

MARKET RELEASE

Challenger leads consortium of investors acquiring Southern Water

9 October 2007, Sydney, Challenger Financial Services Group Limited (ASX: CGF) announced today that Challenger has led a consortium of investors which has acquired UK based water and sewerage company Southern Water Capital Limited ("Southern Water") for £4.195 billion.

Challenger has committed to invest £97.9 million (approximately A\$225 million) in the Challenger Infrastructure Fund ("CIF") by way of an agreement to subscribe to redeemable preference securities (RPS) to be issued by a special purpose vehicle of CIF.

CIF has invested £300¹ million (approximately A\$690m) in the consortium (equating to 27% equity interest in Southern Water). Other shareholders in the Challenger consortium include; Access Capital Advisers, UBS AG, Hermes, Paceweald Limited, advised by Consensus Business Group and a fund advised by JP Morgan Asset Management Infrastructure Investments Group.

Challenger CEO Mike Tilley said " This acquisition is further evidence of the growing maturity within our Specialised Funds activities. Challenger's additional investment in CIF is consistent with our desire to further diversify our balance sheet into attractive, low risk, high yielding infrastructure opportunities. This asset is a strong fit for CIF providing a significant addition to the portfolio on attractive terms. Challenger was pleased to be able to support CIF in this important acquisition."

About Southern Water

Southern Water is the fastest growing of the ten water and sewerage companies (WaSCs) in the UK, with approximately 100 water treatment works and 370 sewerage treatment works supplying water to over 2.3 million people and providing wastewater services to approximately 4.3 million people. The UK water and wastewater industry operates within a highly transparent regulatory environment which provides operators with long term, predictable cash flows.

These cash flows are complemented by Southern Water's strong regulatory capital value (RCV) growth profile, with forecast RCV growth of 31% (in real terms) over the current regulatory period (2005 to 2010), expected to deliver real tariff price growth of 5.6% over this period. The consortium has acquired Southern Water on a RCV multiple of 1.27 times current year value or 9.2 times current year EBITDA.

¹ Excludes transaction costs of £13m

ENDS