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Babcock & Brown Infrastructure Limited · ABN 61 100 364 234
Babcock & Brown Investor Services Limited · ABN 67 099 717 638 · AFSL 219 673
as responsible entity for Babcock & Brown Infrastructure Trust · ARSN 100 375 479
Level 21 The Chifley Tower · 2 Chifley Square · Sydney NSW 2000 Australia
T +61 2 9229 1800 · F +61 2 9235 3496 · www.bbinfrastructure.com

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ASX Release

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BBI PROPOSED RECAPITALISATION – AUDIO BROADCAST

Further to Babcock & Brown Infrastructure's (ASX: BBI) announcement on 8 October 2009 regarding the Cornerstone Investor Recapitalisation, BBI's Chief Executive Officer Jeff Kendrew has provided an additional overview on some of the key aspects of the proposal in an audio broadcast this morning.

A transcript of the broadcast is attached to this announcement and a recording can be accessed on BBI's website from the link below:

http://www.bbinfrastructure.com.au/bbi-investor-information/proposed-recapitalisation.aspx

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

David Akers

BABCOCK & BROWN
INFRASTRUCTURE

Acting Investor Relations Manager
Babcock & Brown Infrastructure
+61 2 9229 1800

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**

TRANSCRIPT - BOARDROOM RADIO AUDIO BROADCAST

Q1 **Good morning, and welcome to Boardroomradio. Today, we welcome the Managing Director and the Chief Executive Officer of BBI, Mr Jeff Kendrew. Jeff, thanks for your time.**

A1 Thanks Cameron. It's good to be here.

Q2 **Jeff, why is BBI pursuing a recapitalisation?**

A2 Well, for an extended period, we have pursued asset sales as the preferred way to deal with some upcoming debt maturities but, as those asset sale processes progressed, it became increasingly apparent that, while it's possible that these could deliver the cash proceeds required to meet our February 2010 corporate debt maturity, they would also likely result in BBI breaching its forward-looking interest cover ratios. And so, in these circumstances, all of BBI's remaining corporate debt facilities would become immediately due and payable unless renegotiated. Until recently, a recapitalisation of BBI didn't appear achievable. However, as equity market conditions have continued to improve and evidence of successful recaps emerge, such as Asciano and Transpacific, it became apparent that a BBI recapitalisation could potentially be achieved. In conjunction with this, in Brookfield, we have been fortunate to have a well-capitalised entity supporting our recapitalisation who has been sophisticated enough to work through the myriad of transaction and other issues which have had to be resolved to reach the point that we're at today.

Q3 **So, Jeff, your recapitalisation sounds extremely complex. Could you please explain what occurs in the transaction in very simple terms?**

A3 Yeah. Look, it is complex, and BBI is a complex business, but let me first say that the recapitalisation is a comprehensive solution to meet upcoming corporate debt maturities, reduce our overall debt levels, and appropriate position BBI in the current market environment. Central to the recapitalisation is the raising of $1.5 billion of new equity. $1.25 billion of this is a placement to institutional investors, including a cornerstone investment of $625 million by Brookfield Asset Management, and a fully underwritten $250 million security purchase plan to eligible securityholders. The second part of the recapitalisation plan involved Brookfield subscribing for convertible notes and entering into agreements which confer on it a 49.9 per cent economic interest in the Dalrymple Bay Coal Terminal for $295 million, and acquiring 100 per cent of our UK-based PD Ports business for nominal proceeds. Another component of the recapitalisation is the quarantining of some of our existing assets, these being the AET&D assets, that is the ex-Alinta assets, and the Cross Sound Cable assets, by classifying them as held for sale which, effectively, means removing the two businesses from BBI's balance sheet. Brookfield will provide asset management services and have an option to acquire BBI's interests in these assets for nominal proceeds. BBI will provide no future financial support to these businesses going forward. And the last significant component of the recapitalisation is the conversion of the Exchangeable Preference Shares, or EPS, and the payment of the accrued and deferred dividends to EPS holders and a capital distribution to securityholders whose interests in BBI have been diluted by the EPS conversion and the equity raising.

Q4 Why would securityholders vote for the proposal and accept what, for some, may be a significant loss on their original investment?

A4 The reality of the situation is, if securityholders and EPS holders do not approve the recapitalisation, BBI will be in an extremely difficult position. In the absence of an alternative recapitalisation proposal that is clearly superior, BBI would not be in a position to meet upcoming debt maturities and, unless some form of agreement can be reached with the banks, may need to be placed into administration. BBI Directors are of the view that, in administration, it is likely that securityholders will receive no value for their securities and EPS and SPARCS holders will potentially receive less value for their securities than under the recapitalisation and may not receive any value at all. It's worth noting that the independent expert, Grant Samuel, has reached a very similar view. Again, I should reiterate that the BBI Board firmly believes that the recapitalisation adequately addresses BBI's financial situation and is in the best interests of BBI stapled securityholders. And the BBI EPS Board also firmly believes that the EPS holders are likely to be better off if the recapitalisation proceeds than if it does not.

Q5 Jeff, why would EPS vote for this? Wouldn't they get a better deal if a receiver was appointed?

A5 As previously mentioned, if securityholders and EPS holders don't approve the recapitalisation, BBI would not be in a position to meet upcoming corporate debt maturities and would likely enter into administration unless some form of agreement could be reached with the banks or an alternative recapitalisation proposal emerges. An administration or receivership scenario for BBI is likely to be extremely complex and very costly given the multi-tiered levels of debt within the BBI structure. Typically, the sale of assets under these circumstances is difficult, often attracts fire-sale values, and can take an extended period of time, often a number of years. In addition, it would attract a number of significant transaction leakages, including penalty interest during the sale period, crystallisation of swap and hedging costs, costs of receivership and administration, and redundancy and other wind-up costs. Given this, there is no guarantee about the quantum, if any, of proceeds available to EPS holders. I think it's worth noting that Grant Samuel states in their independent expert's report in relation to the interests of EPS holders – they state: *Holders of EPS have to compare the relatively certain value that they will receive if the recapitalisation proceeds, notwithstanding that it is a significant discount to the face value of the EPS, with the potential loss of all their investment value if* *the recapitalisation does not proceed.* Grant Samuel then goes on finally conclude that EPS are likely to be better off in the recapitalisation proceeds than if it does not.

Q6 **Why doesn't the Board wait until conditions improve? There are other options available to them where they could do that.**

A6 Well, Cameron, BBI has an immediate requirement to pay down approximately $300 million of corporate debt in February next year which, unless renegotiated, would become immediately due and payable. The window of opportunity to implement a solution is, accordingly, very small. It's the Board's opinion that the recapitalisation is the only proposal that adequately addresses these key issues in the timeframe available. The development of the recapitalisation proposal was extremely complex, given the wide range of legal, regulatory, tax and value constraints, and required months of work by BBI, Brookfield and our respective advisors. I believe it's been an amazing effort to develop a structure which not only negotiates each of these constraints but carefully balances the interests of the BBI lenders, existing securityholders and hybrid holders while providing for a sustainable future for BBI going forward.

Q7 **Jeff, there have been reports in the media about the priority of EPS holders in the event of a BBI insolvency. Can you please clarify this issue?**

A7 Let's be absolutely clear about this issue. A BBI insolvency would likely involve a winding up of BBI EPS Limited, in which case the EPS holders would have priority, but only in respect of a limited group of assets comprised of those within the AET&D, the ex-Alinta Group. I mean, let's look at these assets. These assets have a substantial level of gearing, both at an asset and a holding company level. The rights to the proceeds of the sale of the equity in these assets would accordingly only accrue after repayment of the $518 million holding company bank debt, any other claimants and creditors at the asset level, and the payment of transaction costs. Grant Samuel has specified the potential for a positive valuation range for these assets. However, this is a training valuation and does not necessarily represent the amount that could be realised in a forced sale situation and which would also need to take into account matters such as transaction costs, other leakages. Transaction costs could include administrator costs, receiver costs, legal cost, tax and stamp duty, default interest on bank debt, and advisor sale fees. Grant Samuel specifically recognises this in their report, stating that the value of the AET&D assets does not take into account potential transaction costs which, in the case of some of the assets, could result in a significant reduction in net realisations. They go on to conclude that, in Grant Samuel's view, there would be at least some prospect that BBI would realise zero value for its interests in AET&D in the current market.

Q8 **So, in closing, what do the holders of existing stapled securities get from this transaction?**

A8 The recapitalisation offers a number of benefits to existing securityholders. The capital distribution of the $104 million enables securityholders to realise certain value for their existing holding which, in the circumstances that that recapitalisation did not proceed, would likely lead to an outcome where securityholders could potentially realise no value at all for their investment. In addition, the security purchase plan offers eligible securityholders the ability to reinvest in the new BBI, the new prime infrastructure, to gain direct exposure to its portfolio of six major essential infrastructure businesses that offer the diversity of asset classes, geography and regulatory regimes, and which is expected to generate consistent cash flows from quality regulated assets or long-term contracts that are resilient to economic downturns.

Q9 **Jeff Kendrew, the Managing Director and the Chief Executive Officer of BBI, thank you very much for your time today.**

A9 Thank you.

<u>INTERVIEW CONCLUDED</u>