements are disclosed to any person who may subscribe for Securities pursuant to the PDS;
 - b) the Securities are issued in accordance with the Constitutions and the relevant management arrangements;
 - c) details of the Securities issued in lieu of management fees are disclosed in the annual report of CIF each year in which Securities are issued; and
 - d) Holder approval is sought every third year for the issue of Securities in lieu of management fees.
- a waiver from Listing Rule 15.16 to permit management agreements on the terms of the CMSL Management Agreement and the UK Management Agreement on the following conditions:
 - a) a summary of the management agreements is set out in this PDS;
 - b) a summary of the management agreements is set out in each annual report of CIF;
 - c) the management agreements may only be extended for an additional period of ten years after the initial term of ten years if approved by an ordinary resolution of Holders; and
 - d) the management agreements may continue for an unfixed term after the initial ten years but will terminate upon notice one month following the passing of an ordinary resolution of Holders to terminate the relevant agreement.
- a waiver from Listing Rule 7.1 and Listing Rule 10.11 in respect of Securities to be issued to an underwriter or sub-underwriter under the DRP (including to the Responsible Entity, its related bodies corporate or associates as underwriter or sub-underwriter of the DRP (**Related Party Underwriter**)) on condition that:
 - a) a summary of the terms of the DRP are set out in this PDS;
 - b) the DRP does not contain a limit on Holder participation;
 - c) the PDS states that a Related Party Underwriter may act as an underwriter or as a sub-underwriter to the DRP on the conditions of this waiver;
 - d) the underwriters (including sub-underwriters) are issued the underwritten Securities within 15 business days of the Distribution payment date;
 - e) any Securities issued to the underwriter are issued at a price which is equal to or greater than the price at which the Securities are issued under the DRP;
 - f) any Related Party Underwriter is not to exercise its right to vote in respect of Securities issued to it under the terms of the underwriting agreement at any meetings of Holders;
 - g) any Related Party Underwriter is to sell any Securities issued to it under the terms of the underwriting agreement, within 3 months of the date of issue, to a person who is not a related party or associate of CIF; and
 - h) this waiver only applies until 31 December 2006.
- a waiver from Listing Rule 6.24 so that the Responsible Entity need not announce the rate and amount of a Distribution when announcing a Distribution and record date on the condition that an estimated Distribution is advised to ASX and the actual rate is advised to ASX as soon as it becomes known.
- various waivers which are customarily granted for the listing and future operation of stapled entities and the quotation of securities.

The following 'in principle' confirmations have been granted in respect of the Offer and CIF:

- CIF is treated as an 'investment entity' for the purposes of Chapter 19 of the Listing Rules;

- subject to compliance with the waiver of Listing Rule 15.16 (set out above), the structure and operations of CIF are appropriate and equitable for the purposes of Listing Rule 1.1 Condition 1;
- in relation to Listing Rule 1.3.5, that CIF is not required to provide accounts for the last three full financial years;
- in relation to Listing Rule 6.1, that the terms of the Securities are appropriate and equitable;
- the right to divest a Holder of their partly-paid Securities on a failure to pay a call when due and payable falls within the exceptions in Listing Rules 6.12.5 and 6.13;
- Listing Rule 11.4 does not apply in respect of Challenger Life's disposal of the Seed Assets to CIF;
- the Class A Securities and Class B Securities are treated as 'ordinary securities' for the purposes of Listing Rule 6.2;
- the Class A Securities are treated as the 'main class' of Securities for the purposes of Listing Rule 1.1 Condition 6;
- exception 4 in Listing Rule 7.2 and exception 7 in Listing Rule 10.12 apply in respect of:
 - a) half of the Class B Securities becoming Class A Securities from 1 January 2007; and
 - b) the remaining Class B Securities and Class A Securities becoming Ordinary Stapled Securities from 1 July 2008.
- the participation by Challenger Life (as a Holder of Class B Securities) in any pro rata issue of Class A Securities is within exception 2 in Listing Rule 7.2 and within exception 1 in Listing Rule 10.12; and
- the participation by Challenger Life (as a Holder of Class B Securities) in any issue of Class A Securities pursuant to a DRP is within exception 7 in Listing Rule 7.2 and within exception 3 in Listing Rule 10.12 provided that the DRP does not impose a limit on participation.

The Responsible Entity may apply to ASX for relief to enable the pre-emptive rights in the Co-investment Agreement to be exercised without Holder approval under the Listing Rules. However, no application has been made to ASX at the date of this PDS.

13.1.2 ASIC declarations and exemptions

The Responsible Entity has obtained relief from ASIC for CIF 1 and CIF 2 as registered managed investment schemes whose units are stapled (this permits the Responsible Entity to have regard to the interests of members of each stapled scheme, and permits one stapled scheme to confer benefits on the other stapled scheme without having first to obtain member approval).

The Responsible Entity may rely on ASIC Class Order 05/26 to facilitate future issues of stapled securities which are quoted on ASX.

13.2 What are the duties of the Responsible Entity?

The Responsible Entity must comply with the Constitutions, the Corporations Act, the compliance plan for each of the entities in CIF and other relevant laws.

The Responsible Entity has statutory duties under the Corporations Act including to act honestly, to act in the best interests of Holders, to treat Holders of the same class equally and all Holders fairly, to formulate and comply with a compliance plan, and to have compliance audited by a compliance plan auditor.

The auditor's report must be lodged with ASIC, together with the annual financial statements of CIF. Ernst & Young is the auditor of the compliance plans for CIF.

13.3 The CIF Constitutions

CIF 1 and CIF 2 each have a constitution, each in almost identical terms. The Constitutions bind the Responsible Entity and Holders as members. Some important features of the Constitutions are mentioned below.

13.3.1 Transfer of Securities

While Securities are quoted on ASX they may be transferred in accordance with the Listing Rules and ASTC Settlement Rules.

13.3.2 Stapling

Each Holder must hold the same number of units in CIF 1 and CIF 2 while stapling applies. A unit in one fund must not be transferred unless a unit in the other fund is transferred at the same time to the same person.

The Responsible Entity must not issue, transfer, register the transfer of, consolidate or divide, redeem or buy back or cancel a unit in CIF 1 unless the same action occurs to a corresponding unit in CIF 2, and vice versa.

13. Additional information (continued)

Issues of a partly-paid unit or option in CIF 1 must be linked to an issue of a partly-paid unit or option issued on similar terms by CIF 2, and vice versa. The Responsible Entity may apportion the offer price of the Securities between CIF 1 and CIF 2.

13.3.3 Issue price

The Responsible Entity may issue new securities at an issue price set by the Responsible Entity in accordance with the Constitutions.

While stapling applies and the Securities are officially quoted on ASX, the issue price of a new Security is linked to the market value. That is defined as the arithmetic average of the daily volume weighted average of all sale prices for securities (excluding 'special' transactions, crossings prior to normal trading, crossings during the after hours adjust phase, any overseas trades, or the exercise of options) during a specified ten business day period. That specified period is the one that ends a further three business days before the day on which the issue price must be fixed. If the only Securities traded are partly-paid, the market value for working out the issue price is based on the market value of a partly-paid Security, plus the uncalled amount.

The Responsible Entity may issue new securities at a price which is greater than 90% of the market value for a placement and greater than 50% of the market price for an issue under a pro rata offer to Holders.

The Responsible Entity may pay some or all of the fee of any person appointed by it in relation to CIF (including, for example, a manager), by the issue of securities to that person. For details of the issue price of securities issued in lieu of management fees see section 8.3.1.

13.3.4 Issue terms

The terms of issue of Class A Securities and Class B Securities are set out in schedule 2 to the Constitution of CIF 1.

A Class A Security ranks equally with all other Class A Securities and Class B Securities for Distributions representing:

- returns of capital on a share in a company holding a Seed Asset;
 - proceeds of the sale of a Seed Asset (whether these are in the form of loan repayments, return of capital paid up on a share in a company holding a Seed Asset, dividends, or otherwise); and
 - distributions in the winding up of a company holding a Seed Asset (whether those distributions are capital, income or net income).
- Subject to the terms of issue of any new class of unit, Class A Securities have the sole right to receive Distributions representing infrastructure cash proceeds, that is:
- repayments of shareholder loans by a company holding a Seed Asset; or
 - cash equivalent to deductions from net income of CIF to the extent they are for management fees paid in Securities or the costs of issuing Class A Securities.
- If such a Distribution is made to the holders of Class A Securities, the holders of Class B Securities have a special preferential right to receive at the same time, to the exclusion of the holders of Class A Securities, a Distribution from income of CIF. Once the Holders of Class B Securities have received a Distribution equal to the Distribution to Holders of Class A Securities which represents repayments of shareholder loans or deductions for fees paid in Securities or for issue costs (see above), both Class A Securities and Class B Securities share equally in further Distributions of income of CIF. This special preferential right of Holders of Class B Securities is not cumulative. If there is insufficient income of CIF to pay the Holders of Class B Securities a Distribution equal to the Distribution to Holders of Class A Securities, the Holder of a Class B Security has no cumulative or other right to receive the shortfall in any later Distribution or otherwise.
- Class B Securities will become Class A Securities before 1 July 2008 if:
- approval is given pursuant to item 7 of section 611 of the Corporations Act to an acquisition because of which a person's voting power in Class A Securities increases to more than 50%;
 - CIF is the subject of a merger implemented by amendment of the Constitution of CIF 1 or CIF 2 by special resolution; or
 - a takeover offer is made for Class A Securities, extending to Class B Securities which become Class A Securities during the Offer period, and the bidder's voting power in Class A Securities becomes greater than 50% during the bid period.

The same rules that apply for Distributions sourced from Seed Assets will apply to Distributions sourced from any comparable infrastructure assets the subject of an Acquisition.

As of 1 January 2007, half of the Class B Securities will become Class A Securities. As of 1 July 2008, both the Class A Securities and the remaining Class B Securities will become Ordinary Stapled Securities.

The Responsible Entity may issue other securities on such terms and conditions as it determines.

13.3.5 Meetings of Holders

The Constitutions contain provisions to facilitate meetings of Holders, or of a class of Holders. These provisions supplement the statutory provisions for meetings. A Holder may appoint a proxy, or two proxies, each for part of the holding, to vote at a meeting. Each Holder is entitled to a vote on a show of hands, and on a poll is entitled to a number of votes proportionate to the size of its holding.

13.3.6 Distributable Income

A Holder who is a Holder on the last day of a financial year is entitled to share in Distributable Income for that financial year. The Responsible Entity may fix interim Distribution dates, which the Responsible Entity intends to do for each half-year so that Holders will receive income Distributions every six months.

13.3.7 Powers of the Responsible Entity

The Constitutions include provisions which enable CIF to invest as it sees fit. Refer to section 7.3 for details of CIF's investment criteria.

The Constitutions allow the Responsible Entity to raise funds in the form of debt or hybrid instruments. At Allotment Date, CIF will be not be geared.

13.3.8 Limitation of liability and indemnity

Subject to the Corporations Act, the Responsible Entity is not liable to Holders for any loss suffered in any way relating to CIF if the Responsible Entity has acted in good faith and without gross negligence. The Responsible Entity is entitled to be indemnified out of the assets of CIF for any liability incurred by it in properly performing or exercising its powers, including to the extent allowed by the Corporations Act for liability resulting from an act or omission of a delegate.

13.3.9 Liability of Holders

The Constitutions limit the liability of Holders to the Offer Price paid or agreed to be paid for their Securities.

13.3.10 Fees of Responsible Entity

The Responsible Entity is entitled to receive the Base Fee and the Performance Fee (see summary of the Fee Sharing Agreement in section 13.5.3).

For details of the form of payment of these fees, see section 8.3.1.

13.4 Change of Responsible Entity

The Corporations Act regulates retirement of the Responsible Entity.

If the Responsible Entity wishes to retire as the Responsible Entity, it must call a Holder meeting to explain its reasons for retirement and enable Holders to vote on a resolution to choose a new responsible entity. Also, Holders may themselves call a meeting to consider and vote to remove the Responsible Entity and choose a new responsible entity.

In each case, the resolution must be passed by at least 50% of the votes cast by Holders entitled to vote on the resolution.

13.5 Material contracts

13.5.1 Consortium/Shareholder Agreements

Material contracts – ntl Broadcast

Investment Agreement

On 26 November 2004, Macquarie Bank Limited (**Macquarie**), Industry Funds Management (Nominees) Limited (**IFMNL**), Challenger Life, Macquarie Communications Infrastructure (Bermuda 2) Limited (**MCIB2**), Macquarie Global Infrastructure Funds 2 SA (**MGIFSA**), MTAA Superannuation Fund (NTL Broadcast) Utilities Pty Limited as trustee for the MTAA Superannuation Fund (NTL Broadcast) Utilities Trust (**MTAA Fund**), Cheyne Special Situations Fund LP (**Cheyne**), Dian Wijaya SDN. BHD. (**Dian Wijaya**), Macquarie Prism Proprietary Limited (**Prism**) and Macquarie UK Broadcast Holdings Limited (**Company**) entered into an investment agreement relating to the subscription for shares in and loan notes of the Company.

Each party to the investment agreement, except for the Company, has subscribed for shares and loan notes in accordance with the terms and conditions of the investment agreement.

13. Additional information (continued)

Shareholders' Agreement

Macquarie, IFMNL, Challenger Life, MCIB2, MGIFSA, MTAA Fund, Cheyne, Dian Wijaya, Prism and the Company have entered into a shareholders' agreement in relation to the Company. Subsequent to entry into the shareholders' agreement, transfers of shareholder interests between related entities may have occurred.

The shareholders and the Company have agreed to make provision for the management and administration of the Company's affairs on the terms in the shareholders' agreement. The most important terms of the shareholders' agreement are set out below.

Challenger Life's interest in the Company was transferred to Challenger Towers Limited and Challenger Towers Limited has entered into a deed of accession under which it assumed rights and liabilities as a shareholder under the shareholders' agreement.

Shareholders

Certain matters, including participation by the Company in any business that is not permitted under the shareholders' agreement, must be approved by shareholders entitled to exercise 80% or more of the votes cast at a shareholders' meeting.

Directors

The Company will have between two and ten directors. IFMNL, Challenger Life, MTAA Fund, Dian Wijaya and Cheyne are each entitled to appoint one director in respect of each 10% shareholding held by them in the Company. Each other shareholder is entitled to appoint one director in respect of each 12.5% shareholding held by them in the Company. However, if MCIG and its associates hold a majority of the shares, MCIG and its associates are entitled to appoint such number of directors so that the number of directors appointed by MCIG constitutes a majority of the directors. Certain matters, including any amendment to the long-term business plan or distribution policy must be approved by 80% or more of the votes cast at a board meeting.

For the purposes of appointing directors, shareholders (**Participating Shareholders**) may enter into agreements to combine their holdings in shares (**Combined Holdings**). Participating Shareholders may jointly appoint one director in respect of each 12.5% or 10% shareholding (as the case may be) represented by the Combined Holdings.

Transfer of shares and loan notes

Each shareholder has undertaken not to transfer or dispose of any shares or loan notes in the Company

other than in accordance with the shareholders' agreement.

The following transfers of shares and loan notes are permitted without triggering the pre-emptive rights, tag along and drag along provisions discussed below:

- a transfer by a shareholder to an associate or nominee of the shareholder on certain conditions;
- transfer by way of security for the obligations of MCIB2 or by way of enforcement of that security in circumstances where the refinancing is on terms materially consistent with existing finance agreements or otherwise agreed by the shareholders.

An associate includes a member of the shareholder's group or a substantial fund or entity under management or a member of the shareholder's group. If the permitted transferee ceases to be an associate of the original transferor, the transferee must transfer its shares and loan notes back to the original transferor within 14 days failing which the associate is deemed to have given a notice to all other shareholders under the pre-emption provisions (see below) in respect of all its shares and loan notes and the sale price will be fair market value.

Pre-emption rights exist in the shareholders' agreement whereby, upon a notice being given by a shareholder that it wishes to transfer shares and loan notes, each non-transferring shareholder has the right to purchase its proportionate entitlement of the transferring shareholder's shares and loan notes.

A shareholder may not transfer shares without also transferring an equivalent proportion of loan notes.

Tag along and drag along provisions

If a shareholder (**Selling Shareholder**) has agreed to sell shares and loan notes (**Tag Along Securities**) to a purchaser in circumstances where the purchaser (together with any of its associates or other entity with which it is acting in concert) will acquire more than a 50% interest in the Company, the Selling Shareholder is required to procure that the purchaser makes an offer (**Tag Along Offer**) to all shareholders.

The purchaser will then purchase a proportion of the Tag Along Securities from each shareholder who accepts the purchaser's offer equal to the proportion that the relevant shareholder's interest represents in the Company. If any shareholder does not accept the purchaser's Tag Along Offer, the purchaser may purchase that shareholder's proportion of the Tag Along Securities from the Selling Shareholder.

In addition, if a Selling Shareholder has agreed to sell shares and loan notes to a purchaser in circumstances where the purchaser (together with any of its associates or other entity with which it is acting in concert) will acquire more than a 90% interest in the Company, the Selling Shareholder may require that the other shareholders sell all of their shares and loan notes in the Company to the purchaser at a price that is at least equal to fair market value.

Change of control

If any person, except for an associate of the relevant shareholder, acquires control, directly or indirectly, of any shareholder, that shareholder will be deemed to have given a notice to all other shareholders under the pre-emption provisions in respect of all of its shares and loan notes. The price for the shares and loan notes the subject of the notice will be fair market value.

Control, for the purposes of the shareholders' agreement, is defined as:

- in the case of a body corporate, the right to exercise more than 50% of the votes exercisable at any meeting of that body corporate, together with the right to appoint more than half of its directors;
- in the case of a partnership or limited partnership, the right to exercise more than 50% of the votes exercisable at any meeting of partners of that partnership or limited partnership (and, in the case of a limited partnership, control of each of its general partners); and
- in the case of any other person, the right to exercise a majority of the voting rights or otherwise to control that person by virtue of provisions contained in its Memorandum or Articles of Association or, as the case may be, Certificate of Incorporation or By-laws, Statutes or other constitutional documents or any contract or arrangement with any other persons.

Admission

If the shares have not been listed on a recognised investment exchange within 10 years of the date of the shareholders' agreement, any shareholder(s) with more than a 35% interest in the Company may issue a notice to the other shareholders and the Company that the Company should seek an admission. Upon receipt of such a notice, each shareholder must co-operate with and assist the Company to achieve an admission.

Events of default

The following events constitute events of default for the purposes of the shareholders' agreement:

- a party breaches the transfer provisions in the shareholders' agreement; or
- an insolvency event occurs in relation to a party.

Upon the occurrence of an event of default in relation to a shareholder, the other shareholders have the right to require:

- that the defaulting shareholder not exercise any right to attend and vote at meetings of the Company;
- that any director appointed by the defaulting shareholder cease to be a director of the Company; and
- that the defaulting shareholder sell to non-defaulting shareholders all or part of the shares and loan notes held by the defaulting shareholder for either an amount equal to 75% of the fair market value or, in the event of insolvency, the fair market value of the shares and loan notes.

Undertakings

The shareholders (other than Macquarie, MCIB2 and any multi-party fund or entity under the Macquarie Group) (the **Relevant Shareholders**) undertake not to enter into any substantive agreement or arrangement with any other Relevant Shareholder as a result of which any Relevant Shareholder would gain direct or indirect control over the voting of shares and/or the appointment or removal of directors representing more than 50% of the shares or directors respectively from time to time.

Relationship with Macquarie

For a period of two years after 31 January 2005 the shareholders and the Company will procure that Macquarie shall be the Company's financial advisor subject to the services being provided on commercially fair and reasonable terms.

Distributions

Subject to compliance with the terms of the finance documents, applicable laws and regulations and adequate provision being made for working capital requirements and liabilities, the Company will distribute to shareholders the maximum amount of available cash in each financial year.

13. Additional information (continued)

Termination

The shareholders' agreement will terminate on the earlier of:

- the dissolution of the Company;
- all the shares being held by one shareholder and members of its group;
- in the event of an admission where all of the shares are listed on a recognised investment exchange; and
- the agreement of all the parties that the agreement be terminated.

The agreement will terminate as between a shareholder and the other parties upon the shareholder ceasing to hold any shares.

Loan Note Instrument

Issue of notes

Macquarie UK Broadcast Services Plc (**Company**) has issued £316,500,000 of notes in accordance with the terms and conditions of the loan note instrument dated 31 January 2005.

Repayment and redemption

Unless previously repaid or purchased, the notes will be repaid by the Company at par on 31 December 2017.

The Company may redeem all or part of the notes at par at any time upon providing the noteholder with 30 days written notice.

Interest

Until the notes are repaid or purchased, the Company will pay interest at a rate of 13% per annum on the principal amount semi-annually in arrears on 30 June and 31 December in each year.

If any payment of interest would breach certain finance documents or if the Company has insufficient cashflow to make the payment, then that payment may be deferred by the Company to the next interest payment date on which the Company has sufficient funds available.

Events of default

Each noteholder may require all of the notes to be repaid at par, together with accrued interest, whilst any of the following is continuing:

- the Company fails to pay within 14 days any principal or interest payable in respect of the notes; or
- an insolvency event occurs in relation to the Company.

Limited recourse

The right of recourse of noteholders against the Company is limited to the assets of the Company.

Master Agreement

On 1 December 2004, NTL Group Limited (**NGL**), NTL (Chichester) Limited (**ntl Chichester**), NTL Digital Ventures Limited (**Digital Holdco**), Macquarie UK Broadcast Limited (**Buyer**) and Macquarie UK Broadcast Holdings Limited (**Buyer Holdco**) entered into a master agreement relating to the acquisition of the entire issued share capital of National Transcommunications Limited (**NatTrans**) and NTL Digital Limited (**NTL Digital**).

Completion of the acquisition took place on 31 January 2005.

Warranties and indemnities

ntl Chichester and Digital Holdco (each, a **Seller**) make certain warranties in relation to the business and assets of NTL Digital and NatTrans. Restrictions and limitations apply to the Buyer's right to make a claim under these warranties, including:

- the warranties will expire on or before the date one year from the date of completion of the transaction under the master agreement, except for tax warranties (seven year limit) and environmental warranties (four year limit);
- ntl Chichester and Digital Holdco will be liable for a maximum of £126 million and £5 million respectively; and
- the Buyer may not bring a claim against ntl Chichester unless the claim is for an amount greater than £10 million and may not bring a claim against Digital Holdco unless the claim is for an amount greater than £1 million.

ntl Chichester and Digital Holdco have each provided the Buyer with an indemnity in respect of taxation, which is also subject to certain thresholds and limits.

Non-competition

For a period of 18 months from the date of completion of the transaction under the master agreement, NGL must not engage in certain activities that compete with the business of NTL Digital and NatTrans within the United Kingdom and the Republic of Ireland.

For a period of 12 months from the date of completion of the transaction under the master agreement, NGL must not, and must procure that each member of the ntl group does not, solicit or entice away from any company within the Buyer's group, any employee of the ntl group allocated to the business of NatTrans at the completion date who is not employed in a non-managerial or purely administrative role earning less than £80,000 per annum. The Buyer makes an identical undertaking in favour of NGL and each other ntl group company.

Material Contracts – North DN

Sale and Purchase Agreement

On 12 November 2004, Able Venture Profits Limited (**Seller**), Challenger Life, SAS Trustee Corporation (**STC**) and Cheung Kong Infrastructure Holdings Limited (**CKIH**) entered into an agreement under which Challenger purchased shares representing 5.8% of the share capital of Gas Networks Limited (**Company**) from the Seller. STC bought shares representing 4.1% of the share capital of the Company under the agreement.

Shareholders' Agreement

On 17 December 2004, Challenger Life, Able Venture Profits Limited (**CKI Sub**), Goldia Resources Limited (**Goldia**), Alpha Central Profits Limited (**HEH Sub**), United Utilities Operations Limited (**UU Sub**), Cheung Kong Infrastructure Holdings Limited (**CKIH**), Li Ka Shing (Overseas) Foundation (**LKSOF**), United Utilities Contract Solutions Limited (**UUCS**), Hong Kong Electric Holdings Limited (**HEH**), SAS Trustee Corporation (**STC**) and Deutsche Asset Management (Australia) Limited (**DAMA**) entered into a shareholders' agreement relating to Gas Networks Limited (**Company**). Subsequent to entry into the shareholders' agreement, transfers of shareholder interests between related entities may have occurred.

The shareholders and the Company have agreed to make provision for the management and administration of the Company's affairs on the terms in the shareholders' agreement. The most important terms of the shareholders' agreement are set out below.

Challenger Life's interest in the Company was transferred to Challenger Northern Gas Limited and Challenger Northern Gas Limited has entered into an adherence agreement under which it assumed rights and liabilities as a shareholder and permitted transferee of Challenger Life under the shareholders' agreement.

Obligations to subscribe

The shareholders are obliged to subscribe for shares in the Company to enable the Company to discharge costs and expenses (in amounts agreed to by the shareholders) relating to the acquisition of Blackwater F Limited, including the Company's obligations to make any payments as a result of post-completion adjustments.

Shareholders

The quorum for any shareholders' meeting is one representative of each shareholder which at the time holds at least 9.9% of the shares on issue and one representative of STC, Challenger Life or any of their respective permitted transferees for so long as STC, Challenger Life and their permitted transferees taken together hold not less than 9.9% of the shares in issue.

Directors

Each shareholder is entitled to appoint one director of the Company in respect of each complete 9.9% of the shares that it owns. For so long as STC, Challenger Life and their permitted transferees taken together hold not less than 9.9% of the issued share capital of the Company, DAMA shall be entitled to appoint one director. STC and Challenger Life may choose to appoint one director instead of DAMA. Their appointee must be approved by the other shareholders (such approval not to be unreasonably withheld).

Reserved matters

Certain matters are reserved to the shareholders and must be approved by each shareholder. These matters include amending the constitution, winding-up of the Company, and the creation or issue of any shares (unless required to cure an event of default under banking facilities).

Certain matters must be approved by at least 75% of votes cast on a poll taken at a board meeting at which each director exercises a number of votes equal to the number of shares held by its appointing shareholder. In addition, in some cases no written objection must have been made by certain shareholders. These matters include consensual amendments to any licence held by Blackwater F Limited, material commitments to Ofgem, and any change in the nature of the business carried on by the Company or its subsidiaries.

Transfer of shares

Under the shareholders' agreement, there is a general prohibition on transfers of shares unless:

- the other shareholders consent to the transfer (any such consent may not be unreasonably withheld or delayed);

13. Additional information (continued)

- the transfer is categorised as an intra-group or permitted transfer;
- a right of first offer procedure is followed under which the shareholders have the right to purchase a proportion of the shares being transferred equal to their proportionate shareholding in the company; or
- in the case of United Utilities only, certain events occur and certain conditions are met.

Even where one of the permissions to transfer below applies transfers are prohibited where the transfer would result in breaches of law or regulation or cause Blackwater F Limited to be in breach of any of the provisions of its licence. Transfers are also prohibited prior to payment of the final completion adjustment amount under the Option Deed, though Challenger Life may transfer to a wholly owned subsidiary on certain conditions, including the consent of the other shareholders.

Permitted transfers

A shareholder may transfer some or all of its shares to a 'group company'. For these purposes a group company means any company in which the ultimate holding company of the transferor controls (whether directly or indirectly) not less than 50% of the voting rights exercisable on a poll at a general meeting of that company.

The shareholders' agreement sets out a further specific permitted transferee regime for STC, Challenger Life and their permitted transferees. Under this regime, transfers of shares to, for example, each other or a fund which is managed or held by Challenger Life or any member of the Challenger Group are permitted provided that (i) the transfer is of at least 4.8% of the issued share capital of the Company or, if less, the shareholder's entire holding and the transfer is not to a black listed transferor, and (ii) if the transferee is not a party to the shareholders' agreement, such transferee provides evidence to the satisfaction of the other shareholders (acting reasonably) that its financial status is sufficient to enable it to properly discharge its obligations under the shareholders' agreement.

Compulsory transfers

If any shareholder commits a material breach of the agreement which is not remedied, is subject to an insolvency event or suffers a change of control to which the other shareholders have not previously consented, the defaulting shareholder may be required to sell its shares to the other shareholders. The change of control provision does not apply to any permitted

transferee of Challenger Life which is a fund of the type described above under 'Permitted Transfers' but could be triggered if the fund ceases to be managed or held by Challenger Life or a member of the Challenger Group.

Change of control means, in relation to a shareholder, that more than 50% of the issued share capital of that shareholder or of any holding company of it whose sole or principal asset is a direct or indirect interest in the share capital of that shareholder, is transferred to a person or persons who are not members of that shareholder's group.

Distributions

The shareholders shall use their rights to procure that the Company distributes the maximum amount available each year subject to:

- amounts required for the business;
- amounts required to be retained by law, the terms of any licence or the terms of any debt financing arrangements.

Admission

The shareholders agree to consider in good faith from time to time the desirability of an initial public offering of Shares in the Company, having regard to market conditions and the likely valuation of the shares.

Option deed

On 31 August 2004, Transco PLC (**Seller**), Gas Network Limited (**Purchaser**) and Blackwater F Limited (**Company**) entered into an option deed relating to the acquisition of the entire issued share capital of the Company.

Completion of the acquisition took place on 1 June 2005.

The agreement contemplates that the post completion adjustment period will be not longer than about four months (unless the parties cannot agree and an independent accountant is appointed), at the end of which an adjustment will be made to the consideration paid at completion. As a result of this adjustment, the Purchaser may either receive an amount back from the Seller or be liable to pay an additional amount to the Seller.

Conduct pending completion

The Seller undertook that in the period between signing and completion the Seller and the Company would carry on their business as a reasonable and prudent operator and otherwise in the ordinary course of business. The Seller was to procure that the Company did not, in relation to the business, undertake any act

which is outside the ordinary course of business and only undertake certain acts with the consent of the Purchaser.

Integration committee

An integration committee has been established under the option deed which will facilitate the integration of the Company into the Purchaser's group. The Seller and the Purchaser are each entitled to appoint up to three people to serve on the integration committee.

Warranties and indemnities

The Seller makes certain warranties in relation to, among other things, the shares of the Company and liabilities incurred. In addition, by way of a tax deed of indemnity, the Seller has provided the Purchaser with an indemnity in respect of taxation.

Certain restrictions and limitations apply to the Purchaser's right to make a claim under the warranties in the option deed including:

- the general warranties will expire on the date 18 months from the date of completion;
- the environmental warranties will expire on or before the date four years after completion;
- any claim in relation to matters arising under the tax deed or certain warranties must be brought on or before the date seven years after completion;
- the Purchaser may not bring any claim (other than a claim under the tax deed) against the Seller unless the aggregate claims are for an amount greater than £8 million; and
- the total aggregate liability of the Seller in relation to claims brought by the Purchaser against the Seller will not exceed 37.5% of the aggregate of the consideration and the debt amount. This cap does not apply to certain warranties for example the warranties given in the option deed in relation to the shares of the Company and liabilities incurred.

Guarantee

The Purchaser guarantees to the Seller and each member of the Seller's group the due and punctual performance of, and the due payment and discharge of, all sums and liabilities which are owing or incurred by the Company to the Seller in respect of the Company's obligations under the option deed and certain other agreements between the Seller and the Purchaser. This guarantee remains in place until all of the guaranteed obligations are fully performed.

Non-solicitation

For a period of two years from 1 June 2005, the Seller undertakes to the Purchaser that it will not, and will procure that members of Seller's group will not, solicit or entice away from the employment of any member of the Purchaser's group and employee in an executive or managerial position. The Purchaser makes an identical undertaking in favour of the Seller.

Material contracts – Wales & the West DN

Acquisition of interests in MGN Gas Networks (UK) Limited

Investment Agreement

Macquarie Bank Limited (**Macquarie**), AMP Life Limited (**AMP**), Canada Pension Plan Investment Board (**CPPIB**), J.P. Morgan Nominees Australia Limited (as nominee for the custodian for the trustee of the Infrastructure Unit of the pooled superannuation trust known as Development Australia Fund) (**DAF Custodian**), Development Australia Fund Management Limited (as trustee of the Infrastructure Unit of the pooled superannuation trust known as Development Australia Fund) (**DAFML**), Macquarie Luxembourg Gas S.A.R.L. (**Macquarie Lux**), Challenger Life, Macquarie Specialised Asset Management Limited (as responsible entity of the Macquarie Global Infrastructure Fund IIA) (**MSAM**), Macquarie Specialised Asset Management 2 Limited (as responsible entity of the Macquarie Global Infrastructure Fund IIB) (**MSAM2**) and MGN Gas Networks (UK) Limited (**Company**) have entered into an investment agreement relating to the subscription for shares in and loan notes of the Company.

Macquarie, AMP, CPPIB, DAF Custodian, Macquarie Lux, Challenger Life, MSAM and MSAM2 subscribed for shares and loan notes in accordance with the terms and conditions of the investment agreement.

Sale and Purchase Agreement

On 11 November 2004, Macquarie and Challenger Life entered into a sale and purchase agreement for the sale and purchase of shares and loan notes in the Company.

Under the sale and purchase agreement, Challenger Life acquired 543,090 additional shares and £181,030 of loan notes in the Company from Macquarie. In addition, Challenger purchased, by way of novation, Macquarie's £13,288,728 commitment in respect of which Macquarie had agreed to subscribe for shares and loan notes in the Company.

13. Additional information (continued)

Shareholders' agreement

On 9 August 2004, Macquarie, AMP, CPPIB, DAF Custodian, DAFML, Macquarie Lux, Challenger Life, MSAM, MSAM2 and the Company entered into a shareholders' agreement in relation to the Company. Subsequent to entry into the shareholders' agreement, transfers of shareholder interests between related entities may have occurred.

The shareholders and the Company have agreed to make provision for the management and administration of the Company's affairs on the terms in the shareholders' agreement. The most important terms of the shareholders' agreement are set out below.

Challenger Life's interest in the Company was transferred to Challenger Wales and the West Gas Limited and Challenger Wales and the West Gas Limited entered into a deed of accession under which it assumed rights and liabilities as a shareholder under the shareholders' agreement.

Shareholders

Certain matters, including participation by the Company in any business that is not permitted under the shareholders' agreement, must be approved by a majority of more than 75% of the votes cast at a shareholders' meeting.

Directors

The Company will have between three and twelve directors. Each shareholder is entitled to appoint one director in respect of each 15% shareholding held by them in the Company. The non-Macquarie shareholders (acting together) have the right to appoint at least one director even if they hold less than 15%. Certain matters, including the issue of shares and options, the redemption or purchase of shares by the Company, the reorganisation of the share capital of the Company and a transfer of a material part of the business must be approved by more than 75% of the votes cast at a board meeting.

For the purposes of appointing directors, shareholders (**Participating Shareholders**) may enter into agreements to combine their holdings in shares (**Combined Holdings**). Participating Shareholders may jointly appoint one director in respect of each 15% shareholding represented by the Combined Holdings.

Transfer of shares and loan notes

Each shareholder has undertaken not to transfer or dispose of any shares or loan notes in the Company other than in accordance with the shareholders' agreement.

The following transfers of shares and loan notes are permitted without triggering the pre-emptive rights, tag along and drag along provisions discussed below:

- a transfer by a shareholder to an associate or nominee of the shareholder;
- a transfer by a Macquarie European Infrastructure Fund LP Co-Investor to Macquarie European Infrastructure Fund LP Luxembourg which takes place in connection with or following a listing of securities by Macquarie European Infrastructure Fund LP; or
- a transfer by Macquarie to Whaley Pty Limited, in its capacity as bare trustee for the persons listed in the shareholders' agreement.

An associate includes a member of the shareholder's group or a substantial fund or entity under management of a member of the shareholder's group. If the permitted transferee ceases to be an associate of the original transferor, the permitted transferee is deemed to have given a transfer notice under the pre-emption provisions (see below) in respect of all of its shares and loan notes and the sale price will be fair market value.

If the proposed transferee's primary activity is the operation, directly or indirectly, of a utility, for example the distribution and/or supply of electricity, water or gas in the UK, then the transfer may only be made with the prior consent of shareholders holding in aggregate more than 75% of the issued share capital of the Company (excluding shares held by the transferring shareholder).

Pre-emption rights exist in the shareholders' agreement whereby, upon a notice being given by a shareholder that it wishes to transfer shares and loan notes, each non-transferring shareholder has the right to purchase its proportionate entitlement of the transferring shareholder's shares and loan notes.

A shareholder may not transfer shares without also transferring an equivalent proportion of loan notes.

Tag along and drag along provisions

If a shareholder (**Selling Shareholder**) has agreed to sell shares and loan notes (**Tag Along Securities**) to a purchaser in circumstances where the purchaser (together with any of its associates or other entity with which it is acting in concert) will acquire more than a 50% interest in the Company, the selling shareholder is required to procure that the purchaser makes an offer (**Tag Along Offer**) to all shareholders.

The purchaser will then purchase a proportion of the Tag Along Securities from each shareholder who accepts the purchaser's offer equal to the proportion that the relevant shareholder's interest represents in the Company. If any shareholder does not accept the purchaser's Tag Along Offer, the purchaser may purchase that shareholder's proportion of the Tag Along Securities from the Selling Shareholder.

In addition, if a shareholder (**Selling Shareholder**) has agreed to sell shares and loan notes to a purchaser in circumstances where the purchaser (together with any of its associates or other entity with which it is acting in concert) will acquire more than a 90% interest in the Company, the Selling Shareholder may require that the other shareholders sell all of their shares and loan notes in the Company to the purchaser at a price that is at least equal to fair market value.

Change of control

If any person, except for an associate of the relevant shareholder, acquires control, directly or indirectly, of any shareholder, that shareholder will be deemed to have given a notice to all other shareholders under the pre-emption provisions in respect of all of its shares and loan notes. The price for the shares and loan notes the subject of the notice will be fair market value.

If the person acquires control of a shareholder who owns more than 50% of the issued share capital of the Company, the shareholder must procure that the acquiror make a Tag Along Offer to purchase the shares and loan notes of the other shareholders in cash at their fair market value and on the basis that the number and nominal value of the Tag Along Securities shall be the same as the number and nominal value of the shares and loan notes owned by the procuring shareholder. The other shareholders then have the choice of whether to exercise their pre-emption right or to tag along.

Control, for the purposes of the shareholders' agreement is defined as:

- in the case of a body corporate, the right to exercise more than 50% of the votes exercisable at any meeting of that body corporate, together with the right to appoint more than half of its directors;
- in the case of a partnership or limited partnership, the right to exercise more than 50% of the votes exercisable at any meeting of partners of that partnership or limited partnership (and, in the case of a limited partnership, control of each of its general partners);

- in the case of any other person, the right to exercise a majority of the voting rights or otherwise to control that person by virtue of provisions contained in its Memorandum or Articles of Association or, as the case may be, Certificate of Incorporation or By-laws, Statutes or other constitutional documents or any contract or arrangement with any other person; and
- a change of the manager of any shareholder that is a fund.

Admission or trade sale

If the shares have not been listed on a recognised investment exchange or if a sale of all the shares to one or more purchasers as part of a single transaction or series of related transactions has not occurred within 10 years of the date of the shareholders' agreement, any shareholder(s) with more than a 35% interest in the Company may issue a notice to the other shareholders and the Company that the Company should seek an admission or sale. Upon receipt of such a notice, each shareholder must co-operate with and assist the Company to achieve an admission or sale.

Events of default

The following events constitute events of default for the purposes of the shareholders' agreement:

- a material breach of the shareholders' agreement or the investment agreement occurs prior to the date on which the acquisition of the gas distribution network completed (**Acquisition Completion Date**) and the breach remains un-remedied;
- a party breaches the transfer provisions in the shareholders' agreement after the Acquisition Completion Date and the breach is not rectified; or
- an insolvency event occurs in relation to a party.

Upon the occurrence of an event of default in relation to a shareholder, the other shareholders have the right to require:

- that the defaulting shareholder not exercise any right to attend and vote at meetings of the Company;
- that any director appointed by the defaulting shareholder cease to be a director of the Company; and
- that the defaulting shareholder sell to non-defaulting shareholders all or part of the shares and loan notes held by the defaulting shareholder for either an amount equal to 75% of the fair market value or, in the event of insolvency, the fair market value of the shares and loan notes.

13. Additional information (continued)

Undertakings

The shareholders (other than Macquarie, Macquarie European Infrastructure Fund LP, Macquarie Lux and any multi-party fund or entity under the Macquarie Group) (the **Relevant Shareholders**) undertake not to enter into any substantive agreement or arrangement with any other Relevant Shareholder as a result of which any Relevant Shareholder would gain direct or indirect control over the voting of shares and/or the appointment or removal of directors representing more than 50% of the shares or directors respectively from time to time.

Relationship with Macquarie

For a period of two years after the Acquisition Completion Date, the shareholders and the Company will procure that Macquarie shall be the Company's financial advisor subject to the services being provided on commercially fair and reasonable terms.

Distributions

Subject to compliance with the terms of the finance documents, applicable laws and regulations and adequate provision being made for working capital requirements and liabilities, the Company will distribute to shareholders the maximum amount of available cash in each financial year.

Termination

The shareholders' agreement will terminate on the earlier of:

- the dissolution of the Company;
- all the shares being held by one shareholder and members of its group;
- in the event of an admission where all of the shares are listed on a recognised investment exchange; and
- the agreement of all the parties that the agreement be terminated.

The agreement will terminate as between a shareholder and the other parties upon the shareholder ceasing to hold any shares.

Loan note instrument

On 14 September 2004, a loan note instrument was made creating loan notes of the Company.

Issue of loan notes

The Company will initially issue £5 million floating rate unsecured loan notes due 30 September 2024 to Macquarie, AMP, CPPIB, DAF Custodian, Macquarie Lux, Challenger Life, MSAM, and MSAM2 in accordance with the terms of the investment agreement and the shareholders' agreement.

The Company has the power to issue more notes ranking *pari passu* in all respects with the initial notes in accordance with the shareholders' agreement.

Repayment and redemption of notes

The Company may at any time purchase notes by tender available to all noteholders on a pro rata basis in proportion to their holding of notes.

The Company is entitled to redeem all or part of the notes at par at any time by giving 30 days written notice if interest payable on the notes is reasonably expected to be treated as a distribution for corporation tax purposes.

Interest

Until the notes are purchased or repaid by the Company, the Company will pay interest at a percentage rate per annum which is the aggregate of LIBOR plus 6% per annum on the principal amount twice yearly in arrears on 31 March and 30 September in each year.

The Company may defer payment of any amount under the loan note conditions to the extent that on the due date for such payment, the Company does not have sufficient available cashflow to make the full payment.

Events of default

Each noteholder will, by 10 days written notice to the Company, be entitled to require all notes held by all noteholders to be repaid at par, together with accrued interest, whilst any of the following is continuing:

- the Company fails to pay within 14 days of the due date any principal or interest payable; or
- an insolvency event occurs in relation to the Company.

Option deed

On 31 August 2004, Transco PLC (**Seller**), MGN Gas Networks (Senior Finance) Limited (**Purchaser**) and Blackwater 2 Limited (**Company**) entered into an option deed relating to the acquisition of the entire issued share capital of the Company.

The Purchaser is a wholly owned subsidiary of MGN Gas Networks (UK) Limited.

Completion of the acquisition took place on 1 June 2005.

The agreement contemplates that the post completion adjustment period will be not longer than about four months (unless the parties cannot agree and an independent accountant is appointed), at the end of which an adjustment will be made to the consideration paid at completion. As a result of this adjustment, the Purchaser may either receive an amount back from the Seller or be liable to pay an additional amount to the Seller.

Conduct pending completion

The Seller undertook that in the period between signing and completion the Seller and the Company would carry on their business in the ordinary course of business. The Seller was to procure that the Company did not, in relation to the business, undertake any act which is outside the ordinary course of business and only undertake certain acts with the consent of the Purchaser.

Integration committee

An integration committee has been established under the option deed which will facilitate the integration of the Company into the Purchaser's group. The Seller and the Purchaser are each entitled to appoint up to three people to serve on the integration committee.

Warranties and indemnities

The Seller makes certain warranties in relation to, among other things, the shares of the Company, liabilities incurred and the calculation of the estimated RAV and the estimated working capital. In addition, by way of a tax deed of indemnity, the Seller has provided the Purchaser with an indemnity in respect of taxation.

Certain restrictions and limitations apply to the Purchaser's right to make a claim under the warranties in the option deed and the tax deed, including:

- the warranties will expire on the date 18 months from the date of completion;
- any claim in relation to matters arising under the tax deed must be brought within six years after completion;
- the Purchaser may not bring a claim against the Seller unless the aggregate claims are for an amount greater than £20 million; and
- the total aggregate liability of the Seller in relation to claims brought by the Purchaser against the Seller for a breach of warranty or under the tax indemnity will not exceed 25% of the aggregate of the consideration and the debt amount.

In addition, the total aggregate liability of the Seller in relation to claims brought by the Purchaser against the Seller (except in relation to the warranties or the tax indemnity) will not exceed 100% of the aggregate of the consideration and the debt amount.

Guarantee

The Purchaser guarantees to the Seller and each member of the Seller's group the due and punctual performance of, and the due payment and discharge of, all sums and liabilities which are owing or incurred by the Company to the Seller in respect of the Company's obligations under the option deed and certain other agreements between the Seller and the Purchaser. This guarantee remains in place until all of the guaranteed obligations are fully performed.

Non-solicitation

For a period of two years from 1 June 2005, the Seller undertakes to the Purchaser that it will not, and will procure that members of Seller's group will not, solicit or entice away from the employment of any member of the Purchaser's group any employee in an executive or managerial position. The Purchaser makes an identical undertaking in favour of the Seller.

13.5.2 Seed Assets Sale and Purchase Agreement

CMSL, in its capacity as trustee of the Challenger Towers Trust, the Challenger Wales and the West Gas Trust, and the Challenger North of England Gas Trust (**Sellers**), and CPN in its capacity as trustee of the CIF Sub Trusts (**Buyers**), Challenger Life and CLIL as Responsible Entity of CIF, have entered into a sale and purchase agreement in relation to the sale and purchase of the total issued share capital of and the loan notes issued by the Jersey Companies.

Purchase price

The purchase price for each Jersey Company, payable on completion, is as follows:

- Challenger Towers Limited – \$125.5 million
- Challenger Northern Gas Limited – \$86.6 million
- Challenger Wales and the West Gas Limited – \$90.9 million

13. Additional information (continued)

Purchase price adjustments

At the time of acquisition of the Seed Assets by the CIF sub-trusts, further post-completion payments may be due in relation to the acquisition of Blackwater F Limited which holds the North DN. Challenger Life has indemnified CIF for these costs.

Guarantee

Challenger Life guarantees the due performance or discharge of the obligations and liabilities of the Sellers under the agreement. CIF gives the same guarantees in respect of the Buyers.

Warranties and indemnities

The Sellers give various warranties in relation to the Jersey Companies and their title to the Seed Assets. An indemnity is also given to the Buyers in respect of certain tax liabilities.

The maximum liability of each Seller under this agreement is capped at an amount equivalent to 50% of the purchase price of each Jersey Company and claims under the warranties must be brought by the Buyers within two years of the date of completion of the sale for general claims and five years for tax claims.

Completion

Completion is conditional upon execution of the Fee Sharing Agreement, transfer of the Seed Assets to the Jersey Companies and Allotment of both the Class A and Class B Securities in full.

13.5.3 Management Agreements

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, unitholder relations, registrar and transfer services and other necessary services;
- act as agent of CIF in managing the investment portfolio of CIF;
- act as agent of CIF dispersing and collecting CIF's funds, paying its debts and generally fulfilling CIF's obligations;

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

Transaction advisory services

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

Fees and expenses

For the management services, CMSL is entitled to a fee equal to the Base Fee and the Performance Fee which would be payable to the Responsible Entity if calculated in accordance with the Constitutions as drafted as at the Allotment Date.

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

Payment of the management fees in Class A Securities for the periods ending 30 June 2006 and, if necessary, 31 December 2006 will be deferred until the day following the Second Instalment Payment Date. The issue price and number of Securities to be issued shall be determined as if the issue had not been deferred from the original payment date (see section 8.3.1) and the Securities had been issued credited as fully paid. CMSL will receive cash compensation from CIF for any

Distributions CMSL would have received had it been issued the number of Class A Securities on the original payment date calculated by dividing its fee entitlement by the prevailing market price of Class A Securities on that date.

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

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

Term

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

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

- where CMSL has committed a material breach of the agreement that has not been remedied for a period of 180 days, including a material failure to devote adequate resources to providing the services under this agreement, a material failure to provide the services with a reasonable degree of care, diligence and skill and a material failure to comply with applicable laws and the breach has been notified in writing by CIF to CMSL within one month of the breach occurring. Where a breach is incapable of being remedied, the breach will be deemed to be remedied where the Manager is ready, willing and able to provide the services on an ongoing basis;
- where an insolvency event occurs in relation to CMSL (including being unable to pay its debts as and when they fall due, having a receiver, liquidator, administrator or similar officer appointed over all or part of its business, assets or revenues and/or an order being made for its winding up) unless CMSL is withdrawn and replaced within 15 days with a similarly constituted entity; or
- where Challenger Life and/or its controlled entities in aggregate cease to hold (directly or indirectly) at least 50% of the issued share capital of CMSL.

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

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

Indemnity

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

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

UK Management Agreement

Purpose

Under the UK Management Agreement, CGS UK will provide certain management services to the Jersey Companies.

Management services

CGS UK is required to:

- perform, or supervise the performance of, the day to day administration of the Jersey Companies including financial reporting and other necessary services;
- act as agent of the Jersey Companies in managing the assets held by the Jersey Companies including providing board representatives for the joint venture companies;
- act as agent of the Jersey Companies dispersing and collecting the Jersey Companies' funds, paying its debts and generally fulfilling their obligations;

13. Additional information (continued)

- retain for and on behalf of the Jersey Companies the services of accountants, tax advisors, legal counsel, valuers, registrars, banks and other lenders and other service providers as and when CGS UK deems it necessary and appropriate for the management and operation of the Jersey Companies;
- establish and operate bank accounts in the name of the Jersey Companies;
- maintain books of account for the Jersey Companies in accordance with generally accepted accounting principles and arrange for the audit of the Jersey Companies' financial statements if necessary; and
- perform any additional services requested by the Jersey Companies and agreed to by CGS UK.
- where an insolvency event occurs in relation to CGS UK (including being unable to pay its debts as and when they fall due, having a receiver, liquidator, administrator or similar officer appointed over all or part of its business, assets or revenues and/or an order being made for its winding up) unless CGS UK is withdrawn and replaced within 15 days with a similarly constituted entity;
- where Challenger and/or its controlled entities in aggregate cease to hold (directly or indirectly) at least 50% of the issued share capital of CGS UK; or
- one month following the passing of a resolution of the Holders to remove CGS UK as manager and terminate the agreement unless a resolution to extend the agreement for an additional period beyond the initial ten year term has been passed by Holders.

Fees and expenses

CGS UK is entitled to a fee equal to the Base Fee and the Performance Fee payable to the Responsible Entity under the Constitutions as drafted as at the Allotment Date. The amount of this fee payable by the Jersey Companies when they form part of ClF will be reduced under the Fee Sharing Agreement described below.

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

Term

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

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

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

- where CGS UK has committed a material breach of the agreement that has not been remedied for a period of 180 days, including a material failure to devote adequate resources to providing the services under this agreement, a material failure to provide the services with a reasonable degree of care, diligence and skill and a material failure to comply with applicable laws;

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.

13.5.4 Co-investment Agreement

Co-investment rights

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

Pre-emption rights

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

Negotiation of future arrangements

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

Termination

The agreement will terminate on the earlier of:

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

13.5.5 Working Capital Facility agreement

CIF has entered into an agreement with Challenger Life under which a revolving four year Working Capital Facility with a facility limit of 1.00% of the Paid-up Capital of CIF, with an absolute cap of \$7.5 million, will be provided for the benefit of CIF on arms length terms.

The interest rate will be BBSW + 0.70% per annum.

To secure this facility, CIF will grant Challenger Life a fixed and floating charge over the assets of CIF. This charge will also secure obligations of the CIF Sub Trusts under each Foreign Exchange Transaction.

Exposure under permitted financial markets contracts (including without limitation interest rate hedging and foreign exchange hedging) with a member of the Challenger Group for the purpose of hedging will rank *pari passu* with the Working Capital Facility. Any hedging provided by third parties is to rank behind the Working Capital Facility.

13.5.6 Foreign Exchange Transaction

CPN as trustee of each of the CIF Sub Trusts has entered into a Foreign Exchange Transaction with Challenger Life pursuant to a 2002 ISDA Master Agreement, Schedule and Confirmation in respect of each CIF Sub Trust. Under the transactions, CPN will hedge certain exposures to foreign exchange rate fluctuations.

Each transaction commences from the acquisition of the Seed Assets (expected to be in August 2005), with the first payment due on 31 December 2005, and ends on the final settlement date, with the last payment due on 31 July 2010.

13. Additional information (continued)

Under the Foreign Exchange Transaction, on each payment date during the term:

- Challenger Life will pay to the relevant CIF Sub Trust a pre-determined amount of Australian dollars; and
- the relevant CIF Sub Trust will pay to Challenger Life a pre-determined amount of British pounds.

The effective annual exchange rate under the Foreign Exchange Transaction will be £1=\$2.4091 on a consolidated basis.

13.5.7 Subscription Agreement between Challenger Life and CIF

Challenger Life, through a wholly owned sub-trust, has agreed to subscribe for 89,991,430 Class B Securities. The issue price per Class B Security will be \$3.50 per Security payable in two equal instalments. The first instalment, payable on subscription completion, is \$1.75 per Security. Under the terms of the Class B Securities, the Second Instalment will be payable on 21 August 2006, unless the payment date is extended by up to six months by the Responsible Entity.

The parties acknowledge that the subscription is pursuant to the terms of the PDS as far as it relates to Class B Securities.

Challenger is not required to proceed with the subscription for Class B Securities if, on subscription completion, CIF is affected by an insolvency event or Allotment of Class A Securities under the Offer has not taken place.

Allotment of Class B Securities will occur immediately after Allotment in full of the Class A Securities offered under this PDS.

13.5.8 Underwriting Agreement

The Responsible Entity and the Joint Lead Managers have entered into the Underwriting Agreement dated 15 July 2005 (the 'Underwriting Agreement'). Under this agreement, the Joint Lead Managers have agreed to manage the Offer, and each Joint Lead Manager has agreed severally to underwrite 50% of the Class A Securities to be issued in the Offer by subscribing for its respective proportion of any shortfall securities and paying or procuring the payment of the First Instalment for those securities. The Joint Lead Managers will not guarantee or underwrite the payment of the Second Instalment.

Fees

Under the Underwriting Agreement, the Responsible Entity must pay the Joint Lead Managers:

- an underwriting fee of 2.50% of an amount equal to the Class A Securities issued under the Offer, multiplied by the Offer Price, to be shared equally between the Joint Lead Managers; and
- an incentive management fee of \$360,437 payable to each of the Joint Lead Managers.

In addition, the Responsible Entity will pay JPMorgan a management fee of \$1.25 million by the settlement date. These fees will only be payable upon successful completion of the Offer.

The Joint Lead Managers are entitled to appoint sub-underwriters, brokers and co-managers to the Offer at any time. The Joint Lead Managers are responsible for any fees payable to these sub-underwriters, brokers and co-managers.

Cost reimbursement

The Responsible Entity must pay, or reimburse the Joint Lead Managers for, all reasonable out-of-pocket costs and expenses in relation to the Offer. The Responsible Entity must pay interest on any amounts owing to the Joint Lead Managers under the Underwriting Agreement that remain unpaid for more than 30 days after the amount is invoiced.

Representations and warranties

The Underwriting Agreement contains various representations and warranties that are customary for agreements of this type, including representations and warranties made by the Responsible Entity. In addition, the Underwriting Agreement contains various obligations of the Responsible Entity regarding its conduct in relation to the Offer, including that it must conduct the Offer in accordance with the transaction timetable, the Constitutions, the Underwriting Agreement, this PDS or any other offer document, the Corporations Act, the Listing Rules and any other applicable laws.

Responsible Entity's obligations

The Responsible Entity must also, among other things:

- until completion of the Offer continue to carry out its business and not dispose of any material part of its business or property, and procure that CIF and certain other Challenger entities do the same, subject to ordinary course exceptions or as disclosed in this PDS,

- not, before completion of the Offer, without the prior consent of the Joint Lead Managers (which must not be unreasonably withheld or delayed) allot or agree to allot, or indicate that it may allot or agree to allot, Class A Securities, Class B Securities or other securities convertible or exchangeable into equity, or that represent the right to receive equity, in CIF other than pursuant to the Offer, the Underwriting Agreement, the DRP or as otherwise referred to in this PDS for 90 days after completion of the Offer,
- not, before completion of the Offer, without the prior consent of the Joint Lead Managers (which must not be unreasonably withheld or delayed) materially vary the terms of any material contract set out in section 13 of this PDS, and
- not materially alter its or CIF's capital structure, amend its constitution or the Constitutions or dispose of all or a substantial part of its or CIF's business or property, except with the prior written consent of the Joint Lead Managers.

Indemnities

The Responsible Entity has agreed to indemnify the Joint Lead Managers and their affiliates, directors, officers, employees, agents, advisors and related bodies corporate from all losses, claims, demands, costs, expenses, damages and liabilities incurred directly or indirectly as a result of certain events occurring in relation to the Offer, the PDS or the Underwriting Agreement. The indemnities are given by the Responsible Entity subject to the usual limitations in the cases of fraud, recklessness, wilful misconduct or negligence on the part of the indemnified parties or any failure by such a person to perform its obligations under the Underwriting Agreement other than to the extent the failure is caused by or contributed to the Responsible Entity, its officers, employees, advisers or agents.

Termination

The Joint Lead Managers may terminate their obligations under the Underwriting Agreement upon the occurrence of a number of events.

If any of the termination events in paragraphs (a) to (l) below occur before completion or such other relevant time specified, a Joint Lead Manager, after consulting with the other Joint Lead Manager, may terminate all their obligations under the Underwriting Agreement by notice to the Responsible Entity and the other Joint Lead Manager.

If any of the termination events in paragraphs (m) to (cc) below occur before completion or such other relevant time specified, a Joint Lead Manager, after consulting with the other Joint Lead Manager, may terminate all their obligations under the Underwriting Agreement by notice to the Responsible Entity and the other Joint Lead Manager if it has reasonable and bona fide grounds to believe and does believe that the event:

- has or is likely to have a material adverse effect on:
 - the success or settlement of the Offer; or
 - the performance of the secondary market trading of the Class A Securities within the first two weeks of trading following quotation of the Class A Securities; or
- would give or would be likely to give rise to a material liability or contravention of the Joint Lead Manager in any capacity under any law, regulation, treaty or administrative action.

If a Joint Lead Manager terminates their obligations under the Underwriting Agreement, the other Joint Lead Manager may elect to take up the terminating Joint Lead Manager's rights and obligations under the Underwriting Agreement.

Ordinary termination events

- (**responsible entity**) the Responsible Entity seeks to retire or is removed as the responsible entity of CIF1 and/or CIF2, or ASIC or another person makes an application for the appointment of a temporary responsible entity of CIF1 and/or CIF2 under Part 5C.2 of the Corporations Act; or
- (**Supplementary PDS**) the Responsible Entity issues a supplementary PDS to correct a defective PDS which is materially adverse from the point of view of a reasonable Investor, the circumstances of section 1016E of the Corporations Act apply or the Responsible Entity becomes otherwise required to issue a supplementary PDS to correct a defective PDS which is materially adverse from the point of view of a reasonable Investor; or
- (**form of Supplementary PDS**) the Responsible Entity lodges a supplementary PDS with ASIC in a form that has not been approved by the Joint Lead Managers in circumstances required by the provisions of the Underwriting Agreement relating to supplementary PDS or fails to comply with the provisions of the Underwriting Agreement relating to the supplementary PDS; or

13. Additional information (continued)

- (d) (**market fall**) at any time the S&P/ASX 200 Industrials Index falls to a level at or below 90% of the level as at the close of trading on the date of the Underwriting Agreement and remains at or below that level for the shorter of three business days or until the business day before the Allotment Date; or
- (e) (**quotation approvals**) approval is refused or not granted, or approval is granted subject to conditions other than customary conditions, to the official quotation of all of the Class A Securities on ASX or for the Class A Securities to be traded through CHESS on or before 9 August 2005 (or as otherwise agreed by the Joint Lead Managers) or if granted, the approval is subsequently withdrawn, qualified or withheld; or
- (f) (**notifications**) any of the following notifications are made:
 - (i) ASIC issues an order (other than an interim order which does not become public) under section 1020E of the Corporations Act;
 - (ii) ASIC holds a hearing under section 1020E(4) of the Corporations Act (other than a hearing which does not become public);
 - (iii) an application is made by ASIC for an order under Part 9.5 of the Corporations Act in relation to the Offer, the PDS or any other offer document (other than an application which does not become public and is dismissed or withdrawn by ASIC within 5 business days or 18 August 2005 (or as otherwise agreed by the Joint Lead Managers)) or ASIC commences any investigation or hearing under Part 3 of the Australian Securities and Investments Commission Act 1989 (Cwlth) in relation to the Offer, PDS or any other offer document; or
 - (iv) any person (other than the Joint Lead Managers) who has previously consented to the inclusion of its name in the PDS (or any supplementary PDS) withdraws that consent; or
- (g) (**certificate**) the Responsible Entity does not provide a closing certificate as and when required under the Underwriting Agreement or a statement in a closing certificate is untrue or incorrect in a material respect; or
- (h) (**lodgement**) the Responsible Entity fails to lodge this PDS by 15 July 2005 (or as otherwise agreed by the Joint Lead Managers); or
- (i) (**withdrawal**) the Responsible Entity withdraws this PDS or the Offer; or
- (j) (**acquisition of assets**) an agreement governing the acquisition of the Seed Assets has been breached, terminated, rescinded or altered without the prior written consent of the Joint Lead Managers, is found to be void or voidable, or a condition precedent (other than a condition precedent in relation to completion of the Offer or completion of the subscription agreement under which Challenger Life is to subscribe for Class B Securities) becomes incapable of being satisfied or waived in the reasonable opinion of the Joint Lead Manager, prior to two business days after the Allotment Date (or such other date agreed by the parties (acting reasonably)); or
- (k) (**subscription agreement**) the subscription agreement under which Challenger Life is to subscribe for Class B Securities, has been breached, terminated, rescinded or altered without the prior written consent of the Joint Lead Managers, is found to be void or voidable, or a condition precedent (other than a condition precedent relating to completion of the Offer) becomes incapable of being satisfied or waived in the reasonable opinion of the Joint Lead Manager, prior to 2 business days after the Allotment Date (or such other date agreed by the parties (acting reasonably)); or
- (l) (**insolvency events**) any of the following occur in relation to the Responsible Entity or certain other Challenger entities, as applicable:
 - (i) an order or an application is made, or a resolution is passed, for its winding-up, dissolution, official management or administration;
 - (ii) it institutes any proceedings or arrangements for its liquidation or for the appointment of a receiver;
 - (iii) a receiver, receiver and manager, administrator or similar officer is appointed over or a distress or execution is levied over its assets;
 - (iv) it suspends payment of its debts or is unable to pay its debts as and when they fall due; or
 - (v) it makes or offers to make an arrangement with its creditors or a class of them.

Material termination events

- (m) **(disclosures)** a statement contained in the PDS, any other offer document or other public releases is or becomes misleading or deceptive, or a matter is omitted from them having regard to the provisions of Part 7.9 of the Corporations Act; or
- (n) **(disclosures in due diligence report)** the due diligence report, verification material or any other information supplied by or on behalf of the Responsible Entity to the Joint Lead Managers in relation to the Responsible Entity and certain other Challenger entities or the Offer is or becomes false or misleading or deceptive, including by way of omission; or
- (o) **(adverse change)** any adverse change occurs in the assets, liabilities, financial position or performance, profits, losses or prospects of CIF, including any adverse change in the assets, liabilities, financial position or performance, profits, losses or prospects of CIF from those respectively disclosed in the PDS, any other offer document or other public releases; or
- (p) **(new circumstances)** there occurs a new circumstance that arises after the PDS is lodged that would have been required to be included in the PDS if it had arisen before the PDS was lodged; or
- (q) **(hostilities)** hostilities not presently existing commence (whether war has been declared or not) or a major escalation in existing hostilities occurs (whether war has been declared or not) involving any one or more of Australia, New Zealand, the United States of America, the United Kingdom, North Korea, South Korea, the People's Republic of China, Indonesia or any member state of the European Union or a major terrorist act is perpetrated on any of those countries or any diplomatic, military, commercial or political establishment of any of those countries; or
- (r) **(forecasts)** there are not or there ceases to be reasonable grounds, in the reasonable opinion of the Joint Lead Managers, for any statement by the Responsible Entity in the PDS which relates to future matters (including financial forecasts); or
- (s) **(change of law)** there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of Australia or any State or Territory of Australia a new law, or the Reserve Bank of Australia, or any Commonwealth or State authority including ASIC, adopts or announces a proposal to adopt a new policy (other than a law or policy which has been announced before the date of the Underwriting Agreement), any of which does or is likely to prohibit, restrict or regulate the Offer, capital issues, the level or likely level of valid applications under the Offer or stock markets; or
- (t) **(change in officers)** any of the Chief Executive of Challenger Life, Chief Investment Officer of Challenger Life or Managing Director of CIF, ceases to hold that position; or
- (u) **(prosecution)** any of the following occur in relation to the Responsible Entity and certain other Challenger entities:
 - (i) any director is charged with a criminal offence;
 - (ii) any government agency commences any public action against it or its directors in their capacity as a director, or announces that it intends to take such action; or
 - (iii) any director is disqualified from managing a corporation under Part 2D.6 of the Corporations Act; or
- (v) **(compliance with agreements and regulatory requirements)** a contravention by the Responsible Entity of the Corporations Act, its constitution, the Constitutions, a material contract set out in section 13 of this PDS to which it is a party or any of the Listing Rules, or the Responsible Entity commits a fraudulent act; or
- (w) **(default)** a default by the Responsible Entity or CIF1 and/or CIF2 in the performance of any of its obligations under the Underwriting Agreement occurs, including in respect of any of the conditions precedent to the Underwriting Agreement; or
- (x) **(representations and warranties)** a representation or warranty contained in this agreement on the part of the Responsible Entity is breached or becomes not true or correct; or

- (y) **(timetable)** the Offer is not conducted in accordance with the transaction timetable or any event specified in the transaction timetable is delayed for more than 5 business days without the prior written consent of the Joint Lead Managers (which must not be unreasonably withheld or delayed); or
- (z) **(unauthorised alteration)** the Responsible Entity alters its or CIF's issued capital or disposes or attempts to dispose of a substantial part of the business or property of CIF without the prior written consent of the Joint Lead Managers (which must not be unreasonably withheld or delayed); or
- (aa) **(charges)** the Responsible Entity or any of its related bodies corporate charges, or agrees to charge, the whole or a substantial part of the business or property of CIF other than:
 - (i) a charge over any fees or commissions to which the Responsible Entity is or will be entitled;
 - (ii) as disclosed in the PDS; or
 - (iii) as agreed with the Joint Lead Managers (acting reasonably); or
- (bb) **(disruption in financial markets)** any of the following occurs:
 - (i) a general moratorium on commercial banking activities in Australia, the United States of America or the United Kingdom is declared by the relevant central banking authority in any of those countries, or there is a material disruption in commercial banking or security settlement or clearance services in any of those countries;
 - (ii) any adverse effect on the financial markets in the United States, Australia or the United Kingdom, or in foreign exchange rates or any development involving a prospective change in political, financial or economic conditions in any of those countries;
 - (iii) trading in all securities quoted or listed on the ASX, the London Stock Exchange or the New York Stock Exchange is suspended or limited in a material respect for one day on which that exchange is open for trading; or

- (cc) **(transaction documents)** any of the Constitutions, the constituent documents of the Jersey Companies or CIF Sub Trusts, the Working Capital Facility or the Foreign Exchange Transaction, is not entered into or adopted by the relevant parties one of these contracts is breached or terminated, rescinded or altered without the prior written consent of the Joint Lead Managers, or is found to be void or voidable.

13.5.9 Voluntary Escrow Agreement

Challenger Life and its wholly owned sub-trust (CL2 Sub) entered into a voluntary escrow deed with the Responsible Entity in respect of 89,991,430 Class B Securities held by CL2 Sub (**Challenger Life Escrow Deed**).

Under that deed, CL2 Sub may not dispose of, create security interests in, or do or omit to do an act that would have the effect of transferring ownership or control of the Class B Securities between the Allotment Date and 31 December 2006. Similar restrictions apply to Challenger Life's indirect interest in the Class B Securities. These restrictions are subject to the following exceptions:

- approval pursuant to item 7 of section 611 of the Corporations Act of an acquisition as a result of which a person's voting power in Class A Securities increases to more than 50%;
- CIF being the subject of a merger implemented either by amendment of the Constitutions by special resolution of Holders;
- the bidder's voting power in Class A Securities becomes greater than 50% during the bid period of a takeover bid which:
 - is for Class A Securities; and
 - extends to Class B Securities which become Class A Securities during the offer period; or
- the transferee of the Class B Securities is an associate or related body corporate of Challenger Life, CL2 Sub (or a trust managed by one of those persons) and the transferee enters into an escrow deed on similar terms.

CMSL and CLIL (in its personal capacity) have entered into a voluntary escrow deed with the Responsible Entity in respect of any Class A Securities issued to them in lieu of management fees (refer to section 8.3) for the period up to 31 December 2006 (**Manager Escrow Deed**). The Manager Escrow Deed is subject to the same exceptions as those set out above in relation to the Challenger Life Escrow Deed.

13.6 Distribution payment procedures and DRP

The Responsible Entity may determine to pay all Distributions to Holders in the form of a direct credit to an Australian bank account only.

The Responsible Entity has established a DRP to provide Holders with the choice of reinvesting some or all of their Distributions at a discount to the prevailing market price rather than receiving those Distributions in cash. The Responsible Entity may decide for which Distributions, if any, the DRP will be available.

It is currently intended that the DRP will be operational for Distributions payable for the half-year ended 30 June 2006. However, the Responsible Entity reserves the right to suspend the commencement of the DRP in its absolute discretion. For example, the Responsible Entity may do so in circumstances where it has deferred the Second Instalment Payment Date.

Some of the principal features of the DRP are:

- Holders may elect to participate in the DRP for all or some of their Securities. A Holder may join, vary participation in, or withdraw from, the DRP as provided under the rules of the DRP;
- Holders whose registered addresses are outside Australia may not participate in the DRP where the Responsible Entity determines that the making of the offer or the issue of Securities to them under the DRP would be unreasonable;
- Securities will be allocated under the DRP at a discount of up to 10.0% (as determined by the Responsible Entity from time to time) to the market value. The market value is the arithmetic average of the daily volume weighted average sale price of Securities sold on ASX during a specified number of business days before the date determined by the Responsible Entity and if that market value is based on partly-paid Securities, plus 100% of the uncalled amount ('Allocation Price');
- the Responsible Entity will determine whether Securities to be allocated under the DRP will be newly issued Securities or Securities acquired on market for transfer to Holders under the DRP; and
- until the end of 30 June 2008 all Securities issued or transferred pursuant to the DRP will be in the form of Class A Securities. Challenger Life, as a Holder of Class B Securities, will be able to participate in the issue of Class A Securities pursuant to the DRP on the same terms as Holders of Class A Securities.

All Securities newly issued or acquired on market and transferred to participants under the DRP will rank equally in all respects with all other issued Securities. The Responsible Entity will apply for quotation on ASX of Securities newly issued under the DRP.

Once Securities allocated under the DRP are allocated to DRP participants and quoted on ASX, they may be sold by the Holder to whom they are allocated.

Participating Holders will be sent a statement after each issue of new Securities or transfer of existing Securities under the DRP giving details of their participation in the DRP.

Holders participating in the DRP pay no brokerage, commission or other transaction costs on Securities allocated under the DRP. The Responsible Entity has the discretion to have any issue or transfer of Securities under the DRP underwritten or sub-underwritten, either by an unrelated or related party of the Responsible Entity.

13.7 Privacy

The Responsible Entity will collect personal information from you in order to process your Application, administer your investment and provide you with services relating to your investment. To do that, the Responsible Entity may disclose your personal information to agents, contractors, or third party service providers to whom the Responsible Entity outsources services such as mailing functions. The Responsible Entity may also use your personal information to tell you (including by email) about other products and services offered by the Responsible Entity or the Challenger Group. If you do not provide the Responsible Entity with your personal information, the Responsible Entity cannot process your Application, administer your investment and provide you with services relating to your investment.

Where permitted by law, including the Privacy Act 1988 (Cth), the Responsible Entity, any other member of the Challenger Group, and third parties such as investment advisors and brokers acting on your behalf ('Parties') may exchange with each other any information about you including:

- any information provided by you in the Application Form;
- any other personal information you provide to any of the Parties or which they otherwise lawfully obtain about you; and
- any transaction details or transaction history arising out of your arrangements with any of the Parties.

13. Additional information (continued)

If the Responsible Entity engages anyone to do something on its behalf (e.g. a mail house or data processor) ('Service Provider') then the Responsible Entity and the Service Provider may exchange with each other any information referred to above for any of the purposes referred to above.

The Responsible Entity might give any information referred to above to entities other than the Parties and the Service Providers where it is required or allowed by law or where you have otherwise consented.

By signing the Application Form, you agree that any information referred to above can be used by the Parties and any Service Provider for the purposes mentioned above and for planning, product development, research purposes, and statistical analysis. You also consent for the purposes of the Spam Act 2003 (Cth) to receiving commercial electronic messages from the Responsible Entity or other entities as mentioned above.

You can gain access to personal information that the Responsible Entity holds about you in accordance with the Privacy Act 1988 (Cth). If you would like to make a request for access, please contact the Registry. If you have concerns about the completeness and accuracy of the information the Responsible Entity has about you, you should contact the Responsible Entity and request that it takes steps to correct it.

For further information on the privacy and information handling practices of the Responsible Entity and Challenger, please refer to the privacy statement which is available at www.challenger.com.au.

13.8 Ethical considerations

CIF does not take into account labour standards or environmental, social or ethical considerations for the purpose of selecting, retaining or realising CIF investments.

13.9 Interests and consents of advisors

The fees below are payable by CIF in respect of the Offer.

13.9.1 Accountant

Ernst & Young Transaction Advisory Services Limited has prepared the Independent Accountant's Report on the Compilation of the Forecast Financial Information in section 12.1. The Responsible Entity estimates that it will pay approximately \$250,000 (excluding GST, costs and disbursements) to Ernst & Young Transaction Advisory Services Limited.

Ernst & Young Transaction Advisory Services Limited has given and has not, before the lodgement of this PDS with ASIC, withdrawn its written consent to be named in this PDS and to the inclusion of the Independent Accountant's Report on the Compilation of the Forecast Financial Information in section 12.1 in the form and context in which it is included.

Ernst & Young Transaction Advisory Services Limited has not authorised or caused the issue of this PDS and takes no responsibility for any part of this PDS other than references to its name and the Independent Accountant's Report on the Compilation of the Forecast Financial Information in section 12.1.

13.9.2 Taxation Advisor

Ernst & Young has prepared the Taxation Report in section 12.3. The Responsible Entity estimates that it will pay approximately \$250,000 (excluding GST, costs and disbursements) to Ernst & Young.

Ernst & Young has given and has not, before the lodgement of this PDS with ASIC, withdrawn its written consent to be named in this PDS and for the inclusion of the Taxation Report in section 12.3 in the form and context in which it is included. Ernst & Young has not authorised or caused the issue of this PDS and takes no responsibility for any part of this PDS other than references to its name and the inclusion of the Taxation Report in section 12.3.

13.9.3 Independent valuation expert

PricewaterhouseCoopers Securities Ltd has prepared the Independent Valuation Report in section 12.2. The Responsible Entity estimates that it will pay approximately \$200,000 (excluding GST, costs and disbursements) to PricewaterhouseCoopers Securities Ltd.

PricewaterhouseCoopers Securities Ltd has given and has not, before the lodgement of this PDS with ASIC, withdrawn its written consent to be named in this PDS and for the inclusion of the Independent Valuation Report in section 12.2 in the form and context in which it is included. PricewaterhouseCoopers Securities Ltd has not authorised or caused the issue of this PDS and takes no responsibility for any part of this PDS other than references to its name and the inclusion of the Independent Valuation Report in section 12.2.

13.9.4 Joint Lead Managers

JPMorgan and Citigroup, in their capacities as Joint Lead Managers, and JPMorgan in its capacity as Financial Advisor, have given, and have not, before the lodgement of this PDS with ASIC, withdrawn their written consent to be named in this PDS in the form and context in which they are included. JPMorgan and Citigroup have not authorised or caused the issue of this PDS and do not make, or purport to make, any statement in this PDS, nor is there any statement said to be based on a statement by JPMorgan or Citigroup, other than as noted above. To the maximum extent permitted by law, JPMorgan and Citigroup disclaim and take no responsibility for any part of or any statements in or omissions from this PDS.

The Responsible Entity has agreed to pay JPMorgan and Citigroup amounts referred to in section 13.5.8 for their services as underwriters.

13.9.5 Co-Managers

Citigroup Wealth Advisors Pty Limited, Commonwealth Securities Limited and Ord Minnett Limited have given, and have not, before lodgement of this PDS with ASIC, withdrawn their written consent to be named in this PDS in the form and context in which they are included. None of the parties named in this section have authorised or caused the issue of this PDS and they do not make, or purport to make, any statements or representations in this PDS. To the maximum extent permitted by law, each of the parties named in this section disclaim and take no responsibility for any part of or any statements in or omissions from this PDS.

13.9.6 Legal Advisor

Blake Dawson Waldron has acted as Australian legal advisors to CIF in relation to the Offer. The Responsible Entity has paid or has agreed to pay to Blake Dawson Waldron approximately \$420,000 (excluding GST, costs and disbursements) for these services to the date of this PDS. Further amounts may be paid to Blake Dawson Waldron in accordance with its normal time and attendance charges.

Blake Dawson Waldron has given and has not, before the lodgement of this PDS with ASIC, withdrawn its written consent to be named in this PDS in the form and context in which it is included. Blake Dawson Waldron has not authorised or caused the issue of this PDS, and expressly disclaims and takes no responsibility for any part of this PDS other than references to it.

13.10 Reporting to Holders

CIF will provide regular communication to Holders, including publication of:

- CIF's half-yearly report which provides an update on the investments held, operation of CIF, and performance for the period;
- CIF's annual report with audited financial statements for each financial year ending 30 June;
- Distribution statements;
- annual taxation statements; and
- any continuous disclosure notices given by CIF.

CIF will also have a website that will provide up to date information on CIF including current Security prices, access to half-year and annual reports and Distribution information.

CIF, as a disclosing entity, will be subject to regular reporting and disclosure obligations. Copies of documents lodged with ASIC in relation to CIF may be obtained from, or inspected at, an ASIC office.

You also have the right to obtain a copy of each annual report, half-yearly report and any continuous disclosure notice from CIF free of charge.

As at the date of this PDS, CIF has not lodged with ASIC any annual report or half-year report with ASIC and has not given any continuous disclosure notices to ASX.

13. Additional information (continued)

13.11 Customer service and complaints

Customer service representatives are available between 8.30am and 5.30pm (AEST), from Monday to Friday, by calling the Registry on +61 2 8280 7111. For investment advice, please see your financial advisor. If you have a concern, please write to CIF at the address set out below or call the Complaints Manager to register your complaint by telephone on 02 9994 7000. CIF will acknowledge your concern, investigate it and report back to you.

The Complaints Manager
Challenger Infrastructure Fund
c/o Challenger Listed Investments Limited
GPO Box 3698
Sydney NSW 2001

If you are dissatisfied with CIF's response, you may raise the matter directly with the Financial Industry Complaints Service ('FICS'). Its contact details are:

Financial Industry Complaints Service Limited
PO Box 579
Collins Street West
Melbourne VIC 8007
Telephone 1300 780 808

Before you contact FICS, first try to resolve your concern with CIF by contacting the Complaints Manager either by telephone or in writing.

glossary of terms

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Glossary of terms

\$ or ¢	Australian dollars or cents as the case may be
Acquisitions	Infrastructure or related assets acquired by CIF other than the Seed Assets
Adjusted Equity Value	Equity Value less Uncommitted Cash
AEST	Australian Eastern Standard Time
AGAAP	Australian generally accepted accounting principles
AIFRS	Australian equivalents to International Financial Reporting Standards
Allocation	Allocation of Securities pursuant to this PDS
Allotment	Allotment of Securities pursuant to this PDS
Allotment Date	19 August 2005, unless varied by the Responsible Entity
Applicant(s)	A person or entity that submits an Application Form
Application	A correctly completed Application Form and attached Application Monies
Application Form	The form used to apply for Class A Securities, whether received in hard copy or downloaded from www.challenger.com.au/InfrastructureFund
Application Monies	The cheque attached to the Application Form which should be crossed 'not negotiable' and made payable to 'CLIL as RE of the Challenger Infrastructure Fund'
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange Limited (ABN 98 008 624 691)
ATO	Australian Taxation Office
BAC Committee	The Board audit and compliance committee of CLIL
Base Fee	The base management fee as described in section 8.3
BBC	The British Broadcasting Commission
BBSW	The Australian Financial Markets Association's bank-bill reference rate
Benchmark Index	The S&P/ASX 200 Industrial Accumulation Index
Benchmark Return	The benchmark return as described in section 8.4
Board	Board of Directors of CLIL
Broker Firm Application	An Application for Securities by a retail client of a Participating Broker who has been given a firm allocation of Securities
Broker Firm Offer	The Offer of Securities to the Australian clients of Participating Brokers
Capex	Capital expenditure
CCUK	Crown Castle UK, one of the UK's leading providers of communications transmission services
CGS UK	Challenger Group Services UK Limited (Company number 042 441 27)
Challenger	Challenger Financial Services Group Limited (ABN 85 106 842 371)
Challenger Group	Challenger and its subsidiaries
Challenger Life	Challenger Life No. 2 Limited (ABN 44 072 486 938)
Challenger Northern Gas Limited	A company incorporated in Jersey which holds a 5.8% interest in North DN
Challenger Towers Limited	A company incorporated in Jersey which holds a 6.3% interest in ntl Broadcast
Challenger Wales and the West Gas Limited	A company incorporated in Jersey which holds an 8.6% interest in Wales & the West DN

Challenger Wine Trust	Challenger Wine Trust (ARSN 092 960 060)
CHESS	Clearing house electronic sub-register system
Churn	A measure of customer attrition. The churn rate is defined as the number of customers who discontinue a service during a given period divided by the average total number of customers over the same period
CIF	Challenger Infrastructure Fund, which comprises two stapled managed investment schemes: CIF 1 and CIF 2
CIF InfoLine	Challenger Infrastructure Fund Information Line on 1800 114 027
CIF 1	CIF Investment Trust 1 (ARSN 114 139 703)
CIF 2	CIF Investment Trust 2 (ARSN 114 139 632)
CIF Sub Trusts	The CIF UK Towers Trust, the CIF Wales and the West Gas Trust and the CIF North of England Gas Trust which will be wholly owned by CIF 1 at Allotment Date.
Citigroup	Citigroup Global Markets Australia Pty Limited (ABN 64 003 114 832, AFSL number 240992)
CityCell	Part of the Wireless Solutions division of ntl Broadcast. It provides enhanced cellular coverage in dense urban areas at street level
CKI	Cheung Kong Infrastructure Holdings Limited
Class A Security(ies)	The Class A Securities issued by CIF to new investors under the Offer
Class B Security(ies)	The Class B Securities issued by CIF to Challenger Life
CLIL	Challenger Listed Investments Limited (ABN 94 055 293 644, AFSL 236887)
Closing Date	12 August 2005, or as otherwise determined by the Responsible Entity
CMSL	Challenger Management Services Limited (ABN 29 092 382 842, AFSL 234678), Manager of CIF
CMSL Management Agreement	The management agreement relating to CIF described in section 13.5.3
Co-investment Agreement	The Co-investment Agreement between CIF and Challenger Life described in section 13.5.4
Co-Managers	Citigroup Wealth Advisors Pty Limited, Commonwealth Securities Limited and Ord Minnett Limited
Constitutions	The constitutions of CIF 1 and CIF 2
Corporations Act	Corporations Act 2001 (Cth)
CPN	Challenger Property Nominees Pty Limited (ABN 39 091 336 793)
Directors	The Directors of CLIL
Distribution(s)	The distributions made half-yearly to Holders, whether received in cash or additional Securities
Distributable Income	The net income of CIF for each financial year in accordance with section 95(1) of the Income Tax Assessment Act 1936 (Cth), plus any other amounts which the Responsible Entity considers appropriate for distribution for that financial year, which may include income or capital, or both
DN	Gas Distribution Network
DRP	The dividend reinvestment plan as described in section 13.6
DSO	Digital Switch Over

Glossary of terms (continued)

DTH	Direct to Home
DTT	Digital Terrestrial TV
EBITDA	Earnings before interest, tax, depreciation and amortisation
Equity Value	The arithmetic average of the daily volume weighted average price of Class A Securities (or Ordinary Stapled Securities) on ASX multiplied by the number of Securities (or Ordinary Stapled Securities) outstanding
Fee Sharing Agreement	The fee sharing agreement between CLIL, CMSL and CGS UK as described in section 13.5.3
Financial Year	A 12 month period ending 30 June, unless stated otherwise
First Instalment	The first instalment of \$1.75 per Class A Security under the Offer and on Challenger Life's subscription for Class B Securities, payable on Application, unless specified otherwise
Forecast Period	Period from Allotment Date to 30 June 2006
Foreign Exchange Transaction	The foreign exchange transactions between CPN as trustee of the CIF Sub Trusts and Challenger Life described in section 13.5.6
FTC	Foreign Tax Credit
GST	As defined in the A New Tax System (Goods and Services Tax) Act 1999 (Cth) (as amended)
Holder(s)	Owners of Class A , Class B or Ordinary Stapled Securities, collectively, unless specified otherwise
IFRS	International Financial Reporting Standards
InBuilding	Part of the Wireless Solutions division of ntl Broadcast. It provides indoor cellular installations to enhance operator coverage inside buildings, such as shopping centres and offices, which have high traffic demands
Independent Directors	Non-executive directors of CLIL who do not hold a board position for any other entity within the Challenger Group
IPO	The initial public offering of CIF including the listing of CIF on ASX and quotation of Class A Securities issued under this PDS
Issuer	CLIL, as the Responsible Entity
Jersey Companies	Each of Challenger Towers Limited, Challenger Northern Gas Limited and Challenger Wales and the West Gas Limited, each being a company incorporated in Jersey
Joint Lead Managers	Citigroup and JPMorgan
JPMorgan	J.P. Morgan Australia Limited (ABN 52 002 888 011, AFSL 238188)
LIBOR	London Inter Bank Offer Rate
Listing Rules	The Listing Rules of the ASX
Macquarie Bank	Macquarie Bank Limited (ABN 46 008 583 542)
Macquarie Communications Infrastructure Group or MCIG	Macquarie Communications Infrastructure Group comprising Macquarie Communications Infrastructure Trust (ARSN 101 048 293) (responsible entity Macquarie Communications Infrastructure Management Limited (ABN 29 066 047 738)), Macquarie Communications Infrastructure Limited (ABN 18 084 388 983) and Macquarie Communications Infrastructure Bermuda Limited

Macquarie European Infrastructure Fund or MEIF	Macquarie European Infrastructure Fund operated by Macquarie Investment Management (UK) Limited
Manager	CMSL
Multiplex(ing)	A digital TV transmission and channel combining unit
MWh	Megawatt hour
Net Asset Value or NAV	Has the meaning given to it in the Independent Valuation Report in section 12.2
NGT	National Grid Transco plc
North DN	North of England Gas Distribution Network
ntl Broadcast	National Transcommunications Limited, known as Arqiva from 1 June 2005
ntl, Inc.	A company listed in the United States which previously owned ntl Broadcast
NTS	National Transmission System
Ofcom	The Office of Communications established under the Communications Act 2003 (UK) to consolidate the Office of Telecommunications (Of tel), the Independent Television Commission (ITC), the Broadcasting Standards Commission, the Radio Authority and the Radiocommunications Agency into a single regulator
Offer	The invitation to apply for Class A Securities pursuant to this PDS
Offer Price	\$3.50 per Class A Security under the Offer
Ofgem	The UK Office of Gas and Electricity Network Markets
Opening Date	25 July 2005, or as otherwise determined by the Responsible Entity
Ordinary Stapled Securities	The securities arising from Class A Securities and Class B Securities from 1 July 2008
Paid-up Capital	The total consideration received by CIF for all outstanding Securities, calculated from time to time
Participating Broker	Brokers who are offered a firm allocation of Securities under the Offer including the Joint Lead Managers and Co-Managers
PDS	This Product Disclosure Statement dated 15 July 2005
Performance Fee	The performance fee as described in section 8.3
Playout	Aggregation of content and other related services into a single stream of transmission
Public Safety	The public safety division of ntl Broadcast which provides services to emergency organisations such as the police, ambulance and fire services
RAV	Regulated Asset Value
Registry	ASX Perpetual Registrars Limited (ABN 54 083 214 537)
Repex	Replacement expenditure
Responsible Entity	CLIL, as responsible entity of CIF
RPI	Retail Price Index, a measure of inflation
Second Instalment	The second instalment of \$1.75 per Class A Security under the Offer and on Challenger Life's subscription for Class B Securities, payable on the Second Instalment Payment Date
Second Instalment Payment Date	21 August 2006, unless deferred by the Responsible Entity
Second Instalment Record Date	The date at which a person is taken to hold Securities for the purposes of determining whether that person is required to pay the Second Instalment

Glossary of terms (continued)

Security or Securities	Class A Securities and Class B Securities, collectively, unless specified otherwise
Seed Assets	CIF's investments in ntl Broadcast, the North DN and the Wales & the West DN
Taxation Report	The taxation report prepared by Ernst & Young, as set out in section 12.3
TFN	Tax File Number
TV	Television
TWh	Terawatt hour
UK	United Kingdom
UK Management Agreement	The management agreement relating to the Jersey Companies described in section 13.5.3
UK Manager	CGS UK
Uncommitted Cash	Cash not committed to pay a pending Distribution or to fund a proposed acquisition for which a contract has been entered into or which has been announced to the market
Underwriting Agreement	The Underwriting Agreement between the Joint Lead Managers and the Responsible Entity described in section 13.5.8
Valuation Period	The first ten business days for which the Securities (Ordinary Stapled Securities from 1 July 2008) 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
Voluntary Escrow Agreement	In respect of Challenger Life, the Challenger Life Escrow Deed described in section 13.5.9 and, in respect of the Manager and the Responsible Entity, the Manager Escrow Deed described in section 13.5.9
WACC	Weighted Average Cost of Capital
Wales & the West DN	Wales & the West Gas Distribution Network
Working Capital Facility	The facility extended to CIF by Challenger Life described in section 13.5.5

Corporate directory

Responsible Entity

Challenger Listed Investments Limited

Level 41, Aurora Place

88 Phillip Street

Sydney NSW 2000

Financial Advisor and Joint Lead Manager

JPMorgan Australia Limited

Level 32, Grosvenor Place

225 George Street

Sydney NSW 2000

Independent Accountants

Ernst & Young Transaction

Advisory Services Limited

Ernst & Young Centre

680 George Street

Sydney NSW 2000

Co-Managers

Citigroup Wealth Advisors Pty Limited

Level 40, Citigroup Centre

2 Park Street

Sydney NSW 2000

Commonwealth Securities Limited

Level 18

363 George Street

Sydney NSW 2000

Ord Minnett Limited

Level 8, NAB House

255 George Street

Sydney NSW 2000

Manager

Challenger Management Services Limited

Level 41, Aurora Place

88 Phillip Street

Sydney NSW 2000

Joint Lead Manager

Citigroup Global Markets Australia Pty Ltd

Level 40, Citigroup Centre

2 Park Street

Sydney NSW 2000

Tax Advisor

Ernst & Young

Ernst & Young Centre

680 George Street

Sydney NSW 2000

Legal Advisor

Blake Dawson Waldron

Level 36, Grosvenor Place

225 George Street

Sydney NSW 2000

Registry

ASX Perpetual Registrars Limited

Level 8, 580 George Street

Sydney NSW 2000

CIF InfoLine

Telephone: 1800 114 027

Open Monday to Friday from 8.30am to 5.30pm from the date this PDS is lodged with ASIC until 23 August 2005.

Level 41, Aurora Place
88 Phillip Street
Sydney NSW 2000
telephone 02 9994 7000
facsimile 02 9994 7777

www.challenger.com.au