

BABCOCK & BROWN POWER

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28 August 2009

BBP ANNOUNCES FULL YEAR 2009 RESULT

Babcock & Brown Power (ASX: BBP) has today announced its full year results for the year ended 30 June 2009.

BBP achieved the following results:

- Statutory EBITDA of \$325 million vs FY08 Statutory EBITDA of \$331 million
- Normalised EBITDA of \$262 million vs FY08 Normalised EBITDA of \$342 million
- Asset impairment \$56.7 million
- Debt including Project Debt decreased by \$1.4 billion to \$3.2 billion
- BBPF Debt and Babcock & Brown Bank Syndicate Group debt negotiations are ongoing and well advanced

FY09 Results

Total revenue for the FY09 year was \$1,534 million, an increase of 0.4% on the prior year while normalised earnings before interest, tax, depreciation and amortisation (EBITDA) decreased 23% to \$262 million. The normalised EBITDA result is consistent with the recent guidance provided to the market of between \$260 – 270 million. EBITDA in FY09 was materially impacted by weak wholesale energy prices across all regions of Australia where BBP operates as well as by a number of unplanned outages which led to a fall in the contribution from merchant generation.

BBP has provided both Statutory and Normalised EBITDA figures for the FY09 year. The principal adjustments to Statutory EBITDA include an increase to provisions for onerous contracts of c.\$120 million, the release of provisions resulting from the disposal of Alinta EATM and the Flinders Osborne Trading contracts, a combined release of \$167 million, and a number of other smaller one off adjustments totalling \$17 million.

BBP also announces that it has taken a total non cash impairment charge for FY09 of \$56.7 million. The impairment charge has been recognised against the value of Alinta goodwill (\$50.0 million) as well as software development assets held in BBP's service company (\$6.7 million).

In addition, BBP reduced debt (including Project Debt and corporate facilities) by close to 30% from \$4.6 billion to \$3.2 billion. This was achieved primarily through the sale of power station assets including Ecogen, Uranquinty, Kwinana, Neerabup and Tamar Valley.

Mr Ross Rolfe, AO, Managing Director said, "2009 has been a very challenging year for BBP. We have endeavoured to focus on the key issues that have faced the business throughout the year: our capital structure, operational challenges, and our historic relationship with the Babcock & Brown Group. Earnings were disappointing in 2009 due to a combination of operational issues coupled with milder than expected weather and weak economic conditions leading to lower demand. Despite the disappointing earnings performance, we believe that we are making good progress in addressing the key issues faced by the business."

Capital Structure & Management Agreement

BBP continues to progress its discussions with its financiers, including the B&B Banking Syndicate, around broadly acceptable principles and parameters with a view to restructuring BBP's debt facilities.

While the management agreement with Babcock & Brown has not yet been terminated, Babcock & Brown has had no board representation since December 2008. All staff working for BBP have been employed by BBP since January 2009.

At this stage, BBP expects to be able to provide further clarity around the longer term capital structure of the business, and the terms of the finalisation of the relationship with the Babcock & Brown Group, at, or before, the Annual General Meeting which is scheduled to be held in Sydney on 30 November 2009.

The Chairman, Mr Len Gill, said "Looking forward to 2010, BBP will continue to focus on improving the stability of earnings from its operating assets as well as finalising establishment of an acceptable debt structure.

We appreciate the ongoing support of all of our stakeholders, and in particular our securityholders and staff, as we continue to address the challenging tasks facing BBP."

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.

The portfolio has interests in 12 operating power stations representing approximately 2,800MW¹ of installed generation capacity. BBP has interests in a number of other associated power assets including the WA retail assets Alinta.

¹ Some assets have minority shareholders.

BBP
2009 Full Year Result
For the year ended 30 June 2009

28 August 2009

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AGENDA



Group Overview

Ross Rolfe, CEO

- Financial Overview
- Key Challenges in FY09
- Key Events in FY09
- Update on Capital Restructure
- Work-through Update
- Babcock & Brown – Management Agreement
- FY09 Performance Review
- CPRS Update
- Business Outlook
- Key Dates



Group financials

Peter Brook, CFO

FINANCIAL OVERVIEW

- **Modest decline in statutory EBITDA**
 - Statutory EBITDA fell by 2% in FY09 to \$325 million from \$331 million in FY08
 - The result included a number of one-off items such as the release of provisions following the AEATM¹ and FOT² sales and the increase in provision for Alinta onerous contracts as well as a non cash impairment
- **Adverse operating conditions resulted in a 23% fall in normalised EBITDA**
 - Normalised EBITDA fell in FY09 by 23.4% to \$262 million from \$342 million in FY08
 - Key factors contributing to this decline were lower prices and reduced sales, combine with unplanned outages at Flinders
- **Key Financing Considerations**
 - BBPF Facility currently in cash lock up
 - No Event of Default – June ICR lowered to 1.1x
 - Removal of the Review Event relating to the 2nd Investment Grade credit rating
 - Debt restructure expected to have new financial covenants and terms
 - BBP’s debt has been classified as current

12 months to June	2009	2008	Change (%)
Revenue	1,534	1,527	0.4%
Statutory EBITDA	325	331	2.0%
Normalised EBITDA	262	342	(23.4%)
PBT	(244)	(384)	-

KEY CHALLENGES IN 2009

CAPITAL STRUCTURE

- **Sales Process**
 - Exhaustive process run across past 12 months
- **Over \$1bn debt paydown in FY09**
 - Uranquinty, Ecogen, Tamar Valley, Neerabup, Kwinana
 - Tamar Construction facility repaid via sale of asset
 - BBPH repaid in March '09 following asset sales
- **B&B Bank Syndicate Loan**
 - Extended in February, negotiations well underway
- **BBPF Restructure**
 - Negotiations with F Bank Syndicate are well underway

EARNINGS & CASH

STABILITY

- **Improvements to cash flows**
 - Sale of AEATM to Aurora Energy,
 - Sale of Flinders Osborne Trading to Origin Energy
- **Identification of opportunities to stabilise earnings and cash flows**
 - Olympic Dam PPA (105MW, two-year contract)
 - Newman expansion

BABCOCK & BROWN

RELATIONSHIP

- **Governance**
 - Independent Chairman
 - Majority independent directors
 - No B&B nominees post December
- **Management Changes**
 - New CEO & CFO
 - Formal changes to Management Agreement
 - Full legal separation expected no later than closing of B&B Bank Syndicate loan restructure without cost to security holders

KEY EVENTS IN FY09

1H09

JULY

- **Uranquinty Sale:** gross proceeds of \$700m
- **Ecogen Divestment:** 73% equity interest sold
- Independent Chairman appointed

AUGUST

- **Tamar Sale:** \$100m proceeds – used to repay construction facility
- **UBS appointment:** to undertake strategic review
- **FY08 results:** Ross Rolfe appointed CEO, \$452m impairment, FY09 EBITDA guidance set at \$350-\$360m

SEPTEMBER

- **Tamar Financial Close**

OCTOBER

- **Management Agreement changes announced:** board composition; employees; and fees
- **UBS Strategic Review Findings:** over-gearred; distribution suspension
- **NWS Arbitration:** subpoena process commenced

NOVEMBER

- **AGM:** \$350-\$360m EBITDA guidance maintained
- **Kwinana & Neerabup sales announced:** gross proceeds of \$130m expected

DECEMBER

- **EBITDA guidance revision** - lowered to \$330-\$340m: due to Kwinana & Neerabup sales
- **Indicative offers received:** Number of non-binding indicative offers received for defined portfolios and the whole of business

2H09

JANUARY

- **AEATM Sale announced:** Proceeds of \$15m; release of working cap and L/C of \$10m

FEBRUARY

- **Neerabup Financial Close:** \$43.3m LC returned to B&B
- **EBITDA guidance revision** - lowered to \$315-\$325: AEATM provision release; ERMPI dividend; weak SA & QLD prices; Playford outage; WA gas demand & power prices
- **B&B debt extension:** extended to March 2010

MARCH

- **Financial Close of Kwinana:** \$50 million proceeds; \$13.2 million deferred.
- **B&B Group ceases to be a substantial shareholder**
- **Financial Close of AEATM**
- **BBPH Fully Repaid:** proceeds from Kwinana utilised to fully repay BBPH debt

APRIL

- **Trading Halt**
- **Suspension**
- **EBITDA guidance revision** to \$405-\$415m (\$260-270m underlying: FOT; mild weather and low prices in NEM & WA)
- **Agreement to novate FOT contracts:** release of \$125m onerous contract
- **Suspension Lifted & Debt restructuring announced**

MAY

- **GPG becomes substantial shareholder:** 10.63%
- **Olympic Dam Contract:** 105MW, two-year contract with BHP
- **WA Gas Tariff:** 22.9% increase announced for residential and small customers
- **Fitch Downgrade to BBPF rating**

JUNE

UPDATE ON CAPITAL RESTRUCTURE

- **Comprehensive sale process conducted by UBS**
 - Some parties remain engaged
- **Challenges for bidders**
 - Illiquid debt markets
 - Uncertainty regarding Babcock & Brown – debt and management agreement
 - Deteriorating short-term earnings outlook for BBP
 - Outstanding operational issues with respect to gas supply and pricing
 - CPRS uncertainty
- **Work-through has been substantially advanced**
 - Announcement made at the 1H09 results that the 'longer term work-through' option was being considered
 - Work on this option has been progressed actively since that point

WORK-THROUGH UPDATE

- **BBPF SYNDICATE**

- **Due Diligence** Substantially complete
- **Term Sheet** Negotiations continue around broadly acceptable principles and parameters for both parties
- **Credit Process** 2/3 weeks- offshore credit committees
- **Expected Approval** End September 2009
- **Expected Announcement** Terms to be disclosed once Credit Approval process complete
- **Expected Financial Close** Subject to documents and conclusion of B&B Bank Syndicate Loan Restructure, but likely to be October 2009

- **B&B BANK SYNDICATE**

- **Commercial Principle for Restructure** Proposition to be considered by B&B Bank Syndicate
- **Approval Process** 2 weeks for B&B Bank Syndicate – 2/3 majority approval required
AGM Approval by BBP Security holders expected
- **Expected Announcement** Terms to be disclosed once approval received from B&B Bank Syndicate and its lenders
- **Expected Financial Close** Post BBP AGM (30 November 2009)

- *Should re-negotiations prove unsuccessful, both the BBPF Syndicate and the B&B Bank Syndicate have rights to accelerate their loans*

BABCOCK & BROWN – MANAGEMENT AGREEMENT

- **Substantive Termination**

- Since December 2008 B&B has not had any involvement in the Board or management of BBP

- **Legal Termination**

- Termination expected no later than coincident with B&B Bank Syndicate loan restructure – at no cost
- New Name – to be voted on at AGM
- Move from Chifley Tower in early September 2009

FY09 PERFORMANCE REVIEW

- **CONTRACTED ASSETS**

- Performed in line with expectations with the exception of Redbank that experienced an extended unplanned outage in Q1 of this year

- **FLINDERS**

- **Price Variance** – average market prices in FY09 were broadly in line with expectations; however, due to forced outages plant was unavailable during a number of peak price periods in Q1 (calendar).
- **Production Variance** – a series of unplanned outages at both Northern and Playford resulted in total output for FY09 being below budgeted levels

- **BRAEMAR**

- **Price Variance** – very low demand in QLD for most of FY09 resulted in wholesale prices averaging well below expectations. Average prices in FY09 were over 35% lower than FY08.
- **Inflexible Gas Supply Contracts** – limited BBP's ability to effectively manage lower prices

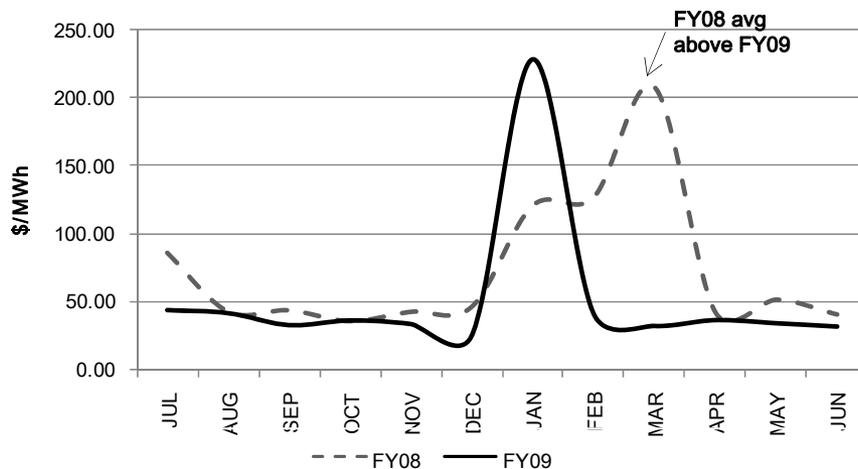
- **ALINTA**

- **Electricity Business** – weaker than expected industrial demand led to downward pressure on prices, which was exacerbated by higher churn than expected in the Commercial and Industrial segment
- **Gas Business** – lower than expected demand resulted in weaker than expected performance for FY09 and the one-off impact of the Varanus Island outage

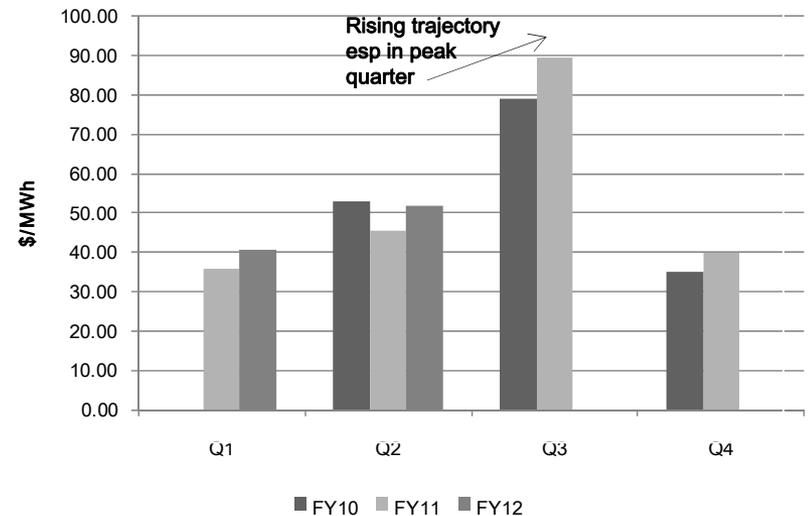
SA WHOLESALE PRICES

- **Average prices sharply down in FY09** – prices over the past financial year were, on average¹, 30% below the level in FY08
- **Adverse timing of unplanned outages** – both Playford and Northern were forced offline during high price events in January
- **Forward curve on an upward trajectory** – average forward prices are rising on annual basis across the course of the next four years; however, liquidity beyond FY11 in the contract and OTC is very limited due to CPRS-related uncertainty
- **Hedging Levels** – historically have been at 70%. Current hedging strategy is assisting with the low pool prices being experienced in the market.

SA: FY08 and FY09 Historic Prices



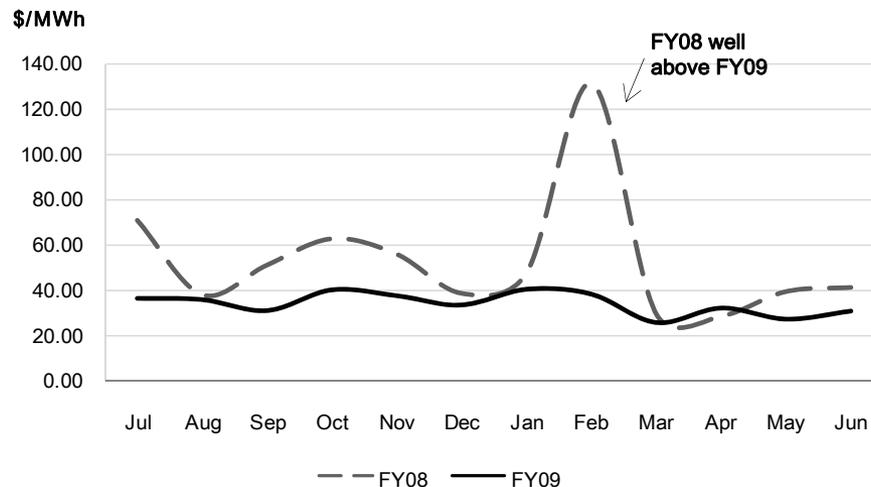
SA: Forward prices² – FY10 to FY12



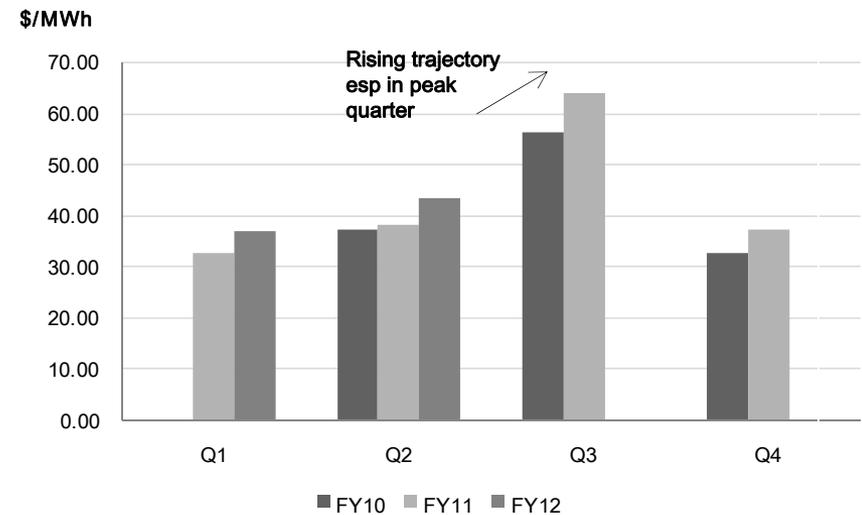
QLD WHOLESALE PRICES

- **Average prices sharply down in FY09** – prices over the past financial year were, on average¹, 36% below the level in FY08.
- **Forward curve on an upward trajectory** – average forward prices are rising on annual basis across the course of the next four years; however, liquidity beyond FY11 is very limited due to CPRS-related uncertainty

QLD: FY08 and FY09 Historic Prices



QLD: Forward prices² – FY10 to FY12



ALINTA - GAS

- **Gas Supply**

- Significantly reduced through FY09 due to Varanus Island incident
- Some replacement supply obtained, but at higher cost
- NWS arbitration process commenced during FY09

- **Residential**

- FY09 saw an uplift in tariff rates of c.9%¹
- Customer consumption for FY09 was lower than budget due to mild weather
- In June the WA Government announced a tariff increase of 22.9% for the residential segment

- **Commercial & Industrial Customers**

- Gas sales volumes in C&I segment were down significantly in FY09
- The principal drivers of this decline were the ongoing impact of Varanus Island and the impact of the global economic downturn

- **SME Customers**

- FY09 saw an uplift in business tariff rates of 5.6%¹
- Revenue was impacted by a drop in business demand and warmer weather
- Alinta recontracted over 98% of its small gas use contracted customers who were eligible for renewal in FY09.

- **AELPG**

- FY09 actual Saudi Prices lower than expected resulting in earnings being below forecast

ALINTA - ELECTRICITY

- **Commercial & Industrial Customers**
 - Marginal decline in FY09 Contract Sales Volume
 - Customer sales down due to a combination of churn and weak economic conditions
- **Market Sales of Generation Output**
 - Output not sold to Alinta's C&I customers is sold into the WA Balancing Market & STEM
 - Alinta had a partial reduction in generation capacity in FY09 and therefore lower sales volume into the balancing market and STEM than forecast
 - Forecast revenue was not only impacted by lower volume, but also softer prices in the balancing market and STEM
 - One of the major drivers for the softer prices was lower electricity demand across the SWIS

CPRS UPDATE

- **Changes to proposed legislation announced in May**
 - Start date delayed by one-year to July 2011
 - Price of carbon to be fixed at \$10/t for first year of scheme
 - The Senate voted down this proposal in August
- **Key outstanding issues**
 - Compensation available to generators
 - Target reduction level by 2020
 - Results of Moran Review
- **Opportunities & Risks**
 - BBP has a relatively high proportion of gas plant and ability to pass through costs and carbon under most existing contracts
 - Northern and Playford most exposed
 - BBP is forming and executing a strategy to ensure its well placed to operate under CPRS, including optimising transition assistance and conversion of plant to lower emitting fuels such as biomass

BUSINESS OUTLOOK

- **Establishing a more sustainable capital structure for the business**
 - Expectation that a restructure will allow BBP to work through the current challenges posed at an operational and economic environment level
 - Restructuring of the BBPF and Babcock & Brown debt facilities

- **Stability of earnings and cash**
 - Flinders
 - Strong cash flow in the short term
 - CPRS support in the medium term
 - Alinta
 - Strong cash flow post 2012 as onerous contracts roll off
 - Industrial and commercial customers recontracted at market rates with a focus on margin
 - Manage gas supply and price risks
 - PPA
 - Strong reliable cash contribution
 - Newman expansion and resultant increased contribution to earnings



KEY DATES

SEPTEMBER

- BBPF Debt Restructure
- B&B Bank Syndicate Loan Restructure
- Signing of accounts post Audit

OCTOBER

- Release of Annual Report

NOVEMBER

- AGM
- Provision of guidance for FY10

AGENDA



Group Overview

Ross Rolfe, CEO



Group financials

Peter Brook, CFO



FINANCIAL SUMMARY

Normalised EBITDA declined by 23%

- Rising costs in WA offset the benefit of higher tariff revenue
- Weak wholesale prices and unplanned outages led to a fall in merchant generation EBITDA
- **NPAT loss diminished**
 - Higher net finance costs offset by lower non-operating adjustments and tax benefit

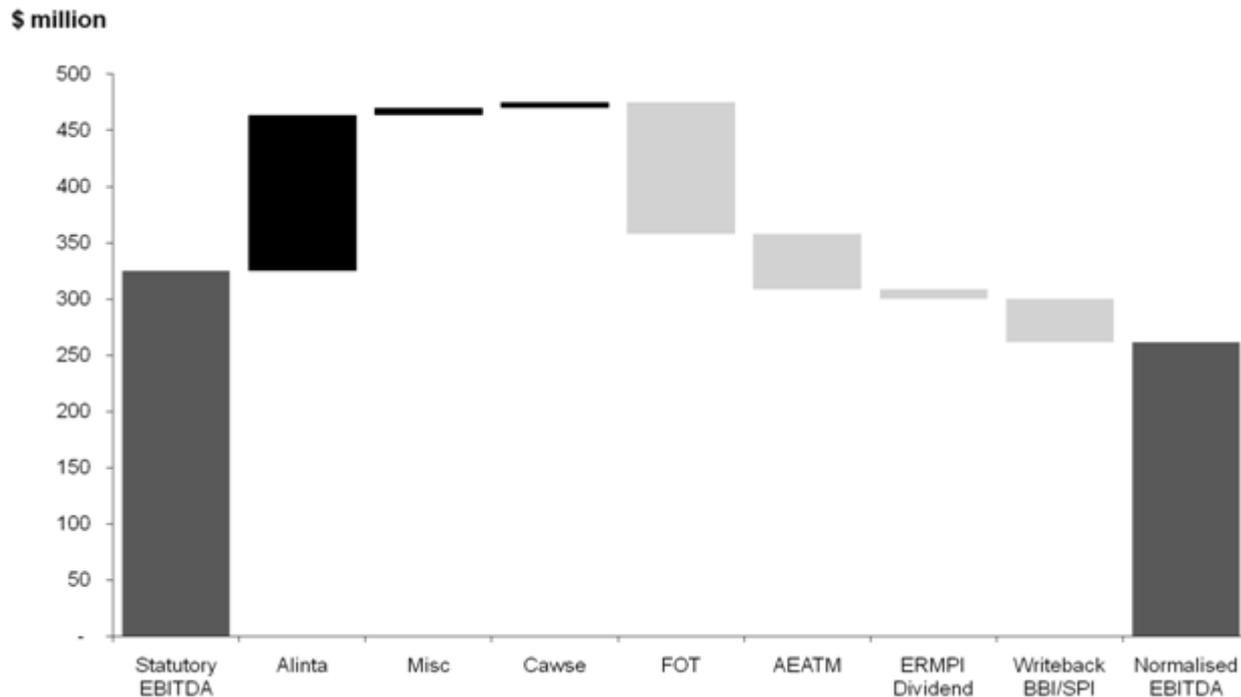
Year ending June	2009	2008	Change
Revenue from ordinary activities	1,534	1,527	0.4%
Statutory EBITDA	325	331	-2.0%
Segmental EBITDA			
Power Generation	171	237	-27.8%
Energy Markets	119	136	-12.8%
Associates	2	5	-56.8%
Corporate & Unallocated	-30	-36	-17.1%
Normalised EBITDA	262	342	-23.4%
Net Finance Costs	-357	-202	76.4%
Non Operating Adjustments	-108	-369	n/a
Income Tax	95	-43	n/a
NPAT	-149	-427	n/a



NORMALISED EBITDA CONTRIBUTION

- **Alinta** – adjusted for the impact of onerous contract and other provisions, as well as for the ongoing impact of Varanus Island
- **FOT & AEATM** –disposal of the AEATM and FOT onerous contracts resulted in substantial provision releases in FY09

BBP: Statutory to Normalised EBITDA

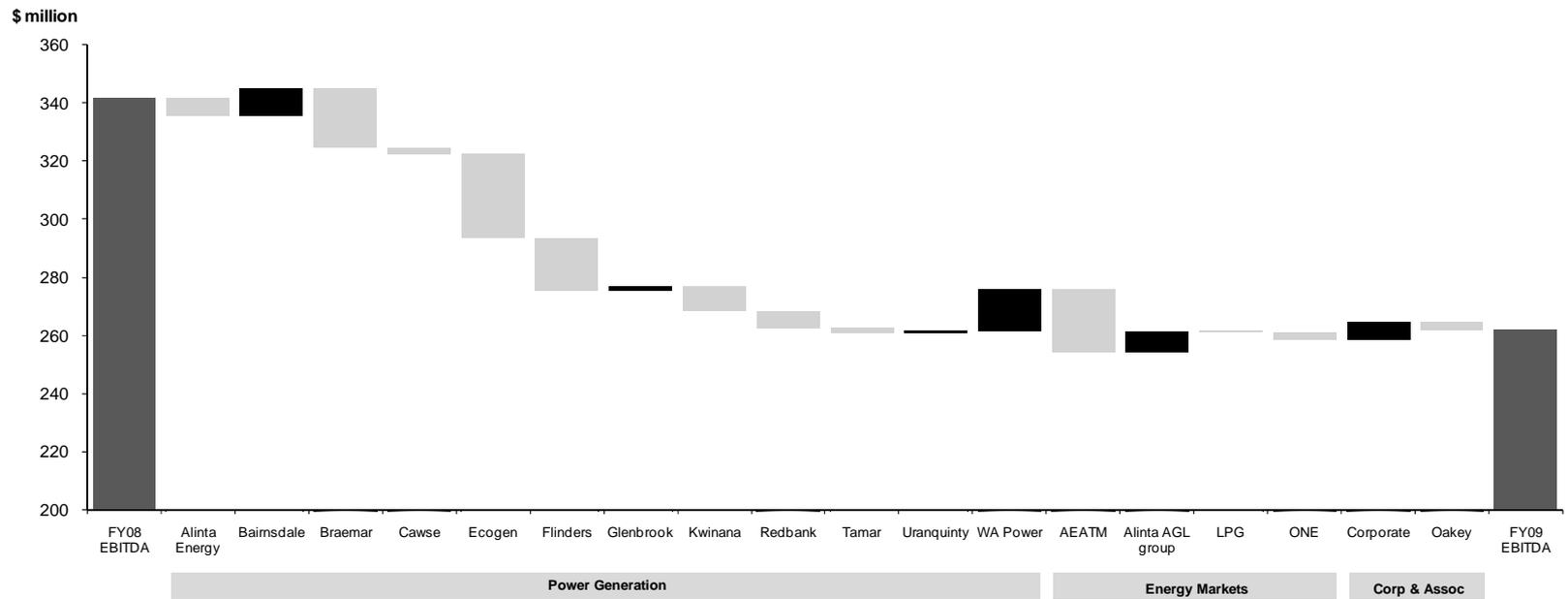




EBITDA WALK – FY08 TO FY09

- **Power Generation** – generally weak prices across the NEM led to a decline in EBITDA from Flinders and Braemar, which was partially offset by the Newman expansion and an uplift at Bairnsdale resulting from improved tolling arrangements
- **Energy Markets** – Alinta’s operating performance declined due to weaker demand in both the gas and electricity businesses
- **Corporate** – reduction in asset management fees and some centralisation of shared services

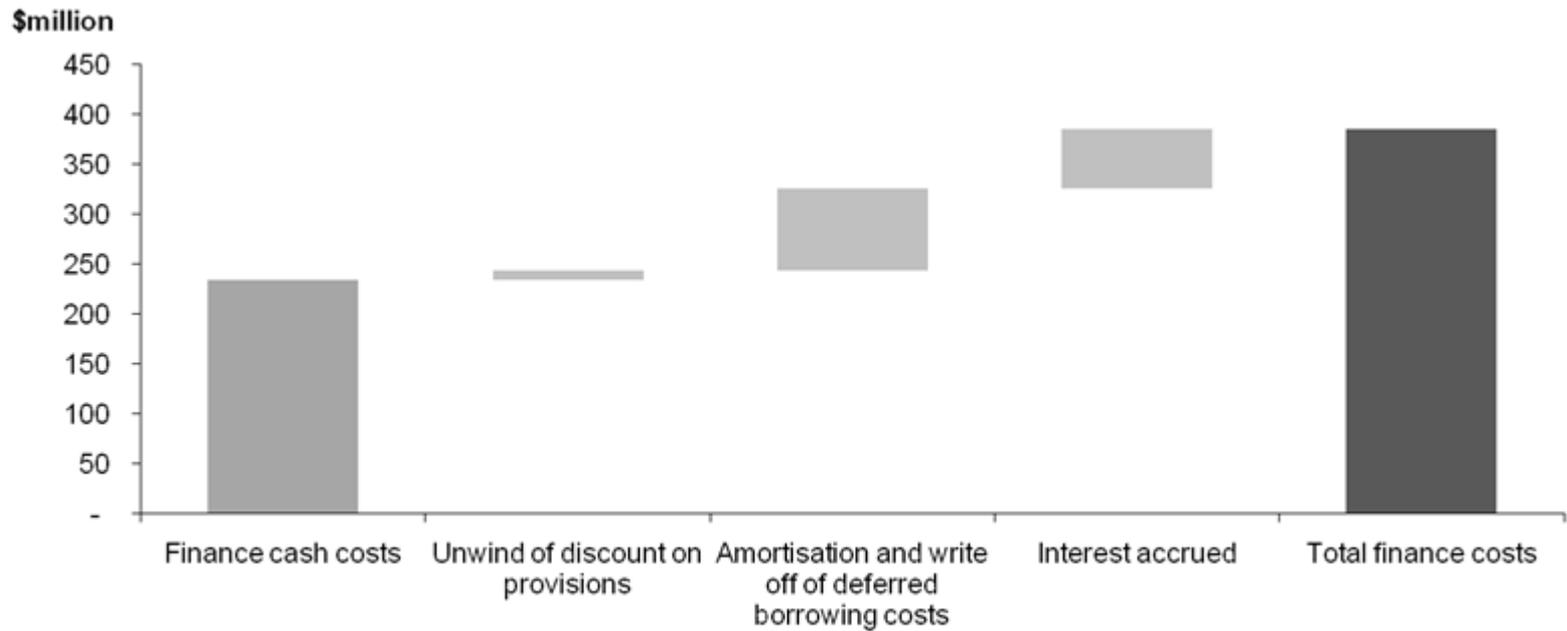
BBP: EBITDA walk – FY08 to FY09





FINANCE COSTS

BBP: Composition of FY09 Finance Costs

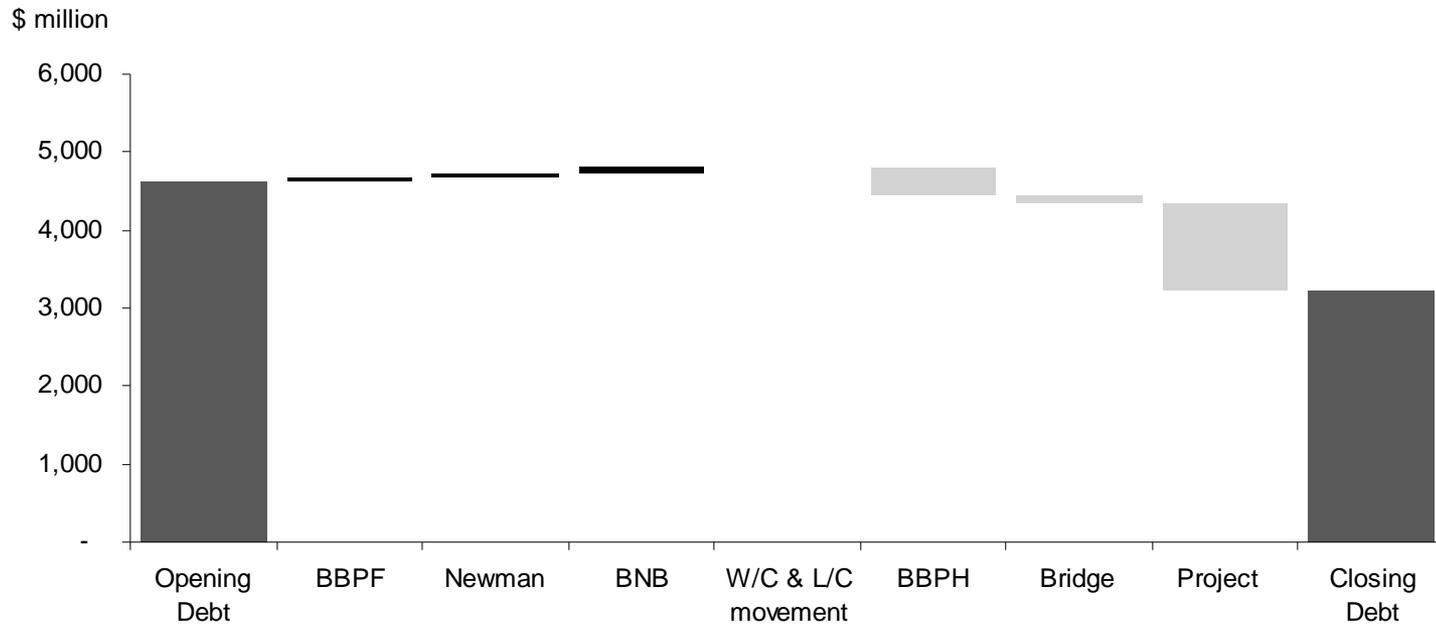




MOVEMENT IN DEBT

- Repayments – Corporate Facilities ~\$0.3 billion
- Transfers – Project debt transferred ~\$1.1 billion

BBP: FY09 Movement in Debt





DEBT FACILITIES

- **Considerable reduction in debt in FY09**
 - over \$1.4bn of debt was repaid via asset sales and operating cash flows
- **Newman Expansion**
 - the Newman expansion was largely complete at the end of FY09. Outstanding amounts to complete the expansion are now largely deployed and amount to ~\$15.4m
- **Current Debt**
 - BBPF and B&B Loans current for balance sheet as at 30 June 2009 because no unilateral right to avoid repayment in FY10. However, comprehensive, positive restructure negotiations underway

BBP: Debt Exposures as at 30 June, 2009

Debt Balances (\$m)	As at 30/06/09
BBPF	
Tranche A	1,600
Tranche B	877
Newman	54
Working Capital Facility	10
Letter of Credit Facility	38
Total BBPF	2,579
Other	
BBPH	0
Babcock & Brown	398
Project Debt - Redbank	246
Total Other	644
Debt as at 30/06/09	3,223



IMPAIRMENT

- Current year Impairment - \$57m

BBP: Impairment

	Goodwill	Development	Licences	Customer Base	Other	Total
Accumulated amortisation and impairment - 2008	(410)	(3)	(8)	(27)	(0)	(449)
Net book value - 2008	1,572	83	82	370	224	2,332
Impairment - 2009	(50)		(7)			(57)
Amortisation - 2009			(5)	(50)	(0)	(55)
Changes due to accounting adjustments	35		11	60	(141)	(35)
Disposals	(46)		(18)			(64)
Reclassifications		(83)		(2)	2	(83)
Other adjustments	(9)					(9)
Net book value - 2009	1,502	0	63	378	86	2,028

CAPITAL EXPENDITURE

- **Assets sold** – \$151.6 million was expensed on assets prior to sale.
- **Other** – includes Newman expansion (debt funded in WA Power) and day to day O&M capital.

BBP: Capital Expenditure

