

**CHALLENGER LIMITED FY2011 RESULTS**

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**Retail annuity product sales up 56% to \$1.46 billion**  
**Life cash earnings up 19% to \$401 million**  
**Operating cashflow up 25% to \$276 million**  
**Normalised NPAT up 7% to \$248 million**  
**Normalised EPS up 14% to 51.7 cents per share**  
**Statutory NPAT down 7% to \$261 million**  
**Final dividend of 9.5 cents; full year dividend up 14% to 16.5 cents**

**FY2012 retail annuity sales growth target of 25%, driving net book growth of 10%**  
**FY2012 Life cash earnings guidance of \$430 million, up 7%**

**22 August 2011, Sydney** – Challenger Limited (ASX:CGF) today announced normalised net profit after tax (NPAT) of \$248 million for the year ended 30 June 2011, representing a 7% increase on the prior corresponding period (pcp). Normalised earnings per share (EPS) rose 14% to 51.7 cents.

Challenger's normalised NPAT has now grown by an annual compound rate of 16% since 2006, while over the same period normalised EPS has grown at an annual compound rate of 21%.

Statutory NPAT for the year was \$261 million, 5% higher than normalised NPAT. Statutory NPAT includes one-off amounts and realised and unrealised gains and losses arising from the revaluation of assets and liabilities, as required by life insurance accounting standards.

Increased advertising, marketing and distribution activity and an outlook for ongoing equity market volatility helped drive organic retail sales of annuity products to \$1.46 billion, an increase of 56% over 2010.

Chief Executive Officer Dominic Stevens said he expects retail annuity sales will continue to grow.

“While Challenger's annuity sales have already grown by an annual compound rate of 33% since 2006, we believe we're still at the early stages of a fundamental change in the Australian retirement savings market. To match expected demand we've grown our distribution team and are building our consumer brand through a national advertising campaign which appears to be resonating strongly with retirees.

“For 2012 we're targeting 25% retail annuity sales growth, 10% net retail book growth and a record \$430 million in cash earnings for the life company.

“In the medium term we believe this growth rate is sustainable because baby boomers controlling 60% of the assets in our trillion dollar super system are beginning to retire. Annuities currently account for a very small percentage of the \$48 billion migrating each year from accumulation to retirement. We expect to benefit from an increase in these assets as well as a rise in the proportion of them being allocated to annuities.

“Financial services firms offering retirees competitive returns with income and capital certainty will be very well placed as we move into the next phase of super system development”, said Mr Stevens.

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Challenger's group assets under management rose 17% to \$27.9 billion.

Life's assets under management increased by 11% to \$8.4 billion while its normalised cash earnings were \$401 million, an increase of 19% over the pcp.. As at 30 June 2011, Life held more than \$675 million in surplus capital over its regulatory minimum.

Following the rapid expansion of its boutique funds management operations in 2010, the latter half of 2011 saw Challenger consolidate its business development efforts around specialist sales teams. Boutique FUM now totals \$14.8 billion after net flows of \$3.9 billion during the year. These positive flows as well as market-linked movements lifted Funds Management's total FUM by 17% for the year to \$23.6 billion. Funds Management's EBIT rose 16% to \$20 million.

Challenger has grown its annuities and boutiques business while keeping a tight rein on costs. Despite substantial investment in advertising, marketing and distribution initiatives, the normalised cost to income ratio fell to 37% from 41% in the pcp.

The company generated an increased operating cashflow of \$276 million, 25% higher than \$222 million in the pcp. Challenger continues to have a positive cash balance and nil group recourse debt.

9.5 million shares were bought back during the year as part of ongoing capital management initiatives.

The declared final dividend is 9.5 cents unfranked, bringing the full year dividend to 16.5 cents, an increase of 14% on the pcp.

Guidance for Life's FY2012 cash earnings is \$430 million, an increase of 7% on FY2011.