



28 February 2006

ASX Announcement

Completion of Acquisition: New England - New York Cross Sound Cable

Babcock & Brown Infrastructure (ASX: BBI) today announced the completion of the acquisition of the Cross Sound Cable, which links the electricity grids of New England and New York.

As announced by BBI on 9 November 2006, BBI entered into a purchase agreement with TransEnergie HQ Inc and UIL Holdings to acquire the membership interests in the Cross Sound Cable Company LLC for approximately US\$213 million (A\$280 million) and an equity requirement of US\$25.7 million (A\$34.3million) excluding cash reserves. The Cross Sound Cable Company has 100% ownership of the Cross Sound Cable Project.

The acquisition was subject to a number of regulatory approvals, all of which have now been satisfied and the transaction was completed overnight in the United States.

The Cross Sound Cable was commissioned in 2002 and is a High Voltage Direct Current (HVDC) transmission interconnector, linking the New England and New York electricity grids. It consists of 39km of 150kV under sea cable, terminating in two on-shore converter stations utilising AC/DC conversion technology designed, built and supported by ABB Power T&D Inc ("ABB"). The interconnector can transmit up to 330MW continuously, and can flow electrical current in either direction. The cable entered into continuous operation early in 2005.

The entire transmission capacity of the cable is contracted to the Long Island Power Authority (LIPA) until June 2032. LIPA is an A3/A- rated municipal power authority. Payments by LIPA to the cable owner are based on availability of the cable which is expected to be in excess of 98%. Contracted revenues escalate by a fixed percentage per annum over the life of the contract (subject to achieving availability criteria). There is also a one off material increase in base contracted revenue which will occur by no later than 1 July 2008.

The Cross Sound Cable is an essential component of the growing but capacity-constrained New York and New England electricity markets. The importance of the cable to the region is therefore expected to increase over time.

The acquisition cost reflects an EV/EBITDA multiple of less than 13.7 times (excluding transaction costs), by 1 July 2008. The majority of operating costs are stable and there is a comprehensive inventory of spare components held on both sides of the cable at the converter stations. The asset is also early in its engineering life, having been commissioned in 2002. Ongoing capex requirements are low with this type of long-life electricity asset.

All key members of the existing operations team have been retained and will continue in their current roles. This is an important benefit as the team has extensive knowledge of the asset, having been involved in its development and commissioning.

BBI will fund the acquisition through a ring-fenced, secured, 5 year project financing of US\$193.1million and equity. Project gearing is approximately 90% due to the secure and predictable nature of the cash flows of the project and the long life of the asset. The underlying base interest rate has been fixed for the duration of the contract with LIPA (i.e. until June 2032). The project has a post tax equity IRR in excess of 12%. BBI may elect to partly fund the equity requirement with BBI corporate debt (drawn in USD) to cost-effectively hedge currency risk.

Chief Executive Officer of BBI, Mr Steven Boulton, said of the completion of the acquisition: "Now that we are the owners and managers of Cross Sound Cable, we can utilise our skills in integrating the asset into the BBI portfolio to maximise the returns to BBI security holders generated by this asset. The investment should also provide us with a springboard into the United States infrastructure market and allow us to better take advantage of future opportunities there as they arise."

Further detail on the Cross Sound Cable Project and the transaction is contained in the attached presentation.

Other BBI portfolio highlights

Recently there have been a number of other additional positive developments in the BBI portfolio.

- The **PD Ports** transaction in the United Kingdom was successfully completed on 10 February 2006, with BBI receiving in excess of 90% acceptances of both shares and convertible bonds and commencing the process of compulsorily acquiring the balance. Integration of the business into BBI's portfolio is well underway and is progressing to the target completion date. The rigorous analysis and thorough due diligence undertaken prior to BBI's bid for PD Ports appears to be well founded as further analysis of the business and detailed discussions with PD Ports management following the acquisition confirm the assumptions made in the acquisition of PD Ports.

Following the acquisition, the ASDA/Walmart distribution centre at Teesport is now complete and about to commence operation. This important development will be the main distribution centre for ASDA/Walmart in the UK and is expected to provide additional container traffic, conservancy and property rental revenue to PD Ports. Discussions are underway with a number of other parties interested in a similar opportunity to replicate this development. PD Ports has sufficient land to support five additional developments of this type at the Teesport site.

Agreement with Corus (Teesside steel manufacturer) to export the majority of its output through Teesport is also close to completion. The export of the majority of the output of the Corus facility will also result in strong increases in conservancy and container handling revenue for PD Ports. Ramp up to full volume for the export of the Corus facility volumes is expected to occur over the next 12-18 months.

- BBI's other Europe-based asset **IEG** operates in the UK gas distribution market. The regulator in the UK, OFGEM, has recently confirmed the regulation of the Independent Electricity Transmission (IET) market in the UK with IEG actively pursuing entry into this market. The IET market has similar investment characteristics as the Independent Gas Transmission (IGT) market. IEG has approximately a 35% share of the IGT market in the UK and has established strong relationships with property developers that service both the IGT and IET markets. The IET market is the 'last mile' connection for electricity to new developments and the total market is estimated at approximately 170,000 new connections per annum. IEG is aiming to become active in the IET market within the next 6 months thereby generating additional revenue for BBI.
- Moody's rating service recently issued a rating for BBI's senior secured corporate level debt. Moody's assigned the investment grade rating of Baa3.
- Following the conclusion of the current non-renounceable entitlement issue, BBI will have sufficient market capitalisation where it is likely to be considered for inclusion in the S&P ASX 100 index, when the composition of that index is next reviewed.

Ends.

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ACQUISITION OF THE CROSS SOUND CABLE (CSC) BUSINESS



Transaction Overview – Meets BBI’s Investment Criteria

Transaction Overview



- BBI announced on 9 November 2005 the purchase of the Cross Sound Cable Project, subject to certain regulatory approvals, for US \$213 million (A\$280million equivalent).
- BBI has successfully received all necessary regulatory approvals and the transaction reached financial close in New York on 27 February 2006.
- Equity requirement \$US25.7m (A\$34.3m) excluding cash reserves.

Meets BBI’s Investment Criteria



- CSC has a stream of long term, stable, predictable and secure availability based cash flows from a creditworthy (A3/A- rated) counterparty: Long Island Power Authority (LIPA)
- CSC provides BBI with an attractive entry point into the US infrastructure market & positions BBI to take advantage of future opportunities in the US
- Key CSC operations staff and management have been retained
- EV / EBITDA multiple is less than 13.7 times (excluding transaction costs) by 1 July 2008. EBITDA amounts include expected ongoing operating costs and all replacement / repairs and maintenance capex



Overview of Cross Sound Cable – Operating Assets with Predictable Cash Flow

Asset Description >

- CSC is a High Voltage Direct Current (HVDC) transmission interconnector, linking the New England and New York transmission grids.
- Was commissioned in 2002 and entered into continuous operation in 2005.
- Consists of 39km of 150kV under water cable, terminating in on-shore converter stations, utilising AC/DC conversion technology designed and constructed by ABB.
- CSC can transmit up to 330MW continuously, current (power) can flow in either direction.

Revenue Predictability >

- The entire capacity is subscribed to LIPA (an A3/A- rated municipal power authority) until June 2032.
- Payments are based on availability assessed on a monthly basis. Availability requirements allow for planned maintenance outages.
- Contracted revenues escalate by a fixed percentage per annum over the life of the contract (subject to achieving availability criteria). However, there is a one off material increase in base contracted revenue which will occur by no later than 1 July 2008.
- Design life of the Project (estimated at 40 years) exceeds the term of the contract and the projected availability over the design life is expected to be in excess of 98%.

Operating Costs are Readily Managed

Operations and Maintenance



- Key management and O&M staff have been retained.
- CSC technology provider, ABB, will continue to provide technical support and supply converter station components.
- Majority of operating costs are stable with low ongoing capex requirements.
- Comprehensive stock of spare components at each converter station

Debt Funding



- CSC funded with US\$193.1m limited recourse, ring fenced debt (5 year term). Gearing (90%) level achievable due to the secure and predictable nature of the cash flows
- An interest rate swap has been entered into which effectively fixes the underlying base rate for the term of the LIPA contract.
- Interest rates are sculptured for the term of the debt with the contracted revenue profile starting from 5.42% to 6.22%.
- BBI may elect to part fund equity component with BBI corporate debt (drawn in USD) to cost effectively hedge currency risk.

Investment Criteria

Investment criteria



STRATEGIC

CSC provides an opportunity for BBI to acquire a long term strategic asset in the US, where it expects to be able to take advantage of future opportunities which meet its investment criteria.



SECURITY HOLDER WEALTH

CSC is expected to be yield accretive on a cash flow per security basis.



APPROPRIATE RISK/RETURN

The CSC business has high revenue certainty from the long-term contract and has limited regulatory risk. The entire capacity of the cable for the next 26 1/3 years has been contracted to a high creditworthy (A3/A- rated) municipal power authority. The CSC assets are also considered to have low operating risks with stable cost structures.



ABILITY TO OPTIMISE CAPITAL STRUCTURE

Debt in the same currency as the asset provides a good natural hedge. Gearing is 90% at the asset level. Underlying base interest rate is fixed for the term of the LIPA contract.

Value Proposition

Investment criteria

+

Discipline

+

Execution
(including integration)

=

Sustained success
measured in increasing
security holder wealth

Summary Financials

Pro Forma Financial Information for the year ended 31 December 2005 are as follows:

	Notes	FY 2005*
		A\$'000
Revenue	1	24,456
EBITDA	2	16,563
Interest	3	(13,955)
Yield	4	7.6%
Projected Equity IRR		> 12%

* All USD amounts have been converted at an exchange rate of 1AUD – 0.75 USD

- 1. Revenue extracted from the CSC audited financial statements for the year ended 31 December 2005. CSC contracted revenues escalate by a fixed percentage per annum over the life of the contract (subject to achieving availability criteria). However, there is a one off material increase in base contracted revenue which will occur by no later than 1 July 2008.
- 2. EBITDA amounts include BBI's estimate of expected ongoing operating cost and all replacement / repairs and maintenance capex included in EBITDA..
- 3. Pro forma interest is based on debt on acquisition of UD\$ 193.1 million at an interest rate of 5.42%. BBI may choose to fund part of the equity with BBI Corporate debt to mitigate the currency risk.
- 4. Yield calculated as a percentage of cash available to pay distribution as a percentage of equity (excluding up cash reserves). Material step up in revenue to occur in the near term.