

Challenger News



CHALLENGER LIMITED
ABN 85 106 842 371
NEWSLETTER – MARCH 2013

Update from your Chairman



Peter Polson
Chairman

On behalf of Challenger's Board and management team, I am pleased to provide you with an update on Challenger's results for the first half of 2013.

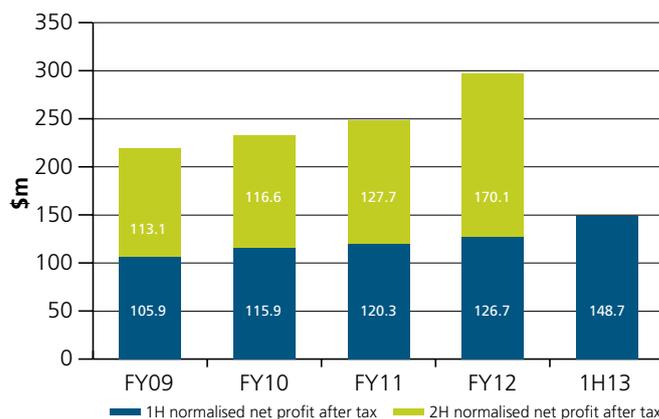
In summary, the company increased its normalised net profit after tax, earnings per share and interim dividend. We have a strong capital position and will continue our on-market share buy-backs to enhance shareholder returns.

Growth in profit and earnings

For the half year, Challenger delivered a normalised net profit after tax of \$149 million, representing 17% growth on the first half of 2012. Normalised profit benefited from growth in both our Life and Funds Management businesses. Normalised earnings per share of 28.0 cents per share represented an 11% increase on the prior period.

Statutory net profit after tax was \$222 million, up from \$20 million in the first half of 2012, primarily due to positive investment experience following the recovery in debt markets during the half. I would like to reiterate the view of management and the Board that normalised earnings are a better indicator of our underlying operating performance than statutory earnings. Statutory earnings may be volatile as they are affected by the requirement to mark-to-market the value of assets we intend to hold to maturity.

The following chart illustrates that the six months to 31 December 2012 is the fifth consecutive interim reporting period in which normalised net profits have grown.



Challenger maintains a very strong capital position. At 31 December 2012, its APRA-regulated Life Company (Challenger Life Company Limited) held total capital of \$1,943 million, which is \$919 million more than APRA's minimum requirement. The Life Company smoothly transitioned to the new life and general insurance capital standards which took effect from 1 January 2013.

Growth in Challenger Life

Normalised EBIT in the Life business increased by 8% due to growth in Assets under Management (AUM). Life cash operating earnings for the first half of 2013 were \$225 million pre-tax and the company is on track to achieve its 2013 full year guidance of between \$440 million and \$450 million pre-tax.

Retail annuity sales increased by 7% to \$1.1 billion, and AUM was 17% higher. Sales and marketing efforts have focussed around those products which are unique in the marketplace, such as Liquid Lifetime and the new Care Annuity. Pleasingly, the average tenor of new sales continues to rise, as customers are demanding longer-dated products which deliver secure reliable income streams in retirement.

During the half year, Challenger announced a number of initiatives to drive growth in the Life business, including the establishment of distribution agreements with Bendigo and Adelaide Bank and the negotiation of a co-branding arrangement with QSuper, one of Australia's largest superannuation funds.

The company continues to develop innovative, best-of-breed products to serve particular niches. In July 2012 the Challenger Care Annuity was launched. The product is designed to help clients who are moving into aged care and generates regular cashflows to cover their daily accommodation charges.

Growth in Funds Management

In the Funds Management business, normalised EBIT increased by 30% to \$13 million as a result of higher fee income due to growth in Funds Under Management (FUM). FUM was 27% higher than in the first half of 2012.

Fidante Partners continues to achieve superior net flows relative to the rest of the Australian funds management market as a result of the strong investment performance achieved across its range of boutique investment managers. Over a three year period, all flagship boutique funds have outperformed their benchmark, positioning them strongly for the recovery in equity and debt markets.

Increase in interim dividend

The Board has declared an interim dividend of 9.5 cents per share, up from 7.5 cents for the first half of 2012. The increase in the dividend reflects both higher normalised profits (up 17%) as well as an equalisation of the interim and final dividend payout ratios.

The Board regularly reviews the Group's dividend policy. Presently we pay out between 30% and 35% of normalised profits each period. It is the Board's intention to frank dividends to the maximum extent possible, however, due to Challenger's current tax position, dividend franking is not forecast to be available until 2015. Given the current inability to frank dividends, Challenger will target a combined dividend and on-market share buy-back payout ratio of around 50% of normalised profits. Using buy-backs as a capital management tool, your Board expects to enhance shareholder returns by increasing earnings per share.

Dividend donation

Challenger strives to find relevant ways to contribute to the community. Challenger's shareholders also have the opportunity to support our Community Partners through

the Dividend Donation program. If you would like a Dividend Donation form please phone Computershare on the numbers below.

Outlook

All of the broader business drivers and demographic trends that we've highlighted in prior years are set to continue in 2013 and beyond. Challenger is ideally positioned at the beginning of a 20 year period over which Australia's Baby Boomers will progressively retire and seek greater security from their investments. The company's offering in the active management arena, Fidante Partners, has been designed to more closely align the interests of investors and investment teams. Our funds management business is now the tenth largest domestic funds manager in Australia.

We hold a firm belief that both businesses can more than hold their own in the highly competitive and fast-changing Australian market.

Key shareholder dates

6 March 2013	Ex-date for 2013 interim dividend
13 March 2013	Record date for 2013 interim dividend
28 March 2013	Payment date for 2013 interim dividend
19 August 2013	Release of 2013 financial results and dividend announcement
26 November 2013	2013 Annual General Meeting

Shareholder information

For questions regarding 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.

