

Challenger News

CHALLENGER LIMITED
NEWSLETTER – MARCH 2012

Update from your Chairman



Peter Polson
Chairman

On behalf of Challenger's Board and management team, I am pleased to provide you with an interim results update for the half year ended 31 December 2011. The results highlight the Group's solid fundamentals and the strong underlying demand drivers for our core Life and Funds Management products.

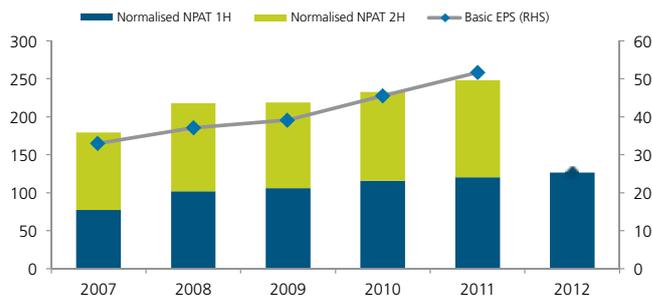
The results saw Challenger increase both the sales growth and cash operating earnings guidance off the back of strong annuities sales for the first half, demonstrating the strength of the Life business. The Funds Management business also had a pleasing half with strong inflows and good performance of the 10 boutique partnerships, in the context of a volatile market over the six month period.

We remain committed to our goal of providing Australian's with financial security in retirement and being a leader in that field.

Financial highlights and business performance

We formally reported our interim results for first half 2012 on 20 February. Our normalised net profit after tax (NPAT) was up 5% on the prior corresponding period driven by increases in assets under management (AUM) across both our businesses. Earnings per share was flat at 25.3 cents per share, with increased earnings offset by the increase in share count from the early exercise of 60m options by CPH, originally granted in 2003.

Statutory NPAT of \$20 million was less than normalised NPAT, primarily reflecting the widening of credit spreads which peaked late last year creating a negative investment experience. This investment experience is predominantly unrealised in nature and will fluctuate as credit spreads change.



Net income remained relatively flat at \$255 million for the half, as did expenses, with our cost to income ratio steady at 37%. Importantly we maintained this ratio while expanding our distribution force, research capability and conducting a broad based advertising campaign.

The Life division saw record retail sales, up 38% on the prior corresponding period, to \$983 million for the six months ended 31 December 2011 and total life sales up 74% at \$1.27 billion including institutional sales of \$288 million during the period. This solid result reflects the success of our first consumer driven advertising campaign, our increased distribution team and our product and IT initiatives.

Total AUM for the business of \$29.6 billion was up 15% on pcp, including a strong lift in the Funds Management boutique AUM to \$16.2 billion supported by inflows of \$2 billion for our 10 boutique partnerships for the half.

Finally we increased guidance for Life's FY12 normalised cash operating earnings to \$435m, which is a 9% increase on our FY11 actual result; and increased our retail annuity sales growth target from 25% to 30%.

The Company's balance sheet remains sound with no group recourse debt and a net cash position of \$209 million. Within our APRA regulated Life Company (Challenger Life Company Limited) we held surplus capital over minimum regulatory requirements in excess of \$600 million at 31 December 2011, with strong operating cash generation of \$140 million during the period.

In summary we reported a solid result during a period of continued market turbulence and volatility due to the strong demand dynamics underpinning growth in our core Life and Funds management range of products.

Dividend

Your Board has declared an interim dividend of 7.5 cents, paid on 30 March 2012. This represents an increase of 7% on last year's interim dividend, and consistent with our targeted payout ratio. This dividend is unfranked at present, however once our tax position permits it is your Board's intent to frank your dividend to the largest extent possible.

If you have elected to access your dividend statement on line, it is now available and the instructions on how to access the on line statement are included in an e-mail that has been sent to you. For all other shareholders your dividend payment advice is enclosed.

Dividend Donation

Through Challenger's Community Giving Program, employees can make regular donations to one of our community partners through their pre-tax salary. These contributions are then matched by the company up to \$500 per employee per year. However, supporting these very worthwhile organisations requires more than just a financial contribution. Challenger also provides paid volunteer leave and actively encourages its employees to give their time and skills to help our community partners or another charity of their choice.

Challenger's shareholders are also invited to support our community partners by donating some or all of their dividends through our dividend donation program. It offers shareholders an easy way to give back to the community by electing to donate all or part of their dividends to one of our Community Partners. I would encourage you to review the brochure accompanying this update or go to the website link www.challenger.com.au/about/community, if you have elected to receive communications electronically, or please phone Computershare on 1800 780 782 to request a Dividend Donation form.

Outlook

I want to re-affirm that our focus on the retirement income sector remains unchanged; this is core to our strategy going forward. The macro environment remains supportive for our business and we are well placed to participate in the growing retirement income market and the fast developing boutique funds management sector leveraging the Superannuation market. Retirees are demanding greater certainty and product simplicity and the aging demographic in Australia is creating supportive growth trends that are going to continue to play out over the next 20 years.

Financial Calendar – Key shareholder dates

30 March 2012	Interim Dividend Payment Date
30 June 2012	2012 Financial Year End
20 August 2012	FY12 Financial Results Release and Final Dividend Announcement*
3 September 2012	Final Dividend Ex Date*
7 September 2012	Final Dividend Record Date*
28 September 2012	Final Dividend Payment Date*
26 November 2012	2012 Annual General Meeting – Sydney

* Final dividend subject to confirmation on 20 August 2012

Shareholder information

For questions about individual shareholdings please contact:

Computershare Investor Services Pty Ltd

Telephone: 1800 780 782. Fax: 612 8234 5050

To assist with enquiries please quote your current address and Security Reference Number (SRN).

You can also visit the Shareholder Centre on the Challenger website (www.challenger.com.au) for more information, including company presentations and announcements and to register your email address to receive direct notification when any material information is released to the Australian Securities Exchange.

