

MARKET RELEASE

CHALLENGER FINANCIAL SERVICES GROUP LIMITED RESULTS FOR 12 MONTHS TO 30 JUNE 2005

CGF LIFTS STATUTORY PROFIT AFTER TAX BY 44 PER CENT

29 August 2005, Sydney – Challenger Financial Services Group Limited (CGF) today announced a statutory Margin on Services net profit after tax of \$111 million, an increase of 44¹ per cent. Profit before tax and goodwill was \$184 million.

On a historic cost basis, net profit after tax and before goodwill was \$94 million, an increase of 100 per cent over last year.

Statutory earnings per share before goodwill were 25.7 cents and 17.9 cents per share on a historic cost basis.

The full year result to 30 June 2005 highlights the synergies that are being achieved from the Challenger Group model.

Historic cost highlights include:

- **Revenue** up 36 per cent
- **Costs** up 23 per cent - controllable costs grew at 4 per cent year on year due to tight cost control and significant reductions in headcount
- **EBIT margin** grew by 55 per cent - from 11 per cent to 17 per cent year on year
- **Historic cost EBIT** was up 107 per cent to \$122 million
- **Net debt** was reduced by \$1.5 billion down to \$601 million

Dividend

Challenger has declared a fully franked dividend of five cents for the 12 months to 30 June 2005 payable on 21 October 2005.

RONA

Challenger Wholesale Finance and Challenger Life both exceeded their target of 18 per cent return on net assets (RONA) (before the change in reporting for corporate costs). Challenger Life delivered its target 12 months ahead of expectations. Challenger Wealth Management turned profitable 12 months ahead of schedule and remains on track to achieve its target in 2007.

Challenger Life

Challenger Life reported a statutory profit before tax of \$155 million, \$100 million on a historic cost basis - up 61 per cent. Challenger Life significantly improved its capital position during the year. Debt was reduced by \$1.3 billion.

The Challenger Life balance sheet was diversified into three core asset classes – property, infrastructure and fixed income. During the year, Challenger Life has established its capabilities and credentials in the infrastructure sector, culminating in the successful launch of the Challenger Infrastructure Fund (CIFCA).



Annuity sales were \$666 million on the back of the September 2004 legislative changes. Sales are expected to return to levels of at least \$300 million per annum in the coming year. In the first two months of the new financial year, sales are achieving a run rate that would achieve this target.

Challenger Life achieved a RONA of 20.7 per cent, 12 months ahead of schedule.

Challenger Wholesale Finance

Residential loan book growth was 16 per cent for the year, which is 38 per cent above system growth. Margins on the residential book grew by 43 per cent from 23 to 33 basis points. Commercial margins remained constant.

Challenger Wholesale Finance achieved RONA of 20 per cent in the year.

Challenger Wholesale Finance reported a profit before tax of \$65 million – up 76 per cent from 2004. Challenger Wholesale Finance was rated the top Australian residential mortgage backed securitiser by Standard and Poor's for the year ending 30 June 2005 ahead of other large financial institutions including the major banks.

Challenger Wealth Management

Challenger Wealth Management achieved profitability a year ahead of expectations, reporting a profit before tax of \$6 million. This compares to a loss of \$5 million in 2004.

Challenger Wealth Management realised the benefits of its product and process investments, completing the closure or integration of legacy products and systems.

Financial planning has been profitable since the acquisition of Associated Planners in August 2004.

Challenger Wealth Management continued to extend its product range through the acquisition of HSBC Asset Management (Australia) Limited; the formation of a strategic alliance with the Queensland Investment Corporation (QIC) and the establishment of Kinetic Investment Partners Limited, a specialist small companies fund manager.

Outlook

The company does not provide forecasts. In the absence of new opportunities, the company is confident of positive growth in revenues and profit in 2006 as synergies from the Challenger Group model continue to be realised.

¹ Excludes \$280 million write-off of goodwill as at 30 June 2004.

ENDS

Note to editors:

Margin on Services and Historic cost (modified) accounting: Life companies are required to be accounted for a Margin on Services basis consistent with Life company accounting. Margin on Services is actuarial accounting and involves market valuation principles, which can lead to volatility in year on year results. Challenger has chosen to also present its results on a historic cost basis to help the market better understand the underlying profit and cashflow generated by the Life company.



CHALLENGER FINANCIAL SERVICES GROUP LIMITED

FULL YEAR RESULT TO 30 JUNE 2005

SUMMARY OF FINANCIAL PERFORMANCE

	Full year to 30 June		
	2005 \$m	2004 \$m	Change %
Profit before interest, tax and goodwill			
Statutory "MoS" basis	207	160	29
Historic cost basis	152	91	67
Profit after tax before goodwill			
Statutory "MoS" basis	135	97	39
Historic cost basis	94	47	100
Profit/(loss) after tax and goodwill:			
Statutory "MoS" basis	111	(203) ¹	-
Historic cost basis	70	(253) ¹	-
EPS (adjusted for LTIP shares yet to vest)			
Statutory	21.1	(41.6) ¹ cents	
Historic cost	13.3	(51.9) ¹ cents	-
Statutory before goodwill	25.7	19.8 cents	30
Historic cost before goodwill	17.9	9.6 cents	86
Corporate Charges	(47)	(323)	85
Total assets	4,601	5,676	-19
Total liabilities	3,300	4,591	-28
Net debt	601	2,066	-71
		Historic cost	
	\$m	\$m	
EBIT	122	59	107
Net profit before tax	105	48	119
Profit after tax	70	27	159
EBIT margin	17%	11%	55

1. After \$280 million write-off of goodwill as at 30 June 2004.

June 2004 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.

HISTORIC COST HIGHLIGHTS

- Revenue up 36%
- Costs up 23% - controllable costs up 4%
- EBIT margin up 55% from 11% to 17%
- Historic cost EBIT up 107%
- 18% return on net assets achieved in Life and Wholesale Finance. Wealth Management profitable a year ahead of expectations
- Statutory EPS before goodwill up 30% to 25.7 cents, historic cost up 86% to 17.9 cents
- Debt down by \$1.5b - gearing 12%
- Five cent dividend declared - fully franked

Challenger Life

- Significantly improved capital position including the repayment of \$1.3 billion in debt.
- Balance sheet diversified into three asset classes - property, infrastructure, fixed income.
- Infrastructure strategy implemented and Challenger Infrastructure Fund launched.

Challenger Wholesale Finance

- 38% above systems growth in the residential loan book.
- Margins up 43% from 23 to 33 basis points.

Challenger Wealth Management

- Profitability achieved 12 months ahead of expectations following the closure and integration of legacy products and systems.
- Financial planning business profitable since the acquisition of Associated Planners.
- Product range expanded.