

MARKET RELEASE

CHALLENGER ANNOUNCES SALE OF CIF CLASS A UNITS RETAINS 37.7% HOLDING

29 November 2006, Sydney - Challenger Financial Services Group Limited (ASX:CGF) has sold 39.3 million Challenger Infrastructure Fund (ASX:CIF) Class A securities (16.3 per cent of securities on issue) to UK-based Arkmile Ltd an associate of Consensus Business Group.¹

Key features of the transaction include:

- Arkmile to acquire Challenger's holding in CIF Class A securities for \$3.50 per unit, a total consideration of \$138 million
- Challenger will continue to hold 91 million securities in CIF (37.7 per cent of securities on issue)
- Challenger will no longer consolidate CIF

Challenger's Chief Executive Officer Mr Mike Tilley said, "Challenger is committed to CIF and will remain a substantial shareholder. This transaction is consistent with our stated intention to deconsolidate CIF and highlights the quality and value of CIF's asset portfolio. We have a growing strategic relationship with the Consensus Business Group¹ and will continue to work closely with them on a number of opportunities."

At 30 June 2006, Challenger held a controlling interest in CIF and consolidated the results and balance sheet of the fund in its financial statements. As a result of the sale, Challenger will no longer consolidate CIF and going forward Challenger's investment in CIF will be reported on an investment accounting basis (mark to market fair value) under AIFRS.

Challenger expects the sale to provide a statutory profit before tax of approximately \$20 million², subject to CIF fair value movements, and approximately \$23 million² on an historic cost basis.

A detailed analysis of the impact of the sale is included on the following pages.

ENDS

1 Consensus Business Group: UK-based investment advisory service company which advises a family trust that invests in commercial, residential and public sector property, ground rents and technology. The Consensus Business Group provides advisory services to the family trust on numerous assets, investments and business opportunities covering all aspects of advice from the identification of strategic areas of business; the acquisition, financing (including structured and complex financing) and development of specific opportunities as well as long term business development and growth.

2 These estimates are unaudited and subject to change.

Challenger sale of CIF A class units

Analysis of financial statement impacts

29 November 2006



Transaction benefits

- Sale of 39.3m units demonstrates value inherent in CIF
- Releases \$138 million in cash to be reinvested by CGF
- CGF realises full benefits from CIF investment to date (FY06 and FY07)
- Simplifies CGF financial statements going forward
 - removes complexity of CIF consolidation in CGF financial statements
 - removes balance sheet impacts of CIF/Inexus goodwill and debt
 - full recognition by CGF of distributions and fees earned from CIF

Profit on deconsolidation of CIF

| Statutory Profit / (Loss) impacts – before tax | FY 06 | 1H 07 ¹ |
|---|----------------|---------------------------|
| CGF share of CIF result after minorities | (\$12m) | \$10m ² |
| CIF distributions received (previously eliminated) | (\$18m) | \$18m |
| Fees and other income (previously eliminated) | (\$18m) | \$18m |
| Transaction costs | nil | (\$3m) |
| Fair value movement of CIF | nil | (\$23m) ³ |
| Total profit / (loss) impact before tax | (\$48m) | \$20m³ |

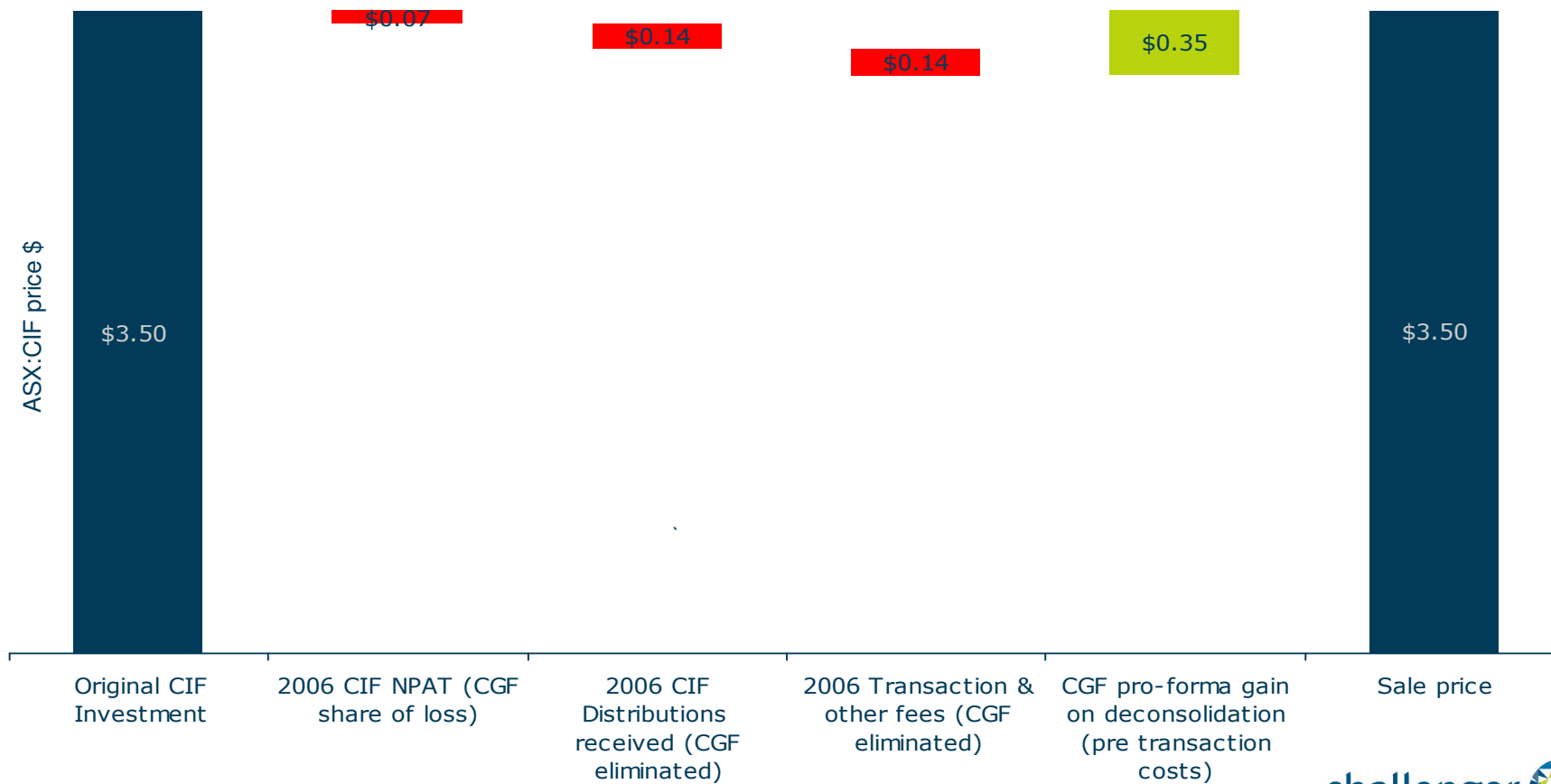
1. Excluding the recognition of 2007 share of CIF earnings, post sale CIF distributions, management and performance fees and movements in CIF share price from 28 November 2006.
2. Represents CGF share of CIF result after tax and minorities. The net impact in 1H07 will be a \$10m profit irrespective of CIF's post tax trading result up to the date of sale as CGF is selling its units at book value.
3. Based on CIF closing price prior to announcement (at 28 November 2006) of \$3.24. The final 1H 07 result will fluctuate with movements in the CIF share price. By way of example, based on the residual 91 million units held a \$0.10 move in price will result in approximately +/- \$9.1 million fair value movement. Based on the \$3.50 Arkmile transaction price the fair value movement would be \$nil.

| Historic Cost Profit / (Loss) impacts – before tax | FY 06 | 1H 07 ⁴ |
|---|----------------|---------------------------|
| CGF share of CIF result after minorities | (\$3m) | \$2m ⁵ |
| CIF distributions received (previously eliminated) | (\$18m) | \$18m |
| Fees and other income (previously eliminated) | (\$2m) | \$2m |
| Gain on seed assets (previously eliminated) | (\$4m) | \$4m |
| Transaction costs | nil | (\$3m) |
| Fair value movement of CIF | nil | nil ⁶ |
| Total profit / (loss) impact before tax | (\$27m) | \$23m |

4. Excluding the recognition of 2007 share of CIF earnings and post sale CIF distributions, management and performance fees.
5. Represents CGF share of CIF result after tax and minorities. The net impact in 1H07 will be a \$2m profit irrespective of CIF's post tax trading result up to the date of sale as CGF is selling its units at book value.
6. Under historic cost Challenger adopts the lower of cost or net realisable value methodology on a 'look through' basis to the underlying value of the assets of CIF. Based on current performance of the assets and recent valuations no diminution in value is expected.

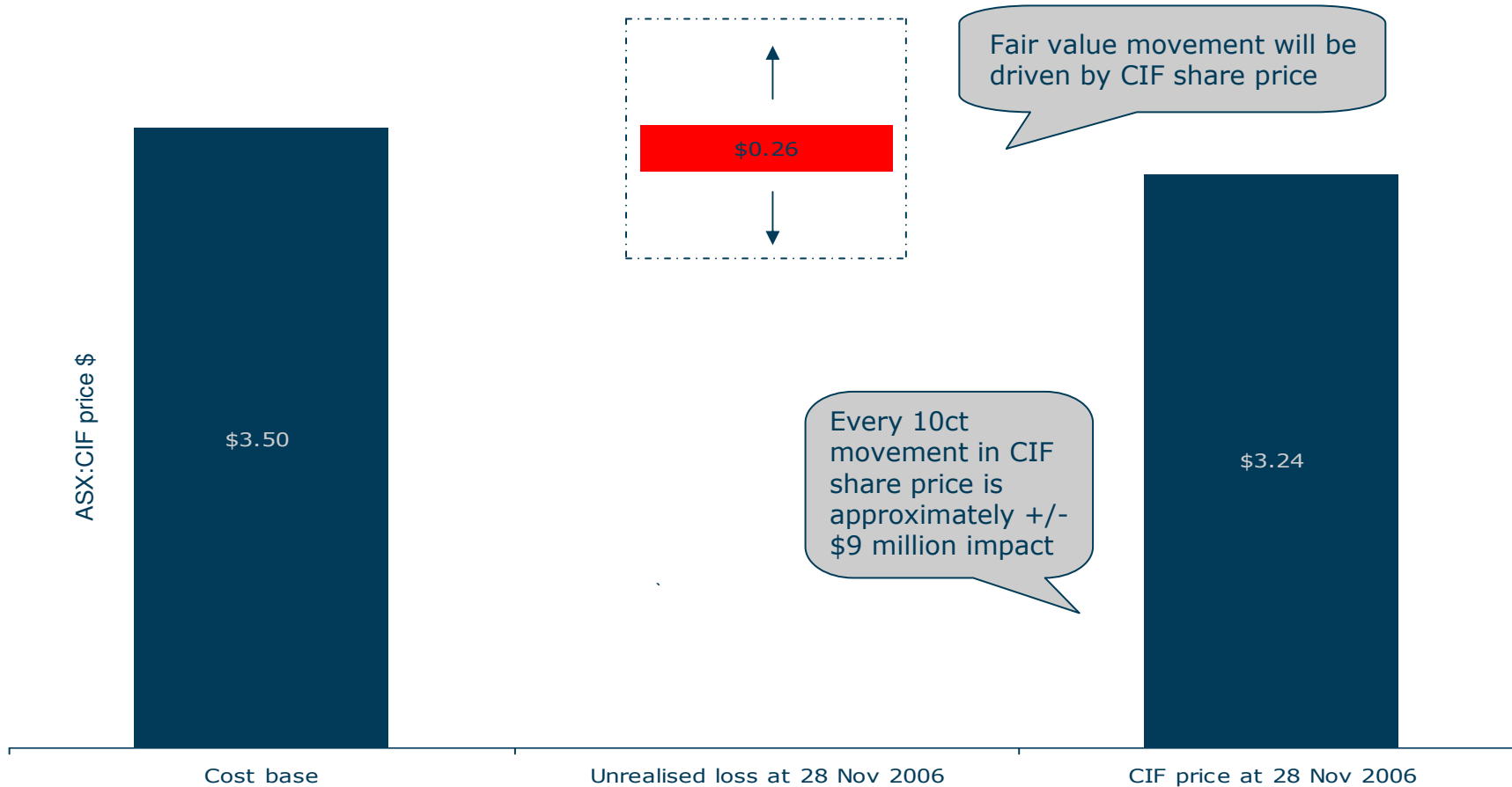
AIFRS analysis of CGF investment in CIF

Based on total units held at 30 June 2006 (129m units)



AIFRS mark to market impact

Based on number of units post sale (91m units)



- CIF forecast distribution for FY07 of 28.8 cpu (per CIF Rights Issue PDS October 2005)
- CIF base management fee is 1% pa of the adjusted equity value

Normalisation of the sale profit

Historic cost

| Asset Management | 2006 Reported | CIF Consol impacts | 2006 Normalised | 2007 Disclosure | CIF Deconsol impacts | 2007 Normalised |
|---------------------------------------|------------------|-----------------------|--------------------|--------------------|-------------------------|--------------------|
| Income | | | | | | |
| Net rental income | 95 | – | 95 | – | – | – |
| Investment income ¹ | 100 | 11 | 111 | 8 | (8) | – |
| Realised gains ² | 53 | 4 | 57 | 4 | (4) | – |
| Interest paid and selling costs | (122) | – | (122) | – | – | – |
| Net investment income | 126 | 15 | 141 | 12 | (12) | – |
| Fees received ³ | 51 | 1 | 52 | 1 | (1) | – |
| Net fee income | 51 | 1 | 52 | 1 | (1) | – |
| Other income | – | – | – | – | – | – |
| Net income | 177 | 16 | 193 | 13 | (13) | – |
| Expenses | | | | | | |
| Total operating expenses | (54) | – | (54) | – | – | – |
| EBIT | 123 | 16 | 139 | 13 | (13) | – |
| Corporate | | | | | | |
| Expenses | | | | | | |
| Interest expense ⁴ | (35) | 11 | (24) | 10 | (10) | – |
| Profit/(loss) before tax | (35) | 11 | (24) | 10 | (10) | – |
| Consolidated profit before tax | 161 | 27 | 188 | 23 | (23) | – |

Footnotes

| | 2006 | 2007 |
|--|------|------|
| 1. Challenger share of CIF (profit) loss before CIF equity bridge facility costs | (7) | (7) |
| CIF distributions received | 18 | 18 |
| Transaction costs | – | (3) |
| | 11 | 8 |
| 2. Deferred net gain on seed assets | 4 | 4 |
| 3. CIF management fees eliminated (54% share) | 1 | 1 |
| 4. Challenger share of CIF equity bridge facilities | 10 | 9 |
| Bridge interest income eliminated | 1 | 1 |
| | 11 | 10 |