

19 October 2007

The Manager  
Company Announcement Platform  
Australian Stock Exchange Limited  
20 Bridge Street  
SYDNEY NSW 2000

Dear Sir/Madam

**CHAIRMAN'S ADDRESS – CHALLENGER FINANCIAL SERVICES GROUP EGM 2007**

In accordance with listing rule 3.13.3 of the Australian Stock Exchange, please find attached addresses from the Chairman being delivered to shareholders at the Challenger Financial Services Group EGM today.

Yours faithfully



Chris Robson  
Company Secretary



**CHALLENGER FINANCIAL SERVICES GROUP  
EXTRAORDINARY GENERAL MEETING**

**CHAIRMAN'S ADDRESS**

**19 OCTOBER 2007**

**1.30 PM, LEVEL 2,  
STATE ROOM OF THE HILTON HOTEL  
488 GEORGE STREET  
SYDNEY**

**Chairman's Address**

On 27 August 2007, Challenger announced it was entering into a number of strategic relationships providing significant financial flexibility for Challenger and significant growth platforms for future business opportunities.

The first relationship relates to Colony Marlin-Holdings, LLC (hereby named "Colony"), a privately owned, US based, international firm with US\$30 billion of assets under management and arguably one of the leading global real estate investors.

Colony's team of professionals uniquely combines real estate, financial and corporate expertise, providing Colony with the resources to execute complex real-estate transactions across product, geography and industry.

More recently, Colony have stepped up their infrastructure capabilities in areas adjacent to Challenger's.

Central to Colony's investment strategy has been its commitment to strategic partners and its alignment with other successful management teams in the context of operating investments.

Challenger and Colony believe the complementary skills of both companies in real estate and selected residential and commercial developments, combined with Colony's global reach, will provide significant opportunities over the medium to long term for Challenger.

As part of this relationship, Colony will acquire an option over 57 million Challenger ordinary shares, exercisable over a 5 year period at \$7.00 per share.

Colony will pay \$64 million for the grant of this option, the funds from which will be used to fund organic growth and investment opportunities, as well as support the general working capital requirements of Challenger.

Importantly, the issue of these options does not require shareholder approval as it does not exceed the 15% limit under ASX Listing Rule 7.1.



Today, the Board seeks ratification for the issue of the options under ASX Listing Rule 7.4, which would provide Challenger with the opportunity to raise further capital in the next 12 months without first obtaining shareholder approval. This would be particularly important should Challenger need to raise capital for an investment opportunity, which in a competitive situation may be lost as a consequence of the delay associated with obtaining such approval.

The second relationship relates to a long term strategic relationship Challenger proposes to enter into with Bank of Tokyo-Mitsubishi UFJ (hereby named “BTMU”) and Mitsubishi UFJ Securities (hereby named “MUS”) to pursue opportunities in Australia, Japan and the Asian region.

BTMU and MUS both operate within Mitsubishi UFJ Financial Group, which is the largest owner of real estate operations in Japan. Both BTMU and MUS have extensive operations throughout Asia, with strong retail, corporate and government customer relationships.

The proposal is a significant opportunity for Challenger to build on our existing capabilities in Japan a market we believe presents enormous opportunities.

Challenger, BTMU and MUS plan to pursue opportunities for mutual co-operation in the Asian region, in particular opportunities relating to real-estate, structured credit, mortgage origination and securitisation, other investment banking products and the distribution of investment products.

As part of this relationship, subject to receiving shareholder approval, Challenger has agreed to issue 40,000,000 fully paid ordinary shares to BTMU and MUS, for the issue price of \$5.20 per share.

The consideration of \$5.20 per share is reflective of the condition of the Australian share market at the time terms of this agreement were being negotiated. Many of you will recall the volatility of the market in August this year.

It is intended that the proceeds of the new shares will be used to fund organic growth and investment opportunities for Challenger, as well as support the general working capital requirements of the company.

Today, the Board seeks shareholder approval of the issue of these shares for all purposes, including under ASX Listing Rule 7.1

The commencement of these new strategic relationships marks the beginning of a new and exciting phase of growth for Challenger.

In summary, we believe there are two significant opportunities presented to Challenger as a result of these new strategic relationships.

The proposed new capital extended to Challenger, as a result of relationships with Colony and separately, BTMU and MUS provide significant financial flexibility for Challenger by strengthening Challenger’s existing capital levels and un-drawn facilities.



New capital will certainly assist our Asset Management business as we transition the assets relating to the transfer of MetLife Insurance Limited's annuity, allocated pension and personal superannuation business. It is envisaged that the reinvestment of Metlife assets in line with the Life company's preferred asset allocation, will be expedited due to the enhanced financial flexibility provided by the additional funds.

Secondly, these relationships provide Challenger significant medium to long term global expansion opportunities partnering with established companies with successful operations across the US, Europe and Asian region.

The third matter for consideration at this meeting relates to the remuneration of Challenger's Chief Executive Officer, Michael Tilley.

Your Board recognises that leadership stability is imperative if the opportunities presented by these new relationships are to be maximised.

With this in mind, the Board has reviewed the remuneration of Challenger's Chief Executive Officer, Michael Tilley, to ensure appropriate incentives are in place to retain Mr Tilley's services during this exciting next stage in Challenger's development.

The Board has resolved, subject to shareholder approval to issue 4,000,000 options, at an exercise price of \$5.20 to Mr Tilley as part of his overall remuneration package, consistent with Challenger's remuneration policy to appropriately reward in line with the achievements of Challenger's objectives by motivating to deliver results that are above shareholder expectations.

The Board is comfortable that the amount of share options provided to Mr Tilley is in-line with competitors - following an assessment of "reasonableness" conducted by external consultant PwC - and again note, that the \$5.20 per share consideration is reflective of the condition of the share market and Challenger share trading price, at the time of this offering to Mr Tilley.

Importantly, the Board has imposed a vesting condition on these options so that they only vest after stated performance targets are attained and only after the 4<sup>th</sup> anniversary of their date of issue.

Your Board believes that this structure will not only achieve the objective of retaining Mr Tilley for the foreseeable future but also provide the appropriate link to performance and increased shareholder value.