

23 November 2006

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

Dear Sir/Madam

**CHAIRMAN AND CEO'S ADDRESSES – CHALLENGER AGM 2006**

In accordance with listing rules 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 Limited Annual General Meeting today.

Yours faithfully,



**Chris Robson**  
**Company Secretary**



**CHALLENGER FINANCIAL SERVICES GROUP LIMITED  
ANNUAL GENERAL MEETING**

**CHAIRMAN AND CEO'S ADDRESSES  
23 NOVEMBER 2006**

**10.30 AM  
VERBRUGGHEN HALL  
SYDNEY CONSERVATORIUM OF MUSIC  
MACQUARIE STREET  
SYDNEY  
(Check against delivery)**

**Chairman's Address**

Good Morning. It has been another significant year for Challenger with substantially improved results across the board.

Challenger reported a net profit after tax but before significant items of \$153 million on a statutory basis, an increase of 28 per cent on the prior year.

On an historic cost basis, Challenger reported a net profit after tax and before significant items of \$125 million, an increase of 48 per cent on 2005.

Highlights for the year included the growth of our total assets, funds and mortgages under management and administration to \$36.5 billion. Each of Challenger's businesses grew its contribution to the Group profit. At a group level there was a 30 per cent increase in net income while costs increased by only 12 per cent.

On a historic cost basis, earnings before interest, tax and significant items grew by 58 per cent to \$209 million.

Statutory basic underlying earnings per share before significant items grew by 25 per cent to 28.4 cents per share. Our target is to deliver double digit earnings per share growth on an ongoing basis.

As a result of these achievements, your Board declared a final dividend of 5 cents per share fully franked for the year ended 30 June 2006. This brings the full year dividend to 7.5 cents per share fully franked, an increase of 50 per cent on the previous year. The rise reflects the progress the company has made to date.

Your Board also introduced a dividend policy for the first time. Dividends are anticipated to be not less than 30 per cent of statutory profits after tax. Dividends for the year ended 30 June 2006 were almost 33 per cent of statutory profits after tax.

Our results are the consequence of the efforts of a dedicated team focused on delivering our strategy.



Challenger's management team continues to make significant strides in communicating your Company's strategy and comparative advantage to shareholders and the broader investment community.

As a consequence, I believe that the investment community now has a better understanding of Challenger's strategy and objectives. Your Board recognises that an improved understanding of our business model will allow the wider investment community to make better decisions regarding the true value of Challenger.

I'd now like to comment briefly on each of our four businesses.

Funds Management earned its maiden profit in the 2006 financial year and the business also achieved its return on net assets target of 18 per cent for the first time. All our businesses are set this target.

The benefits of significant investment in previous years are now being realized with strong growth in profits and fund inflows. While funds under management grew by 21.6 per cent to \$12.8 billion, expenses were flat, rising by just 1.5 per cent.

During the year the business continued to refine its product range, creating new growth opportunities as well as increasing the diversity of its revenue.

Most importantly it achieved stellar investment performance relative to its competitors and benchmarks across many products. This led to growth in funds under management and a corresponding growth in fee revenue.

Mortgage Management grew profit by 28 per cent to \$78 million. This performance was driven by solid growth in its residential mortgage loan book.

Residential mortgages grew at 14 per cent to reach \$18.3 billion during the period.

In response to the evolving needs of our customers, Mortgage Management implemented a number of product and service enhancements during the year which assisted in growing the business.

In addition, enhancements to operational efficiency and tight cost control contributed to an improvement in the division's cost to income ratio over the period.

Asset Management had a significant year, producing a return on net assets of 22 per cent. Earnings grew by 23 per cent as the strategy for the business became more clearly defined. Assets under management rose by 13.2 per cent to \$3.67billion.

The business seeks to grow and generate profit by leveraging its skills in infrastructure, property and fixed-interest assets. It seeks to generate returns as an investor in its own right from assets under management which are held on the Challenger balance sheet. It also generates fee income from assets it manages on behalf of other investors through a number of specialist funds.

It is anticipated that realising the opportunities in this sector will provide increased fee revenue. Asset Management reported that fee income rose to \$51 million from just \$15 million in the previous financial year.



The launch of both the unlisted Challenger Global Infrastructure Fund and the listed Challenger Infrastructure Fund were key achievements for the year. The Challenger Infrastructure Fund is now focused on growth orientated global utility investments.

In recent months, Asset Management continued its commitment to launching specialist funds with the roll out of the listed Challenger Diversified Property Group. The trust's equity raising attracted enormous interest and was, as a result, oversubscribed.

Financial Planning is our fourth business. Following the departure of Chris Cuffe from his Chief Executive, Wealth Management role, Financial Planning was separated from Funds Management. Greg Kirk was appointed to head the division and its financial results were reported separately for the first time.

In 2006 following the merger of two financial planning businesses to form Genesys Wealth Advisers, we successfully launched an advertising campaign to support this new brand. This campaign is already beginning to build significant brand awareness.

The fundamentals of this business are beginning to strengthen, with net income increasing 10.3 per cent, versus an expense increase of 5.9 per cent over the corresponding period. Earnings Before Interest and Tax increased by 40 per cent to \$7 million.

The Financial Planning leadership team is focused on meeting the required return on net assets target of 18 per cent and believes the business can reach this target by 2009.

I would now like to turn to the issue of corporate governance which is a priority shared by the Board and management of Challenger. Your company has introduced a comprehensive range of governance policies in recent years.

We have enshrined this focus in Challenger's Five Principles, two of which focus on the importance of compliance and integrity. These principles form part of our employee annual objectives and employee appraisal processes, which assists in developing a culture that recognises a commitment to good governance.

Challenger subscribes to the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations.

To that end the Board invited two new independent directors, Sarina Russo and Leon Zwier, to join the Board in September 2006.

I would like to welcome them both to Challenger and I believe they will serve shareholders of the company well in the coming years. Both Sarina and Leon will bring new skills and disciplines to our Board process and decision making.

The last few years have seen major changes in the Challenger businesses.

The strategy developed by management and supported by your Board is clearly delivering improving results for shareholders.

Your Board believes Challenger can deliver shareholder value by maintaining focus on our strategy, core disciplines and a commitment to providing superior products and services to our customers.

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Further enquiry: Tanya Atkins, Head of Shareholder Relations, Challenger Financial Services Group. 02 9994 7125  
Josie Ashton, Senior Manager, Investor Relations, Challenger Financial Services Group. 02 9994 7898  
Angela Warburton, Senior Manager, Media Relations, Challenger Financial Services Group. 02 9994 7509



We are optimistic about the outlook for your Company in the coming year. We have seen growth across each of our businesses and we anticipate this expansion to continue.

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.

### **Chief Executive Officer's Address**

Good morning ladies and gentlemen. Thank you for joining us today. I am pleased to be able to deliver an update on what proved to be another successful year for your Company, a year in which revenues, profits and dividends grew strongly while expenses were held down.

In the 2006 year Challenger's key focus was on continuing to improve outcomes for customers.

We worked to ensure better investment returns in all of our funds and better customer service in all areas of our business and to develop more competitive residential mortgage products, all while maintaining strong cost disciplines.

This ensured the delivery of our target of a return on net assets of 18 per cent, or better, across three of our businesses – Funds Management, Mortgage Management and Asset Management.

Your Chairman Peter Polson has already spoken about the results and some of the highlights of the 2006 year.

Today, I would like to take this opportunity to speak about why Challenger's senior management and its teams believe the company's new foundations and committed focus will deliver improving returns for shareholders in the years ahead.

Challenger's achievements arise because of the disciplined commitment to our scalable business model and our desire to create high quality, innovative and differentiated financial products and services.

This is helping us to deliver continuing improvements to shareholder returns by developing sustainable comparative advantages over other companies operating in the same space.

We only operate in environments offering market growth of better than 10% per annum. Our intention is to grow faster than the market rate, leveraging our comparative advantages.

It is these advantages that help differentiate us - the features and superior performance of our products, the customer focus of our service and the excellence of our execution.

These comparative advantages are in evidence across all our businesses.

In Funds Management, strong investment performance across our key products has helped develop a growing acceptance by financial planners, highlighted by our broadening

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presence on the investment menus of dealer groups and platforms, and growing third party research endorsements. Challenger was Australia's fastest growing funds manager last year, according to a survey by Watson Wyatt.

In Mortgage Management, our comparative advantages were enhanced in 2006 by the launch of new products – in particular jumbo and uninsured mortgages - as well as adding new product features such as free transactional banking services.

Customer service was enhanced by the introduction of Litework, an innovative system which has allowed us to offer one of the fastest loan application approval times in the market. This also improves our operating efficiency. We can now approve conforming loan applications received on Litework in five seconds.

In Asset Management, work around a range of innovative specialist funds, including the Challenger Infrastructure Fund and an unlisted Global Infrastructure Fund, has helped deliver a growing stream of fee revenue. This has grown from \$2 million in the 2003/2004 financial year to over \$50 million in 2005/2006.

During the current year, we anticipate the expansion of our specialist fund range – particularly our property funds - will deliver continued growth in this fee income.

Another achievement for Asset Management was the initiation by Standard & Poor's of an 'A' insurer financial strength rating for Challenger Life. This will assist us in providing greater flexibility to access funds while helping to contain the cost of funding.

In Financial Planning we have more work to do on productivity and systems to achieve our return objectives. The year was one in which we continued to develop the Genesys Wealth Advisers brand.

In just over one year the Genesys brand campaign has established solid awareness, and is now achieving 28% awareness amongst our target market. More importantly, our target market identifies positive attributes with the Genesys brand, more so than they do with the larger, more established financial planning brands.

Each of our businesses seeks to develop and enhance these sustainable comparative advantages. They work together as a team across the group to build customer relationships and reduce costs, utilising scalable best of breed systems.

Your management believes these advantages will help us deliver improving returns for shareholders. Our focus, therefore, will continue to be on:

- Offering highly innovative, differentiated products which meet customer needs;
- Attracting intermediaries and third parties because of the excellence our execution, our service and our products; and
- Running a low cost, efficient business model built on best of breed systems and people.

Our business model is delivering improvements – evidenced by the 48 per cent increase in net profit after tax and before significant items and growing support from intermediaries reflected in the growth of assets and loans under management during 2005/2006 to more than \$35 billion.



In 2006, we grew revenue at 2.5 times costs, suggesting our strategy does deliver for both customers and shareholders alike.

Challenger operates in competitive markets and competes against very large opposition. Our strength is the quality of our people and their commitment to ensuring excellence in execution and the delivery of great customer service. Our focus on commercial ownership means we treat every business decision as if it is our own.

This ethos of commercial ownership is enshrined in one of our Five Principles which, as Peter said, form part of our employee annual objectives and our appraisal process.

Our Five Principles are: compliance, integrity, commercial ownership, working together and creative customer solutions. These are the values we bring to everything we do within Challenger.

They are the essence of the way in which our teams are encouraged to work and we believe they assist us in developing our comparative advantages.

The principles, values and goals of Challenger are reflected in our brand. The brand points to who we are, what we stand for and what we do.

It is of course not just about our logo and visual identity. It is a product of everything we do, the services we provide, the products we create and the solutions we find.

At Challenger we don't just want to succeed, we make sure we do. Collectively and individually we set ambitious challenges and we meet them. To do this, we ensure everything is in place to allow fast decisions and efficient responses. We have a strong entrepreneurial spirit that is enhanced by disciplined systems and a commitment to excellence in execution.

We constantly seek better ways of doing things because that is the way to continually deliver smarter solutions for all our stakeholders. From clients and shareholders, business partners and colleagues, each stakeholder has its own unique needs.

The Challenger logo is at the heart of the way we are viewed. The stylised diamond in our logo is the vehicle by which everyone recognises us. It reflects what we stand for.

We see many analogies between the diamond and our business. A diamond can be cut and shaped in many ways and put to different uses, but its core and quality remain the same.

Challenger too, through its various businesses, takes different shapes but constantly creates better, innovative ways to out-perform and over-deliver, remaining true to its core values and maintaining its quality.

In addition to being a beautiful gemstone that never loses its value, a diamond is also an incisive precision tool that gets the job done. This is one of the core attributes of Challenger – the ability to act incisively, to break through and deliver.

Above all, however, the most important factor for the future of our business and our ability to deliver is the quality and commitment of our people, working as a team to achieve our objectives.

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The Board and management have a strong focus on attracting, retaining and developing an outstanding team.

We aim to attract highly-skilled employees who are interested in working in a company where they can make a difference every day.

A quality team is essential if we are to deliver long-term sustainable growth. It is our people that ensure we continue to develop comparative advantages.

They create the platforms, the products, the outstanding investment performance and ensure a culture of excellence in customer service.

The true test of the strength of an organisation is the people it attracts and retains. As your Chairman said, we have attracted a number of significant new members to our team this year in revenue generating roles.

We believe that the calibre of the people we have attracted is another sign that your Company is moving in the right direction.

During the 2006 year our costs rose by \$27 million. Within this employee costs rose by \$31 million and non-employee costs fell by \$4 million. Employee costs account for approximately 70 per cent of the company's costs. However, without our employees we would have no business, because the essence of Challenger is its people.

Our investment in quality, senior revenue generating staff in the past year will pay handsomely in the coming years.

New employees tell us that the things they like most about working for Challenger are, our lack of bureaucracy, our ability to innovate, our desire to differentiate and the fact that they quickly can and do make a real difference to the success of the company.

We want Challenger people to have the power to change things for the better. We want to challenge the bigger players in the markets in which we operate by presenting better, more innovative alternatives and better customer service.

To encourage this type of atmosphere, there is an open and transparent work environment with no limits on interaction across the company. This atmosphere will only be enhanced as we move our current Sydney sites into one, better team environment at the Hilton Hotel in March next year.

Our desire is for people to work together towards a collective purpose for mutual gain.

We reward those who demonstrate a strong sense of team spirit, a willingness to challenge and seek better ways. We value those with a 'can-do, will-do' mindset. We will continue to see the benefits of this culture in the years ahead. Challenger's greatest asset is its people.

Challenger's teams recognise their responsibilities to stakeholders, including shareholders but also our partners, whether they are institutional investors, financial planners, mortgage originators and brokers or the wider community.



We believe the intermediary market, mortgage brokers and financial planners will continue to grow their share of distribution. Challenger is working to become the partner of choice for financial intermediaries across our markets, and we believe this focus will position us well to take advantage of the growing channels of mortgage brokers, mortgage managers and financial planners.

Challenger also recognises its responsibility to the communities in which it operates.

This year we teamed up with a not-for-profit organisation, Habitat for Humanity, whose charter is to assist those in need of adequate shelter to build simple, decent, affordable houses.

Underprivileged families chosen on the basis of need alone, purchase their own homes on no-interest mortgages with Habitat. The families also contribute 'sweat equity' to the building of their own home, or that of another family.

As a financial services organisation we understand that owning your home is an important part of attaining financial security. For this reason we chose Habitat for Humanity as our community partner.

This year Challenger sponsored the purchase of a plot of land on which a new home was built for a deserving family. And in recognition of the importance of involving the Challenger team in our community partnerships, the ten winners of our annual employee recognition program, the "Can Do" awards, last month spent a week helping the Habitat team build the home.

Challenger's teams are focused on the objective of achieving double digit earnings per share growth.

Our intention for the year ahead is to continue to focus on developing our comparative advantages to build on the past year. Your management believes that by doing this we can deliver on our return on net asset targets and offer continued improvements for shareholders.

We would now like to play a short DVD about the 2006 financial year at Challenger. Thank you and we look forward to your continued support in the year ahead.

*ENDS*