

## BABCOCK & BROWN ENVIRONMENTAL INVESTMENTS

Babcock & Brown Environmental Investments Limited · ABN 77 074 226 065  
Level 23 The Chifley Tower · 2 Chifley Square · Sydney NSW 2000 Australia  
T +61 2 9229 1800 · F +61 2 9216 1711 · www.bbeil.com.au



### ASX Release

22 February 2008

#### **BEI ANNOUNCES INTERIM RESULTS FOR SIX MONTHS TO 31 DECEMBER 2007**

Babcock & Brown Environmental Investments Limited (ASX: BEI) announced a net loss after tax for the six months to 31 December 2007 of \$55.5 million. The result was impacted by a significant write-down in relation to BEI's investment in and loan to Natural Fuels Australia Limited (NFAL) and other write downs in respect of Denco and Southern Oil.

Mr Gary Levin, Chief Executive Officer of BEI, said "As foreshadowed in the Target's Statement dated 21 December 2007, a review of the carrying value of BEI's investment in and loan to NFAL has been undertaken. As a result of the review a write-down in the carrying value of the investment and loan was required."

Following is an update in relation to BEI's operations for the six months to 31 December 2007:

##### *Denco*

As set out in the Target's Statement, there are a number of issues affecting the profitability of the US ethanol industry and as a result of the unfavourable market conditions, Denco has operated over the last six months at slightly in excess of EBITDA breakeven and continues to do so.

##### *Southern Oil*

The Target's Statement set out anticipated earnings guidance in respect of Southern Oil. Due to the unexpected ongoing market volatility, Southern Oil is currently expected to achieve a significantly lower EBITDA for the full year than previously anticipated.

##### *Natural Fuels Australia*

BEI owns 50% of NFAL which owns the biodiesel plant in Darwin. Ongoing work is being carried out by Lurgi (NFAL's technology provider) to address the issues referred to in the Target's Statement, however the installation of the centrifuge in Darwin has still not provided the solution anticipated by Lurgi. It is not known when the plant will run efficiently and at full capacity.

Discussions are continuing with Lurgi to try to resolve outstanding contractual and other issues.

## BABCOCK & BROWN ENVIRONMENTAL INVESTMENTS

The price of palm olein, the principal feedstock for the Natural Fuels Darwin's biodiesel plant in Darwin, is currently over US\$1,100 per tonne, a price at which it is currently uneconomic to produce biodiesel.

As stated in the Target's Statement, NFAL is currently dependent on the ongoing support of its shareholders and will require additional funding in order to finalise commissioning and to continue as a going concern until biodiesel economics improve.

### **Takeover Offer**

As at 22 February 2008, Babcock & Brown has disclosed that it has received acceptances for 73.21% of the shares in BEI.

As there has not been a superior proposal to the Babcock & Brown offer and for the reasons set out in section 2 of the Target's Statement, the independent directors maintain their recommendation that shareholders accept the offer. In the event that the Babcock & Brown offer is not successful, absent a material change in the businesses, BEI will need to raise capital and / or sell assets. It is the current intention of BEI's major shareholder, Babcock & Brown to provide financial support in the short term.

**ENDS**

# BABCOCK & BROWN ENVIRONMENTAL INVESTMENTS LIMITED

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## Appendix 4D Half Year Report

### 1. Details of the reporting period

Current Period: 1 July 2007 – 31 December 2007

Previous Corresponding Period: 1 July 2006 – 31 December 2006

### 2. Results for announcement to the market

	31-Dec-07	31-Dec-06	Change
	\$A'000	\$A'000	%
2.1 Revenues from ordinary activities	42,187	47,919	(12%)
2.2 Profit/(Loss) from ordinary activities	(55,518)	1,830	(3134%)
2.3 Net Profit/(Loss) for the period attributable to members	(55,518)	1,830	(3134%)
2.4 Distributions			
No dividends have been declared or paid during the current year or the previous year.			
2.5 Record date for determining entitlements to the interim distribution	N/A		
2.6 Provide a brief explanation of any of the figures reported above necessary to enable the figures to be understood:			
Refer to the attached Director's report – review of operations.			

### 3. Net tangible asset backing per share

Net tangible asset per share \$0.41 (2006: \$0.97).

### 4. Control gained or lost over entities during the period

Refer to the attached financial statements Note 2(c) Basis of consolidation.

Name of entity	EarthPower Technologies Sydney Pty Ltd
Date control disposed	21 August 2007
Name of entity	EarthPower Holdings Pty Ltd
Date control disposed	21 August 2007
Name of entity	BEI Developments Pty Ltd
Date control disposed	21 August 2007

Refer to the attached financial statements.

**5. Details of distributions**

Refer to the attached Director's report.

**6. Details of distribution reinvestment plan**

Not applicable.

**7. Details of associates and joint venture entities**

Refer to the attached financial statements.

**8. Accounting standards used by foreign entities**

Refer to the attached financial statements Note 2 Statement of significant accounting policies.

**9. Qualification of audit / review**

Not applicable.

**BABCOCK & BROWN ENVIRONMENTAL  
INVESTMENTS LIMITED**

**ABN 77 074 226 065**

**Financial Report for the Half Year**

**Ended 31 December 2007**

# Financial Report for the Half Year Ended 31 December 2007

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# DIRECTORS' REPORT

## For the Half-Year Ended 31 December 2007

The Directors present their report on Babcock & Brown Environmental Investments Limited (BEI) and its controlled entities for the half year ended 31 December 2007.

### DIRECTORS

The Directors were in office for the entire period unless otherwise stated:

Phillip H. Green

Gary Levin

James S. King

Anthony H. Leibowitz

Barry K. Murphy

John E. Graham

Trevor Loewensohn

### REVIEW AND RESULTS OF OPERATIONS

The results of the consolidated entity after providing for income tax for the 6 months to 31 December 2007 was a loss of \$55,517,579 (six months to 31 December 2006: profit of \$1,830,142).

BEI's activities during the period under review were its ongoing investment and management in Denco LLC, Southern Oil Refining Ltd, and the investment in Natural Fuels Australia Limited. EarthPower Technologies Sydney Pty Ltd was sold during the period.

On 14 November 2007, Babcock & Brown Limited (Babcock & Brown) announced a proposal to acquire all of the issued shares of Babcock & Brown Environmental Investments Limited (BEI). On 23 November 2007, Babcock & Brown announced a cash alternative as part of the proposal. On 18 December 2007, Babcock & Brown's formal takeover offer ("Offer") was announced by Babcock & Brown Environmental Investments Holdings Pty Ltd (a subsidiary of Babcock & Brown) and the Bidder's Statement was served on BEI and lodged with ASIC and the ASX.

Babcock & Brown is offering either:

- \$0.50 cash for every share held in BEI ("Cash Consideration"); or
- one Babcock & Brown Subordinated Note ("BBSN") for every 200 shares held in BEI ("BBSN Consideration").

The Offer opened on 11 January 2008 and has been extended to close on 14 March 2008. Lonergan Edwards & Associates Limited were engaged as Independent Experts, and in that capacity concluded that the offer is "fair and reasonable". The Independent Directors have recommended unanimously that shareholders accept the Offer, and all of the Directors have stated their intention to accept the Offer.

No dividend has been paid or declared since the commencement of the year.

### AUDITOR'S INDEPENDENCE DECLARATION

We have obtained the independence declaration, located on page 2 of this report, from our auditors, Ernst & Young.

Signed in accordance with a resolution of the Directors.



Gary Levin

Director

Dated at Sydney this 22 day of February 2008

## **Auditor's Independence Declaration to the Directors of Babcock & Brown Environmental Investments Limited**

In relation to our review of the financial report of Babcock & Brown Environmental Investments Limited for the half year ended 31 December 2007, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

A stylized, handwritten signature of the Ernst & Young firm, written in black ink.

Ernst & Young

A handwritten signature of Paul Flynn, written in black ink.

Paul Flynn  
Partner  
Sydney  
22 February 2008



# INCOME STATEMENT

For the half year ended 31 December 2007

	Notes	Consolidated	
		31-Dec-07	31-Dec-06
		\$	\$
<b>Continuing Operations</b>			
<b>Revenues</b>			
Sales revenue		39,186,091	42,102,863
Cost of sales		(37,765,608)	(27,028,277)
<b>Gross Profit</b>		1,420,483	15,074,586
Other income	5	3,001,293	3,821,307
<b>Expenses</b>			
Selling and distribution expenses		(225,206)	(280,099)
Administrative and corporate expenses		(4,591,143)	(5,919,018)
Finance expenses		(3,110,635)	(1,753,544)
Share of loss in associate	9	(15,419,243)	(1,300,811)
Impairment loss recognised	5	(37,859,155)	-
Other expenses		(55,613)	(1,109,211)
<b>(Loss) / Profit from continuing operations before income tax</b>		(56,839,219)	8,533,210
Income tax income / (expense)	4	1,539,346	(4,132,190)
<b>(Loss) / Profit from continuing operations after income tax</b>		(55,299,873)	4,401,020
<b>Discontinued Operations</b>			
Loss from discontinued operations after income tax	15	(217,706)	(2,570,878)
<b>Net (Loss) / Profit attributable to members of the parent</b>		(55,517,579)	1,830,142
Basic earnings per share (cents per share)		(41.4)	1.4
Diluted earnings per share (cents per share)		(41.4)	1.4

# BALANCE SHEET

As at 31 December 2007

	Notes	Consolidated	
		31-Dec-07	30-Jun-07
		\$	\$
<b>Current Assets</b>			
Cash and cash equivalents		3,056,354	12,638,876
Trade and other receivables	6	22,155,943	45,131,622
Inventories		5,196,836	2,613,496
Other assets		831,654	1,380,945
Assets of disposal group classified as held for sale		-	2,028,849
<b>Total Current Assets</b>		31,240,787	63,793,788
<b>Non-Current Assets</b>			
Other financial assets	7	3,801,754	3,930,247
Property, plant and equipment		99,850,483	103,583,712
Intangible assets	8	15,433,151	23,514,215
Investment in associates accounted for using the equity method	9	-	15,419,243
<b>Total Non-Current Assets</b>		119,085,388	146,447,417
<b>Total Assets</b>		150,326,175	210,241,205
<b>Current Liabilities</b>			
Trade and other payables		11,439,740	7,743,019
Interest-bearing liabilities	11	49,845,654	37,455,937
Government grants		62,533	62,533
Provisions		185,071	90,610
Liabilities directly associated with assets classified as held for sale		-	2,995,002
<b>Total Current Liabilities</b>		61,532,998	48,347,101
<b>Non-Current Liabilities</b>			
Interest-bearing liabilities		16,887,565	30,255,579
Government grants		727,585	758,851
Deferred tax liabilities		502,080	2,110,423
Provisions		59,980	323,149
<b>Total Non-Current Liabilities</b>		18,177,210	33,448,002
<b>Total Liabilities</b>		79,710,208	81,795,103
<b>Net Assets</b>		70,615,967	128,446,102
<b>Equity</b>			
Contributed equity	10	217,070,824	217,070,824
Accumulated losses		(135,024,239)	(79,506,660)
Reserves		(11,430,618)	(9,118,062)
<b>Total equity attributable to equity holders of the parent</b>		70,615,967	128,446,102

# CASHFLOW STATEMENT

For the half year ended 31 December 2007

	Notes	Consolidated	
		31-Dec-07	31-Dec-06
		\$	\$
<b>Cash Flows From Operating Activities</b>			
Receipts from customers		38,004,845	43,543,232
Payments to suppliers and employees		(35,453,687)	(31,471,499)
Interest received		293,555	720,794
Interest and other costs of finance paid		(1,740,748)	(1,769,790)
Income taxes paid		-	(4,077,517)
<b>Net Cash Flows From Operating Activities</b>		1,103,965	6,945,222
<b>Cash Flows From Investing Activities</b>			
Payments for plant and equipment		(2,244,173)	(7,834,253)
Disposal of subsidiary, net of cash disposed	15	(447,174)	-
Payment for investments		-	(174,000)
<b>Net Cash Flows Used In Investing Activities</b>		(2,691,347)	(8,008,253)
<b>Cash Flows From Financing Activities</b>			
Proceeds from borrowings		-	9,000,000
Repayment of borrowings		(2,914,438)	(5,073,267)
Loans to associates		(5,250,000)	-
<b>Net Cash Flows From/(Used In) Financing Activities</b>		(8,164,438)	3,926,733
<b>Net Increase / (Decrease) In Cash and Cash Equivalents</b>		(9,751,820)	2,863,702
Net foreign exchange differences		(280,064)	(612,498)
Cash and cash equivalents at the beginning of the financial year		13,088,238	14,631,151
<b>Cash And Cash Equivalents At The End Of The Financial Year</b>		3,056,354	16,882,355

# STATEMENT OF CHANGES IN EQUITY

For the half year ended 31 December 2007

CONSOLIDATED	Attributable to equity holders of the parent			
	\$ Issued capital	\$ Accumulated losses	\$ Reserves	\$ Total
<b>At 1 July 2006</b>	198,671,633	(59,528,388)	(397,828)	138,745,417
Currency translation differences	-	-	(4,242,017)	(4,242,017)
<b>Total income and expense for the period recognised directly in equity</b>	-	-	(4,242,017)	(4,242,017)
Profit for the period	-	1,830,142	-	1,830,142
<b>Total income / expense for the period</b>	-	1,830,142	(4,242,017)	(2,411,875)
Issue of share capital	18,399,191	-	-	18,399,191
Cost of share based payments	-	-	222,402	222,402
<b>At 31 December 2006</b>	217,070,824	(57,698,246)	(4,417,443)	154,955,135

CONSOLIDATED	Attributable to equity holders of the parent			
	\$ Issued capital	\$ Accumulated losses	\$ Reserves	\$ Total
<b>At 1 July 2007</b>	217,070,824	(79,506,660)	(9,118,062)	128,446,102
Currency translation differences	-	-	(2,354,955)	(2,354,955)
<b>Total income and expense for the period recognised directly in equity</b>	-	-	(2,354,955)	(2,354,955)
Loss for the period	-	(55,517,579)	-	(55,517,579)
<b>Total income / expense for the period</b>	-	(55,517,579)	(2,354,955)	(57,872,534)
Cost of share based payments	-	-	42,399	42,399
<b>At 31 December 2007</b>	217,070,824	(135,024,239)	(11,430,618)	70,615,967

# NOTES TO THE FINANCIAL STATEMENTS

## 1. CORPORATE INFORMATION

The financial report of Babcock & Brown Environmental Investments Limited (the Company) for the half year ended 31 December 2007 was authorised for issue in accordance with a resolution of the Directors on 22 February 2008.

Babcock & Brown Environmental Investments Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

## 2. BASIS OF PREPARATION OF THE HALF YEAR FINANCIAL REPORT

The half year consolidated financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half year financial report should be read in conjunction with the annual Financial Report of Babcock & Brown Environmental Investments Limited as at 30 June 2007.

It is also recommended that the half year consolidated financial report be considered together with any public announcements made by Babcock & Brown Environmental Investments Limited and its controlled entities during the half year ended 31 December 2007 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001 and Australian Securities Exchange Listing Rules.

### (a) Basis of preparation

The half year consolidated financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements.

The half year financial report has been prepared on a historical cost basis except for disclosures relating to derivative financial instruments.

For the purpose of preparing the half year consolidated financial report, the half year has been treated as a discrete reporting period.

# NOTES TO THE FINANCIAL STATEMENTS

## 2. BASIS OF PREPARATION OF THE HALF YEAR FINANCIAL REPORT (CONTINUED)

### (b) Significant accounting policies

There were a number of Standards and Interpretations that were mandatory for periods beginning on or after 1 July 2007. Adoption of these standards did not have any effect on the financial position or performance of the group.

Apart from the above, the half year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2007.

### (c) Basis of consolidation

The half year consolidated financial statements comprise the financial statements of the Group.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Where there is loss of control of a subsidiary, the half year consolidated financial statements include the results for the part of the reporting period during which Babcock & Brown Environmental Investments Limited had control.

### (d) Going concern

The financial report has been prepared on a going concern basis. The company incurred a loss of \$55,517,579 for the half year and has a deficiency in net current assets of \$30,292,211 at 31 December 2007.

The ability of the group to continue as a going concern is dependent on the ongoing support of its major shareholder and its ability to become profitable. The substantial shareholder, Babcock & Brown Group, who has a current offer for all the quoted shares of the company, intends to support Babcock & Brown Environmental Investments Limited and its controlled entities for a period of at least twelve months from the date of this report, or until such time as the company resumes profitability and is financially self sufficient.

## 3. SEGMENT INFORMATION

The consolidated entity operates in one industry segment being the energy supply industry and in two geographical segments being Australia and the USA.

The Company's primary segment reporting format is geographical segments as each segment represents a strategic business unit that offers different risks and rates of return. Transfer prices between geographical segments are set at an arms length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated on consolidation.

### Geographical segments

The Group's geographical segments are determined based on the location of the Group's assets. The following table presents revenue and profit information regarding geographical segments for the half year ended 31 December 2007.

# NOTES TO THE FINANCIAL STATEMENTS

## 3. SEGMENT INFORMATION (CONTINUED)

	Continuing Operations			Discontinued Operations	
	United States	Australia	Total	Total	Total
	\$	\$	\$	\$	\$
<b>Half Year Ended 31 December 2007</b>					
<b>Revenue</b>					
Sales to external customers	30,833,028	8,353,063	39,186,091	951,728	40,137,819
Other revenues from ordinary activities	180,979	-	180,979	-	180,979
Total segment revenue	31,014,007	8,353,063	39,367,070	951,728	40,318,798
Interest revenue	261,049	2,559,265	2,820,314	-	2,820,314
Total consolidated revenue	31,275,056	10,912,328	42,187,384	951,728	43,139,112
<b>Result</b>					
Segment results	(7,569,837)	(47,683,208)	(55,253,045)	(513,673)	(55,766,718)
Unallocated expenses	-	-	249,139	-	249,139
Profit/ (loss) before tax	(7,569,837)	(47,683,208)	(55,003,906)	(513,673)	(55,517,579)
<b>Half Year Ended 31 December 2006</b>					
<b>Revenue</b>					
Sales to external customers	37,465,635	4,634,500	42,100,135	1,985,111	44,085,246
Other revenues from ordinary activities	1,839,290	1,263,581	3,102,871	9,535	3,112,405
Total segment revenue	39,304,925	5,898,081	45,203,006	1,994,645	47,197,651
Interest revenue	374,850	346,314	721,164	-	721,164
Total consolidated revenue	39,679,775	6,244,395	45,924,170	1,994,645	47,918,815
<b>Result</b>					
Segment results	12,580,320	(2,015,657)	10,564,662	(2,570,878)	7,993,784
Unallocated expenses	-	-	(2,031,452)	-	(2,031,452)
Profit/ (loss) before tax	12,580,320	(2,015,657)	8,533,211	(2,570,878)	5,962,332

	Consolidated	
	31-Dec-07	31-Dec-06
	\$	\$
<b>4. INCOME TAX</b>		
<i>Current Income Tax</i>		
Current income tax charge	-	3,971,037
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(1,539,346)	161,153
<b>Income tax (income) / expense reported in the income statement</b>	<b>(1,539,346)</b>	<b>4,132,190</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 5. REVENUE, INCOME AND EXPENSES

		Consolidated	
Revenue, income and expenses from continuing operations		31-Dec-07	31-Dec-06
		\$	\$
Interest		2,820,314	721,163
Net gain on fair value of derivative instruments		55,612	1,109,211
Distributions from investments		-	1,454,839
Other		125,367	536,094
<b>Other Income</b>		<b>3,001,293</b>	<b>3,821,307</b>
Impairment loss from associate receivable	6	30,531,809	-
Impairment loss from intangible asset	8	460,000	-
Impairment loss from goodwill	8	6,867,346	-
<b>Impairment loss recognised on measurement to fair value</b>		<b>37,859,155</b>	<b>-</b>

All other disclosures relevant for explaining the profit from ordinary activities before income tax expense / benefit have been made in the income statement.

## 6. TRADE AND OTHER RECEIVABLES

<i>Current</i>			
Trade debtors		9,513,304	11,254,425
Less provision for doubtful debts		(61,627)	(70,187)
Other debtors		1,767,109	1,825,223
Owing from associate		41,468,966	32,122,161
Allowance for impairment loss	(i)	(30,531,809)	-
<b>Total Trade and Other Receivables</b>		<b>22,155,943</b>	<b>45,131,622</b>

(i) The \$30,531,809 impairment loss represents the write-down of the associate receivable due to the write-down of the property and plant in Natural Fuels Australia Limited (NFAL) to the recoverable amount. The recoverable amount estimation was based on a value in use calculation and was determined at the cash generating unit level. As a result, an impairment of the receivable from NFAL of \$41,468,966 was recognised to reduce the carrying value to recoverable amount. This has been recognised in the income statement in the line 'Impairment loss recognised'. The impairment methodology is the same as detailed in note 9 Investment in Associate Using the Equity Method.



# NOTES TO THE FINANCIAL STATEMENTS

		Consolidated	
		31-Dec-07	30-Jun-07
		\$	\$
<b>7. OTHER FINANCIAL ASSETS</b>			
<b>Unlisted investments at cost</b>	(i)	<b>3,801,754</b>	<b>3,930,247</b>

- (i) Carrying value of investments held in unlisted entities within the group has been measured at cost as their fair value cannot be reliably measured. Management is unable to measure these investments at fair value as there are no comparable listed entities or sufficient information to allow them to do so.

## 8. INTANGIBLE ASSETS

Cost (gross carrying amount)		26,825,407	26,790,407
Acquisition		-	35,000
Impairment loss – intangible asset	(i)	(460,000)	-
Impairment loss – goodwill	(ii)	(6,867,346)	-
Exchange adjustment		(4,064,910)	(3,311,192)
<b>Net carrying amount</b>		<b>15,433,151</b>	<b>23,514,215</b>

- (i) An impairment loss of \$460,000 represents the write-down of the intangible assets in the logistics and collection business within the Southern Oil group to the recoverable amount. This cash generating unit is intended to operate at a “breakeven” cash level. The recoverable amount estimation was based on a value in use calculation and was determined at the cash generating unit level. This has been recognised in the income statement in the line ‘impairment loss recognised’.
- (ii) An impairment loss of \$6,867,346 on goodwill was recognised for continuing operations. The impaired goodwill related to the purchase of the Denco business in the 2006 financial year. The pre-tax, risk free discount rate applied to cash flow projections is 13% (2006: 11%). The increased rate is due to the current state of the commodity markets affecting the ethanol industry. This has been recognised in the income statement in the line ‘impairment loss recognised’.

# NOTES TO THE FINANCIAL STATEMENTS

## 9. INVESTMENTS IN ASSOCIATE ACCOUNTED FOR USING THE EQUITY METHOD

	Consolidated	
	31-Dec-07	30-Jun-07
	\$	\$
Investment in associate at cost	15,419,243	17,077,859
Less: Loss after tax	(8,074,183)	(1,658,616)
Less: Impairment	(7,345,060)	-
<b>Investment in Associate</b>	<b>-</b>	<b>15,419,243</b>

On 5 July 2005 Babcock & Brown Environmental Investments Limited acquired a 50% interest in Natural Fuels Australia Limited (NFAL) for \$18,105,596. NFAL is a developer of biodiesel plants and currently has a facility in Darwin, Australia. NFAL is accounted for as an associate, using the equity method of accounting as BEI has significant influence. Due to the terms of the agreement with the joint shareholder, BEI does not exhibit control. BEI's share of the results of operations has been reflected in the Group's income statement. NFAL is incorporated and domiciled in Australia and has a 30 June reporting date.

The \$7,345,060 impairment loss represents the write-down of the investment in NFAL to the recoverable amount. The recoverable amount estimation was based on a value in use calculation and was determined at the cash generating unit level. This has been recognised in the income statement in the line item 'Share of loss in associate'.

The following describes each key assumption on which management has based its cash flow projections when determining the value in use of the investment in associate:

- The cash flows were discounted at a rate of 15% on a pre-tax basis which consist of a combination of the interest free rate and the risk premium.
- The budget revenue and expenses were based on prior year results, plant capabilities, and future projections.
- Raw materials increases – due to the adverse changes in the commodity prices, particularly palm oil, it is currently uneconomical to produce biodiesel for the near term future. Values assigned to this key assumption are consistent with external sources.

Note: refer note 6 Trade and Other Receivables which details the assets that are related to the investment in associate.

## 10. CONTRIBUTED EQUITY

### (a) Issued and paid up capital

Ordinary shares fully paid	217,070,824	217,070,824
	<u>217,070,824</u>	<u>217,070,824</u>

### (b) Movements in shares on issue

	Number of shares	\$
Beginning of the financial year	134,034,484	217,070,824
Issued during the 6 month period	-	-
End of 31 December 2007	<u>134,034,484</u>	<u>217,070,824</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 11. BANK FACILITY

As at 31 December 2007, Southern Oil Refining Limited was in breach of the interest cover ratio as part of the facility agreement with ANZ. As a result the amount payable as at 31 December 2007 has been reclassified to current "Interest-bearing liabilities".

## 12. CONTINGENT ASSETS AND LIABILITIES

Since the last annual reporting date, there has been no material change of any contingent liabilities or contingent assets.

## 13. SUBSEQUENT EVENTS

On 14 November 2007, Babcock & Brown Limited (Babcock & Brown) announced a proposal to acquire all of the issued shares of Babcock & Brown Environmental Investments Limited (BEI). On 23 November 2007, Babcock & Brown announced a cash alternative as part of the proposal. On 18 December 2007, Babcock & Brown's formal takeover offer ("Offer") was announced by Babcock & Brown Environmental Investments Holdings Pty Ltd (a subsidiary of Babcock & Brown) and the Bidder's Statement was served on BEI and lodged with ASIC and the ASX.

Babcock & Brown is offering either:

- \$0.50 cash for every share held in BEI ("Cash Consideration"); or
- one Babcock & Brown Subordinated Note ("BBSN") for every 200 shares held in BEI ("BBSN Consideration").

The Offer opened on 11 January 2008 and has been extended to close on 14 March 2008. Lonergan Edwards & Associates Limited were engaged as Independent Experts, and in that capacity concluded that the offer is "fair and reasonable". The Independent Directors have recommended unanimously that shareholders accept the Offer, and all of the Directors have stated their intention to accept the Offer.

There are no other events subsequent to balance sheet date.

## 14. DIVIDENDS

No dividends were paid or proposed by the company during the period.

# NOTES TO THE FINANCIAL STATEMENTS

## 15. DISCONTINUED OPERATIONS

### (a) Details of operations sold

The Board of Directors resolved to dispose of EarthPower Technologies Sydney Pty Ltd (EarthPower), a company that converts waste into energy. Babcock & Brown Environmental Investments Limited publicly announced this decision on 3 July 2007.

The Vendors indemnify the Purchasers and EarthPower from 80% of any liability arising in respect of EarthPower under the terms of its limited recourse loan with SEDA (currently this is approximately \$1.5 million which includes principal plus accrued interest). As at 31 December 2007, \$1.2m has been provided for by the parent entity Babcock & Brown Environmental Investments Limited.

EarthPower was included in the Australian geographical segment. This business had been operating in an unpredictable waste environment making it difficult for management to actively seek any real growth and profitability in the segment.

The disposal of EarthPower was completed on 21 August 2007 on which date control of the business was passed to the acquirer.

### (b) Financial performance of operations disposed

The results of the discontinued operations for the year until disposal are presented below:

	CONSOLIDATED	
	31-Dec-07	31-Dec-06
	\$	\$
Revenue	951,728	1,994,645
Expenses	(1,420,292)	(4,521,393)
<b>Gross Loss</b>	<b>(468,564)</b>	<b>(2,526,748)</b>
Finance costs	(13,793)	(44,130)
Gain on disposal	295,967	-
Impairment gain recognised on measurement to fair value	(31,316)	-
<b>Loss Before Tax From Discontinued Operations</b>	<b>(217,706)</b>	<b>(2,570,878)</b>
Tax expense	-	-
<b>Loss From The Year From Discontinued Operations</b>	<b>(217,706)</b>	<b>(2,570,878)</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 15. DISCONTINUED OPERATIONS (CONTINUED)

### (c) Assets, liabilities and cash flow information of disposed entity

Details of the disposal of EarthPower Technologies Sydney Pty Ltd are as follows:

The major classes of assets and liabilities of EarthPower at disposal date were as follows:

	21 August 2007	
		\$
<b>Assets</b>		
Property, plant and equipment	309,323	
Trade and other receivables	1,023,570	
Cash and cash equivalents	447,177	
	<u>1,780,070</u>	
<b>Liabilities</b>		
Trade and other payables	(1,780,069)	
Interest-bearing loans	(1,479,828)	
	<u>(3,259,897)</u>	
Net liabilities attributed to discontinued operations	<u>(1,479,829)</u>	
<b>Consideration Received Or Receivable</b>		
Cash	1	
Plus net liabilities disposed of	1,479,829	
Less loan indemnity	(1,183,863)	
Gain on disposal before income tax	<u>295,967</u>	
Income tax expense	-	
Gain on disposal after income tax	<u>295,967</u>	
<b>Net Cash Inflow / (Outflow) On Disposal</b>		
Cash and cash equivalents received from disposal	1	
Less cash and cash equivalents balance disposed of	(447,175)	
Reflected in the consolidated cash flow statements	<u>(447,174)</u>	
	2007	2006
	\$	\$
<b>Earnings Per Share – Cents Per Share</b>		
- Basic from discontinued operations	(0.2)	(2.0)
- Diluted from discontinued operations	(0.2)	(2.0)

# DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Babcock & Brown Environmental Investments Limited, I state that:

In the opinion of the Directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
  - (i) give a true and fair view of the financial position as at 31 December 2007 and the performance for the half year ended on that date of the consolidated entity; and
  - (ii) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Gary Levin  
Director

Dated at Sydney this 22 day of February 2008

## **To the members of Babcock & Brown Environmental Investments Limited**

### **Report on the Half-Year Financial Report**

We have reviewed the accompanying Half-Year financial report of Babcock & Brown Environmental Investments Limited, which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the six months ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the Half-Year end or from time to time during the Half-Year.

#### *Directors' Responsibility for the Half Year Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the Half-Year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the Half-Year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the Half-Year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the Half-Year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001 and other mandatory financial reporting requirements in Australia. As the auditor of Babcock & Brown Environmental Investments Limited and the entities it controlled during the Half Year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a Half-Year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



### *Independence*

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Babcock & Brown Environmental Investments Limited is not in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the six months ended on that date; and
- (ii) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

### *Material Uncertainty Regarding Continuation as a Going Concern*

Without qualifying to our conclusion, we draw attention to Note 2 in the financial report which indicates that the company incurred net losses of \$55,517,579 during the half year ended 31 December 2007 and, as of that date, the company's current liabilities exceeded its current assets by \$30,292,211. These conditions, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern and therefore realise assets and extinguish liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company not continue as a going concern.



Ernst & Young



Paul Flynn  
Partner  
Sydney  
22 February 2008