

Investor Report – Half Year 2007

challenger 

From the Chairman

Dear Shareholder,



On behalf of Challenger's Board and management, I am pleased to welcome you to our half year investor update. It has been a successful

period for the Group which saw performance once again improve.

This report provides you with an opportunity to read about the high points for Challenger during the six months to December 31, 2006. It offers a snapshot of how the Group performed during this period.

You will also find your Board and senior management's outlook for Challenger, and some important general information for shareholders.

Half Year result to 31 December 2006

Challenger reported a strong result for the first half of the year. Net profit after tax rose 117% to \$130 million on the prior corresponding period. Our focus on delivering quality products and services has helped us deliver an 18% increase in assets under management to \$46.4 billion.

We saw net income increase by almost 50% to \$324 million. Importantly all the key indicators are trending positively. Three of our businesses – Funds Management, Asset Management and Mortgage Management – are achieving or exceeding our target of an 18% return on net assets. Our review of Financial Planning is complete and we are entering a new strategic phase for this business commencing 1 July 2007.

Dividend

Your Board has declared an interim dividend of 5 cents per share fully franked for the half year ended 31 December 2006. Your Board has a policy which targets dividends to be not less than 30% of annual statutory net profits after tax.

Challenger's strong performance has delivered value for shareholders and a continued lift in Earnings Per Share (EPS). Basic EPS for the half increased to 23.7 cents per share – up 112% on the prior corresponding period.

Outlook

The result illustrates that the discipline we are applying is returning strong, consistent growth in earnings, underpinned by a differentiated business model and strategy. We are an innovative and contemporary financial services organisation, targeting growth markets and operating where we have comparative advantages and can attract fee based income streams.

We remain committed to delivering on our target of a return on assets of 18% from our businesses and double digit EPS growth in the long term.

Peter Polson
Chairman

Challenger Financial Services Group Limited statutory results to 31 December 2006

Assets under management



18%

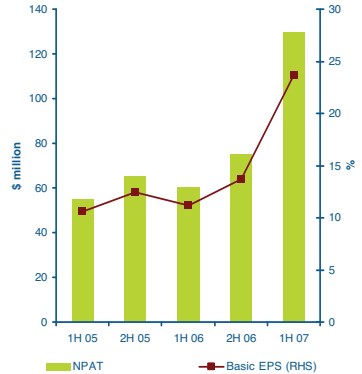
Total assets under management \$46.4b up 18%

Profit



117%

NPAT up 117% to \$130m



EPS



112%

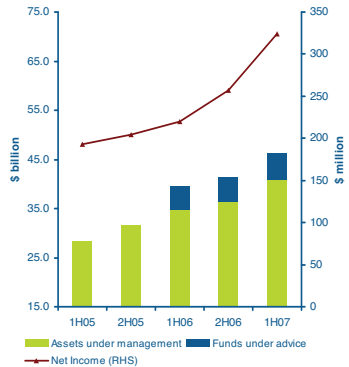
Basic EPS of 23.7cps, up 112%

Income



47%

Income of \$324m up 47.3%



Highlights

Dividend: 5 cents per share interim dividend, fully franked

Dividend Policy: Minimum of 30% annual statutory net profit after tax

Strategy

Challenger's goal is to be an innovative and contemporary financial services organisation. We target growth markets and operate where we have a comparative advantage.

Financial Objective

To produce double digit EPS growth while exceeding 18% RONA in each business for shareholders.

Financial definitions

Assets under management

Assets under management is the total assets and loans under management, administration or advice.

Earnings

Earnings are the profit that remains after a company pays all its expenses, also known as net profit after tax.

Earnings before interest and tax (EBIT)

Earnings before interest and tax is a key measure of the performance of a company. It is similar to net profit except the effects of tax and interest are excluded.

Earnings per share (EPS)

Earnings per share is a company's earnings, also known as net profit after tax, divided by the weighted average number of shares.

Net income

Net income is net investment income plus net fee income plus other income. It is generally defined as gross income minus expenses directly related to earning the gross income.

Net profit after tax (NPAT)

Net profit after tax is the 'bottom line'. It is how much profit a company makes after paying tax.

Operating expenses

The cost of doing business. Operating expenses are deducted from income and the result is EBIT.

Return on net assets (RONA)

Return on net assets is EBIT divided by net assets. It is a key measure of performance for each business division. Each business division has a RONA target.

Outlook

- Our contemporary platforms continue to build fee based income streams and our assets and funds under management will continue to grow.
- We are committed to the success of our customers and are working to build stronger relationships and provide better service.
- Continued investments in people, processes and systems.
- We are committed to maintain strong discipline in all our activities.
- We are bringing these disciplines to our Financial Planning business and the results of this will be seen in second half 2008.
- We remain committed to delivering > 18% RONA from our businesses and double digit EPS growth in the long term.

Challenger is an established participant in Australian financial services, focusing on four business lines each committed to achieving above-market growth.

Funds Management manufactures investment products for institutional and retail clients. It is a quality investment manager in its own right. And it also acts as a gateway to other investment managers, allowing us to offer a range of funds and investment styles.

Mortgage Management is one of Australia's largest non-bank residential mortgage lenders, funding a comprehensive range of residential mortgage products offered by a network of preferred lenders under their own brands.

Asset Management has particular expertise in infrastructure, property and fixed interest markets; and it continues to develop specialist funds for institutional and retail investors. It is a proprietary investor in its own right, raising funds through retail and wholesale annuities and other sources to invest in assets which are undervalued for risk or where we can add value.

Financial Planning, operated through our Genesys Wealth Advisers business and our funds administration company, Synergy, has over 400 advisers across Australia, offering reliable lifetime wealth advice to around 100,000 Australians.

Visit our shareholder information site

For detailed and up to date information about Challenger for shareholders, visit our website at www.challenger.com.au. You'll find the latest company announcements, key shareholder contacts and other useful information.

eTree

Save costs and paper - sign-up today to receive your shareholder communications electronically. Challenger shareholders receive a number of printed publications each year via the post. When our shareholders elect to receive communications electronically, Challenger will donate \$2 to Landcare Australia to support projects where the restoration of degraded plant and water resources are urgently needed.

To register your email address, visit www.ETree.com.au/challenger.

Dates

30 June 2007

Financial year end

27 August 2007

Full-year results announcement

22 November 2007

Annual General Meeting

