

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

21 August 2008

2008 INTERIM RESULT & STRATEGIC REVIEW UPDATE

Summary of Result

- Reported Group Profit of \$175 million includes the impact of non-cash impairment charges of \$386 million and realised trading losses of \$55 million across the four divisions.
- Net operating cashflow increased 62% on pcp to \$299.6m
- Rolling 12 month interest cover at 30 June 2008 was 5.3x
- Undrawn capacity and unrestricted cash at 20 August 2008 in excess of \$800 million
- Total remuneration as a % of Net Revenue was 38% compared to 46% on pcp
- Infrastructure Division driver of growth with a 97% increase in Net Revenue¹ generated primarily from the expanded funds and asset management platform and development revenue. Prior to impairment charges net revenue increased 125%
- Prior to impairment charges Real Estate Net Revenue was \$126¹ million. The Division recorded an overall net revenue loss of \$71.7¹ million for the period due to non-cash impairment charges and lower overall trading profits from assets sales.
- At the operating level Aircraft Operating Leasing delivered a small increase on pcp² a good result in the current environment. The reported result of \$118.8 million was impacted by stronger \$A and an impairment charge
- Higher tax rate of 24% reflects strong contribution from North America and the impact of impairment charges flowing through from the GPT Joint Venture.

Six months ended 30 June	2007	2008	chg
Net Revenue (\$'m)	800	561	(30)%
Net Revenue prior to impairment charges and asset revaluations (\$'m)	764	1,002	31%
Operating cashflow (\$'m)	185.5	299.6	62%
EBITDA (\$'m)	393.1	335.7	(15)%
NPAT attributable to the BNB Group (\$'m)	250.1	175.0	(30)%
NPAT to Babcock & Brown Limited (\$'m)	199.6	150.9	(24)%
Basic EPS (¢)	72.1	47.9	(34)%
Assets under Management (\$'bn)	52.6	74.4	41%

¹ After minority interests

² Prior to impairment charge and impact of currency movements over pcp

Sydney
Melbourne
Brisbane
Auckland
Vancouver
San Francisco
San Diego
Dallas
Houston
Toronto
New York
Greenwich
Dublin
Madrid
London
Paris
Amsterdam
Luxembourg
Milan
Munich
Rome
Vienna
Tel Aviv
Johannesburg
Mumbai
Dubai
Kuala Lumpur
Bangkok
Singapore
Hong Kong
Perth
Tokyo

BABCOCK & BROWN

International investment and specialised fund and asset management group Babcock & Brown (ASX: BNB), today announced a 2008 Interim Group Net Profit after tax of A\$175 million.

Operating cashflow increased 62% over pcp to \$299.6 million reflecting the non cash nature of most of the losses in the reported profit result.

New investment in the development pipeline included a 14% increase in wind energy development to \$748.5 million, a further \$50 million invested in solar energy development and \$24.5 million in public private partnership projects. Total development investment declined to \$1.2 billion due to the reclassification of completed real estate, and renewable fuel projects and the sale of the Transbay cable project.

During the six month period the three key business divisions focused on further institutional capital raising initiatives, with in excess of \$2.6 billion of new capital commitments raised from co-investment partners. Uncommitted capital under discretionary management in our wholesale infrastructure funds at the current time is A\$3.2 billion. Managed capital to expand aircraft under management in our Operating Leasing Division is in excess of US\$584 million.

Dividend Policy

As a matter of prudence, no dividend will be paid until sufficient progress has been made on corporate debt reduction. Dividends are expected to re-commence in 2009.

Strategic Review Update

As part of the strategic review the Group is undertaking, Babcock & Brown also announced today a series of Board and Senior Executive changes. The changes include the decision by Managing Director and CEO, Phil Green, to step down from his Executive Director role with current CFO, Michael Larkin becoming Managing Director and CEO effective immediately. Mr Green will remain on the board as a Non-Executive Director.

Mr Larkin said, "Over the last few years in particular, Babcock & Brown has been very successful at achieving substantial growth based on the high levels of liquidity in the capital markets. This has led to the group being too highly leveraged and not sufficiently focussed. In view of the changed market environment, we are taking the necessary steps to reduce the leverage and refocus the Group on the areas where we can best deliver earnings growth for Babcock & Brown shareholders and investment performance for our Limited Partners and, investors in our funds other co-investors over the longer term, without taking undue risk.

"While the strategic review, which is being conducted with input from financial advisers Deutsche Bank and Goldman Sachs has some way to go, we are effecting four key areas of change that accelerate the evolution of Babcock & Brown's business to a leading global alternative investment originator and asset manager:

1. Focus resources and capital on sectors where the company has a clear and proven competitive advantage in both origination and asset management – Infrastructure; Real Estate; and Operating Leasing.
2. Reduce the risk profile of the business through a de-leveraged and more transparent balance sheet. We will reduce the level of principal investment activity the firm undertakes and increase the emphasis on operating returns through growth in AUM. Consistent with this, we will target a lower ROE of 15-20% and operating cost savings run rate of at least 20% of annualised 2008 1H cost base to be delivered by the end of 2009.
3. Adopt a more disciplined approach to the allocation of capital focused on co-investment and development activities, confined to our key business areas.
4. Enhance the alignment of interests between shareholders, fund investors, LP and other co-investor interests.

Mr Larkin said the primary purposes for which the balance sheet will be used can be broadly summarised as;

- Co-investment in our specialised fund and asset management platform.
- Greenfield and brownfield development of assets in our key business areas.

“To implement these changes, we have restructured the senior management team to improve capital allocation decisions across the Group” Mr Larkin said.

The senior management restructure includes:

- **Creation of Chief Investment Officer (CIO) Role** – Peter Hofbauer. In this role Peter will be responsible for the investment process across Babcock & Brown.
- **Capital Markets Group to support all businesses** – Headed by Richard Allsopp and Martin Rey this group will co-ordinate our interaction with long-term providers of capital across the key business and be responsible for deepening our existing relationships
- **Infrastructure division organised into three regional units reporting direct to CEO** – EMEA - Antonio Lo Bianco; North America - Mike Garland; Asia Pacific John Bowyer
- **Real Estate and Aircraft Operating Leasing continue as global units** headed by Eric Lucas Steve Zissis
- **COO** – David Ross to focus on achievement of reduced group operating cost base and restructuring employee compensation to achieve better shareholder / investor alignment
- **New CFO** – currently considering both internal and external candidates, a further announcement will be made shortly.

“The Corporate & Structured Finance Division (CSF) will gradually be wound down. Other assets and businesses not within the key areas of focus will be kept under review and divested or wound down as appropriate to maximise shareholder value,” he said.

“Existing private equity funds, BBDIF and BBGP, will continue to be managed by Babcock & Brown and have access to the Group’s co-investment pipeline. BBC, BCM,

BABCOCK & BROWN

BBGI also will continue to be managed by Babcock & Brown and will pursue strategies, as previously announced, to maximise value for investors” said Mr Larkin

Rob Topfer, Head of the Corporate and Structured Finance Division will step down from that role, however he will continue to be a Director of and actively involved in BCM, BBC and BBDIF.

“The strategic review to restore value to the Australian listed funds platform also continues with fund Board initiatives underway in most funds. We remain committed to having both listed and unlisted funds, in key focus areas to ensure that value is delivered for investors,” Mr Larkin said.

Outlook

As previously advised, the Group 2008 NPAT is not expected to be above the 2007 Group NPAT of \$643 million. The result is dependent on market conditions and:

- execution on the 2008 transaction pipeline
- 2008 asset sales program
- progress in relation to restructuring and cost reduction program
- impact of costs associated with the restructure

Mr Larkin said, “The volatile global capital market conditions have made and continue to make business conditions uncertain and forecasting in the short term difficult. The environment has created a number of challenges for the Group which we are actively working through at the current time to reach resolutions which endeavour to weigh the interests of all stakeholder groups.

“We believe that the changes to the business announced today will better equip Babcock & Brown to operate in the current market environment, to build on its leading position in its key markets and position itself for ongoing earnings growth in future years.

“I particularly want to acknowledge the continuous commitment and support of Babcock & Brown’s employees. The last few months have been very challenging and their support is key to the success of the Group,” Mr Larkin said.

ENDS

For further information please contact:

Kelly Hibbins

Babcock & Brown

+61 2 92291866

kelly.hibbins@babcockbrown.com

APPENDIX

Michael Larkin

Michael holds a Bachelor of Commerce degree from the University of NSW, is a member of the Institute of Chartered Accountants and the Taxation Institute of Australia.

Prior to joining Babcock & Brown, Michael was Group Financial Controller for Lend Lease Corporation, based in London. In this and other roles in his 7 years with Lend Lease he developed a strong set of skills and experiences in dealing with financial and management reporting for a global company listed on the Australian Stock Exchange. Michael was with Coopers & Lybrand for 13 years, culminating in the position as Director of Tax Services in the financial services sector.

Michael joined Babcock & Brown in August 2004 as Chief Financial Officer

Mike Garland

Mike Garland is head of Babcock & Brown's North American Infrastructure Group. Mike has over 25 years experience developing, constructing, managing and investing in infrastructure in the US and around the world. Mike's experience includes creating and advising on government privatisations, transactions in the energy, transport and water sectors, and overseeing Babcock & Brown's infrastructure advisory and investment businesses in North America. Mike sits on several boards of Babcock & Brown operating companies, holds a Bachelor of Arts in physics from the University of California at Berkeley and is a registered representative of NASD. He is based in the San Francisco office.

Antonino Lo Bianco

Antonino Lo Bianco is the Head of European Infrastructure and Project Finance. He was a founder of Babcock & Brown Milan office in 1993. Prior to this he worked for Nomura International plc. As a member of the Italian Corporate Finance group since 1991, he has been involved in debt financing for Italian banks and corporations, asset-based financing and privatisation equity issues. Prior to joining Nomura he worked as a management consultant in London. Antonino is a graduate in Business Administration from Bocconi University. He is based in the Milan office

John Bowyer

John joined Babcock & Brown in September 2005 and heads up their PPP and Social Infrastructure Group.

Prior to this, John was Head of the Infrastructure Capital team at ABN AMRO. John joined ABN AMRO in 1998 after 20 years with Hansen Yuncken where he led the project development group.

The ABN AMRO infrastructure group was widely recognised as one of the leaders in structuring social and economic infrastructure transactions and for taking the principal position on these projects.

Some of the more recent projects John has worked on include Darwin Convention & Exhibition Centre, Brisbane Square Development, NSW New Schools Project Tranches 1 & 2, Southbank Education and Training Precinct Development Project, Spencer Street Station Redevelopment, EDS Asia Pacific Headquarters, Mt Gambier Hospital, CSIRO Corporate Headquarters, NSW Police Headquarters in Parramatta, Victoria Point (500 apartment residential development in Melbourne's Docklands).

John holds a Bachelor of Applied Science from the University of South Australia.

Richard Allsopp

The management of the global unlisted capital raising activities will be headed by Richard Allsopp who joined Babcock & Brown in May 2008.

Prior to joining Babcock and Brown, he co-founded and headed the Private Funds Group of the Investment Banking Division of UBS in Europe. During his 10 years with UBS, this team raised more than \$100billion for 50 unlisted funds for a variety of external managers. While at UBS he also led the successful fundraising activities for our European Infrastructure Fund and North American Infrastructure business.

Richard's experience in private equity fund development, his wide network of relationships with investors globally and his deep knowledge of Babcock & Brown combine to position us well to understand investors objectives and structure products that will meet their requirements."

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

Babcock & Brown operates from 33 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