

## BABCOCK & BROWN

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### ASX Release

30 May 2008

### CHAIRMAN AND CEO'S AGM ADDRESS

Please find attached the Chairman and CEO's speeches and the slide presentation to be made this morning at the company's 2008 Annual General Meeting.

### ENDS

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### About Babcock & Brown

Babcock & Brown is an international investment and specialised fund and asset management group with longstanding capabilities in structured finance and the creation, syndication and management of asset and cash flow-based investments. Babcock & Brown was founded in 1977 and is listed on the Australian Securities Exchange.

Babcock & Brown operates from 32 offices across Australia, North America, Europe, Asia, United Arab Emirates and Africa and has in excess of 1,400 employees worldwide. Babcock & Brown has four operating divisions including real estate, infrastructure, operating leasing, corporate and structured finance. The company has established a funds management platform across the operating divisions that has resulted in the creation of a number of focused investment vehicles in areas including real estate, renewable energy and infrastructure.

For further information about Babcock & Brown please see our website:  
[www.babcockbrown.com](http://www.babcockbrown.com)

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## ASX Release

### CHAIRMAN AND CEO ADDRESS

#### CHAIRMAN'S ADDRESS

There are a lot of items on today's agenda, and obviously a lot of issues on people's minds, so what I'd like to do in these initial remarks is to take the annual report as read, and to pass fairly quickly from an abbreviated statement of our 2007 results to two specific topics that are worthy of particular focus:

- First, a personal commentary on the Babcock & Brown funds management platform; and
- Second, a brief description of where Babcock & Brown stands in the general area of "sustainability."

After that, I'll make a few concluding remarks and then pass the baton over to Phil to talk about our 2007 results in a bit more detail, as well as about the outlook and strategies for the business going forward.

Before proceeding any further, however, I'm happy to note that the ACSI, CGI and ISS have recommended a vote in favour of all resolutions that will be put to you today. I would also note, however, that a number of suggestions were raised in the area of governance and board structure, which suggestions we intend to take into serious consideration.

Turning to the 2007 results, we obviously are extremely pleased to have been able to report a 58% increase in Group Net Profit for 2007 over the preceding year, exceeding in the process all of our hurdle rates and financial measures. It truly was an outstanding performance by our entire employee team, all the way up and down the chain of responsibility.

In addition, as far as our managed funds are concerned, we continued to diversify our capital sources through the listing of our first public fund in the US, Babcock & Brown Air, and the launching of three regionally focused unlisted "wholesale" infrastructure funds. As a result our overall family of

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## BABCOCK & BROWN

funds has a larger total war chest of committed investible capital than at any time in our history....which is obviously a great place to be at the moment.

At the same time, however, and here we come to the first topic...it's as disappointing as can be that despite sound underlying performances, the share prices of both Babcock & Brown and our listed funds have come down in recent months as significantly as they have.

All of us at Babcock & Brown are very much aware that loyal Babcock & Brown shareholders have suffered material financial hardship as a result of this decline in share prices. From my own perspective, this is particularly painful in the case of the listed fund shares. When we first established the funds platform, we did so with a view to creating a set of securities underpinned by high quality assets with stable cash flows that could be relied upon by investors to produce predictable dividend yields over time, which in turn made those shares highly logical securities in many investors' eyes to acquire with leverage, including, unfortunately, in margin accounts.

Clearly macro factors well beyond our control, such as the rout in the global credit markets following the explosion of the sub-prime problems in the US, were directly and indirectly a major factor in all of this.

Equally clearly, Babcock & Brown was ultimately able to respond pragmatically and quickly to those events by refinancing our corporate debt facilities in record time, reducing gearing somewhat in the process, and demonstrating a strong and growing liquidity position.

However, at the same time, we're also aware that through other actions, Babcock & Brown has not dealt with at least some of the market's challenges as effectively as our investors should be able to expect of us.

Of particular note in this regard have been the recent financing issues surrounding Babcock & Brown Power. With the benefit of hindsight we clearly underestimated the difficulties presented by the global credit crunch thereby resulting in an outcome and communications that were not up to market expectations.

Both the well-being of our shareholders and fund investors and the credibility and integrity of the Babcock & Brown brand are of core importance to us, and we are genuinely doing everything we can at the moment to retain securityholders' trust and confidence.

In short, we've heard some very clear messages from the market recently, and we understand that investors not only need to hear what our general strategy is, but also deserve to understand and have comfort that what we do from day to day, transaction to transaction, fits within that strategy. This is

especially the case with our listed funds. You have our commitment to do a better job of that going forward.

In that vein, however, it is important to note that we continue to believe strongly in the portfolios of our funds, and that we are working on a range of strategies to demonstrate their value and narrow the gap between that value and current share prices.....all of which Phil will address in more detail in a few minutes.

In addition, we remain absolutely confident in our basic business model, which is supported by strong global dynamics and prospects in all of our core business areas. Therefore, I am happy to hereby reaffirm that Babcock & Brown remains on track to deliver net profit after tax (NPAT) of at least A\$750 million in 2008.

The second, and last, topic that I want to address is “sustainability.”

Almost from its beginning, Babcock & Brown adopted and has maintained a strong focus on what today is referred to as “sustainability,” both in terms of our internal culture, and also in terms of how we approach our external business activities. In fact, this is one of the main reasons that we became involved in wind power as early as we did.... in the 1980s. Jumping forward to the present, we’ve recently been placing an even greater and more focused emphasis on sustainability....again, both in terms our own internal culture and environmental “footprint,” and also in terms of the growing number of business opportunities that are arising in this area.

With respect to the former – our own culture and footprint -- our recent activities have included the establishment of a formalised Babcock & Brown Sustainability Working Group, the priorities for which include:

- Implementing an express Sustainability Policy and Framework;
- Enhancing our health and safety systems and reporting;
- Beginning to more closely measure and manage our greenhouse gas emissions and energy usage;
- Developing an articulated carbon management strategy;
- Reducing, where feasible, Babcock & Brown’s own direct adverse impacts on the environment; and
- Continuing to develop and expand our global community engagement program.

Also, this year we and a number of our listed funds have for the first time begun submitting formal responses to the globally recognised and supported Carbon Disclosure Project. The purpose of these responses is to address head-on the direct risks and opportunities faced by Babcock & Brown, as well as the indirect impacts due to our funds and assets under management.

With respect to the second aspect -- focusing on new business opportunities -- we will continue, similarly to what we have done in the wind-energy sector, to look for ways to profitably pursue opportunities that may emerge out of the growing consciousness and concern over climate change. For example, as I'm sure Phil will discuss, not only do we have a significant global presence and development pipeline in the wind energy sector, but we also are beginning to build a development pipeline in the solar area as well, both in Europe and more recently in North America.

In the meantime, we were extremely pleased that in 2007 Babcock & Brown's €1 billion global refinancing of the Babcock & Brown Wind Partners portfolio was recognised by Environmental Finance Magazine as the "Renewable Energy Project Financing of the Year." We were also extremely pleased that in the context of the recent Davos meetings, Babcock & Brown was awarded the honour of being included in the "Global 100 Most Sustainable Corporations in the World" by Corporate Knights and Innovest Value Advisors.

Moving toward conclusion, I'd like to once again thank all of the Babcock & Brown employees around the world for their amazing past and continuing efforts. You are truly a great and incredibly dedicated and hard-working team.

Similarly, on behalf of everyone at Babcock & Brown, I'd also like to thank all five of our Non-Executive directors for a level of service and dedication that goes well above and beyond what any company should reasonably be able to expect from anybody, other than its own full-time employees. In this vein I would hope that all shareholders understand and support Resolution 19 on today's program, which increases the total aggregate annual cash remuneration that may be paid to Non-Executive directors. Given our rapid growth rate and the increasing time demands thereby placed on our Non-Executive directors, it's both sensible and fair for us to be able to continue to adequately compensate them for their efforts. I also hope that you will support the re-election of both Dieter Rampl and myself to the Babcock & Brown Board for another three years: both of us are dedicated to the continuing success of Babcock & Brown, and to working with the rest of the Board to help Phil and his team steer this great ship successfully through the current sharemarket turmoil.

Finally, I'd like to thank all of you, our shareholders, for your much-appreciated continuing support, despite the sharemarket difficulties and the financial pain they have caused all of us. Thank you

Over to you, Phil....

## **Managing Director and Chief Executives Presentation**

Thank you Jim,

I would like to welcome everyone today and thank you all for taking the time to attend the meeting.

### **SLIDE ONE**

I am sure by now most of you have read the details of our 2007 result in the annual report so I will just touch on what we consider to be the highlights and discuss our outlook for 2008.

Group Net Profit after tax increased a further 58% in 2007 to A\$643.1m. The result was particularly pleasing as growth accelerated in the second half of the year despite the issues in global debt markets. The result reflects not only strong top line growth but an ongoing focus by management on the cost line of the business with our cost to income ratio improving over the year.

Importantly we either met or exceeded all our target metrics including ROE which increased from 31% to 33.5% above our long term target range of 25-30%.

The strong result drove earnings per share growth of 50% and a 51% increase in the full year dividend per share.

As Jim has indicated while global capital markets remain challenging, we reaffirm our 2008 Group Net Profit of at least A\$750 million representing in excess of 15% growth on the 2007 result.

Our guidance is based on a number of factors including:

- strong locked in growth in recurring revenue from our growing specialised fund and asset management platform;
- significant identified growth in revenue generated from our development pipeline in wind energy, power transmission, PPP projects and residential real estate developments;
- in excess of A\$5 billion in committed uninvested capital across our specialised funds platform concentrated in infrastructure and aircraft operating leasing; and
- acquisitions already made by our specialised fund platform in 2008.

The guidance takes into account write downs in asset values as well as some realised losses.

## **SLIDE TWO**

As we outlined in our annual report, greenfield and brownfield development of assets is an important and growing part of our asset origination strategy. As you can see on this slide, development revenue, that is the profit we make on our development activities, increased from 14.6% of total revenue in 2006 to 21% of total revenue in 2007. The pipeline has been expanding rapidly despite the ongoing recycling of assets off our balance sheet.

Our development pipeline is diversified by geography and is heavily weighted towards infrastructure and in particular wind energy.

The video that was playing prior to the commencement of the formal proceedings, Harvest Wind, was put together by our North American wind development team to assist in the education of landowners in the US about the benefits associated with co-locating wind energy assets on their properties. Identifying appropriate sites is an important part of this development activity and our team seeks to work with landowners and other stakeholders to achieve positive outcomes for all parties.

As detailed in our annual report we currently have a pipeline of 16,000 MW of development activity across North America, Europe, Australia and New Zealand which is scheduled to be delivered over the next eight years. Our wind team continues to add new sites to this pipeline both in existing countries and in new regions. We believe that based on recent trade sales in the market there is significant embedded value in this portfolio.

Babcock & Brown announced recently that it has signed a process agreement with Babcock & Brown Wind Partners (BBW) to look at ways to unlock the embedded value in both BBW's portfolio of operating wind farms and Babcock & Brown's development pipeline and to ensure that we have the capital to maximise the significant future opportunities we have in the sector. We expect to announce asset sales related to this process in the second half of 2008.

That said wind energy development will continue to be a significant origination activity for Babcock & Brown over the longer term.

We have also this year expanded our activities in the area of solar energy and are now building a development pipeline in Europe and commencing activities in North America.

### **SLIDE THREE**

Growth in Assets under Management continued in 2007 with a further 64% increase to A\$72 billion. Following acquisitions made by our specialised funds and asset management platform in the first five months of 2008 AUM has grown to approximately A\$78 billion. These acquisitions include:

- An investment in Forth Ports by Babcock & Brown European Infrastructure Fund;
- The acquisition of strategic investments in the Natural Gas Pipeline (NGPL) in the US by BBI and our North American Infrastructure Fund;
- The capital raising and subsequent acquisition of a number of PPP projects by our London listed social infrastructure fund; and
- A number of aircraft acquisitions by our New York listed aircraft leasing fund.

We have clearly demonstrated, in a number of transactions announced since the beginning of the year, that we have strong debt and equity relationships that continue to support our origination pipeline.

Our recurring revenue streams are growing in line with the significant growth in AUM providing a strong base to our earnings platform.

As demonstrated by the NGPL transaction, our growing and diversified specialised funds' platform gives us a strong competitive advantage in large transactions, giving the different funds the ability to partner and gain exposure to assets that would otherwise create concentration issues for each fund.

As our funds' platform grows and diversifies we will continue to look for opportunities to rethink and strengthen the capabilities of each fund so as to maximise securityholder value.

New fund raising activity across the business in 2008 is focused on the wholesale market and as we have already announced we continue to generate further capital inflows into our wholesale infrastructure funds. We expect to establish new wholesale funds and asset management mandates focused on specific regions and asset classes over the course of 2008 and 2009.

As Jim mentioned we are concerned about the performance of the share prices of our listed funds, in particular the circumstances that lead to the dramatic decline in the BBP share price last week.

We are aware that we need to demonstrate to the market that we can finalise BBP's refinancing and meet its capital expenditure requirements in a way that delivers a capital structure that places the fund in a strong position to move forward.

## BABCOCK & BROWN

While the weak credit markets have slowed BBP's progress in closing its refinancing it has not impacted the underlying quality of the portfolio of assets it holds nor the demand for these assets in the market. We are very confident about the underlying value of the assets in the portfolio both from a strategic sense and on a stand alone basis.

Based on the interest we have received from a wide range of parties we are confident that we will be able to execute on a strategy which will demonstrate the underlying value of the assets and start to restore value for BBP securityholders. We expect to make a number of positive announcements in this regard over the next few weeks.

Babcock & Brown has recently announced a number of initiatives which have reinforced balance sheet strength and reduced gearing. The Group is now well capitalised to fund its growth in 2008 and into 2009.

These initiatives include:

- The expansion of our three year evergreen corporate debt facility from A\$2.35 billion to A\$2.8 billion and the extension of the facility by one year to April 2011. Six new banks joined the syndicate.
- The raising of new A\$400 million project funding facilities secured against European infrastructure assets.
- The placement of shares to raise A\$220 million. The placement was completed to reduce short term net gearing, provide increased liquidity and balances the increased debt capacity from increased corporate debt and asset based project finance facilities.

We have also strengthened alignment between employees and fellow shareholders through:

- An additional allocation of shares in Babcock & Brown and where appropriate deferred remuneration related to the performance of our managed funds.
- The Company utilised A\$100 million to buy shares to fulfil a component of the equity issuance under the 2007 employee remuneration plan.

Following these initiatives the balance sheet is well placed with cash and un-drawn facilities increasing towards our target with asset recycling continuing at a strong pace and further reducing corporate gearing.

The business continues to operate well within all financial covenant ratios.

Further asset recycling is expected in the second half of the year including the already mentioned sale of European wind energy assets. This expected to build further significant liquidity on the balance sheet.

In conclusion while global capital markets remain difficult Babcock & Brown remains on track to deliver on its 2008 guidance of a Group Net Profit of at least \$750 million. The impact of provisions and right downs in the first half and the timing of wind asset sales this year is likely to result in all growth being generated in the second half of the year.

The Infrastructure Division is expected to drive the growth of the Group over 2008 accounting for 60-65% of Net Revenue up from 45% in 2007.

Babcock & Brown's normal asset recycling program will continue over the course of the year with the sell down of various real estate and infrastructure assets. Reinvestment of capital, in particular in the real estate sector, has slowed as we remain cautious on the outlook for global real estate markets.

Management's focus will continue to be on restoring value for securityholders in our listed funds through programs that include consolidation of existing asset portfolios, asset recycling where appropriate and active capital management initiatives such as the BCM buyback.

We will focus on reducing the complexity of the funds and ensuring that each fund is generating strong cashflows to fund distribution growth.

The A\$5 billion of committed uninvested equity in our specialised funds will continue to drive growth across the Group in 2008 and 2009. We will be looking to raise further wholesale capital over the course of 2008 both in our existing funds and new asset or regionally focused funds.

At the same time we will also continue to look for opportunities to expand our global footprint particularly where we can identify strong local talent or partners. This has certainly been the case with respect to the recent office openings in the Netherlands and India where we have recruited strong local teams to drive the business in both markets.

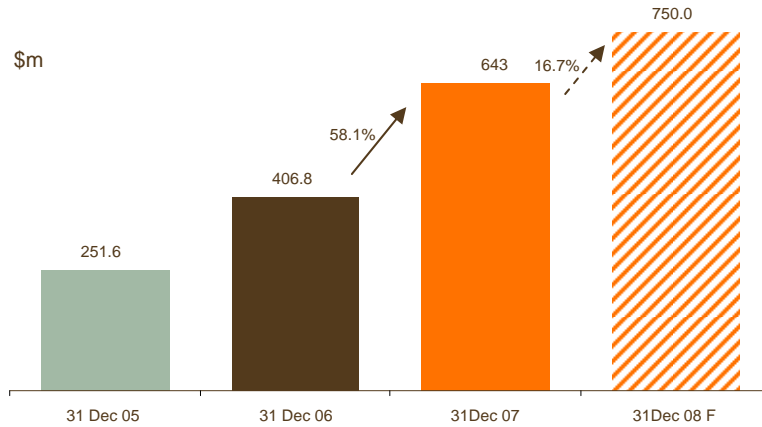
Before I close I would like to emphasize that we understand the importance of our brand and the need to demonstrate to the market that we can create and maintain value for securityholders in both Babcock & Brown and our funds. This as always, will be our clear focus as we steer our way through these more volatile times.

Last but not least, I would like to add my thanks to Jim, the Board, our employees and all key stakeholders who continued to support the business over 2007 and into 2008.

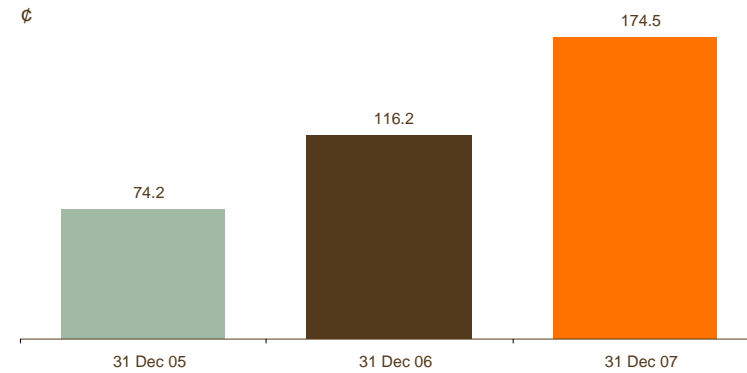
Babcock & Brown  
Annual General Meeting 2008

# 2007 RESULT - MET OR EXCEEDED FINANCIAL TARGETS, FURTHER GROWTH FORECAST IN 2008

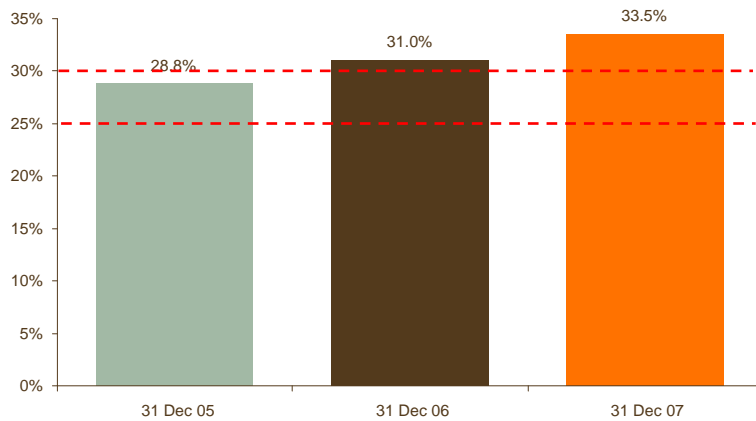
**Group Net Profit Growth**



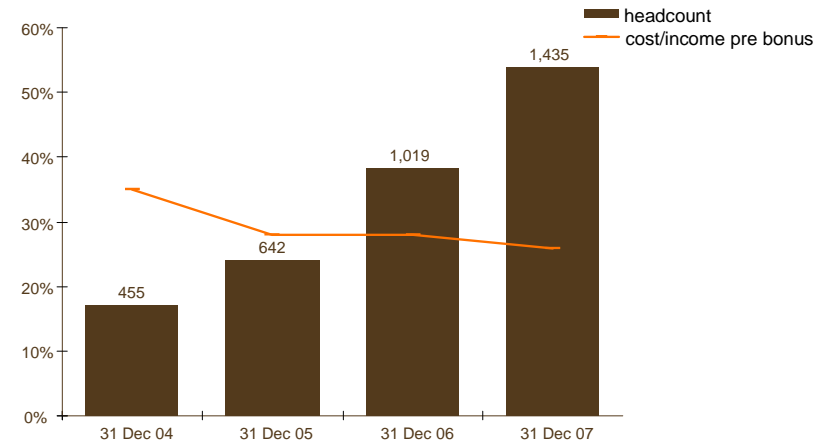
**Fully diluted EPS Growth of 50%**



**ROE 32.4% above our target band of 25-30%**

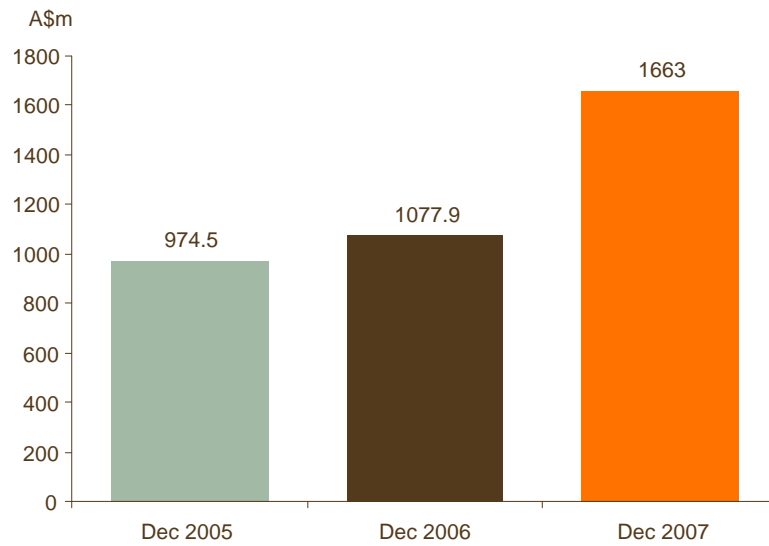


**Cost / Income Ratio Improved**

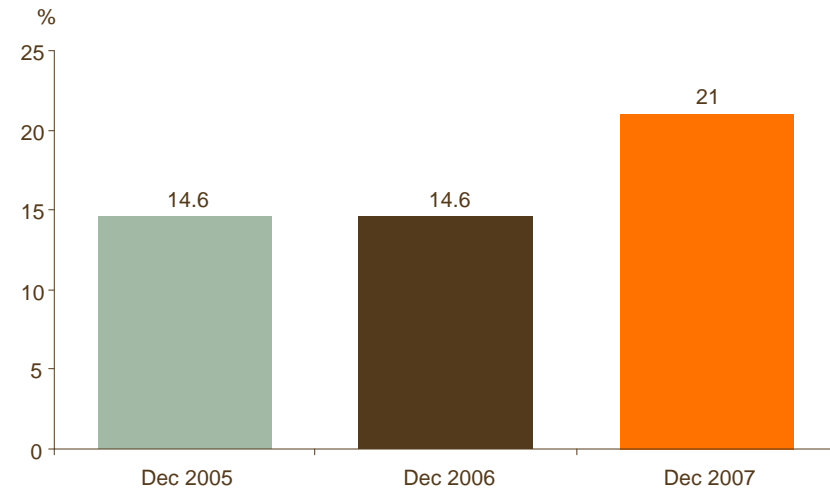


# STRONG DEVELOPMENT PIPELINE

Book Value of Development Pipeline\*



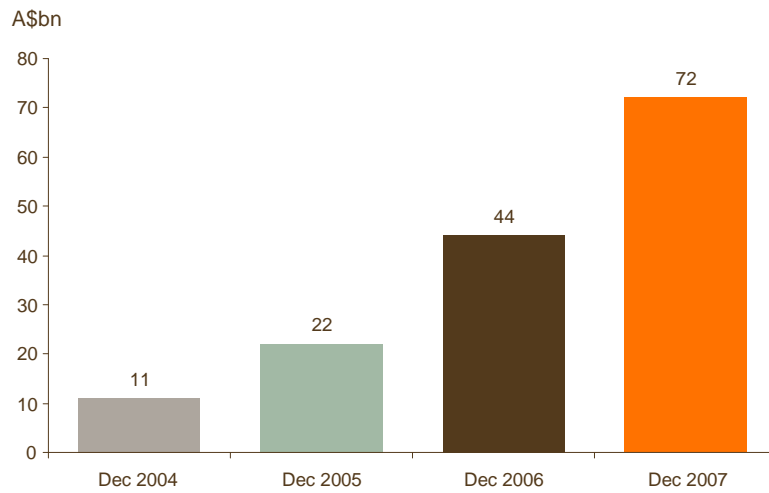
Development Revenue as a % of Total Revenue



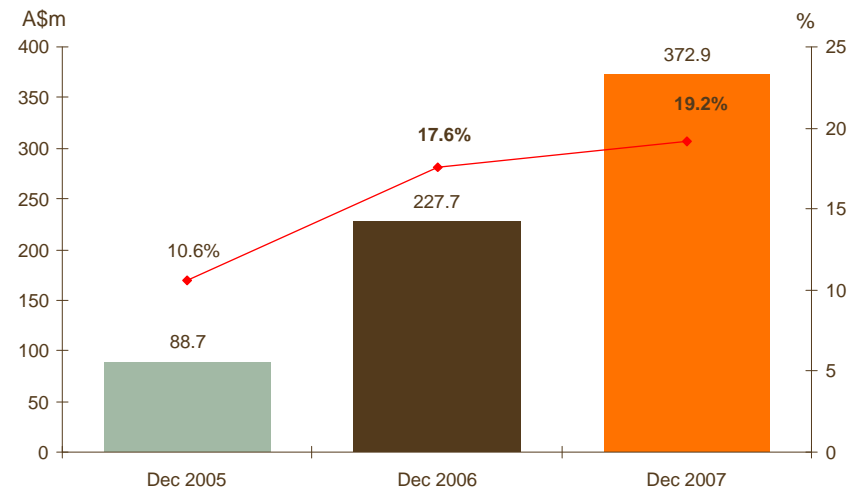
\* Development held at cost

# STRONG AUM GROWTH DRIVING RECURRING REVENUE

### AUM Growth



### Recurring Revenue\* Growth and as a % of Total Revenue



\*Recurring revenue defined as base fees plus co-investment income

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