

BABCOCK & BROWN POWER

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ASX Release

18 August 2008

BBP ANNOUNCES FURTHER CAPITAL MANAGEMENT INITIATIVES INCLUDING THE SALE OF TAMAR

- **BBP has agreed to sell Tamar to the State of Tasmania resulting in a further pay down of debt facilities and the removal of future project commitments.**
- **FY08 EBITDA guidance reconfirmed and \$410 million impairment recognised in relation to Alinta assets.**
- **Bank approvals obtained for approximately \$120 million BBPH facility extension to 31 March 2009 with future distributions subject to repayment or refinancing.**
- **UBS appointed as BBP's adviser to undertake a full strategic review including distribution policy.**

Len Gill, BBP Chairman said "The successful sale of Tamar follows the successful sales of Uranquinty and Ecogen. Over the last six weeks, BBP has reduced net debt by over \$770 million through asset sales, strengthening the balance sheet."

"The sale of Tamar represents a significant de-risking for the BBP business. Coupled with extension of the BBPH facility, BBP has achieved a key step towards stabilisation of BBP debt and balance sheet improvement. Going forward, the appointment of UBS to undertake a strategic review of BBP will enable consideration of all further options to maximise value for securityholders."

Tamar

Babcock & Brown Power (ASX:BBP) has signed a binding Heads of Agreement for the sale of the Tamar Valley Power Station project ("Tamar") to the State of Tasmania for \$100 million cash proceeds. BBP expects to realise a loss in FY08 of approximately \$42 million in relation to this sale as detailed below.

	\$m
Construction costs to date	(223)
Tamar sale proceeds	100
Release of a related provision	81
<hr/> Net Loss	<hr/> (42)

Key points

- Construction costs to date of approximately \$223 million, including capitalised interest and amounts spent by Alinta prior to the acquisition by BBP.
- Cash proceeds of \$100 million. The net proceeds from the sale will be deployed to pay down existing BBP Limited debt facilities applied against the Tamar project in line with BBP's commitment to progressively reduce gearing.
- As part of the Alinta acquisition, BBP recognised a provision of \$81 million in relation to Tamar which can now be released in full.
- BBP will no longer have the requirement to fund the remaining \$241 million budgeted development costs.
- The sale is contingent on several conditions precedent, including ACCC approvals and Royal Assent of authorising legislation.
- BBP will continue to fund the project on a fully reimbursable basis until these conditions are approved and will continue to provide project management resources until construction is complete.
- The expected \$42 million loss will be included in the FY08 financial accounts as a write-down of the carrying value of the construction project. The write-down is in addition to the impairment write-downs detailed below.
- BBP may receive an additional incentive payment upon successful delivery of the project which is currently on-time and budget for delivery in August 2009.

FY08 EBITDA guidance and impairment

As disclosed to the ASX on 19 June 2008, BBP reiterates previous guidance for FY08 EBITDA to be in the range of \$330 million to \$340 million. This guidance is before set up costs and transition costs associated with the Alinta transaction, impairment and non cash charges (notably Redbank derivative adjustment).

In accordance with AASB 136 Impairment of Assets, BBP has undertaken a rigorous and comprehensive analysis for any impairment of its indefinite life intangible assets and goodwill. There have been no material changes to the underlying cash flows used since acquisition. However, the deterioration in the credit environment post the acquisition of the Alinta assets has led to changes in the debt and equity capital markets resulting

in an increase in the weighted average cost of capital applied for valuation and therefore impairment testing purposes.

As a result, the FY08 result will reflect a non-cash impairment charge of \$410 million to reduce the carrying value of the goodwill associated with the acquisition of the Alinta retail business. The total impairment charge taking into consideration the Alinta retail business and the writedown of the Tamar construction costs is expected to be \$452 million.

No other cash generating units were found to be impaired at 30 June 2008.

Debt facilities update

BBP's outstanding drawn debt facilities, post the sale of Tamar are expected to be approximately \$3.7 billion as detailed below:

Debt drawn post Tamar sale	\$m	Maturity
Project level	790	2014-2024
BBPF ¹	2,445	2011-2013
BBPH	116	Mar-2009
Babcock & Brown (BNB)		
- Facility	190	Jan-2010
- Kwinana facilities (construction)	95	Dec-2008
- Tamar facilities (construction)	51	Mar-2009
Subtotal BNB drawn facilities	336	
Total debt drawn post Tamar sale	3,687	

BNB facilities	\$m	Maturity
Subtotal BNB drawn facilities (refer above)	336	
Neerabup LC (construction)	44	Dec-2009
Total BNB facilities	380	

BBP anticipates the BBPH facility will be extinguished through cash reserves and planned asset sales prior to March 2009. Following this repayment, BBP's debt facilities will be reduced to project level debt, the BBPF facility and the then remaining Babcock & Brown Limited (ASX:BNB) facilities.

The current effective interest rate on BBP's overall debt incorporating BBPF, BBPH, project level facilities and BNB loans is approximately 8.8%.

¹ BBPF drawn facility excludes LC's, undrawn working capital and undrawn maintenance and capital expenditure facilities

BBPH facility extension

BBP has obtained bank approval from the existing lenders in the BBPH facility to extend the maturity of the facility from 31 August 2008 to 31 March 2009. Following the post FY08 sales of the Uranquinty and Ecogen power stations, the facility commitments were reduced from \$360 million to \$122 million and with cancellation of undrawn commitments has recently been further reduced to \$116 million.

BBP intends to repay the extended BBPH facility prior to the next distribution payment date through use of a combination of existing cash balances, which are expected to reduce the facilities to below \$90 million, and proceeds from planned asset sales and operating cashflow. Provisions within the renewed facility require such repayment in priority to payment of future distributions to BBP securityholders.

BNB facilities

Following the sale of Tamar, the BNB facilities (excluding any outstanding fees) will total approximately \$380 million, of which \$190 million represents construction related facilities. Subsequent to the repayment of the BBPH facility as outlined above, BBP's debt facilities are expected to be reduced to project level debt, the BBPF facility and the then remaining BNB facilities.

UBS appointment as adviser to BBP Board

The BBP Board is finalising the appointment of UBS to undertake a full strategic review including advice on optimal capital structure and options to achieve this which maximise value for securityholders. UBS will consider various expressions of interest that have been received from third parties, as well as other value enhancing structural alternatives.

As part of this process the distribution policy is under review and the Board expects to provide further clarification and guidance following the outcome of this review over the next few months.

BBP's Independent Directors and BNB are also finalising the establishment of a number of protocols which will apply to BNB in relation to the strategic review to ensure that in the event any conflicts of interest arise, they are appropriately managed in the best interests of BBP securityholders.

The Independent Chairman, Len Gill will host a conference call at 11.00am EST today 18 August 2008:

Australia Dial In: 1800 148 258
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Conference ID: 60760928

ENDS

Further Information:

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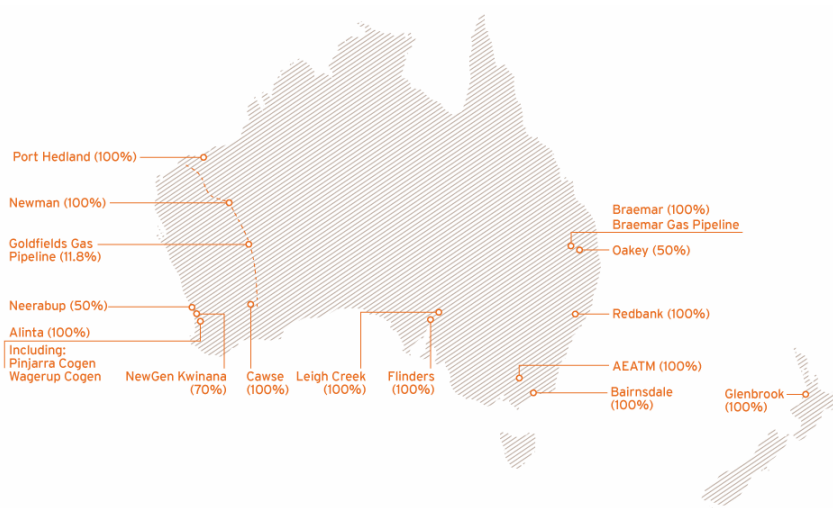
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About Babcock & Brown Power

Babcock & Brown Power (ASX:BBP) is a power generation business, with assets diversified by geographic location, fuel source, customers, contract types and operating mode. Its aim is to grow returns to its securityholders through optimisation of its existing power generation business and the addition of further generation assets and associated businesses via a combination of new construction and strategic acquisitions.

The portfolio has interests in 12 operating power stations representing over 3,000MW² of installed generation capacity and four power stations under construction. BBP has interests in a number of other associated power assets including the WA retail assets Alinta. Babcock & Brown has been developing, operating and acquiring the generation portfolio over a period of 10 years.

Portfolio Summary



For further information please visit our website: www.bbpower.com

² Some assets have minority shareholders.