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**ASX Release**

8 October 2009

**BBI CORNERSTONE INVESTOR RECAPITALISATION**

**Key messages in this announcement are:**

- BBI needed to take urgent and decisive action to address its financial position. It has substantial upcoming debt maturities, including \$300m of corporate debt required to be paid down in February 2010.
- BBI today announces a \$1.8 billion recapitalisation proposal to address corporate and asset level debt to create a sustainable capital structure and provide value certainty for existing BBI stakeholders.
- This comprehensive recapitalisation proposal has been developed in conjunction with Brookfield, a major global infrastructure owner, who will emerge as a strongly aligned cornerstone investor.
- BBI will be renamed Prime Infrastructure and management will be internalised.
- Going forward BBI maintains a high quality asset portfolio comprising essential transportation and energy transmission and distribution businesses with a sustainable capital structure.
- The proposal requires the approval of existing BBI Securityholders and EPS holders. The Board strongly supports the proposed Recapitalisation and encourages Securityholders and EPS holders to vote in favour of the proposal.

**Background**

On 4 September 2009, Babcock & Brown Infrastructure Limited and Babcock & Brown Investor Services Limited as responsible entity of the Babcock & Brown Infrastructure Trust, together Babcock & Brown Infrastructure (“**BBI**”) announced that it was in active dialogue with a potential cornerstone investor regarding a recapitalisation transaction to address BBI’s debt refinancing requirements.

The BBI Board, management and its advisers have spent the past period negotiating and refining terms of the transaction and today announces a comprehensive recapitalisation proposal (the “**Recapitalisation**”) that, if approved by holders of BBI’s stapled securities (“**Securities**”) and holders of Exchangeable Preference Shares (“**EPS**”), will raise approximately \$1.8 billion in cash proceeds.

The Recapitalisation includes \$1.5 billion in new equity and \$295 million in proceeds from the sale of certain assets to Brookfield Asset Management Inc. (“**Brookfield**”). Brookfield will make a cornerstone investment of between \$625 million and \$712.5 million to acquire a 35.0% to 39.9% interest in BBI.

Commenting on the Recapitalisation, BBI's Chairman, Hon Dr David Hamill said: "The past two years have been immensely challenging for BBI, and we have undertaken a comprehensive process to review alternative strategies for the restoration of Securityholder value. The Board believes that the proposed Recapitalisation is superior to all of the alternatives considered, and is fair to the holders of both Securities and EPS. The Board strongly supports the proposed Recapitalisation and encourages Securityholders and EPS holders to vote in favour of the proposal.

"Looking forward, the proposed Recapitalisation offers investors a secure, simple capital structure, internalised management and a renewed Board with access to the capabilities of a strong cornerstone investor. It will enable us to focus on the underlying businesses and move forward with confidence to deliver value for Securityholders."

Sam Pollock, Senior Managing Partner and CEO of Brookfield Asset Management's Infrastructure Group said, "We are pleased to have an important role in BBI's Recapitalisation as the cornerstone investor. While this has been a very complex transaction, we believe that this Recapitalisation initiative leverages BBI's strengths as a leader in infrastructure and builds on Brookfield's history and expertise in restructuring."

### **The Need for Recapitalisation**

As at 30 June 2009, BBI had \$8,864 million in total proportional debt, including \$1,228 million in corporate level debt and proportional gearing<sup>1</sup> of 98%. Of this amount, BBI has approximately \$3,002 million in proportional debt maturing in FY2010 and FY2011, including approximately \$300 million of corporate debt required to be paid down in February 2010. While BBI is not currently in breach of any of its debt covenants, unless these debts are repaid or their maturities extended, these amounts will be due and payable on maturity.

In view of BBI's gearing and imminent debt maturities, the Directors believe that BBI must take decisive action to establish a sustainable capital structure, and have evaluated a range of options to address this issue.

Specifically, over the past 18 months, BBI has actively pursued sale processes in respect of a number of significant assets, and has also engaged in detailed negotiations with its lenders seeking consents for asset sales and restructuring of its debt facilities. As the asset sale processes progressed, it became apparent that while it is possible that asset sales could deliver the cash proceeds required to meet the February 2010 debt maturity, they would also likely result in BBI breaching its forward looking interest cover ratios. In these circumstances, all of BBI's remaining corporate debt facilities would become immediately due and payable, unless renegotiated.

In addition to asset sales, BBI has assessed alternative recapitalisation strategies, including the refinancing proposal presented by The Royal Bank of Scotland ("**RBS Proposal**"). The Directors believe that all of the alternatives to the Recapitalisation explored are highly uncertain and do not adequately resolve BBI's capital structure issues.

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<sup>1</sup> Gearing represents total proportional net debt/(total proportional net debt + total equity).

In the absence of Securityholders and EPS holders approving the Recapitalisation and the Recapitalisation proceeding, BBI will not be in a position to meet upcoming debt maturities unless it can agree a debt moratorium with its banks or an alternative recapitalisation proposal emerges. If neither of those courses is available, BBI may need to be placed into administration. Whilst BBI has sought and obtained various lender approvals associated with the Recapitalisation, BBI has not discussed the terms of a debt moratorium with its lenders. Neither has any suitable alternative recapitalisation proposal been identified. BBI is of the view that until Securityholders and EPS holders have voted on the Recapitalisation, BBI corporate lenders are unlikely to consider a debt moratorium. If the Recapitalisation is not approved, there is no certainty that the BBI corporate lenders will agree to a debt moratorium or any other debt restructure (nor is there any certainty that any viable alternative recapitalisation proposal will emerge).

If BBI is placed into administration, BBI Directors are of the view that it is likely Securityholders will receive no value for their Securities and EPS holders and holders of BBI's Subordinated Prime Adjusting Reset Convertible Securities ("**SPARCS**") will receive significantly less value for their securities than under the Recapitalisation and may not receive any value at all.

Against this background, the Directors believe that the Recapitalisation, as described below, is the only alternative currently available to BBI's Securityholders that generates value for all securityholders and maximises value for EPS holders, and that can provide a sustainable restoration of BBI's balance sheet.

### **Recapitalisation - details**

The Recapitalisation comprises the following key components:

- \$1.5 billion Equity Raising;
- The issue of convertible notes for approximately \$295 million to Brookfield ("**Convertible Notes**"), which, together with other arrangements confers a 49.9% economic interest in Dalrymple Bay Coal Terminal ("**DBCT**"), and the sale of 100% of BBI's interests in PD Ports for nominal proceeds;
- The repayment and restructure of debt facilities, including the repayment of all existing corporate debt (excluding approximately A\$119 million of NZ corporate bonds) and the repayment and extension of certain asset level debt facilities;
- Simplification of the capital structure including the conversion of the BBI EPS into BBI Securities and the payment of \$48 million in accrued and deferred dividends to EPS holders;
- A Capital Distribution in an aggregate amount of \$104 million (or \$0.04 per Security) will be made to registered Securityholders as at 16 November 2009 (the "**Capital Distribution Record Date**");
- The provision of sufficient cash to allow, at the discretion of the Board<sup>2</sup>, for the future redemption of SPARCS; and

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<sup>2</sup> Subject to the SPARCS issuer being able to comply with the SPARCS Trust Deed and applicable law, Brookfield would need to approve any decision not to redeem SPARCS in this way.

- Internalisation of the management of BBI.

BBI will also change its name to Prime Infrastructure.

The Recapitalisation is subject to Securityholder and EPS holder approval as set out in greater detail below.

Credit Suisse (Australia) Ltd and Macquarie Capital Advisers Limited are acting as Financial Advisers and Joint Lead Managers and Joint Underwriters to the Recapitalisation.

Gresham Advisory Partners are acting as Financial Adviser to the BBI Boards.

### Equity Raising

The Recapitalisation includes a \$1.5 billion Equity Raising that will comprise a:

- \$625 million Cornerstone Placement to Brookfield;
- Fully underwritten \$625 million Institutional Placement to institutional investors; and
- Fully underwritten Security Purchase Plan (“SPP”) to raise \$250 million<sup>3</sup>.

All of the new Securities under the Equity Raising<sup>4</sup> will be offered and issued at the same price. The offer price will be set such that the:

- Cornerstone Placement will represent 35%<sup>5</sup>;
- Institutional Placement will represent 35%; and
- SPP will represent 14%,

of the number of Securities on issue upon completion of the Recapitalisation<sup>6</sup>. The ownership structure following the Recapitalisation is set out in the table below.

	Ownership (%)
Cornerstone Investor	35.0% <sup>4</sup>
Institutional Placement participants	35.0%
SPP participants	14.0%

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<sup>3</sup> Brookfield will sub-underwrite the SPP up to a maximum of \$87.5 million, and will be given priority over amounts called pursuant to this sub-underwriting. This may increase their interest in BBI post Recapitalisation beyond 35% to a potential maximum of 39.9% depending on the level of SPP take up.

<sup>4</sup> BBI’s capital may be restructured to comprise tripled stapled securities if required resolutions are passed, and in that case the new Securities under the Equity Raising would be tripled stapled securities.

<sup>5</sup> Brookfield’s ownership interest may be greater depending on the level of SPP take-up and may increase up to 39.9%.

<sup>6</sup> The number of securities on issue upon completion of the Recapitalisation will depend on the number of securities into which EPS have converted and whether any SPARCS have been converted into securities as at that date.

Registered Securityholders prior to EPS conversion	0.0%-0.1%
Converted EPS (assuming no conversion by SPARCS holders)	15.9% - 16.0%
<b>Total</b>	<b>100%</b>

### **New Cornerstone Investor**

Brookfield is a global asset manager focused on real assets in the property and infrastructure sectors. Brookfield has over US\$80 billion of assets under management, including US\$15 billion of power and infrastructure assets including 163 hydro power plants in Canada, the U.S. and Brazil, one wind farm, and over 8,800 kilometres of electricity transmission lines in Chile and Canada. Brookfield is listed on the New York, Toronto and NYSE Euronext Stock Exchanges.

Subject to Securityholder and EPS holder approval, Brookfield will hold a 35% to 39.9% interest in BBI following completion of the Equity Raising (depending on the level of SPP take-up).

Post Recapitalisation, it is anticipated that, with the approval of Securityholders, representatives of Brookfield will be appointed to the Board, and Brookfield will have the ongoing right to Board representation approximately commensurate with its securityholding in BBI. It is expected that the size of the BBI Boards will be expanded following the Recapitalisation.

### **Asset Arrangements with Brookfield**

On completion of the Recapitalisation, it is anticipated that Brookfield will:

- subscribe for Convertible Notes for approximately \$295 million and enter into a number of other agreements with BBI which confer on Brookfield a 49.9% economic interest in DBCT; and
- acquire 100% of BBI's interest in PD Ports for nominal proceeds. As part of this acquisition, Brookfield will also repay £100 million (approximately \$200 million) in term and acquisition facilities within PD Ports, and may make payments to terminate associated swaps.

Brookfield will also provide asset management services to the Australian Energy Transmission and Distribution ("**AET&D**") and Cross Sound Cable ("**CSC**") assets, subject to supervision of the boards of the relevant entities, and have the right (subject to certain conditions) to acquire BBI's interests in these assets for nominal proceeds. Under these arrangements, BBI will classify these assets as held for sale and will not provide any further financial support to AET&D and CSC nor will it receive any economic returns from these assets.

The Directors believe that in light of the current economic environment and debt levels contained within the PD Ports, AET&D and CSC assets, that there is no equity value attributable to BBI's investment in these assets.

### **Repayment and Restructure of Debt Facilities**

Proceeds from the Recapitalisation will be used to repay approximately \$1.1 billion of corporate debt and terminate associated swaps at a cost of approximately \$94 million. This represents all of BBI's current corporate level debt, other than the NZ

bonds, the principal amount of which is NZ\$148 million (approximately \$119 million) maturing in November 2012.

Pursuant to the Recapitalisation, BBI will also establish a three year \$300 million corporate liquidity facility, which is expected to be undrawn upon completion of the Recapitalisation and will provide BBI with sufficient financial flexibility to manage its near-term asset-level debt maturities as they fall due.

In order to reduce existing leverage in WestNet Rail and address issues associated with its near-term debt maturities, BBI intends to prepay approximately \$150 million of debt and is seeking to extend its existing debt by way of the provision of replacement debt facilities with maturities extending beyond the current maturity dates by three years (in the case of its term and revolving facilities) and with a 364 day term (in the case of the working capital facility). The proposed replacement facilities will be based on the terms of the existing facilities but will include amendments to various terms in the existing debt facilities. The retirement of debt will include an amount of \$70 million which will be re-drawable (as part of the proposed replacement revolving facility) to fund future capital expenditure.

BBI may elect to terminate approximately \$14 million of out of money swaps. In the event the swaps are terminated, the amount of debt that will be prepaid will be reduced by that amount. The total amount of prepaid debt and value of the terminated swaps will be \$150 million.

The Recapitalisation has been designed to reduce gearing to long-term sustainable levels at the corporate and asset level while repositioning BBI as an attractive investment proposition. Following completion of the Recapitalisation:

- Pro forma proportional net debt is expected to be \$3,762 million;
- Pro forma proportional gearing is expected to decrease to approximately 68%, with no debt maturing in FY2010;
- Pro forma proportional FY2010F EBITDA/net cash interest cover is expected to increase to 2.2 times; and
- Pro forma proportional net debt/FY2010F EBITDA is expected to decrease to 5.9 times.

### **Simplification of Capital Structure**

If the transaction is approved, BBI will issue an exchange notice to EPS holders which will specify that EPS will convert into Securities on 20 November 2009. Prior to conversion, BBI will pay an amount of \$48 million to EPS holders, representing accrued and deferred dividends under the terms of the EPS.

The current face value of the EPS is approximately \$779 million, and conversion will result in significant dilution to existing Securityholders and result in minimal value being attributable to those Securities post conversion of EPS. The Directors consider this conversion to be necessary in order for the Recapitalisation to proceed. Existing Securityholders who do not participate in the Institutional Placement or SPP will have no material ongoing interest in BBI.

Conversion of EPS into Securities will occur in accordance with the amended terms of EPS which will adjust the volume weighted average price (“VWAP”) calculation for the impact of the Capital Distribution. Subject to the passage of a special resolution of EPS holders, the EPS terms will be amended including so that:

- The VWAP calculation price utilised in the conversion mechanism is subject to a cap of \$0.042 and a floor of \$0.041; and
- The Capital Distribution of \$0.04 per Security is deducted from such VWAP.

Based on the equity offer price, EPS holders will receive total value of \$332 million to \$333 million equivalent to a price of approximately \$0.43 per EPS<sup>7</sup>.

The aggregate face value of SPARCS remaining on issue is approximately \$NZ119 million (approximately \$97 million). The terms of issue of SPARCS provide that SPARCS holders can elect to convert their holding into BBI Securities on 17 November 2009. SPARCS holders who wish to convert their SPARCS on that date must lodge their election by 29 October 2009. BBINNZ has the option of redeeming for cash SPARCS for which conversion notices have been received, or exchanging them for Securities, in accordance with SPARCS terms of issue. It is BBINNZ’s current intention to exchange for Securities any SPARCS for which conversion notices have been received. However, SPARCS that elect to convert will not be entitled to the Capital Distribution. SPARCS that do not elect conversion will be deemed to have accepted the reset terms and will next reset on 17 November 2010.

On the basis that the Recapitalisation proceeds, BBINNZ expects to be able to redeem or convert all of the SPARCS on the next Reset Date (17 November 2010) under the SPARCS terms of issue. Any decision to redeem or convert SPARCS on that date will depend on BBI’s cash or available funding position at that time and whether the directors of BBINNZ consider redemption of the SPARCS<sup>8</sup> to be in the best interests of BBINNZ<sup>9</sup>.

BBI intends to make a Capital Distribution in an aggregate amount of approximately \$104 million to Securityholders who are registered holders on 16 November 2009, representing \$0.04 per Security (“**Capital Distribution**”). It is intended that Securities issued pursuant to the Equity Raising and EPS conversion and any SPARCS conversions will not be entitled to the Capital Distribution.

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<sup>7</sup> Includes the payment of \$48m in accrued and deferred dividends.

<sup>8</sup> If triple stapling occurs, the SPARCS terms of issue will need to be amended or waived to allow this election, and to allow conversion into triple stapled securities. In the absence of waiver by the trustee, BBINZ will put a resolution to holders proposing the required amendment as soon as practicable after triple stapling occurs. Holders are expected to support the amendment since otherwise the reconstruction provisions in the SPARCS terms of issue may prevent redemption or conversion.

<sup>9</sup> Subject to the SPARCS issuer being able to comply with the SPARCS Trust Deed and applicable law, Brookfield would need to approve any decision not to redeem SPARCS in this way.

A Capital Distribution is being made in order to compensate Securityholders who are registered holders of Securities as at the Capital Distribution Record Date for the dilution resulting from the conversion of the EPS, conversion of SPARCS (if any) and Equity Raising. The Capital Distribution Record Date is set such that converted EPS holders and converted SPARCS holders (if any) will not be entitled to receive the Capital Distribution.

### **Internalisation of Management**

A key component of the Recapitalisation is the internalisation of BBI's management. BBI's Responsible Entity ("**RE**") is currently a subsidiary of Babcock and Brown Limited ("**BNB**"). Going forward the RE will be owned by the Directors of BBI. BBI will complete the internalisation of its management by terminating the Management Agreement and Exclusive Financial Advisory Agreement between BBI and BNB. As announced on 30 September 2009, BBI's existing management team have already transferred their employment to a wholly owned subsidiary of BBI.

Internalising management ensures that there is no ongoing external management or RE fee payable to BNB and removes the exclusive financial advisory mandate that is currently in place.

The total costs of termination is limited to outstanding management fees and associated costs.

### **Name change and Security Consolidation**

BBI proposes to change its name to Prime Infrastructure Holdings Limited.

BBI also proposes to undertake a consolidation of BBI Securities. BBI also proposes to staple an additional security to BBI Securities, referred to as Triple Stapling.

These steps will require approvals by BBI Securityholders beyond those required for the Recapitalisation, however the Recapitalisation will not be conditional on these resolutions being passed.

### **Independent Expert's Report**

Grant Samuel & Associates Pty Ltd has been engaged to prepare an Independent Expert's Report on whether the Recapitalisation as a whole, including the Cornerstone Placement, is fair and reasonable to Securityholders and EPS holders.

The Independent Expert's Report will be despatched to all Securityholders and EPS holders with the notices of meetings and explanatory memoranda.

### **Approvals**

The Recapitalisation will only proceed if a number of resolutions ("**Recapitalisation Resolutions**") are passed by Securityholders and EPS holders at respective Securityholder meetings to be held on 16 November 2009. Specifically, the Recapitalisation Resolutions consist of:



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- An ordinary resolution of Securityholders approving the issue of new Securities under the Cornerstone Placement and under a sub-underwriting;
- An ordinary resolution of Securityholders approving the issue of new Securities to institutional investors under the Institutional Placement;
- An ordinary resolution of Securityholders approving the issue of new Securities to eligible Securityholders under the SPP;
- An ordinary resolution of Securityholders approving the Recapitalisation generally; and
- Special resolutions of EPS holders approving an amendment to the terms of the EPS, the conversion of the EPS in accordance with the terms of the EPS and the lifting of the dividend stopper to allow for the payment of the Capital Distribution.

The Recapitalisation Resolutions are inter-conditional. Therefore, if any of these resolutions are not passed, the Recapitalisation will not proceed. The Recapitalisation is also conditional on the commitments of Brookfield and the Underwriters in connection with the Recapitalisation not having been terminated. There are a number of possible events that could give Brookfield or the Underwriters termination rights and these are set out in more detail in the prospectus.

BBI expects to despatch notices of meetings and explanatory memoranda in respect of the Securityholder and EPS holder meetings on or about 16 November 2009.

Full details of the Recapitalisation and information on how to apply to participate in the SPP will be set out in the prospectus which will be made available to eligible Securityholders on or about 16 October 2009. The SPP will give all eligible Securityholders on the SPP Record Date, being 7.00pm, 8 October 2009, the opportunity to acquire new Securities up to a value of \$15,000 (with the ability to apply for more if there is a shortfall), free of brokerage and transaction costs.

## Key Dates

Event	Indicative Date
Cornerstone Placement	8 October 2009
Institutional Placement	8 to 9 October 2009
SPP Record Date	7:00pm, 8 October 2009
Notice of Meeting & Independent Expert's Report despatched	16 October 2009
Dispatch of prospectus to Securityholders	16 October 2009
SPP Offer Period	16 October – 12 November 2009
Securityholder & EPS holder meetings	16 November 2009
Capital Distribution Record Date	7:00pm, 16 November 2009
Settlement of new securities under the Equity Raising	19 November 2009
EPS conversion date	20 November 2009
In specie distribution of PIT2 Units for triple stapling (if relevant)	20 November 2009
Allotment of new securities under the Equity Raising	20 November 2009
Security Consolidation (if resolutions passed)	23 November 2009
Trading commences for new securities under the Equity Raising on a deferred basis	24 November 2009
Capital Distribution & EPS payments made	25 November 2009

The above timetable is subject to change and dates are indicative only. All references to time are references to Sydney time. BBI in conjunction with its underwriters reserve the right to amend this indicative timetable subject to the Corporations Act and Listing Rules and other applicable laws. In particular, BBI reserves the right to amend any or all of these dates and times, to accept late applications either generally or in particular cases, or to withdraw the Equity Raising without prior notice. The commencement of quotation of new securities is subject to confirmation from the ASX.

## RECOMMENDATION

The Directors have carefully considered the expected advantages, disadvantages and risks of the Recapitalisation and strongly believe the Recapitalisation represents the best overall outcome for all Securityholders and EPS holders.

BBI's Chief Executive Officer, Jeff Kendrew, said: "On completion of the Recapitalisation, Prime Infrastructure will have the resources, capability and independence to fully realise its potential.

"It will be well-positioned, with a very high quality asset portfolio comprising essential transportation and energy transmission and distribution businesses, and will offer strong and predictable cash flows, together with opportunities for organic growth."

### **Important Information**

This announcement does not constitute an offer to sell, or a solicitation of an offer to buy securities in the United States, or to or from any person that is, or is acting for the account or benefit of, any "U.S. person" (as defined in Regulation S under the U.S. Securities Act of 1933 (the "**U.S. Securities Act**") ("**U.S. Person**")). The securities to be issued in the Recapitalisation have not been, and will not be, registered under the U.S. Securities Act and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. Persons unless the securities are registered under the U.S. Securities Act or an exemption from the registration requirements of the U.S. Securities Act is available.

This announcement contains certain forward-looking statements. The words "anticipate", "believe", "expect", "project", "estimate", "likely", "intend", "should", "could", "may", "target", "plan" and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of BBI, which may cause actual results to differ materially from those expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements. Readers are cautioned not to place undue reliance on forward-looking statements and BBI assumes no obligation to update such information.

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### **Further Enquiries**

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### **ABOUT BABCOCK & BROWN INFRASTRUCTURE**

Babcock & Brown Infrastructure (ASX: BBI) is a specialist infrastructure entity which provides investors access to a diversified portfolio of quality infrastructure assets. BBI's investment strategy focuses on owning, managing and operating quality infrastructure assets in Australia and internationally.

For further information please visit our website: [www.bbinfrastructure.com](http://www.bbinfrastructure.com)