

BABCOCK & BROWN POWER

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ASX Release

29 August 2008

BBP ANNOUNCES STEPS TO UNLOCK SECURITYHOLDER VALUE AND FULL YEAR 2008 RESULT

Babcock & Brown Power (ASX: BBP) today announces a number of steps underway to unlock securityholder value.

Corporate governance

Following a number of management changes at Babcock & Brown (ASX:BNB), Peter Hofbauer and Warren Murphy advised they are stepping down from the BBP Boards. John Bowyer, the Babcock & Brown Head of Asia Pacific Infrastructure will join the BBP Boards as the Babcock & Brown representative.

The Independent Directors have asked for a review of the Management Agreements to strengthen the alignment between securityholders and the Manager¹ and also in light of the potential recommendations of the strategic review.

The BBP Board now comprises three independent Directors and one Babcock & Brown representative, with an option for a fourth Independent Director under consideration.

Management changes

BBP also announced earlier today that the Chief Executive Officer, Paul Simshauser, and Chief Financial Officer, James Brown, will stand down from their positions.

Ross Rolfe AO has been appointed the acting CEO, effective immediately. Ross is the former CEO of Stanwell Corporation and has proven leadership experience in the energy industry.

A new CFO will be sought from external candidates or Babcock & Brown.

¹ The Manager of BBP is Babcock & Brown Power Management Pty Ltd, a subsidiary of Babcock & Brown

Strategic review

UBS has been appointed to conduct a strategic review of BBP; the objective being to strengthen the capital structure and identify opportunities to unlock securityholder value. A range of options will be considered and may include further asset sales, joint ventures and other strategic alternatives. The review will also address BBP's distribution policy. BBP expects the initial findings to be provided within the next few weeks.

Financial results for year ended 30 June 2008

- EBITDA² of \$331 million in line with recent market guidance
- Adverse impact of approximately \$11 million to Alinta earnings from Varanus Island
- Impairment charge of \$410 million on goodwill in Alinta recognised
- Total impairment including write-down of Tamar construction costs of \$452 million

Outlook FY09

- FY09 EBITDA is likely to be in the range of \$350 – 360 million and includes an expected \$18 million adverse impact (net of expected insurance proceeds) resulting from the Varanus Island incident
- FY09 guidance is subject to normal seasonal market conditions, managing associated risks, managing ongoing gas price review processes and completion of integration

Mr Len Gill, Independent Chairman of BBP said "The Board regrets the recent reduction in securityholder value and is committed to making the necessary changes to unlock value. The Board is unanimous in the need for change and has a clear plan, including the strategic review being conducted by UBS, to tackle the challenges that lie ahead."

ENDS

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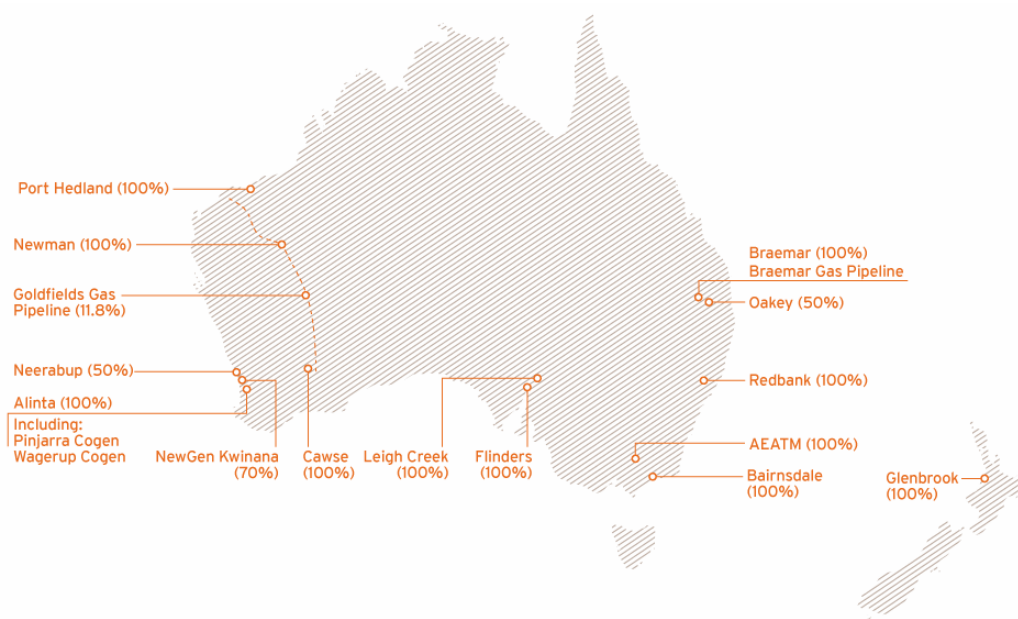
² Excludes material accounting adjustments as disclosed in Appendix 4E

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 3,000MW³ of installed generation capacity and two 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

³ Some assets have minority shareholders.

BBP
2008 Final Result
Financial year ended 30 June 2008

Mr Len Gill, Independent Chairman
29th August 2008

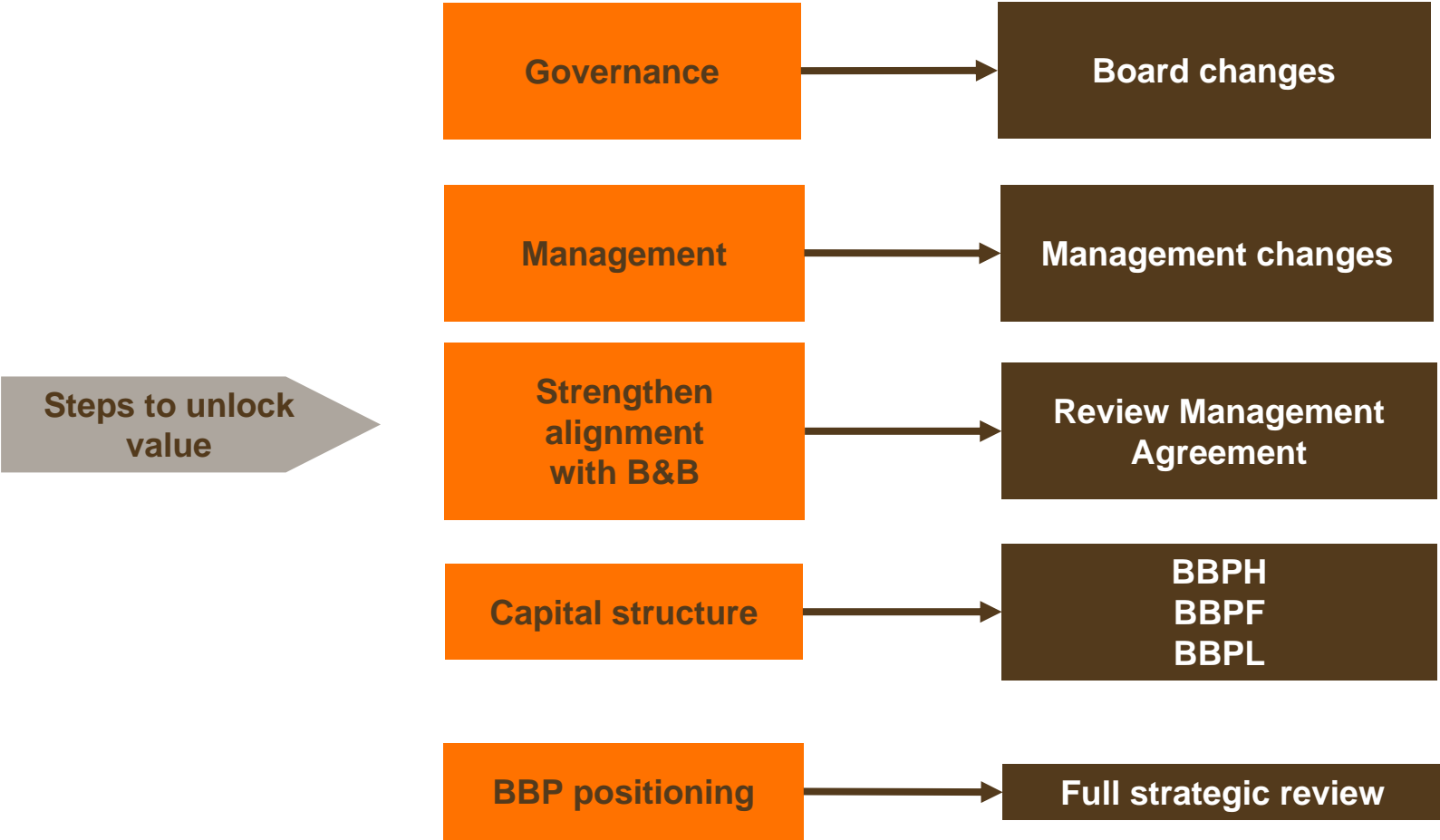
AGENDA

1. Overview
2. Steps to unlock value
3. Financials
4. Outlook
5. Appendix

OVERVIEW

- FY08 extremely disappointing year for BBP and its securityholders
- Board regrets reduction in securityholder value
- Board unanimous in need for change and has clear plan to tackle challenges that lie ahead
- Challenges include
 - Further reduce debt
 - Strengthen capital structure
 - Improve governance
 - Manage operational issues
 - Influence, clarify and manage Carbon Pollution Reduction Scheme (CPRS) impact
- We are making significant changes to reposition the business
- We will report on the strategic review within the next few weeks

STEPS TO UNLOCK SECURITYHOLDER VALUE



CORPORATE GOVERNANCE

- Increased Board independence
- Len Gill, the Independent Chairman has been hands-on since July 2008
- Following B&B management changes announced on 21 August, Peter Hofbauer and Warren Murphy have advised they are stepping down from BBP Boards
- John Bowyer to join BBP Boards as B&B representative
 - Head of Asia Pacific Infrastructure for B&B
- BBP Boards to comprise three Independent Directors and one B&B representative with option for a fourth Independent Director following corporate governance review

MANAGEMENT CHANGES

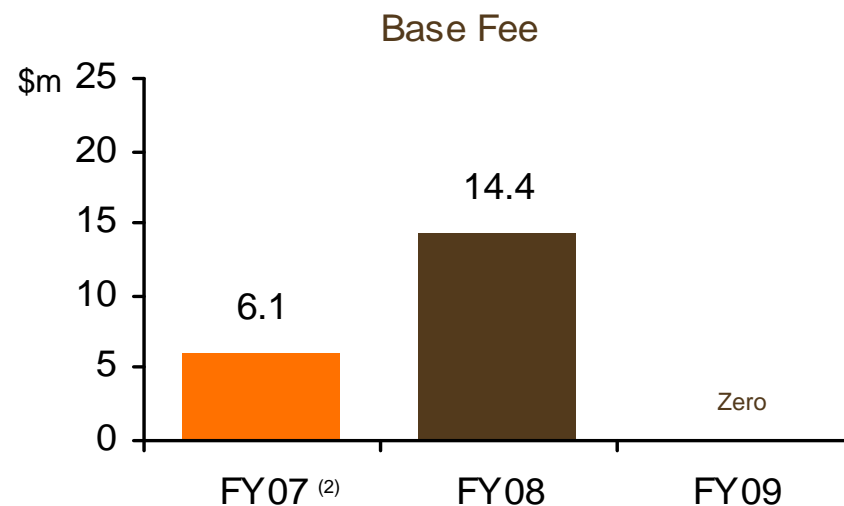
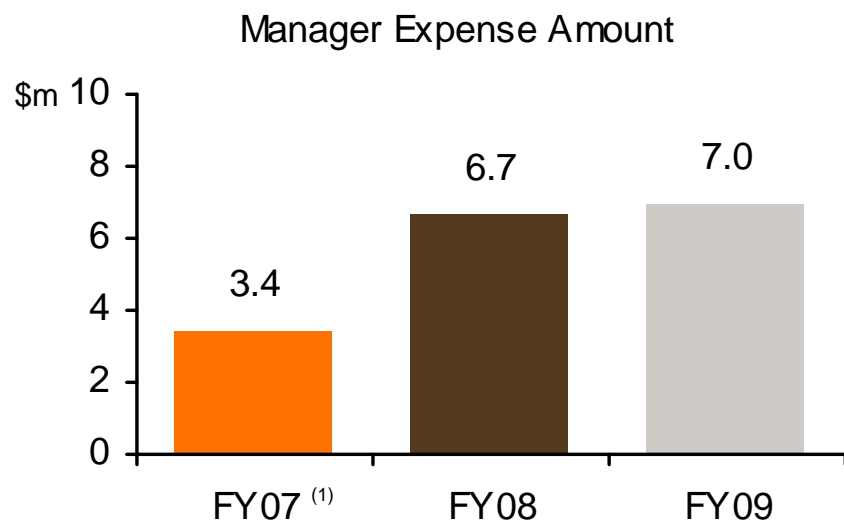
- Paul Simshauser to stand down as CEO and take up a senior role within B&B
- Ross Rolfe AO appointed acting CEO
 - Former CEO Stanwell Corporation with proven senior leadership experience
- James Brown to stand down as CFO with a three month transition period
- New CFO to be sourced from external candidates or B&B

ALIGNMENT WITH BABCOCK & BROWN

- The Manager of BBP is Babcock & Brown Power Management Pty Ltd, a subsidiary of B&B
- As Manager, B&B is committed to act in the best interest of BBP securityholders
- B&B brings benefits to the relationship including access to development pipeline and balance sheet
- B&B has an equity investment of ~10%
- B&B is a significant lender to BBP
- B&B also provides transaction based financial advisory services on market terms
- Independent Directors have asked for review of Management Agreement to strengthen alignment between securityholders and the Manager and also in light of the potential recommendations of the strategic review
- Consistent with public comments by the new B&B CEO

BABCOCK & BROWN MANAGEMENT AGREEMENT

- Manager expense amount relates to partial cost reimbursement to B&B including ~30 FT senior officers and corporate staff for BBP
- Base fees = 1% Net Investment Value (NIV)
 - NIV = avg market capitalisation + external debt + firm commitments – uncommitted cash
- B&B has agreed to waive the FY09 base fee

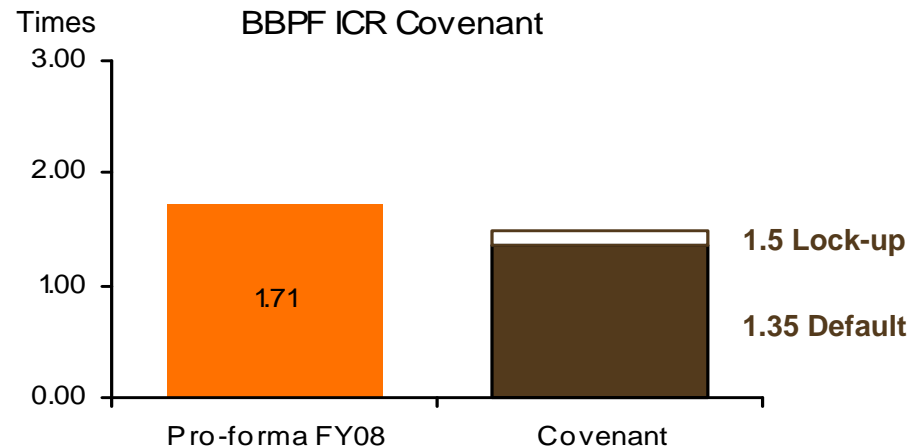
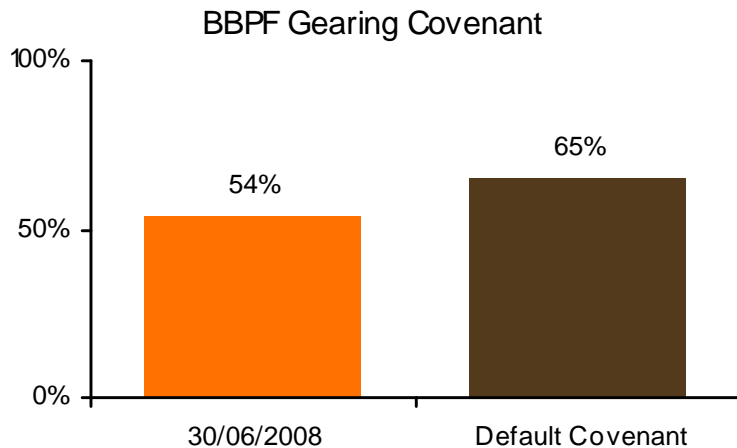


1. Annual fee of \$6.2 million, actual fee of \$3.4 million pro-rated from IPO date

8 2. From time of IPO

KEY DEBT COVENANTS

- BBP is currently within key covenants and has no equity or market capitalisation based covenants
- BBPF facility \$2.7 billion
 - Gearing covenant is based on finance debt to total assets, ~54% at 30/6/08 post impairment
 - ICR covenant 12 month look back, first actual test date Sept-08
 - 1.7 times at 30/6/08 on a pro-forma basis
- BBPH facility \$116 million
 - Terms extended to March 2009
 - ICR covenant 1.5 times on a 3 month look back basis
 - Repayment as a priority over future distributions to BBP securityholders
- BBPL loans
 - No default if BBPH ICR met
 - Interest capitalised on B&B loans with interest payable from Dec 2008



BBPF \$2.7 BILLION FACILITY

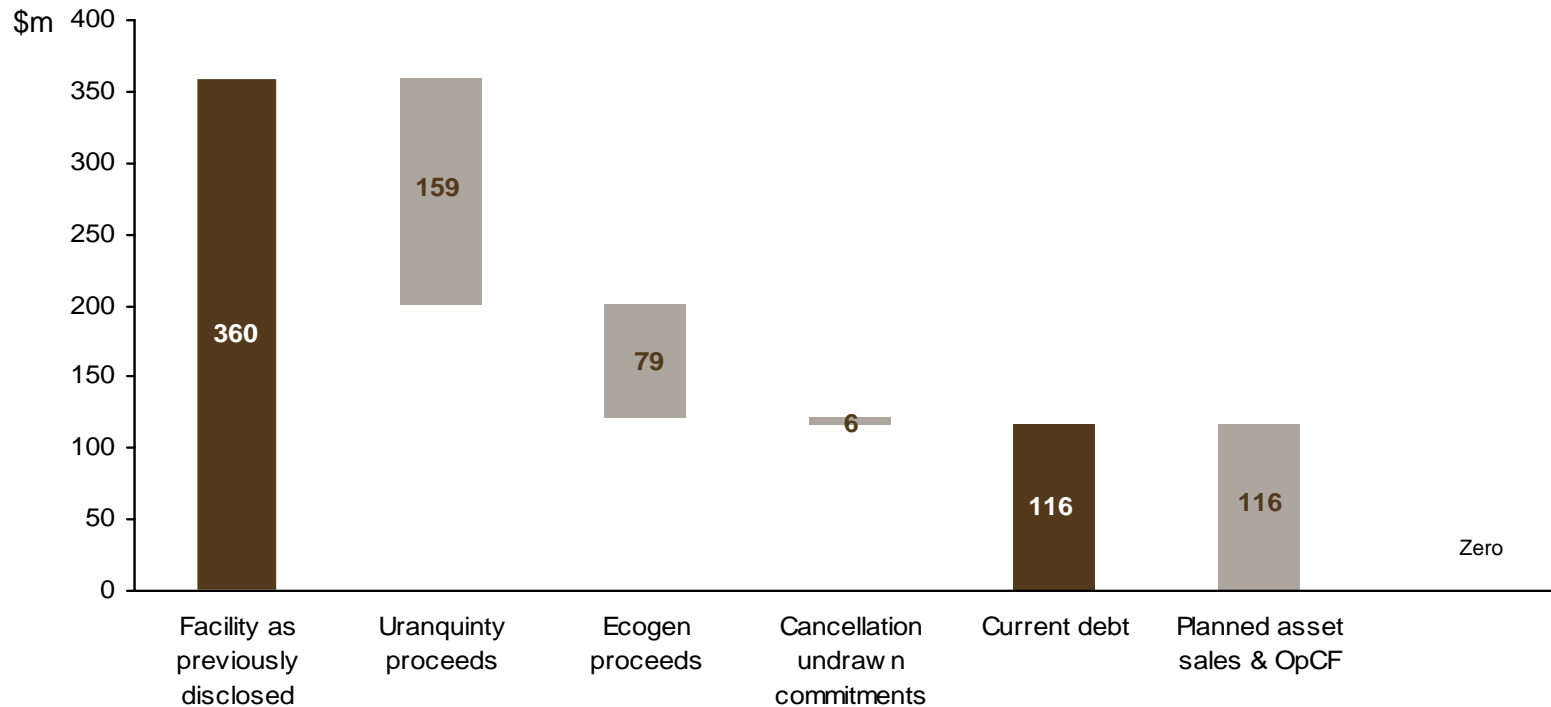
Carbon Pollution Reduction Scheme (CPRS)

- Upon legislation being passed, an independent review will be undertaken to consider debt size
- BBP supports national CPRS with appropriate transitional assistance for coal-fired generators
- Industry wide issue with ramifications for the cost of investment across all sectors
- BBP actively engaged with stakeholders and policy-makers, confident of achieving equitable outcome for securityholders
 - Electricity Sector Adjustment Scheme (ESAS) to underpin investor confidence

Second rating

- Requirement for a second debt rating for BBPF by June 2009
- International ratings agency Fitch has already assigned a 'BBB-' (BBB minus) credit rating on the \$2.7bn secured facility

PLAN TO ADDRESS DEBT - BBPH



- Repayment as a priority over future distributions to BBP securityholders
- Expect to repay the facility through proceeds from planned assets sales and operating cashflow by end of the calendar year

BABCOCK & BROWN DEBT POSITION

B&B Loans	29/08/08 (\$m)	30/9/08 ⁽¹⁾ (\$m)	Change (\$m)	
Facilities available	536	499	(37)	Net Tamar reimbursement
Drawn	408	403	(5)	Net Tamar reimbursement

- Total B&B facilities anticipated to be available at 30/9/08 \$499 million
- Anticipated drawn B&B facilities at 30/9/08 \$403 million
- BBP has no requirements for additional facilities from B&B, with B&B reiterating no further lending commitments or financial support to be given to managed funds

1. Expected amount post Tamar sale

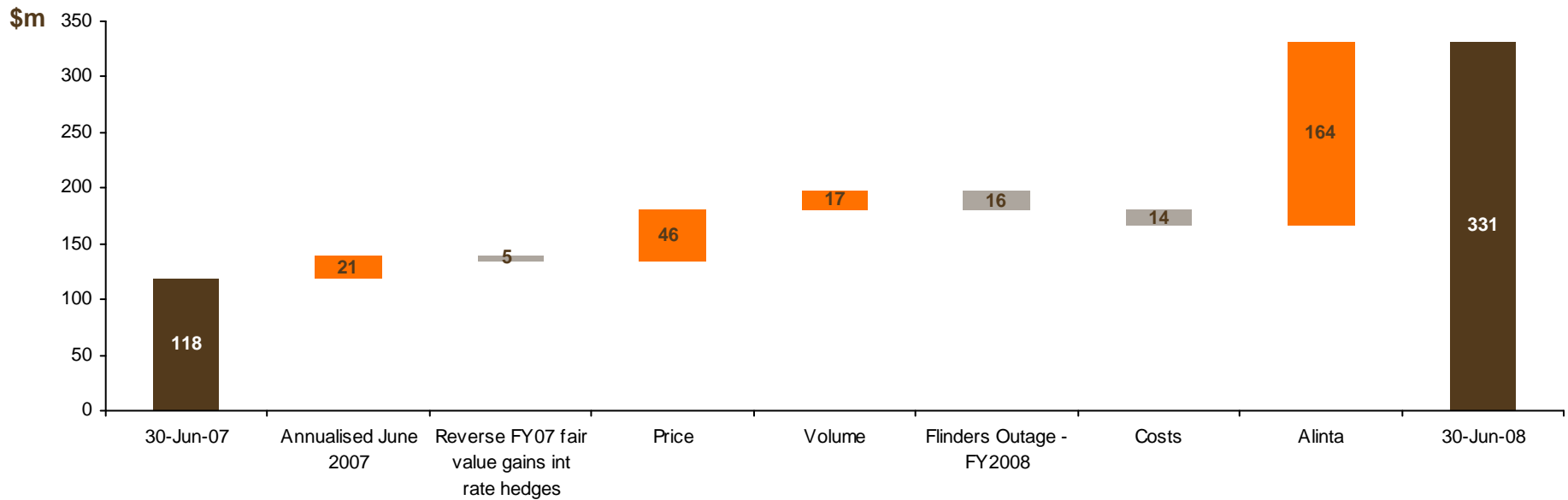
STRATEGIC REVIEW MANDATE

- BBP has appointed UBS to undertake a strategic review
 - Strengthen capital structure
 - Identify options to unlock securityholder value including asset sales, joint venture and other strategic alternatives
 - Advise on future distribution policy
 - All options will be considered
- BBP expects the initial findings of the review to be provided within the next few weeks
- BBP and Babcock & Brown have agreed protocols
 - Independent Director Subcommittee to manage potential B&B conflicts
 - Communication protocols will apply to individual B&B staff to maintain information security

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FY08 EBITDA WALK



- FY08 EBITDA increased substantially due to acquisition of Alinta assets and strong price and volume benefits from Flinders

VARANUS ISLAND IMPACT

- FY08 ~\$11 million adverse impact to Alinta earnings
- Not expected to have a material impact in its own right to FY09 earnings for BBP
 - Forecast ~\$28 million gross adverse impact
 - Forecast ~\$18 million adverse impact net of estimated insurance proceeds
- Combination of gas shortage and lower generator availability resulted in historically high WA energy prices
- Alternate sources of gas sourced to cover shortfall, albeit at higher prices
- Impact was exacerbated by planned outages by some of the coal generators
- Insurance recovery expected to be achieved in line with initial expectations and factored into assumptions
- Varanus Island resumed with partial supply on 6 August and we expect full supply by end of the calendar year

FY08 IMPAIRMENT

- Comprehensive analysis for impairment of all assets (including indefinite life intangible assets and goodwill) undertaken in accordance with AASB 136
- FY08 impairment charge of \$410 million on goodwill in Alinta recognised
- FY08 total impairment including write-down of Tamar construction costs is \$452 million
- There have been no material changes to cashflow assumptions of any cash generating units
- Alinta cashflow assumptions based on five-year budget and 3% pa growth thereafter
 - Electricity contracts reflect market based pricing
 - Tariff increases for gas mass-market reflect market based pricing
 - Long-term gas contracts and management estimates of gas costs for supply shortfalls, new contracts and price resets
- Signed off by auditors and external confirmation was obtained on the veracity of the key assumptions used

FY08 KEY BALANCE SHEET METRICS

	31 Dec 07	30 Jun 08
Gross debt (\$m)	4,114.6	4,394.8
Cash⁽¹⁾ (\$m)	498.0	429.9
Net debt (\$m)	3,616.6	3,964.9
Gearing (net debt/net debt + book equity)	65%	74%
Effective interest rate (incl margin)	7.6%	8.5%
Hedging	86%	82%

Pro-forma 30/6/08 (post Uranquinty/Ecogen sales)	\$m
Net debt⁽²⁾	3,964.9
Net debt reduction (Uranquinty, Ecogen)	(701.2)
Pro-forma net debt	3,263.7
- less construction debt⁽³⁾	(304.3)
Net debt (excl construction debt)	2,959.4

1. This amount is included in net debt. Restricted cash: FY08 = \$139 million

2. Differs from debt facilities update on 18/8/08 which was based on gross debt (ie pre cash) and assumed an 18/8/08 sale of Tamar which is still to be completed

18 3. In relation to Kwinana & Neerabup that reflects net debt drawn as at 30/6/08

AGENDA

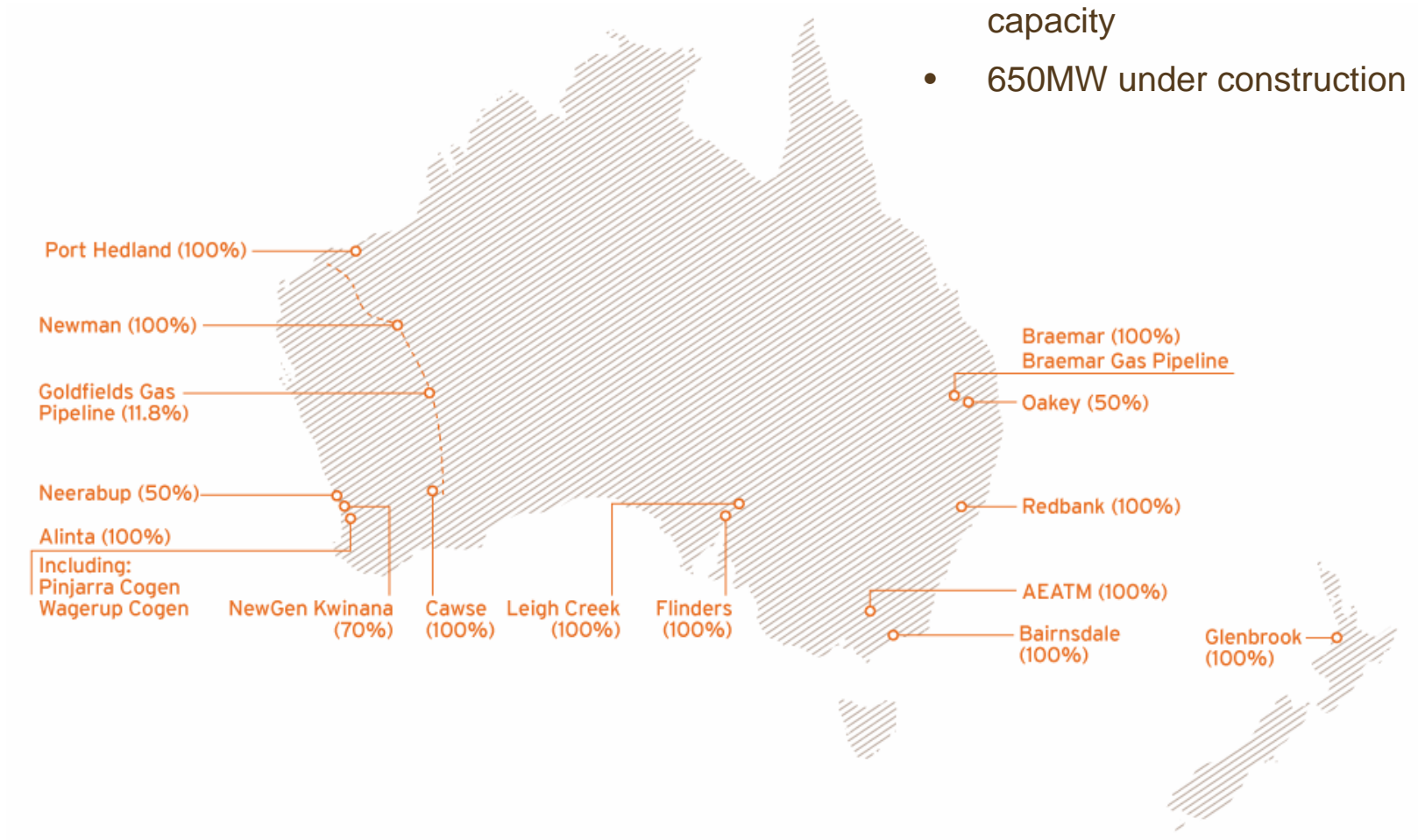
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12 MONTH OUTLOOK

- FY09 EBITDA currently anticipated to be in range of \$350-\$360 million
 - Includes ~\$18 million adverse impact from Varanus Island net of expected insurance recoveries
 - Adjusting for Varanus Island normalised FY09 EBITDA range of \$368-\$378 million
 - Reflects weak trading during July and August and an unplanned outage at Redbank
 - Based on current portfolio of assets, reflecting recent sales of Uranquinty, Ecogen and Tamar
 - Subject to normal seasonal market conditions
- Key operational tasks for FY09
 - Performance delivery
 - Capture Energy Market opportunities/manage risk
 - Manage gas price review process
 - Completion of integration process (system rollout)

BBP DIVERSIFIED PORTFOLIO

- Approx 3,000MW of installed capacity
- 650MW under construction



BBP DIVERSIFIED PORTFOLIO

Asset	Capacity (MW)	Fuel type		Revenue	
		Coal	Gas	PPA Contract	Market
Region					
QLD	827		✓	✓	✓
NSW	151	✓		✓	✓
SA	780	✓			✓
WA - Pilbara	341		✓	✓	
WA - Goldfields	22		✓	✓	
WA - SWIS	660		✓	✓	✓
NZ - Glenbrook	112		✓	✓	
VIC	94		✓	✓	
Under Construction					
NewGen Kwinana	320		✓	✓	
Neerabup	330		✓	✓	
WA Other – Wesfarmers LPG & GGTP					

+ 570K Customers



SUMMARY

- The outlook for the power industry remains highly favourable
- BBP has a large portfolio with assets located in all key regions of Australia diversified by fuel type and market/contract structure
- Portfolio delivers strong, reliable and growing cash flow and earnings
- Portfolio provides leverage for several growth opportunities including NEM, SWIS and Pilbara
- The quality of the portfolio is a major key to enable strengthening of the capital structure

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APPENDIX: FY08 PROFIT & LOSS SUMMARY

	FY08 \$m	FY07 \$m
Revenue	1,527.4	532.8
Fair value (loss)/gain on derivatives	(7.4)	1.7
Operating costs	(1,163.5)	(412.3)
Corporate costs	(31.4)	(10.9)
Operational earnings before interest, tax, depreciation & amortisation	325.1	111.3
Share of net profit in associates	5.9	6.3
EBITDA after associates	331.0	117.6
Depreciation & amortisation	(152.9)	(55.6)
Transition & set up expenses	(15.9)	0.0
Non cash items - Redbank derivative	82.8	(66.4)
Non cash items - Incentive fee	23.4	(23.4)
Non cash items - Impairment & asset write-down	(452.0)	0.0
Earnings before interest and tax	(183.6)	(27.8)
Net borrowing costs	(200.4)	(67.5)
Profit before tax	(384.0)	(95.3)
Tax expense	(42.5)	24.6
Net profit after tax	(426.5)	(70.7)
Outside equity interest	0.5	(4.9)
Net profit after tax attributable to BBP members	(426.0)	(75.6)

APPENDIX: FY08 POWER GENERATION



Braemar

- Average pricing \$61.82 per MWh for six months to Jun-08 (pcp - \$95.45 MWh)
- Availability 88%
- Capacity factor 49%
- Performance impacted by unplanned outage in Nov 07 – Jan 08 and soft pool prices in QLD



Flinders

Average pricing \$73.50 per MWh (pcp - \$51.61 MWh)

Northern

- Availability 88%
- Capacity factor 85%

Playford

- Availability 50%
- Capacity factor 40%



Performance above forecast due to sustained high pool and spot prices (a result of high temperatures) in Feb/Mar 2008.

APPENDIX: FY08 POWER GENERATION



Oakey

- Availability 97%
- Capacity factor 1%



Redbank

- Availability 89%
- Capacity factor 90%
- Performance in line with contractual requirements as part of PPA



NewGen Kwinana

- Construction on schedule
- Due for completion October 2008

APPENDIX: FY08 POWER GENERATION



WA Power

Port Hedland

- Availability 86%
- Capacity factor 20%

Newman

- Availability 100%
- Capacity factor 42%



Performance in line with budget; expansion of Newman scheduled for operation in February 2009

APPENDIX: FY08 POWER GENERATION



Cawse

- Availability 100%
- Capacity factor 21%



Bairnsdale

- Availability 96%
- Capacity factor 27%



Glenbrook

- Availability 98%
- Capacity factor 62%

APPENDIX: FY08 ENERGY MARKETS



Alinta Customers	Jun 2008	Jun 2007	Change
Gas Mass Market	573,303	554,227	+3.4%
Gas C&I	128	149	-14.1%
Electricity C&I	1,680	1,700	-1.2%

- Energy Markets delivered EBITDA of \$125 million
- Comprises the Alinta gas retail and integrated electricity retail and co-generation plant, and the LPG partnership with Wesfarmers
- Results were impacted by the Varanus Island gas disruption in WA which represents 40-50% of Alinta's peak demand gas supply
- FY08 earnings for the Alinta retail business were negatively impacted by \$11 million, including related impacts on LPG and electricity (due to Varanus Island)

APPENDIX: FY08 ENERGY MARKETS



Alinta

Alinta, including the cogeneration business and WesfarmersLPG, delivered EBITDA of \$125m. The Varanus Island gas disruption had a negative impact on earnings of approximately \$10.8m, (which includes the related impacts on the LPG and electricity businesses). Mild weather conditions in Spring (2007) and Autumn (2008) led to lower than forecast gas demands.

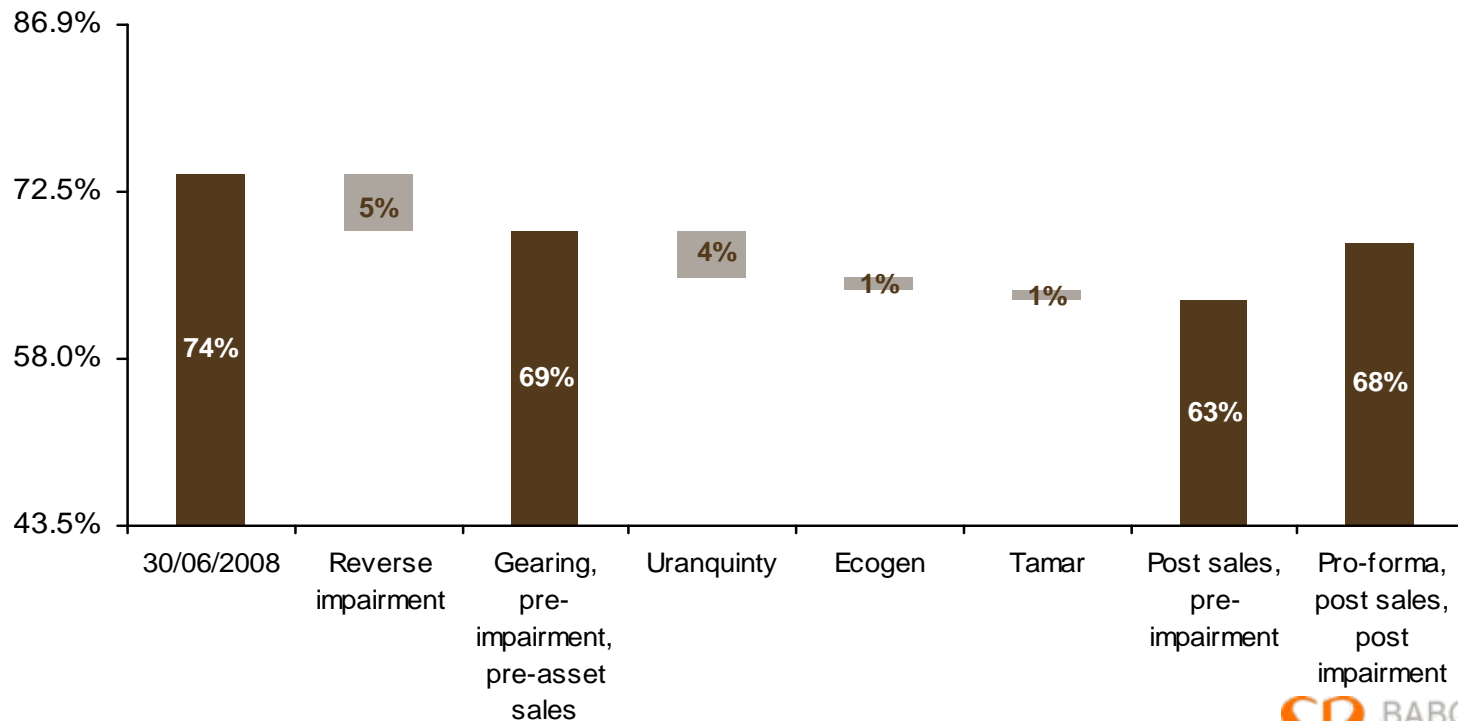
WesfarmersLPG's performance was primarily driven by a higher Saudi Contract Price (SCP). However gain was offset by appreciating AUD/USD exchange rate, lower LPG content and reduced gas flow in the DBNGP, resulting from the Varanus incident.

APPENDIX: FY08 CASHFLOW

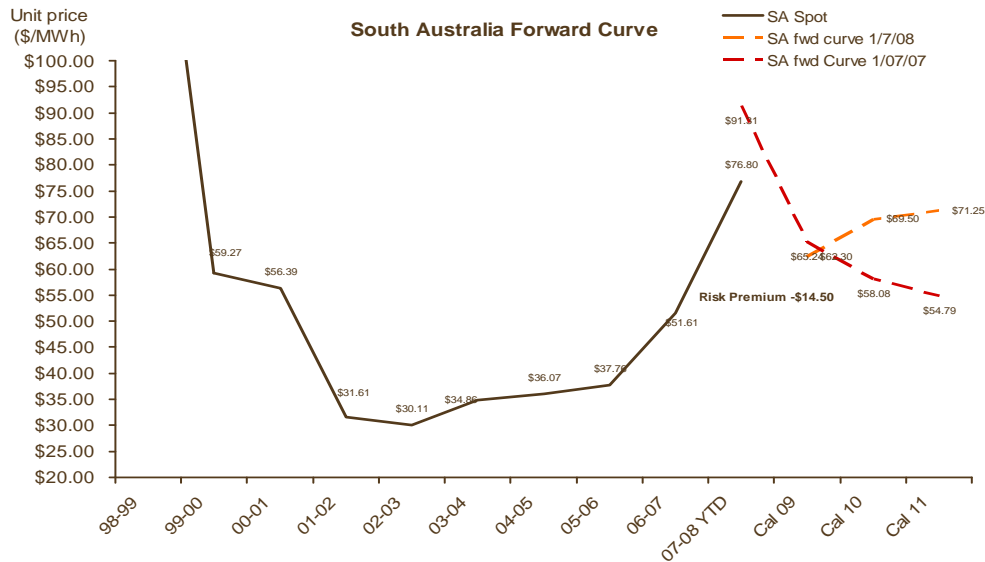
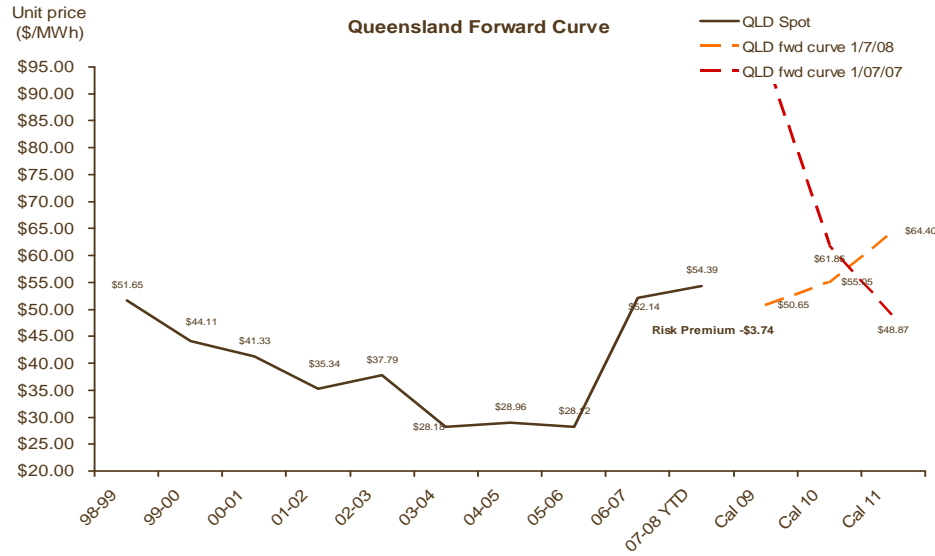
	FY08 \$m	FY07 \$m
<i>Cash flows from operating activities</i>		
Receipts from customers	1,823.9	471.1
Payments to suppliers & employees	(1,462.1)	(370.0)
Interest received	30.6	12.7
Interest & other costs of finance paid	(213.0)	(65.1)
Dividends received	3.0	4.9
Income/withholding tax paid	(10.9)	(1.9)
Net cash inflow from operating activities	171.5	51.7
<i>Cash flows from investing activities</i>		
Payment for property, plant & equipment	(537.8)	(202.0)
Payment for purchase of subsidiaries	(1,932.7)	(226.0)
Loan repaid by related party	10.8	(1.0)
Net cash outflow from investing activities	(2,459.7)	(429.0)
<i>Cash flow from financing activities</i>		
Distributions paid to security holders	(142.5)	-
Distribution reinvestment plan	30.3	-
Proceeds from issue of securities	54.1	249.7
Proceeds from borrowings	5,455.8	637.2
Repayment of borrowings	(2,980.2)	(288.1)
Loan establishment costs	(41.0)	-
Net cash inflow from financing activities	2,376.5	598.8
Net increase in cash & cash equivalents	88.3	221.5
Cash & Cash equivalents at the beginning of the year	341.6	120.1
Cash & Cash equivalents at the end of the year	429.9	341.6

APPENDIX: IMPACT OF COMPLETED ASSET SALES ON GEARING

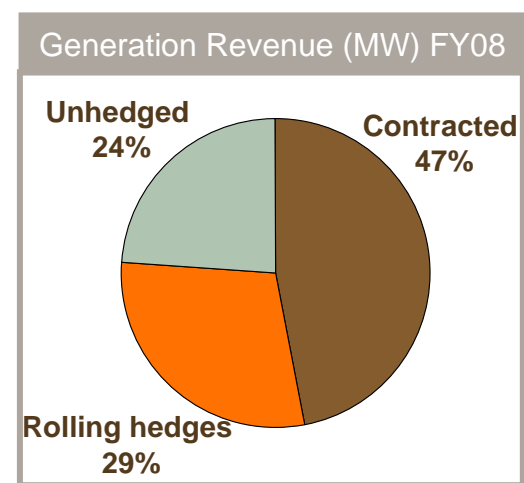
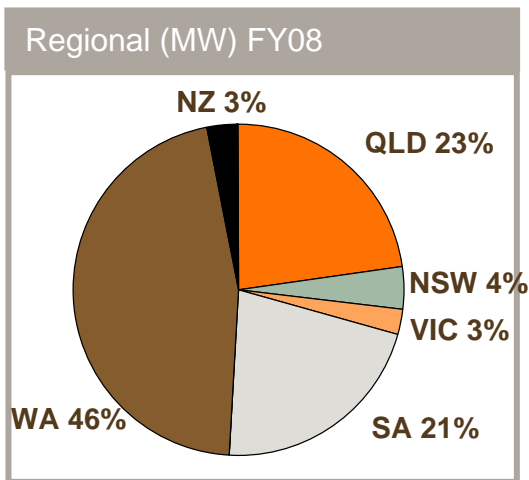
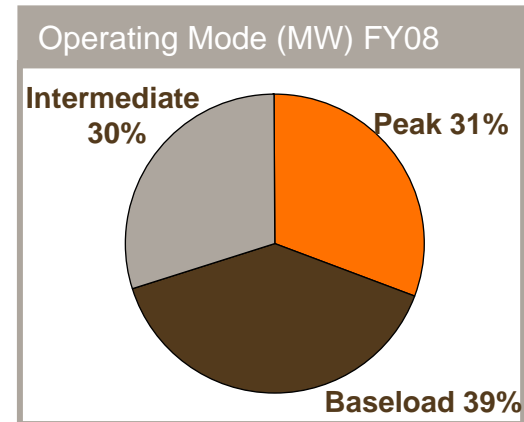
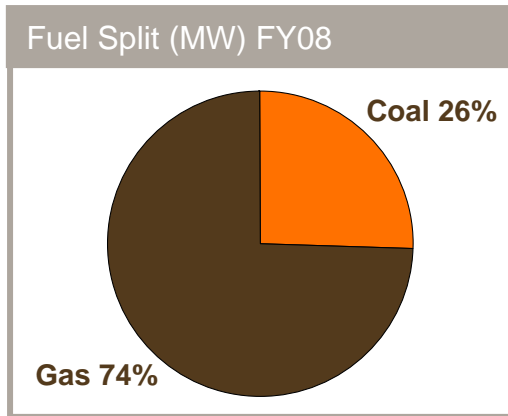
- Gearing of 74% at 30/6/08 taking into account impairment
- Taking into account asset sales, gearing drops to 68%
- Gearing (net debt/net debt + equity) at the BBP Group level



APPENDIX: FORWARD ELECTRICITY CURVES



APPENDIX: DIVERSIFIED PORTFOLIO



APPENDIX: BBP PORTFOLIO

<u>Assets</u>	<u>Region</u>	<u>Fuel</u>	<u>Capacity (MW)⁽¹⁾</u>	<u>Operating Mode</u>	<u>Equity Ownership⁽²⁾</u>
Operating Power Stations					
Oakey	QLD	Gas	320	Peak	50%
Braemar	QLD	Gas	507	Intermediate	100%
Redbank	NSW	Coal	151	Baseload	100%
Flinders – Northern	SA	Coal	540	Baseload	100%
Flinders – Playford	SA	Coal	240	Intermediate	
Port Hedland	WA	Gas	213	Intermediate	100%
Newman	WA	Gas	128	Intermediate	100%
Bairnsdale	VIC	Gas	94	Peak	
Glenbrook	NZ	Gas	112	Baseload	
Cawse	WA	Gas	22	Baseload	
Pinjarra	WA	Gas	280	Baseload	100%
Wagerup	WA	Gas	380	Peak	100%

⁽¹⁾ Capacity (MW) is consistent with the definitions used by the Electrical Supply Association of Australia (ESAA). Gas turbines installed capacity constitutes gross installed capacity with reference to ISO name plates; Gas turbine capacity factors are with reference to site/design conditions - sent out. Steam turbines installed capacity constitutes gross installed capacity at design conditions; steam turbine capacity factors are with reference to site/design conditions - sent out.

⁽²⁾ Direct and indirect equity interest

APPENDIX: BBP PORTFOLIO

<u>Assets</u>	<u>Region</u>	<u>Fuel</u>	<u>Capacity (MW)⁽¹⁾</u>	<u>Operating Mode</u>	<u>Equity Ownership⁽²⁾</u>
Under Construction					
NewGen Kwinana	WA	Gas	320	Baseload	70%
Neerabup	WA	Gas	330	Peak	50%

<u>Assets</u>	<u>Region</u>	<u>Ownership</u>	<u>Description</u>
Wesfarmers (LPG)	WA	N/A	Contract with Wesfarmers to supply Gas to its LPG plant in Kwinana WA
Goldfield Gas Pipeline	WA	11.8%	Natural gas pipeline supplying the Newman power station, the Pilbara iron ore mines and the Kalgoorlie mining region in WA
Alinta	WA	100%	Retailer of natural gas and electricity in WA

⁽¹⁾ Capacity (MW) is consistent with the definitions used by the Electrical Supply Association of Australia (ESAA). Gas turbines installed capacity constitutes gross installed capacity with reference to ISO name plates; Gas turbine capacity factors are with reference to site/design conditions - sent out. Steam turbines installed capacity constitutes gross installed capacity at design conditions; steam turbine capacity factors are with reference to site/design conditions - sent out.

⁽²⁾ Direct and indirect equity interest

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