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Market Update: Comprehensive Restructure

In conjunction with its Annual General Meeting today, Babcock & Brown Power (ASX:BBP) announces that it has reached in principle agreements on a comprehensive restructuring ("Restructure") that stabilises and simplifies the Company's debt position, eliminates short-term refinancing risk and co-operatively resolves issues arising from the North West Shelf ("NWS") arbitration.

The Restructure represents a critical step forward for the company. In particular, the Restructure will enable management to focus on the business and importantly it provides time for the Board to consider a range of options to further improve the capital structure.

The key elements of the Restructure are as follows:

- Comprehensive restructuring of the existing BBPF debt facility
- Agreement with the NWS Joint Venture Partners ("NWS JV"), downstream gas customers and the BBPF Syndicate that enables Alinta, a wholly owned subsidiary of the company, to deal with the financial impact of the NWS arbitration outcome
- Settlement of the outstanding Babcock & Brown International Group ("BBIG") loan and fees (as announced on 7 December 2009)
- Termination of the BBIG Management and Advisory Agreements at nominal cost to BBP.

Each element of the restructure, other than Termination of the BBIG Management and Advisory Agreements, remains subject to certain conditions and the completion of binding agreements between each of the relevant parties. The BBIG Management and Advisory Agreements terminated on 16 December subsequent to completion of all conditions contained therein. Following advice from the ASX denying the request for a waiver, the BBIG settlement requires a securityholder vote, which will be held early in 2010. A risk remains that one or more components of the Restructure will not be approved by the relevant counterparty.

In addition, as previously announced, the Directors of BBP are seeking securityholder approval to change the name of BBP to Alinta Energy Limited at today's Annual General Meeting to reflect the company's renewed focus on its quality portfolio of electricity retailing and generation assets.

BBP Chairman, Len Gill said, "It has been an extraordinarily demanding year for BBP and the Board sincerely regrets that securityholders have not yet seen any improvement in value. However, the agreements announced today are a major advance for the business, allowing it to proceed with an independent future under a new name and on a path to improving value. The restructured debt facility provides the time and flexibility we need to put the company onto a sustainable financial footing."

Ross Rolfe, AO, Chief Executive of BBP said, "We are pleased to announce this comprehensive restructure of the BBP business. Over the past 18 months, BBP has faced a range of significant challenges. This Restructure will enable management to again focus on the key task of operating our business. We acknowledge the importance of, and appreciate the ongoing support of our banking syndicate and our contractual counterparties in enabling us to move forward on a more stable basis. On completion of the Restructure, BBP will cease to have any relationship with Babcock & Brown International Group, other than as a securityholder."

BBPF DEBT RESTRUCTURING AGREEMENT

BBP has reached an in principle agreement with all 11 banks in the BBPF Syndicate for a comprehensive restructure of the $2.7 billion senior syndicated loan facility. As at this morning, only one credit approval remains outstanding and that bank's credit committee meets today. Assuming that is received, the intention is to execute documents on Monday 21 December 2009. The execution of these documents is expected to serve as the event that will release BBP from its current trading suspension.

The key terms of the restructured facility are**:**

- **Term –**extension of the repayment date for the term loans, working capital, letters of credit and transactional banking until 30 September 2012
- **Interest rate –** interest rate of BBSY plus a cash margin of 1.45%, plus a capitalising margin of 1.0%. The capitalising margin will step up to 2.0% if a debt reduction target of $250 million is not met by 31 March 2011
- **Financial covenants (ICR And EBITDAF)** – financial covenants set by reference to BBP's 5-year budget plan and forecasts. As long as the BBPF asset group is within 15% of its forecasts, BBP will be in compliance with the financial covenants
- **Cash Sweep** – cash sweep over agreed liquidity levels to repay debt

- **Foregone interest payments** – first, a portion of two interest payments will be used as a part of the settlement with the NWS JV. Secondly, as noted the cash margin has been reduced to 1.45%. This represents a decrease of 0.8% per annum interest which would otherwise have been payable to the BBPF Syndicate. This reduction assists BBP in meeting increased gas costs. Such amounts foregone by the BBPF Syndicate are recoverable in limited circumstances

- **Extension of Security** – entry into appropriate charging agreements perfecting Syndicate's security across the BBPF Group

In addition, two facilities have been established to accommodate and manage the NWS Arbitration outcome:

- A senior secured $70 million facility to partially fund NWS settlement repayable in mid 2011

- A senior secured $30m short-term liquidity facility maturing October 2010 to provide business flexibility to deal with working capital challenges arising from the NWS Arbitration.

These facilities will have market based interest rates and fees

IN PRINCIPLE AGREEMENT TO SETTLE THE NWS ARBITRATION

The Interim Determination handed down by The Honorable Mr. Michael McHugh QC, AC was materially outside of BBP's expectations, resulting in a back payment and price path for gas going forward that was considerably higher than anticipated.

Following extensive discussions and negotiations with the NWS JV, downstream customers, the BBPF Syndicate and BBIG, in principle agreements have been reached with all stakeholders that include the following key elements that serve to enable Alinta to deal with the financial impact of the Interim Determination:

- **NWS JV –** an in principle agreement, reflected in a Moratorium Agreement which is in agreed form and in the process of being executed, to accept a negotiated outcome different to that which the Interim Determination would have entitled the NWS JV. Certain further amounts are payable to the NWS JV in limited circumstances.

- **Downstream Customers** – increased price for gas going forward from a number of major customers, and an agreement by one major customer to take a reduced volume of gas

- **BBPF Syndicate –** a combination of foregone interest to contribute to both the back payment and higher cost of gas going forward. These amounts are repayable in limited circumstances. Additionally, as noted above, the BBPF Syndicate has provided two additional facilities to partially meet the back payment and short term liquidity constraints.

- **BBIG** – a reduction in the proposed settlement proceeds from that previously envisaged

BBP has only been able to negotiate this outcome due to the goodwill displayed by each of the counterparties and the willingness of all parties to work with BBP to find a solution. A Moratorium Agreement between its subsidiary, Alinta Sales and NWS is in agreed form and in the process of being executed. This provides for final settlement documentation to be executed by 20 January 2010.. The NWS JV partners need to obtain board approvals to the final settlement before it can be implemented.

Given the certainty provided by the package of agreements, including a 4 year price path for gas, BBP decided not to appeal the arbitrator's decision.

Funding of Back Payment & Forward Price Path

BBP will fund the negotiated back payment to the NWS JV through a combination of internal funds, the new BBPF debt facilities as set out above together with the diversion of a portion of two interest payments otherwise payable the BBPF Syndicate, to the NWS JV.

The NWS JV has agreed in principle to a negotiated initial forward price path for gas, which will step up over time. Importantly a number of BBP's large downstream customers have agreed to an increased price for gas going forward and in one case to reduce gas volume going forward. In addition, as noted above, the BBPF Syndicate has agreed to a reduced cash interest margin.

These measures enable Alinta to deal with the financial impact of the Arbitration Award.

PRO FORMA NET DEBT POST RESTRUCTURE

Post the Restructure the company's capital structure will be substantially simplified. The settlement of the outstanding loans and fees to BBIG means that there will be a single senior corporate loan in the form of the BBPF facility within the BBP Group. In addition to the corporate facility, there is an existing non-recourse project debt facility secured to the Redbank Power Station.

The table below provides an overview of the debt position as at 30 June 2009 and expected pro forma drawn[1] position as 30 June 2010.

[1] This table does not include BBP's cash holdings or outstanding issued Letters of Credit $34.8m at 18/12/09.

Facility	30-Jun-09	30-Jun-10	Maturity
BBIG	398	-	n/a
BBPF Facilities	2,532	2,560	September 2012
Working Capital Facility	10	60	September 2012
Backpayment Facility	-	70	Mid 2011
Senior Secured Short-Term Liquidity Facility[2]	-	-	Q4 CY10
Redbank Project Debt	246	236	June 2018 & June 2023
Total Debt	**3,186**	**2,926**	

CHANGE OF NAME

As advised on 18 November, BBP is proposing to change its name to Alinta Energy Limited. The name seeks to leverage both the ongoing strength and recognition of the Alinta brand in Australia, as well as the diversity of the Alinta business across the power generation and retail energy sectors.

BBP believes that changing its name is a critical step in moving forward as an independent, stand-alone energy business. Securityholders will have the opportunity to vote at the Annual General Meeting today on the proposed change of name.

OUTLOOK

The finalisation of the Restructure allows BBP to focus on meeting its operational targets, setting a clear strategic direction, working on capital structure options for longer-term stability and creating value for securityholders.

BBP expects FY10 EBITDA to be in line with the adjusted pro forma FY09 figure of $288 million. The principal adjustments to last year's reported normalised EBITDA of $262 million relate to divested assets. These include: Kwinana, Tamar, AEATM, Uranquinty, Neerabup and Ecogen.

At the interim results, due to be announced in February 2010, BBP intends to revise it's segmentation of the business to more appropriately reflect the way in which the business is managed. The intention is to provide a breakdown that segments on the following basis:

- **Contracted –** assets that have long-term contracts, typically power purchase agreements, that provide stable cash flows that are often linked to CPI
- **Merchant –** assets that have a large proportion of revenues exposed to market prices over both the short and medium term

[2] Current expectations are that this facility will not be drawn as at 30 June 2010

- **Retail –** operations that involve the supply of gas and/or electricity to customers as well as the associated wholesale activities

.BBP will continue to update the market on progress towards satisfaction of the conditions precedent and completion of the Restructure.

ENDS

Further Information:

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About Babcock & Brown Power

Babcock & Brown Power (ASX:BBP) is a power generation and energy retail business, with assets diversified by geographic location, fuel source, contract type and operating mode. The portfolio has interests in 12 operating power stations representing approximately 2,800MW of installed generation capacity. BBP also owns the Alinta retail business in WA.