



Sale Facility Taxation Guide

Important Information

Until 20 November 2009, Babcock & Brown Infrastructure (BBI) Securities were listed on the Australian Stock Exchange (ASX) as BBI. Exchangeable Preference Shares (EPS) issued by BBI EPS Limited were listed on the ASX as BEPPA. Following the Recapitalisation of BBI Securities, BBI has changed its name to Prime Infrastructure Holdings and is now listed on the ASX as PIH. All EPS have been converted to ordinary stapled securities and BEPPA are no longer traded.

Prime Infrastructure Holdings (PIH) comprises Prime Infrastructure Holdings Limited (PIHL), Prime Infrastructure Trust (PIT) and Prime Infrastructure Trust No 2 (PIT 2) (together PIH). Prime Infrastructure RE Limited is the responsible entity for PIT and PIT 2 (Responsible Entity). An investment in PIH is an investment in a Triple Stapled Security comprising a share in PIHL, a unit in PIT and a unit in PIT 2.

The purpose of this Taxation Guide (the Guide) is to provide general information relating to a Securityholders' participation in the sale facility for Securityholders with an unmarketable parcel of Prime Infrastructure Stapled Securities (Prime Securities). Securityholders with a holding of Prime Securities valued at less than A\$500 (called an "unmarketable parcel") as at 7.00pm on 25 February 2010 (the Record Date), have been offered the opportunity to sell their Prime Securities through a security sale facility (Facility) free of brokerage and handling fees. Please refer to our letter dated 25 February 2010 for further information regarding the Facility.

This Guide is intended to assist Securityholders in determining their Australian tax obligations as a result of their participation in the Facility. It has been prepared based on taxation laws and its established judicial and administrative interpretation at the date of this Guide. The advice is general in nature and a Securityholders' individual circumstances may affect the taxation implications. As such, Securityholders are not entitled to rely upon this information in relation to the completion of their income tax return or in managing their specific tax affairs. Securityholders should obtain their own appropriate independent professional advice regarding the taxation implications associated with their investments in PIH and their participation in the Facility. Further, this advice is primarily intended for Securityholders investing on capital account. Different outcomes will potentially arise for Securityholders who are investing on revenue account. Again, we recommend Securityholders obtain their own appropriate independent professional taxation advice.

This Guide uses technical terms describing the character of Securityholders and the nature of their investments that are important in determining the taxation consequences in respect of their participation in the Facility. Where these terms are not described in the body of this Guide, a brief explanation as to their meaning is set out in the Appendix. In some instances it may be difficult to determine how these terms apply to Securityholders and their investment. If this is the case, it is particularly important that Securityholders seek professional independent taxation advice.

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A. Securityholder elects not to participate in the Facility

A Securityholder who signs and returns their Security Retention Form (refer to the letter to Securityholders dated 25 February 2010), elects not to participate in the Facility and will retain their unmarketable parcel of Prime Securities. As such, no immediate taxation implications arise.

B. Securityholder does participate in the Facility

A Securityholder who does not sign and return their Security Retention Form (refer to the letter to Securityholders dated 25 February 2010), is taken to have elected to participate in the Facility and their Prime Securities will be sold by Prime Infrastructure's agent, Macquarie Securities (Australia) Limited (the Broker).

AUSTRALIAN TAX RESIDENT SECURITYHOLDERS

Capital Account

The disposal of Prime Securities held on capital account will give rise to capital gains tax (CGT) implications.

Any capital gain or loss will be calculated by reference to the difference between the proceeds received from the disposal of Prime Securities through the Facility and the Securityholder's cost base (or reduced cost base) of the Prime Securities. A capital gain will arise where the Securityholder's proceeds exceed their cost base. A capital loss will arise where the proceeds are less than the Securityholder's reduced cost base.

As Prime Securities cannot be acquired or traded separately, a reasonable apportionment of the cost base, reduced cost base and sale proceeds between each share and unit will be required. Further details in respect of this apportionment are published on the Prime Infrastructure website under Relative Cost Base:

<http://www.primeinfrastructure.com/investor-information/tax-information.aspx>.

COST BASE

Prima facie, the total cost base (or reduced cost base) of the Prime Securities should be the amount paid to acquire the Prime Securities, plus any acquisition and disposal costs such as stamp duty and brokerage fees. As noted above, the disposal of Prime Securities under the Facility will be free of brokerage, handling fees and associated costs. However, Securityholders should include any costs associated with the original acquisition of their securities.

For example, for Securityholders who acquired their investment in PIH through the IPO (of Prime Infrastructure), the CGT cost base of a unit in PIT, excluding the impact of any distributions received, is calculated based upon the initial investment in PIH of \$1.00, allocated between two Securities on the basis of their relative net asset values at that time being 99% to PIT and 1% to PIHL. Units in PIT 2 were not stapled to Prime Securities at this time and therefore no amount should be allocated to the cost base of these units.

This allocation gives rise to a cost base in PIT units of at least \$0.990 per original unit (i.e. $\$1.00 \times 99\%$) and a cost base in a share in PIHL of at least \$0.010 per original share (i.e. $\$1.00 \times 1\%$). The combined cost bases of one unit in PIT and one share in PIHL will equate to, at least, the cost of the initial subscription in PIH (BBI) (i.e. \$1.00). Please note that there may be other costs incurred which also form part of the cost base of the relevant Stapled Securities.

This cost base (or reduced cost base) will be reduced by the aggregate of any tax deferred distributions that a Securityholder has received. In this case, as all the distributions were made by PIT, the reduction should be applied to the cost base of the PIT units held by the Securityholder.

Taking into account the 2010 capital distribution that occurred as part of the Recapitalisation, the tax deferred distributions paid by PIT since IPO are as follows (refer to following page):

	\$ per unit	Record Date	Payment Date
2003 Interim Distribution	0.0359	14 March 2003	26 March 2003
2003 Final Distribution	0.0359	11 September 2003	25 September 2003
2004 Interim Distribution	0.0525	31 December 2003	26 March 2004
2004 Final Distribution	0.0525	30 June 2004	26 August 2004
2005 Interim Distribution	0.0525	31 December 2004	24 February 2005
2005 Final Distribution	0.0550	30 June 2005	26 August 2005
2006 Interim Distribution	0.0650	31 December 2005	24 February 2006
2006 Final Distribution	0.0675	30 June 2006	25 August 2006
2007 Interim Distribution	0.0700	20 December 2006	2 March 2007
2007 Final Distribution	0.0725	29 June 2007	3 September 2007
2008 Interim Distribution	0.0750	31 December 2007	29 February 2008
2008 Final Distribution	0.0250	30 June 2008	15 September 2008
2009 Interim Distribution	–	–	–
2009 Final Distribution	–	–	–
2010 Distribution of PIT 2 Units	–	–	–
2010 Capital Distribution	0.0400	16 November 2009	25 November 2009
Total Distributions	0.6993		

Therefore, given the tax deferred nature of the distributions to date, if a PIH Securityholder has held their investment in PIH since the IPO, it would reduce its original cost base by \$0.6993 per unit held in PIT, being the aggregate amount of all tax deferred distributions received to date.

Accordingly, as an IPO Securityholder, the CGT cost base of units in PIT will be at least \$0.2907 per unit (i.e. \$0.990 less \$0.6993).

As there have been no dividends or capital returns declared by PIHL to date, the CGT cost base for shares in PIHL as an IPO Securityholder should remain at least \$0.01 per share.

PIH Securityholders that held their Prime Securities prior to the Recapitalisation will have no cost base in the PIT 2 units.

Securityholders should also ensure that they consider whether any cost base adjustments result if they participated in the Alinta Scheme of Arrangement (the "Share Scheme").

For Securityholders who acquired Prime Securities through participating in the Alinta Share Scheme in August 2007¹, the cost base and date of acquisition will differ depending on the CGT treatment applied on acquisition of the Prime Securities during the year ended 30 June 2008.

The cost base (or reduced cost base) of the Prime Securities acquired should be equal to the proportion of the market value of the Alinta Shares exchanged for Prime Securities under the Share Scheme (plus incidental costs of acquisition). This total market value should have been allocated between the Prime Infrastructure and other Securities issued in exchange for Alinta Shares. For further information regarding the tax implications associated with the Alinta Share Scheme, the following additional sources of information should be considered.

- The Alinta Share Scheme Participant Tax Statement (Statement) (posted to each Securityholder in August 2008);
- The Alinta Share Scheme Participant Taxation Guide which accompanied the Statement;
- The Alinta Scheme Booklet (available on the Prime Infrastructure website under Alinta Tax information: www.primeinfrastructure.com/investor-information/tax-information.aspx);
- The Babcock & Brown Online Alinta Share Scheme Participant Tax Calculator (available on the Prime Infrastructure website under Alinta Tax Information: www.primeinfrastructure.com/investor-information/tax-information.aspx); and
- Australian Taxation Office (ATO) guidance (available on the ATO website: www.ato.gov.au).

For Securityholders who acquired Prime Securities as a result of the conversion of the EPS, the cost base should be the market value of the EPS that are converted (practically, this should equal the VWAP of the Prime Securities received for each EPS on 20 November 2009 being \$0.3142 per Security), plus incidental costs of acquiring the Securities (if any). The acquisition date for the Prime Securities for CGT purposes should be the EPS conversion date, being 20 November 2009. Further information regarding the tax implications associated with the conversion of the EPS is available in the Recapitalisation Tax Guide (available on the Prime Infrastructure website under Recapitalisation Tax Guide: <http://www.primeinfrastructure.com/investor-information/tax-information.aspx>).

Securityholders should also ensure that they have regard to the Security Consolidation undertaken as part of the Recapitalisation in calculating the cost base of their Prime Securities.

Under the Security Consolidation, a Securityholder's original Prime Securities were exchanged for new Prime Securities at a ratio of 15,000:1 (with the ultimate number of new Prime Securities issued being rounded down). On the Security Consolidation, the total cost base for each tranche of original Prime Securities held by a Securityholder should be allocated to the new Prime Securities received.

PROCEEDS

Securityholders should be aware that the price that they will receive for each Prime Security that is sold under the Facility will be the average price received by the Broker for the sale of all Prime Securities sold through the Facility on ASX. Each Securityholder will receive their proceeds from the disposal of their Prime Securities under the Facility by cheque no later than 13 business days after the closing date of the Facility of 12 April 2010. This amount should be considered the capital proceeds for purposes of calculating any capital gain or loss.

CALCULATION OF NET CAPITAL GAIN

Based on the taxation law prevailing at the date of this Guide, Securityholders need to compare the capital proceeds with the cost base of their Prime Securities in order to calculate their capital gain or loss from the sale of their Prime Securities.

A capital gain will arise where the Securityholder's proceeds exceed their cost base. A capital loss will arise where the proceeds are less than the Securityholder's reduced cost base.

In calculating the gross current year capital gain, a capital gain from the disposal of Prime Securities should be added to any other current year capital gains received from other investments during the year.

Any current year capital losses, or net capital losses which have been carried forward from earlier financial years in respect of other investments, may be able to be used to offset gross current year capital gains. Losses must be used in the order of current year losses first followed by prior year carried forward losses. Gross current year capital gains are offset by capital losses to calculate the net capital gain/(loss).

If a Securityholder has a net capital loss, the balance can be carried forward to later years until the Securityholder has a capital gain against which it can be offset, subject to satisfying certain loss carry forward and utilisation rules.

If a Securityholder has a net capital gain and is an individual, complying superannuation fund or a trust that has held their Prime Securities for more than 12 months, it may be eligible for the CGT discount. This reduces any net capital gain on the Prime Securities that is subject to taxation (after offsetting capital losses) by 50% (for individuals either directly or through a trust) or 33 $\frac{1}{3}$ % (for complying superannuation funds).

We recommend Securityholders' confirm their CGT position with their tax adviser.

REVENUE ACCOUNT

The disposal of Prime Securities held on revenue account will give rise to income tax implications. Where this is the case, we recommend the Securityholder consults their tax adviser regarding the implications associated with the disposal of their investment.

Whether or not a Securityholder holds their investment on Revenue account, they will need to undertake the above noted CGT calculation (with the exception of Securityholders whose Prime Securities were trading stock at the time of the disposal).

NON-RESIDENT SECURITYHOLDERS

Capital gains derived by a Non-Resident are generally only subject to income tax in Australia to the extent that they relate to relevant direct and indirect interests in Australian real property. Securityholders may only have an indirect interest in Australian real property through their holding of shares in PIHL and units in PIT and PIT 2.

However, capital gains are also not subject to tax in Australia where a Non-Resident holds less than 10% of the interests in that company or trust at the time of the disposal or has not held 10% or more of the interests for a period of 12 months at any time in the two years prior to disposal. As a result, a Non-Resident Securityholder who (together with its associates) holds less than a 10% interest in Prime Securities at the relevant times should not be subject to Australian income tax resulting from any capital gain derived in relation to their participation in the Facility.

Non-Residents who (together with their associates) held a 10% or more interest in PIH on issue over the relevant periods may be subject to Australian capital gains tax if the majority of the market value of the underlying assets of PIHL, PIT or PIT 2 comprise Australian real property. We recommend that these Securityholders obtain independent advice in relation to this matter.

C. Appendix

KEY TECHNICAL TAX TERMS

“Australian Tax Resident”

An individual Securityholder will be considered to be an Australian tax resident if it satisfies any one of the following tests:

- It resides in Australia under ordinary concepts. This will include a general examination of the relevant facts to consider whether the Securityholder can be considered to dwell permanently or at least for a considerable period of time in Australia;
- It is an Australian citizen and has no permanent place of abode outside Australia;
- It has been in Australia for more than half of the income year (i.e. greater than 183 days in the period 1 July to 30 June) and its usual abode is not outside Australia; or
- It is a member of a Commonwealth Superannuation Scheme (broadly, if the Securityholder works for the Australian public service).

“Company”

A company will be considered to be an Australian tax resident if any of the following tests are satisfied:

- It is incorporated in Australia;
- It carries on business in Australia and its central management and control is in Australia; or
- It carries on business in Australia and has its voting power controlled by Australian tax resident Securityholders.

“Trust or Superannuation Fund”

A trust or superannuation fund will be considered an Australian tax resident if its trustee is a resident of Australia according to the above tests.

“Non-Resident” of Australia

A Securityholder will be considered a Non-Resident of Australia for Australian tax purposes if it does not fall within one of the Australian tax resident tests referred to above.

Note that Tax Treaties between Australia and other countries may alter a Securityholder’s residence status and in some circumstances it may be considered a dual resident. A Securityholder should seek professional advice to determine its tax residence if it considers that a relevant Tax Treaty entered into between Australia and its country of residence may apply. Also note that a Securityholder’s tax residence status is tested each financial year and can change.

“Capital Account”

Broadly, an investment will be held on “Capital Account” where the intention is to hold the investment so as to benefit from both distributions from the investment and the capital growth of the investment. An intention to hold an investment for an extended period of time is generally indicative of an investment held on Capital Account.

“Revenue Account”

Generally, an investment is held on “Revenue Account” if it was acquired with the intention of making a profit on resale or if the investment forms part of or is incidental to a business carried on by the Securityholder. An intention not to hold the investment for a long period of time would be indicative of an investment held on Revenue Account. Share traders usually hold their investments on Revenue Account.

This is a highly complex area of taxation law. If a Securityholder is not able to accurately determine whether it holds its investment on Capital or Revenue Account, we recommend that the Securityholder seeks professional assistance in determining the taxation implications associated with its investment.

“Triple Stapling”

The Triple Stapling results in the Prime Securities consisting of three Stapled Securities, being the ‘original’ Securities (comprising a share in PIHL and a unit in PIT), stapled to a new a fully-paid ordinary unit in PIT 2, of which Prime Infrastructure RE Limited is the responsible entity.

The Triple Stapling took place by way of the distribution in-specie of a PIT 2 Unit by PIT to all PIH Securityholders on 20 November 2009 as part of the Recapitalisation.