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10 February 2006

Mr Vickrem Naicker
Companies Advisor
Australian Stock Exchange Limited
Level 8, Exchange Plaza
2 The Esplanade
Perth WA 6000
Facsimile: (08) 9221 2020

Dear Mr Naicker

Babcock & Brown Environmental Investments Limited (BEI)
Response regarding price query

We refer to your fax received yesterday regarding the change in the price of BEI's securities from \$2.04 on 2 February 2006 to \$2.30. We respond to your queries as follows (retaining the same numbering):

1. BEI considers that the following may be factors contributing to recent trading in its securities:
 - A. There has recently been increased media coverage in relation to the renewable fuel sector.

On 31 January 2006, the State of the Union Address was delivered by the US President George W. Bush. During this address, the President announced the goal to replace more than 75 per cent of US oil imports from the Middle East by 2025 and other methods by which he aims to reduce US dependence on oil imports.

On 6 February 2006, the Sydney Morning Herald published an article entitled "Preparing for life after fossil fuels" which gave a positive outlook for Australia's bio-fuels industry and specifically referred to BEI.

This widespread media coverage may have contributed to increased interest in the securities of BEI and other companies with an existing exposure to, or a strategy of investing in, the renewable fuel sector.

- B. Natural Fuel Limited (NFL) is an unlisted Australian company which owns 50% of Natural Fuels Australia Limited (NFAL). The other 50% of NFAL is owned by BEI.

NFL prepared an information memorandum dated 3 February 2006 in relation to a proposed capital raising by NFL which it has since presented to a restricted number of wholesale investors on a confidential basis. That document included the following information in relation to BEI and NFAL:

- (i) on 3 November 2005 BEI, through Babcock & Brown, settled a confidential term sheet with NFL in relation to the potential development and operation of bio-diesel plants in North America, with the initial such plant proposed for Houston, Texas. The term sheet proposes:
 - o the restructuring of a US company (USCo) so as to become owned by NFL and BEI as to 50% each;
 - o BEI subscribing US\$18 million for its 50% interest in USCo;
 - o BEI or Babcock & Brown lending US\$15 million to USCo;
 - o the parties having an exclusive relationship with each other in relation to the development of bio-diesel plants in North America for a three year term;
 - o the advancement of such proposal being subject to a number of conditions precedent, including non-recourse project financing being obtained, the securing of a site lease, the signing of contracts for plant construction, feed stock supply and offtake and, notably, the Boards of BEI and NFL approving the transaction following the completion of BEI's due diligence; and
- (ii) NFAL is in the advanced stages of planning a bio-diesel facility at Port Botany, New South Wales. NFAL has secured a sub-lease option over land at Port Botany. The development approval process is currently at the permitting stage and NFAL has commenced an environmental impact study.

BEI notes that the above matters relate to potential transactions which are incomplete and which may or may not occur. Such potential transactions are subject to a range of factors, many of which are beyond the control of BEI. Due diligence continues to be undertaken by BEI in respect of these transactions. No recommendations have yet been made by management of BEI or by BEI's manager, Babcock & Brown Infrastructure Management Pty Ltd, and no Board approval has been sought or obtained.

The above matters are consistent with disclosures previously made by BEI regarding its intention to explore further opportunities in the bio-diesel sector, including announcements made by BEI on 1, 10 and 29 November 2005.

- C. There has been increased awareness of BEI, both in Australia and the US, following roadshow and investor presentations undertaken as part of the capital raising in relation to the recently completed acquisition by BEI of a US ethanol production business, Denco, LLC (Denco). The capital raising and acquisition was the subject of a number of ASX announcements with the acquisition having completed on 3 January 2006. There was strong investor demand for the capital raising, with a high level of oversubscriptions, by both institutional and retail investors, which may have resulted in unsatisfied demand for securities in BEI.
- D. US ethanol spot prices have also strengthened over recent weeks, which may have a positive impact on the business of Denco.
- 2. The information contained in this response can be released to the market.
- 3. BEI is not aware of any explanation, other than those set out in this response, which would account for the recent price change and increase in volume in the securities of BEI.
- 4. We confirm that we consider BEI to be in compliance with the Listing Rules, including Listing Rule 3.1.

Yours sincerely



Melanie Hedges
Company Secretary



ASX

AUSTRALIAN STOCK EXCHANGE



Paul Fergusson
Company Secretary
Babcock & Brown Enviromental Investments Limited
Level 37, The Chifley Tower
2 Chifley Square
SYDNEY NSW 2000

By Facsimile: (02) 9235 3496

Dear Paul

Babcock & Brown Enviromental Investments Limited (the "Company")

RE: PRICE QUERY

We have noted a change in the price of the Company's securities from \$2.04 on 2 February 2006 to \$2.30 today. We have also noted an increase in the volume of trading in the securities over this period.

In light of the price change and increase in volume, please respond to each of the following questions.

1. Is the Company aware of any information concerning it that has not been announced which, if known, could be an explanation for recent trading in the securities of the Company?
2. If the answer to question 1 is yes, can an announcement be made immediately? If not, why not and when is it expected that an announcement will be made?

Please note, if the answer to question 1 is yes and an announcement cannot be made immediately, you need to contact us to discuss this and you need to consider a trading halt (see below).

3. Is there any other explanation that the Company may have for the price change and increase in volume in the securities of the Company?
4. Please confirm that the Company is in compliance with the listing rules and, in particular, listing rule 3.1.

Your response should be sent to me by facsimile on facsimile number (08) 9221 2020. It should not be sent to the Company Announcements Office.

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event, not later than half an hour before the start of trading (ie before 9.30 a.m. E.S.T.) on Friday, 10 February 2006.

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Under listing rule 18.7A, a copy of this query and your response will be released to the market, so your response should be in a suitable form and separately address each of the questions asked. If you have any queries or concerns, please contact me immediately.

Listing rule 3.1

Listing rule 3.1 requires an entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. The exceptions to this requirement are set out in listing rule 3.1A.

In responding to this letter you should consult listing rule 3.1 and Guidance Note 8 – Continuous Disclosure: listing rule 3.1.

If the information requested by this letter is information required to be given to ASX under listing rule 3.1 your obligation is to disclose the information immediately.

Your responsibility under listing rule 3.1 is not confined to, or necessarily satisfied by, answering the questions set out in this letter.

Trading halt

If you are unable to respond by the time requested, or if the answer to question 1 is yes and an announcement cannot be made immediately, you should consider a request for a trading halt in the Company's securities. As set out in listing rule 17.1 and Guidance Note 16 – Trading Halts we may grant a trading halt at your request. We may require the request to be in writing. We are not required to act on your request. You must tell us each of the following.

- The reasons for the trading halt.
- How long you want the trading halt to last.
- The event you expect to happen that will end the trading halt.
- That you are not aware of any reason why the trading halt should not be granted.
- Any other information necessary to inform the market about the trading halt, or that we ask for.

The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted. If a trading halt is requested and granted and you are still unable to reply to this letter before the commencement of trading, suspension from quotation would normally be imposed by us from the commencement of trading if not previously requested by you. The same applies if you have requested a trading halt because you are unable to release information to the market, and are still unable to do so before the commencement of trading.

If you have any queries regarding any of the above, please let me know.

Yours sincerely,



Vickrem Naicker

Adviser, Issuers

Direct Line: (08) 9224 0032