

MARKET RELEASE

CHALLENGER FINANCIAL SERVICES GROUP LIMITED HALF YEAR RESULTS TO 31 DECEMBER 2004

28 February 2005, Sydney – Challenger Financial Services Group Limited (CGF) today announced a statutory Margin on Services profit before tax and corporate charges of \$113 million for the interim period ending 31 December 2004, an increase of 64 per cent over the previous corresponding period. On a historical cost (modified) basis profit before tax and corporate charges was \$81 million, an increase of 211 per cent over the previous corresponding period.

Statutory net profit after tax was \$64 million for the half year to 31 December 2004.

Earnings per share before goodwill was 12.9 cents and 11.4 cents per share after goodwill.

Underlying business performance was sound for the six months to 31 December 2004, reinforced by margin improvements due to cost management and changes in the business mix (historic cost EBITDA margins more than doubled from the previous corresponding half from 15 per cent to 32 per cent). Debt reduced by \$985 million in the half; gearing improved to 42 per cent from 64 per cent at 30 June 2004. The company is beginning to reap the synergies of its business model as it moves out of a period of intense change and focuses on improving productivity.

Highlights for Challenger's three business lines included:

- Diversification of assets backing Challenger Life's annuity business. This included the sale of non-core overseas properties and the purchase of three infrastructure investments in the United Kingdom. Challenger Life reported record annuity sales during the period at \$562 million.
- Steady growth in the Challenger Wholesale Finance mortgage book despite weaker market conditions. Interstar Non-Conforming broke even in its first full reporting period. Challenger's lending product range was further expanded through the acquisition of a small inventory finance business.
- Strong growth in funds under management and administration in Challenger Wealth Management. The acquisition and integration of Associated Planners and Garrisons is on track with the combined financial planning business reporting a \$1 million profit for the December half. Challenger Wealth Management continues to replace its legacy systems and close unprofitable products.



In the lead up to the end of the financial year, Challenger will continue to focus on its productivity across the group taking advantage of the experience dividend inherent in the Challenger business model and work towards its goal of delivering an 18 per cent return on net assets (RONA) in each of its three core businesses within three years. Performance towards this target is on track.

Challenger Life

Challenger Life made a solid contribution to Challenger's earnings, reporting a pre-tax profit before corporate charges of \$88 million on a statutory basis for the period ending 31 December 2004. Using historic cost accounting, Challenger Life's pre-tax profit before corporate charges was \$56 million for the first half of the 2005 financial year. Annuity sales for the December quarter were \$60 million, in addition to first quarter sales of \$502 million, reflecting the impact of September 20 legislative changes.

During the half, Challenger Life diversified its asset portfolio with the acquisition of three infrastructure investments in the United Kingdom for a total of \$271 million. A number of attractive characteristics make these gas and broadcast assets well suited to Challenger Life's asset portfolio, including operating in mature regulated environments, providing essential community services and generating long-term, contracted predictable cash flows. In addition, the sales of Challenger's UK property portfolio and Las Cimas in Austin, Texas were settled during the period.

Challenger Life will continue to focus on growing earnings through investment in property, fixed interest securities, mezzanine debt, mortgages, and infrastructure where the differentiated nature of Challenger Life's investment can generate superior returns for policyholders and shareholders.

Challenger Wholesale Finance

Challenger Wholesale Finance reported a pre-tax profit before corporate charges of \$26 million for the six months to 31 December 2004. The Challenger Wholesale Finance mortgage loan book grew in line with plan to \$17.5 billion during the period.

Highlights included Interstar Non-Conforming breaking even within its first full reporting period and the acquisition of inventory finance company, Provident Trade Capital, subsequently rebranded Challenger Inventory Finance. This bolt-on acquisition presents a good strategic fit with Challenger's finance businesses, further expanding its product range, while maximising use of the company's existing distribution channels.

Challenger Wholesale Finance has improved its margins and continues to spend on technology enhancements aimed at increasing margins and service levels.



Challenger Wealth Management

Challenger Wealth Management produced a solid turnaround in the half reporting a pre-tax loss of \$1 million for the six months to 31 December 2004, compared to a loss of \$6 million for the 2003 corresponding period. This improvement was largely due to a sharp turnaround in the profitability of financial planning and savings achieved from aggressive cost management, including the continuing replacement of legacy systems and the closure of unprofitable products. Wealth Management continues to target regular profitable operation by the second half of the 2006 financial year.

The acquisition of Associated Planners and integration with Garrisons has gone smoothly and the combined group is already in profit reporting \$1 million for the six months to 31 December 2004, which is ahead of plan.

Challenger's managed funds are performing strongly against its peers and inflows have been well above market average. New funds including the Challenger Select Australian Share Fund, the Challenger Orion Australian Share Fund and the Challenger Boutique Australian Share Portfolio are performing in line with expectations. A number of new investment funds will be launched throughout the 2005 calendar year.

Dividend

As previously indicated, Challenger will not pay an interim dividend for the first half of financial year 2005. Challenger will continue to monitor and assess its capacity to pay dividends to shareholders and it is the desire of the Challenger Board and management to commence paying dividends from the 2005 financial year retained earnings.

SUMMMARY OF FINANCIAL PERFORMANCE

	31 Dec 2004	31 Dec 2003	Increase
	\$m	\$m	%
Profit before interest, tax and goodwill amortisation:			
Statutory "MoS" basis	113	69	64%
Historic cost basis	81	26	211%
Profit after tax before goodwill:			
Statutory "MoS" basis	73	42	74%
Historic cost basis	51	11	364%
Profit/(loss) after tax:			
Statutory "MoS" basis	64	33	94%
Historic cost basis	41	2	1950%
EPS (post share consolidation)			
Statutory	11.43 cents	6.85 cents	67%
Historic cost	7.27 cents	0.41 cents	1673%
Statutory before goodwill	12.95 cents	8.65 cents	50%
Historic cost before goodwill	8.87 cents	2.25 cents	294%

December 2003 figures are based on the Pro-forma Statement of Financial Performance as reported in the 2004 Annual Report. The pro-forma provided an aggregation of the results and cash flow statements for the two discrete statutory periods noting that prior to 22 December 2003, Challenger Financial Services Group operated as a listed trust.

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