BABCOCK & BROWN

Babcock & Brown Limited · ABN 53 108 614 955
Level 23 The Chifley Tower · 2 Chifley Square · Sydney NSW 2000 Australia
T +61 2 9229 1800 · F +61 2 9231 5619 · www.babcockbrown.com

ASX Release

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REVISED BUSINESS PLAN AND RESTRUCTURE OF CORPORATE DEBT FACILITIES

Babcock & Brown (ASX: BNB) today advises that it has reached agreement with its banking syndicate on a restructure of its corporate debt facilities and a revised business plan which will facilitate the reduction of those facilities.

The key points of the agreement and revised business plan are:

- A management-controlled program, led by CEO Michael Larkin and the current senior management team, to sell down assets in an orderly fashion over a 2-3 year time horizon to reduce debt.

- A restructure of Babcock & Brown's existing corporate debt facilities, with all interest payments and approximately A$2.12 billion of principal repayments to be on a "Pay If You Can" basis.

Business Plan

The revised business plan provides for a management-controlled program to sell down assets owned by Babcock & Brown across all asset classes to reduce the level of bank debt. The revised plan allows for an orderly asset sale process over a 2-3 year time horizon, so as to avoid an immediate forced sale of assets in the current market environment. Surplus cash proceeds realised from the asset disposal program, over and above the amount required to continue operating the business (including all statutory and contractual entitlements and redundancy payments for employees in accordance with the Company's current policy), will be applied to reduce the corporate debt facilities.

Restructured Corporate Debt Facilities

The agreement with Babcock & Brown's banking syndicate provides for the A$150 million short term facility entered into in December 2008 and the existing A$2.8 billion and US$200 million corporate facilities to continue, but with a restructuring of these facilities, including changes to the repayment dates. Under these arrangements:

- The existing A$150 million senior bullet term loan plus accrued interest (at BBSY + 6%) is repayable on 30 September 2009.
- The other corporate debt facilities are subject to the following repayment schedule:
  - 31-Dec-2009 A$200 million
  - 30-Jun-2010 A$250 million
  - 31-Dec-2010 A$250 million
  - 30-Apr-2011 A$344 million and accrued interest (at BBSY + 3.5%) on the above amounts.
- The remaining balance of approximately A$2.12 billion on the other corporate debt facilities will be repayable 9 years and 6 months after the restructure date i.e. mid 2018, but only to the extent of realisation of assets.
- No interest accrues on the remaining balance of A$2.12 billion, however a restructuring fee of 20% pa is payable on the remaining balance of the facilities if and when they are repaid.

All interest payments and the restructuring fee are on a "Pay If You Can" basis.

The review events in the existing corporate debt facilities will cease to apply. The only financial covenant will be a debt coverage ratio requiring the net assets of the Company (disregarding certain debts, including the newly restructured facilities and the amount owing on the Company's subordinated notes) to exceed the amount outstanding under the existing senior bullet term loan and the amounts due for repayment on or before 30 April 2011.

The Company is required to operate under expenditure parameters agreed to by the banking syndicate, and cannot make interest or principal payments in respect of the subordinated notes while the corporate debt facilities remain outstanding.

Management

The Babcock & Brown senior management team, led by the CEO, will be charged with the responsibility of delivering on the new business plan.

The management team will focus primarily on:

- Ensuring that all assets and businesses continue to be managed appropriately and that all legal commitments and regulatory requirements are met;
- Preserving the value of assets and business platforms;
- Ensuring that value is maximised through the asset divestment process within the terms of the newly restructured facility and in light of the current market environment;
- Reducing our costs; and
- Using their best efforts to treat all employees consistently in terms of paying employee entitlements and redundancy payments.

Appropriate asset sale protocols will be in place to support the maximisation of proceeds from the sale of assets.

Elizabeth Nosworthy, Chairman of Babcock & Brown said, “Implementation of this restructure and Business Plan is dependent on having an appropriate management team. I appreciate the efforts of the other Board members, the leadership team and employees of Babcock & Brown who, in having chosen to remain with Babcock & Brown through this difficult period, give Babcock & Brown the best chance to reduce the level of its outstanding bank debt.

“Remuneration arrangements have been agreed for a core group of employees across the Company, including support areas, that are expected to remain with the Company for an extended period of time to implement the Business Plan. These arrangements focus on managing the businesses and assets, meeting regulatory and contractual obligations and maximising the value of the asset and business sale component of the plan.

“As a consequence of the revised business plan the Company is recommencing the redundancy program which started in the second half of 2008. However as many of our employees are integral to the ongoing operation, management and sale of our businesses and assets they will continue to be employed until such time as sales occur. We anticipate that as sales are completed many of these employees may have the opportunity to continue employment with the acquiring company.”

Outlook

Babcock & Brown’s reported earnings going forward will be volatile and significantly affected by the timing of asset sales and the prices achieved for those sales.

As announced to the market on 23 January 2009, the Babcock & Brown Board believes that there will be no value for equity holders and no or negligible value for holders of the Company's subordinated notes after it has implemented the revised business plan. The Board also does not believe that Babcock & Brown will be in a position to resume paying interest on the subordinated notes or dividends on its shares.

Having reached an agreement with the banking syndicate with respect to the restructure of the corporate debt, the Board is now considering the position in relation to the subordinated notes.

A Delisting Event (triggering requirements which would ultimately lead to note holders becoming entitled to request repayment) occurs under the notes if Babcock & Brown Limited ordinary shares are suspended from trading on ASX for a period of 20 consecutive business days. The ordinary shares have been in trading halt for two business days and suspended for a further 18 business days. Babcock & Brown is considering the implications of this and also a possible restructure of the subordinated notes. Any restructuring proposal relating to the notes will be subject to special resolutions to be put to holders of the notes issued in Australia and the holders of notes issued in New Zealand and the restructuring being able to be implemented by 15 March 2009, the next interest payment date for the New Zealand notes. No assurance can be given that a restructuring will be achievable.

In the absence of the restructuring of the subordinated notes taking place it is likely that Babcock & Brown Limited, the listed entity, will be placed in administration within the coming weeks. If that occurs, it is also likely that the shares of Babcock & Brown Limited will be delisted from the ASX. An administration of Babcock & Brown Limited, if that occurs, will not affect the solvency of Babcock & Brown International Pty Ltd, the primary operating company in the Babcock & Brown Group and borrower of the corporate debt. It will continue to operate and implement the revised business plan, including the asset sale program as outlined.

Babcock & Brown proposes to seek continued suspension of its shares and subordinated notes at least until details of the position in relation to the subordinated notes is able to be announced.

The Board and Management deeply regret the loss of shareholder and subordinated note holder value and acknowledge the financial hardship this has caused investors. The Board and Management are aware that this loss has also been shared by many Babcock & Brown employees, who are also collectively significant shareholders and who now also face an uncertain period of employment.

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For further information please contact:
Kelly Hibbins
Babcock & Brown
+61 2 9229 1800
kelly.hibbins@babcockbrown.com

For further information about Babcock & Brown please see our website: www.babcockbrown.com