

BABCOCK & BROWN POWER

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ASX Release

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BBP ANNOUNCES DOWNGRADE TO UNDERLYING EARNINGS AND DISPOSAL OF ONEROUS CONTRACTS

Babcock & Brown Power (ASX:BBP) earlier today sought and was granted a voluntary suspension of the trading of its securities from the Australian Securities Exchange (ASX) pending an understanding of the impact of revised earnings guidance on the company's banking facilities. Discussions on this issue have commenced with the banks – BBP expects to be in a position to provide the market with further clarity on the outcome by the end of next week.

In addition, BBP today also announces:

- **FY09 EBITDA guidance:**
 - **EBITDA Guidance:** BBP revises its FY09 EBITDA guidance range to \$405 – \$415 million compared to the previous guidance range of \$315 - \$325 million. This increase is primarily due to the release of onerous provisions arising from the novation of the Flinders Osborne Trading (FOT) contracts, which is partially offset by weakening operating performance – see below.
 - **Normalised EBITDA Guidance:** In light of the recent deterioration in the underlying performance of the business, as well as the scale of the onerous contract provision release, the company is today also providing guidance on a 'normalised' basis. BBP's implied normalised EBITDA guidance range set out in the 26 February Press Release was \$300 - \$310 million¹. Weak trading conditions since then and further weakness forecast for the remainder of the financial year results in a downgrade to \$260 - \$270 million.
- **Novation of Flinders Osborne Trading (FOT) contracts:** BBP has today announced that it has reached conditional agreement with Origin Energy Limited (Origin) for Origin to assume the FOT contracts for a nominal consideration. At completion, expected in June 2009, a \$125 million onerous contract provision will be released. The novation of these contracts will have a positive effect on BBP's cash flows going forward. This arises as a result of the elimination of expected future losses under the contracts.

Ross Rolfe, CEO of BBP, said "While a further deterioration in operating performance is very disappointing, there are a number of initiatives being implemented to strengthen the company's operational earnings and cash flows going forward. These include the novation of the FOT onerous contracts and the recently announced disposal of AEATM, both of which significantly improve the company's future cash flows. In addition to the steps being taken to stabilise the company's operating position, we remain pro-actively engaged with our lenders on the longer-term work through option."

¹ This figure adjusts for: Varanus Island as set out in the FY08 results presentation (p.20); the impact of the Kwinana and Neerabup sales announced on 09/12/2008; the AEATM provision release announced on 26/02/09; and the ERMPI dividend also announced on 26/02/09.

REVISED FY09 EBITDA GUIDANCE

BBP is today providing FY09 guidance on both an accounting and normalised basis. On 26 February 2009, BBP provided an update to the market regarding the performance of the business as well as the impact of the AEATM provision release and the ERMPI dividend. The EBITDA guidance range set at that point was \$315 - \$325 million. Adjusting for the one-off impacts of AEATM and the ERMPI dividend, the implied normalised guidance range was \$300 - \$310 million². Since then, further weakness in operating conditions, as well as additional one-off impacts, has resulted in a material movement in both the accounting and normalised guidance ranges.

The key movements since the February guidance update are as follows:

- FOT onerous provision release – the novation of the FOT contracts announced today, is expected to result in the release of a \$125 million provision that will be included in FY09 EBITDA.
- Further movements – the company expects a net movement in other one-off items³ and provisions for the remainder of the year of c.\$5 million. The principal component of this movement is a further AEATM provision release, which is offset by other negative movements.

The key factors impacting the company's underlying performance are as follows:

- NEM merchant assets – a combination of milder than expected weather and softening demand – possibly related to the deteriorating economy - has had an adverse impact on the performance of the Flinders and Braemar assets. These factors are expected to persist for the remainder of FY09.
- Western Australian assets – BBP's Alinta business has also suffered from the impact of mild weather and softening demand. These factors have exacerbated the ongoing negative impact on the business of the Varanus Island outage.

In aggregate, the impact of the points set out above is as follows:

- EBITDA – a net increase in guidance to \$405 - \$415 million from \$315 - \$325 million
- Normalised EBITDA – a reduction in guidance to \$260 - \$270 million from \$300 - \$310 million.

Looking forward, there are a number of factors that are expected to improve BBP's position in FY10; key among these are: the elimination of the AEATM and FOT losses, commissioning of the Newman Power Station expansion, a full return to service of the Varanus Island facility, and a return to normalised weather conditions.

NOVATION OF FLINDERS OSBORNE TRADING CONTRACTS

BBP has reached conditional agreement with Origin to assume the FOT contracts for a nominal consideration. FOT currently has a Power Purchase Agreement (PPA) with Osborne Cogeneration Pty Ltd, being the owner of a 180MW gas-fired power station located in South Australia. Under the PPA, FOT purchases all of the output from Osborne until 2018.

² This figure adjusts for: Varanus Island as set out in the FY08 results presentation (p.20); the impact of the Kwinana and Neerabup sales announced on 09/12/2008; the AEATM provision release announced on 26/02/09; and the ERMPI dividend also announced on 26/02/09.

³ Including a train derailment at Port Augusta and a longer than expected planned outage at Redbank.

Additionally, FOT has a contract to purchase gas which is then on-sold to Osborne under a Gas Sale Agreement.

The divestment of FOT will have the following impact on BBP's financial position:

- **Release of provisions** - a release of onerous contract provisions totalling \$125 million. The onerous contract provision represents an NPV-based estimate of expected future losses arising from the Osborne contracts.
- **Positive cash flow impact** - the disposal of the Osborne contracts will have a positive effect on cash flows over the remaining life of the contracts.
- **EBITDA impact** - BBP does not expect there to be a material impact on statutory EBITDA going forward as the forecast operating losses from the FOT contracts would have been offset by the amortisation of the provision.

The transaction is contingent on a number of conditions and approvals being obtained including consents from FOT's commercial partners. Completion is expected in June 2009.

SALE PROCESS UPDATE

As set out in the interim results reported in February, the process established to realise value via disposal of all or part of the company is ongoing. Additionally, management and the Board continue to progress alternative options, including a longer term work-through option. The Board will provide further updates on the process to strengthen the company's capital structure as appropriate.

ENDS

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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 approximately 2,800MW⁴ of installed generation capacity. BBP has interests in a number of other associated power assets including the WA retail assets Alinta.

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

⁴ Some assets have minority shareholders.