

22 November 2007

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

Dear Sir/Madam

**CHAIRMAN AND CEO'S ADDRESS – CHALLENGER FINANCIAL SERVICES GROUP AGM 2007**

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

Yours faithfully



Chris Robson  
Company Secretary



**CHALLENGER FINANCIAL SERVICES GROUP  
ANNUAL GENERAL MEETING**

**CHAIRMAN'S ADDRESS**

**22 NOVEMBER 2007**

**10.30 PM, LEVEL 3,  
BALLROOM A OF THE HILTON HOTEL  
488 GEORGE STREET  
SYDNEY**

**Chairman's Address**

Our Annual General Meeting provides the Board with an opportunity to update our shareholders on the progress Challenger has made during the course of the past financial year and subsequent months.

I will provide a high level summary of the Group's annual result in addition to an update on each of our four lines of business, to give you a sense of how your company is performing.

Our Chief Executive Officer, Mike Tilley will then provide more detail on the business and a number of noteworthy achievements, including some that have taken place post financial year end.

In the 12 months to 30 June 2007, Challenger achieved its third record result, driven largely by top line revenue growth across all business units.

For the period Challenger reported, on a statutory basis:

- net profit after tax of \$255 million, an increase of 90% over last year;
- earnings before interest, tax and significant items of \$335 million, an increase of 35%; and,
- basic underlying earnings per share of 46.3 cents, an increase of 86%, over the previous corresponding period.

Across the full breadth of the business, our focus continues on growing and diversifying our repeatable income stream while maintaining a discipline on costs. A significant highlight for the year was the Group's ability to generate a sizeable increase of 27% in net income, while costs grew at 19%.

Looking at each of our four businesses.

**Funds Management** achieved growth in funds under management for the 2007 financial year of 43%, driven by strong sales, solid alpha generation across many sectors and obviously supported by healthy investment markets.

The business exceeded our target by achieving a return on net assets for the year of 29%, demonstrating the favourable response we are receiving to the growing range of investment products that we offer.

We now have significant scale in the market – with increased product exposure across investment platforms, as well as the recommended lists of financial planning dealerships.

**Mortgage Management** grew profits by 15% to \$90 million in the 2007 financial year.

Residential mortgages under management grew 8% to \$19.8 billion, and commercial mortgages increased 23% to \$3.2 billion.

These results reflect a conservative approach in a highly competitive mortgage market. There was a renewed focus by Challenger on products and technology and the development of new distribution initiatives.

**Asset Management** continues to derive growth from specialist funds and is gaining significant recognition as having expertise in infrastructure and real estate.

The business achieved another strong profit result for the financial year, up almost 40% on last year to \$233 million. A key driver of this result was the significant increase in assets under management in our specialised funds business, which grew more than five-fold during the financial year reaching \$3.2 billion, with total assets under management for the division growing to \$6.7 billion.

Central to our success is our philosophy of investing in assets that produce long term predictable income streams in the three core asset classes of real estate, infrastructure and fixed income.

**Financial Planning** reached a turning point in the 2007 financial year, marked by a fundamental change in the business model and consequently, its potential to attain our target return of 18% on net assets.

During the period funds under administration grew 21% and funds under advice grew 33%.

The key focus for the year was to establish a basis for future growth and enhanced profitability. The year saw the implementation of a strategic review, the findings from which provided a new framework to take the business forward and which included a restructure of the leadership team, standardising the services offered by member firms as well as the provision of additional services designed to enhance client outcomes and optimise efficiencies in practices.

Against this operating background your Board paid a full year dividend of 12.5 cents per share, fully franked. This represents an increase of 67% over the prior year.

When considering a "people intensive" business like ours, it is important for shareholders to understand the investment we have to make in human resources and our rewards strategy.

The growth we are experiencing can only follow a substantial investment in intellectual capital. This investment is most obvious through personnel appointments in key revenue generating roles.

Being aware that these appointments and the people within Challenger represent a significant investment for the future growth of the company, Challenger's Remuneration Committee has during the past year reviewed and aligned Challenger's reward strategy. This strategy is designed to support the achievement of Challenger's long term objectives by motivating employees to deliver results which are over and above market performance.

Challenger's new long-term reward strategy, the Challenger Performance Plan, replaces the previous Long Term Incentive Plan. The Plan seeks to align stakeholder interests by ensuring a significant component of remuneration is directly linked to Challenger Total Shareholder Return and growth in earnings per share.

More specifically, the Board believes that the Challenger Performance Plan:

- seeks to more closely align the interests of the CEO, senior executives, key employees and shareholders;
- is a contemporary design in line with best practice;
- is simple for participants to value as part of their annual remuneration;
- acts as an effective reward, motivation and retention mechanism for key employees across the business; and,
- in relation to Performance Options awards, represents a pay for performance component of executive remuneration.

A full summary of this policy and its key features are outlined in the remuneration report, which forms part of Challenger's 2007 Annual Report.

Today's meeting seeks shareholder approval for the new Challenger Performance Plan and the grant of Performance Rights and Performance Options under the Plan. We will refer to this resolution later in the meeting when we turn to the business of the meeting.

Part of the business of today's meeting also deals with the re-election of three Board members. In accordance with Challenger's Constitution, one-third of our directors are required to retire by rotation each year. In today's meeting we will address the re-election of Board members, Messrs Cubbin and Hooper, as well as myself. Your Board unanimously recommends these re-elections.

Mr James Service and Ms Brenda Shanahan will not be standing for re-election and accordingly will retire at the end of today's meeting. Your Board thanks them for their significant contribution to Challenger. Challenger has benefited from the depth of commercial and financial services expertise they have brought to the Board table over many years. Both Jim and Brenda were instrumental in the evolution of the company in 2002 and 2003 and their commitment to and guidance during this difficult period for your company, are both well remembered and appreciated by all involved.

Finally I will now conclude by referring to matters post balance date and the outlook for your company.

Despite the dislocation of the global credit markets experienced during the first quarter of the current financial year, our total assets and loans under management and administration grew to over \$78 billion by 30 September 2007.

Growth in the first quarter was assisted by the transfer of MetLife's \$1.8 billion annuity, personal superannuation and allocated pension portfolio in August and the inclusion of \$21.5 billion of mortgages under administration acquired through the Choice transaction announced in September.

Your Board is pleased with the business momentum achieved by Challenger over the course of the 2007 year and believes that the past year has provided a foundation for future growth.

We believe that the group's overall strategy is now firmly in place and is delivering positive outcomes in an extremely competitive environment.

Your Board looks forward to the coming year and thanks you for your continued support.

I would now like to hand over to our Chief Executive Officer, Mike Tilley.

## **CEO's Address**

Over the past year, Challenger has enjoyed substantial growth, driven by top line revenue growth across each of the group's business lines.

To be successful in the long term, as a business we understand we need to focus on achieving returns today and investing for tomorrow.

Our contemporary financial services business model, spanning funds management, asset management, mortgage management and financial planning, is well placed to continue growing. We now have solid foundations, as well as a disciplined approach, both of which we've worked hard to build in previous years.

With our four lines of business all contributing to profitability, we are now seeing evidence that our strategy to grow and diversify our income stream is being realised. The proportion of our total income that is now fee based, has increased significantly, contributing 62% of overall income. This shift in our revenue profile, coupled with our continued heavy investments in people, processes and systems, demonstrates strong growth prospects for Challenger's future.

At the end of the day, ours is a people business and it is the intellects, behaviours, discipline and energy of our people which determines our success. These are the attributes of our culture.

Our success is largely an outcome of the dedicated team of Challenger people who are focused on developing smarter solutions, differentiated products and exceptional service through scalable platforms. Finding a better way to meet customers needs is a key plank in our business philosophy.

We do this by 'thinking differently', by challenging ourselves to do better and deliver greater value for our customers and shareholders.

We believe that it is this approach that contributes to our success and will stand us in good stead in all markets.

Our principles provide the philosophy for how we operate as a team and individually to get the right outcomes for our customers and partners, and ultimately for our shareholders.

It is through our principles of commercial ownership, compliance, creative customer solutions, working together and integrity, that we inspire and motivate our teams to continue to deliver growth across the group.

Our principles also form part of employee annual objectives and appraisal process.

Of particular note over the last year, was our commitment to our principle of creative customer solutions, delivering innovation in both the products we offer and the customer service we deliver.

This approach is evident across all parts of our business:

- In our funds business where we have acknowledged the need to provide choice to investors and therefore have developed relationships with quality external investment managers to complement our strong internal capability;
- In our mortgage business where we have set the benchmark for non-bank lenders by creating transparent and automated loan processing for our mortgage partners;
- In our asset management business where we seek to capture value for shareholders at each stage of a transaction from identifying the asset to originating the deal; and,
- Lastly, in financial planning where we have restructured our offering to ensure member firm services optimise financial solutions for individual investors.

Commenting now on key achievements during the financial year and in recent months within each line of business.

**Funds Management** experienced a period of accelerated growth during the 2007 financial year, across the range of investment products offered, with the business growing funds under management by 43%, making us one of the fastest growing managers in Australia.

Challenger has benefited from its model of supporting the varied needs of investors by providing internally generated funds, alongside multi-manager, alliance and boutique arrangements. This model provides investors with expertise across the full breadth of funds management products.

This strategy is working particularly well in the boutique space whereby highly skilled investment managers looking to do only what they do best, manage money, are freed from the administration, distribution and marketing of funds through the services we provide to them.

To this end, during the period Challenger successfully launched two additional boutique partnerships, Kapstream Capital and Greencape Capital and were a party to a number of accolades in their honour.

Greencape Capital won Morningstar's Rising Star award for 2007 and most recently, Kinetic Investment Partners, also a boutique partner, won the Small Companies Fund Manager Award at the 2007 Australian Fund Manager Awards.

Challenger's internal investment team were also the recipient of two awards at the Australian Fund Manager Awards. The occasion saw us receive the prestigious Golden Bull Award for overall best performance, as well as the award in the Australian Equities category.

We have had a strong start to the first quarter in funds flow – Funds Under Management as at 30 September was \$19.5 billion.

## Mortgage Management

During the 2007 period, we have continued to increase our participation in and commitment to the mortgage sector.

We continue to make investments in people and processes and are focused on developing scalable systems to assist in maximising not only our own, but our partners, operational efficiency. Examples include LiteWork, a system that automates and accelerates residential loan processing and Jetstream a workflow implementation system which creates transparency of information flows during the life of the residential loan application.

We believe we are well positioned to continue to deliver for our mortgage partners and we understand our long term obligations – to remain competitive, to deliver quality service and innovative products.

Our initial equity stake in mortgage aggregator, PLAN Australia, which was taken in December 2005, has provided us with many insights in to the aggregation segment of the market. We believe this segment provides further growth opportunities in the future and with this in mind in September this year, we took an increased step into aggregation with a commitment to acquire the remaining 85% of PLAN next year. Additionally, simultaneously we took positions in other major aggregators, with the acquisition of a 19% stake in FAST and the full acquisition of Choice.

When you consider the number of individual brokers serviced by these three different aggregation businesses, there are now more than 5000 mortgage brokers affiliated with Challenger and Challenger partner aggregation services.

## Asset Management

Our Asset Management business continues to drive our overall growth with a number of transactions defining the division's progress and building the Group's specialist fund capability.

During the year Asset Management continued to build sources of capital it uses for investing, as well as its capabilities in origination.

Challenger's long term commitment to the Australian annuity market, was recognised through the Plan for Life 'Annuity Provider of the Year 2006' award. Annuities continue to provide Challenger with significant long-term and cost effective funding.

Our annuity capability was further enhanced in August, when we assumed the \$1.8 billion **MetLife** Insurance Limited's allocated pension, personal superannuation and annuity portfolio. This transaction provides Challenger with significant financial flexibility and will enable us to expedite the transition to our desired asset allocation of 30% property, 30% infrastructure, 30% fixed income and cash and 10% other over the next few years.

In addition to funding sourced through our annuity book, the asset management business continues to source hybrid capital through alternative sources and during the 2007 financial year, underwent an inaugural US private placement issue of US\$150 million with a subsequent issue of A\$400 million in October of this year. This business is in an extremely strong capital position in what are proving to be difficult markets.

A key part of our success over the past year has been our ability to source global assets in line with our disciplined investment criteria.

Of significant note was the Challenger Infrastructure Fund, CIF's, acquisition of 66% of **LBC Group** – the second largest independent operator of storage terminals for bulk liquid chemicals, globally. With long-term predictable cash flows and clear growth opportunities, the acquisition not only added significant scale to CIF but to the group's specialist funds capability more broadly. Challenger identified the asset and originated the deal, conducting the necessary research and due diligence and approached the vendor for a private sale.

Similarly, in October this year, CIF led a consortium of investors to acquire **Southern Water** one of the largest water and sewerage companies in the UK, with an enterprise value of over £4 billion, offering

exceptional scale benefits for the fund. The group, in support of diversifying our balance sheet into attractive low risk and high yielding infrastructure opportunities, invested alongside CIF.

Another highlight for the year was the successful Initial Public Offering for a new listed property trust, Challenger Kenedix Japan Trust. The fund offers investors the opportunity to invest in Japanese retail property, sourced and managed by a Japanese real estate manager partner, Kenedix.

Despite difficult global markets, we continue to see significant scope for asset management in the year ahead as we seek to expand our range of wholesale unlisted offerings in domestic and offshore markets.

## **Financial Planning**

As the Chairman noted, the restructure of the Financial Planning division has created a contemporary model which better aligns advisers and Challenger as the dealer.

The restructure incorporated management changes, the standardising of services offered by member firms and the development of additional services to optimise the efficiency of each Genesys business.

The wealth management industry is forecast to continue to attract new money, particularly in superannuation, and we believe with our new platform now in place, we are well placed to capture growth within the advice market.

In recent months, Challenger has entered into several transactions that will provide significant medium to long term growth potential for the group.

Shareholders last month approved new relationships with international partners, **Colony Capital, The Bank of Tokyo Mitsubishi** and **Mitsubishi UFJ Securities** which will provide significant financial flexibility for the group and open up new opportunities and markets for your company.

We believe the complementary skills of Colony Capital, The Bank of Tokyo Mitsubishi and Mitsubishi UFJ Securities and those of Challenger, combined with the global reach of these international partners, will provide significant opportunities over the medium to long term for Challenger.

These relationships have also increased the capital and capital equivalents available to your company by \$672 million, at a time when global credit markets are exhibiting extreme volatility. Total liquidity within Challenger today is at an all time high.

In conjunction with the entire executive team, I am excited by the global expansion opportunities these relationships will provide in our funds management, real estate, infrastructure and structured credit businesses, and thank you for your ongoing support as we work to make these opportunities a reality.

I'll leave you now to view a brief video on Challenger's highlights for the financial year to 30 June 2007 and then our Chairman will continue with today's proceedings.