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## Alinta Scheme Booklet Part B

For schemes of arrangement between Alinta Limited (ABN 11 119 985 590) and the holders of ordinary shares in Alinta Limited and the holders of options issued by Alinta Limited and an associated capital reduction in relation to the acquisition of Alinta Limited by ES&L Pty Ltd, a bidding vehicle of a Consortium formed by Babcock & Brown International Pty Ltd and Singapore Power International Pte Ltd.

# VOTE YES

**Your directors unanimously recommend that you vote in favour of the Scheme Proposal in the absence of a superior proposal and provided that the Independent Expert continues to conclude that the Scheme Proposal is in the best interests of Alinta Securityholders.**

**For United Kingdom only:**

This Booklet is provided to Alinta Shareholders resident in the United Kingdom in accordance with an exemption to the restriction on financial promotions in section 21 of the Financial Services and Markets Act 2000 (UK), which permits communications relating to the sale of Alinta.

**For Hong Kong only:**

This Booklet is for the exclusive use of Alinta Shareholders in connection with the Scheme Proposal. Accordingly, this Booklet must not be distributed, published, reproduced or disclosed (in whole or in part) by Alinta Shareholders to any other person in Hong Kong other than in connection with an Alinta Shareholders' consideration of the Scheme Proposal. This Booklet does not constitute an offer or invitation for the subscription, sale or purchase of securities in Hong Kong and shall not form the basis of any contract. The contents of this Booklet have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to its contents. If you are in any doubt about any of the contents of the Booklet, you should obtain independent professional advice.

CARNEGIE, WYLIE & COMPANY



BLAKE DAWSON WALDRON  
LAWYERS

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## Important notice

### Purpose of this Booklet

This Booklet is the explanatory statement required to be sent to Alinta Securityholders under Part 5.1 of the Corporations Act in relation to the Schemes. The purpose of this Booklet is to explain the terms of the Schemes and the accompanying Capital Reduction and the manner in which they will be implemented (if approved) and to provide all information that is prescribed or otherwise material to the decision of Alinta Shareholders whether or not to approve the Share Scheme and the Capital Reduction and the decision of Alinta Optionholders whether or not to approve the Option Scheme.

### Read entire Booklet

This Booklet is comprised of a separate Part A which provides a summary overview of the Scheme Proposal and this Part B which contains more detailed information.

Alinta Securityholders are encouraged to read both Part A and Part B of this Booklet in their entirety before making a decision on whether or not to vote in favour of the Share Scheme or the Option Scheme or, in the case of Alinta Shareholders, in favour of the Capital Reduction.

### Status of Booklet

This Booklet is not a disclosure document required by Chapter 6D of the Corporations Act. Section 708(17) provides that Chapter 6D of the Corporations Act does not apply in relation to arrangements under Part 5.1 of the Corporations Act approved at a meeting held as a result of an order under section 411(1). Similarly, this Booklet is not a product disclosure statement required by Chapter 7.9 of the Corporations Act. ASIC Class Order 07/9 provides that Chapter 7.9 of the Corporations Act does not apply in relation to arrangements under Part 5.1 of the Corporations Act approved at a meeting held as a result of an order under section 411(1).

Instead, shareholders asked to vote on an arrangement at such a meeting must be provided with an explanatory statement as referred to above.

### Investment decisions

This Booklet is intended for all Alinta Securityholders collectively and does not take into account the investment objectives, financial situation and particular needs of each Alinta Securityholder or any other particular person. This Booklet does not constitute financial product advice and should not be relied upon as the sole basis for any investment decision in relation to the Scheme Proposal, Alinta Shares, Alinta Options, B&B Fund Securities, BBI EPS or APA Securities. Before making any investment decision in relation to the Schemes, Alinta Shares, Alinta Options, B&B Fund Securities, BBI EPS or APA Securities, you should consider, with or without the assistance of an adviser, whether that decision is appropriate in the light of your particular investment needs, objectives and circumstances. If you are in any doubt about what you should do, you should seek independent financial and taxation advice

before making any investment decision in relation to the Schemes, Alinta Shares, Alinta Options, B&B Fund Securities, BBI EPS or APA Securities.

### Forward looking statements

Certain statements in this Booklet relate to the future, including forward looking statements relating to the B&B Fund Securities and BBI EPS as set out in sections 5, 6, 7 and 8. Such statements involve known and unknown risks, key considerations, uncertainties, assumptions and other important factors that could cause the actual results, performance or achievements of the B&B Fund Securities, BBI EPS and the APA Securities to be materially different from expected future results, performance or achievements expressed or implied by such statements. These factors include, among other things, general economic conditions (including currency exchange rates and interest rates), the regulatory environment, changes in the industries to which the B&B Fund Securities and the APA Securities are exposed, competitive pressures, selling prices and market demand. Unless otherwise stated, these statements reflect only views held at the date of this Booklet.

None of Alinta, the Bidder or the Consortium Parties, any directors, officers, employees or advisers of those entities nor any other person gives any representation, assurance or guarantee that the events expressed or implied in any forward looking statements in this Booklet will actually occur or that other events will not occur and you are cautioned not to place undue reliance on such forward looking statements.

Subject to any continuing obligations under law or the Listing Rules (and except as noted in section 15.26), Alinta and the Alinta Directors disclaim any obligation or undertaking to disseminate after the date of this Booklet any updates or revisions to any forward looking statements to reflect any change in expectations in relation to those statements or any change in events, conditions or circumstances on which any such statement is based other than to comply with legal obligations or the Listing Rules.

### Estimates

All references to estimates and derivations of the same in this Booklet are references to estimates by the person responsible for the relevant statement, unless otherwise indicated. Unless otherwise indicated, these estimates are based on views at the date of this Booklet, and actual facts or outcomes may be materially different from those estimates.

### Financial information

Unless otherwise specified, references in this Booklet to the financial results or position of a B&B Fund are to the pro forma and actual financial results or position of that B&B Fund set out in sections 5, 7 or 8 as applicable, which have been prepared on the basis set out in those sections.

The financial material in relation to Alinta included in sections 1.6 and 11 has been prepared from historical information. Alinta is an entity to which ASIC class order 98/100 applies. This enables the consolidated entity's accounts to be rounded to the nearest tenth of a million dollars (i.e. to the nearest \$100,000). As a result of the presentation of the pro forma financial information and associated analysis in the format necessary for this Booklet, amounts presented may have been rounded differently to previously published data and/or the Investigating Accountant's Report in Annexure F. These differences are immaterial and do not affect the integrity of these pro forma financial statements.

### Preparation of, and responsibility for, this Booklet

#### (a) Preparation by Alinta

Except as outlined below, this Booklet has been prepared by Alinta as at the date of this Booklet and Alinta is responsible for this Booklet.

#### (b) Bidder Information

The following statements and information in this Booklet have been prepared by the Bidder and provided to Alinta for inclusion in this Booklet to enable this Booklet to comply with all legal requirements under the Corporations Act, the Corporations Regulations and under ASIC Policy Statements 60 and 142:

##### (i) Part A

- > Letter from the Consortium;
- > Asset Allocation table contained in the section headed the Consortium's Intentions for the Alinta Assets, together with the sentence immediately preceding that Figure; and
- > The following section of the Questions and Answers
  - > What is the effect of the Scheme Proposal? (final sentence).

##### (ii) Part B

- > Figure 1.2 (Alinta Asset Allocation table) together with the sentence immediately preceding that Figure;
- > section 2.8(c) (Other relevant considerations for Alinta Optionholders) (last two sentences only);
- > sections 4.1, 4.3(a), 4.3(b), 4.3(c)(i), 4.3(d)(i), 4.3(e) and 4.3(h) (Overview of Bid Consortium);
- > section 5.6(e) (second paragraph of Alinta Asset Management (AAM) – 100%);
- > section 10.5 (last sentence of paragraph 3 – Divestment constraints);
- > section 10.6 (Undertakings by the Consortium Parties);
- > section 12.3(b)(v) (last two paragraphs of ACCC Undertakings);
- > section 12.3(d) (last two sentences of first paragraph of Technology Risks);
- > section 13.2(f) (Conditions Precedent to Implementation of the Share Scheme) (second paragraph only);
- > section 13.2(h) (Payment of Share Scheme Consideration and the APA Distribution (except the last two paragraphs which relate to the APA Distribution));
- > section 13.2(k) (paragraph 4) (Cash Out Facility);

- > section 13.3, last two sentences ("If this circumstance arises, it is the Bidder's current intention to exercise that right.");
- > section 15.4 (paragraphs 4 to 9) (Additional Information for Alinta Optionholders);
- > section 15.7(a) (Share Scheme Consideration split);
- > section 15.8 (Details of Consortium) excluding the final dot point in the first paragraph and the first dot point in the final paragraph (dealing with distribution of APA Securities);
- > section 15.9 (Immediately after the Implementation of the Share Scheme);
- > section 15.10 (Description of loan notes);
- > section 15.12(a) and (b) (Material contracts – Consortium arrangements);
- > section 15.13 (Consortium acquisitions in the last four months and benefits as it relates to the Bidder);
- > section 15.20 (Removal of Alinta from the official list);
- > section 15.21(a)(iv) and (v) (Consents to be named);
- > section 15.21(b)(iii) (Consents to the inclusion of information);
- > section 15.21(c) (Disclaimers of responsibility in respect of the consents referred to above);
- > section 15.22 (Disclosure of interests of certain persons, as it relates to the Bidder);
- > section 15.24(c) (ACCC undertakings offered by BBI, BBP and SPI);
- > section 15.28 (Broker handling fees); and
- > defined terms (1) used solely or predominantly in the Bidder Information, or (2) which relate to the Bidder or any of its businesses or assets,

(together referred to as the **Bidder Information**).

The Bidder is responsible for the Bidder Information.

Alinta and each member of the Alinta Group:

- > has not verified this Bidder Information;
- > has relied on the Bidder to verify this Bidder Information; and
- > accordingly, disclaims responsibility and liability for this Bidder Information.

#### (c) SPI Information

The following statements and information in this Booklet have been prepared by SPI and provided to Alinta for inclusion in this Booklet to enable this Booklet to comply with all legal requirements under the Corporations Act, the Corporations Regulations and under ASIC Policy Statements 60 and 142:

##### Part A

- > Letter from the Consortium – "Who is SPI?" section.

##### Part B

- > How to vote (under the heading "Who is entitled to vote at the Meetings and what is the procedure?"): last paragraph regarding SPI's interest in Alinta Shares;
- > section 4.2(a) (Description of SPI);
- > section 4.3(c)(ii) (SPI Continuation of business);

- > section 4.3(d)(ii) (SPI's current intention in relation to employees of SPI's Alinta Assets);
- > section 15.7(b) (Singapore Power International's equity funding);
- > section 15.13 (Consortium acquisitions in the last few months and benefits – as it relates to SPI);
- > section 15.21(b)(vii) (Consent to the inclusion of information);
- > section 15.21(c) (Disclaimer of responsibility in respect of SPI only);
- > section 15.22 (Disclosure of interests of certain persons, as it relates to SPI); and
- > section 15.30(e) (Further information); and
- > defined terms (1) used solely or predominantly in the SPI Information, or (2) which relate to SPI, its related bodies corporate or any of its businesses or assets,

(together referred to as the **SPI Information**).

SPI is responsible for this SPI Information. Alinta, each member of the Alinta Group, B&B and any of the B&B Funds:

- > have not verified the SPI Information;
- > have relied on SPI to verify the SPI Information; and
- > accordingly, disclaim responsibility and liability for the SPI Information.

#### **(d) B&B Information**

The following statements and information in this Booklet have been prepared by B&B and the B&B Funds and provided to Alinta for inclusion in this Booklet to enable this Booklet to comply with all legal requirements under the Corporations Act, the Corporations Regulations and under ASIC Policy Statements 60 and 142:

##### **(i) Part A**

- > Summary of key dates (final item as it relates to the despatch of holding statements for B&B Fund Securities and BBI EPS);
- > "Value of Consideration" and "What you will receive" (except as it relates to the APA Securities);
- > information contained in "Why you should vote to approve the scheme proposal", summary page, item (6) and section headed "6. You have the opportunity to receive securities in Babcock & Brown managed infrastructure entities that are listed on ASX and have a proven track record of performance";
- > information contained in section "8. You can elect to maximise the number of preference shares you receive, which is expected to maximise your CGT roll over relief" (second sentence);
- > sentence relating to facility for Alinta Shareholders to top-up any unmarketable parcels under the headings "Top-Up Facility" and "Disadvantages and risks of the Scheme Proposal";
- > "Disadvantages and risks of the Scheme Proposal" paragraph commencing "If you receive B&B Fund Securities (including the four bullet points) and paragraph commencing "Unlike Alinta...";
- > Forms of Consideration (only graphs and sentence that "Babcock & Brown has confirmed that it will elect the Maximum Securities Alternative in respect of its 2.7% shareholding in Alinta");

- > Statement "Babcock & Brown will acquire certain development projects" under the heading "The Consortium's intentions for the Alinta Assets";
- > information contained in the section "Overview of Consideration Securities" as it relates to BBI, BBP, BBW, BBI EPS and B&B (and excluding the first and third paragraphs and the location of assets maps relating to the BBI Alinta Assets and the BBP Alinta Assets only).
- > The following sections of the Questions and Answers:
  - > What are BBI EPS?
  - > Why will I not receive CGT roll over relief on any B&B Fund Securities and APA Securities I receive? (part of the second sentence "...as BBI EPS Limited (the issuer of BBI EPS) owns 100% of the Bidder")
  - > Is there an alternative under which I can receive 100% CGT roll over relief? (second last and third last sentences)
  - > When will I receive the Consideration?
  - > Will I be required to pay broker fees or stamp duty?
  - > When will I receive my BBI EPS, B&B Fund Securities and APA Securities?
  - > What distributions am I entitled to receive from the B&B Fund Securities?
  - > What if I do not want to keep BBI EPS, B&B Fund Securities or APA Securities?
  - > What other information is available? (sentence commencing "Further information on the Consideration Securities..." as it relates to BBI, BBP and BBW).

##### **(ii) Part B**

- > How to vote (under the heading "Who is entitled to vote at the Meetings and what is the procedure?"): statement regarding B&B's current interest in Alinta Shares;
- > section 1.1 (sentence that "Alinta Shareholders who trade these securities on ASX on a deferred delivery basis before receiving advice on their final entitlements do so at their own risk");
- > section 1.1 (Value of Share Scheme Consideration and APA Distribution);
- > "Babcock & Brown will acquire certain development projects" statement after Figure 1.2 (Alinta Asset Allocation Table);
- > section 2.7(a)(iv) (Benefits of the Scheme Proposal);
- > section 2.8(b) (Benefits, disadvantages and risks of the Scheme Proposal for Alinta Optionholders): statement that the value of the Consideration will fluctuate with B&B Fund Securities' prices;
- > section 2.8(c), last two sentences ("If this circumstance arises, it is the Bidder's intention.");
- > section 4.2(b) and (c) (Descriptions of B&B and the B&B Funds);
- > section 4.3(c)(iii) and (iv) (BBI and BBP Continuation of business);
- > section 4.3(d)(iii) and (iv) (BBI's current intentions in relation to employees of BBI Alinta Assets and BBP's current intentions in relation to employees of BBP Alinta Assets);
- > section 4.3(f) (in respect of the last two sentences only)–(g) (Wattle Point Assets and B&B's intentions regarding its current holding in Alinta);
- > section 5 (except 5.6(a)–(e), 5.6(f) in relation to BBI Alinta Assets and 5.12(e)) (Babcock & Brown Infrastructure);
- > section 6 (BBI Exchangeable Preference Shares);

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- > section 7 (except 7.6(a)–(d) and 7.6(e) in relation to BBP Alinta Assets (other than footnote 59 and 7.12 (e)–(g)) (Babcock & Brown Power);
  - > section 8 (Babcock & Brown Wind Partners);
  - > section 9 (Babcock & Brown's relationship with the B&B Funds);
  - > section 12.2(a)(ii) (Small parcels of B&B Fund Securities, BBI EPS and APA Securities (second and third sentences only));
  - > section 12.3(b)(v) (ACCC undertakings) (last two paragraphs only);
  - > section 12.4(e) (Management arrangements with B&B and other related entities);
  - > section 12.5 (General Risks – B&B Funds);
  - > section 13.2(a) (Share Scheme Consideration) (paragraphs 2 and 3);
  - > section 13.2(b) (only five bullet points regarding total available cash, B&B Fund Securities and BBI EPS and sentence that "Alinta Shareholders who trade their securities on a deferred settlement basis before being advised of their final entitlements do so at their own risk");
  - > section 13.2(e) (paragraph 2) (Approvals required from Share Scheme Participants and the Court);
  - > section 13.2(l) (Trading of Alinta Shares, B&B Fund Securities, BBI EPS and APA Securities on ASX);
  - > section 15.7(c) (Historical B&B Funds Stapled Security prices);
  - > section 15.8 (Details of the Consortium) (final dot point in the first paragraph only);
  - > section 15.12(c) (Material Contracts – Participation Deed);
  - > section 15.13 (Consortium acquisitions in the last four months and benefits) as it relates to B&B, BBI, BBP and BBW;
  - > section 15.14 (Quotation of B&B Stapled Securities and BBI EPS on ASX);
  - > section 15.16(a)&(b) (ASIC relief: BBI EPS and Cash Out Facility);
  - > section 15.17(a) (ASX waivers: Listing Rules 10.1 and 11.1);
  - > section 15.21(a)(vi), (x), (xii)–(xiv) (Consent to be named);
  - > section 15.21(b)(iv)–(vi) (Consent to the inclusion of information);
  - > section 15.21(c) (Disclaimer of responsibility in respect of the consents named above);
  - > section 15.22 (Disclosure of interests of certain persons, as it relates to BBI, BBP, BBW and the BBI EPS Issuer);
  - > section 15.23 (Disclosure of fees and benefits received by certain persons except paragraphs (a), (d), (e), (f), (h), (m), (n), (o), (p) and (q));
  - > section 15.24(b) (Restrictions on foreign ownership) and (c) (ACCC undertakings offered by BBI, BBP and SPI) (second last paragraph only);
  - > section 15.27 (B&B Funds' reporting and disclosure obligations);
  - > section 15.30(c), (d), (f), (g), (h) and (i) (Further information);
  - > defined terms (1) used solely or predominantly in the B&B Information or the B&B Forecast Information, or (2) which relate to B&B, the B&B Funds, their related bodies corporate or any of their businesses or assets; and
  - > Annexure H (Terms of BBI EPS),

(together referred to as the **B&B Information**).

Each of B&B, BBI, BBP, BBW and the BBI EPS Issuer is responsible for the information contained in the B&B Information which relates to it. Alinta, each member of the Alinta Group and SPI:

- > have not verified the B&B Information;
- > have relied on each of B&B, BBI, BBP, BBW and the BBI EPS Issuer to verify the B&B Information which relates to it; and
- > accordingly, disclaim responsibility and liability for the B&B Information.

Each of B&B, BBI, BBP, BBW and the BBI EPS Issuer has only verified the B&B Information which relates to it and accordingly, each disclaims responsibility and liability for any B&B Information which does not relate to it. Information which refers or relates to a "B&B Fund", or securities issued by a "B&B Fund", is to be regarded as relating to each of BBI, BBP and BBW, in the absence of an express statement to the contrary.

Certain statements and information contained in the B&B Information are based on or incorporate information provided by Alinta, namely the descriptions of the Alinta Assets provided to B&B.

Each of B&B, BBI, BBP, BBW and the BBI EPS Issuer disclaim liability for B&B Information to the extent any of it is based on information provided by Alinta referred to above which is misleading and/or deceptive in any material respect (whether by omission or otherwise).

#### (e) B&B Forecast Information

The B&B Forecast Information, being the forecast financial information in sections 5 and 7, consists of the pro forma and actual forecast financial results for the relevant B&B Funds including the key assumptions on which the forecast results are based.

Each of the relevant B&B Funds is responsible for the B&B Forecast Information and for ensuring that its respective section of the B&B Forecast Information is not misleading or deceptive in any material respect (whether by omission or otherwise) and is responsible for its respective sections of the B&B Forecast Information. Alinta, each member of the Alinta Group and SPI:

- > have not verified or audited the B&B Forecast Information;
- > have relied on the B&B Funds to verify the B&B Forecast Information; and
- > accordingly, disclaim responsibility and liability for the B&B Forecast Information.

In preparing the B&B Forecast Information, BBI and BBP have relied on the following information provided by Alinta:

- > Alinta's pro forma balance sheet as at 31 December 2006; and
- > Alinta's forecast income statements for the years ending 30 June 2007 and 30 June 2008.

Certain statements and information in section 1.6 of this Booklet are based on or incorporate B&B Forecast Information. Alinta and SPI each disclaims liability for information in this section to the extent any of it is based on B&B Forecast Information which is misleading and/or deceptive in any material respect (whether by omission or otherwise).

**(f) Responsibility of the Consortium Parties**

Except as stated above in relation to the Bidder Information, SPI Information, B&B Information and the B&B Forecast Information, none of the Bidder or the Consortium Parties or their respective controlled entities nor any of their directors, officers, employees or advisers:

- > makes or has authorised the contents of or caused the issue of this Booklet; or
- > makes or purports to make any statement in the Booklet or any statement on which a statement in the Booklet is based other than a statement included in the Booklet with the consent of the relevant persons.

Except as noted above in relation to the Bidder Information, SPI Information, B&B Information and the B&B Forecast Information, to the maximum extent permitted by law, the Bidder and each Consortium Party and their respective controlled entities expressly disclaims and takes no responsibility for any part of the Booklet, other than reference to their name, and any statement and report which has been included in the Booklet with their consent.

**(g) Investigating Accountant**

PricewaterhouseCoopers Securities Limited has prepared the Investigating Accountant's Reports contained in Annexure F to this Booklet. Neither Alinta nor its advisers (other than PricewaterhouseCoopers Securities Limited) takes any responsibility for the Investigating Accountant's Reports.

**(h) Independent Expert**

Grant Samuel has prepared the Independent Expert's Report contained in Annexure G to this Booklet. Neither Alinta nor its advisers takes any responsibility for the Independent Expert's Report. It is noted, however, that Alinta and the Consortium have provided factual information to the Independent Expert that it has relied on in preparing the Independent Expert's Report.

**Ineligible Overseas Shareholders**

Ineligible Overseas Shareholders will not be able to receive Consideration Securities pursuant to the Share Scheme. Alinta Shareholders with a registered address outside of the United Kingdom, Hong Kong, New Zealand and Australia and its external territories or who are US Shareholders, should refer to section 13.2(j) of this Booklet.

Alinta Shareholders who are resident for tax purposes outside Australia (including those who hold, or will hold, their Alinta Shares (or securities acquired under the Share Scheme) through a permanent establishment in Australia), should seek specific taxation advice in relation to the Australian and overseas tax consequences of the Share Scheme.

**US Shareholders**

US Shareholders will be treated as Ineligible Overseas Shareholders.

This Booklet is neither an offer to sell nor a solicitation of an offer to buy securities as such terms are defined under the US Securities Act. The APA Securities to be distributed and the B&B Securities and BBI EPS to be issued under the Share Scheme have not been and will not be registered under the US Securities Act.

None of the SEC, any US state securities commission or any other US regulatory authority has passed comment upon or endorsed the merits of the Proposal or the accuracy, adequacy or completeness of this Booklet. Any representation to the contrary is a criminal offence.

The Share Scheme is subject to disclosure requirements of Australia that are different from those of the United States. Financial statements included in this Booklet, including pro forma historical financial information, have been prepared in accordance with Australian Accounting Standards that may not be comparable to the financial statements of United States companies and may not comply with the SEC's rules and regulations.

The Bidder may purchase Alinta Shares otherwise than under the Scheme, such as in open market or privately negotiated purchases subject to compliance with relevant securities laws.

**New Zealand Shareholders**

The offer of B&B Fund Securities and the distribution of the APA Securities made under this Booklet may also be made to investors in New Zealand under this Booklet in reliance on an exemption from the *New Zealand Securities Act 1978* (NZ) (namely, the *Securities Act (Overseas Companies) Exemption Notice 2002* (NZ)). This Booklet will be applicable to any offer made to investors in New Zealand. New Zealand Shareholders cannot receive the BBI EPS, and therefore cannot choose the Maximum Preference Shares Consideration (and BBI Stapled Securities will be substituted, if relevant, for any BBI EPS they would otherwise receive under any other Consideration Alternative). The amount of BBI Stapled Securities issued to New Zealand Shareholders to substitute for BBI EPS will be such that the value of affected Consideration Alternatives at the Record Date will be the same for the New Zealand Shareholders as it will be for the other Alinta Shareholders (based on the BBI EPS being valued at their issue price of \$1.00 and B&B Fund Securities at the VWAP over the five Business Days immediately following the Meeting Date which covers the days immediately prior to the Record Date on the current timetable).

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**Important considerations**

See section 15.5 for details of the interests of the Alinta Directors and executive officers in relation to the Scheme Proposal.

For a discussion of certain factors that should be considered in deciding whether to approve the Scheme Proposal, see section 2 which includes a discussion of the advantages, disadvantages, risks and other considerations relevant to the Scheme Proposal.

**Glossary and interpretation**

A number of terms used in this Booklet have special meanings. These are listed in the glossary in section 16 of this Booklet. The opinions and reports reproduced in this Booklet (including the Annexures) each have their own defined terms which are sometimes different from those in the glossary.

Unless otherwise stated, all data contained in charts, graphs and figures is based on information available at the date of this Booklet. All numbers are rounded unless otherwise indicated. In this Booklet, the stated number of securities to be received by Scheme Participants is subject to the effects of rounding. Unless otherwise stated, all references to time are references to WST.

**ASIC**

A copy of this Booklet has been registered by ASIC for the purposes of section 412(6) of the Corporations Act. Neither ASIC nor its officers take any responsibility for the contents of this Booklet.

**Privacy**

Alinta may collect, use and disclose personal information in the process of implementing the Scheme Proposal. This information may include the names, contact details and security holdings of Alinta Securityholders and the names of persons appointed by Alinta Securityholders to act as proxy, corporate representative or attorney at the Meetings. The primary purpose of collecting this information is to assist Alinta in the conduct of the Meetings and to enable the Scheme Proposal to be implemented by Alinta in the manner described in this Booklet.

Personal information may be disclosed to Alinta's Share Registry, print and mail service providers, authorised securities brokers, the Consortium Parties and their advisers and related bodies corporate of Alinta and the Consortium Parties.

Alinta Securityholders and other persons whose personal information has been collected by Alinta have the right to access personal information that has been collected. Alinta Securityholders should call the Alinta Information Line on 1800 135 107 (within Australia) or +61 2 8268 3641 (outside Australia) between 7.00am and 5.00pm (WST), 9.00am to 7.00pm (AEST) Monday to Friday, in the first instance, if they wish to request access to that personal information.

The main consequence of not collecting the personal information outlined above would be that Alinta may be hindered in, or prevented from, conducting the Schemes or implementing the Scheme Proposal.

Alinta Securityholders who appoint a named person to act as their proxy, corporate representative or attorney at the Meetings must inform that person of the matters outlined above.

**Date of this Booklet**

This Booklet is dated 2 July 2007.

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## Important dates

### Event

Time and date by which Alinta Securityholders must lodge proxy form(s) for the Scheme Meetings and the General Meeting if you wish to vote by proxy at any of the Meetings

Time and date for determining eligibility to vote at the Share Scheme Meeting and the General Meeting and the Option Scheme Meeting

Share Scheme Meeting

General Meeting (to approve Capital Reduction)

Option Scheme Meeting

Court hearing for approval of the Share Scheme and Option Scheme

Effective Date

Last day Alinta Shares trade on ASX with an entitlement to participate in the Share Scheme

Suspension of trading in Alinta Shares

Exercise Deadline – Final deadline for exercising Alinta Options, if an Alinta Optionholder wishes to participate in the Share Scheme rather than the Option Scheme

Record Date – time and date for determining entitlement to Share Scheme Consideration, Option Scheme Consideration and APA Distribution

Election Time – time and date by which Alinta Shareholders must lodge the Election Form in order to receive one of the Consideration Alternatives (other than the Default Alternative)

Commence deferred settlement trading of B&B Fund Securities and BBI EPS

Implementation Date for Share Scheme and Option Scheme, APA Distribution, transfer of Alinta Shares to Bidder and cancellation of Alinta Options, commencement of dispatch of Share Scheme Consideration and Option Scheme Consideration.

Normal trading in B&B Fund Securities and BBI EPS commences

Despatch of holding statements for B&B Fund Securities, BBI EPS and APA Securities

### Time and Date

12.00pm WST (2.00pm AEST) on Monday, 13 August 2007

5.00pm WST (7.00pm AEST) on Monday, 13 August 2007

10.00am WST (12.00pm AEST) on Wednesday, 15 August 2007

Immediately following the Share Scheme Meeting but no earlier than 12.00pm WST (2.00pm AEST) on Wednesday, 15 August 2007

Immediately following the General Meeting but no earlier than 12.30pm WST (2.30pm AEST) on Wednesday, 15 August 2007

Friday, 17 August 2007

Friday, 17 August 2007

Friday, 17 August 2007

On and from Monday, 20 August 2007

5.00pm WST (7.00pm AEST), on Tuesday, 21 August 2007

5.00pm WST (7.00pm AEST), on Thursday, 23 August 2007

5.00pm WST (7.00pm AEST), on Thursday, 23 August 2007

Thursday, 30 August 2007

Friday, 31 August 2007

Monday, 3 September 2007

By Friday, 7 September 2007

#### Note:

Unless otherwise stated, all times referred to in this Booklet are WST. Dates are indicative only. Alinta reserves the right to vary any or all of the times and dates set out above without notifying Alinta Securityholders of these changes. All dates following the Scheme Meetings are subject to Court and ASIC approval.

## How to vote

Your vote is important. Please read the following information carefully. It applies to all Alinta Securityholders.

### When and where will the Meetings be held?

The Share Scheme Meeting, General Meeting and Option Scheme Meeting will be held in sequence at the Perth Convention Exhibition Centre, Riverside Theatre, 21 Mounts Bay Road, Perth, Western Australia 6000 on 15 August 2007, commencing at 10.00am WST time (12.00pm AEST).

Alinta Shareholders should attend the Share Scheme Meeting, and the General Meeting (to be held immediately after the Share Scheme Meeting), either in person or by proxy, and vote on the resolutions proposed. Alinta Optionholders should attend the Option Scheme Meeting (to be held immediately after the General Meeting) either in person or by proxy, and vote on the resolution proposed.

Annexure C includes the Notice of Court Ordered Meeting of members (i.e. Alinta Shareholders). Annexure D includes the Notice of General Meeting of the Alinta Shareholders. Annexure E includes the Notice of Court Ordered Meeting of Optionholders.

### Who should vote at each Meeting?

Alinta Shareholders should vote at the Share Scheme Meeting and the General Meeting. Alinta Optionholders should vote at the Option Scheme Meeting.

### What are the forms that I have received?

The following three forms are for use by Alinta Shareholders:

- > the blue form is the proxy form for use at the Share Scheme Meeting;
- > the green form is the proxy form for use at the General Meeting; and
- > the pink form is an Election Form which should be used to elect your preferred Consideration Alternative. Further information about how to make an election is given in the section "How to make an election for Share Scheme Consideration", on page 10.

One form is for use by the Alinta Optionholders:

- > the yellow form is the proxy form for use at the Option Scheme Meeting.

### Who is entitled to vote at the Meetings and what is the procedure?

While voting is not compulsory, the Alinta Directors urge all Alinta Securityholders to attend the relevant meetings, either in person or by proxy, and vote on the resolutions proposed. If you are registered on the Alinta Register as an Alinta Shareholder at 5.00pm WST (7.00pm AEST) on 13 August 2007 you will be entitled to vote at the Share Scheme Meeting and General Meeting.

If you are registered on the Alinta Register as an Alinta Optionholder at 5.00pm WST (7.00pm AEST) on 13 August 2007, you may vote at the Option Scheme Meeting in person, by attorney or by proxy.

Registrable transmission applications or transfers registered after this time will be disregarded in determining entitlements to vote at the Meetings.

In the case of Alinta Shares held by joint holders, only one of the joint Alinta Shareholders is entitled to vote. If more than one Alinta Shareholder votes in respect of jointly held Alinta Shares, only the vote of the Alinta Shareholder whose name appears first in the Register will be counted.

Of the 495,218,848 Alinta Shares on issue, B&B currently has an interest in 13,361,992 Alinta Shares which represents a 2.7% Shareholding in Alinta. These shares form a different class for the purpose of the Share Scheme and, as such, consent to the Share Scheme will be given separately from other Alinta Shareholders and these shares will not be voted at the Share Scheme Meeting. Further details regarding B&B's intentions in respect of its holding in Alinta are set out in section 4.3(g).

SPI has no current shareholding in Alinta.

### How do I vote in person or what if I cannot attend the Meetings?

If you wish to vote in person, please attend the relevant Share Scheme Meeting or Option Scheme Meeting and, if you are an Alinta Shareholder, the General Meeting. You should bring the relevant proxy form included with this Booklet to the Meetings as it also serves as the registration form for the meeting. Blue proxy forms are for use at the Share Scheme Meeting and yellow proxy forms are for use at the Option Scheme Meeting. Green proxy forms are for use at the General Meeting.

If you are a corporate Alinta Shareholder and wish to appoint a representative to attend the Share Scheme Meeting or the General Meeting, you should ensure that your corporate representative can provide evidence of his or her appointment (for example a certified copy of the document appointing the corporate representative). The appointment must comply with section 250D of the Corporations Act.

You may appoint another person by power of attorney to attend a Meeting and vote on your behalf. Your attorney will need to provide evidence of the grant of the power of attorney.

If you wish to appoint a proxy, you should complete the appropriate proxy form included with this Booklet and lodge it with the Share Registry, Computershare Investor Services, in accordance with the proxy form instructions. Blue proxy forms are for the Share Scheme and yellow proxy forms are for the Option Scheme. Green proxy forms are for the General Meeting. Proxy forms must be received by Computershare no later than 12.00pm WST time (2.00pm AEST) on 13 August 2007.

Your proxy forms (including any power of attorney under which they are signed), or any instrument of appointment of attorney must be:

**sent to:**

Computershare Investor Services Pty Limited  
GPO Box 242  
Melbourne Victoria 8060  
Australia

or

**hand delivered to:**

Computershare Investor Services Pty Limited  
Level 2  
45 St Georges Terrace  
Perth WA 6000  
Australia

or

**faxed to:**

+61 3 9473 2013.

Shareholders may also lodge proxies online by accessing the Share Registry, Computershare Investor Services on [www.computershare.com/au/proxy/aan](http://www.computershare.com/au/proxy/aan). To use this facility, you will need your Securityholder Reference Number or Holder Identification Number and postcode. These details are shown on your proxy form. You will be taken to have signed the proxy form if you lodge it in accordance with the instructions on the website. The deadline for the lodgement of electronic proxies online is the same as the deadline above for all proxies.

A proxy, attorney or corporate representative duly appointed will be admitted to the Meeting and given a voting card at the point of entry to the Meeting upon providing written evidence of their name and address and any additional evidence of their appointment required (as stated above).

If an attorney signs a proxy form on your behalf, the authority under which the proxy form was signed (or a certified copy) must be received by the Share Registry at the same time as the proxy form (unless you have already provided the authority (or a certified copy) to Alinta). If you complete and return a proxy form, you may still attend the meeting in person, revoke the proxy and vote at the meeting.

### What happens if the Scheme Proposal proceeds? What if I do not vote or I vote against the Share Scheme or the Option Scheme?

If you are an Alinta Shareholder on the Record Date (expected to be 23 August 2007) and the Share Scheme is approved by the Alinta Shareholders and the Court and the Capital Reduction is approved by the Alinta Shareholders, your Alinta Shares will be transferred to the Bidder under the Share Scheme and you will receive the Share Scheme Consideration. This will occur whether you voted for or against the Share Scheme and/or the Capital Reduction or chose not to vote at all.

If you are an Alinta Optionholder on the Record Date (expected to be 23 August 2007) and the Option Scheme is approved by the Alinta Optionholders and the Court and the Share Scheme is approved by the Alinta Shareholders and the Court, your Alinta Options will be cancelled and you will receive the Option Scheme Consideration. This will occur whether or not you voted for or against the Option Scheme or chose not to vote at all.

### What if I am both an Alinta Shareholder and an Alinta Optionholder?

If you are both an Alinta Shareholder and an Alinta Optionholder, you will need to vote at both of the Scheme Meetings. This can be done in person, by proxy, by attorney or, in the case of corporate shareholders, by corporate representative, as explained above. The Share Scheme Meeting will be held first, followed by the General Meeting and the Option Scheme Meeting. You will also need to vote at the General Meeting.

If you cannot attend the Meetings in person and wish to use the proxy forms, please fill in both the blue proxy form for the Share Scheme, the yellow proxy form for the Option Scheme and the green proxy form for the General Meeting. You may appoint different proxies for each Meeting.

### Is there a number to call if I have any questions?

If you have any questions about the Meetings, Share Scheme, Option Scheme, Capital Reduction or the Scheme Proposal, please call the Alinta Information Line on 1800 135 107 (within Australia) or +61 2 8268 3641 (outside Australia).

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## How to make an election for Share Scheme Consideration

The Consideration Alternatives apply only to Alinta Shareholders, not Alinta Optionholders. Share Scheme Participants can make their election between the Consideration Alternatives by completing the pink Election Form (enclosed with this Booklet) and returning it to the address specified on the Election Form using the reply paid envelope provided. Elections for Consideration Alternatives cannot be made online.

All Election Forms are to be returned by 5.00pm WST (7.00pm AEST) on Thursday, 23 August 2007. Any Election Forms received after this time will be disregarded and the Alinta Shareholder will receive the Default Consideration.

DESP members must return their Election Forms to the Share Plan Trustee of the DESP by 3.00pm WST (5.00pm AEST), Friday, 17 August 2007.

**Elections can only be made in respect of an Alinta Shareholder's entire holding.<sup>1</sup> Alinta Shareholders cannot make more than one election for Consideration Alternatives 1–5. Any forms received electing more than one Consideration Alternative 1–5 will be treated as invalid and the Alinta Shareholder will receive the Default Consideration.**

The Consideration Alternatives are:

- Alternative 1 – Default Consideration
- Alternative 2 – Maximum Preference Shares Consideration
- Alternative 3 – Maximum Cash Consideration
- Alternative 4 – Maximum Securities Consideration
- Alternative 5 – Cash Out Alternative  
(for Small Alinta Shareholders only).

Share Scheme Participants (including Small Alinta Shareholders and members of the DESP) are entitled to make an election for Consideration Alternatives 1–4 if they wish to do so.<sup>2</sup> However, Ineligible Overseas Shareholders cannot make an election. Share Scheme Participants who elect Maximum Cash Consideration can also elect to have any Unmarketable Parcel they would receive cashed out under the Cash Out Facility. Small Alinta Shareholders only may also elect Alternative 5, which means they will receive the Default Consideration and the APA Distribution which are then cashed out under the Cash Out Facility.

**If you wish to receive the Default Consideration, you do not need to complete and return the Election Form.**

Further information about these Consideration Alternatives is given in section 13.2 of Part B of this Booklet. It is important to note that the Consideration Alternatives relate to the Share Scheme Consideration. All Share Scheme Participants will receive the APA Distribution (although some will have their APA Securities sold for them by a Nominee under the Cash Out Facility) and the franking credits (if they are entitled to receive the benefit of franking credits).

If a Share Scheme Participant has made an election but wishes to change that election after submitting an Election Form, that Share Scheme Participant may vary the initial election by completing and returning another Election Form by not later than the Election Time. Alinta will treat the last validly completed Election Form received by the Election Time as the valid election for the purposes of determining a Share Scheme Participant's entitlement to Share Scheme Consideration. To make a valid election, the Election Form must be received no later than the Election Time.

Share Scheme Participants will be deemed to have elected to receive Default Consideration:

- (a) in respect of all of their Scheme Shares if the Share Scheme Participant does not complete and return the Election Form so it is received no later than the Election Time or does not make a valid election on the Election Form; or
- (b) if more than one election for Consideration Alternatives 1–5 is made on the form.

A Share Scheme Participant who is noted on the Alinta Register as holding one or more parcels of Scheme Shares as trustee or nominee for, or otherwise on account of, another person, may make separate elections in relation to each of those parcels. A Share Scheme Participant who is making such elections as trustee or nominee can call the Alinta Information Line for further information.

If a Share Scheme Participant makes a valid election to receive a Consideration Alternative, it will receive that Consideration Alternative as described in section 13.2 of Part B of this Booklet.

### Notes:

- 1 Other than in the case of the DESP Trustee (see section 15.2(b)) or where the holder is noted in the Register as holding as trustee or nominee for, or otherwise on account of, another person.
- 2 However, Ineligible Overseas Shareholders cannot make an election. New Zealand Shareholders cannot receive the BBI EPS and cannot elect to receive the Maximum Preference Shares Consideration. BBI Stapled Securities will be substituted, if relevant, for any BBI EPS they would otherwise receive under other elections.

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# 1

# OVERVIEW OF THE SCHEME PROPOSAL

On 11 May 2007, Alinta signed an Amended and Restated Scheme Implementation Agreement under which a company controlled by the Consortium (which comprises B&B, certain B&B Funds and SPI) would acquire the entire issued share capital of Alinta. The Scheme Proposal has been recommended by the Alinta Directors in the absence of a superior proposal and provided that the Independent Expert continues to conclude that the Scheme Proposal is in the best interests of the Alinta Securityholders. Section 1 of this Booklet gives a basic overview of how the Scheme Proposal will be implemented, which is explained in further detail throughout Part B of this Booklet. Part A of this Booklet summarises the key information in Part B of this Booklet.

### 1.1 Share Scheme (and associated Capital Reduction)

Alinta Shareholders will be asked to vote on a proposed Share Scheme and Capital Reduction on 15 August 2007. If the Share Scheme and Capital Reduction are implemented, Alinta Shareholders will receive Share Scheme Consideration for each Alinta Share held at the Record Date and the APA Distribution. The Share Scheme Consideration is, for each Alinta Share, equivalent in value at the Record Date to the sum of the following components (subject to adjustments referred to in section 13.2(a)):

- (a) \$8.925 in cash; and
- (b) 1.599 BBI EPS, 0.752 BBI Stapled Securities, 0.669 BBP Stapled Securities and 0.26 BBW Stapled Securities.<sup>3</sup>

This is referred to in this Booklet as the Base Consideration.

In addition to the Share Scheme Consideration, Alinta Shareholders will receive the APA Distribution for each Alinta Share held at the Record Date (by way of dividend and capital reduction (subject to the adjustments referred to in section 10)).

The dividend component of the APA Distribution (**APA Dividend**) is expected to be fully franked, meaning that Alinta Shareholders will also receive \$0.40 per Alinta Share of franking credits for those who can fully utilise them. Alinta Shareholders who acquire Alinta Shares within 45 days of the Effective Date (not including the date of acquisition and the Effective Date) will not be entitled to the benefit of franking credits in respect of the APA Dividend, to the extent they relate to those Alinta Shares. Sections 10 and 14 of Part B of this Booklet provide further information in respect of the APA Dividend. Alinta Shareholders should seek their own specific taxation advice for their individual circumstances.

There are various Consideration Alternatives available to Alinta Shareholders. Alinta Shareholders<sup>4</sup> can elect to maximise the amount of cash, BBI EPS or B&B Fund Securities they receive as part of the Share Scheme Consideration. Small Alinta Shareholders have a further Cash Out Alternative and any Alinta Shareholders electing to maximise cash may also elect to cash out any Unmarketable Parcel they would otherwise receive.

Alinta Shareholders who do not make a valid election on the Election Form by the Election Time will receive the Default Consideration. Special rules apply to Ineligible Overseas Shareholders and New Zealand Shareholders. See section 13.2(j).

It is important to note that the Base Consideration described above is not the same as the Default Consideration. The Default Consideration is not fixed and the components of it may change after the elections are made. In particular, the BBI EPS may be replaced with cash and B&B Fund Securities. The Base Consideration will be adjusted to determine the Default Consideration after the elections for Consideration Alternatives are made. The value of all of the Consideration Alternatives on the Record Date will be the same (valued using the VWAP of B&B Fund Securities over the five Business Days immediately following the Meeting Date, which covers the days immediately prior to the Record Date on the current timetable, and a \$1.00 value for each BBI EPS).

Full details of the Share Scheme Consideration, including the Consideration Alternatives, are set out in section 13.2 of this Booklet. Information on how to make an election for one of the Consideration Alternatives is set out in the section "How to make an election for Share Scheme Consideration" on page 10. Information on trading B&B Fund Securities and BBI EPS ASX is set out in section 13.2(l) of this Booklet. **Alinta Shareholders who trade these securities on ASX on a deferred delivery basis before receiving advice of their final entitlements do so at their own risk.**

Overviews of BBI EPS, B&B Fund Securities and APA Securities are provided in sections 5 to 10 of this Booklet.

#### Notes:

<sup>3</sup> BBI EPS will be issued at a price of \$1.00. The value of the B&B Fund Securities for the purpose of calculating the value of the Base Consideration will be based on the VWAP over the five Business Days immediately following the Meeting Date, which covers the days immediately prior to the Record Date on the current timetable.

<sup>4</sup> Other than Ineligible Overseas Shareholders and, in the case of maximising BBI EPS, New Zealand Shareholders.

### Share Scheme Consideration and APA Distribution

The value of the Share Scheme Consideration and the APA Distribution as at 27 June 2007 was:

- > \$15.91 per Alinta Share based on the five business day VWAPs of BBI, BBP, BBW and APA to 27 June 2007 (excluding franking credits) and based on the BBI EPS being valued at their issue price of \$1.00; or
- > \$16.02 per Alinta Share based on the 30 business day VWAPs of BBI, BBP, BBW and APA up to 27 June 2007 (excluding franking credits) and based on the BBI EPS being valued at their issue price of \$1.00.

On 21 and 22 June 2007, the B&B Fund Securities traded on a "cum distribution" basis and on 25, 26 and 27 June 2007 the B&B Fund Securities traded on an "ex distribution" basis. No adjustment has been made to the VWAP to take account of the B&B Fund Securities trading "cum distribution," and "ex distribution" during the five business day period as the VWAP reflects the actual VWAP over that period. B&B anticipates that some distribution entitlement will accrue into the B&B Fund

Securities prices by the Record Date. The actual value of the consideration you will receive will be determined based on the VWAPs of the Consideration Securities over the five Business Days immediately after the Meeting Date at which time the B&B Fund Securities will be "cum distribution" for the period 1 July 2007 to 31 December 2007. BBI EPS is valued at their issue price of \$1.00.

The value of the Share Scheme Consideration and APA Distribution to be distributed will vary with changes in the prices of BBI, BBP, BBW and APA on ASX. The value at any time can be calculated by applying the following calculation to the current prices on ASX. An example calculation (updated regularly and based on the latest closing trading price of the BBI, BBP, BBW and APA Securities) is located on the Alinta website at [www.alinta.net.au](http://www.alinta.net.au). Further information on the historical trading prices of BBI, BBP, BBW and APA is contained in sections 5, 7, 8 and 10 of this Booklet.

Figure 1.1: Value of Share Scheme Consideration and APA Distribution

Form of consideration	5 business day VWAP up to and including 27 June 2007	Calculation <sup>5</sup>	Value per Alinta Share
Cash	n.a.	n.a.	\$8.925
BBI EPS	\$1.00/n.a. <sup>6</sup>	1.599 x \$1.00	\$1.599
BBI Stapled Securities	\$1.76	0.752 x \$1.76	\$1.32
BBP Stapled Securities	\$3.45	0.669 x \$3.45	\$2.30
BBW Stapled Securities	\$1.91	0.26 x \$1.91	\$0.50
APA Distribution	\$4.18	0.301 x \$4.18	\$1.26
<b>Total implied value</b>			<b>\$15.91</b>
Franking credits <sup>7</sup>	n.a.	n.a.	\$0.40 <sup>8</sup>
<b>Total implied value including franking credits<sup>7</sup></b>			<b>\$16.31</b>

Notes:

5 Using the Base Consideration.

6 Based on BBI EPS trading at their issue price of \$1.00.

7 Available to Alinta Shareholders who can fully utilise them.

8 For Alinta Shareholders who can receive the benefit of the franking credits. See section 14 for more details.

If the Scheme Proposal is implemented, Alinta understands that its existing assets will be restructured and apportioned amongst the B&B Funds and SPI on the following basis:

**Figure 1.2: Alinta asset allocation**

Babcock & Brown Infrastructure	Babcock & Brown Power	Babcock & Brown Wind Partners	Singapore Power International
Multinet Gas (20.1%)	Port Hedland Power Station	\$211 million from the proceeds of the sale of the Wattle Point Assets	Alinta Victorian Electricity Network
Tasmanian Gas Pipeline	Newman Power Station		NSW Gas Network
AlintaGas Network (74.1%)	Glenbrook Power Station		United Energy Distribution Network (34.1%)
Dampier-Bunbury Natural Gas Pipeline (17%) <sup>9</sup>	Bairnsdale Power Station		Eastern Gas Pipeline
Western Australia operations and maintenance business (excluding the Parmelia Pipeline)	Cause Cogeneration		Queensland Gas Pipeline
	Wesfarmers LPG		VicHub
	AlintaAGL (67%) <sup>10</sup>		ActewAGL Distribution JV (50%)
	Goldfields Gas Pipeline (11.8%)		TransACT (7.6%)
	Tamar Power Project		Eastern States Asset Management (and the Parmelia Pipeline)
	Wholesale energy trading and marketing (AEATM) <sup>11</sup>		

B&B will also acquire certain development projects.

## 1.2 Option Scheme

As a separate part of the Scheme Proposal, Alinta Optionholders will be asked to vote on the Option Scheme on 15 August 2007. If the Option Scheme proceeds, all outstanding Alinta Options as at the Record Date will be cancelled and Alinta Optionholders will receive a cash amount which is equal to the value at the Record Date of the Base Consideration for Alinta Shares plus the APA Distribution as set out above<sup>12</sup>, less the exercise prices of the Alinta Options. Alinta Optionholders will not receive any franking credits. The Option Scheme applies to all Alinta Options on issue on the Record Date for the Option Scheme, whether or not they have vested prior to the Effective Date in accordance with their terms and conditions.

Full details of the Option Scheme Consideration are set out in section 13.4 of this Booklet.

## 1.3 Information for Alinta Optionholders who wish to participate in the Share Scheme

### If your Alinta Options have vested

Alinta Optionholders whose Alinta Options have already vested and who wish to participate in the Share Scheme may exercise their Alinta Options in accordance with their terms and conditions at any time until 5.00pm WST (7.00pm AEST) on the day which is two Business Days before the Record Date for the Share Scheme. The Record Date is expected to be 23 August 2007, and accordingly the last Exercise Deadline is expected to be 21 August 2007.

#### Notes:

- 9 Interest in DBNGP will increase to 20% following agreed capital contributions.
- 10 The Scheme Proposal will trigger a "Russian Roulette" clause under which options over AlintaAGL are accelerated. This may result in the 67% interest in AlintaAGL being owned by AGL Energy or BBP owning 100% of AlintaAGL.
- 11 BBP is expected to own AEATM and assume its related assets and liabilities. However, currently the Consortium Parties have not reached final agreement regarding the ownership of AEATM.
- 12 After adding back the amount of any Transaction Dividend or capital reduction deducted from the Base Consideration or the APA Distribution. The value is determined based on the VWAP over the five Business Days immediately following the Meeting Date, which covers the days immediately prior to the Record Date in the current timetable, and based on BBI EPS trading at their issue price of \$1.00.

However, unless an Alinta Optionholder exercised their Alinta Options and became an Alinta Shareholder before 3 July 2007, they will not be entitled to the benefit of franking credits in respect of the APA Dividend.<sup>13</sup> See section 14 for further information. Alinta Optionholders should seek their own specific taxation advice for their individual circumstances.

#### **If your Alinta Options have not yet vested**

From the Effective Date of the Share Scheme, all outstanding Alinta Options (whether previously vested or not) will vest and can be exercised in accordance with their terms and conditions. Alinta Optionholders will have two Business Days between the Effective Date and the Exercise Deadline, expected to be 5.00pm WST (7.00pm AEST) on 21 August 2007, to exercise their Alinta Options in order to become Share Scheme Participants. These Alinta Optionholders will not be entitled to the benefit of franking credits in respect of the APA Dividend.

### **1.4 Approval of the Scheme Proposal**

Alinta Shareholders and Alinta Optionholders are being asked to vote on the Scheme Proposal at the Meetings to be held on 15 August 2007.

#### **Share Scheme**

The Share Scheme will proceed even if the Option Scheme does not proceed.

For the Share Scheme to proceed, the Court must approve it and votes "in favour" must be received from:

- > a majority in number of Alinta Shareholders who vote at the Share Scheme Meeting (in person or by proxy); and
- > at least 75% of the total number of votes cast on the resolution to approve the Share Scheme.

In addition, for the Share Scheme to proceed, the Capital Reduction must also be approved by a majority of votes cast by Alinta Shareholders who vote at the General Meeting (in person or by proxy).

The Share Scheme and the Capital Reduction will only proceed if both are approved.

#### **Option Scheme**

The Option Scheme is conditional on the Share Scheme and the Capital Reduction proceeding. In addition, for the Option Scheme to proceed, the Court must approve it and votes "in favour" must be received from:

- > a majority in number of Alinta Optionholders who vote at the Option Scheme Meeting (in person or by proxy); and
- > the debts and claims against Alinta of that majority must amount in aggregate to at least 75% of the debts and claims of Alinta Optionholders who vote (in person or by proxy), where debts and claims are represented by the value of the Alinta Options.

The value of the Alinta Options for this purpose shall be the value of the Base Consideration and the APA Distribution<sup>14</sup> (on the basis that the B&B Fund Securities and the APA Securities are valued using the VWAP on ASX over the five Business Day period immediately before the date for determining eligibility to vote on the Option Scheme Meeting), less the exercise prices of the Alinta Options.

#### **APA Distribution**

The APA Distribution will not proceed if the Share Scheme does not proceed. The APA Dividend will be declared by the Alinta Directors, subject to the Share Scheme and the Capital Reduction proceeding. The Capital Reduction is conditional on the Share Scheme proceeding and must be approved by a majority of votes cast by Alinta Shareholders who vote at the General Meeting (in person or by proxy). Other requirements must also be satisfied, as explained in section 10.3 of this Booklet.

### **1.5 Conditions to the Schemes**

In addition to the conditions described in paragraph 1.4 above, the Share Scheme and Option Scheme are subject to various Conditions, including that certain regulatory approvals must be obtained. The Conditions to the Share Scheme are set out in section 13.6(a)(vi) and the Conditions to the Option Scheme are set out in section 13.6(a)(vii) of this Booklet.

#### **Notes:**

<sup>13</sup> In order to be eligible for franking credits, a person must have acquired and held Alinta Shares for at least 45 days prior to the Effective Date (not including the date of acquisition and the Effective Date).

<sup>14</sup> After adding back the amount of any Transaction Dividend or capital reduction deducted from them.

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## 1.6 Summary of financial information

### (a) Summary financial forecasts

This section provides relevant summary financial information for Alinta Securityholders to consider when assessing the Scheme Proposal, including forward-looking statements. Alinta Securityholders should refer to the caution included in the Important Notice section of this Booklet on page 1 in relation to forward-looking statements.

Risks relating to forward-looking statements are described in section 12.5(u).

The financial profile of Alinta, including the basis of preparation of financial information, pro forma adjustments and forecast assumptions, is detailed in section 11.1.

The financial profile of BBI, including the basis of preparation of financial information, pro forma adjustments and forecast assumptions, is detailed in section 5.9.

The financial profile of BBP, including the basis of preparation of financial information, pro forma adjustments and forecast assumptions, is detailed in section 7.9.

The financial profile of BBW, including the basis of preparation of financial information, pro forma adjustments and guidance assumptions, is detailed in section 8.9.

All forward-looking information in this section assumes that the Post-Implementation Transactions and the other proposed transactions described in section 13 take place on 1 July 2007. This notional transaction date facilitates the provision of pro forma forecast earnings for the full year assuming that the Scheme Proposal is implemented and provides a basis for expected dividends/distributions (per Alinta Share), if the Scheme Proposal is not Implemented. To the extent that the actual acquisition date varies, the actual profit attributable and/or distributions available to members of each relevant entity may also vary considerably.

Certain financial information in this section has been reviewed by PricewaterhouseCoopers Securities Ltd, whose Investigating Accountant's Reports are included in Annexure F to this Booklet. Alinta Securityholders should note the scope and limitations of those reports.

The financial information contained in this Booklet has been presented in abbreviated form. It does not contain all the disclosures usually provided in an annual report prepared in accordance with the Corporations Act.

The forecast profit attributable to members of the Alinta Group and dividend per share for the year ending 30 June 2008 for the existing Alinta Group business is set out in Figure 1.3 below.

**Figure 1.3: Summary pro forma Alinta forecast earnings and dividends**

	Six months ending 30 June 2007	Six months ending 31 December 2007	Six months ending 30 June 2008	Year ending 30 June 2008
Profit attributable to members of Alinta (\$ in millions) <sup>1</sup>	80.0	110.0	103.1	213.1
Dividend per share (cents)				50.0

Note to Figure 1.3:

1 As per Figure 11.1.

For the Alinta Shareholders, profit attributable to Alinta Group members is an indication of the ability of Alinta to pay dividends to Alinta Shareholders. Profit is not the most appropriate financial metric for the ability of the B&B Funds to pay distributions to their securityholders, as the B&B Funds (through stapled security structures) are not limited to paying distributions from profit or retained earnings. The more appropriate financial metric for the B&B Funds in respect of the capacity and ability to pay distributions to their securityholders is the cash flow available for distribution. The forecast cash flows available for distribution (and consequently forecast distributions) for BBI and BBP are set out in sections 5.9 and 7.9. BBW net operating cash flow guidance and BBW Distribution guidance are set out in section 8.9.

The forecast distributions for the year ending 30 June 2008, based on an assumed acquisition date of 1 July 2007, are set out in Figure 1.4 below.

**Figure 1.4: Summary pro forma distributions**

Note: Forecast distributions in Figure 1.4 exclude any imputed earnings from the \$8.925 cash (per Alinta Share) that Alinta Shareholders will receive if the Scheme Proposal is Implemented, and are therefore not directly comparable in total to the forecast Alinta dividends per share shown in Figure 1.3.

	Year ending 30 June 2007	Year ending 30 June 2008
<i>Pro forma distribution per security (cents) for members of:</i>		
- BBI	14.25	15.0
- BBI EPS	-	7.57 <sup>4</sup>
- BBP	14.0	26.1
- BBW	12.5	14.0
- APT <sup>3</sup>	28.0	29.3
<i>Equivalent forecast distribution per Alinta share (cents):<sup>1,2</sup></i>		
- BBI		11.280
- BBI EPS		12.104
- BBP		17.461
- BBW		3.640
- APT <sup>3</sup>		8.819
<b>Total</b>		<b>53.304</b>

■ Not relevant for comparative purposes because Alinta shareholders will not receive these distributions for the year ending 30 June 2007.

The above Figure 1.4 does not include the forecast return on the cash component (\$8.925 per Alinta Share) which at an assumed yield of 6.25% would equate to 55.781 cents per Alinta Share for a total equivalent forecast distribution per Alinta Share of 109.085 cents.

Notes to Figure 1.4:

- 1 Assuming Implementation of the Scheme Proposals and associated Post-Implementation Transactions as discussed in section 13.
- 2 This calculation provides Alinta Shareholders with an estimate of expected distributions for each Alinta Share, based on the proposed ratios of securities per Alinta Share under the Base Consideration and APA Distribution as follows:
  - > 0.752 BBI Stapled Securities per Alinta Share;
  - > 1.599 BBI EPS issued by the BBI EPS Issuer per Alinta Share;
  - > 0.669 BBP Stapled Securities per Alinta Share;
  - > 0.260 BBW Stapled Securities per Alinta Share; and
  - > 0.301 APA Securities per Alinta Share.
- 3 Based on the average of publicly available broker consensus forecast distributions.
- 4 Based on the 90-day BBSW at 27 June 2007.

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**(b) Summary balance sheets**

Set out below is the pro forma balance sheet for each of Alinta, BBI, BBP and BBW as at 31 December 2006.

**Figure 1.5: Pro forma financial position at 31 December 2006**

<b>\$ in millions</b>	<b>Pro forma Alinta<sup>1</sup></b>	<b>Pro forma BBI<sup>2</sup></b>	<b>Pro forma BBP<sup>3</sup></b>	<b>Pro forma BBW<sup>4</sup></b>
<b>Current assets</b>	<b>1,448.6</b>	<b>912.7</b>	<b>745.1</b>	<b>454.2</b>
<i>Non-current assets</i>				
Property, plant and equipment	6,069.8	6,259.7	2,316.9	955.9
Goodwill and intangibles	2,435.9	3,664.2	2,076.4	297.2
Other	903.1	650.7	606.0	714.2
<b>Total non-current assets</b>	<b>9,408.8</b>	<b>10,574.6</b>	<b>4,999.3</b>	<b>1,967.3</b>
<b>Total assets</b>	<b>10,857.4</b>	<b>11,487.3</b>	<b>5,744.4</b>	<b>2,421.5</b>
<i>Current liabilities</i>				
Interest-bearing liabilities	936.5	208.6	76.3	32.2
Other	493.4	497.2	245.2	88.7
<b>Total current liabilities</b>	<b>1,429.9</b>	<b>705.8</b>	<b>321.5</b>	<b>120.9</b>
<i>Non-current liabilities</i>				
Interest-bearing liabilities	5,463.7	6,732.1	2,855.7	1,322.0
Other	295.8	943.4	522.8	2.6
<b>Total non-current liabilities</b>	<b>5,759.5</b>	<b>7,675.5</b>	<b>3,378.5</b>	<b>1,324.6</b>
<b>Total liabilities</b>	<b>7,189.4</b>	<b>8,381.3</b>	<b>3,700.0</b>	<b>1,445.5</b>
<b>Net assets</b>	<b>3,668.0</b>	<b>3,106.0</b>	<b>2,044.4</b>	<b>976.0</b>

Notes to Figure 1.5:

- 1 As per Figure 11.4.
- 2 As per Figure 5.12.
- 3 As per Figure 7.15.
- 4 As per Figure 8.10.

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# 2

# MATTERS RELEVANT TO YOUR VOTE ON THE SCHEME PROPOSAL

## 2.1 Alinta Directors' recommendations and reasons

The Alinta Directors have determined the Scheme Proposal to be in the best interests of Alinta Securityholders, and to be preferred over available alternatives for the following reasons:

- > the Scheme Proposal provides a significant premium over the pre-MBO Proposal announcement trading valuation of Alinta and an appropriate premium over the likely value of Alinta's Internal Restructure Proposal;
- > the value of the Scheme Proposal is readily observable, as the B&B Fund Securities Component comprises existing listed entities with transparent security prices;<sup>15</sup>
- > the Scheme Proposal has limited conditions (see the Conditions summarised in section 13.6) and provides a high level of confidence that the transaction will be completed, subject to Alinta Shareholders approving the Share Scheme and the associated Capital Reduction;<sup>16</sup> and
- > the Share Scheme Consideration includes securities in established ASX listed entities, which have a readily observable market value.

The Independent Expert has concluded that the Scheme Proposal is in the best interests of Alinta Securityholders.<sup>17</sup> The Alinta Directors recommend that you vote in favour of the Scheme Proposal (and the Alinta Directors intend to vote in favour in respect of their Alinta Shares), in the absence of a superior proposal and provided that the Independent Expert continues to conclude that the Scheme Proposal is in the best interests of the Alinta Securityholders.

## 2.2 Assessment of alternatives to the Scheme Proposal

Following completion of its acquisition of AGL's infrastructure assets, Alinta advised the market on 25 October 2006 that it was considering revising the ownership structure for its assets as it did not regard its current structure as a sustainable or preferable long term position. In this context, Alinta undertook work on certain internal restructuring alternatives to improve its capital structure. These alternatives are outlined in section 2.5.

On 30 November 2006, the Alinta Board was advised by the MBO Group that they wished to develop a management buy-out proposal and that they expected it to be of interest to Alinta. After careful consideration, the independent directors decided to permit the MBO Group to explore a potential management buy-out proposal, subject to them agreeing to strict protocols to protect Alinta's position. Alinta continued to analyse the internal restructuring alternatives.

On 9 January 2007, Alinta announced it had received an approach from Macquarie Bank which outlined a potential incomplete and non-binding management buy-out proposal (the **MBO Proposal**) which was being developed by the MBO Group. Alinta was informed that the MBO Proposal was being designed to deliver a significant premium to all Alinta Shareholders.

As a result of the potential conflicts of interest associated with his participation in the preparation of the MBO Proposal, John Poynton resigned as Chairman. The Alinta Board then took a number of further steps to ensure the ongoing business activities of Alinta were managed effectively and that conflicts of interest relating to the potential MBO Proposal and Macquarie Bank's involvement were addressed.

The Alinta Board also commenced a formal process to enable all interested parties to submit proposals to acquire part or all of Alinta. At the same time, Alinta continued work on the internal restructuring alternatives.

## 2.3 Alternatives arising from the formal process

The Alinta Board initiated a process to solicit proposals to acquire part or all of Alinta and to ensure that a fair and transparent process was in place to manage bidders wishing to submit competing proposals for an acquisition.

Under that process, Alinta allowed a number of interested parties to conduct due diligence, which included access to a data room and Alinta senior management.

Proposals to acquire all of Alinta were received on 23 March 2007 from two consortia being the Macquarie Bank Consortium and the B&B/SPI Consortium (at that stage comprising the Bidder, B&B, BBP and SPI).

The two proposals were different in a number of respects. As the consideration under each proposal involved a number of components or alternatives, evaluation of the proposals did not simply involve a comparison of two cash prices. Furthermore, there were different conditions attached to each proposal.

The Alinta Directors favoured the B&B/SPI Consortium's Original Scheme Proposal over the Macquarie Bank Consortium Proposal for a number of reasons including:

- (a) the securities offered by the B&B/SPI Consortium had readily observable market prices from which to value the offer;

### Notes:

<sup>15</sup> BBI EPS are not listed securities at the date of this Booklet.

<sup>16</sup> In order for the Share Scheme to proceed, the Share Scheme (and the Capital Reduction) must be approved by the Alinta Shareholders. In order for the Option Scheme to proceed, the Share Scheme and the Capital Reduction must be approved by the Alinta Shareholders and become Effective and the Option Scheme must be approved by the Alinta Optionholders.

<sup>17</sup> Grant Samuel has concluded that the Share Scheme is in the best interests of Alinta Shareholders and that the Option Scheme is in the best interests of Alinta Optionholders.

- (b) the Alinta Directors had concerns with the securities offered by the Macquarie Bank Consortium. These concerns included the structure of the issuing entity, the level of financial structuring, the absence of a visible market value, no forecast growth in annual distributions for at least eight years and the requirement that securities rather than cash was the default option; and
- (c) the B&B/SPI Consortium's Original Scheme Proposal had significantly less conditions attached to it.

As a result, Alinta entered into a scheme implementation agreement (the Original SIA) with the Consortium on 30 March 2007.

On 4 May 2007, the Macquarie Bank Consortium submitted a revised proposal to Alinta. In response, the Consortium also revised its Original Scheme Proposal, leading to the Alinta Directors continuing to recommend the Consortium's proposal (Scheme Proposal), following a rigorous and extensive review and assessment, and leading to the Consortium entering into an Amended and Restated Scheme Implementation Agreement with Alinta on 11 May 2007 (the SIA).

The Macquarie Bank Consortium's Revised Proposal is summarised below.

#### 2.4 Macquarie Bank Consortium's Revised Proposal

The Macquarie Bank Consortium's Revised Proposal required Alinta to recommend a different scheme of arrangement. As Alinta has not done so, the Macquarie Bank Consortium's Revised Proposal is not one that is capable of acceptance by Alinta Shareholders.

The Alinta Directors recognised that a small number of individual shareholders may have found the Macquarie Bank Consortium's Revised Proposal attractive, if all of its conditions were satisfied, based on their individual circumstances. However, when considering Alinta Shareholders as a whole, the Alinta Directors believed the Macquarie Bank Consortium's Revised Proposal was inferior for a number of reasons including:

- (a) the proposal contained significantly more conditions than the B&B/SPI Consortium's Scheme Proposal, creating the risk that it may not have ultimately been available. These conditions included adverse movements in equity markets and interest rates, conditions relating to the Macquarie Bank Consortium's financing and more onerous conditions relating to possible adverse changes to Alinta; and
- (b) while the structure of EIA (the entity that securities are offered in) had been improved relative to the initial proposal, the Alinta Directors believed the B&B/SPI Consortium's Scheme Proposal offered superior securities.

In evaluating the potential CGT benefits of the Macquarie Bank Consortium's Revised Proposal the Directors noted that the CGT rollover relief did not eliminate the tax liability, but rather deferred it until the securities were ultimately sold.<sup>18</sup> Accordingly, Alinta undertook an analysis of the overall effect of CGT rollover relief on shareholders using an array of scenarios of cost bases, holding periods and personal tax rates.

Alinta also noted that the low cost base retail shareholders, who are otherwise likely to benefit most from CGT rollover relief, would have had their capital bases eroded through tax deferred distributions within two to three years. Following this, future "tax deferred" distributions would have been taxable when received.

The Macquarie Bank Consortium's Revised Proposal is addressed in section 9.5 of the Independent Expert's Report contained in Annexure G to this Booklet.

#### 2.5 Internal Restructure Proposal

Alinta considered a number of internal restructuring alternatives including:

- (a) continued ownership of each of Alinta's assets;
- (b) changing its capital structure; and
- (c) mechanisms to maximise cash distributed to shareholders.

Alinta's preferred internal restructuring option was to demerge Alinta into two separate entities:

- (a) an "Infrastructure Entity", which would own all of Alinta's energy infrastructure assets. This would be a dedicated infrastructure entity with self-sufficient internal corporate and executive management. As part of the demerger this entity would be recapitalised and structured to maximise cash distributions. It was expected that this entity would provide stable, relatively low growth cash flows; and
- (b) an "Asset Management Entity", which would own Alinta's asset management businesses (AAM and Agility) including providing asset management services to the Infrastructure Entity. The Asset Management Entity would also own various energy trading activities, including Alinta's interest in AlintaAGL. It was expected that this entity would have the potential for relatively higher growth in cash flows and distributions.

Whilst Alinta believes a demerger could have potentially offered a number of other benefits including:

- (a) a higher combined share price than Alinta's share price prior to the announcement of the potential MBO approach on 9 January 2007;
- (b) an improved ability of the asset management businesses to focus on growth, particularly in extending services beyond their traditional electricity and gas markets;
- (c) the retention of potential future premia for control in relation to both entities;
- (d) an improved structure for regulatory transparency; and
- (e) effective CGT rollover relief for Alinta Shareholders.

Note:

<sup>18</sup> As in the case with the BBI EPS issued under the Scheme Proposal.

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there would also be potentially significant disadvantages associated with a demerger including:

- (f) the incremental costs associated with two separately listed companies;
- (g) the longer timeframe and increased complexity of implementation, including the need for third party consents;
- (h) the reduced scale of each entity relative to Alinta, at least in the short-term; and
- (i) a likely trading value significantly below the value of the Scheme Proposal prior to Implementation.

The Alinta Directors believed a demerger would have added value relative to a standalone Alinta in its form prior to announcement of the potential MBO Proposal on 9 January 2007. However, the Alinta Directors believed that, based on the internal restructuring analysis completed prior to recommendation of the Original Scheme Proposal, the Original Scheme Proposal offered a premium to both the standalone value of Alinta and its potential future value following an internal restructuring.

If the Scheme Proposal is not Implemented, and no superior alternative emerges, the Alinta Directors will reconsider internal restructuring alternatives, including a demerger. However, the value of the Internal Restructure Proposal is uncertain and Alinta Shareholders should note that it would take some time to implement. Implementation of any Internal Restructure Proposal would probably require shareholder approval.

The Internal Restructure Proposal is addressed in section 9.5 of the Independent Expert's Report contained in Annexure G to this Booklet.

## 2.6 Independent Expert's opinion on Share Scheme

The Independent Expert, Grant Samuel, has assessed the Scheme Proposal and concluded that it is in the best interests of Alinta Securityholders.<sup>19</sup>

The Independent Expert estimated the full underlying value of Alinta Shares to be in the range of \$13.84–\$16.16 per Alinta Share. This value includes a control premium and exceeds the price at which Alinta Shares would be expected to trade in the absence of the Scheme Proposal or some similar transaction, and even if some kind of internal restructure is implemented.

The Independent Expert has valued the consideration in the range of \$15.74–\$16.07 per Alinta Share based on the Default Consideration and concluded that the Share Scheme provides fair value to Alinta Shareholders. As the consideration is fair, it is also reasonable. In summary, Grant Samuel believes that, on balance,

Alinta Shareholders are likely to be better off if the Share Scheme is approved than if it is not. Accordingly, in Grant Samuel's opinion, the Share Scheme is in the best interests of Alinta Shareholders.

The full Independent Expert's Report is provided at Annexure G of this Part B Booklet.

## 2.7 Benefits, disadvantages and risks of the Scheme Proposal for Alinta Shareholders

### (a) Benefits of the Scheme Proposal

The Alinta Board unanimously recommends that you vote in favour of the Share Scheme and Capital Reduction, in the absence of a superior proposal and provided that the Independent Expert continues to conclude that the Scheme Proposal is in the best interests of Alinta Shareholders.

The Independent Expert has assessed the Share Scheme to be in the best interests of Alinta Shareholders.

The benefits of the Scheme Proposal for Alinta Shareholders include:

- (i) The Scheme Proposal values your Alinta Shares at a significant premium to the pre-MBO Proposal announcement trading prices for your Alinta Shares.
- (ii) The value of the Consideration is attractive relative to most other recent energy infrastructure transactions in Australia.
- (iii) The value of the Consideration has increased since the Alinta Board recommended the Original Scheme Proposal.
- (iv) You have the opportunity to receive securities in Babcock & Brown managed infrastructure entities that are listed on ASX and have a proven track record of performance.<sup>20</sup>
- (v) You can elect to maximise the cash, BBI EPS or B&B Fund Securities component of your Share Scheme Consideration.<sup>21</sup>
- (vi) You can elect to maximise the number of BBI EPS you receive, which is expected to maximise your CGT rollover relief.<sup>22</sup>
- (vii) If the Scheme Proposal is not approved and no alternative proposal emerges, the Alinta Share price may fall.

### (b) Disadvantages and risks of the Scheme Proposal

There are disadvantages and risks associated with the Scheme Proposal, Implementation and the Post-Implementation Transactions which are important for Alinta Shareholders to understand when making a decision how to vote on the Scheme Proposal. Alinta Shareholders should refer to section 12 for a more detailed discussion of the risks associated with the Scheme Proposal.

#### (i) Consideration Alternatives

There are a number of possible consideration outcomes for Alinta Shareholders. Alinta Shareholders may not receive a maximum

#### Notes:

<sup>19</sup> Grant Samuel has concluded that the Share Scheme is in the best interests of Alinta Shareholders and that the Option Scheme is in the best interests of Alinta Optionholders.

<sup>20</sup> Unless you are an Ineligible Overseas Shareholder.

<sup>21</sup> Unless you are an Ineligible Overseas Shareholder or, in the case of maximising BBI EPS, a New Zealand Shareholder.

<sup>22</sup> Unless you are an Ineligible Overseas Shareholder or a New Zealand Shareholder.

allocation of their preferred form of consideration under the available Consideration Alternatives, and will not know the exact form of the Share Scheme Consideration that they will receive until around the Implementation Date.

The value of each Consideration Alternative will depend, in part, on the value of the B&B Fund Securities Component and the APA Securities Component at the Record Date. The value will be determined based on the VWAP over the five Business Days following the Meeting Date which covers the days immediately prior to the Record Date on the current timetable. Accordingly, the value of the consideration received by Alinta Shareholders will be affected by any fluctuations in the market prices of the B&B Fund Securities and APA Securities prior to (as well as after) the Record Date.

There are other risks associated with the Consideration Alternatives, including that Alinta Shareholders may receive small parcels of B&B Fund Securities.

#### (ii) Taxation

Alinta Shareholders may be subject to significant capital gains tax. Alinta Shareholders may be able to reduce their CGT liability by electing to receive the Maximum Preference Shares Alternative.

While BBI EPS are expected to provide CGT rollover relief (a tax ruling has been applied for with the ATO), it is a fixed income security (with limited growth potential) which may or may not suit individual shareholders' investment objectives.

It should be noted that when BBI EPS are sold, redeemed or converted into BBI Stapled Securities, a CGT Event will arise and the tax deferred on the initial rollover will be payable. Further information on BBI EPS is provided on pages 18 and 28 of Part A of this Booklet and section 6 of Part B of this Booklet.

#### (iii) Consideration Securities

Alinta Shareholders who receive B&B Fund Securities and APA Securities as part of their Share Scheme Consideration and the APA Distribution will be exposed to risks which are new or changed from those to which they are currently exposed.

Unlike Alinta, the B&B Funds are externally managed. Each fund pays management fees to B&B based on its market capitalisation and relative security price performance. The external management arrangements may affect the prospects for, and value of, any possible future change of control of these funds.

While the Alinta Board acknowledges the existence of these disadvantages and risks, it believes the advantages of the Scheme Proposal outweigh them and recommends that Alinta Shareholders vote in favour of the Scheme Proposal, subject to no superior proposal being received and subject to the Independent Expert continuing to conclude that the Scheme Proposal is in the best interests of the Alinta Securityholders. For a detailed discussion of the risks for Alinta Shareholders, refer to section 12 (Risks).

#### (c) Other relevant considerations for Alinta Shareholders (deemed warranties)

Under the Share Scheme, each Share Scheme Participant will be deemed to have given the warranties in clause 5.6 of the Share Scheme, if the Share Scheme becomes Effective irrespective of whether or not they voted in favour of or against the Scheme Proposal or did not vote at all. Further details of these warranties are set out in section 13.2(i).

### 2.8 Benefits, disadvantages and risks of the Scheme Proposal for Alinta Optionholders

#### (a) Benefits of the Scheme Proposal

The Alinta Board unanimously recommends that you vote in favour of the Option Scheme, in the absence of a superior proposal and provided that the Independent Expert continues to conclude that the Scheme Proposal is in the best interests of the Alinta Optionholders.

The Independent Expert has assessed the Option Scheme to be in the best interests of Alinta Optionholders.

The benefits of the Scheme Proposal for Alinta Optionholders include:

- (i) You will receive a substantial premium over the intrinsic value of the Alinta Options, based on the historical trading prices of the Alinta Shares.
- (ii) The relative value of the Consideration is higher than other recent energy infrastructure transactions in Australia.
- (iii) The Option Scheme Consideration, being a cash payment, provides certainty of value and immediate payment for the cancellation of your Alinta Options.
- (iv) The value of the Consideration has increased since the Alinta Board recommended the Original Scheme Proposal.
- (v) If the Scheme Proposal is not approved and no alternative proposal emerges, the Alinta Share price and therefore the intrinsic value of your Alinta Options may fall.

#### (b) Disadvantages and risks of the Scheme Proposal

The disadvantages and risks of the Scheme Proposal for Alinta Optionholders are generally different from those for Alinta Shareholders, as Alinta Optionholders will not receive Consideration Securities under the Scheme Proposal.

The key risk associated with the Option Scheme Consideration is that it is based on the equivalent value of the Consideration Securities as at the Record Date and therefore will fluctuate with the market prices of B&B Fund Securities and APA Securities prior to the Record Date. The value will be determined based on the VWAP over the five Business Days following the Meeting Date which covers the days immediately prior to the Record Date in the current timetable and based on BBI EPS trading at their issue price of \$1.00.

Other potential disadvantages include that Alinta Optionholders will not be able to acquire a direct shareholding in Alinta following Implementation of the Scheme Proposal.

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Implementation of the Option Scheme will potentially result in taxation consequences for Alinta Optionholders which arise earlier than they otherwise would have. The taxation implications for Alinta Optionholders will differ depending on whether or not the Alinta Optionholder made an election to be assessed on the value of their Alinta Options in the year of income in which the Alinta Options were granted. See section 14.3 for more details.

While the Alinta Board acknowledges the existence of these disadvantages and risks, it believes the advantages of the Scheme Proposal outweigh them and recommends that Alinta Optionholders vote in favour of the Scheme Proposal, subject to no superior proposal being received and subject to the Independent Expert continuing to conclude that the Scheme Proposal is in the best interests of the Alinta Optionholders. See section 12.2(b) for further details of risks for Alinta Optionholders.

**(c) Other relevant considerations for Alinta Optionholders**

Implementation of the Share Scheme is not conditional on Implementation of the Option Scheme.

If the Option Scheme is not Implemented but the Share Scheme is Implemented, the Alinta Options will not be cancelled and will continue to be held by Alinta Optionholders.

From the Effective Date of the Share Scheme, all outstanding Alinta Options (whether previously vested or not) will vest and can be exercised in accordance with their terms and conditions at any time until their expiry. As set out in sections 1.3 and 13.3, all Alinta Optionholders will have until the Exercise Deadline (expected to be 5.00pm WST (7.00pm AEST) on Tuesday, 21 August 2007) to exercise their Alinta Options in order to become Share Scheme Participants. Alinta Optionholders will need to fund the exercise of their Alinta Options.

On Implementation of the Share Scheme, Alinta will become a wholly-owned subsidiary of Bidder and an application will be made for Alinta to be delisted from ASX.

If the Option Scheme is not Implemented, for those Alinta Optionholders who do not exercise their Alinta Options by the Exercise Deadline, they would receive shares in an unlisted company if they exercise any of their Alinta Options after the Exercise Deadline. Alinta Optionholders would hold their Alinta Options, and any Alinta Shares acquired on exercise of their Alinta Options, subject to the Bidder's rights to compulsorily acquire them in accordance with Chapter 6A of the Corporations Act. If this circumstance arises it is the Bidder's current intention to exercise that right. See section 15.4 for more details.

## 2.9 Other relevant considerations for all Alinta Securityholders

**(a) No superior competing proposal has emerged**

Section 2.3 describes the process undertaken by the Alinta Board for the purpose of soliciting offers for Alinta.

Whilst there is a possibility that a superior competing proposal could be proposed for Alinta, since the commencement of the original process on 9 January 2007 the Alinta Board has not received a superior proposal to the Scheme Proposal and since the announcement on 11 May 2007 that the Alinta Board had agreed to recommend the Scheme Proposal from the Consortium, the Alinta Board has not received any competing proposal from any other party. As at the date of this Booklet, the Alinta Board has no basis for believing that any such proposal will be forthcoming.

**(b) Exclusivity**

The SIA includes certain obligations on Alinta not to solicit or initiate any discussions with third parties in relation to a Competing Proposal for Alinta during the term of the SIA.

While the Alinta Board must not solicit Competing Proposals for Alinta, the Alinta Board may respond to an approach from any third party in relation to a Competing Proposal, which may include:

- (i) participating in negotiations or discussions in relation to a Competing Proposal;
- (ii) providing any information for the purposes of enabling that third party to make a Competing Proposal; or
- (iii) entering into a deed, arrangement or understanding in relation to a Competing Proposal requiring Alinta to abandon, or otherwise fail to proceed with, the Scheme Proposal,

if the Alinta Board determines, acting in good faith, that by not doing so they would be likely to breach their fiduciary or statutory duties.

Further details of this obligation are explained in section 13.

**(c) Break Fee**

The SIA provides that Alinta will pay a Break Fee of \$59,250,000 to the Bidder in certain circumstances, including where:

- (i) a Third Party Proposal becomes free from all defeating conditions and the third party acquires more than 50% of Alinta's ordinary share capital or all or the majority of the assets of the Alinta Group or otherwise merges or amalgamates with Alinta;
- (ii) the majority of all Alinta Directors withdraw their recommendation of the Share Scheme in order to recommend an internal restructure of Alinta; or
- (iii) Alinta is in material breach of its obligations under the SIA which has not been remedied within the time required.

Further details of the Break Fee provisions are set out in section 13.6(iv).

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# 3

# OVERVIEW OF ALINTA

### 3.1 History

Since the listing of Alinta's Predecessor in 2000, Alinta has progressed from a small, Western Australian gas distributor and retailer to a large listed energy infrastructure company with operations and investments across Australia and New Zealand. During this period Alinta undertook a number of company transforming transactions, namely:

- (a) In 2003, negotiations with Aquila, United Energy and AMP resulted in a series of transactions in which Alinta became a manager and part owner of electricity and gas distribution assets worth \$4 billion.
- (b) In 2004, Alinta acquired the Australian and New Zealand power generation and gas transmission assets and wholesale gas trading and marketing business of Duke Energy for \$1.69 billion.
- (c) In 2004, Alinta, together with Alcoa of Australia Limited and Diversified Utility Energy Trusts, acquired the Dampier to Bunbury Natural Gas Pipeline for \$1.86 billion. AAM provides various services in relation to the management, operation and maintenance and construction activities associated with the pipeline.
- (d) In 2005, Alinta undertook the initial public offer of Alinta Infrastructure Holdings (AIH) (restructured owner of the Duke Energy assets) and in early 2007 completed the acquisition of AIH, bringing the power generation and gas transmission assets back into the Alinta Group.

- (e) In 2006, Alinta effected the AGL Merger, resulting in the merger of Alinta's business with the asset management business, network asset interests and certain power generation assets of Alinta LGA (formerly The Australian Gas Light Company), and the sale of a 33% interest in Alinta's WA retail energy business to AGL Energy.
- (f) In April 2007, the Wattle Point Assets were sold by Alinta LGA to Gas Investments Pty Ltd for \$225 million.
- (g) In June 2007, Alinta agreed arrangements with APA to allow termination of agreements under which Alinta operates and maintains various APA pipelines, together with the transfer of operating arrangements relating to non APA owned pipelines which operate in conjunction with APA owned pipelines, to an APA nominated buyer. The gross consideration payable by APA to Alinta for this arrangement is \$210 million. The transaction is expected to settle in September 2007. For further information see section 10.8.

### 3.2 Profile

Alinta is an owner and operator of energy infrastructure and wholesale energy assets. Alinta's business consists of interests in:

- (a) gas transmission pipelines;
- (b) energy distribution networks;
- (c) power generation;
- (d) operation of infrastructure assets for Alinta and third parties;
- (e) the Western Australia-based energy retail and generation business (AlintaAGL); and
- (f) energy development and wholesale energy trading and marketing.

Alinta's assets and investments are illustrated below.

Figure 3.1: Alinta's business units



Note to Figure 3.1:

1 Interest in DBNGP will increase to 20% following agreed capital contributions.

If the Scheme Proposal is implemented, Alinta understands that the Alinta Assets will be distributed amongst the Consortium Parties as illustrated in Figure 1.2 (Alinta asset allocation) in section 1.1.

Further information about Alinta's assets can be found in its 2006 Concise Annual Report, found at [www.alinta.net.au](http://www.alinta.net.au)

### 3.3 APA

Alinta has an ownership interest of approximately 35% in APA. It is proposed that the APA Securities will be distributed to Alinta Shareholders by way of an APA Dividend and a Capital Reduction as outlined in section 10. Further information in relation to the APA Securities and the APA Distribution is set out in section 10.

### 3.4 Alinta's Board

#### Chairman and Non-Executive Director

##### J H (John) Akehurst, MA Eng Sc (Oxon), FIMechE, FAICD

John Akehurst, 58, is a non-executive director of CSL Limited and Coogee Resources Limited. He is a consultant to RSA Consulting Pty Ltd and a senior adviser to McKinsey and Company. John has 30 years operational and management experience in the oil and gas industry. He is a former Chief Operating Officer and Chief Executive Officer of Woodside Petroleum Limited and a former non-executive director of Oil Search. John is a director of the University of WA Graduate School of Management and of Youth Focus. He joined the Board of Alinta's Predecessor as a non-executive director in July 2006 and the Alinta Board in October 2006. John was appointed Chairman of Alinta in January 2007. He is the Chairman of Alinta's Remuneration and Nomination Committee.

#### Non-Executive Directors

##### F E (Fiona) Harris, BCom, FCA, FAICD

Fiona Harris, 46, is a professional non-executive director. Previously, she spent 14 years with a major chartered accounting firm in Perth, San Francisco and Sydney. Fiona was an Audit & Assurance partner in the New South Wales practice of that firm when she retired in 1994. She is a director of Perron Group Limited, PG Holdings Limited, Heytesbury Pty Ltd and WASO Holdings Ltd. Fiona is also President of the State Council of the Australian Institute of Company Directors and a member of their national Board. She has been a director of Alinta since October 2006 and of Alinta's Predecessor since its incorporation in January 2000.

Fiona was also previously a director of Portman Limited, Burswood Limited, Evans and Tate Limited, HBF Health Funds Inc, NM Rothschild & Sons (Australia) Ltd, Alinta Infrastructure Limited and Alinta Funds Management Limited. She is Chairman of Alinta's Audit and Risk Management Committee.

##### T R (Tina) McMeckan, BSc, MBA, FAICD

Tina McMeckan, 57, has substantial energy market and utilities infrastructure experience in power production, energy trading, networks and retail businesses in gas and electricity, having served on the boards of a number of corporations, including United Energy Limited, Snowy Hydro Trading, the Westar and Kinetik Energy Group and Solaris Power, and with the Victorian government on energy reform. Until recently, Tina was also a director of Alinta Infrastructure Limited and Alinta Funds Management Limited. She is Chairman of the Centre for Eye Research Australia Limited. Tina is also a director of Nanotechnology Victoria Limited, the Vision Co-operative Research Centre, the AusIndustry Research and Development Board Funds Management Committee and Deacons law firm. She has been a director of Alinta since October 2006 and Alinta's Predecessor since October 2003. Tina is a member of Alinta's Audit and Risk Management Committee and its Remuneration and Nomination Committee.

##### M J (Michael) Wilkins, BCom, MBA, DLI, FCA, FAICD

Michael Wilkins, 50, has considerable business, operational and management experience, particularly in the insurance and financial services sector. He is currently a consultant to Suncorp Metway Limited following that organisation's merger with Promina Group in March 2007. Michael was previously Managing Director of Promina Group from July 1999 until March 2007. He was also previously a director of Tyndall Australia Limited from January 1990 (Managing Director from April 1994) until the acquisition of that company by Promina Group in July 1999. Mr Wilkins is also a non-executive director of Maple-Brown Abbott Limited and recently retired as a director of the Insurance Council of Australia. He was President of the Insurance Council from 2003 until 2005 and is also a past director of the Investment and Financial Services Association. Michael has been a director of Alinta since October 2006 and Alinta's Predecessor since July 2005 and is a member of Alinta's Audit and Risk Management Committee and its Remuneration and Nomination Committee.

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# 4

# OVERVIEW OF BID CONSORTIUM

#### 4.1 The Consortium

Babcock & Brown (**B&B**), certain Australian listed infrastructure funds managed by B&B (Babcock & Brown Infrastructure (**BBI**), Babcock & Brown Power (**BBP**), Babcock & Brown Wind Partners (**BBW**)) and Singapore Power International Pte Ltd (**SPI**) have formed a Consortium for the purpose of the Scheme Proposal.

The Consortium is using ES&L Pty Ltd as a bidding vehicle to undertake the acquisition of Alinta.

Detail on the Consortium arrangements and structure is set out in section 15.8.

#### 4.2 Description of the Consortium Parties

##### (a) Singapore Power International Pte Ltd

SPI is a wholly owned subsidiary of Singapore Power Limited (**SP**).

SP, with total assets of S\$18.7 billion as at 31 March 2006, is one of the largest companies in Singapore. SP's strong capital structure is underscored by its high credit ratings, "Aa1" and "AA", accorded by Moody's Investors Service and Standard & Poor's respectively.

The principal businesses of SP and its subsidiaries are the ownership and operation of electricity and gas transmission and distribution businesses and the provision of market support services to the energy market in Singapore, serving over one million customers.

SP has existing business interests in Australia through its 51% owned Australian subsidiary, SP AusNet, which owns Victoria's primary electricity transmission network, an electricity distribution network located in eastern Victoria and a gas distribution network located in western Victoria. SP AusNet has a primary listing on the ASX and a secondary listing on the Singapore Exchange.

For further information, please visit: [www.singaporepower.com.sg](http://www.singaporepower.com.sg)

##### (b) Babcock & Brown (ASX:BNB)

B&B is a global investment and advisory firm with longstanding capabilities in structured finance and the creation, origination, syndication and management of asset- and cash flow-based investments. B&B was founded in 1977 and was listed on the ASX in October 2004. As at 27 June 2007, B&B had a market capitalisation in excess of \$9.4 billion.

B&B operates from 28 offices across Australia, North America, Europe, Asia, United Arab Emirates and Africa and has in excess of 1,000 employees worldwide.

B&B has five operating divisions: real estate, infrastructure, operating leasing, structured finance and corporate finance.

In 2006, the infrastructure division was the largest division by net revenue within B&B and is one of the leading infrastructure investment groups globally. B&B has demonstrable global expertise in developing and operating both traditional and renewable power generation plants and the running of power transmission businesses.

B&B has created a number of B&B managed infrastructure funds including BBI, BBP and BBW, where B&B acts as an external manager through various subsidiaries. These funds have the benefit of access to B&B's global infrastructure expertise including access to the skills and expertise of in excess of 390 people in 21 offices worldwide. Further detail on the relationship between B&B and its managed funds is set out in section 9.

Through its managed funds, B&B has a strong presence in the Australian infrastructure market and in particular in Western Australia with existing investments including the Alinta Wind Farm project (BBW), the NewGen Kwinana Power Station (BBP) and WestNet Rail (BBI).

For further information please visit: [www.babcockbrown.com](http://www.babcockbrown.com)

##### (c) B&B Funds

The following B&B Funds are participating in the Consortium.



Figure 4.1: Babcock & Brown Infrastructure

	At listing on 24 June 2002	At 27 June 2007
Market capitalisation	\$314.65 million <sup>23</sup>	\$3.2 billion <sup>24</sup>
Assets	Dalrymple Bay Coal Terminal (DBCT)	Transport: DBCT, PD Ports, Water Container Transport NV, WestNet Rail, Tarragona Port Services Energy Transmission and Distribution: Powerco, International Energy Group, Cross Sound Cable
BBI Distribution	FY03: 10.25 cents per stapled security (based on a fully paid security), fully tax-deferred	Forecast FY07: 14.25 cents per stapled security, fully tax deferred
Future growth	<ul style="list-style-type: none"> <li>- The acquisition of the remaining 49% of WestNet Rail, 49% interest in WCT and 49% interest in TPS</li> <li>- Further expansion of DBCT</li> <li>- A number of potential European port acquisitions</li> <li>- Development of a deep sea container terminal at PD Ports</li> </ul>	

For further information please visit: [www.bbinfrastructure.com](http://www.bbinfrastructure.com)

Notes:

<sup>23</sup> Originally listed as Prime Infrastructure (ASX:PIF) with 284.5 million \$1.00 stapled securities partly paid to \$0.70 and 115.5 million fully paid \$1.00 stapled securities.

<sup>24</sup> Based on the closing price of \$1.71 on ASX on 27 June 2007.

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Figure 4.2: Babcock &amp; Brown Power

	At listing on 11 December 2006	At 27 June 2007
Market capitalisation	\$898 million <sup>25</sup>	\$1.2 billion <sup>26</sup>
Assets	7 operating power stations in Australia 1 power station under construction in Australia	
BBP Distribution	Forecast FY07: 14.0 cents per stapled security since listing on 11 December 2006, fully tax-deferred	
Future growth	<ul style="list-style-type: none"> <li>- NewGen Kwinana power station under construction and Uranquinty power station investment under active consideration</li> <li>- Organic growth through the power supply shortage in the Australian NEM</li> </ul>	

For further information please visit: [www.bbpower.com](http://www.bbpower.com)

## Notes:

<sup>25</sup> Based on the offer price under the initial public offer of \$2.50.

<sup>26</sup> Based on the closing price of \$3.39 on ASX on 27 June 2007.




## BABCOCK & BROWN WIND PARTNERS

**Figure 4.3: Babcock & Brown Wind Partners**

	At listing on 28 October 2005	At 27 June 2007
Market capitalisation	\$692 million <sup>27</sup>	\$1.3 billion <sup>28</sup>
Assets	Interests in 15 wind farms in three continents and four countries with total installed capacity of 672MW	Interests in 33 wind farms in three continents and five countries with total installed capacity of over 1,600MW
BBW Distribution	FY06: 10.2 cents per stapled security, fully tax-deferred	Forecast FY07: 12.5 cents per stapled security, expected to be fully tax-deferred
Future growth	<ul style="list-style-type: none"> <li>– Possible acquisition of at least 50% interest in 524MW Enersis portfolio</li> <li>– Acquisition of further wind farm assets under existing framework agreements</li> <li>– Possible acquisition of 375MW Class B member interests in US07 portfolio (BBW's proposed proportional equity interest only), both under active consideration</li> </ul>	

For further information please visit: [www.bbwindpartners.com](http://www.bbwindpartners.com)

Further details of each of the B&B Funds is set out in sections 5, 7 and 8.

Notes:

<sup>27</sup> Based on the offer price under the initial public offer.

<sup>28</sup> Based on the closing price of \$1.865 on ASX on 27 June 2007.

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### 4.3 Consortium's current intentions

#### (a) Overview

This section describes the Consortium's current intentions in relation to the acquisition of Alinta including the following:

- (i) the allocation of the Alinta Assets between Consortium Parties;
- (ii) the continued operation of the Alinta Assets;
- (iii) the future employment of the present Alinta employees;
- (iv) the Alinta executive management, Alinta Board and responsible entities of trusts within the Alinta Group;
- (v) B&B's intentions regarding its current shareholding in Alinta; and
- (vi) the Consortium's process for further review of the Alinta Assets and Alinta's corporate functions.

The Consortium's due diligence in respect of Alinta to date has been limited to that undertaken on public information and information made available by Alinta. A transition committee has been established comprising representatives from both Alinta and the Consortium to facilitate the exchange of information. This section 4.3 has been prepared on the basis of information available to the Consortium and the general business environment as at the date of preparing this Booklet. Accordingly, this section 4.3 represents the Consortium's current intentions which are subject to modification and refinement as new information becomes available or as circumstances require.

If the Scheme Proposal is implemented, each of the Consortium Parties intends in the following six months to perform a Review of the structure and operations of the Alinta Assets allocated to that party and of how those assets interact with other Alinta Assets and that Consortium Party's own assets to evaluate the depth of operational synergies. In particular, detailed organisational, financial, strategic and operational reviews of the Alinta Assets will be undertaken in order to better evaluate the performance, profitability and prospects of the Alinta Assets and to maximise the opportunities available to each of the Consortium Parties. The Review will assess opportunities for obtaining efficiency gains in these areas and to avoid any duplication of functions currently being undertaken by the Consortium Parties. In particular, a plan for the Review of Alinta's information technology systems has commenced including identifying existing applications, developing transitional plans, identifying critical management information flows and undertaking due diligence on licensing and separation issues.

#### (b) Allocation of Alinta Assets

If the Scheme Proposal is implemented, the Alinta Assets will be restructured and apportioned among the Consortium Parties as set out in Figure 1.2 in section 1.1.

Broadly, B&B and the B&B Funds will acquire the Alinta Assets on the west coast of Australia as well as certain complementary assets on the east coast of Australia. SPI will acquire the majority of the east coast Alinta Assets. The asset split is designed to best match each Consortium Party's respective operational strengths and strategic drivers.

Further information on the arrangements regarding the separation of the Alinta Assets among the Consortium Parties is set out in sections 15.8, 15.9 and 15.12.

#### (c) Continuation of business

##### (i) General

In the short term, the Consortium intends the Alinta Assets to be operated similarly to how they have been operated historically. It is intended that the current business organisation for individual Alinta Assets allocated to each Consortium Party will be maintained and that the Alinta Assets will be operated as standalone businesses in the relevant B&B Funds or SPI while the Consortium Parties undertake their respective operational reviews of the Alinta Assets.

It is also intended that where a Consortium Party exercises management control over an Alinta Asset, that party will seek to maximise the performance of that asset including through the identification of areas for operational improvement and synergies.

For those Alinta Assets which cannot be immediately transferred to the relevant Consortium Party, it is intended that the relevant party will be entitled to appoint board representatives to each relevant company to oversee the continued management of such assets. In addition, subcontracting or other arrangements described in section 15.12(b) will be adopted if third party consent issues delay or prevent the transfer of any Alinta Asset to the relevant Consortium Party.

The Consortium intends to complete the transaction with APA described in section 10.8.

##### (ii) SPI continuation of business

SPI intends to maximise the performance of SPI's Alinta Assets, especially the eastern Australian asset management component of AAM and Agility Management Pty Ltd which will be separated from the Western Australian based businesses being acquired by BBI as described in section 4.3(c)(iii)(B).

SPI proposes to provide SP AusNet with an opportunity to acquire all of the regulated or contracted Alinta Assets which have been allocated to SPI following Implementation of the Scheme Proposal.

SP AusNet has established an independent process to assess that opportunity. SP AusNet owns a number of substantial energy infrastructure assets (see section 4.2(a)) and may explore opportunities to achieve synergies from the ownership and operation of those assets together with any of SPI's Alinta Assets which SP AusNet may acquire.

If SP AusNet elects not to acquire any of SPI's Alinta Assets, SPI will consider the potential to combine its Australian based management resources (housed in its Australian subsidiary, SPI Management Services Pty Ltd) with resources associated with SPI's Alinta Assets. SPI may also consider avenues to achieve operational synergies in conjunction with SP AusNet.

**(iii) BBI continuation of business**

Specific strategies currently under consideration by BBI are described below.

**(A) Management**

It is expected that executives drawn from BBI's energy division would be appointed as BBI's nominees to the boards of each of AlintaGas Networks (**AGN**), Multinet Gas Network (**MGN**) and Dampier to Bunbury Natural Gas Pipeline (**DBNGP**) along with representatives from Alinta's existing management team where appropriate.

BBI intends to manage its wholly owned interest in Tasmanian Gas Pipeline (**TGP**) and the Western Australian operations and maintenance business using its current Powerco and WestNet Rail management and board reporting structures, respectively, supplemented where appropriate with appointments from Alinta's existing management team.

**(B) Operations**

The Review process will assess opportunities for integrating the TGP into the Powerco Tasmania gas distribution network business. SPI will be responsible for operating the TGP under a commercial operating services contract, the terms of which will be agreed between SPI and BBI.

Following the acquisition of Alinta Asset Management (**AAM**) under the Scheme Proposal, the Western Australian asset management component of AAM will require separation from the eastern-based business being acquired by SPI. BBI and SPI are in the process of developing an operational separation plan to achieve this (although for some resources and facilities, transitional service arrangements may need to be implemented between BBI and SPI). It is intended that the Western Australian asset management component of AAM will be restructured and resourced to be an asset management operation focussed on the infrastructure sector in Western Australia (the Western Australia operations and maintenance business).

**(iv) BBP continuation of business**

BBP intends to use the knowledge and experience available in its present operations and from the existing Alinta management team to strengthen the operational performance of the BBP Alinta Assets, identify and implement operational synergies, provide technical support and ensure asset and life management processes are in place.

BBP also intends to review the feasibility of certain growth opportunities in relation to the BBP Alinta Assets.

BBP proposes to enter into BBP Asset Management Agreements with each of the relevant entities that own the BBP Alinta Assets. Further information on BBP Asset Management Agreements is set out in section 7.14(b).

**(d) Future employment of present Alinta Group employees**

**(i) General**

The Consortium recognises Alinta's key assets include its staff and management, who collectively have contributed to Alinta's strong results in recent years. Subject to the Review and the specific intentions of the Consortium Parties outlined below, in general, employment arrangements for Alinta Group employees are unlikely to change significantly in the short term.

The Review would seek to enable SPI and B&B to benefit from Alinta's high quality employees, with the view to maintaining and improving Alinta's past performance within each business and asset group. However, a potential consequence of the Review may be that a certain number of Alinta head office or other management employees are offered redundancies. Each Consortium Party (other than BBW) will be responsible for a portion of any redundancy costs associated with such employees in accordance with their respective Participating Percentage. Where appropriate, the Consortium Parties will look to utilise the services and skills of Alinta head office and other management employees, either in the integrated Alinta business or else in the broader businesses of the Consortium Parties, whether in Perth or otherwise. Each of the Consortium Parties will respect legal obligations regarding employment terms and conditions of Alinta Group employees.

**(ii) SPI's current intention in relation to employees of SPI's Alinta Assets**

As noted above, SPI intends, in the short term, to operate SPI's Alinta Assets similarly to how they have been operated historically. Accordingly, the employment arrangements for the employees of SPI's Alinta Assets are unlikely to change significantly in the short term.

**(iii) BBI's current intention in relation to employees of BBI Alinta Assets**

**(A) Partly-owned entities**

With respect to the non wholly owned BBI Alinta Assets (including AGN and DBNGP), resourcing will continue to be managed by the boards of those respective entities on which BBI appointed executives will participate.

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**(B) TGP**

BBI plans to manage the TGP assets out of Powerco Tasmania's existing operational headquarters in Launceston, Tasmania. As stated above, operation of the TGP will be undertaken by SPI, and accordingly it is intended that AAM employees currently involved in providing operations and maintenance services to the TGP would become employees of SPI.

**(C) AAM**

BBI plans to operate the Western Australian operations and maintenance business (the Western Australian business of the restructured AAM allocated to BBI) and WestNet Rail businesses as standalone entities. However, where appropriate, BBI may create a single, integrated Perth-based corporate services support centre and head office for these businesses.

In this regard, BBI plans to retain all key AAM staff required to ensure the new Western Australian operations and maintenance business fully meets its obligations to its current clients and is well positioned for growth, providing services to prospective clients.

**(iv) BBP's current intention in relation to employees of BBP Alinta Assets****(A) Power generation employees**

In the short term, BBP intends to operate the BBP Alinta Assets similarly to how they were operated under Alinta ownership. As such, in the short term the employment arrangements for power station employees are not envisaged to change.

**(B) Energy market employees (AlintaAGL)**

If BBP acquires a 100% interest in AlintaAGL, it is expected that the majority of the employees currently engaged in energy retailing will be retained and the retailing operation will continue in its current format for the short term.

**(C) Other employees**

In addition to the power station employees and employees involved in the retail operations, BBP will be responsible for the employees of AEATM.<sup>29</sup> It is expected that these employees will continue to work in a similar role.

**(e) Executive Management, board and responsible entity**

The Consortium intends:

- > as soon as practicable after the Implementation Date, to replace directors on and/or appoint new directors to the board of each entity acquired. The appointments will be nominated by the Consortium Party that has been allocated the Alinta Asset(s);
- > to implement appropriate policies and delegations;
- > to consider the size and composition of the executive management team of Alinta (subject to the Review). Further, during the Review the identities of any necessary replacements for senior managers will be identified by the Consortium; and
- > to acquire the responsible entity of Alinta Infrastructure Trust (AIT) and Alinta Infrastructure Investment Trust (AIIT) (i.e. Alinta Funds Management Limited) or replace the responsible entity.

**(f) Wattle Point sale proceeds**

On 23 April 2007, Alinta completed the sale of the Wattle Point Assets to a wholly owned subsidiary of ANZ's Energy Infrastructure Trust for \$225 million. On Implementation of the Scheme Proposal, BBW will receive \$211 million of the sale proceeds in consideration for the issue of 130.1 million BBW Stapled Securities and net payment of \$9.5 million in cash. This is expected to provide BBW with enhanced capacity to pursue a range of identified value accretive opportunities.

**(g) B&B's intentions regarding its current holding in Alinta**

Of the 495,218,848 Alinta Shares on issue, B&B currently holds 13,361,992 Alinta Shares which represents a 2.7% shareholding in Alinta. These shares form a different class for the purpose of the Share Scheme and, as such, consent to the Share Scheme will be given separately from other Alinta Shareholders and these shares will not be voted at the Share Scheme Meeting. B&B intends to vote its shares at the General Meeting in favour of the Capital Reduction.

B&B also intends to elect the Maximum Securities Alternative in respect of its Alinta Shares.

Of the 5,461,435 Alinta Options on issue, B&B currently holds none.

**(h) The Consortium's intentions regarding Alinta's external debt funding**

The Consortium members between them have committed external debt funding capacity to enable the repayment of the majority of external debt borrowed by AEH, Alinta LGA and Alinta 2000 (Non-asset Specific Alinta Debt). The Consortium intends to enter into negotiations with Alinta's lenders concerning the retention of some or all of the Non-asset Specific Alinta Debt. Based on the outcome of these negotiations the Consortium may choose to repay some of the Non-asset Specific Alinta Debt by drawing down on its external debt funding.

**Notes:**

<sup>29</sup> BBP is expected to own AEATM and assume its related assets and liabilities. However, currently the Consortium Parties have not reached final agreement regarding the ownership of AEATM.

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5

**BABCOCK &  
BROWN  
INFRASTRUCTURE**

## 5.1 Overview

Under the Share Scheme, Alinta Shareholders may receive BBI Stapled Securities and BBI EPS as part of the Share Scheme Consideration (details of BBI EPS are set out in section 6).

BBI was listed on ASX in June 2002<sup>30</sup> and consists of a diversified portfolio of infrastructure and utility assets.

BBI's investment strategy focuses on acquiring, managing and operating quality infrastructure assets in two distinct asset classes with global geographic coverage: energy transmission and distribution and transport infrastructure. Assets are located across three regions including Australasia, North America and Europe. BBI seeks to optimise the management and operations of those assets to provide investors with attractive, stable and reliable distributions together with potential for capital growth.

The combination of BBI's existing assets with the BBI Alinta Assets will further enhance and diversify BBI's portfolio of energy transmission and distribution assets and is expected to strengthen future operating cash flows and distributions.

Following the acquisition of the BBI Alinta Assets, the value of BBI's total assets (including the value of BBI Alinta Assets) is expected to increase to \$11.5 billion and its market capitalisation<sup>31</sup> will increase to approximately \$3.8 billion, making BBI approximately the 76th largest company by market capitalisation<sup>32</sup> out of companies included in the All Ordinaries Index.

## 5.2 BBI Stapled Security prices and returns

As at 27 June 2007, BBI had achieved a Total Securityholder Return of approximately 213% since listing in June 2002 and had outperformed Standard & Poor's ASX 200 Accumulation Index (which has increased by 135%) by 58% over the same period.<sup>33</sup> The BBI Stapled Security price performance and volume of securities traded since the date of listing are illustrated in Figure 5.1.

BBI has reaffirmed its distribution guidance of 14.25 cents per BBI Stapled Security for BBI FY07 and BBI is also targeting distributions per security for BBI FY08 and BBI FY09 of approximately 15.0 cents and 16.0 cents respectively.<sup>34</sup> These distributions are expected to be paid substantially from operating cash flows and fully tax deferred until at least June 2008.

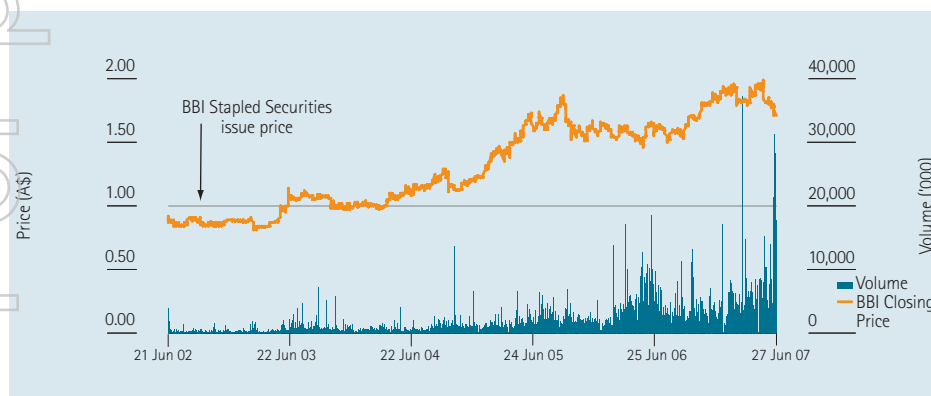
BBI Stapled Securities issued as part of the Share Scheme Consideration for Alinta Shareholders will be eligible for the full BBI Distribution payable for the six months ending 31 December 2007.

## 5.3 Industry overview

### (a) Energy transmission and distribution

BBI has significant interests in energy transmission and distribution assets in Australia, New Zealand, United Kingdom, Channel Islands (Jersey and Guernsey), Isle of Man, Portugal and the United States. BBI owns the infrastructure which transports energy across key networks to end-users. Due to the monopolistic and essential nature of these assets, the assets are mostly subject to established regulatory frameworks which control or influence prices that can be charged to customers or retailers. The assets in these businesses are of a long-life nature with largely predictable cost and replacement investment profiles. Regulatory rulings are typically for five year periods or longer, leading to relatively predictable and stable cash flows over those periods.

Figure 5.1: BBI Stapled Security price and volume history



Notes:

30 Originally listed as Prime Infrastructure (PIF.ASX).

31 On the basis of a BBI Stapled Security price of \$1.71 on 27 June 2007 and an increase of 377 million BBI Stapled Securities on issue following Implementation of the Scheme Proposal (assuming the maximum 800 million issuance of BBI EPS).

32 Based on the market capitalisation of ASX listed stocks on 27 June 2007.

33 On the basis of a BBI Stapled Security price of \$1.71 on 27 June 2007.

34 BBI is targeting distributions for BBI FY08 and BBI FY09 of approximately 15.0 cents and 16.0 cents respectively, provided the following key assumptions are achieved: no material adverse change to key tax or regulatory environments and completion of the Dalrymple Bay Coal Terminal expansion in line with schedule.

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Revenues from transmission and distribution assets are derived through a combination of fixed charges for the provision of the utility asset and service, and variable charges based on consumption. These charges may be provided for through long-term bilateral or multilateral contracts (commonly the case for transmission assets), or through a series of shorter-term arrangements directly with either the end-users of energy or an intermediary retailer (commonly the case with distribution assets).

Operating costs of these businesses tend to be predominantly fixed, or effectively passed through to end-users through the structure of the charges.

**(b) Transport infrastructure**

BBI also has interests in several transport infrastructure businesses. These businesses own critical infrastructure which supports industrial transportation of commodities via rail and/or sea (port facilities). BBI focuses on purchasing transport infrastructure assets which are monopolistic in nature and have strong growth potential. These assets also tend to have relatively predictable and stable cash flows, due to their monopolistic nature and long-term demand from customers and/or the regulatory environment within which they operate.

Some assets within this industry sector are subject to established regulatory frameworks which influence their pricing and risk profile; some assets possess statutory authority rights, while others have long-term contractual arrangements in place.

**5.4 BBI corporate structure**

BBI is a stapled structure comprising:

- > Babcock & Brown Infrastructure Limited (**BBIL**), an Australian public company; and
- > Babcock & Brown Infrastructure Trust (**BBIT**), an Australian registered scheme.

Each share in BBIL is stapled to a unit in BBIT, collectively referred to as a BBI Stapled Security. As a result of the stapling, shares in BBIL and their corresponding units in BBIT may not be separately traded.

The responsible entity of BBIT is Babcock & Brown Investor Services Limited (**BBIS**).

Babcock & Brown Infrastructure Management Pty Limited (**BBIM**) is the Manager of each of BBIL and BBIT under long-term management agreements.

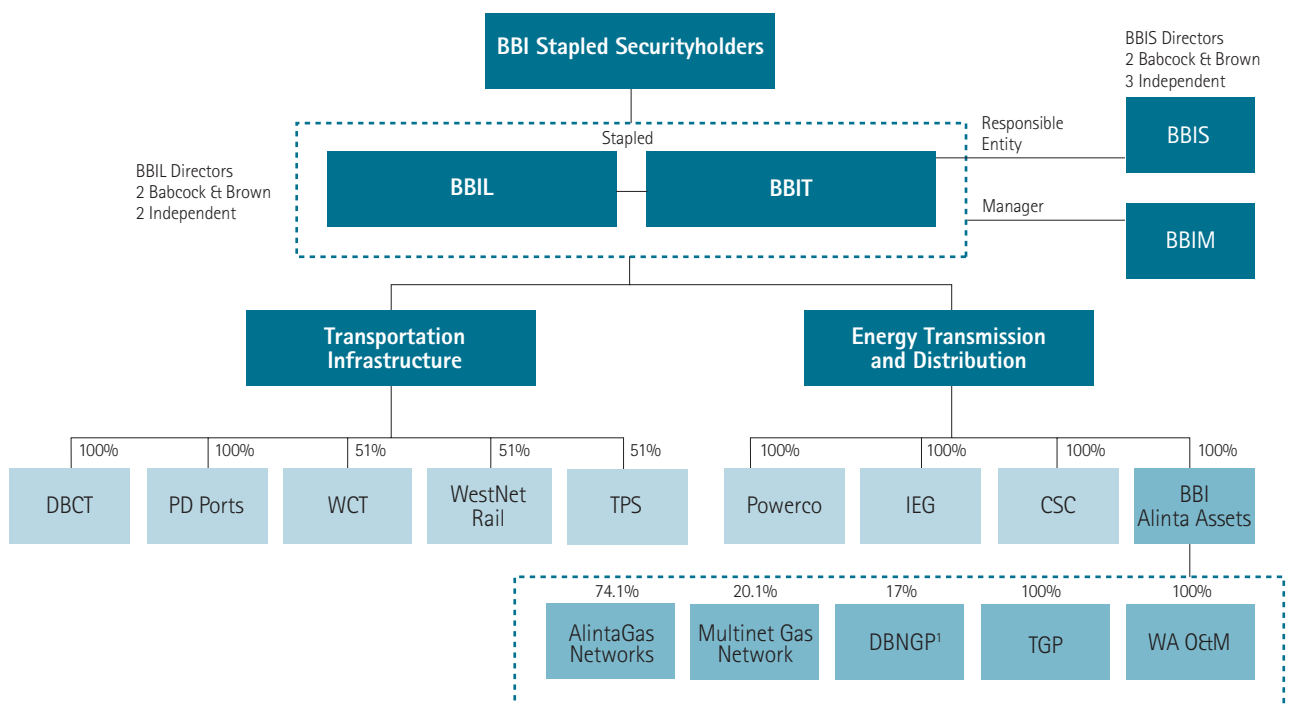
BBIS and BBIM are subsidiaries of B&B.

Details of the management arrangements are set out in section 5.14 (b).

Details of the corporate governance of BBI and BBI's relationship with B&B are set out in section 9.

A summary of the BBI corporate and asset ownership structure – both current and following Implementation of the Scheme Proposal – is illustrated in Figure 5.2.

**Figure 5.2: BBI corporate and ownership structure**



Note to Figure 5.2:  
 1 Interest in DBNGP will increase to 20% following agreed capital contributions.

## 5.5 BBI's existing assets

### (a) Energy transmission and distribution assets

#### (i) Powerco – 100%

Powerco is the second largest electricity and gas distribution business in New Zealand with over 400,000 connections (approximately 298,000 electricity connections, around 16% of New Zealand's electricity consumers, and 104,000 gas connections, around 46% of New Zealand's gas consumers) across a service area of over 39,000 square kilometres in the North Island.

The electricity distribution business is regulated via a price and quality threshold (CPI-X) regime and a reset of the thresholds is due in April 2009. The gas distribution business is regulated under a provisional price control authorisation.

Powerco also owns and operates a gas distribution network (as sole reticulated gas distributor) and retail business in Tasmania. Powerco's Tasmanian operations are not subject to specific economic regulation.

Across all of its businesses, Powerco has a broad, low volatility customer base, diversified both regionally and by customer class. Electricity and gas customers are largely residential and contracted via retail energy companies.

Demand for Powerco's product is governed by general energy demand and consumption levels, new connections as a result of new housing and residential and commercial developments, in addition to regional economic and population growth.

#### (ii) International Energy Group (IEG) – 100%

IEG is a natural gas and LPG distribution and supply business that owns monopoly gas utilities located in the United Kingdom, the Channel Islands (Guernsey and Jersey), the Isle of Man and Portugal.

IEG has a strong market position in an industry that has high barriers to entry for potential competitors. IEG is the second largest, independent, licensed, piped, natural gas transporter in the United Kingdom by number of customers and the sole distributor of gas and electricity in the Channel Islands (Guernsey and Jersey) and the Isle of Man. IEG is the second largest owner/operator of piped liquid petroleum gas networks in Portugal by customer connections.

It operates in new gas and electricity connection markets created by the limited issuance of distribution licences by the Office of Gas and Electricity Markets (the United Kingdom regulator of the independent gas and electricity transportation sector).

In the United Kingdom, capacity charges (fixed revenue per connection) are regulated, whereas operations in the Channel Islands (Guernsey and Jersey) and Isle of Man are not presently regulated but are monitored. Portugal is an open market with no economic regulation.

IEG's wholesale businesses are characterised by a broad and stable customer base with existing installed connections providing an "availability based" income stream from a group of high credit quality counterparties with minimal operating costs.

Customers in the United Kingdom are largely residential and in the Channel Islands (Guernsey and Jersey), Isle of Man and Portugal, contracts are direct with commercial and residential end-users.

IEG's growth depends on new connections in gas and electricity in addition to general economic development and growth in the United Kingdom.

#### (iii) Cross Sound Cable (CSC) – 100%

The CSC is a 39 kilometre, 330MW high voltage direct current submarine transmission interconnector linking the electricity grids of New England and New York in the United States. The transmission system is a monopoly asset and an essential component of the capacity constrained New York and New England electricity markets.

The entire 330MW of transmission capacity of the cable is under long-term contract to the Long Island Power Authority, a creditworthy (A3/A- rated) municipal power authority, until June 2032. The contract provides a high level of revenue certainty from a strong counterparty for an extended period, with growth in capacity rates built into the contract.

### (b) Transport assets

#### (i) Dalrymple Bay Coal Terminal (DBCT) – 100%

DBCT is one of the world's largest coal terminals and is strategically positioned near Mackay in Queensland as the largest export gateway for the Bowen Basin coal mining region in central Queensland.

The terminal is integrated with rail infrastructure owned and operated by Queensland Government owned Queensland Rail and blends and exports metallurgical and thermal coal.

The terms and conditions of access by customers to the services provided by DBCT, including the tariff that can be charged, are regulated by the Queensland Competition Authority, which also approves the inclusion of expansion projects in the regulated asset base.

DBCT's customers include Bowen Basin-based coal mines owned by some of the world's largest mining companies. Customer agreements contain long-term take-or-pay provisions such that revenue is not impacted by actual annual coal throughput at DBCT, although DBCT's long-term growth is dependent on international coal demand.

**(ii) PD Ports – 100%**

PD Ports is a diversified port services group organised into two key business units: port operations and conservancy, and property. It operates in northern England in the United Kingdom. PD Ports owns a number of port assets, including the Port of Tees (with its unique natural deepwater harbour) and Hartlepool, that collectively represent the third largest port business in the United Kingdom (by volume), and provide a range of cargo handling services to users of these ports. PD Ports owns and operates a logistics business in support of port operations. Its asset base also includes an extensive property portfolio of over 925 hectares, of which over 85% is freehold land around the Port of Tees, which is strategic to the port.

The operations of PD Ports are not regulated but the bulk of the income is protected by a statutory right to collect conservancy (toll-like dues payable by vessels using the Tees River). PD Ports also sets its own lease rates for freehold property.

PD Ports has a range of long-term contracts with strong, established counterparties including large multinationals with growth driven by industrial and commercial activity in the northern United Kingdom.

In July 2006, BBI acquired a 51% interest in Water Container Transport NV (**WCT**). WCT is the owner and operator of an inland container terminal in Meerhout (Belgium) with a throughput of over 180,000 twenty foot equivalent units (**TEU**) per annum and has key feeder links to the major container terminals of Antwerp, Rotterdam, Amsterdam and Zeebrugge, which together handle over 17 million TEU per annum. While BBI's 51% interest in WCT is not held via PD Ports, PD Ports provides management services and assistance to WCT.

In May 2007 BBI acquired a 51% interest in Tarragona Port Services S.L (**TPS**). TPS, based in the Port of Tarragona in the north east of Spain, is a group of companies providing port terminal and maritime freight transport services to its five dry bulk concessions. TPS is the largest dry bulk stevedore by volume in the Port of Tarragona with over 7.5 million tonnes per annum, and controls over 50% of total port traffic (by tonnage). TPS supplies thermal coal to a number of power stations in Spain and Italy and supplies bulk materials to a significant industrial base in its regional hinterland.

Like WCT, BBI's 51% interest in TPS is not held via PD Ports; however PD Ports provides management services and assistance to TPS.

**(iii) WestNet Rail – 51%**

WestNet Rail is a rail infrastructure owner and rail access provider operating in Western Australia with a long-term arrangement to lease track from the Western Australian Government. Its track infrastructure serves as a crucial transport link to a number of Western Australian mining operations.

The "below-rail" business revenue is derived from access charges paid by "above-rail" operators or directly by customers. There are long-term access agreements in place with strong blue-chip customers (including an agreement with Queensland Rail). Floor and ceiling access prices are regulated by the Economic Regulation Authority, Western Australia.

Revenue growth will be driven by Western Australian GDP growth and global economic activity and commodity demand that will impact the level of mine expansion activities of current users in addition to new users.

BBI currently has a 51% interest in WestNet Rail, with a call option to acquire the remaining 49% minority interest that can be exercised between June 2007 and March 2008, payable either in cash or BBI Stapled Securities. BBI currently intends to exercise this option.

BBI has a history of making acquisitions and at any time may be considering various acquisition opportunities. In the period prior to the Implementation Date BBI may be undertaking due diligence investigations or be in negotiations in relation to various acquisition opportunities. This may result in BBI making acquisitions prior to or shortly after the Implementation Date.

## 5.6 Alinta Assets to be acquired

The BBI Alinta Assets include:

**(a) AlintaGas Networks (AGN) – 74.1%**

Alinta has a 74.1% interest in AGN in Western Australia, comprising approximately 12,000 kilometres of gas distribution pipelines that deliver over 30PJ of gas per annum to approximately 570,000 customer connections as at 31 March 2007 in and around Perth. AGN also owns two small distribution networks in regional Western Australia.

**(b) Multinet Gas Network (MGN) – 20.1%**

Alinta owns a 20.1% interest in MGN in Victoria, covering approximately 1,700 square kilometres in Melbourne's east delivering around 60PJ of gas per annum to over 646,000 end-users.

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**(c) Dampier to Bunbury Natural Gas Pipeline (DBNGP) – 17%**

Alinta has an interest of approximately 17%<sup>35</sup> in DBNGP, which spans approximately 1,600 kilometres from the Pilbara region to the south west of Western Australia. Diversified Utility Energy Trusts (currently 66%) and Alcoa of Australia Limited (currently 17%) hold the other interests in DBNGP. The pipeline is undergoing significant expansion as a result of the Stage 5A Program (approximately \$700 million) and the recently completed Stage 4 Program (approximately \$430 million). Alinta's interest in DBNGP will change concurrently with such investments in capital expenditure up to a maximum 20% (a level expected to be reached during calendar year 2008).

**(d) Tasmanian Gas Pipeline (TGP) – 100%**

TGP, wholly owned by Alinta, is 734 kilometres long and is a sub-sea and onshore gas pipeline system that transports gas from the Longford Compressor Station in Victoria to Tasmania.

**(e) Alinta Asset Management (AAM) – 100%**

AAM operates and manages regulated and non-regulated energy assets and provides management services to asset owners across all business areas. These services include operations, maintenance, commercial, corporate support, engineering, regulatory compliance and information technology. AAM undertakes business activities in the eastern and western seaboard of Australia.

Under agreements among the Consortium Parties, BBI will acquire the assets, contracts and business of AAM that relate to its pipeline and network activities in Western Australia, excluding the Parmelia pipeline operating contract, which will form the basis of the new Western Australian operations and maintenance business. SPI will acquire all other assets, contracts and business of AAM, including the Parmelia pipeline operation.

**(f) Location of assets**

An illustration of the location of BBI's existing assets and the BBI Alinta Assets is set out in Part A.

**(g) Key benefits to BBI from the acquisition**

The key benefits that the BBI Alinta Assets provide to the BBI portfolio include that they:

- > increase the geographic diversity of the BBI portfolio;
- > expand BBI's footprint in the growing Western Australian energy infrastructure market;
- > provide access to additional organic growth and acquisition opportunities;
- > enhance the natural gas infrastructure operational capability within the BBI portfolio;
- > leverage existing Powerco and WestNet Rail operations and management structures and expertise in Australia; and
- > consolidate BBI's strategic position in the growing and developing Tasmanian natural gas market.

**5.7 BBI's key strengths and investment strategy****(a) Key strengths of the business model****(i) Strong, stable and diverse cash flows**

BBI's cash flows are relatively stable and predictable due to the nature of the assets it owns. In the main, the assets are essential/monopoly infrastructure with a regulated income stream and/or long-term off-take contracts with creditworthy counterparties.

Additionally, the diversification of income geographically, across business sectors and regulatory jurisdictions, improves the quality of BBI's cash flows.

**(ii) BBI Distributions have been paid from operating cash flows**

Returns to BBI Stapled Securityholders are sustainable given that BBI's historical distributions have not relied upon further capital restructuring initiatives but on the operating performance and cash flow contributions of the underlying portfolio of assets. Furthermore, BBI has historically paid 100% tax-deferred distributions. It is currently anticipated that this 100% tax-deferred status will be maintained at least to 30 June 2008.

**(iii) Growth opportunities**

BBI's strategic planning process ensures the ongoing identification of operating and capital investment programs, appropriate acquisition opportunities in that particular market or geography and the alignment of growth opportunities for each asset.

Growth opportunities for BBI include the following:

**(A) Organic growth opportunities including:**

- > New customer connections and average consumption increases per customer (for IEG and Powerco for example).
- > New throughput and commodity haulage opportunities from the economic growth in Western Australia (for example WestNet Rail).

**(B) Expansion of BBI's existing assets including:**

- > DBCT 7X expansion project to meet ongoing customer demand. DBCT's capacity is being expanded to 85Mtpa (currently approximately 59Mtpa). This expansion project is called the DBCT 7X expansion project. There are three phases to the DBCT 7X project. Phase 1 is expected to lift DBCT capacity to 68Mtpa, phase 2 to 80Mtpa and phase 3 to 85Mtpa. Phase 1's targeted completion date is December 2007, with phase 2 and phase 3 (undertaken concurrently) targeting commissioning by the end of 2008.
- > PD Ports – Victoria Harbour land development over the next 20 years; potential heavy crude oil project creating port growth opportunities; Northern Gateway (new northern container port facility on site at Teesside); LNG re-gasification and plant facilities; ASDA warehouse replication and use of existing vacant land facilities by power generators using biomass and coal feedstock.

Note:

<sup>35</sup> The exact interest in this asset changes with progressive investments in capital expenditure.

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**(C) Acquisition growth opportunities including:**

- > The possible acquisition of NorthWestern:  
BBI has entered into an agreement to acquire NorthWestern Energy Corporation (**NorthWestern**) for \$2.8 billion (US\$2.2 billion). Completion is subject to the approval of NorthWestern shareholders and various US state and federal regulatory authorities. All of the required approvals have been received, with the exception of the Montana Public Service Commission (**MPSC**).  
NorthWestern is a vertically integrated electricity and gas transmission and distribution utility servicing the regions of Montana, South Dakota and Nebraska in the United States. NorthWestern operates over 30,000 miles of electric transmission and distribution lines and 7,800 miles of gas transmission and distribution pipelines. In addition, NorthWestern owns approximately 310MW of regulated and 225MW of unregulated electricity generation assets. BBI lodged its application for approval from the MPSC in June 2006. Several parties intervened in BBI and NorthWestern's application proceeding. Following the conclusion of a hearing process, at a working group meeting of the MPSC held on 23 May 2007, the five commissioners of the MPSC instructed the MPSC staff to draft an order rejecting BBI and NorthWestern's application for approval. On June 25 2007 (before the MPSC had formally voted on the application), BBI and NorthWestern lodged with the MPSC an application for rehearing of the approval, based on revised acquisition terms. When it considers the application for rehearing, the MPSC may elect not to grant the rehearing, in which case it is likely to vote to reject the approval. If the MPSC decides to grant the rehearing, BBI would request an expedited procedure for the MPSC to consider the revised terms.
- > European port opportunities:  
BBI is actively pursuing a range of accretive (on a distribution per BBI Stapled Security basis) port acquisition opportunities in a number of jurisdictions in Europe. BBI is in exclusive discussions with a number of vendors in respect of acquiring controlling interests in these port opportunities with detailed due diligence now underway. The proportionate controlling interests in these ports have a cumulative enterprise value in excess of \$675 million and an equity requirement in excess of approximately \$350 million. Each transaction, if successful, is expected to complete in the first half of the 2008 financial year at multiples that are expected to be immediately accretive (on a distribution per BBI Stapled Security basis) to BBI. It is anticipated that BBI will hold rights to increase its proportionate interest over time in some of the ports being considered, thereby increasing the size of possible investments in the European port sector over time.

These potential port acquisitions illustrate the pipeline of opportunities that should enable BBI to accretively deploy available funds.

**(iv) Strategic relationship with Babcock & Brown**

BBI has access to the full suite of B&B's financial advisory, origination and disposal services and resources. Details of the value this relationship brings to BBI are set out in Part A.

**(b) Investment strategy**

BBI's strategy is to acquire, manage and operate a diversified portfolio of long-life, stable cash flow based infrastructure assets that allow it to exert appropriate influence and participate actively in the financial structuring and ongoing management of the assets with the objective of increasing BBI Stapled Securityholder wealth over time.

A core objective of BBI is to further diversify its portfolio, both geographically and across asset class segments, to provide improved asset breadth and stability to cash flows.

BBI has consistently indicated that it will invest in both domestic and international assets that meet its strict investment criteria, including:

**(i) Strategic** – the asset is essential and/or regulated infrastructure with stable and predictable cash flows and is either an energy transmission or distribution asset or transport infrastructure;

**(ii) BBI Stapled Securityholder wealth** – the acquisition price, earnings and funding structure of the investment are expected to contribute positively to BBI Stapled Securityholder wealth;

**(iii) Appropriate risk/return profile** – including high asset quality and condition, proven management, acceptable market and regulatory risks, sound long-term contractual arrangements and attractive returns with prospects for growth, that are commensurate with the risks accepted; and

**(iv) Ability to optimise capital structure** – ensuring assets have appropriate leverage to accommodate the investment risk profile and potential to optimise returns to BBI Stapled Securityholders.

## 5.8 BBI Stapled Securities

### (a) Capital structure outline

Details of BBI Stapled Securities currently on issue, including those that may be issued as part of the Share Scheme Consideration are set out in Figure 5.3.

Figure 5.3: BBI Stapled Securities on issue

Note	Date	Number (million)
Balance at date of Booklet	27 June 2007	1,842
BBI Stapled Securities issued as part of the Share Scheme Consideration	31 August 2007	Up to 377 <sup>36</sup>
Post Share Scheme closing balance		Up to 2,219

### (i) Effect of BBI NZ SPARCS

BBI Networks (New Zealand) Limited (**Issuer**), a wholly owned subsidiary of Babcock & Brown Infrastructure Limited, has issued BBI NZ SPARCS, a convertible security listed on the NZX Limited (the New Zealand exchange). In certain circumstances, BBI NZ SPARCS may be converted to BBI Stapled Securities. In the event that BBI NZ SPARCS are to be converted, the Issuer may determine, in its absolute discretion, whether the relevant BBI NZ SPARCS are to be exchanged for BBI Stapled Securities, redeemed for cash or exchanged and redeemed for a combination of BBI Stapled Securities and cash (with such combination to be determined at the Issuer's discretion). A summary of the terms and conditions of the conversion of BBI NZ SPARCS is set out in section 4.8 of the Prospectus and Investment Statement issued at the time the BBI NZ SPARCS were issued (available at [www.bbainfrastructure.com](http://www.bbainfrastructure.com)). There are currently 146.2 million BBI NZ SPARCS on issue.

### (ii) Effect of BBI Exchangeable Preference Shares

The BBI EPS Issuer will issue BBI EPS as part of the Share Scheme Consideration. In certain circumstances, BBI EPS may be converted into BBI Stapled Securities at a discount to the prevailing market price of BBI Stapled Securities prior to the date of conversion. A summary of the terms of BBI EPS is set out in section 6. Refer to Annexure H for the complete terms of issue of BBI EPS.

### (iii) BBI options

BBI currently has no options on issue.

### (iv) BBI DRP

BBI has implemented the BBI DRP which currently allows BBI Stapled Securityholders to reinvest BBI Distributions for additional BBI Stapled Securities. The BBI Board has elected to suspend the operation of the BBI DRP with effect from the distribution for the period ending 30 June 2007 until further notice. A copy of the terms and conditions of the BBI DRP is available from BBI's website: [www.bbainfrastructure.com](http://www.bbainfrastructure.com)

### (v) BBI capital management initiatives

While BBI is confident that it can deploy its current capital on a timely basis, BBIM and the BBI Board are continuously reviewing BBI's sources and uses of capital for opportunities to optimise BBI's capital structure. In the event that the BBI Board considers that BBI's market price does not fairly reflect BBI's underlying value or BBI's growth prospects, and there is any surplus capital available to BBI, BBI may consider initiating a BBI Stapled Security on-market buy back. It is possible that such an on-market buy back may be initiated before or soon after the Implementation Date and, if initiated, would entitle BBI to buy back up to 10% of the minimum number of BBI Stapled Securities on issue in the 12 months preceding the buy back. Any on-market buy back is subject to BBI obtaining regulatory approval from ASIC.

### (b) BBI Distribution policy

BBI Distributions are payable half-yearly in arrears in respect of the preceding six month periods ending 31 December and 30 June.

The BBI Distributions will be determined by the BBI Directors in respect of each half-year ending 31 December and 30 June, usually at the time the financial statements in respect of that period are confirmed. For BBI FY07, the BBI Directors have provided guidance that the BBI Distributions are expected to be 14.25 cents per BBI Stapled Security. Subject to the achievement of certain key assumptions the BBI Directors are also targeting distributions for BBI FY08 and BBI FY09 of approximately 15.0 cents and 16.0 cents, respectively.<sup>37</sup>

BBI Stapled Securities issued as part of the Share Scheme Consideration will be eligible for the full BBI Distributions payable for the six months ending 31 December 2007.

#### Notes:

<sup>36</sup> Assuming 800 million BBI EPS are issued as part of the Share Scheme and 500.68 million fully diluted Alinta shares on issue. In the event that a lesser number of BBI EPS are issued (pursuant to the mechanisms set out in section 13.2), a higher number of BBI Stapled Securities will be issued as part of the Share Scheme Consideration in their place. Assumes also that no distribution reinvestment plan is applicable to the BBI Distributions for BBI FY07.

<sup>37</sup> BBI is targeting distributions for BBI FY08 and BBI FY09 of approximately 15.0 cents and 16.0 cents respectively, provided the following key assumptions are achieved: no material adverse change to key tax or regulatory environments and completion of the Dalrymple Bay Coal Terminal expansion in line with schedule.

## 5.9 BBI financial information

### (a) Basis of preparation for BBI Financial Information

#### (i) Financial year

The financial year for BBI is the year ending 30 June.

#### (ii) BBI historical financial information

The pro forma balance sheet as at 31 December 2006 has been derived from the BBI reviewed interim financial statements for the half year ended 31 December 2006, and the balance sheet of the BBI Alinta Assets as at 31 December 2006. Certain pro forma adjustments have been made to reflect known or expected changes from 1 January 2007. Details of these pro forma adjustments are set out in section 5.9(k).

#### (iii) BBI forecast financial information

The forecast financial information for BBI FY07 and BBI FY08 has been prepared for illustrative purposes for use in this Booklet only.

The forecast financial information for BBI FY07 is based on the existing assets of BBI excluding the acquisition of the BBI Alinta Assets.

The forecast financial information for BBI FY08 assumes that the BBI Alinta Assets are acquired on 1 July 2007 and assumes the completion of certain other pro forma transactions, the details of which are set out in section 5.9(c). Given the BBI Alinta Assets are not expected to be acquired until August 2007, the actual results for BBI FY08 are likely to be different to the forecast results for BBI FY08.

The forecast financial information for BBI presented in this section has been prepared by the BBI Directors on the basis of the material best estimate assumptions set out in section 5.9(h). While the BBI Directors consider the assumptions to be reasonable, readers should be aware that circumstances may change, and actual events and conditions and their timing and magnitude may differ from the assumptions, and this may have a positive or negative effect on BBI's actual financial performance. The BBI Directors cannot and do not give any assurance that the forecasts will be achieved.

The BBI Directors have utilised forecasts provided by Alinta for the BBI Alinta Assets in preparing the forecast financial information for the combined BBI existing assets and BBI Alinta Assets. The BBI Directors have relied upon the Alinta Directors' assumptions with the exception of those in relation to financing, taxation and corporate charges. Alinta is responsible for the Alinta Forecast Information as set out in section 11.1. BBI has not audited, reviewed or independently verified the Alinta Forecast Information and disclaims any responsibility for it. Alinta is responsible for ensuring that the Alinta Forecast Information is not misleading or deceptive in any material respect (whether by omission or otherwise) and is responsible for the Alinta Forecast Information.

#### (iv) BBI's accounting policies

The AIFRS accounting policies adopted by BBI in the preparation of the financial information as at 31 December 2006 and for BBI FY07 and BBI FY08 are set out in BBI's financial report for BBI FY06 (available at [www.bbainfrastructure.com](http://www.bbainfrastructure.com)). Any exceptions to these accounting policies which have been applied in the preparation of the financial information are detailed in section 5.9(l). The financial information has been presented in an abbreviated form. It does not contain all the disclosures that are usually provided in an annual report prepared in accordance with the Corporations Act.

### (b) BBI Financial Information

The Figures below include the following information:

- > BBI Directors' forecast income statement for BBI FY07 (see Figure 5.4);
  - > Pro forma forecast income statements for BBI FY07 and BBI FY08 (see Figure 5.4);
  - > Pro forma forecast cash available for distribution for BBI FY07 and BBI FY08 (see Figure 5.7); and
  - > Pro forma balance sheet as at 31 December 2006 (see Figure 5.12),
- (collectively the **BBI Financial Information**).

The BBI Financial Information disclosed in this section should be read in conjunction with the following information disclosed in this section and other information contained in this Booklet:

- > Management discussion and analysis – sets out key information relating to the forecast financial information (see section 5.9 (g));
- > Best estimate assumptions – sets out the key assumptions to the forecast income statements for BBI FY07 and BBI FY08 (see section 5.9(h));
- > Synergies and restructure costs – sets out certain synergies and restructure costs that have been included in the forecast income statements and cash available for distribution (see section 5.9(i));
- > Sensitivity analysis – sets out the impact of particular sensitivities to the forecast cash available for distribution in BBI FY08 (see section 5.9(j));
- > Contingent liabilities – sets out certain contingent liabilities of BBI (see section 5.9(m));
- > Prospects – sets out key opportunities for growth and expansion that may provide upside to the financial forecasts in this section (see section 5.9(n)); and
- > Risks – should be read in conjunction with this section and are set out in section 5.12 (BBI specific risks) and section 12 (risks to B&B Funds generally).

The BBI Financial Information has been reviewed by PricewaterhouseCoopers Securities Ltd whose Investigating Accountant's Report relating to the BBI Financial Information is included in Annexure F.

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**(c) BBI forecast income statements**

The BBI Directors' and pro forma forecast income statements are set out in Figure 5.4.

**Figure 5.4: BBI Directors' and pro forma forecast income statements**

<b>\$ in millions</b>	<b>BBI Directors' forecast results BBI FY07<sup>1</sup></b>	<b>Pro forma forecast results BBI FY07<sup>2</sup></b>	<b>Pro forma forecast results BBI FY08<sup>3</sup></b>
<b>Revenue</b>			
Transport infrastructure	695.0	695.0	823.1
Energy transmission and distribution	525.8	525.8	858.3
Other	10.0	–	–
<b>Total revenue</b>	<b>1,230.8</b>	<b>1,220.8</b>	<b>1,681.4</b>
<b>EBITDA</b>			
Transport infrastructure	296.3	296.3	362.9
Energy transmission and distribution	256.4	256.4	432.4
Other	(48.3)	(41.3)	(45.3)
Share of net profit of associates	–	–	8.6
<b>Total EBITDA</b>	<b>504.4</b>	<b>511.4</b>	<b>758.6</b>
Depreciation and amortisation	(175.6)	(175.6)	(260.3)
<b>EBIT from continuing operations</b>	<b>328.8</b>	<b>335.8</b>	<b>498.3</b>
Net interest expense	(358.9)	(261.7)	(408.9)
<b>EBT</b>	<b>(30.1)</b>	<b>74.1</b>	<b>89.4</b>
Income tax benefit/(expense)	(4.6)	(7.5)	(2.9)
<b>NPAT from continuing operations</b>	<b>(34.7)</b>	<b>66.6</b>	<b>86.5</b>
Profit from discontinued operations	55.8	–	–
<b>NPAT</b>	<b>21.1</b>	<b>66.6</b>	<b>86.5</b>
Outside equity interest	(9.4)	(9.4)	(4.7)
<b>Profit attributable to members of BBI</b>	<b>11.7</b>	<b>57.2</b>	<b>81.8</b>

## Notes to Figure 5.4:

- 1 BBI Directors' forecast results for BBI FY07 represent the expected BBI actual results for BBI FY07 including non-recurring items.
- 2 Pro forma forecast results for BBI FY07 represent the expected BBI actual results for BBI FY07 adjusted for non-recurring items incurred during the year. This pro forma income statement compares with the pro forma income statement prepared for BBI FY08.
- 3 Pro forma forecast results for BBI FY08 represent the forecast results for BBI FY08 based on the BBI Directors' best estimate assumptions as set out in section 5.9(h).
- 4 The pro forma forecast for BBI FY07 includes BBI's existing assets with applicable pro forma adjustments. The pro forma forecast for BBI FY08 includes BBI's existing assets combined with BBI Alinta Assets and the acquisition of the 49% minority interest in WestNet Rail as if they were acquired from 1 July 2007. On 30 May 2007, BBI announced that it had acquired Tarragona Port Services. The contribution from this asset for the one month to 30 June 2007 is not material and has not been included in the BBI FY07 forecasts, but has been included in the BBI FY08 forecast. All forecasts exclude the possible acquisition of NorthWestern. The status and implications of this possible acquisition are set out in section 5.9(n)(v).
- 5 The pro forma income statement for BBI FY08 assumes that all BBI Alinta Assets are transferred from Bidder into BBI with effect from 1 July 2007 so that a full year's results and cash available for distribution are presented. The actual date of acquisition is currently expected to be 31 August 2007. To the extent that there is any delay in the transfer of any of the BBI Alinta Assets from 31 August 2007, BBI will receive any cash flows generated by the BBI Alinta Assets as interest income on a participation loan between BBI and Bidder. Whilst this would affect income and expense items disclosed above, the net interest income is anticipated to be the same as the net cash flow from the business from date of acquisition and there would be no impact on BBI's cash available for distribution.
- 6 The pro forma income statement for BBI FY08 has been prepared on the basis that forecast cost synergies associated with the acquisition of the BBI Alinta Assets will be realised as set out in section 5.9(i).

**(d) Composition of BBI pro forma forecast income statements**

The composition of the pro forma forecast income statement for BBI FY07 is set out in Figure 5.5.

**Figure 5.5: Composition of the pro forma forecast income statement for BBI FY07**

<b>\$ in millions</b>	<b>BBI Directors' forecast results BBI FY07</b>	<b>Pro forma adjustments<sup>1</sup> BBI FY07</b>	<b>Pro forma forecast results BBI FY07</b>
<b>Revenue</b>			
Transport infrastructure	695.0	-	695.0
Energy transmission and distribution	525.8	-	525.8
Other	10.0	(10.0)	-
<b>Total revenue</b>	<b>1,230.8</b>	<b>(10.0)</b>	<b>1,220.8</b>
<b>EBITDA</b>			
Transport infrastructure	296.3	-	296.3
Energy transmission and distribution	256.4	-	256.4
Other	(48.3)	7.0	(41.3)
<b>Total EBITDA</b>	<b>504.4</b>	<b>7.0</b>	<b>511.4</b>
Depreciation and amortisation	(175.6)	-	(175.6)
<b>EBIT from continuing operations</b>	<b>328.8</b>	<b>7.0</b>	<b>335.8</b>
Net interest expense	(358.9)	97.2 <sup>1a</sup>	(261.7)
<b>EBT</b>	<b>(30.1)</b>	<b>104.2</b>	<b>74.1</b>
Income tax benefit/(expense)	(4.6)	(2.9)	(7.5)
<b>NPAT from continuing operations</b>	<b>(34.7)</b>	<b>101.3</b>	<b>66.6</b>
Profit from discontinued operations	55.8	(55.8) <sup>1b</sup>	-
<b>NPAT</b>	<b>21.1</b>	<b>45.5</b>	<b>66.6</b>
Outside equity interest	(9.4)	-	(9.4)
<b>Profit attributable to members of BBI</b>	<b>11.7</b>	<b>45.5</b>	<b>57.2</b>

Note to Figure 5.5:

1 Pro forma adjustments to the BBI Directors' forecast results for BBI FY07 include:

- (a) The net decrease in interest costs of \$97.2 million which primarily reflects the reversal of non-cash fair value adjustments on financial derivatives of \$83.1 million. The most significant adjustment is the reversal of marked-to-market losses on contingent foreign exchange contracts and contingent interest rate hedges entered into by BBI to hedge the acquisition of NorthWestern. Details of the deal contingent derivatives are set out in section 5.9(g)(iii). Other adjustments include the reversal of \$9.8 million of loan establishment costs written off as part of the refinance undertaken by IEG, and other adjustments of \$4.3 million which do not impact cash available from operations.
- (b) The reversal of \$55.8 million in net profit from discontinued operations primarily represents the gains recognised from BBI's disposal of its interests in power generation assets. Details of the sale of these assets are set out in section 5.9(g)(iii).

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Figure 5.6: Composition of the pro forma forecast income statement for BBI FY08

\$ in millions	Pro forma forecast results (existing BBI assets) BBI FY08 <sup>1</sup>	Pro forma forecast results (BBI Alinta Assets) BBI FY08 <sup>2</sup>	Other pro forma adjustments BBI FY08 <sup>3</sup>	Pro forma forecast results BBI FY08
<b>Revenue</b>				
Transport infrastructure	823.1	–	–	823.1
Energy transmission and distribution	566.5	291.8	–	858.3
<b>Total revenue</b>	<b>1,389.6</b>	<b>291.8</b>	<b>–</b>	<b>1,681.4</b>
<b>EBITDA</b>				
Transport infrastructure	362.9	–	–	362.9
Energy transmission and distribution	288.8	130.3	13.3	432.4
Other	(42.2)	–	(3.1)	(45.3)
Share of net profits of associates	–	8.6	–	8.6
<b>Total EBITDA</b>	<b>609.5</b>	<b>138.9</b>	<b>10.2</b>	<b>758.6</b>
Depreciation and amortisation	(206.7)	(53.6)	–	(260.3)
<b>EBIT from continuing operations</b>	<b>402.8</b>	<b>85.3</b>	<b>10.2</b>	<b>498.3</b>
Net interest expense	(288.0)	–	(120.9)	(408.9)
<b>EBT</b>	<b>114.8</b>	<b>–</b>	<b>(25.4)</b>	<b>89.4</b>
Income tax benefit/(expense)	(10.6)	–	7.7	(2.9)
<b>NPAT</b>	<b>104.2</b>	<b>–</b>	<b>(17.7)</b>	<b>86.5</b>
Outside equity interest	(6.3)	–	1.6	(4.7)
<b>Profit attributable to members of BBI</b>	<b>97.9</b>	<b>–</b>	<b>(16.1)</b>	<b>81.8</b>

## Notes to Figure 5.6:

- 1 Pro forma forecast results (existing BBI assets) include the following pro forma transactions as if they were effective from 1 July 2007:
  - (a) the acquisition of the 49% of WestNet Rail that BBI does not currently own. BBI has a call option to purchase the balance and has announced its intention to exercise this option;
  - (b) the acquisition of a 51% interest in a port facility in Spain (TPS) which was acquired on 30 May 2007;
  - (c) surplus cash and available debt capacity of approximately \$850.0 million (which equates to approximately 500 million BBI Stapled Securities on issue) intended to partially fund the proposed acquisition of NorthWestern and cash raised as part of the Scheme Proposal, is forecast to generate interest income of \$65.4 million which has been offset against interest expense. For the purposes of these forecasts, these amounts are assumed to be unapplied to this or other acquisitions over the period of forecast. However, should the NorthWestern acquisition not proceed, BBI has identified a portfolio of alternative investments where these funds can be applied;

BBI is confident that it can deploy its current capital on a timely basis and does not believe that any capital management initiatives are required at this time. In the event that the BBI Directors consider that the market price does not fairly reflect underlying value or BBI's growth prospects, and there is any surplus capital, BBI will then consider initiating a BBI Stapled Security buy-back plan for the benefit of all BBI Stapled Securityholders.
- 2 The pro forma forecast results (BBI Alinta Assets) have been provided by the Alinta Directors on a standalone basis as disclosed in section 11.5. Pursuant to Figure 5.4 note 5, the pro forma forecast assumes a full year of financial forecasts from 1 July 2007.
- 3 As part of the acquisition, BBI forecasts the following pro forma adjustments to the pro forma forecast results (BBI Alinta Assets) provided by the Alinta Directors:
  - (a) additional base fees payable to BBIM of \$3.1 million will be incurred as a result of the additional BBI Stapled Securities issued by BBI. These forecasts do not include any allowance for incentive fees which may be payable to BBIM under the management agreement. Details of fees payable to BBIM are set out in section 5.11;
  - (b) an increase in EBITDA of \$13.3 million in the form of synergies as part of the successful integration of the BBI Alinta Assets into the BBI Portfolio. This represents cost savings above the level forecast by Alinta as part of ongoing restructuring programs described in section 5.9(i); and
  - (c) interest expense adjustment of \$120.9 million comprises:
    - (i) interest expense of \$39.3 million incurred in AGN in which BBI will have a 74.1% interest;
    - (ii) interest expense of \$35.2 million relating to the additional debt of \$518.0 million assuming that this debt is drawn down from 1 July 2007;
    - (iii) interest expense of \$62.4 million relating to the preferred dividends for a full year on a pro forma basis, assuming issue of \$800.0 million for the BBI EPS drawn down as part of the Share Scheme and that these are on issue from 1 July 2007; and
    - (iv) BBI corporate interest expense savings of \$16.0 million associated with the reduction of \$200.0 million of BBI corporate debt assuming the corporate debt is paid down from 1 July 2007.

**(e) BBI pro forma forecast cash available for distribution**

The pro forma forecast cash available for distribution is set out in Figure 5.7.

Figure 5.7 shows the cash that is available for distribution to BBI Stapled Securityholders for BBI FY07 and BBI FY08.

**Figure 5.7: Pro forma forecast cash available for distribution**

\$ in millions	Pro forma forecast BBI FY07	Pro forma forecast BBI FY08
<b>Total EBITDA</b>	<b>511.4<sup>1</sup></b>	<b>758.6<sup>2</sup></b>
Financing cash flow <sup>3</sup>	(271.8)	(402.7)
Maintenance capital expenditure <sup>4</sup>	(85.8)	(108.9)
Taxation payments	(8.5)	(23.7)
Proceeds from cash reserves and disposal of trading assets identified for disposal <sup>5</sup>	23.6	31.9
Cash flow available for distribution applicable to minority interests <sup>6</sup>	(18.5)	(20.1)
Other adjustments <sup>7</sup>	22.5	36.4
<b>Net operational cash flow</b>	<b>172.9</b>	<b>271.5</b>
Release of previously undistributed operating cash flows, release of a portion of the cash gain on the sale of power generation assets and distribution of capitalised equity returns during the DBCT expansion <sup>8</sup>	64.8	61.6
<b>Cash available for distribution</b>	<b>237.7</b>	<b>333.1</b>
Expansionary capital expenditure <sup>9</sup>	596.8	820.8

Notes to Figure 5.7:

- 1 Refer to Figure 5.5.
- 2 Refer to Figure 5.6.
- 3 Financing cash flow includes payments for servicing interest costs on existing debt and additional debt drawn down to finance expansionary capital expenditure. Financing cash flow also includes interest earned on cash deposits.
- 4 In arriving at cash available for distribution, BBI has assumed that forecast maintenance capital expenditure is funded from operating cash flows.
- 5 Proceeds from cash held on reserve and/or proceeds utilised from the sale of trading assets in subsidiary operations. The proceeds from cash held on reserve primarily relate to the partial release of a cash reserve at WestNet Rail established at its date of acquisition to reduce the impact of grain volumes hauled during weather impacted years. This reserve is expected to be replenished during years where there is higher than average grain volume hauled. The proceeds from the sale of trading assets at subsidiary operations relate to the historic sale of surplus properties and land at PD Ports.
- 6 Refer to Figure 5.8 note 3 and Figure 5.9 note 4.
- 7 Refer to Figure 5.8 note 4 and Figure 5.9 note 5.
- 8 The release of previously undistributed operating cash flows from prior periods and/or the release of a portion of the cash gain on the sale of power generation assets and/or the distribution of capitalised equity returns during the DBCT expansion supplements the cash available for distribution during the forecast period where equity has been raised but not yet invested by BBI (i.e surplus funds) and/or covers the distribution during the construction period on the equity raised to fund the Dalrymple Bay Coal Terminal (DBCT) expansion as explained below:
  - (a) Surplus funds (as explained in Figure 5.6 note 1(c)) are assumed to be applied against corporate debt and/or held as cash assets, which reduce interest costs or earn interest income respectively. As these funds are not currently generating targeted returns, the distributions on the equity raised in connection with these surplus funds is supplemented from previously undistributed operating cash flows from prior periods and/or from the release of a portion of the cash gain on the sale of power generation assets.
  - (b) DBCT expansion: during construction BBI is entitled to earn a return at the approved regulatory rate on approved expansionary capital expenditure from the date these amounts are incurred. This return is capitalised into the regulated asset base on completion of the expansion phase which increases future DBCT operating cash flows when the expansion phase is completed (refer Section 5.9(n)(i)). Capital expenditure in respect of the DBCT expansion is funded from a mix of debt and equity, with equity funding spent first. During construction, the distributions on the equity issued to fund the expansion phase is funded from previously undistributed operating cash flows from prior periods, from the release of a portion of the cash gain on the sale of power generation assets and from capitalised equity returns during the DBCT expansion. When construction of the DBCT expansion phase is completed, the distributions on the equity issued to fund the expansion phase will be covered by operating cash flows.
- 9 BBI's general practice is to fund an appropriate portion of its expansionary capital expenditure and acquisitions through future and/or existing undrawn debt and equity capital. Therefore, additional expansionary capital expenditure would only affect the cash available for distribution by the amount of any incremental interest costs, which would be included within financing cash flows. Interest costs incurred for DBCT phase 1 expansion are assumed to be funded via additional debt until completion in December 2007. Thereafter, interest costs are funded from operating cash flows.

BBI Distributions for BBI FY07 and BBI FY08 are expected to be paid substantially out of operating cash flows and the capitalised equity returns during the DBCT expansion. BBI expects that distributions will be funded from operating cash flows when the DBCT expansion is completed and its current surplus capital has been deployed to investments that generate targeted returns.

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**(f) Composition of the pro forma forecast cash available for distribution**

The composition of the pro forma forecast cash available for distribution for BBI FY07 is set out in Figure 5.8.

**Figure 5.8: Composition of the pro forma forecast cash available for distribution for BBI FY07**

\$ in millions	Pro forma forecast (existing BBI assets) BBI FY07	Pro forma adjustments BBI FY07	Pro forma forecast BBI FY07
<b>Total EBITDA<sup>1</sup></b>	<b>504.4</b>	<b>7.0</b>	<b>511.4</b>
Financing cash flow	(271.8)	–	(271.8)
Maintenance capital expenditure	(85.8)	–	(85.8)
Taxation payments	(8.5)	–	(8.5)
Proceeds from cash reserves and disposal of trading assets identified for disposal <sup>2</sup>	23.6	–	23.6
Cash available for distribution applicable to minority interests <sup>3</sup>	(18.5)	–	(18.5)
Other adjustments <sup>4</sup>	25.3	(2.8)	22.5
<b>Net operational cash flow</b>	<b>168.7</b>	<b>4.2</b>	<b>172.9</b>
Release of previously undistributed operating cash flows, release of a portion of the cash gain on the sale of power generation assets and distribution of capitalised equity returns during the DBCT expansion <sup>5</sup>	64.8	–	64.8
<b>Cash available for distribution</b>	<b>233.5</b>	<b>4.2</b>	<b>237.7</b>
Expansionary capital expenditure	596.8	–	596.8

## Notes to Figure 5.8:

1 Refer to Figure 5.5.

2 Refer to Figure 5.7 note 5.

3 Adjustments to reflect the minority interests' proportionate 49% interest in the cash available for distribution from the investment in WestNet Rail and WCT.

4 Other adjustments of \$22.5 million in BBI FY07 comprise:

(a) Powerco Tasmania Government contributions, represents an equity return during the construction of the Powerco Tasmania gas network of \$16.7 million (post tax). This represents the excess of funds received over the income recognised in EBITDA. These contributions are available for distribution;

(b) Current year foreign exchange gains of \$3.5 million; and

(c) Other miscellaneous adjustments of \$2.3 million.

5 Refer to Figure 5.7 note 8.

The composition of the pro forma forecast cash available for distribution for BBI FY08 is set out in Figure 5.9.

**Figure 5.9: Composition of the pro forma forecast cash available for distribution for BBI FY08**

\$ in millions	Pro forma forecast (existing BBI assets) BBI FY08	Pro forma forecast (BBI Alinta Assets) BBI FY08 <sup>2</sup>	Pro forma adjustments BBI FY08	Pro forma forecasts BBI FY08
<b>Total EBITDA<sup>1</sup></b>	<b>609.5</b>	<b>138.9</b>	<b>10.2<sup>5a</sup></b>	<b>758.6</b>
Financing cash flow	(281.8)	-	(120.9) <sup>5b</sup>	(402.7)
Maintenance capital expenditure	(92.7)	(16.2)	-	(108.9)
Taxation payments	(12.9)		(10.8)	(23.7)
Proceeds from cash reserves and disposal of trading assets identified for disposal <sup>3</sup>	31.9	-	-	31.9
Cash available for distribution applicable to minority interests	(9.5) <sup>4</sup>	(10.6) <sup>5c</sup>	-	(20.1)
Other adjustments	5.7	18.3 <sup>5d</sup>	12.4 <sup>5e</sup>	36.4
<b>Net operational cash flow</b>	<b>250.2</b>		<b>21.3</b>	<b>271.5</b>
Release of previously undistributed operating cash flows and release of a portion of the cash gain on the sale of power generation assets and distribution of capitalised equity returns during the DBCT expansion <sup>6</sup>	61.6	-	-	61.6
<b>Cash available for distribution</b>	<b>311.8</b>		<b>21.3</b>	<b>333.1</b>
Expansionary capital expenditure	766.8	54.0	-	820.8

Notes to Figure 5.9:

1 Refer to Figure 5.6.

2 The pro forma forecast cash available for distribution (BBI Alinta Assets) has been provided by the Alinta Directors on a standalone basis as disclosed in section 11.5. Pursuant to Figure 5.4 note 5, the pro forma forecast assumes a full year of financial forecasts from 1 July 2007.

3 Refer to Figure 5.7 note 5.

4 Adjustments to reflect the minority interests proportionate 49% interest in the cash available for distribution from the investment in TPS and WCT.

5 As part of the acquisition, BBI forecasts the following pro forma adjustments to the cash available for distribution provided by Alinta Directors:

(a) Adjustments to EBITDA as set out in Figure 5.6;

(b) Cash interest costs of \$120.9 million. Refer to Figure 5.6 note 3(c);

(c) Adjustments to reflect the minority interests proportionate 25.9% interest in the cash available for distribution from the investment in AGN;

(d) Included within other adjustments is \$18.3 million which is the net amount of the forecast dividends from the investments in DBNGP and MGN less the equity accounted amount of net profit after tax associated with these minority interest investments that has been included in EBITDA; and

(e) Working capital adjustments.

6 Refer to Figure 5.7 note 8.

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**(g) Management discussion and analysis****(i) Transport****(A) Dalrymple Bay Coal Terminal (DBCT)**

DBCT forecast EBITDA for BBI FY08 is anticipated to be \$112.5 million which is an increase of 34.7% over the BBI FY07 forecast. This increase primarily represents the full year contribution of the "short gain" expansion and the contribution from phase 1 of the DBCT 7X expansion project, based on a targeted completion date of December 2007. This will result in additional revenue of \$33.2 million and EBITDA of \$29.0 million.

All DBCT users, with one exception, have entered into Standard Access Agreements (SAA) with a BBI subsidiary. The one outstanding user has signalled its intention to enter into an SAA in the near future. The SAAs are derived from the DBCT access undertaking approved by the Queensland Competition Authority (QCA) in June 2006. The access undertaking and SAAs effectively ensure that DBCT is able to derive revenue and EBITDA based on an approved regulated return (or WACC) on capital invested and accepted by the QCA into the DBCT regulated asset base plus certain other allowable costs.

Total interest expense is expected to increase by approximately \$20.6 million. During the construction phase of the expansion interest costs are capitalised. From the date of commercial operations of the expansion, associated interest costs for the expansion are expensed.

Cash available for distribution for BBI FY08 is expected to be \$60.1 million compared to \$51.5 million, representing an increase of \$8.6 million.

**(B) PD Ports**

The forecast result for PD Ports for BBI FY08 is an improvement over the financial result for BBI FY07. EBITDA for BBI FY08 is forecast to be £46.7 million, which represents an increase of approximately 8.6% above BBI FY07.

The majority of growth is from Teesport operations. EBITDA from Teesport is forecast to be 28% higher than BBI FY07, due to increased volumes of slab steel exports under the long-term contract with Corus and higher volumes in the container handling businesses.

Interest charges in BBI FY08 are anticipated to be consistent with that of BBI FY07 as the borrowings within the company are hedged.

PD Ports' cash available for distribution for BBI FY08 is forecast to improve by approximately 15%, with the improved trading result combining with the proceeds of certain trading assets identified for sale. Maintenance capital expenditure is forecast to be in line with BBI FY07.

**(C) WestNet Rail**

WestNet Rail is forecast to increase EBITDA in BBI FY08 by 4.2% to \$107.2 million, based on track access revenue growth. Track access revenues are forecast to increase based on volume and rate increases with existing customers and two new services on rail during BBI FY08.

Maintenance capital expenditure for BBI FY08 is forecast to be in line with BBI FY07.

On 17 May 2007, BBI announced to the market that it intends to exercise its option to acquire the remaining 49% of equity interests in WestNet Rail. It has been assumed that this option has been exercised from 1 July 2007.

Cash available for distribution for BBI FY08 is forecast to increase by \$4.0 million or 10% from BBI FY07 (comparing both years on a 100% basis).

**(ii) Energy transmission and distribution****(A) Powerco**

Powerco's forecast EBITDA for BBI FY08 is NZ\$217.3 million. This represents growth of approximately 3% over BBI FY07 based on forecast growth in revenues and continued tight control over operating costs.

Forecast maintenance capital expenditure is in line with the previous year.

Despite forecast revenue and EBITDA growth in BBI FY08, cash available for distribution in BBI FY08 is forecast to decrease by NZ\$19.2 million. This is due to the completion of the core Tasmanian gas network construction and contractual obligations on the part of the Tasmanian Government. As a result, no further contributions are expected after BBI FY07, which amounted to NZ\$19.1 million (post tax) in that year.

**(B) International Energy Group (IEG)**

IEG forecasts EBITDA of £33.2 million for BBI FY08 up from £26.8 million in BBI FY07. This reflects increased revenue from the expected build out of the United Kingdom connections order book and a return to average 5–10 year historic weather conditions, and hence gas demand, in the other IEG operations.

Net interest payable is approximately £13.7 million in BBI FY08 compared to £11.7 million in BBI FY07. This increase is due to the refinance that took place in February 2007.

Cash available for distribution is expected to be £13.8 million in BBI FY08 compared to £10.7 million in BBI FY07 reflecting continued growth in connections in the United Kingdom and strong financial performance supported by the refinancing undertaken in January 2007.

**(C) Cross Sound Cable (CSC)**

CSC is forecast to continue to meet expectations of financial performance with EBITDA forecast at US\$13.5 million for BBI FY08.

**(iii) Other****(A) Derivatives**

Included in the forecast results for BBI's existing assets for BBI FY07 is a fair value marked-to-market loss of \$83.1 million. This loss is primarily a result of the marked-to-market of the deal contingent interest rate swaps and deal contingent United States dollar-denominated foreign currency hedges entered into as part of the NorthWestern acquisition. As these are hedging future transactions, they do not qualify for hedge accounting treatment.

In order to present the forecast BBI FY07 results free from the effect of this material non-recurring item, which is not expected to impact cash distributions, the effect of derivative transactions has been excluded from the pro forma income statement. No fair value adjustments to marked-to-market derivatives have been recognised in the forecast BBI FY08 income statement. BBI's actual result for BBI FY07 and BBI FY08 will have these adjustments and therefore the actual results may materially differ from those presented in BBI's pro forma forecast results for BBI FY07 and BBI FY08.

**(B) Gain on sale of power generation assets**

BBI has recognised in the forecast results for BBI's existing assets for BBI FY07 a gain on the sale of its power generation assets. The power generation assets that were divested include BBI's 50% interest in the Ecogen and Redbank power stations and BBI's investment in BBP. BBI has recognised a cash gain in excess of \$80.0 million from the disposal of these assets. The total cash gains on the disposal of the power generation assets are available to distribute to BBI Stapled Securityholders.

In order to determine a normalised BBI FY07, the gain on sale that relates to the disposal in BBI FY07 has been excluded as a pro forma adjustment.

**(h) Best estimate assumptions in the BBI Financial Information**

The BBI Financial Information (defined in section 5.9(b)) in this section has been prepared by the BBI Directors on the basis of the material best estimate assumptions set out below. The BBI Directors have made reasonable enquiries in preparing the forecast BBI Financial Information and consider the assumptions to be reasonable. This information is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring and is not a representation that the assumptions will occur.

Investors should be aware that the timing of actual events and the magnitude of their impact might differ materially from that assumed in preparing the BBI Financial Information and that this may have a positive or negative effect on BBI's actual financial performance and cash available for distribution because the assumptions, and therefore the forecast financial information, are by their very nature subject to uncertainties and contingencies, many of which will be outside the control or influence of the BBI Directors.

Accordingly, BBI cannot, and does not, give any assurance that the BBI Directors' forecast and the pro forma forecasts will be achieved. It should also be noted that the results may be impacted by identification post acquisition of intangibles which would require amortisation. This amount, whilst impacting the income statement, will have no impact on cash flows or BBI's ability to pay distributions.

In compiling the BBI Financial Information for BBI FY07 and BBI FY08, the BBI Directors have made the following assumptions:

**(i) Assumptions – BBI FY07**

BBI has prepared pro forma forecast income and cash available for distribution for BBI FY07 based on the reviewed financial results for the six months ended 31 December 2006, unaudited financial results for the four months ended 30 April 2007 and a forecast for the two months ending 30 June 2007.

**(A) Revenues and EBITDA**

- > Revenues for the two months ending 30 June 2007 will be in line with current year actuals, adjusted for normal seasonal fluctuations associated with Powerco and IEG;
- > EBITDA for operations will be in line with current year performance adjusted for the seasonal factors noted above;
- > Corporate costs are in line with current year actuals. Base management fees payable to BBIM are consistent with contractual arrangements as set out in section 5.11. In terms of incentive fees payable to the Responsible Entity:
  - > The forecast includes the incentive performance fee payable of \$7.1 million in respect of the third instalment associated with BBI FY05, as it is probable this fee will become payable given the continued outperformance by BBI against the Standard & Poor's ASX 200 Accumulation Index over the relevant period. It has been assumed that the independent directors of BBI have elected to pay 60% of this fee in the form of BBI Stapled Securities;
  - > No incentive performance fee was payable in relation to BBI FY06 as the performance criteria were not met in that year; and
  - > The forecast excludes the incentive performance fee that may become payable to B&B if BBI Stapled Securityholder returns exceed the market-based criteria for BBI FY07, because the amount, if any, cannot be reliably estimated.

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**(B) Other assumptions**

- Depreciation will be in line with the depreciation policies set out in the annual report of BBI for BBI FY06;
- Assumptions on interest, taxation and foreign exchange are set out in other specific assumptions at section 5.9(h)(iii); and
- Expansionary capital expenditure for the final two months of BBI FY07 is anticipated to be above the current year's actual spend to date and is based on budgets of the underlying operations. The majority of expenditure in this period relates to the Dalrymple Bay Coal Terminal expansion project.

**(ii) Assumptions – BBI FY08**

BBI has prepared a pro forma forecast income statement and the pro forma cash available for distribution for BBI FY08 having regard to the actual and forecast performance in BBI FY07, adjusted for expected future changes in results. The management discussion and analysis set out in section 5.9(g) explains the forecast trends in the underlying businesses. Material assumptions are set out below:

**(A) Transport**

## Revenues:

- Recurring business revenues will increase in line with management plans, which is materially in line with past experience;
- Material increases in revenues are forecast from:
  - > DBCT – the commissioning of phase 1 of the DBCT 7X expansion project with effect from 1 January 2008;
  - > PD Ports – Teesport revenues are forecast to increase by 7% based on increased throughput, including an increase in container handling volumes and an increase in slab steel volumes; and
  - > Tarragona Port Services – which was acquired on 30 May 2007, and as a result a full year of revenue and EBITDA will be recognised.

## Cash operating costs:

- Cash operating costs have been forecast taking account of current year actuals and are forecast to increase in line with the revenues noted above.

**(B) Energy transmission and distribution**

## Revenues:

- Recurring business revenues (excluding BBI Alinta Assets) will increase in line with management plans except for material increases in revenues from:
  - > IEG – revenues are forecast at 8% above the forecast for BBI FY07 based on a forecast return to 10 year average degree day weather conditions from the extremely mild conditions experienced in BBI FY07; and
  - > Powerco – total revenue is forecast to increase by 2.5% due to growth in Tasmanian gas revenues underpinned by a number of new large industrial customers and expected residential customer growth and offset by a seasonal adjustment for a normal weather year (BBI FY07 was a colder than normal year which had a positive impact on revenues and EBITDA).

## Cash operating costs:

- Cash operating costs have been forecast taking account of current year actuals and on a portfolio basis are forecast to increase materially in line with the increase in revenues noted above.

**(C) Other corporate costs**

- Management fees payable to BBIM are consistent with contractual arrangements explained in section 5.11; and
- The forecast excludes incentive performance fees that may become payable to BBIM if shareholder returns on BBI exceed the market based criteria for BBI FY08, because the amount, if any, is not reliably estimable.

**(D) BBI Alinta Assets**

- Material assumptions in respect of the underlying forecasts of Alinta for the BBI Alinta Assets have been provided by the Alinta Directors as set out in section 11.6;
- BBI has overlaid its own assumptions in respect of corporate costs, interest and taxation in relation to the BBI Alinta Assets as set out below:
  - > Interest costs of \$35.2 million on a full year basis to reflect the additional debt of \$518.0 million required to fund the acquisition. Of this amount, approximately \$415.0 million relates to an effective equity placement for BBI (the equivalent of approximately 211 million BBI Stapled Securities at a price of \$1.965). BBI has undertaken appropriate hedging on the additional debt at an effective rate of 6.8%;
  - > Preferred dividends paid to shareholders of the BBI EPS are recognised as an additional expense of \$62.4 million on a full year basis;
  - > Additional funds on hand used to repay \$200.0 million of corporate debt. This results in a saving of \$16.0 million per annum in reduced interest costs; and
  - > Annual corporate costs of \$8.7 million have been developed based on a bottom up analysis of requirements to manage the Alinta businesses acquired by BBI on a prospective basis, which will require rationalisation of various Alinta functions (refer to section 5.9(i)). The forecast has been presented to include a full year of savings from this rationalisation and excludes estimated corporate restructuring costs of \$4.0 million, which will be recognised in the income statement of BBI for BBI FY08 but reimbursed out of the cash reserve set aside by the Consortium Parties (as explained in section 5.9(i)). Therefore, these costs will not reduce cash available for distribution to BBI Stapled Securityholders. If the amount set aside is insufficient to meet the restructuring obligations, BBI will incur its share of the shortfall under an agreement with the other Consortium Parties. The BBI Directors do not expect that a shortfall would materially impact cash distributions.

**(iii) Other specific assumptions****(A) Interest**

BBI has a number of debt facilities across its assets and at a corporate level. Typically, these facilities are denominated in the local currency of the jurisdiction in which the asset operates. The average floating rate on external debt is approximately 6.7%. BBI has interest rate hedges in place that cover approximately 98% of the total external debt for periods consistent with the term of the relevant debt.

Interest on excess cash is assumed to accrue at an average rate of 8.0%. BBI has entered into an arrangement to lend excess cash to B&B at a commercial rate (see section 9.5(a)).

**(B) Taxation**

Taxation assumptions reflect a corporate tax rate consistent with those of the jurisdiction in which the asset operates. The forecast for BBI FY07 and BBI FY08 effective taxation expense rates are consistent with those previously reported. Cash tax payable is forecast based on the respective operating and funding structures at the applicable corporate tax rates.

As noted in section 5.12(a), BBI is currently involved in a number of discussions with the taxation authorities in the jurisdictions that it operates in. No adjustments have been assumed for taxation payments for BBI FY07 and BBI FY08 as a result of these ongoing discussions.

**(C) Capital expenditure and depreciation**

Capital expenditure includes both maintenance capital expenditure and expansionary capital expenditure. In determining the forecast capital expenditure, each of BBI's existing assets and the BBI Alinta Assets being acquired have detailed budgets identifying specific projects expected to be undertaken in BBI FY07 and BBI FY08.

BBI has a policy of funding maintenance capital expenditure from operating cash flows whilst funding expansionary capital expenditure from a combination of debt and equity sources as appropriate. Interest payable on phase 1 of the DBCT expansion project has been capitalised as part of the asset and has not been included as a cash outflow in the cash available for distribution figure. The interest payments are funded from existing equity and additional draw down of debt.

Depreciation for BBI's existing assets is forecast based on depreciation policies and useful lives set out in the annual report of BBI for BBI FY06. Depreciation in relation to the BBI Alinta Assets being acquired is based on a consistent basis to that described in the Alinta annual report for BBI FY06.

**(D) Exchange rates**

In accordance with the BBI treasury policy, BBI has undertaken to hedge the cash flows that are expected to be available for distribution, generated by each of its assets based overseas for the next five years.

When converting the underlying revenues, expenses and cash available for distribution for the first ten months of BBI FY07, the average monthly exchange rates (published by the Reserve Bank of Australia) have been used. The remaining two months BBI FY07 forecast have been converted at the rates set out in Figure 5.10. These are based upon the average monthly exchange rate for April 2007 (published by the Reserve Bank of Australia).

When converting the underlying revenues, expenses and cash available for distribution in BBI FY08, forward foreign exchange rates under which BBI has hedged its BBI FY08 exposure have been used (as set out in Figure 5.10). BBI has hedged approximately 65% of its foreign assets' cash available for distribution.

**Figure 5.10: Foreign exchange rates**

	Forecast exchange rates for BBI FY07	Forecast exchange rates for BBI FY08	Balance sheet rates as at 31 December 2006
New Zealand dollar	NZ\$1.00 = A\$0.888	NZ\$1.00 = A\$0.921	NZ\$1.00 = A\$0.892
Great British pound	£1.00 = A\$2.406	£1.00 = A\$2.440	£1.00 = A\$2.481
United States dollar	US\$1.00 = A\$1.210	US\$1.00 = A\$1.239	US\$1.00 = A\$1.264
Euro	€1.00 = A\$1.672	€1.00 = A\$1.677	€1.00 = A\$1.663

**(iv) General assumptions**

The BBI Directors have also made the following general assumptions for the BBI forecasts in addition to those outlined above:

- > no material change in the legislative regimes and regulatory environments in the jurisdictions in which BBI operates which will materially impact the forecast financial information;
- > no changes to the corporate rates of taxation and no changes in taxation legislation which will have a material impact on the forecast financial information;
- > no material adverse change in the competitive environment in which BBI's businesses operate;
- > no material adverse change in the economic conditions prevailing within the jurisdictions in which BBI operates;
- > no material business acquisitions or disposals except for those as noted in section 5.6(a), and no material change to current equity or debt funding of BBI, except as associated with the acquisition of the BBI Alinta Assets;
- > no material costs incurred by BBI as a result of industrial or contractual disputes;
- > no material amendments to any material agreements regarding BBI's businesses and their continued compliance with the terms of those agreements;
- > no material disturbances, environmental costs or legal claims;
- > no changes of a material nature to BBI's accounting policies, the Australian Accounting Standards or other mandatory professional reporting requirements including Urgent Issues Group Consensus Views and the Corporations Act which could have a material effect on the forecast financial information;
- > no material change in the value of BBI licences or other identifiable intangible assets;
- > no material deterioration in the funding status of defined benefit superannuation funds within BBI's subsidiaries; and
- > CPI assumptions of between 2.5% and 2.7% have been included over the forecast period.

**(i) Synergies and restructure costs**

The information and estimates included within this section should be considered in conjunction with the sensitivity analysis included at section 5.9(j) and the descriptions of the risks associated with the integration included in section 12.4.

BBI has extensive experience in integrating new assets quickly and efficiently into its portfolio and as part of that integration process, capturing potential cost savings through deriving scale and synergy benefits.

BBI has recently successfully integrated the management, operations, maintenance and construction functions of Powerco, IEG, Cross Sound Cable, PD Ports and WestNet Rail.

BBI has completed an initial investigation and analysis of the likely cost structure it will incur in attaching the BBI Alinta Assets to its existing operations in Western Australia and Tasmania. WestNet Rail has a corporate office in Perth servicing its rail infrastructure business and Powerco has a corporate office in Launceston servicing its greenfield gas distribution network connecting to TGP.

This assessment of costs is based on BBI's industry knowledge, previous integration experience, knowledge of the resourcing and cost structures of Powerco and WestNet Rail, and benchmarking of information on Alinta that is either available in the public domain or has been obtained as part of the due diligence process. The final assessment of the estimated level of ongoing costs following integration of the BBI Alinta Assets into WestNet Rail and Powerco will ultimately confirm the level of cost savings and synergies achievable between Alinta remaining standalone and being integrated into the consortium members.

These potential synergies will arise from leveraging off the existing corporate and shared services resources within WestNet Rail and Powerco and identifying the minimal expansion required in personnel and systems, and the ability to share information technology platforms, administration, property and office facilities and corporate management.

The pro forma annual costs savings are estimated to contribute to an increase in EBITDA of the BBI Alinta Assets of \$13.3 million in BBI FY08 and are expected to be sustainable on an ongoing basis.

As part of the Scheme Proposal, a cash reserve equal to \$23.0 million has been set aside to assist the Consortium Parties with the one-off restructuring costs that are necessary to achieve the expected recurring synergies. BBI's share of this reserve is \$4.0 million which it currently expects to be sufficient. If the amount reserved is insufficient to meet the restructuring obligations, BBI will incur its share of the shortfall under an agreement with the other Consortium Parties. The BBI Directors do not expect that a shortfall would materially impact cash distributions.

As with all estimates of synergies, there is some uncertainty associated with this forecast financial information, and actual synergies and restructuring costs may deviate from these estimates.

**(j) Sensitivity analysis**

The BBI Directors' forecast is based on certain assumptions about future events and actions. Potential investors should be aware that future events cannot be predicted with certainty and as a result deviations from the BBI Directors' forecast in this Booklet may occur and these deviations may be material.

The changes in the key variables set out in the sensitivity analysis below are not an exhaustive list of the range of variations that may be experienced over the forecast period and accordingly care should be taken while interpreting these sensitivities. The sensitivity analysis is intended as a guide only and movements in one assumption may have off-setting or compounding effects on other variables, the effects of which are not reflected in the sensitivity analysis results that are shown below.

Further, the BBI Directors would typically respond to any material adverse change in conditions by taking action they consider appropriate to minimise, to the extent possible, any adverse effect on earnings and distributions. The potential impacts of these mitigating actions are not included in the following sensitivity analysis.

#### (i) Interest rates

BBI finances its investments with a mix of equity and project or corporate debt provided by third party financiers. If the debt portion of this financing is unhedged in relation to interest rates (i.e. the interest on the debt is based on floating interest rates), an increase in interest rates could impact the value of BBI's equity investment and also increase the cost of debt service.

Approximately 98% of the principal amount outstanding as at 31 March 2007 is hedged by interest rate swaps consistent with the term of the debt. The BBI Directors' forecasts will be affected by changes in interest rates as they affect unhedged debt. Figure 5.11 shows the sensitivity of the BBI Directors' forecasts to a 1.0% increase/decrease in interest rates, with no change to any other assumptions.

#### (ii) CPI inflation

The BBI Directors' forecasts will be affected by changes in CPI. CPI impacts the forecast of both revenue and operating expenses. Figure 5.11 shows the effect on the BBI Directors' forecasts of a 0.50% increase/decrease in the assumed CPI rate.

#### (iii) Operating expenses

The BBI Directors' forecasts will be affected by changes in operating expenses from the levels forecast. Figure 5.11 shows the effect on the BBI Directors' forecast of a 5% increase/decrease in operating costs. Certain contractual costs with fixed prices have not been included in this sensitivity. No adjustments have been made for DBCT as the operating costs are a pass through cost to the users in accordance with the relevant agreements.

#### (iv) Incentive management fees

BBIM as Manager of BBI may be entitled at the end of each calendar year to receive an incentive management fee relative to the performance of BBI (details on fees are set out in section 5.11). This would be equal to 15% of the amount (if any) of any excess return of BBI Stapled Securities (as measured by the Babcock & Brown Infrastructure Security Accumulation Index, an index formulated by the manager to measure the accumulated market value of securities) over the S&P/ASX200 Accumulation Index in a financial year. The BBI Directors' forecasts will be affected by any outperformance by BBI against the S&P/ASX200 Accumulation Index in the financial year. Figure 5.11 shows the effect on the BBI Directors' forecast of a 1% outperformance and 1% underperformance by BBI. The sensitivity assumes that 60% of the incentive fee is payable in BBI Stapled Securities and that no incentive fee is payable in relation to BBI FY06 and/or BBI FY07.

#### (v) Foreign exchange rates

BBI is a global company and operates in a number of currencies. There is a risk that distributions from BBI's overseas investments are exposed to movements in foreign exchange rates. To mitigate this risk, BBI seeks to take out project or corporate debt in the underlying currency where the investment is located as this operates as a partial natural hedge. BBI also has a policy of hedging forecast distributions from its assets for a period of between three to five years. Approximately 65% of forecast distributions from overseas investments have been hedged for BBI FY08. Figure 5.11 shows the sensitivity of the BBI Directors' forecasts to a 5% increase/decrease in foreign exchange rates, based on the forecasts included in section 5.9.

#### (vi) Delay in DBCT expansion

The forecasts assume that phase 1 of the DBCT 7X expansion project will be completed in December 2007. If there is a delay in the completion of phase 1 of the DBCT 7X expansion project, then revenue, EBITDA and interest will reduce for BBI FY08. The BBI Directors estimate that for every 30 days that phase 1 commissioning is delayed there would be a \$2.2 million reduction in cash available for distribution, assuming a gearing level of 60% debt and 40% equity.

Figure 5.11: BBI sensitivities

BBI FY08	Cash available for distribution
Base case	\$333.1 million
Interest + 100 bps	(1.8%)
Interest - 100 bps	1.8%
Exchange rates + 5%	0.8%
Exchange rates - 5%	(0.8%)
CPI + 0.5%	0.8%
CPI - 0.5%	(0.8%)
Operating costs + 5%	(8.4%)
Operating costs - 5%	8.4%
Incentive fee + 1% outperformance	(0.7%)
Incentive fee - 1% underperformance	-
DBCT expansion delay (for every 30 days delay)	(0.6%)

**(k) BBI pro forma balance sheet**

The reviewed actual balance sheet for BBI as at 31 December 2006, certain pro forma adjustments to reflect known or expected changes from 1 January 2007 and the balance sheet of the BBI Alinta Assets that are being acquired as part of the transaction are set out in Figure 5.12.

Figure 5.12: BBI pro forma balance sheet

<b>\$ in millions</b>	<b>Reviewed actual BBI 31 December 2006</b>	<b>Pro forma adjustments (existing BBI assets)<sup>1</sup></b>	<b>BBI Alinta Assets<sup>2</sup></b>	<b>Pro forma adjustments (BBI Alinta Assets)<sup>3</sup></b>	<b>Pro forma BBI 31 December 2006</b>
<b>Current assets</b>					
Cash	568.7	(119.8)	0.7	215.8	665.4
Receivables	164.7	15.2	19.8	–	199.7
Inventories	15.8	0.4	0.6	–	16.8
Financial assets	12.5	1.2	–	–	13.7
Other assets	15.5	0.8	0.8	–	17.1
<b>Total current assets</b>	<b>777.2</b>	<b>(102.2)</b>	<b>21.9</b>	<b>215.8</b>	<b>912.7</b>
<b>Non-current assets</b>					
Cash held on restricted deposit	68.6	39.3	–	–	107.9
Receivables	22.6	–	3.4	–	26.0
Other financial assets	33.6	3.4	–	–	37.0
Equity accounted investments	3.9	–	116.8	–	120.7
Property, plant and equipment	4,782.1	364.1	1,113.5	–	6,259.7
Investment property	152.5	–	–	–	152.5
Goodwill	529.4	328.3	158.7	1,130.7	2,147.1
Other intangibles	1,486.9	30.2	–	–	1,517.1
Deferred tax asset	57.8	–	–	–	57.8
Other assets	56.9	3.2	88.7	–	148.8
<b>Total non-current assets</b>	<b>7,194.3</b>	<b>768.5</b>	<b>1,481.1</b>	<b>1,130.7</b>	<b>10,574.6</b>
<b>Total assets</b>	<b>7,971.5</b>	<b>666.3</b>	<b>1,503.0</b>	<b>1,346.5</b>	<b>11,487.3</b>
<b>Current liabilities</b>					
Payables	317.5	(107.4)	57.6	–	267.7
Interest bearing liabilities	183.0	5.6	111.5	(91.5)	208.6
Other financial liabilities	50.2	–	–	–	50.2
Income tax payable	8.0	–	24.9	–	32.9
Provisions	52.4	–	87.6	–	140.0
Other	2.6	3.8	–	–	6.4
<b>Total current liabilities</b>	<b>613.7</b>	<b>(98.0)</b>	<b>281.6</b>	<b>(91.5)</b>	<b>705.8</b>

\$ in millions	Reviewed actual BBI 31 December 2006	Pro forma adjustments (existing BBI assets) <sup>1</sup>	BBI Alinta Assets <sup>2</sup>	Pro forma adjustments (BBI Alinta Assets) <sup>3</sup>	Pro forma BBI 31 December 2006
<i>Non-current liabilities</i>					
Interest bearing liabilities	4,743.4	255.8	834.5	898.4	6,732.1
Other financial liabilities	98.1	-	-	-	98.1
Provisions	88.8	-	26.1	-	114.9
Deferred tax liabilities	521.4	-	158.5	-	679.9
Other	49.0	0.4	1.1	-	50.5
<b>Total non-current liabilities</b>	<b>5,500.7</b>	<b>256.2</b>	<b>1,020.2</b>	<b>898.4</b>	<b>7,675.5</b>
<b>Total liabilities</b>	<b>6,114.4</b>	<b>158.2</b>	<b>1,301.8</b>	<b>806.9</b>	<b>8,381.3</b>
<b>Net assets</b>	<b>1,857.1</b>	<b>508.1</b>	<b>201.2</b>	<b>539.6</b>	<b>3,106.0</b>
<b>Minority interest</b>	<b>118.2</b>	<b>(114.9)</b>	<b>-</b>	<b>-</b>	<b>3.3</b>
<b>Equity attributable to securityholders</b>	<b>1,738.9</b>	<b>623.0</b>	<b>201.2</b>	<b>539.6</b>	<b>3,102.7</b>

Notes to Figure 5.12:

- 1 Pro forma adjustments (existing BBI assets) to the reviewed actual BBI balance sheet as at 31 December 2006 comprise:
  - (a) A net reduction in equity of \$71.4 million from the half-year distribution completed on 2 March 2007. Total distribution was \$104.6 million, however \$33.2 million of this was used to issue additional BBI Stapled Securities under the distribution reinvestment plan of BBI.
  - (b) Additional BBI Stapled Securities on issue under the distribution reinvestment plan of BBI of \$67.3 million. The securities purchase plan had been completed as at 31 December 2006 but the BBI Stapled Securities had not been issued, therefore the balance sheet as at 31 December 2006 included \$67.3 million within payables. This has been reclassified to equity above to reflect the issue of BBI Stapled Securities in January 2007.
  - (c) Capital expenditure of \$335.0 million completed on DBCT expansion post 31 December 2006 for which funds were raised at 31 December 2006.
  - (d) Refund to the users of DBCT for \$48.2 million in relation to the access undertaking that has occurred post 31 December 2006.
  - (e) Proceeds from the institutional placement of approximately 234.5 million BBI Stapled Securities completed on 8 March 2007. This placement resulted in \$416.1 million being raised net of issue costs of \$6.0 million.
  - (f) Proceeds from the conditional placement of approximately 8.3 million BBI Stapled Securities were approved at an extraordinary general meeting on 1 June 2007. The BBI Stapled Securities were issued at \$1.80, raising \$15.0 million.
  - (g) An increase in equity of \$81.1 million following the conversion of 89.2 million BBI NZ SPARCS into BBI Stapled Securities. This conversion was completed on 19 February 2007 and 17 May 2007.
  - (h) Funds received in relation to the refinance undertaken by IEG in January 2007. This resulted in \$159.3 million of additional borrowings offset by an increase in restricted cash of \$39.3 million.
  - (i) On 27 April 2007, BBI announced that it intended to exercise its option to acquire the remaining 49% of WestNet Rail that it did not own. The acquisition of the remaining equity in WestNet Rail can be made in either BBI Stapled Securities or cash. As at the date of this Booklet, the BBI Directors currently intend to use existing cash resources to complete the acquisition. The purchase price for the remaining 49% of WestNet Rail is approximately \$240.0 million. The acquisition of the minority interests' equity in WestNet Rail will be treated as a business combination under Accounting Standards. Accordingly, the fair value of the assets acquired will need to be determined and allocated across both the tangible and identified intangible assets. At the date of this Booklet, the fair value accounting has not been completed, and therefore the excess of the purchase price over the book value of the assets acquired has been allocated to goodwill.
  - (j) On 30 May 2007, BBI announced the acquisition of a 51% interest in a port facility in Spain (TPS). BBI has a call option to acquire the remaining 49% interest in TPS, which can be exercised by paying cash or via the issue of BBI Stapled Securities. The acquisition price (for 100% of TPS) is approximately \$202.1 million including transaction and acquisition costs. In determining the pro forma adjustment above, the BBI Directors have not had the opportunity to complete the fair value accounting in relation to this asset. Accordingly, the excess of the purchase price over the identifiable assets and liabilities has been allocated to goodwill. A full analysis of the fair value of each of the identifiable assets and liabilities will be completed on acquisition.
- 2 The balance sheet for the BBI Alinta Assets has been provided by the Alinta Directors as set out in Figure 11.4.
- 3 Pro forma adjustments (BBI Alinta Assets) to the balance sheet for the BBI Alinta Assets balance sheet as at 31 December 2006 comprise:
  - (a) The purchase consideration of \$1,635.8 million comprising:
    - (i) the issue of 377.0 million BBI Stapled Securities with an assumed value of \$740.8 million, based on the BBI Stapled Security trading price at close of trade, 11.00am 8 May 2007 – the time immediately before BBI went into trading halt on ASX;
    - (ii) the issue of 800.0 million BBI EPS with a face value of \$1.00 per share;
    - (iii) repayment of \$200.0 million of corporate debt;
    - (iv) additional debt raised of \$518.0 million; and
    - (v) payment of incidental costs of acquisition of \$8.0 million.
  - (b) Recognition of the net assets of BBI Alinta Assets and associated legal entities to be acquired by BBI of \$201.2 million.
  - (c) Recognition of the difference between the purchase price and the net assets acquired as goodwill. The BBI Directors have not had the opportunity to complete the fair value accounting in relation to the acquisition of the BBI Alinta Assets. A full analysis of the fair value of each of the identifiable assets and liabilities will be completed on acquisition. To the extent that the total consideration paid for the BBI Alinta Assets varies due to an increase or decrease in the price of BBI Stapled Securities, there will be an adjustment to the purchase price used in the purchase price allocation process outlined above.

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**(l) Significant accounting policies**

As a result of the acquisition of the BBI Alinta Assets, additional and amended accounting policies will need to be noted that are not currently included in the BBI annual report. These include the following:

**(i) Depreciation**

The assets acquired by BBI from Alinta have varying depreciation rates in comparison to similar assets currently owned by BBI.

The estimated useful lives of the BBI Alinta Assets are:

**(A) Gas distribution system**

	years
Mains	60–120
Secondary gate stations	40–50
Regulators	40–50
Meters	25
Telemetry and monitoring	25

**(B) Pipelines – plant and equipment**

	years
Pipelines	40–50
Compressors	40–50
Meters	20–25

**(ii) Management contract rights**

Management contract rights relate to the acquisition of the Western Australian operations and maintenance business and are recognised at fair value at acquisition date. Management contract rights are being amortised over the estimated term of the agreements.

**(iii) Customer relationships**

Customer relationship intangibles arising from a business combination are recorded at fair value at acquisition date and are amortised on a straight-line basis over their useful life.

**(m) Contingent liabilities**

In its financial report for the half year ended 31 December 2006, BBI disclosed its contingent liabilities. Subsequent to this financial report, the BBI Directors reported the following matters:

**(i)** Agreements for the deal contingent interest rate swaps and deal contingent forward foreign exchange contracts (which totalled \$62.6 million at 31 December 2006) include terms whereby if the merger agreement for the proposed NorthWestern acquisition is terminated by 24 July 2007 due to failure to receive regulatory approval the deal contingent swaps and deal contingent foreign exchange contracts will terminate at zero value. Otherwise, cash payments could be required if the merger agreement is not terminated by 24 July 2007 and the deal contingent swaps and deal contingent foreign exchange contracts are not terminated or extended.

**(ii)** The ATO has issued amended assessments to BBI in relation to deductibility of certain payments made to the Queensland Government, in relation to the long-term lease of DBCT. If the ATO is successful, BBI will be liable to primary tax of \$69.9 million plus interest (calculated to 31 March 2007) of \$21.3 million in relation to BBI FY06. No amount has been included as payable in the forecasts for BBI FY07 and BBI FY08. BBI has objected to the ATO's amended assessment, and is confident of the position it has taken. For further information refer to section 5.12.

**(n) Commentary on prospects**

BBI anticipates that its existing businesses will continue to perform in line with its recently reaffirmed distribution guidance of 14.25 cents per BBI Stapled Security for BBI FY07. Subject to the achievement of certain key assumptions the BBI Directors are targeting distributions per security for BBI FY08 and BBI FY09 of approximately 15.0 cents and 16.0 cents respectively.<sup>38</sup>

However, importantly, BBI has raised sufficient amounts of equity funding that has not yet been deployed and is not reflected in the financial forecasts for BBI FY07 and BBI FY08. The majority of this equity funding was earmarked for the potential acquisition of NorthWestern. However, as detailed below it now appears unlikely that the NorthWestern acquisition will proceed and therefore a substantial portion of these funds are available to fund future investments that meet BBI's investment criteria. The BBI Directors believe it is useful to provide an indication of the future prospects for where some of this equity funding could potentially be deployed together with some of the future growth prospects associated with BBI's existing business and growth prospects associated with the acquisition of the BBI Alinta Assets.

Note:

<sup>38</sup> BBI is targeting distributions for BBI FY08 and BBI FY09 of approximately 15.0 cents and 16.0 cents respectively, provided the following key assumptions are achieved: no material adverse change to key tax or regulatory environments and completion of the DBCT expansion in line with schedule.

**(i) DBCT expansion**

The DBCT facility is currently being expanded past its current capacity of 59Mtpa up to 85Mtpa. This expansion is called the DBCT 7X Project and is underwritten by 100% take-or-pay contracts of at least 10 years duration.

DBCT management is undertaking the DBCT 7X Project in three phases which are described below. All capacity estimates assume current service levels (e.g. blending, ship size etc) and all cost estimates relate to capital cost estimates (i.e. excluding capitalised financing charges) and include contingency.

Phase 1 will lift DBCT capacity to 68Mtpa, is targeted for completion at the end of December 2007 and will cost an estimated \$545.0 million. Phases 2 and 3 (being undertaken concurrently) will lift DBCT capacity to 85Mtpa, are targeted for completion by the end of December 2008 and will cost an estimated \$639.0 million.

Provided the DBCT 7X Project stays on its target for completion, it is estimated that total cumulative capital costs of approximately \$820.0 million will have been incurred by the end of December 2007 and approximately \$1.1 billion by June 2008.

The Queensland Competition Authority (**QCA**) approved a regulated return on capital of 9.02%, based on a risk free rate of 5.84% in its regulatory determination on DBCT published in April 2005 (The Dalrymple Bay Coal Terminal Draft Access Undertaking Final Decision). Applying a capital structure of 60% debt and 40% equity (i.e. the capital structure assumed by the QCA in its regulatory determination) to the regulated return, results in a return on equity of 11.84% on existing DBCT assets. In relation to any expansion of DBCT during the regulatory period, assuming the QCA is satisfied that DBCT management has complied with its process for approving the inclusion of expansion capital in the regulated asset base, the regulated return to apply to expansion capital (i.e. both debt and equity) invested would equate to 9.02%, adjusted only for the risk free rate prevailing at the date of the effective completion and commissioning of the expansion.

For example, if the risk free rate on completion and commissioning of the expansion was 6%, the WACC to apply would be 9.18% and the return on equity would be 12%, assuming the regulatory capital structure of 60% debt and 40% equity. If the risk free rate at the effective completion and commissioning of the expansion was 5.5%, the WACC to apply would be 8.68% and the return on equity would be 11.5%, assuming that same capital structure. On completion and commissioning of an expansion phase and assuming:

- > The cost of the expansion is accepted by the QCA into the regulated asset base;
- > All new contracts for expansion capacity are for reference tonnage;
- > A WACC of 9.02% applies, based on an assumed risk free rate prevailing at the date of commissioning of the expansion of 5.84%;
- > A gearing level of 60% debt and 40% equity is adopted (which is the regulatory gearing level adopted by the QCA in respect of DBCT); and
- > Expansion assets are depreciated over a weighted average life of 40 years,

BBI's EBITDA would increase by approximately \$0.95 million per annum for every \$10.0 million invested in the expansion. The increase would take effect from the date the expansion capital is completed and commissioned and would apply for the remainder of the regulatory period (i.e. to 31 December 2009). The earliest possible completion and commissioning date of phase 1 is currently December 2007 and for phase 2 and 3 is December 2008. During construction BBI is allowed to earn a return at the approved regulatory rate (WACC) on approved expansion capital expenditure from the date these amounts are actually incurred. This return does not impact the cash flow but will be capitalised into, and therefore increase, the regulated asset value on completion of the expansion phase.

EBITDA and cash flow contributions for phase 1 have been included in the BBI FY08 forecasts from 1 January 2008. If the completion of construction and commissioning of phase 1 is delayed past December 2007 the forecast EBITDA in BBI FY08 will be reduced by approximately \$4.7 million for every 30 days the completion of phase 1 is delayed past December 2007 and cash available for distribution will reduce by approximately \$2.2 million for every 30 days the completion of phase 1 is delayed past December 2007. There is no EBITDA or cash flow contribution assumed for phases 2 and 3 in the BBI FY08 forecast. Any delay in the construction completion of the DBCT 7x expansion project results in a delay of the commencement of operating cash flows associated with this project only and not a permanent impairment to overall operating cash flow levels. The anticipated equity invested by BBI for the DBCT 7X Project, assuming a gearing level of 60% debt and 40% equity, based on the anticipated increase to the regulated asset base amounts to approximately \$530.0 million (or approximately 350 million BBI Stapled Securities).

On completion of the regulatory period (i.e. 31 December 2009), the regulatory parameters (including the regulatory return or WACC) can be reviewed by the QCA. The review of regulatory parameters is subject to specified exceptions, such as the QCA's undertaking not to write down (i.e. optimise) the value of the terminal in future, except in exceptional and specified circumstances (for example, where the QCA has approved inclusion of a terminal expansion cost in the regulated asset base based on false and misleading information provided by BBI).

**(ii) IEG – Growth in UK connections**

The existing installed connections in the IEG business in the United Kingdom provide an "availability based" income stream from a group of high credit quality counterparties with minimal operating costs. In the most recent calendar year ended 31 December 2006, IEG has achieved approximately 52,000 new connections. This is a significant growth outcome over the 32,300 new connections achieved in the calendar year ended 31 December 2005. IEG is forecasting a further 52,000 new connections in BBI FY07 and approximately 68,000 new connections in BBI FY08.

New connections have a cost recovery/revenue multiple of approximately eight times. There are minimal operating costs associated with the connections once installed. The assets have an engineering life of more than 50 years. In the recent refinance of IEG in January 2007, BBI put in place a £100.0 million capital expenditure facility to fund 100% of the expected growth in the United Kingdom connections over the next three to five years. This growth will provide significant potential for enhanced distributions in future periods, to the extent that the existing order book and new orders are converted into new connections.

**(iii) Alinta Assets****(A) AGN – 74.1%:**

AGN is the largest distributor of natural gas in Western Australia, serving the greater metropolitan area of Perth, Kalgoorlie-Boulder and Albany. Over the last 10 years, it has achieved a new connection growth averaging around 4% p.a.

The investment in AGN provides BBI additional exposure to the strong Western Australian economy, which has enjoyed rising resource prices and growth in demand from emerging economies in recent years. It is expected that AGN will continue to experience above average earnings growth in the foreseeable future if the strong growth in Western Australia continues.

**(B) DBNGP – 17%:**

DBNGP is the only natural gas pipeline connecting the Carnarvon and Browse Basins on Western Australia's north-west shelf with industrial, commercial and residential customers in Perth and the surrounding region. It has recently completed a \$430 million expansion and increased its capacity by 16% from 632 TJ/day to 735 TJ/day.

DBNGP is benefiting from the strong Western Australian economy and its growing energy needs. In May 2006, DBNGP announced that a \$1.5 billion expansion (Stage 5) would be developed on a staged basis, and would add approximately an extra 375 TJ/day in total capacity, an increase of approximately 51% over the current pipeline capacity. Stage 5A is currently underway and is expected to cost \$700 million, adding approximately 100 TJ/day of capacity to the pipeline by the end of the 2008 calendar year. On 19 April 2007, DBNGP announced a possible extension of the Stage 5A expansion – to be known as Stage 5A(2), which is being investigated in response to demand for additional firm haul and part haul capacity. The extension would provide an additional approximately 40 TJ/day of firm full haul capacity at an estimated cost of \$200 million and is expected to be commissioned over 2009 and 2010.

Similar to the investment in AGN, DBNGP provides BBI with additional exposure to the strong Western Australian economy. The expansion of the DBNGP will provide a stepped change increased contribution in distributable cash once the expansion is completed.

**(C) Western Australia operations and maintenance business – 100%:**

The Western Australian operations and maintenance business provides effective and efficient asset management, project management, and operations and maintenance services to asset owners in the infrastructure sector in Western Australia. BBI proposes to integrate the management of the Western Australian operations and maintenance business into the BBI WestNet Rail business based in Perth.

The current earnings of the Western Australian operations and maintenance business are underpinned by the operations and maintenance service agreements with AGN and DBNGP, and a limited number of third party operations and maintenance contracts. It is expected that the earnings and cash flow contributions from this business are likely to grow strongly in the near future as the business benefits from the margin it earns from the planned \$1.7 billion capital expansion works associated and ongoing operations and maintenance works associated with the DBNGP and additional operations and maintenance contracts with third parties in relation to the provision of project management services on new infrastructure or operations and management services on existing infrastructure located in Western Australia.

**(D) TGP – 100%:**

TGP is the only source of natural gas into Tasmania, with the current capacity of the TGP Longford – Bell Bay mainline being 47 PJ p.a. As at the date of this Booklet, TGP continues to have significant spare capacity – approximately 70 TJ/day of spare capacity for firm forward haulage and approximately 100 TJ/day for as available forward haulage. This spare capacity, coupled with TGP's monopolistic position, provides significant growth potential. Identified growth opportunities for TGP include the proposed development of a 200MW power station in Tasmania and the new reticulation network that has recently been completed by Powerco Tasmania (a 100% owned BBI business), which will supply gas to both industrial and residential customers. The operating costs for the TGP are largely fixed and therefore any revenue associated with additional throughput will increase cash available for distribution.

**(E) MGN – 20.1%:**

MGN has commenced two important expansion projects. In November 2004, MGN was awarded the \$24 million Yarra Ranges project and in August 2005 the \$50 million South Gippsland project. Completion of the Yarra Ranges expansion, due at the end of the 2007 calendar year, will see 150 kilometres of new pipe laid passing 6,000 potential new customers. The South Gippsland expansion commenced on 3 October 2006, and will see 250 kilometres of pipe laid and will pass 10,000 potential customers. The project is expected to be completed by the end of the 2009 calendar year.

**(iv) European Port Opportunities**

BBI is actively pursuing a range of accretive port opportunities in multiple jurisdictions in Europe. BBI is in exclusive discussions with a number of vendors in respect of acquiring controlling interests in these port opportunities with detailed due diligence now underway. The proportionate controlling interests in these ports have a cumulative enterprise value in excess of \$675.0 million and an equity requirement in excess of approximately \$350.0 million, with each transaction expected, if successful, to complete in the first half of BBI FY08 at multiples that are expected to be immediately accretive to BBI. It is anticipated that BBI will hold rights to increase its proportionate interest over time in some of the opportunities being considered, thereby increasing the size of possible investments in the European port sector over time.

These potential port acquisitions illustrate the pipeline of opportunities that should enable BBI to accretively deploy available funds.

**(v) The possible acquisition of NorthWestern Corporation**

BBI has entered into an agreement to acquire NorthWestern Energy Corporation (**NorthWestern**) for \$2.8 billion (US\$2.2 billion). Completion is subject to the approval of NorthWestern shareholders and various US state and federal regulatory authorities. All of the required approvals have been received, with the exception of the Montana Public Service Commission (**MPSC**).

NorthWestern is a vertically integrated electricity and gas transmission and distribution utility servicing the regions of Montana, South Dakota and Nebraska in the United States. NorthWestern operates over 30,000 miles of electric transmission and distribution lines and 7,800 miles of gas transmission and distribution pipelines. In addition, NorthWestern owns approximately 310MW of regulated and 225MW of unregulated electricity generation assets.

BBI lodged its application for approval from the MPSC in June 2006. Several parties intervened in BBI and NorthWestern's application proceeding. Following the conclusion of a hearing process, at a working group meeting of the MPSC held on 23 May 2007, the five commissioners of the MPSC instructed the MPSC staff to draft an order rejecting BBI and NorthWestern's application for approval. On 25 June 2007 (before the MPSC had formally voted on the application), BBI and NorthWestern lodged with the MPSC an application for rehearing of the approval, based on revised acquisition terms. When it considers the application for rehearing, the MPSC may elect not to grant the rehearing, in which case it is likely to vote to reject the approval. If the MPSC decides to grant the rehearing, BBI would request an expedited procedure for the MPSC to consider the revised terms.

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## 5.10 Board and senior management

### (a) BBI Boards of directors

Figure 5.13: BBI Boards of directors

Director	BBIL	BBIS	Biography
Phillip Green (Chairman of BBIL and BBIS – B&B executive)	X	X	Mr Green has been Chief Executive of B&B in Australia since 1991 and is currently Managing Director of Babcock & Brown Limited. In addition to his role as Managing Director of Babcock & Brown Limited, Mr Green is currently Chairman of Babcock & Brown Environmental Investments Limited, Chairman of the responsible entity of the MTM Entertainment Trust and a director of Abacus Property Group.
Peter Hofbauer (B&B executive)	X	X	Mr Hofbauer is the Global Head of B&B's infrastructure business unit. He joined B&B in 1989 and has worked in both the Sydney and London offices. He is also the chairman of Babcock & Brown Power (BBPL) and of the Responsible Entity of BBPT) as well as the Chairman of Babcock & Brown Wind Partners (BBWPL, BBWPB and of the Responsible Entity of BBWPT).
Hon Dr David Hamill (Independent Director)	X	X	Dr Hamill has been a director of BBIL since March 2002 and of BBIS since July 2005. Dr Hamill is currently a Director of Paridian Property Development Fund Limited and Family Care Medical Services Limited. He is also a trustee of the Queensland Museum Foundation and a director of the Australian Red Cross Blood Service. Dr Hamill was Treasurer of Queensland from 1998 to 2001, Minister for Education from 1995 to 1996, and Minister for Transport and Minister Assisting the Premier on Economic and Trade Development from 1989 to 1995.
Leigh Hall (Independent Director)		X	Mr Hall has been a director of BBIS since July 2005. From March 2002 to July 2005 Mr Hall was a director of BBIL. Until his retirement in 1999, Mr Hall was Deputy Managing Director of AMP Asset Management Australia Limited. He is also a director of Funds SA and a former Director of the Bellambi Coal Company Limited, Coal Mines Australia Limited, Drayton Coal Pty Limited, Equatorial Mining Ltd and United Energy Ltd.
Barry Upson (Independent Director)	X	X	Mr Upson has been a director of BBIL since December 2004 and of BBIS since July 2005 Mr Upson was Chairman of Powerco Limited until the acquisition by BBI. He brings with him 11 years of experience and knowledge of the Powerco business. Mr Upson was previously an executive director, including four years as Managing Director, of a publicly listed non-ferrous metal extrusion company operating from New Zealand.

**(b) Senior management**

The key senior management personnel (employed by B&B) who have been seconded to BBIM to provide management services to BBI under the BBI management arrangements are set out in Figure 5.14.

Further details of the management arrangements between B&B and BBI are set out in section 5.14(b) and the relationship between B&B and its managed funds is set out in section 9.

**Figure 5.14: BBI senior management**

Senior executive	Biography
<p>Jeff Kendrew (Acting CEO)</p>	<p>Mr Kendrew was appointed to his current role at BBI in June 2007. Prior to that, Mr Kendrew was BBI's Chief Operating Officer – Energy Transmission and Distribution. In this role Mr Kendrew supported the acquisition team for a number of BBI's assets and was responsible for their integration. Prior to joining BBI, Mr Kendrew was employed at BBI's largest asset, Powerco, as General Manager of Corporate Development. He took on this position in March 2001 after holding operational management roles with Powerco.</p>
<p>Jeff Pollock (COO – Transport)</p>	<p>Mr Pollock joined BBIL in January 2002 as its inaugural Chief Financial Officer. From 1 July 2005, Mr Pollock was re-employed by BBIM, firstly in the role of Chief Financial Officer before assuming his current role of Chief Operating Officer – Transport.</p>
<p>Richard Krogh (Acting COO – Energy Transmission and Distribution)</p>	<p>Mr Krogh was appointed to his current role in June 2007. Prior to that, Mr Krogh was Chief Executive Officer of BBI's largest asset, Powerco. As CEO of Powerco, Mr Krogh maintained the asset's position as one of New Zealand's most efficient and successful electricity and gas distribution businesses. Mr Krogh joined Powerco in September 2000 following the merger with CentralPower where he held the executive and management position of General Manager Network Assets. Before joining CentralPower he had held a variety of engineering positions within the electricity industry.</p>
<p>Jonathon Sellar (CFO)</p>	<p>Mr Sellar joined BBI as the Group Financial Controller before assuming the role of Chief Financial Officer for BBI in September 2005. His most recent role prior to joining BBIL was Project Controller of InterGen's Australian power stations. Prior to this role at InterGen, Mr Sellar was Senior Audit Manager (Energy and Mining) at PricewaterhouseCoopers Brisbane which included a two year secondment to the United Kingdom.</p>
<p>Michael Ryan (General Counsel and Company Secretary)</p>	<p>Mr Ryan joined BBI in April 2004. From 1 July 2005, Mr Ryan was re-employed by B&amp;B under the restructure and remains in the role of BBI General Counsel and Company Secretary under the management agreements between BBI and BBIM. Prior to joining BBI Mr Ryan worked as a lawyer in the corporate group of the international law firm, Freehills. In private practice, Mr Ryan advised on mergers and acquisitions, as well as on general corporate and commercial law issues, with an industry focus on energy, resources and infrastructure.</p>

### 5.11 Fee arrangements

Subsidiaries of B&B are the Manager of BBI and the Responsible Entity of BBIT. BBI pays the following fees to B&B for it undertaking those roles and providing the other services set out below.

You should read all the information about fees and costs because it is important to understand their impact on an investment in BBI. Small differences in both investment performance and fees and costs can have a substantial impact on your long-term returns.

You will not be charged an establishment fee, contribution fee, withdrawal fee, termination fee or investment switching fee in connection with your investment in BBI.

#### (a) Responsible entity fee

BBIS has waived its right to receive a fee so long as BBIM acts as the Manager of BBIT. Under BBIT's constitution the fee which BBIS is otherwise entitled to receive is 2% per annum of the value of the gross assets of BBIT.

#### (b) Base management fee

BBIM is entitled to receive a base fee for services provided under the BBI Management Agreements. The base fee is a quarterly fee of 0.1% of Base Capitalisation (as defined in Figure 5.15) plus 1.0% per annum of the amount (if any) by which the Calculated Market Capitalisation (CMC) (as defined in Figure 5.15) exceeds the Base Capitalisation. The base fee is payable to BBIM by BBI quarterly in arrears.

Set out in Figure 5.15 is a hypothetical example of the manner in which the base fee payable to BBIM for managing BBI will be calculated. This example is provided for illustrative purposes only and does not purport to represent the likely fees payable nor the likely price of a BBI Stapled Security or relevant indices. The example is based on an approximate number of BBI Stapled Securities post-Implementation of the Share Scheme and assumes a price of a BBI Stapled Security equal to the closing price as at 27 June 2007.

#### (c) Incentive management fee

BBIM may be entitled at the end of each financial year to receive an incentive management fee of 15% of the amount (if any) of any excess return of BBI Stapled Securities (as measured by the BBI Stapled Security Accumulation Index, an index formulated by BBIM to measure the accumulated market value of BBI Stapled Securities) (BBI Stapled Security Accumulation Index) over the S&P/ASX200 Accumulation Index (**Benchmark Index**) in a financial year.

The incentive management fee amount payable by BBI to BBIM is calculated at the end of each financial year and payable in three equal instalments with the first instalment immediately payable. The remaining two instalments are due and payable at 30 June in the subsequent two years provided there has been continued outperformance of the BBI Stapled Security Accumulation Index over the Benchmark Index. Up to 60% of the incentive management fee can be paid in BBI Stapled Securities at the discretion of the BBI Directors to reinforce alignment between securityholders and the Manager.

Set out in Figure 5.16 are hypothetical examples of the manner in which the incentive management fee payable to BBIM for managing BBI will be calculated (in this example calculated hypothetically as at the end of BBI FY08). These examples are provided for illustrative purposes only and reflect an outperformance of 10% relative to the Benchmark Index and an underperformance of 10% relative to the Benchmark Index. These examples do not purport to represent the likely fees (if any) payable nor the likely price of a BBI Stapled Security or relevant indices.

**Figure 5.15: Base management fee calculation**

	Days in quarter	90
	Relevant quarter	Quarter to 30 June 2008
<b>Calculated market capitalisation</b>		
ATP	Volume-Weighted Average Price (VWAP) per BBI Stapled Security over last 20 days of trading of BBI Stapled Securities in the quarter	\$1.71
AN	Average closing number of BBI Stapled Securities over last 20 days of trading of BBI Stapled Securities in the quarter	2,219,000,000 <sup>39</sup>
FC	Sum of firm commitments to future investments by BBI as at the last trading day of the quarter	\$0
UC	Sum of uncommitted cash balances of BBI as at the last trading day of the relevant quarter	\$0
	<b>Calculated market capitalisation = (ATP x AN) + FC – UC</b>	<b>\$3,794,490,000</b>
	<b>Base capitalisation<sup>40</sup></b>	<b>\$400,000,000</b>

Hypothetical fee payable to BBIM for quarter:

$$\begin{aligned}
 &= (0.1\% \times \text{Base Capitalisation} \times (\text{Days}/365)) + (1.0\% \times (\text{Calculated Market Capitalisation} - \text{Base Capitalisation}) \times (\text{Days}/365)) \\
 &= (0.1\% \times \$400,000,000 \times (90/365)) + (1.0\% \times (\$3,794,490,000 - \$400,000,000) \times (90/365)) \\
 &= \$98,630 + \$8,369,975 \\
 &= \$8,468,605 \text{ for quarter}
 \end{aligned}$$

Hypothetical estimated annual base fee payable to BBIM:

$$= \$34,344,900$$

Notes:

39 Average closing number of BBI Stapled Securities in the relevant quarter to 30 June 2008 assumes 377 million BBI Stapled Securities are issued post 30 June 2007, being the approximate number of BBI Stapled Securities to be issued as part of the Scheme Proposal (assuming the maximum 800 million issuance of BBI EPS).

40 Base Capitalisation amounts to \$400 million pursuant to the BBI Management Agreement.

Figure 5.16: Incentive management fee calculations

	Assumptions	Example 1	Example 2
	Relevant period Financial year to 30 June 2008		
A	Average market capitalisation for last quarter ending 30 June over the last 20 trading days of the preceding financial year (i.e. financial year to 30 June 2007)	\$3,149,820,000 <sup>41</sup>	\$3,149,820,000 <sup>42</sup>
B	Average closing BBI Stapled Security Accumulation Index over the last 20 trading days of the previous financial year (i.e. financial year to 30 June 2007)	100	100
C	Average closing BBI Stapled Security Accumulation Index over the last 20 trading days of the relevant period	110	130
D	Average closing Benchmark Index over the last 20 trading days of the previous financial year (i.e. financial year to 30 June 2007)	100	100
E	Average closing Benchmark Index over the last 20 trading days of the relevant period	120	120
	Stapled Security Return (SSR) for the relevant period	$= A \times (C-B)/B$ $= \$3,149,820,000 \times (110-100)/100$ $= \$314,982,000$	$= A \times (C-B)/B$ $= \$3,149,820,000 \times (130-100)/100$ $= \$944,946,000$
	Benchmark Return (BR) for the relevant period	$= A \times (E-D)/D$ $= \$3,149,820,000 \times (120-100)/100$ $= \$629,964,000$	$= A \times (E-D)/D$ $= \$3,149,820,000 \times (120-100)/100$ $= \$629,964,000$
	Above BR for the relevant period	$= SSR - BR$ $= \$314,982,000 - \$629,964,000$ $= -\$314,982,000$	$= SSR - BR$ $= \$944,946,000 - \$629,964,000$ $= \$314,982,000$
	Incentive management fee for the relevant period <sup>43</sup>	$= 15\% \times (SSR-BR)$ $= 15\% \times -\$314,982,000$ $= \$0$ (since negative result)	$= 15\% \times (SSR-BR)$ $= 15\% \times \$314,982,000$ $= \$47,247,300$ (with only \$15,749,100 being due and payable in the relevant financial year) <sup>44</sup>

## Notes:

41 Hypothetical average market capitalisation as at 30 June 2007 assumes an average of 1.842 billion BBI Stapled Securities on issue at \$1.71 per BBI Stapled Security.

42 See footnote above.

43 For the purpose of the hypothetical examples of the incentive management fee outlined above, it has been assumed that no other portions of prior year incentive management fees are due or payable.

44 As noted above, the incentive management fee is calculated for the relevant period and payable in three equal instalments with the first immediately payable (i.e. 30 June 2008), the second instalment being payable as at 30 June of the relevant period plus 12 months (i.e. 30 June 2009) if the BBI Stapled Security Accumulation Index has continued to outperform the Benchmark Index over the two year period from 1 July 2007 to 30 June 2009 and the third instalment being payable as at 30 June of the relevant period plus 24 months (i.e. 30 June 2010) if the BBI Stapled Security Accumulation Index has continued to outperform the Benchmark Index over the three year period from 1 July 2007 to 30 June 2010.

As also noted above, up to 60% of the current portion of the annual incentive management fee can be paid in BBI Stapled Securities at the discretion of the BBI Directors.

**(d) Reimbursement of out of pocket expenses**

BBIM is entitled to an amount per annum in respect of expenses. BBIM is also entitled to recover any costs paid by it on behalf of BBIL and any costs in providing the services to the extent that these require input beyond the scope of the management team or are additional services. BBIM is also entitled to recover any costs paid by it on behalf of BBIS.

These expenses are contracted to be \$8.216 million for BBI FY07 and are escalated by CPI over the term of the BBI Management Agreements (being 25 years from 1 July 2005).

**(e) Other fees that may be payable to B&B**

The following fees may be incurred by BBI, however B&B has waived its right to receive any financial advisory fees from BBI in relation to the acquisition of the BBI Alinta Assets:

**(i) Break fees** – one-third of the value of any break, termination or similar fees received net of acquisition costs incurred by BBI in connection with an investment or proposed investment will be paid to BBIM at the relevant time from the fees received by the relevant BBI entity.

**(ii) Financial advisory fees** – BBI has entered into an Exclusive Financial Advisory Agreement with B&B. The fees for these services are negotiated at the time, and on reasonable arm's length terms. The independent BBI Directors have protocols in place to benchmark fees proposed and to ensure that they are on reasonable arm's length terms. In the case of acquisitions, fees are normally expressed as a percentage of enterprise value, which is usually defined as the risk capital invested by BBI plus the proportion of debt financing to the investment represented by BBI's investment.

More detail about the Exclusive Financial Advisory Agreement is set out in section 9.3.

**(f) Example of annual fees and costs for an investment in BBI**

An example of the fees and costs attributable to a \$50,000 investment in BBI over a one year period is set out in Figure 5.17.

**Figure 5.17: Example of annual fees and costs**

Example of annual fees and costs in BBI		Balance of \$50,000
Contribution fees	Nil	Not applicable
PLUS management costs <sup>45</sup>	Approximately 1.25% <sup>46</sup> for the twelve months ending 30 June 2008	The management costs attributable to a \$50,000 investment in BBI for one year are approximately \$623 <sup>47</sup>
EQUALS cost of fund		The fees and costs attributable to a \$50,000 investment in BBI for one year are approximately \$623 <sup>48</sup>

## Notes:

45 This includes the responsible entity fee, the base management fee, the incentive management fee, the manager expense amount and any fee payable to a custodian. This does not include any financial advisory or origination or disposal fees.

46 Assumes, for illustrative purposes only, a 1% out performance in relation to the calculation of the incentive management fee.

47 Note that these fees and costs are not deducted from distributions you receive from BBI. These fees and costs are paid by BBI before distributions are paid to BBI Stapled Securityholders.

48 See footnote above.

### 5.12 Risk factors associated with an investment in BBI

An investment in BBI involves many risks that are specifically associated with energy transmission and distribution assets and transport infrastructure, those specifically associated with BBI and those specifically associated with particular assets of BBI. The key risks of this type are outlined in this section 5.12.

In addition, an investment in BBI involves general risks which relate to all investments in infrastructure assets and to any investment in listed securities. The key general risks are outlined in more detail in section 12.5.

This section and section 12.5 describe the key risks of an investment in BBI considered applicable by the BBI Directors based on their assessment of the probability of the risk occurring and its expected impact if it were to occur.

It is not an exhaustive list of all possible risks associated with an investment in BBI and there is no guarantee that other risks will not also occur or, if the risks do occur, that their impact will be as described.

The risks set out in this section, and in section 12.5, as well as other risks not referred to, could materially affect the financial and operating performance of BBI and the value of an investment in BBI. Some of these risks can be mitigated by appropriate action, safeguards and procedures but many cannot be mitigated effectively.

#### (a) Taxation

In addition to the general taxation risks described in section 12.5(t), BBI is currently involved in two potentially material disputes with taxation authorities, as discussed below.

BBI has been involved in ongoing discussions with the ATO regarding the deductibility of payments associated with the long-term lease of DBCT. The ATO has issued amended assessments on the grounds that such payments were not deductible.

The amendments result in tax payable of \$69.9 million plus \$21.3 million in interest charges for the financial years ended 30 June 2002 to 2006 (calculated to 31 March 2007). The ATO has advised that it does not intend to impose administrative penalties.

As some of the payments in question are ongoing, BBI's tax profile for subsequent periods may be affected if the ATO's position were to be upheld.

BBI considers the ATO's position to be incorrect. BBI has objected to the ATO's assessments, remains confident of the position that it has adopted and intends to defend its position.

Powerco has received a notice of proposed adjustment from the New Zealand Inland Revenue Department which proposes to disallow certain deductions. Powerco is now involved in a mediation process with the New Zealand Inland Revenue Department. Powerco is also confident of its position and intends to defend its position through the mediation process. The maximum potential liability for Powerco in respect of this matter is approximately NZ\$20 million.

Decisions adverse to BBI in relation to both of these matters are not expected to alter BBI distribution guidance.

#### (b) Construction

BBI has a significant investment in the DBCT 7X Project, further details of which are set out in section 5.9(n). This project is currently undergoing construction for expansion and BBI may retain some residual construction risk, as further described in section 12.5(h) relating to construction risks generally.

#### (c) Loss of corporate credit rating

BBI has an investment grade credit rating with Moody's Investors Service of Baa3 (under review for downgrade).

This investment grade credit rating is important because it impacts BBI's cost of debt and its ability to source further borrowings. There is a risk that BBI could have its credit rating downgraded if Moody's were to change its current view of the risk to senior lenders.

#### (d) Distribution risk arising from terms of the BBI EPS

If the BBI EPS Issuer fails to pay a BBI EPS Dividend Amount on or within 10 days of a relevant Dividend Payment Date, then BBI will be prohibited from paying BBI Distributions on any BBI Stapled Securities until all outstanding BBI EPS Dividend Amounts have been paid in full or all BBI EPS have been redeemed or converted or BBI EPS Holders have approved the payment by a special resolution. This can be triggered by either:

- > the BBI EPS Issuer electing to optionally defer BBI EPS Dividend; or
- > a Mandatory Deferral Event, which occurs when the BBI interest cover ratio falls below the Minimum Interest Cover Ratio.<sup>49</sup>

For defined terms refer to the BBI EPS terms of issue in Annexure H.

#### (e) Litigation

Alinta is in dispute with the Essential Services Commission (Victoria). Proceedings have been commenced by AAM in the Supreme Court of Victoria regarding whether or not AAM is required to be licensed under section 22 of the *Gas Industry Act 2001* (Vic) and whether AAM is required to comply with the Gas Code arising out of the services provided by it in connection with the MGN. The proceeding has been heard in the Supreme Court and Alinta is currently awaiting judgement. The potential outcome of this dispute may have an adverse effect on the future operational and financial performance of MGN.

Note:

49 The ATO has been requested to issue a tax ruling to confirm the availability of CGT rollover relief in respect of BBI EPS.

Alinta is also involved in proceedings before the WA Energy (Gas) Review Board relating to a review of the revised access arrangements for the DBNGP brought by the Electricity Generation Corporation (trading as Verve Energy). In the proceedings, Verve Energy has alleged, amongst other matters, that AAM is, in effect, a service provider for the purposes of the *National Third Party Access Code for Gas Pipeline Systems* and that DBP should not be allowed to recover, in the tariffs it charges shippers for services on the DBNGP, certain charges made by AAM in respect of services provided by it. The issues are similar to those described above for MGN.

The potential outcome of disputes and proceedings may have an adverse effect on the future operational and financial performance of the MGN, the AGN or the DBNGP.

### 5.13 Governance and other board matters

Section 9.4 contains a detailed description of the governance and board matters relevant to BBI.

### 5.14 Additional information

#### (a) Rights attaching to BBI Stapled Securities

BBI Stapled Securities issued pursuant to the Share Scheme will from their date of issue rank equally with the existing BBI Stapled Securities on issue (provided that they will not rank for the distribution for the half year to 30 June 2007). The rights attaching to BBI Stapled Securities are detailed in the constitutions of BBIT and BBIL.

The key rights attaching to BBI Stapled Securities are summarised below. Rights attaching to BBI Stapled Securities may also arise under the Corporations Act, other laws and the Listing Rules. Those rights are not covered in this summary except where expressly indicated.

#### (i) Voting

At a general meeting of BBIL or BBIT, BBI Stapled Securityholders present in person or by proxy, attorney or representative have one vote on a show of hands and, in the case of BBIL, one vote on a poll for each fully paid share in BBIL held (with proportional voting rights for partly paid shares) and, in the case of BBIT, one vote for each Australian dollar of the paid up value of each unit in BBIT held. Voting on a special resolution of BBIT must be decided on a poll, otherwise, voting on resolutions of BBIL or BBIT is by a show of hands unless a poll is demanded.

#### (ii) BBI Distributions

BBI Distributions may be comprised of dividends payable by BBIL and distributions payable out of BBIT.

In respect of dividends payable by BBIL, the BBIL directors may pay any interim or final distributions as, in their judgment, the financial position of BBIL justifies.

In respect of distributions payable out of BBIT, BBI Stapled Securityholders are entitled to receive their pro rata entitlement (by reference to the number of units held as a proportion of the total number of all units in BBIT) to the distributable income of BBIT for the relevant distribution period.

#### (iii) Issue of further BBI Stapled Securities

Subject to certain restrictions, BBI may issue, grant options in respect of, or otherwise dispose of BBI Stapled Securities. Any issue of new shares in BBIL must be matched by a corresponding issue of new units in BBIT which are stapled to those shares in BBIL. The same applies for any issue of new units in BBIT.

#### (iv) Transfer of BBI Stapled Securities

BBI Stapled Securityholders may transfer BBI Stapled Securities in accordance with the BBIL and BBIT constitutions. A transfer of a share in BBIL will only be in registrable form if it relates to, or is accompanied by, a transfer of a corresponding unit in BBIT to which the share in BBIL is stapled in favour of the same transferee. The same applies for any transfer of units in BBIT.

BBI may refuse to register a transfer of BBI Stapled Securities including where the transfer is not in registrable form or where such a refusal is permitted by the Listing Rules or ASX. Subject to the Listing Rules and ASTC Settlement Rules, while BBI is a listed entity, the BBI Directors may suspend the registration of a transfer at such times and for such periods as deemed fit.

#### (v) General meetings and notice

Each BBI Stapled Securityholder is entitled to receive notice of and, except in certain circumstances, attend and vote at general meetings of BBIL and BBIT and to receive all notices, accounts and other documents required to be sent to BBI Stapled Securityholders under BBIL's constitution, BBIT trust deed or the Corporations Act.

#### (vi) Winding up or termination

BBI Stapled Securityholders are entitled on a winding up of BBIL or a termination of BBIT to receive a share in any surplus assets of BBIL in proportion to the BBI Stapled Securities held by them (subject to any special resolution or rights or restrictions attaching to any class or classes of shares) and a proportionate share of BBIT assets (after BBIS has deducted its remuneration and costs and subject to any special rights or restrictions attached to any unit in BBIT or the direction in writing of all BBI Stapled Securityholders).

#### (vii) BBI Stapled Securityholder's liability

A BBI Stapled Securityholder's liability is limited under the constitutions of BBIT and BBIL to the amount paid (or payable, in the case of partly paid BBI Stapled Securities). However, BBI Stapled Securityholders should note that the courts have not finally determined the extent of liability of unitholders in unit trusts.

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**(b) Management arrangements**

BBIM, a subsidiary of B&B, is the Manager of BBI under 25 year management agreements with BBIL (**BBIL Management Agreement**) and BBIS (**BBIS Management Agreement**) (BBIL Management Agreement and BBIS Management Agreement collectively referred to as the **BBI Management Agreements**). The BBI Management Agreements are due to expire in June 2030.

Under the terms of the BBI Management Agreements, BBIM makes recommendations to BBIL and BBIS in respect of current and prospective investments and provides management services to BBIL and BBIS in its capacity as Responsible Entity for BBIT.

The key roles undertaken by BBIM include:

- > investing and managing the asset portfolio;
- > providing investment, consultation, advisory and management services in relation to authorised investments and the asset portfolio;
- > identifying, investigating, researching, evaluating, advising and making recommendations on investment opportunities, including opportunities identified by the relevant BBI entity;
- > exploring opportunities to exit investments and advising on such exit opportunities;
- > identifying appropriate risk management policies and procedures in respect of the asset portfolio and reporting on the adequacy and effectiveness of those policies and procedures on a regular basis to the respective BBI Board;
- > the implementation of BBI Board decisions;
- > performing or procuring the performance of all reasonable accounting, tax, corporate secretarial, IT, reporting and compliance services;
- > managing investor and public relations;
- > providing any and all services that are necessary or incidental to the above; and
- > other services to assist BBIS in performing its role as Responsible Entity.

BBIM has appropriate delegated authority from the relevant BBI entity to do all things necessary or incidental to perform its role, including to carry out investment transactions within pre-approved limits.

In performing its role, BBIM must comply with any written policy or direction of the relevant BBI entity which does not contravene any law or the relevant management agreement and which is not inconsistent with BBI's investment strategy (as set out in section 5.7 (b)) or the BBI stapling deed.

A BBI Management Agreement may be terminated by BBIL or BBIS at any time where BBIM is in material breach of the relevant BBI Management Agreement and has not been able to correct the breach within 90 days, where the B&B Group ceases to hold (directly or indirectly) more than 50% of BBIM or where an insolvency event occurs in relation to BBIM. The BBIL Management Agreement may also be terminated by BBIL if BBIL shareholders so resolve if the responsible entity of BBIT is not an associated company of B&B.

Under the BBI Management Agreements, BBIM is to be remunerated through payment of certain fees and reimbursed certain costs as set out in section 5.11.

**(c) Interests of Directors**

Refer to section 15.22 for details of the interests of each BBI Director in relation to the Scheme Proposal.

**(d) Issue of exchangeable loan notes**

At an Extraordinary General Meeting of BBI Stapled Securityholders held on 11 May 2005, BBI Stapled Securityholders approved a proposal to enable the issue of exchangeable loan notes to:

- > BBIM, which if converted to an A special share, would enable BBIM to appoint up to 50% of the BBIL directors including the right to appoint one of those BBIL directors as managing director; and
- > BBIS, in its capacity as responsible entity of BBIT, which if converted to a B special share, would enable BBIS to appoint up to 25% of the BBIL directors.

The exchangeable loan notes were issued on 1 July 2005 but are only convertible into A and B special shares at the option of BBIL. B&B executives who are BBIL directors have indicated they will not vote on any decision relating to the conversion of the exchangeable loan notes. Accordingly, whether or not the exchangeable loan notes are converted will be a decision of the independent BBIL directors.

The 25 year exchangeable loan note issued to BBIM is convertible at BBIL's election, to one issued A special share in BBIL with the following terms:

- (i) nominal economic value, with no right to participate in the capital or profits of BBIL except the right to repayment of the nominal paid up capital on a winding up of BBIL;
- (ii) entitles the A special shareholder to appoint the managing director and other directors constituting up to 50% of the board of BBIL;
- (iii) does not entitle the A special shareholder to vote other than in respect of the appointment or removal of a director of BBIL and in relation to any variation of rights attached to the A special share;
- (iv) if issued, the A special share will be able to be redeemed by BBIL at its issue price:
  - (A) if requested by the A special shareholder at any time;
  - (B) with the A special shareholder's consent;
  - (C) without the A special shareholder's consent on the de stapling date;
  - (D) without the A special shareholder's consent on termination of the BBIL Management Agreement. Where a new manager who is an associated company of B&B is then appointed by BBIL, a new A special share will be issued to the new manager; or
  - (E) if the trustee of BBIT is not an associated company of B&B.

A variation of rights attaching to the A special share will only be effective with the express prior written consent of the A special shareholder.

The 25 year exchangeable loan note issued to BBIS is convertible, at BBIL's election, to one issued B special share in BBIL with the following terms:

- (i) nominal economic value, with no right to participate in the capital or profits of BBIL except the right to repayment of the nominal paid up capital on a winding up of BBIL;
- (ii) entitles the B special shareholder to appoint BBIL directors constituting up to 25% of the board of BBIL;
- (iii) does not entitle the B special shareholder to vote other than in respect of the appointment or removal of a director of BBIL and in relation to any variation of rights attached to the B special share;
- (iv) if issued, the B special share will be able to be repurchased by BBIL at its issue price:
  - (A) if requested by the B special shareholder at any time;
  - (B) with the B special shareholder's consent;
  - (C) without the B special shareholder's consent on the de-stapling date; or
  - (D) without the B special shareholder's consent where BBIS ceases to be a trustee of BBIT. Where the new responsible entity of BBIT is B&B Associate, a new B special share will be issued to the new responsible entity of BBIT.

A variation of rights attaching to the B special share will only be effective with the express prior written consent of the B special shareholder.

#### **(e) DBCT securityholding restrictions**

As a result of restrictions contained in the leases under which BBI operates DBCT, no BBI Stapled Securityholder may hold units in BBIT if, as a result of that holding, the BBI Stapled Securityholder or any other person has a "Prohibited Interest" in BBIT, as defined in the leases.

In summary, a person has a Prohibited Interest in BBIT if the person is not an:

- (i) Approved Investor, defined in the leases, in summary, as:
  - > a person that controls at least a defined amount of funds, being \$100,000,000 at the time the leases were entered into, escalated in relation to CPI;
  - > is not controlled by or affiliated with an entity the business of which is related to handling, storage or transportation of goods; and
  - > is not affiliated with a customer of DBCT; or
- (ii) an Approved Financial Institution, defined in the leases, in summary, as a financial institution falling within a class specified in the leases, that is not affiliated with a customer of DBCT; and

- (iii) As a consequence of a transaction which does not have the prior written consent of the Queensland Government:
  - > the percentage voting interest in BBIT of the person and its affiliates increases from nil, or from 5% or less, to more than 5%; or
  - > the percentage voting interest in BBIT of the person and its affiliates increases from nil, or from 20% or less, to more than 20%; or
- (iv) As a consequence of a transaction which does not have the prior written consent of the Queensland Government by itself or when aggregated with one or more transactions for which the prior written consent of the Queensland Government has not been obtained:
  - > there is an increase of at least 1% in the percentage voting interest in BBIT of the person and its affiliates and, immediately prior to the transaction, the person and its affiliates had a percentage voting interest of more than 5%;
  - > there is an increase of at least 1% in the percentage voting interest in BBIT of the person and its affiliates and, immediately prior to the transaction, the person and its affiliates had a percentage voting interest of more than 20%.

In certain circumstances, approval of the Queensland Government may not unreasonably be withheld or delayed.

The BBI Directors and BBIS may require information from a BBI Stapled Securityholder in order to determine whether that BBI Stapled Securityholder or any other person has, or is taking action to acquire, security holdings in contravention of the terms of the leases. Where a person fails to respond to a notice or where a person enters into a transaction in contravention of the security holding restrictions in the leases, BBIL and BBIS have a right under BBIL's constitution and BBIT's constitution respectively to divest a BBI Stapled Securityholder of the relevant BBI Stapled Securities and/or suspend any rights attaching to the BBI Stapled Securities in order to comply with this restriction. The number of BBI Stapled Securities that are divested or in respect of which rights are suspended will not exceed the number which in the reasonable opinion of BBIS, if divested, would result in there no longer being a breach of the unit holding restrictions in the leases.

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6

BBI  
EXCHANGEABLE  
PREFERENCE  
SHARES

## 6.1 Introduction

Under the Share Scheme, Alinta Shareholders may receive BBI EPS as part of the Share Scheme Consideration. BBI EPS are new securities which will be issued by the BBI EPS Issuer, a subsidiary of BBIL, and are expected to be quoted on ASX.

BBI EPS will be issued at a price of \$1.00 per security, and are expected to pay quarterly unfranked dividends. In the context of its assessment of the Consideration being offered to Alinta Shareholders under the Default Alternative (and having regard to the materiality of the BBI EPS in that consideration), the Independent Expert has adopted a value of \$0.99 to \$1.01 for the BBI EPS (see section 8.6 of the Independent Expert's Report set out at Annexure G).

Under the Share Scheme, up to 800 million BBI EPS are available to be issued to Alinta Shareholders. The number of BBI EPS actually issued will depend upon the number of BBI EPS required to satisfy elections of the Maximum Preference Share Consideration:

- if less than 550 million BBI EPS are required, then further BBI EPS will be issued to Alinta Shareholders choosing other Consideration Alternatives until 800 million are issued altogether; and
- if more than 550 million BBI EPS are required, then that amount of BBI EPS will be issued to those Alinta Shareholders electing Maximum Preference Share Consideration (up to a maximum of 800 million BBI EPS). In this case, no BBI EPS will be issued to Alinta Shareholders electing other Consideration Alternatives.

Details of:

- the Consideration structure are set out in section 13.2.
- the BBI EPS Terms, including terms relevant to the BBI EPS not defined in the glossary, are set out in Annexure H.
- the securities into which the BBI EPS convert are set out in section 5.
- the tax treatment of the BBI EPS are set out in section 14.

## 6.2 Key features of BBI EPS

- (a) Australian tax resident Alinta Shareholders who hold their Alinta Shares on capital account for tax purposes should be able to choose CGT rollover relief to the extent they receive BBI EPS for the disposal of their Alinta Shares, thereby deferring any obligation to pay CGT (until redemption or resale

of their BBI EPS or conversion of their BBI EPS into BBI Stapled Securities).<sup>50</sup> Please refer to section 14 for further information regarding the tax implications of receiving BBI EPS under the Share Scheme.

- (b) BBI EPS offer an unfranked cumulative floating rate dividend.
- (c) On 1 July 2012, BBI EPS may, at the election of the BBI EPS Issuer, be converted into BBI Stapled Securities at a 7.5% conversion discount, redeemed for a redemption price of \$1.0390 per security (plus any outstanding dividends) or reset with new terms.
- (d) Dividends on BBI EPS are preferred and rank ahead of distributions on BBI Stapled Securities.
- (e) BBI EPS will not have a credit rating although BBI EPS Holders will benefit from an unsecured and subordinated guarantee in respect of all payments on BBI EPS from BBI (which has a senior secured rating of Baa3 (under review for downgrade) from Moody's Investors Services).

## 6.3 Other features of BBI EPS

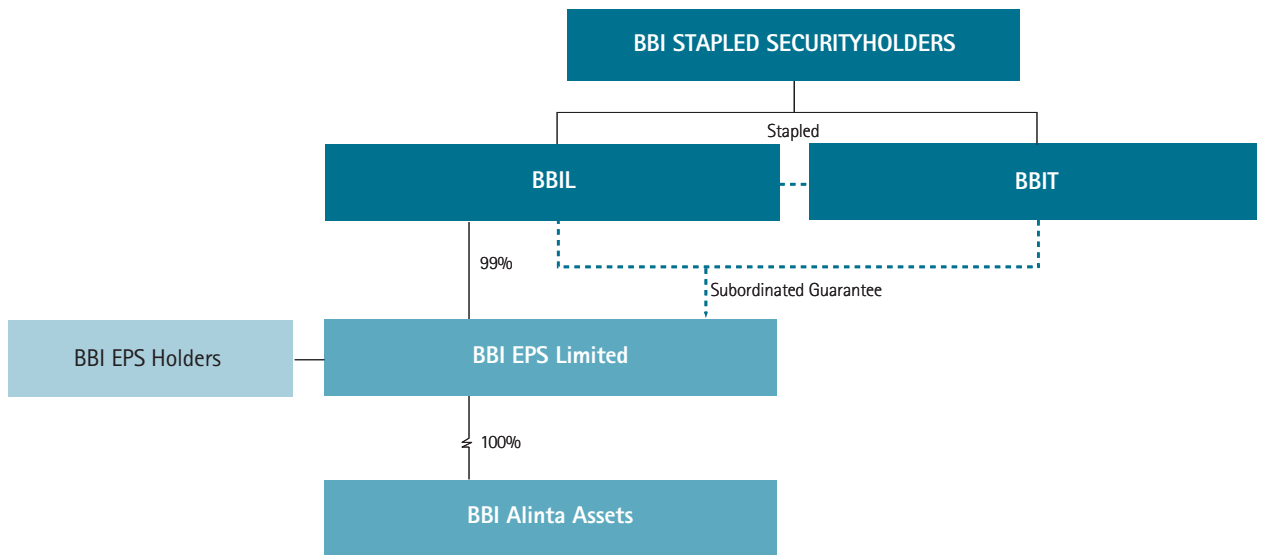
- (a) In the event that dividends on BBI EPS are not paid in full as scheduled, a "distribution stopper" will prevent BBI from paying any income or capital distributions to BBI Stapled Securityholders.
- (b) Any unpaid dividends will accumulate and compound at the BBI EPS Dividend Rate.
- (c) On a Reset Date (the first of which is 1 July 2012) the BBI EPS Issuer may reset certain terms of the BBI EPS including:
  - (i) the Dividend Rate including the underlying Market Rate and the Margin;
  - (ii) the next Reset Date (which must be at least 12 months after the previous Reset Date);
  - (iii) the Conversion Discount; and
  - (iv) the Redemption Discount.
- (d) BBI EPS Holders may choose to either accept the reset terms or request Exchange of their BBI EPS. Where a BBI EPS Holder requests an Exchange, the BBI EPS Issuer may either:
  - (i) redeem that BBI EPS Holder's BBI EPS for cash equal to the Redemption Amount;
  - (ii) resell that BBI EPS Holder's BBI EPS to a third party and pay to the BBI EPS Holder cash consideration of an amount equal to the Redemption Amount; or
  - (iii) convert that BBI EPS Holder's BBI EPS into BBI Stapled Securities at a Conversion Discount (which is to be 7.5% up to and including the first Reset Date).
- (e) BBI EPS are expected to be traded on ASX.
- (f) The group structure is detailed in Figure 6.1.

Note:

<sup>50</sup> The ATO has been requested to issue a tax ruling to confirm the availability of CGT roll over relief in respect of BBI EPS.

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Figure 6.1: BBI group structure



6.4 Summary of the BBI EPS

(a) General

Question	Answer
What are BBI EPS?	<ul style="list-style-type: none"> <li>&gt; BBI EPS are exchangeable preference shares in BBI EPS Ltd.</li> <li>&gt; BBI EPS offer quarterly, preferred, floating rate distributions.</li> <li>&gt; BBI EPS have a term of 60 years unless Converted or Redeemed by the BBI EPS Issuer.</li> <li>&gt; Certain terms of BBI EPS, including the Margin, can be changed at a Reset Date, the first of which is 1 July 2012.</li> </ul>
Who is the BBI EPS Issuer?	<ul style="list-style-type: none"> <li>&gt; BBI EPS Ltd, a subsidiary of BBIL.</li> </ul>

(b) Dividends

How will BBI EPS Dividends be calculated?	<ul style="list-style-type: none"> <li>&gt; BBI EPS are expected to pay quarterly dividends based on the Dividend Rate, being the sum of the Market Rate and the Margin.</li> <li>&gt; For the period until the first Reset Date:                             <ul style="list-style-type: none"> <li>&gt; the Margin will be 1.15% per annum;</li> <li>&gt; the Market Rate will be the 90 day BBSW.<sup>51</sup></li> </ul> </li> <li>&gt; Dividends will be paid according to the following formula:                             <math display="block">\frac{\\$1 \times \text{Dividend Rate} \times n}{365}</math> </li> </ul> <p>Where n is the number of days in the relevant Dividend Period.</p> <ul style="list-style-type: none"> <li>&gt; The BBI EPS Issuer may change certain terms of BBI EPS including the Margin and the Market Rate as part of a Reset Process.</li> </ul>
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Note:  
51 On 27 June 2007 the 90 day BBSW was 6.423%.

## Question

**When are dividends scheduled to be paid?**

## Answer

- > The first Dividend Payment Date is 1 October 2007 and thereafter scheduled quarterly on 1 January, 1 April, 1 July and 1 October each year until the first Reset Date.
- > Dividends are also payable on a Reset Date, on an Exchange Date and on the Redemption Date.
- > Dividends are paid to persons who are BBI EPS Holders on the relevant Record Date for the dividend.

**Will dividends always be paid?**

- > Dividends may be deferred at the option of the BBI EPS Issuer for a period of up to 10 years.
- > Dividends must be deferred if a Mandatory Deferral Event occurs.
- > The BBI EPS Issuer will notify BBI EPS Holders if it determines that dividends will be deferred.

**What happens if dividends are not paid?**

- > Dividends on BBI EPS are cumulative. Unpaid dividends will accumulate and compound at the applicable Dividend Rate until all unpaid dividends have been paid.
- > If dividends on BBI EPS are not paid, the BBI Distribution Stopper will apply to stop the payment of distributions on BBI Stapled Securities.

**What is the BBI Distribution Stopper?**

- > The BBI Distribution Stopper prohibits BBI from paying income or capital distributions (other than distributions which are fully reinvested in BBI Stapled Securities), or redeeming, buying back or otherwise cancelling BBI Stapled Securities or any other securities of BBI which rank equally with or lower than BBI EPS (other than pro rata payments on BBI EPS and other securities that rank equally with BBI EPS).
- > The BBI Distribution Stopper will apply if the BBI EPS Issuer defers a dividend or otherwise if dividends on BBI EPS are not paid in full within 10 Business Days of the relevant Dividend Payment Date. The BBI Distribution Stopper will remain in place until all outstanding dividends on BBI EPS have been paid in full, or all BBI EPS have been Converted or Redeemed, or BBI EPS Holders have approved the action or payment by a special resolution.

**What is an Optionally Deferred Dividend?**

- > Dividends will be optionally deferred where the BBI EPS Issuer, in its absolute discretion, elects to defer dividends on any Dividend Payment Date. The BBI EPS Issuer may optionally defer BBI EPS dividends as long as a Mandatory Deferral Event is not subsisting.
- > Dividends may be optionally deferred for a period of up to 10 years from the first Dividend Payment Date when the election to defer dividends was made by the BBI EPS Issuer.

**What is a Mandatory Deferral Event?**

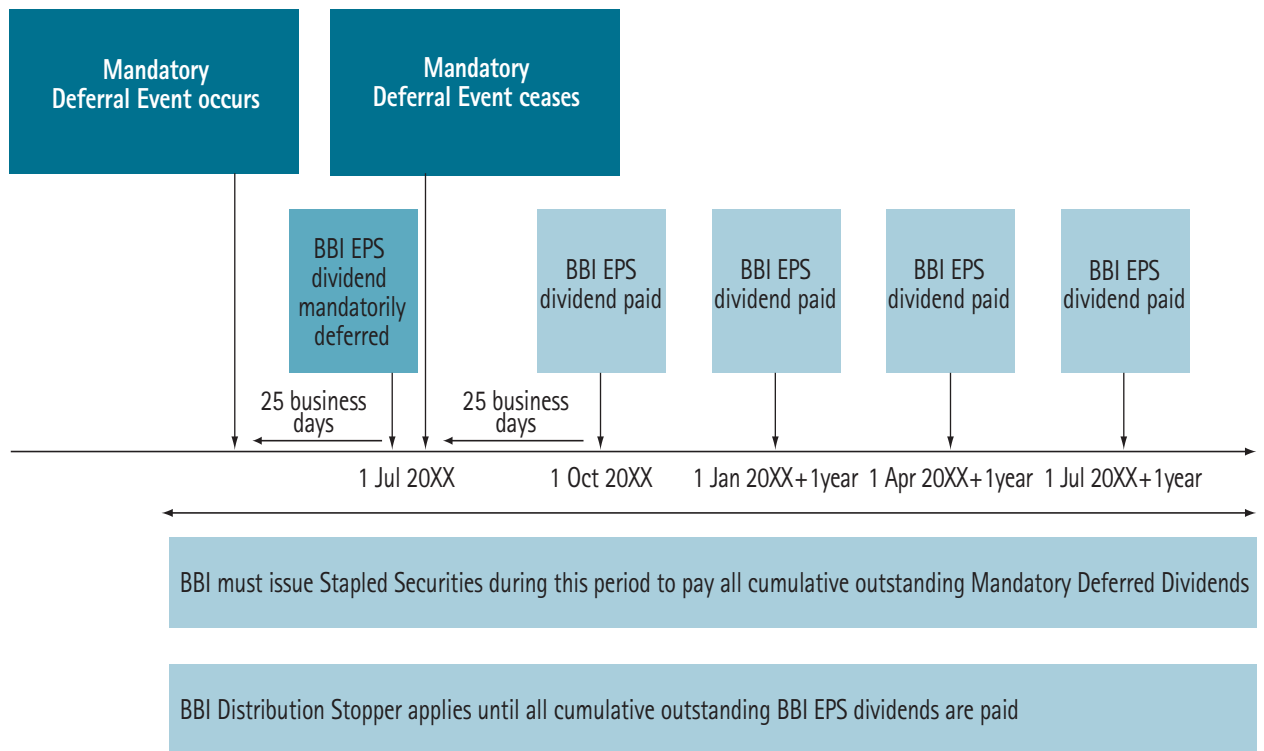
- > A Mandatory Deferral Event will occur where the BBI Interest Cover Ratio at the end of the last quarter ending before the Dividend Payment Date falls below the Minimum Interest Cover Ratio (which is 2.25 times).
- > The BBI Interest Cover Ratio is determined as the ratio of BBI's cash flow available for distribution before corporate interest expense (for the preceding 12 months) to BBI's corporate interest expense (for the preceding 12 months).

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Question	Answer
<p><b>What happens if there is a Mandatory Deferral Event?</b></p>	<ul style="list-style-type: none"> <li>&gt; If a Mandatory Deferral Event exists 25 Business Days prior to a Dividend Payment Date, dividends scheduled for that Dividend Payment Date will automatically be deferred.</li> <li>&gt; If a Mandatory Deferral Event has occurred, BBI will be required, within 12 months of the first Mandatory Deferred Dividend (subject to extension due to a Market Disruption Event), to raise sufficient proceeds from the issue of BBI Stapled Securities to enable all outstanding Mandatory Deferred Dividends to be paid to BBI EPS Holders.</li> <li>&gt; Figure 6.2 below highlights an illustrative sequence of events where a Mandatory Deferral Event occurs.</li> </ul>

**Figure 6.2: Mandatory Deferral Event**



**(c) Reset****Question**

**When is the first Reset Date?**

**Answer**

- > The first Reset Date is 1 July 2012.

**What happens on a Reset Date?**

- > The BBI EPS Issuer may send BBI EPS Holders a Reset Notice at least 50 Business Days (but no earlier than six months) before the Reset Date.
- > The BBI EPS Issuer may propose changes to certain terms of BBI EPS to take effect from the Reset Date, including:
  - > the date of the next Reset Date (which must be a minimum of 12 months from the immediately preceding Reset Date);
  - > the Margin and the Market Rate that may apply for the period until the next Reset Date (subject to certain limitations);
  - > the Conversion Discount;
  - > the Redemption Discount; and
  - > the frequency and timing of dividend payments to apply for the period until the next Reset Date.
- > BBI EPS Holders may choose to accept the proposed terms to apply or may request Exchange of all their BBI EPS at a Reset Date (see "What are my options when I receive a Reset Notice?").

**What are my options when I receive a Reset Notice?**

- > Within 15 Business Days following the issue of a Reset Notice you may lodge one of the following notices:
  - > Holder Acceptance Notice – lodge this notice if you would like to hold BBI EPS on the terms proposed to apply including the margin specified by the BBI EPS Issuer; or
  - > Holder Exchange Notice – lodge this notice if you do not wish to continue holding BBI EPS on the terms proposed to apply and you wish for your BBI EPS to be Exchanged.

**What happens if a Reset Notice is not issued?**

- > If the BBI EPS Issuer does not issue a Reset Notice at least 50 days before a Reset Date and does not otherwise issue an Exchange Notice to Convert or Redeem the BBI EPS, the BBI EPS Issuer will be deemed to have issued an Exchange Notice to Convert all BBI EPS on issue with effect from the Reset Date.
- > If the BBI EPS Issuer cannot effect Conversion because of a Market Disruption Event which continues for more than 20 Business Days after the Reset Date, the BBI EPS Issuer must Redeem the EPS.

**What happens if I lodge a Holder Exchange Notice?**

- > If you lodge a Holder Exchange Notice, the BBI EPS Issuer, at its election, must do one of the following:
  - > redeem your BBI EPS for cash equal to the Redemption Amount;
  - > resell your BBI EPS to a third party and pay to you cash consideration of an amount equal to the Redemption Amount;
  - > convert your BBI EPS to BBI Stapled Securities at a Conversion Discount (which is to be 7.5% up to and including the first Reset Date); or
  - > undertake a combination of Redemption, Resale or Conversion.

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**(d) Exchange****Question****What is Exchange?****Answer**

- > Exchange involves:
  - > Redemption of your BBI EPS for cash equal to the Redemption Amount (**Redemption**);
  - > Resale of your BBI EPS to a third party and payment to you of cash consideration of an amount equal to the Redemption Amount (**Resale**). Resale can only occur in connection with a Reset Date where the BBI EPS Holder lodges a Holder Exchange Notice; or
  - > Conversion of your BBI EPS to BBI Stapled Securities at a Conversion Discount (which is to be 7.5% up to and including the first Reset Date) (**Conversion**).

**How many BBI Stapled Securities will I receive upon Conversion?**

- > For any Conversion, you will receive the following number of BBI Stapled Securities for each BBI EPS you hold:

Number of BBI Stapled Securities =

$$\frac{\text{FV} + \text{OD}}{\text{VWAP} \times (1 - \text{CD})}$$

Where:

**FV** is the Face Value being \$1 per BBI EPS;

**OD** is the aggregate of all outstanding dividends determined on a per BBI EPS basis;

**VWAP** is the average of the daily Volume Weighted Average Price of BBI Stapled Securities for the 20 trading days prior to Conversion, or, if the Conversion results from the occurrence of a Change of Control Event, the offer price per BBI Stapled Security under the takeover offer or the consideration per BBI Stapled Security under the scheme of arrangement giving rise to the Change of Control Event as at the Exchange Date;

**CD** means the Conversion Discount which, for the period until the first Reset Date, is set at 7.5%.

**When will my BBI EPS be redeemed?**

- > Your BBI EPS will, unless previously Exchanged, be redeemed on:
  - > the Maturity Date, being 1 July 2067;
  - > the Reset Date if the BBI EPS Issuer elects to redeem your BBI EPS;
  - > the occurrence of a BBI Winding-Up Event; or
  - > the BBI EPS Issuer being unable to effect Conversion because of a Market Disruption Event which continues for more than 20 Business Days after the Exchange Date.

**What will I receive at Redemption?**

- > At Redemption, you will receive cash proceeds for each BBI EPS held calculated by the following formula:

$$\text{FV} / (1 - \text{Redemption Discount}) + \text{any outstanding dividends}$$

- > On the basis of the Redemption Discount of 3.75% which applies up to and including the first Reset Date, this formula equates to a Redemption Amount of \$1.039 per BBI EPS plus any outstanding dividends.
- > Other than a Redemption on the Maturity Date, a Reset Date or in response to a BBI Winding-Up Event, the BBI EPS Issuer may Redeem BBI EPS for Equivalent Securities.

## Question

**Am I able to request Redemption?**

## Answer

- > No, you may not request Redemption of your BBI EPS.
- > On the occurrence of certain events, including at a Reset Date, you may request Exchange of your BBI EPS. If you request Exchange, the BBI EPS Issuer may Redeem, Resell or Convert your BBI EPS or undertake a combination of those actions.

**When may the BBI EPS Issuer Redeem or Convert my BBI EPS?**

- > The BBI EPS Issuer, at its election, may Redeem BBI EPS for cash or Convert BBI EPS to BBI Stapled Securities or undertake a combination of those actions at certain times including:
  - > at a Reset Date;
  - > on the occurrence of a Tax Event;
  - > where the Moody's Investors Services' equity credit classification changes;
  - > following the occurrence of a Change of Control Event;
  - > at any time if the aggregate face value of BBI EPS on issue is less than \$100 million; or
  - > where there are outstanding Mandatory Deferred Dividends for a period greater than 12 months.

**When must the BBI Issuer Convert my BBI EPS?**

- > See the question "What happens if a Reset Notice is not issued?" above.

## (e) Subordinated guarantee

**What is the subordinated guarantee?**

- > BBI guarantees, on an unsecured and subordinated basis, the obligations of the BBI EPS Issuer to pay all dividends and principal amounts which become due and payable on BBI EPS.
- > BBI's obligations under the subordinated guarantee are subordinated to other creditors of BBI, rank above BBI Stapled Securities and rank equally with BBI's obligations in connection with BBI NZ SPARCS.
- > Even with the existence of the subordinated guarantee there is a risk that BBI EPS Holders may not be paid their full dividends or the full Redemption Amount on Redemption.

## (f) Taxation implications

**What are the tax implications of receiving a dividend?**

- > The dividends are treated as assessable income for income tax purposes. The amount of the dividends will be included in your assessable income on receipt.
- > No franking credit is attached to this dividend.

**What are the tax implications of Resale, Conversion and Redemption?**

- > Resale, Conversion or Redemption of your BBI EPS will give rise to tax events. Your tax outcome will be impacted by whether you choose to obtain CGT roll over on Implementation of the Share Scheme.
- > In the event of Resale and Redemption, you will be deemed to have disposed of the BBI EPS for the cash value that you receive (including outstanding dividends).
- > In the event of Conversion, you will be deemed to have disposed of the BBI EPS for the market value of the BBI Stapled Securities that you receive.
- > Refer to the Tax Opinion in section 14 for further details.

## (g) Fees and costs

**Who pays the fees and costs of the issue of BBI EPS?**

- > All fees and costs of the issue of BBI EPS will be paid by BBI or its nominee.

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## 6.5 Financial information

### (a) BBI EPS Issuer specific financial information

BBI EPS Ltd is a subsidiary of BBIL.

All payments on BBI EPS are guaranteed on an unsecured and subordinated basis, by BBI. Accordingly, no issuer specific financial information has been provided in this Booklet. Details on BBI's relevant financial information, incorporating the issue of BBI EPS, are set out in section 5.9.

### (b) BBI Interest Cover Ratio

The BBI Interest Cover Ratio is determined as the ratio of BBI's cash flow available for distribution before corporate interest expense to BBI's corporate interest expense.

The historical BBI Interest Cover Ratio as assessed from March 2005 to March 2007 is shown in Figure 6.3.

A Mandatory Deferral Event will occur where the BBI Interest Cover Ratio falls below the Minimum Interest Cover Ratio (which is 2.25 times). BBI does not anticipate that the interest cover ratio for the forecast year ending 30 June 2008 will be materially different to the previous quarters' interest cover ratios.

## 6.6 Risks

There are risks involved with investing in BBI EPS which include general risks associated with investing in securities of this type, risks associated with the specific terms of BBI EPS and risks associated with BBI's businesses. The risks mentioned below are risks associated with the specific terms of BBI EPS. These risks should be read together with risks associated with BBI in sections 5.12 and 12.5.

- (a) Dividends are payable at the discretion of the BBI EPS Issuer and may be deferred, including in the event that the BBI EPS Issuer directors determine not to make a dividend payment.

There are also certain circumstances in which dividends must be deferred. Accordingly, it is possible that dividends will not be paid when scheduled or at all.

- (b) BBI EPS and the unsecured and subordinated guarantee are subordinated to claims of other creditors of BBI. If BBI is wound up, BBI EPS Holders will only have a right to receive a return on their BBI EPS after all secured and unsecured creditors who rank above BBI EPS Holders have been paid in full. There is a risk that BBI EPS Holders will not receive the Redemption Amount or the amount of any dividends due and unpaid in full or at all.
- (c) The Dividend Rate is a floating rate and will fall if the Market Rate falls.
- (d) BBI may enter into arrangements in the future, such as borrowing or issuing securities, which may affect the ranking of BBI EPS in the event of a winding up of BBI.
- (e) In certain circumstances BBI EPS may be Exchanged by the BBI EPS Issuer which may not accord with the preference of a BBI EPS Holder.
- (f) On any Reset Date, the BBI EPS Issuer may change certain terms including the next Reset Date, Market Rate, Margin, the Conversion Discount, the Redemption Discount and Dividend Payment Dates.

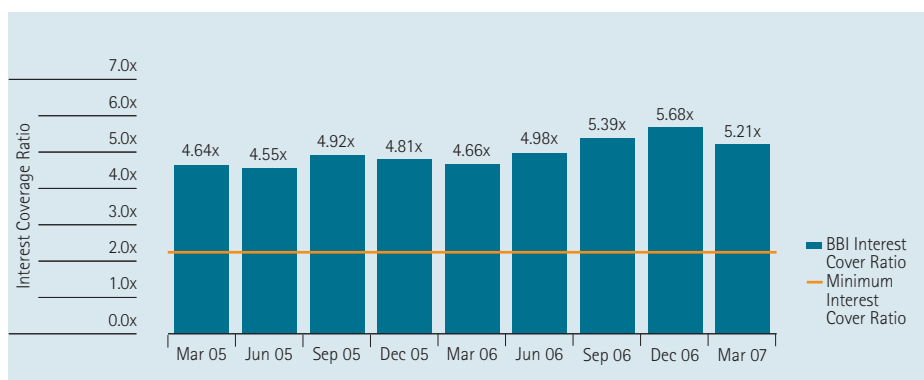
## 6.7 Conversion, Support and Guarantee Deed

BBIL, BBIT RE and the BBI EPS Issuer have entered into a Conversion, Support and Guarantee Deed under which BBIL and BBIT RE have agreed to:

- > issue BBI Stapled Securities to BBI EPS Holders on Conversion of BBI EPS;
- > the BBI Distribution Stopper;
- > provide support in relation to any Mandatory Deferred Dividends; and
- > provide a subordinated guarantee,

on the terms set out below and in accordance with the BBI EPS Terms.

Figure 6.3: BBI Interest Cover Ratio



**(a) Conversion**

Conversion of BBI EPS must take place in accordance with the process set out in clauses 5 and 7 of the BBI EPS Terms.

If the BBI EPS Issuer validly issues an Exchange Notice which specifies that the BBI EPS held by a BBI EPS Holder are to be Converted, it must procure the transfer of the number of BBI EPS specified in that Exchange Notice from the relevant BBI EPS Holder to the Transferee (a member of the BBI Group).

Upon completion of the transfer, BBIL and BBIT RE must make a corresponding issue of BBI Stapled Securities to the relevant BBI EPS Holder and do all other things required to be done by them to enable a conversion of BBI EPS into BBI Stapled Securities in accordance with the BBI EPS Terms.

If BBI issues BBI Stapled Securities pursuant to a Conversion or the "BBI Support Arrangements" referred to below, BBI will be prohibited from undertaking any form of buy-back of BBI Stapled Securities for six months after such BBI Stapled Securities are issued, except where such buy-back is required to avoid a regulatory or legal impost which is adverse to BBI.

**(b) BBI Distribution Stopper**

Unless the BBI EPS Holders agree otherwise by special resolution, if the BBI EPS Issuer defers all or part of a dividend or a dividend is otherwise not paid to BBI EPS Holders within 10 Business Days after the relevant Dividend Payment Date:

- (i) BBIT RE must not pay any distributions on BBIT units or redeem, reduce, cancel, buy-back or acquire for any consideration any units in BBIT (other than a distribution fully reinvested in further BBIT units);
- (ii) BBIL must not pay any dividends on BBIL shares or redeem, reduce, cancel, buy-back or acquire for any consideration any shares in BBIL (other than a dividend fully reinvested in further BBIL shares which are stapled to BBIT units); and
- (iii) BBI must not otherwise pay any dividends or distributions on, or reduce, cancel, buy-back or acquire for any consideration, any securities of BBI that rank or are expressed to rank equally with or lower than BBI EPS (other than pro rata payments on BBI EPS and other securities of BBI that rank equally with BBI EPS) or distribute any assets to BBI Stapled Securityholders otherwise than at such asset's reasonable market value,

until such time as:

- (iv) all outstanding accrued dividends payable to BBI EPS Holders (including Optionally Deferred Dividends and Mandatory Deferred Dividends) are paid in full; or
- (v) all issued BBI EPS are Converted or Redeemed in accordance with the BBI EPS Terms.

**(c) BBI support arrangements**

If payment of a Mandatory Deferred Dividend is outstanding, then prior to the later of:

- (i) the date that is 12 months following the earliest Dividend Payment Date in respect of which there is any outstanding Mandatory Deferred Dividend; and
- (ii) 20 Business Days following the cessation of any Market Disruption Event, where such Market Disruption Event occurs within 12 months following the earliest Dividend Payment Date in respect of which there is any outstanding Mandatory Deferred Dividend,

regardless of whether a Mandatory Deferral Event is subsisting, BBIT RE and BBIL must issue such number of BBI Stapled Securities as is necessary to fully fund payment of all outstanding Mandatory Deferred Dividends.

Immediately upon completion of a capital raising of BBI and its related entities (**BBI Group**) referred to above, BBIT RE and BBIL must either themselves:

- > put the BBI EPS Issuer in funds or must cause another member of the BBI Group to put the BBI EPS Issuer in funds to an amount equal to the lesser of proceeds of such capital raising and the total amount of outstanding Mandatory Deferred Dividends; or
- > pay or must cause another member of the BBI Group to pay BBI EPS Holders directly the amount of Mandatory Deferred Dividends owed to them up to the amount of the proceeds of the capital raising.

Upon receipt from BBIT RE and BBIL of the payment referred to above, the BBI EPS Issuer must use the full amount received to pay the Mandatory Deferred Dividends to BBI EPS Holders under the BBI EPS Terms.

**(d) BBI subordinated guarantee**

BBIT RE and BBIL have given a subordinated guarantee under which BBIT RE and BBIL guarantee on a subordinated and joint and several basis the obligation of the BBI EPS Issuer to pay all amounts payable to the BBI EPS Holders under the BBI EPS Terms.

The terms of subordination are such that:

- (i) payment obligations of BBIT RE and BBIL rank senior only to their obligations to BBI Stapled Securityholders and are subordinated to BBIT RE's and BBIL's payment obligations in relation to the senior debt and rank equally with the BBI NZ SPARCS debt on the "Subordinated Debt Terms" specified in the BBI Deed of Common Provisions; and
- (ii) BBI EPS Holders are unable to seek a liquidation of BBIT or BBIL or require payment from BBIT RE or BBIL or exercise material remedies against BBIT RE, BBIT or BBIL prior to either the liquidation of BBIT or BBIL or the Satisfaction Date (as defined in the BBI Deed of Common Provisions).

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7

**BABCOCK &  
BROWN  
POWER**

## 7.1 Overview

Under the Share Scheme, Alinta Shareholders may receive BBP Stapled Securities as part of the Share Scheme Consideration.

BBP was listed on ASX in December 2006 and is the largest ASX-listed power generation business. BBP has interests in seven operating power stations and one power station under construction due for completion in late 2008. The portfolio currently has a total electricity generating capacity of approximately 2,900MW.

BBP's investment strategy seeks to provide an attractive cash yield as well as long-term capital growth through exposure to a diversified portfolio of power generating assets. BBP is currently benefiting from and expects to continue to benefit from the strong growth forecast to occur in the Australian power generation market, particularly increases in peak electricity demand. In addition to this expected growth, BBP intends to expand its portfolio through targeted investment opportunities and acquisitions in associated businesses where these complement the portfolio or provide a competitive advantage in power generation.

The BBP Alinta Assets will enhance BBP's diversity of assets by adding further gas-fired power stations together with cogeneration plants. BBP and Alinta currently have large gas-fired generation portfolios and combining them will substantially increase the scale of BBP and the geographic coverage of BBP's portfolio. The AlintaAGL business provides the potential to acquire a significant retail position in the Western Australian market. This retail exposure can underpin the development of new generation capacity in Western Australia.

Following the acquisition of the BBP Alinta Assets, the value of BBP's total assets is expected to increase to \$5.9 billion<sup>52</sup> and its market capitalisation<sup>53</sup> will increase by approximately \$1.2 billion to \$2.4 billion making BBP approximately the 112th<sup>54</sup> largest entity by market capitalisation out of companies included in the All Ordinaries Index.

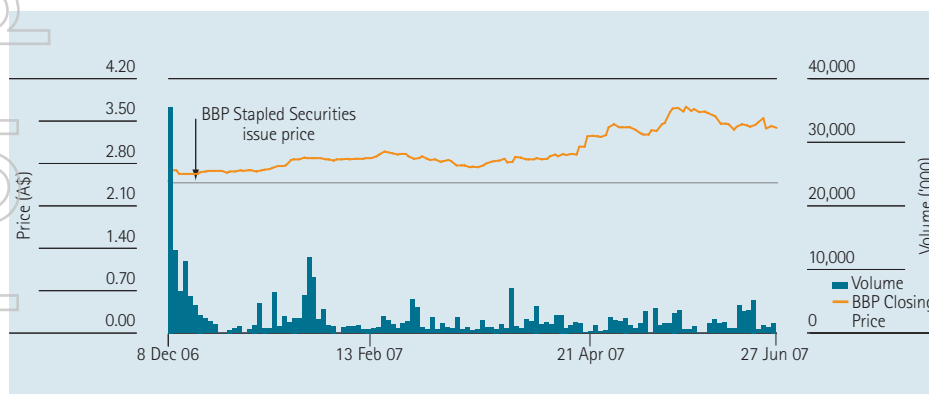
## 7.2 BBP Stapled Security prices and returns

As at 27 June 2007, BBP had achieved a Total Securityholder Return of 41% in the approximate six months since listing on ASX and had outperformed Standard & Poor's ASX200 Accumulation Index by 152% (which has increased by 16% over the same period.)

On 26 April 2007 BBP announced that it expected the FY07 EBITDA to be at least 12.5% in excess of the forecasted Product Disclosure Statement EBITDA of \$91 million. On 20 June 2007 BBP reaffirmed this guidance and announced that the expected distribution for the FY07 year would be 14.0 cents per BBP Stapled Security for the period from allotment on 11 December 2006 to 30 June 2007 which is an increase of 1.4 cents per BBP Stapled Security on the Product Disclosure Statement forecast of 12.6 cents per BBP Stapled Security. The BBP Directors advise that the expected distribution for the FY08 year will be 26.1 cents per BBP Stapled Security.

BBP Stapled Securities issued as part of the Share Scheme Consideration will be eligible for the full distribution payable for the six months ending 31 December 2007.

Figure 7.1: BBP Stapled Security closing price and volume since listing



Notes:

52 Total assets have increased by approximately \$0.15 billion since 31 December 2006 and hence the total assets shown in Figure 7.1 is approx \$0.15 billion less than this number.

53 Based on the closing price of \$3.39 on ASX on 27 June 2007.

54 Based on the market capitalisation of ASX listed stocks on 27 June 2007.

## 7.3 Industry overview

### (a) Wholesale electricity markets in Australia

There are two separate major wholesale electricity markets operating in Australia:

- > The National Electricity Market (NEM), covering the interconnected eastern states of Queensland, New South Wales, the Australian Capital Territory, Victoria, South Australia and Tasmania; and
- > The Western Australian electricity market, which covers the South West Interconnected System (SWIS).

Electricity prices in the NEM are determined by a despatch procedure whereby generators compete to supply electricity required by retailers and large customers. Under this procedure, generators provide daily despatch offers to NEMMCO which specify for each half hour output deliverable by the generator at certain prices. Thus all electricity is traded into the spot market in the first instance. Prices are not subject to material regulation except for the application of a price cap of \$10,000/MWh. Bilateral contractual arrangements such as power purchase agreements, swaps (i.e. a fixed price contract) and caps (i.e. a hedge contract against 'price spikes') are entered into by participants in order to manage exposure to pool price volatility. Thus, revenue streams in the NEM include spot revenues and contract receipts/payments.

The newly reformed Wholesale Electricity Market (WEM) for the SWIS commenced operation on 21 September 2006. This market consists of a capacity market and an energy (bilateral contract and energy balancing) market. The WEM is relatively small, and a large proportion of the electricity demand is for mining and industrial

use, which is supplied under long-term contracts. Over 90% of energy sales in the SWIS are traded through bilateral contracts that closely follow customer loads. Thus, revenue streams in the WEM include capacity payment revenues, energy contract revenues and balancing market revenues/purchases.

In addition to the SWIS, there is an electricity grid in the north-west of Western Australia, linking Karratha to Port Hedland, known as the North West Interconnected System (NWIS). Port Hedland power station is connected to the NWIS whilst the Newman power station has the potential to be connected should it be required.

### (b) Electricity supply and demand outlook

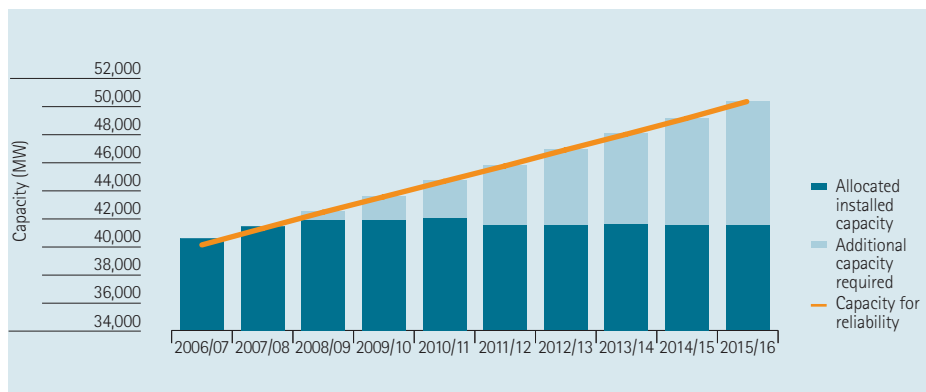
The need for generation capacity is generally driven by the level of peak demand in an electricity system. The level of peak demand typically occurs during hot days in summer or cold days in winter, when a large proportion of air conditioners or heaters are running.

Electricity system planners expect peak demand to grow strongly in Australia, particularly in summer, with the implication that further generation investment will be required to avoid supply shortfalls that may result in blackouts during times of peak demand.

NEMMCO is projecting that the NEM states' average annual electricity demand over the next 10 years will grow at 1.8% per annum, whilst average annual peak demand (in summer) is forecast to grow at 2.3% per annum.

Projected supply and demand for Australia is described in Figure 7.2.

Figure 7.2: Australia supply and demand outlook



Source: NEMMCO

**(c) Western Australian energy retailing**

If BBP acquires 100% ownership of AlintaAGL, it will have exposure to the Western Australian energy retail market.

Historically, electricity retailing in Western Australia has been dominated by Western Power, the corporation established by section 4(i)(b) of the *Electricity Corporation Act 2005* (WA).

However, this market has recently undergone a restructure to allow a greater level of competition and further reforms are under review. At present, regulatory restrictions on contestability allow AlintaAGL to compete only for electricity customers that consume more than 50MWh per annum, which represents approximately 13,000 out of a total of 870,000 customers.

Full ownership of AlintaAGL would also provide BBP with a strong position within the Western Australian gas retail market. There are currently approximately 570,000 retail gas customers in Western Australia.

AlintaAGL is the incumbent gas retailer in Western Australia. However, a recent increase in the level of contestability in this market has allowed the Western Australian Government-owned corporation "Synergy" to compete for customers whose demand exceeds 1 TJ per annum. From 1 July 2007, Synergy and other potential new entrants will be allowed to compete for customers whose demand exceeds 180 GJ per annum.

**7.4 BBP corporate structure**

BBP is a stapled structure comprising:

- > Babcock & Brown Power Limited (**BBPL**), an Australian public company; and
- > Babcock & Brown Power Trust (**BBPT**), an Australian registered managed investment scheme.

Each share in BBPL is stapled to a unit in BBPT, collectively referred to as a BBP Stapled Security. As a result of the stapling, shares in BBPL and their corresponding units in BBPT may not be separately traded.

The responsible entity of BBPT is Babcock & Brown Power Services Limited (BBPS).

Babcock & Brown Power Management Pty Ltd (BBPM) is the Manager of each of BBPL and BBPS under long-term management agreements.

BBPS and BBPM are subsidiaries of B&B.

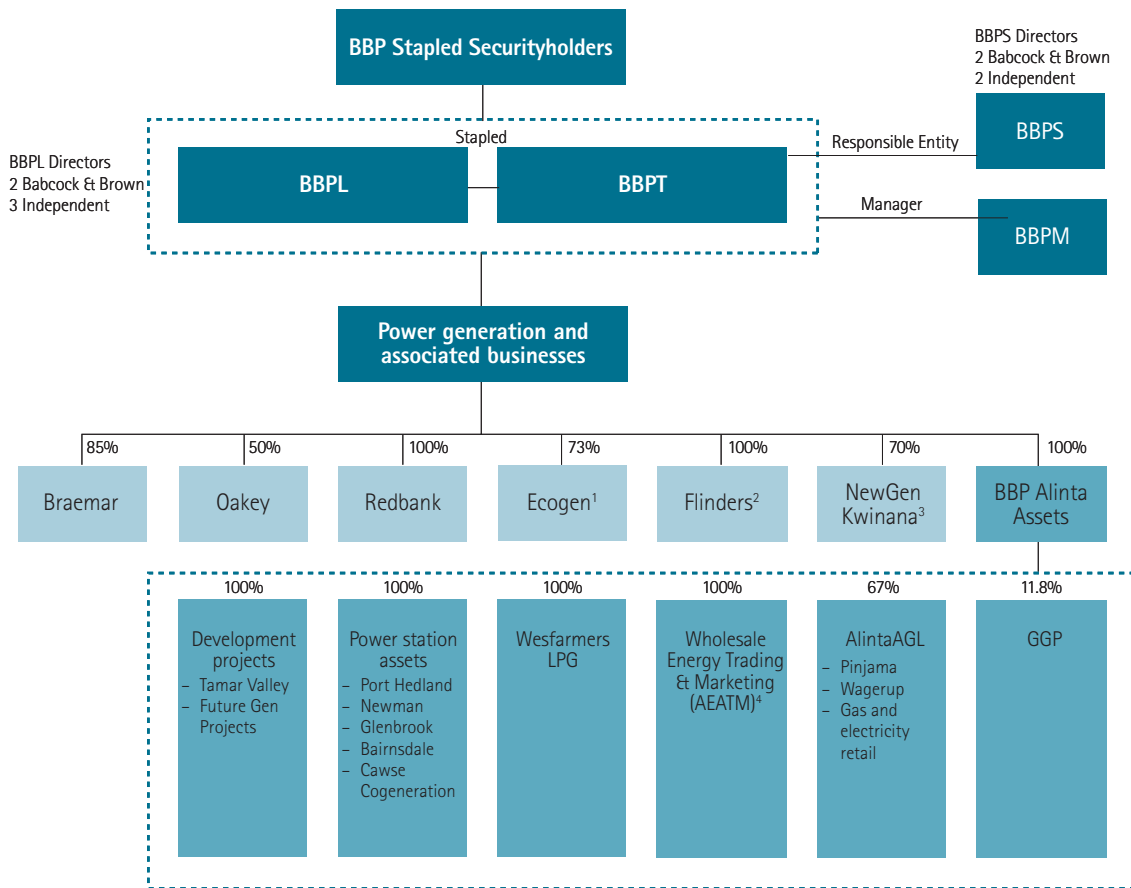
A summary of the relationship between B&B and BBP is set out in section 9.

A summary of the BBP corporate and asset ownership structure – both current and immediately following Implementation of the Scheme Proposal – appears in Figure 7.3.

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Figure 7.3: BBP corporate and asset ownership structure



Notes to Figure 7.3:

- 1 Ecogen owns and operates Newport and Jeeralang power stations.
- 2 Flinders owns and operates Northern and Playford power stations. The Flinders portfolio also includes the Leigh Creek Coalmine and the Osborne Contracts, which are a series of contracts that result in a natural gas-fired baseload power generation position of up to 180MW in the South Australian market.
- 3 NewGen Kwinana Power Station is currently under construction.
- 4 BBP is expected to own AEATM and assume its related assets and liabilities. However, currently the Consortium Parties have not reached final agreement regarding the ownership of AEATM.

## 7.5 BBP's existing assets

Details of the assets that comprise the existing BBP Portfolio are summarised in Figure 7.4.

**Figure 7.4: BBP's existing assets**

Asset	BBP ownership interest	Installed capacity	Fuel
Braemar Power Station ( <b>Braemar</b> )	85%	455MW	Natural gas and coal seam methane gas
Oakey Power Station ( <b>Oakey</b> )	50%	286MW	Natural gas and distillate
Redbank Power Station ( <b>Redbank</b> )	100%	148MW	Coal tailings
Jeeralang Power Station ( <b>Jeeralang</b> , together with Newport <b>Ecogen</b> )	73%	449MW	Natural gas
Newport Power Station ( <b>Newport</b> , together with Jeeralang <b>Ecogen</b> )	73%	510MW	Natural gas
Playford Power Station <sup>55</sup> ( <b>Playford</b> , together with Northern <b>Flinders</b> )	100%	240MW	Coal
Northern Power Station ( <b>Northern</b> , together with Playford <b>Flinders</b> )	100%	527MW	Coal
NewGen Kwinana Power Station (under construction) ( <b>Kwinana</b> )	70%	320MW	Natural gas

In the period prior to the Implementation Date BBP may be undertaking due diligence investigations or be in negotiations in relation to various acquisition opportunities. This may result in BBP making acquisitions prior to or shortly after the Implementation Date.

### Notes:

<sup>55</sup> Flinders also includes the Leigh Creek Coalmine and the Osborne Contracts which are a series of contracts which results in a gas-fired baseload power generation position of up to 180MW in the South Australian market.

<sup>56</sup> GECs means gas electricity certificates created in accordance with the Electricity Act 1994 (Qld).

<sup>57</sup> Origin has an option to extend the agreement for a further five years.

<sup>58</sup> Enertrade is currently seeking expressions of interest from potential assignees of the PPA. Such assignment requires the prior written consent of Oakey Power Holdings Pty Ltd (the owner of Oakey) and its senior lender. Consent cannot be unreasonably withheld if the assignee is technically and financially capable. BBP has lodged an expression of interest.

Operating mode	Revenue	Operations and Maintenance (O&M)
Intermediate	450MW Financial Products and GECs <sup>56</sup> Agreement with Origin Energy, that expires in 2016 <sup>57</sup>	O&M contract with Alstom Power (the builder of the power station) that expires in 2008
Peak	PPA with Enertrade that expires in 2014 <sup>58</sup>	O&M contract with Contact Energy that expires in 2014
Baseload	Power Purchase and Hedge Agreement with Energy Australia that expires in 2031	Undertaken by Redbank's employees
Peak	Master Hedge Agreement with TRUenergy that expires in 2019	Undertaken by Ecogen's employees
Peak	Master Hedge Agreement with TRUenergy that expires in 2019	Undertaken by Ecogen's employees
Intermediate	Rolling hedges	Undertaken by Flinders' employees
Baseload	Rolling hedges	Undertaken by Flinders' employees
Baseload	Power Purchase and Hedge Agreement with Synergy that expires in 2033	O&M contract with Alstom Power (the builder of the power station) that expires in 2010

## 7.6 Alinta Assets to be acquired

If the Scheme Proposal is Implemented, BBP will acquire the BBP Alinta Assets as part of the Post-Implementation Transactions.

The BBP Alinta Assets can be characterised as either "Power generation" or "Energy market" assets. They also include a minority interest in the gas pipeline that supplies gas to the Newman Power Station.

Details of the BBP Alinta Assets are summarised below:

### (a) Power generation

#### (i) Port Hedland Power Station – 100%

Port Hedland Power Station is a 175MW gas-fired power station located in the Pilbara region of north-west Western Australia.

The revenue of the power station is underpinned by three power purchase agreements that run until January 2014.

#### (ii) Newman Power Station – 100%

Newman Power Station is a 105MW rated gas-fired power station located within the Mt Newman Joint Venture mining lease and provides electricity to the Newman grid. The Mt Newman Joint Venture is the sole customer of the power station under power purchase agreements that run until January 2014.

#### (iii) Pinjarra and Wagerup Power Stations – 67% (part of AlintaAGL)

Through an alliance with Alcoa, AlintaAGL has the potential to develop and own a series of cogeneration units that could produce up to 1,400MW of generation capacity. The first facility, the 140MW Pinjarra plant, has been in service for over 12 months and the second 140MW Pinjarra plant was completed in February 2007. Two more units at Wagerup Refinery, each capable of generating 175.5MW (in peak mode), are under construction and are scheduled to enter commercial service during the final quarter of 2007. The two Wagerup units will initially comprise open cycle gas turbines and will operate as a peaking plant.

#### (iv) Cawse Power Station – 100%

The Cawse Power Station is a 16MW gas-fired cogeneration plant at Cawse, 55 kilometres north-west of Kalgoorlie in Western Australia.

#### (v) Bairnsdale Power Station – 100%

Bairnsdale Power Station is a 94MW open cycle gas-fired power station located in Victoria's East Gippsland region which was commissioned in June 2001. The power station supplies network support services to the SP AusNet network in the region and has a tolling agreement with AEATM which extends out to 2024 under which AEATM pays for the right to despatch plant output into the NEM in exchange for all NEM revenue.

#### (vi) Glenbrook Power Station – 100%

Glenbrook Power Station is a 112MW cogeneration plant located within the NZ Steel (a subsidiary of BlueScope Steel Limited) steelworks in Glenbrook, near Auckland in New Zealand. Glenbrook Power Station's sole customer is NZ Steel and it supplies 100% of the steelwork's steam requirements and about 60% of its electricity requirements. Output of the power station is dependent on production at the steelworks for the various gases that are used to fuel the generation units.

### (b) Energy markets

#### (i) AlintaAGL – 67% currently (refer to section 7.6(d))

In addition to owning the Pinjarra and Wagerup power stations described in section 7.6(a)(iii), AlintaAGL is the largest retailer of natural gas in Western Australia, serving approximately 570,000 customers as at 31 March 2007. Electricity is supplied to approximately 1,500 commercial and industrial customers. AlintaAGL also has an agreement with Walkaway Wind Power Pty Ltd to take all electricity generated by the 90MW Alinta Wind Farm, which is owned by BBW, for supply to Alinta's retail customers.

#### (ii) Wesfarmers LPG – 100%

Alinta has a contract with Wesfarmers to supply gas to its LPG plant in Kwinana, Western Australia. Under this contract Alinta has an interest in the economic outcome of an LPG project in conjunction with Wesfarmers LPG.

#### (iii) Wholesale gas and electricity trading and marketing – 100% (AEATM)<sup>59</sup>

In eastern Australia, AEATM is a participant in the wholesale gas market. AEATM sources natural gas principally from the Gippsland Basin in Victoria to supply to a range of wholesale energy market participants on the eastern seaboard.

Alinta also controls the generation of peaking electricity from the Bairnsdale Power Station (see section 7.6(a)(v) above). AEATM trades this plant into the NEM and through derivatives.

### (c) Gas transmission pipelines

#### Goldfields Gas Pipeline (GGP) – 11.8%

The GGP is 1,380 kilometres long and transports gas from the Carnarvon Basin to Kalgoorlie. The remaining 88.2% of the GGP is owned by APA. The GGP services industrial and power generation customers along the route and is connected to the Newman Power Station by a 50 kilometre lateral pipeline that was constructed in 1996. As a result of its equity interest, Alinta has the right to transport 23.3 TJ per day into Newman through the GGP at no transportation cost.

Note:

<sup>59</sup> BBP is expected to own AEATM and assume its related assets and liabilities. However, currently the Consortium Parties have not reached final agreement regarding the ownership of AEATM.

**(d) AGL Energy's option in relation to AlintaAGL**

AlintaAGL is a joint venture with AGL Energy in which Alinta holds a 67% interest. AGL Energy has options to acquire Alinta's interest in AlintaAGL over the next five years, AGL Energy also has the option to acquire Alinta's interest in AlintaAGL at a price set by Alinta in the event of a change in control of Alinta or AGL Energy. The latter option will be triggered by the Scheme Proposal. In the event that the Scheme Proposal is implemented, Alinta must offer to sell its 67% interest in AlintaAGL to AGL Energy at a price Alinta (acting on the directions of BBP) nominates. AGL Energy must either acquire the 67% interest at that price or sell its 33% interest to BBP at the equivalent price.

Accordingly, BBP will ultimately end up holding either 0% or 100% of AlintaAGL. BBP will not formally acquire an interest in AlintaAGL until the outcome of this process is known. However, BBP will hold a loan note in respect of the AlintaAGL interest during the interim period.

**(e) Location of assets**

The locations of the BBP Portfolio and the BBP Alinta Assets are shown on the map contained in Part A.

**(f) Key benefits to BBP from the acquisition**

The proposed acquisition of the BBP Alinta Assets:

- > increases the geographic diversity of the BBP Portfolio by the addition of an asset located in New Zealand and a development opportunity located in Tasmania;
- > expands BBP's footprint in Western Australia and Victoria;
- > is expected to lead to long-term contract revenue increasing from approximately 31% to 42% immediately following the acquisition due to the inclusion of the Port Hedland, Newman and Glenbrook long-term contract revenues; and
- > further reduces BBP's carbon intensity exposure due to increased gas-fired generators.

**7.7 BBP's key strengths and investment strategy****(a) Key strengths of the business model****(i) Reliable and diverse income stream**

The majority of BBP's existing assets benefit from PPAs and hedge contracts with established utilities. Forecast generation revenue from the existing portfolio for FY08 is approximately 31% contracted by way of long-term agreements with a further 46% contracted under short- to medium-term rolling hedges. Combined with predictable operating costs and minimal regulatory risk, this provides BBP with a reliable income stream.

The generation assets offer diversity by geographic region, contract counterparty and fuel supply which further reduces the risks affecting BBP's cash flows.

**(ii) BBP Distributions are paid from operating cash flows**

BBP's distribution targets are substantially derived from the operating performance and cash flow contributions of the underlying portfolio of assets. Furthermore, it is expected that

BBP's distributions will be fully tax-deferred in the forecast period which is an attractive incentive for BBP Stapled Securityholders.

**(iii) Growth opportunities**

BBP's business and investment model is to provide investors with long-term capital growth complemented by an attractive cash yield through development of a diversified portfolio of power generation and associated assets, both in Australia and overseas. BBP has a number of potential growth opportunities, including the following:

- (A) Organic opportunities, being the ability to grow the profitability of the existing portfolio without additional capital expenditure. Specific opportunities include increases in PPA prices in line with the CPI, reviewing the cost structure of the Flinders Power Stations and increasing the capacity factor of the Braemar Power Station.
- (B) Expanding the generation capacity of the existing assets. Specific expansion opportunities at Braemar, Newport and Redbank are under consideration (although implementation of these opportunities requires satisfaction of various conditions such as regulatory approvals).
- (C) Expanding the generating capacity at Newman Power Station.
- (D) Increasing its ownership interests in existing power stations by the acquisition of minority interests.
- (E) Tamar Valley Power Station development. This project involves the development of a 200MW combined cycle gas-fired power station with an associated 180MW back-up and peaking plant in the Tamar Valley region of Tasmania. In addition to certain conditions under a number of agreements that are within Alinta's control to satisfy or waive, the project was conditional on the counterparty to a gas supply agreement entered into by AEATM making a final investment decision to develop new gas fields and production facilities. Due to the deferral of the new gas fields development by the counterparty, Alinta was advised on 26 June 2007 that the gas supply agreement had lapsed. Alinta is reviewing its options, including using alternative sources of gas and restructuring the project, in relation to the development of the 200MW combined cycle unit and the electricity hedging arrangements for the project. Alinta has signed an agreement with Hydro Tasmania to purchase the Bell Bay Power Station site. On 29 June 2007, the agreement was declared unconditional. The three existing gas turbines within the Bell Bay Power Station will comprise 105MW of the 180MW back-up referred to above.
- (F) New greenfields construction. One greenfields opportunity that has been offered to BBP through its relationship with B&B is to acquire a significant equity interest in the Uranquinty Power Station and the rights to 100% of the power station's output. Uranquinty Power Station is a planned 640MW open cycle gas turbine power station located in southern NSW. The project has achieved NSW government approval and is being developed jointly by B&B and its project joint venture partner. The project is being considered by BBP and is subject to the approval of the independent directors. BBP may decide to make an investment in the Uranquinty Power Station prior to the Implementation of the Scheme Proposal.

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**(iv) Strategic relationship with B&B**

BBP has access to the full suite of B&B's financial advisory, origination and disposal services and resources. Details of the value this relationship brings to BBP are set out in Part A.

**(b) Investment strategy**

BBP's investment strategy is to grow BBP Stapled Securityholder wealth through proactive management of its existing portfolio and the construction and acquisition of additional power generation assets and associated businesses in Australia and internationally in accordance with its investment policy.

BBP intends to target electricity generation investments and related assets with risk/return characteristics similar to those of the existing BBP Portfolio and the BBP Alinta Assets which provide diversification by geography, fuel source and regulatory regime.

BBP may consider investing in associated businesses closely related to power generation assets where these complement the BBP Portfolio or provide strategic advantage in power generation. This may include in the future such activities as energy retailing and fuel procurement as part of a vertical integration strategy.

Acquisition and construction opportunities are expected to be introduced by BBPM (as BBP's Manager), through B&B's global investment banking network. BBP may undertake co-investment opportunities with B&B where suitable opportunities arise and where the independent directors of BBP are satisfied with the co-investment opportunity.

**7.8 BBP Stapled Securities****(a) Capital structure outline**

The number of BBP Stapled Securities currently on issue, including those that may be issued as part of the Share Scheme Consideration are set out in Figure 7.5.

**Figure 7.5: BBP Stapled Securities on issue**

Note	Date	Number (million)
Balance at date of this Booklet	27 June 2007	359
BBP Stapled Securities issued as part of the Share Scheme Consideration	31 August 2007	335 <sup>60</sup>
Post Share Scheme closing balance	31 August 2007	694

As at the date of this Booklet, BBP has not issued any options.

Note:

60 Based on the number of fully diluted Alinta Shares of 500.68 million.

For details of BBP Stapled Security closing price and volume history since listing, refer to Figure 7.1.

**(b) BBP Distribution policy**

Any BBP Distribution will be payable half-yearly in arrears in respect of the preceding six month periods ending 31 December and 30 June.

The BBP Distributions will be determined by the BBP Directors each half-year ending 31 December and 30 June. For the current financial year ending 30 June 2007, the BBP Directors have provided guidance that BBP expects to pay Distributions totalling 14.0 cents per BBP Stapled Security for the period from 11 December 2006 to 30 June 2007 and 26.1 cents per BBP Stapled Security for the year ending 30 June 2008.

The BBP Directors do not intend to introduce a BBP DRP prior to the proposed Implementation Date. However, they do intend to implement a BBP DRP prior to 30 June 2008. The BBP DRP will allow BBP Stapled Securityholders to reinvest BBP Distributions in additional BBP Stapled Securities.

**7.9 BBP Financial Information****(a) Basis of preparation for BBP Financial Information****(i) Financial year**

The financial year for BBP is the year ending 30 June.

**(ii) BBP historical financial information**

The pro forma balance sheet as at 31 December 2006 has been derived from the reviewed interim financial statements of BBP for the period ended 31 December 2006 and the balance sheet of the BBP Alinta Assets as at 31 December 2006. Details of certain pro forma adjustments that have been made to reflect known or expected changes from 1 January 2007 are set out in section 7.9(i).

**(iii) BBP forecast financial information**

The pro forma forecast financial information for BBP FY07 and for BBP FY08 have been prepared for illustrative purposes for use in this Booklet only.

The BBP Directors' forecast for BBP FY07 illustrates the anticipated reported result of BBP, reflecting the impacts of the initial public offer (IPO) and the timing of the acquisition of the following businesses (BBP Assets) during the period:

- > Kwinana (currently under construction) and the Oakey equity investment were owned by BBP as at 1 July 2006;
- > Flinders interests amounting to 100% of the issued capital acquired by BBP on 1 September 2006;
- > Redbank interests amounting to 100% of the issued capital acquired by BBP progressively between October and December 2006;

- > Ecogen interests amounting to 73% of the issued capital acquired by BBP on 11 December 2006; and
- > Braemar interests amounting to an 85% economic interest acquired by BBP progressively between October and December 2006.

The pro forma forecast financial information for BBP FY07 assumes that the BBP Assets were acquired on 1 July 2006 and excludes the acquisition of the BBP Alinta Assets. Details on the specific assumptions made with respect to the pro forma forecast income statement for BBP FY07 are set out in section 7.9(c).

The pro forma forecast financial information for BBP FY08 assumes that the BBP Alinta Assets are acquired on 1 July 2007. The forecasts for BBP FY08 assume that the AlintaAGL business is 67% owned by BBP for the three months to 30 September 2007 and then 100% for the balance of BBP FY08. Details with respect to the potential outcomes for BBP in relation to the AlintaAGL business are set out in section 7.6(d).

The pro forma forecast financial information is based on circumstances at the date of this Booklet and on an assessment of present economic and operating conditions and on a number of assumptions regarding future events and actions.

The forecast financial information for BBP presented in this section has been prepared by the BBP Directors on the basis of material best estimate assumptions. Details are set out in section 7.9(h).

The BBP Directors have utilised Alinta's Forecast Information for the BBP Alinta Assets' operations in preparing the forecast financial information for the combined BBP and BBP Alinta Assets group. The BBP Directors have relied on the Alinta Directors' assumptions with the exception of those relating to financing, corporate charges and the associated tax charges. Alinta is responsible for the Alinta Forecast Information as set out in section 11. BBP has not audited, reviewed or independently verified the Alinta Forecast Information and disclaims any responsibility for it. Alinta is responsible for ensuring that the Alinta Forecast Information is not misleading or deceptive in any material respect (whether by omission or otherwise) and is responsible for the Alinta Forecast Information.

#### (iv) BBP's accounting policies

The AIFRS accounting policies adopted by BBP in the preparation of the financial information for BBP FY07 and BBP FY08 are set out in BBP's interim financial report for the half year ended

31 December 2006 and the BBP prospectus and product disclosure statement dated 10 November 2006 (both publications are available at [www.bbpower.com](http://www.bbpower.com)). The accounting policies of BBP have remained unchanged since those announcements. The financial information has been presented in an abbreviated form. It does not contain all the disclosures that are usually provided in an annual report prepared in accordance with the Corporations Act.

#### (b) BBP Financial Information

This section contains a summary of the following information for BBP including:

- > BBP Directors' forecast income statement for BBP FY07 Figure 7.6;
- > Pro forma forecast income statement for BBP FY07 and BBP FY08 Figure 7.6;
- > BBP Directors' forecast cash available for distribution and pro forma cash available for distribution for BBP FY 07 Figure 7.8;
- > Pro forma forecast cash available for distribution for BBP FY07 and BBP FY08 Figure 7.8; and
- > Pro forma balance sheet as at 31 December 2006 Figure 7.15,

(collectively **the BBP Financial Information**).

The BBP Financial Information disclosed in this section should be read in conjunction with the following information disclosed in this section and other information contained in this Booklet:

- > Management, discussion and analysis of BBP FY07 Directors' forecast information – section 7.9(g) further describes key information relating to the forecast information.
- > Assumptions – section 7.9(h) outlines the key assumptions to the income statements for BBP FY07 and BBP FY08.
- > Segment details – section 7.9(i) shows the revenue, EBITDA, depreciation and capital expenditure per business segment.
- > Synergies and restructure costs – section 7.9(j) describes certain synergies and restructure costs.
- > Sensitivity analysis – section 7.9(k) describes the impact of particular sensitivities to the net cash available for distribution.
- > Prospects – section 7.9(m) includes further information on BBP's prospects.
- > Risks – as described in section 12.

The BBP Financial Information has been reviewed by PricewaterhouseCoopers Securities Ltd whose Investigating Accountant's Report relating to the BBP Financial Information is included in Annexure F.

**(c) BBP forecast income statements**

The BBP Directors' forecast income statement and pro forma forecast income statement are summarised in Figure 7.6.

**Figure 7.6: BBP Directors' forecast income statement and pro forma forecast income statements**

\$ in millions	BBP Directors' forecast BBP FY07	Pro forma forecast results BBP FY07 <sup>1</sup>	Pro forma forecast results BBP FY08 <small>2,3,4,5,6,7</small>
Total revenue from ordinary activities	473.5	569.9	1,667.3
Operating costs	(315.7)	(382.5)	(1,204.2)
Corporate costs	(47.5)	(49.5)	(80.5)
<b>EBITDA from ordinary activities</b>	<b>110.3</b>	<b>137.9</b>	<b>382.6</b>
Share of net profits of associates	7.0	6.7	6.8
<b>Total EBITDA</b>	<b>117.3</b>	<b>144.6</b>	<b>389.4</b>
Depreciation and amortisation	(53.7)	(67.1)	(130.3)
<b>EBIT from continuing operations</b>	<b>63.6</b>	<b>77.5</b>	<b>259.1</b>
Net interest expense	(69.7)	(71.6)	(205.7)
<b>EBT</b>	<b>(6.1)</b>	<b>5.9</b>	<b>53.4</b>
Income tax expense	(0.7)	(0.7)	(8.6)
<b>NPAT</b>	<b>(6.8)</b>	<b>5.2</b>	<b>44.8</b>
Outside equity interest	(6.8)	(5.3)	(8.1)
<b>Profit attributable to members of BBP</b>	<b>(13.6)</b>	<b>(0.1)</b>	<b>36.7</b>

## Notes to Figure 7.6:

- 1 Assumes that the BBP Alinta Assets were acquired on 1 July 2006. Refer to section 7.9(h)(i) for further details.
- 2 These forecasts include 100% of the AlintaAGL business in the operating statements, with the AGL Energy 33% interest shown within the outside equity interest line. After 30 September 2007 it has been assumed that BBP will move to 100% ownership. Refer to section 7.6(d) for further details in respect of the AlintaAGL business and potential outcomes.
- 3 Assumes the BBP Alinta Assets form part of the BBP group as from 1 July 2007. The actual results will differ depending on the timing of the Implementation.
- 4 These forecasts assume no marked-to-market movements other than in relation to existing hedges.
- 5 These forecasts do not include any allowance for incentive management fees which may be payable to BBPM under the management agreement. Refer to section 7.11(c) for further details.
- 6 The BBP FY08 forecast has been prepared on the basis that forecast cost synergies will be realised as set out in section 7.9(j). The cost of realising these synergies is non-recurring in nature and has been excluded from the forecast results above as have any transaction costs. The one-off cost attributable to BBP to achieve the projected annual savings is \$4 million. The Consortium has set aside cash of \$23 million to meet any obligations arising from restructuring of corporate and support functions, of which BBP's share is \$4 million. While these costs may be recognised in the actual income statement of BBP, they will not adversely impact distributions available to BBP Stapled Securityholders. If the amount set aside is insufficient to meet the restructuring obligations, BBP will incur its share of the shortfall under an agreement with the other Consortium Parties (see section 15.12).
- 7 The pro forma income statement for BBP FY08 assumes that all BBP Alinta Assets are transferred from the Bidder into BBP with effect from 1 July 2007 so that a full year's results and cash available for distribution are presented. The actual date of acquisition is currently expected to be 31 August 2007. To the extent that there is any delay in the transfer of any of the BBP Alinta Assets from 31 August 2007, BBP will receive any cash flows generated by the BBP Alinta Assets as interest income on a participation loan between BBP and the Bidder. Whilst this would affect income and expense items disclosed above, the net interest income is anticipated to be the same as the net cash flow from the business from the date of acquisition and there will be no impact on BBP's cash available for distribution.

**(d) Composition of BBP pro forma forecast income statements**

The composition of the BBP pro forma forecast income statements for BBP FY08 are summarised in Figure 7.7.

**Figure 7.7: Composition of BBP pro forma income statements**

<b>\$ in millions</b>	<b>Pro forma forecast results (existing BBP Assets) BBP FY08</b>	<b>Pro forma forecast results (BBP Alinta Assets)<sup>1,2</sup> BBP FY08</b>	<b>Pro forma adjustments BBP FY08<sup>1,3</sup></b>	<b>Pro forma forecast results (BBP) BBP FY08</b>
Total revenue from ordinary activities	637.4	1,029.9	–	1,667.3
Operating costs	(403.0)	(801.2)	–	(1,204.2)
Corporate costs	(46.8)	(27.8)	(5.9)	(80.5)
<b>EBITDA from ordinary activities</b>	<b>187.6</b>	<b>200.8</b>	<b>(5.9)</b>	<b>382.6</b>
Share of net profits of associates	6.8	–	–	6.8
<b>Total EBITDA</b>	<b>194.4</b>	<b>200.8</b>	<b>(5.9)</b>	<b>389.4</b>
Depreciation and amortisation	(85.4)	(44.9)	–	(130.3)
<b>EBIT from continuing operations</b>	<b>109.0</b>	<b>155.9</b>	<b>(5.9)</b>	<b>259.1</b>
Net interest expense	(72.2)		(133.5)	(205.7)
<b>EBT</b>	<b>36.8</b>			<b>53.4</b>
Income tax expense	(3.9)		(4.7)	(8.6)
<b>NPAT</b>	<b>32.9</b>			<b>44.8</b>
Outside equity interest	(5.8)		(2.2)	(8.1)
<b>Profit attributable to members of BBP</b>	<b>27.1</b>			<b>36.7</b>

Notes to Figure 7.7:

- 1 These forecasts include 100% of the AlintaAGL business in the operating statements, with the AGL Energy 33% interest shown within the outside equity interest line. After 30 September 2007, it has been assumed that BBP will move to 100% ownership.
- 2 Assumes the BBP Alinta Assets are acquired by BBP on 1 July 2007. The actual results will differ depending on the timing of the Implementation.
- 3 As part of the acquisition, BBP forecasts the following pro forma adjustments to the results of the BBP Alinta Assets presented by the Alinta Directors:
  - (a) Additional management fees payable to BBPM of \$11.5 million to be incurred as a result of the additional BBP Stapled Securities issued as consideration for the BBP Alinta Assets;
  - (b) Savings in corporate costs relating to the existing BBP Alinta Assets of \$5.6 million have been included in the BBP FY08 pro forma forecast for BBP. The actual speed of transition to the centralised support function will be dependent on many factors. The savings, reflected in the forecast, assumes that the transition will occur progressively over a period of 12 months with full benefits expected to be realised in BBP FY09. Further corporate cost savings may also be achievable in the event that BBP moves to 100% ownership of AlintaAGL, however, no assessment can be made on this pre-Implementation;
  - (c) The AGL Energy 33% interest in the AlintaAGL business for the three months to 30 September 2007 per Note 1 is shown within the outside equity interest line.

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**(e) BBP pro forma forecast cash available for distribution**

The BBP pro forma cash available for distribution is summarised in Figure 7.8.

The column headed "Directors' forecast BBP FY07" depicts the sources of cash that are expected to be available for distribution to BBP Stapled Securityholders for BBP FY07. The column headed "Pro forma forecast results BBP FY08" depicts the sources of cash that are expected to be available for distribution to BBP Stapled Securityholders for BBP FY08.

**Figure 7.8: Pro forma BBP forecast cash available for distribution**

\$ in millions	Directors' forecast BBP FY07	Pro forma forecast results BBP FY07	Pro forma forecast results BBP FY08 <sup>1,2</sup>
<b>Total EBITDA</b>	<b>117.3</b>	<b>144.6</b>	<b>389.4</b>
Adjust for non-cash operating items	12.5	12.5	3.0
Movement in working capital	(1.5)	(1.1)	(1.0)
Capital portion of Glenbrook and Cawse PPAs	–	–	16.2
Cash available for distribution applicable to minority interests	(6.8)	(5.3)	(8.1)
Financing cash flow <sup>3</sup>	(51.8)	(76.8)	(205.9)
Movement in reserves <sup>4</sup>	(4.6)	(4.6)	(26.1)
Maintenance capital expenditure	(13.2)	(16.3)	(21.9)
Taxation paid	(1.6)	(1.7)	(2.6)
<b>Net operational cash flow</b>	<b>50.3</b>	<b>51.3</b>	<b>143.0</b>
BBP DRP <sup>5</sup>	–	–	24.1
Reversal of loss provisions <sup>6</sup>	–	–	6.8
Reversal of other cash provisions <sup>7</sup>	–	–	9.2
<b>Net cash available for distribution</b>	<b>50.3</b>	<b>51.3</b>	<b>183.1</b>

## Notes to Figure 7.8:

- 1 These forecasts include 100% of the AlintaAGL business in the operating statements, with the AGL Energy 33% interest shown within the outside equity interest line. After 30 September 2007 it has been assumed that BBP will move to 100% ownership.
- 2 Assumes the BBP Alinta Assets are acquired by BBP on 1 July 2007. The actual results will differ depending on the timing of the Implementation.
- 3 Financing cash flows for pro forma forecast BBP FY07 excludes IPO interest expense and principal and interest cash flow amounts relating to the period prior to BBP ownership. Financing cash flows represent principal and interest payments.
- 4 Movement in reserves represents the reserving of cash under banking requirements.
- 5 The BBP DRP is forecast to be implemented post the BBP FY07 distribution. The intention and operation of the BBP DRP has been previously disclosed by BBP in its initial public offer prospectus and product disclosure statement dated November 2006. An average DRP participation rate of 30% has been assumed.
- 6 Reversal of loss provisions is associated with losses in Alinta's power trading business that will be offset by cash reserves to be created upon acquisition.
- 7 To the extent that charges (mainly maintenance) reflected in the EBITDA have been previously provided through cash reserving, these cash reserves are utilised.

**(f) Composition of BBP FY08 pro forma forecast cash available for distribution**

The composition of the BBP pro forma forecast cash available for distribution is summarised in Figure 7.9.

**Figure 7.9: Composition of pro forma BBP forecast cash available for distribution**

<b>\$ in millions</b>	<b>Pro forma forecast cash flow (existing BBP Assets) BBP FY08</b>	<b>Pro forma forecast cash flow (BBP Alinta Assets)<sup>1</sup> BBP FY08</b>	<b>Pro forma forecast cash flow Pro forma adjustments BBP FY08</b>	<b>Pro forma forecast cash flow (BBP) BBP FY08</b>
<b>Total EBITDA</b>	<b>194.4</b>	<b>200.8</b>	<b>(5.9)<sup>2</sup></b>	<b>389.4</b>
Adjust for non-cash operating items	3.0		-	3.0
Movement in working capital	(1.8)		0.8	(1.0)
Capital portion of Glenbrook and Cawse PPAs	-		16.2	16.2
Cash available for distribution applicable to minority interests	(5.8)		(2.2) <sup>3</sup>	(8.1)
Financing cash flow <sup>4</sup>	(72.3)		(133.5)	(205.9)
Movement in reserves <sup>5</sup>	(15.8)		(10.3)	(26.1)
Maintenance capital expenditure	(18.6)	(3.3)	-	(21.9)
Taxation paid	(2.6)			(2.6)
<b>Net operational cash flow</b>	<b>80.5</b>			<b>143.0</b>
BBP DRP <sup>6</sup>	12.9		11.2	24.1
Reversal of loss provisions <sup>7</sup>	-		6.8	6.8
Reversal of other provisions <sup>8</sup>	-		9.2	9.2
<b>Net cash available for distribution</b>	<b>93.4</b>			<b>183.1</b>

Notes to Figure 7.9:

- 1 The pro forma forecast includes results for the BBP Alinta Assets which have been obtained from the Alinta Directors as disclosed in section 7.9(a), as if the acquisition was effective from 1 July 2007.
- 2 Includes additional corporate costs (net of savings) of \$5.9 million as noted in Figure 7.7.
- 3 These forecasts include 100% of the AlintaAGL business in the operating statements, with the AGL Energy 33% interest shown within the outside equity interest line. After 30 September 2007 it has been assumed that BBP will move to 100% ownership.
- 4 Financing cash flows represent principal and interest payments.
- 5 Movement in reserves represents the reserving of cash under banking requirements.
- 6 The BBP DRP is forecast to be implemented post the BBP FY07 distribution. The intention and operation of the BBP DRP has been previously disclosed by BBP in its initial public offer prospectus and product disclosure statement dated November 2006. An average DRP participation rate of 30% has been assumed.
- 7 Reversal of loss provisions is associated with losses in Alinta's power trading business that will be offset by cash reserves created upon acquisition.
- 8 To the extent that charges (mainly maintenance) reflected in the EBITDA have been previously provided through cash reserving, these cash reserves are utilised.

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**(g) Management discussion and analysis**

The following management discussion and analysis has been prepared focussing on activities and events since BBP acquired the BBP Portfolio during the period from September 2006 to 11 December 2006. Where applicable, reference to the underlying business and economic conditions prior to the acquisitions is incorporated in order to provide context to the analysis.

**(i) Revenue**

The electricity market in the first half of BBP FY07 was reasonably stable and consistent with the usual seasonal pricing trends. The second half of BBP FY07 particularly from February 2007 onwards has seen sustained increases in spot prices which have been greater than normal seasonal pricing trends. The price increases have been a reflection of the reduced generating capacity available in Queensland and the Snowy Region due to the prolonged drought conditions being experienced across south eastern Australia. In addition, a number of generators have been off-line for scheduled maintenance. In Queensland, the drought conditions have resulted in significant reductions in baseload generating capacity at Tarong, Tarong North and Swanbank Power Stations. Furthermore the hydro output of the Snowy Region has been severely curtailed due to low dam levels.

The duration of these water-related constraints is difficult to predict. However, in the absence of substantial rainfalls in Queensland and higher than average snowfalls in the Snowy Region, prices throughout BBP FY08 are likely to remain high by historical standards. Key water infrastructure in the form of a recycled water pipeline to Tarong Power Station is expected to be commissioned during the early stages of BBP FY09. This water pipeline is expected to relieve the constraints currently affecting Tarong and Tarong North Power Stations and thus prices can be expected to trend back towards entry levels.

The main beneficiaries in the BBP Portfolio of the sustained increases in spot and contract prices have been Flinders and Braemar. The output capacities of the intermediate generators (Flinders Playford and Braemar) have also been increased during the summer and autumn of BBP FY07 and are forecast to remain at approximately 50% for the remainder of the financial year.

Both the intermediate and baseload Flinders plants benefited from the increased prices in Victoria in mid January 2007. However, these gains were offset shortly afterwards due to a forced outage at Flinders necessitating the need to repurchase outstanding hedge contracts. This led to an overall neutral EBITDA position during this volatile price period.

Redbank has been operating in line with contractual expectations.

The peaking operations of Ecogen delivered higher revenues; however, these revenues had minimal EBITDA impact on BBP due to the pass through nature of the revenues and operating costs.

**(ii) EBITDA**

Higher pool prices combined with increased generation (for the intermediate generators) have been the key factors for the increase in forecast EBITDA for BBP FY07 compared to BBP's IPO forecasts.

The generation costs for the baseload businesses have remained in line with BBP's IPO forecasts. These costs are largely fixed as a consequence of the ownership of the coal mine or through contractual fuel supply arrangements.

The intermediate businesses recorded a higher EBITDA contribution but at a lower margin compared to the IPO forecast. This reflected the higher than expected cost of sourcing of additional fuel supplies.

Whilst the capacity of the peaking plant of Ecogen has been greater than planned, the pass through nature of the revenue and costs for this operation means that this has had limited positive impact on the EBITDA. This operating mode has resulted in longer running cycles and as a consequence a better than planned fuel efficiency was achieved, delivering a modest improvement to EBITDA for BBP FY07. These fuel efficiencies are not anticipated to be of a recurring nature and have not been factored into the BBP FY08 forecasts.

**(iii) Net borrowing costs**

Disregarding the IPO related borrowing costs (approximately \$18 million), net borrowing costs for BBP FY07 have been adversely impacted by a charge (\$8.1 million) to take into account the discounting impact for the time value of money on the Osborne onerous contract provision (discussed in (iv) below). This non-cash charge will continue to impact the BBP net borrowing costs with the exact quantum of the charge in any period dependent on many factors including forecast interest rates and pool prices (which drive provision usage). This accounting treatment was not reflected in BBP's IPO forecasts and has no impact on the cash flow of the business in BBP FY07.

BBP has fixed its borrowing costs for approximately 93% of its external debt including construction debt through the use of interest rate derivatives.

**(iv) Osborne PPA**

Flinders has a PPA with Osborne (**Osborne PPA**). Under the Osborne PPA, Flinders purchases all of the (baseload) output of Osborne until 2018. Additionally, Flinders has a contract with AGL (which expires in 2010) to purchase gas which is then on-sold to Osborne under a gas sale agreement (which expires in 2013). Historically this contract has been loss-making for Flinders with the revenues earned in relation to the sale of Osborne's offtake in the NEM insufficient to cover the cost of fuel and payments under the PPA to Osborne. At the time that BBP acquired Flinders a provision was included in the acquisition balance sheet relating to the onerous components of this contract.

Since February 2007 the higher pool prices prevailing in South Australia have resulted in a decline in the monthly shortfall.

The net losses generated by this contract are brought to account through the profit and loss statement with the release of the onerous contract provision offsetting these losses.

Whilst the higher than anticipated pool prices have reduced the expected losses since February 2007 and consequently the need to utilise the provision, no reassessment of the provision value will be conducted in BBP FY07. Any reduction in the total of the onerous contract provision required for Osborne will be on the basis of sustained forecast high pool prices and may be considered during BBP FY08.

**(v) Capital expenditure – maintenance and construction**

During BBP FY07 approximately \$222 million will be spent on capital expenditure, of which \$190 million relates to the construction of the NewGen Kwinana Power Station.

Capital expenditure on Braemar during BBP FY07 will be \$20 million. This project was largely completed in the first half of BBP FY07; however, approximately \$4 million of construction expenditure was deferred until BBP FY08 pending the outcome of the completion of secondary enhancements and other minor construction work, as well as the rectification of non-critical warranty items.

During BBP FY07 the Flinders group will spend approximately \$13 million of capital expenditure, the majority associated with the Playford improvement program (\$7 million). The remainder of the Flinders maintenance capital expenditure relates to the ongoing maintenance program associated with Northern.

Ecogen is forecast to spend approximately \$3.3 million (excluding a small instalment payment for the replacement of a turbine high pressure module) in maintenance capital expenditure in BBP FY07.

There were no items of significant or material amounts spent or planned to be spent by Redbank.

The maintenance and capital expenditure forecasts may be imprecise with respect to either timing or quantum as factors such as excessive or localised wear and tear require immediate rectification. Where this occurs, the whole-of-life maintenance plans are updated and amended to reflect the changing maintenance and capital expenditure priorities.

Operating expenditure and associated revenue relating to the operation and maintenance of the power station assets have been forecast on the basis of the ability to execute the operating plan in order to meet planned generation availability and performance efficiency over the forecast period. Each year the respective management teams of the businesses provide a budget for approval which includes an estimate of maintenance cost expenditures. Should there be a capital component comprising part of this maintenance process, it is capitalised (with any existing residual value of the replaced part expensed immediately).

The maintenance cycles for BBP's thermal coal plants vary because of the different technologies employed. Boiler inspection methodology and frequency is usually stipulated by relevant state statutory bodies utilising Australian standards as a guide. Turbine and generator inspection, testing and frequency are usually stipulated by the recommendations of the original equipment manufacturer and insurer requirements.

Gas turbines require overhauls determined by equivalent operating hours of operation which is a function of the hours of operation, the number of starts per unit, the ambient temperature on the location at which the unit is operated and the rate at which the unit is brought into service.

**(h) Best estimate assumptions in the BBP Directors' forecasts**

The BBP Forecast Information in this section has been prepared by the BBP Directors on the basis of the material best estimate assumptions set out below. The BBP Directors have made reasonable enquiries in preparing the forecast BBP Financial Information and consider the assumptions to be reasonable. This information is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring and is not a representation that the assumptions will occur.

Investors should be aware that the timing of actual events and the magnitude of their impact might differ materially from that assumed in preparing the BBP forecast financial information and that this may have a positive or negative effect on BBP's actual financial performance and cash flows available for distribution because the assumptions, and therefore the forecast financial information, are by their very nature subject to uncertainties and contingencies, many of which will be outside the control or influence of the BBP Directors.

Accordingly, BBP cannot, and does not, give any assurance that the BBP Directors' forecast and the pro forma forecasts will be achieved. It should also be noted that the results may be impacted by identification post acquisition of intangibles which would require amortisation. This amount whilst impacting the income statement will have no impact on cash flows or BBP's ability to pay distributions.

In compiling the BBP Directors' forecast and the pro forma forecast for BBP FY07 and BBP FY08 as disclosed in Figures 7.6, 7.7, 7.8 and 7.9, the BBP Directors have made the following assumptions:

**(i) Assumptions – BBP FY07 only**

BBP has prepared a forecast income statement and cash flow statement for BBP FY07 based on the reviewed financial results for the six months ended 31 December 2006, unaudited financial results for the four months ended 30 April 2007 and a forecast for the two months ending 30 June 2007.

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The following assumptions have been made with respect to the preparation of the pro forma forecast financial information for BBP FY07:

- > all existing assets in the BBP Portfolio are assumed to be owned by BBP and contributing earnings (where operational) from 1 July 2006;
- > the initial BBP asset acquisitions and related transactions the subject of the IPO had taken place prior to the start of BBP FY07;
- > specific expenses related to the IPO (predominantly interest) have been removed as a pro forma adjustment on the basis that these are non-recurring;
- > identifiable intangibles and the associated amortisation have been retrospectively applied utilising the current values from 1 July 2006;
- > any one-off costs or acquisition costs relating to the proposed acquisition of the BBP Alinta Assets are not included.

#### (ii) Revenue assumptions

- > Spot revenue assumptions for the Flinders group (baseload and intermediate segment) and Braemar (intermediate segment) in respect of the output not covered by contracts have been based on internally generated forecast pool prices. These internal forecasts are supported by independent market adviser reports and industry publications.
- > Contract revenue assumptions for Flinders (baseload and intermediate segment), Braemar (intermediate segment), Redbank (baseload segment) and Ecogen (peak segment) have been based on the underlying hedge and cap contracts.
- > The revenue profile for Redbank and Ecogen are largely insensitive to the sustained high pool prices expected due to their existing PPA and master hedge agreement respectively.
- > Derivative instruments that do not qualify for hedge accounting will be marked-to-market. The value of existing derivative instruments of an ineffective nature that are expiring during the forecast period are taken to the income statement during the forecast period. New derivative contracts entered into are valued based on existing market prices at the time. No material change in the market conditions has been forecast. However, the value of these hedges may change as the market conditions vary and any resulting gain or loss would be taken to the income statement consistent with relevant accounting standards. Flinders has active derivative trading positions associated with its output contracts. It is not possible to forecast any marked-to-market adjustments for future hedges included in the forecasts.
- > Details of the segment output assumptions and average prices are set out in section 7.9(i).

#### (iii) Operating cost assumptions

##### (A) Fuel costs

The cost of fuel across the existing BBP Portfolio is largely insulated from price volatility due to the fixed nature of the fuel supply contracts. The fuel supplies for BBP FY08 are fixed in unit cost and volumes.

Flinders' cost of fuel is expected to rise at a rate less than CPI as Flinders owns and operates the coal mine which provides its fuel supply.

The Redbank fuel supply cost and volume is fixed under a 30 year agreement with the Warkworth mine for both the beneficiated dewatered tailings and back up fuel (unwashed coal). This contract has certain price escalators according to various cost indexes and has approximately 24 years left to run.

The Braemar gas contracts are fixed in nature with certain CPI increases. Braemar has contracted gas supplies that underpin its increased generation capacity at a negotiated fixed cost and volume. These contracts are scheduled to expire between 2016 and 2022. Additionally, short-term contracts for gas supply are negotiated when the prices are forecast to be at a sustained level that can support the increased marginal cost of generation.

The Ecogen fuel costs are met by TRUenergy under the provisions of a fuel supply agreement (effectively a gas tolling arrangement) and master hedge agreement.

##### (B) Operational and overhead costs

Operational and overheads costs are forecast to remain stable with only wage and CPI increases affecting the cost.

##### (C) Maintenance costs

Maintenance costs are discussed separately in section 7.9(h)(vii).

##### (D) Corporate costs

Corporate expenses are made up of the following main components:

- > BBP pays a Responsible Entity fee to BBPS and a base management fee to BBPM. See section 7.11(d) and (e) for more details on these fees. BBP also pays a manager expense amount to BBPM. This amount covers the reimbursement of management expenses incurred by BBPM under the management agreement. They are capped in real terms at \$6.2 million and \$6.6 million for BBP FY07 and BBP FY08 respectively. This amount does not include any reimbursement of or costs associated with the acquisition of the BBP Alinta Assets;
- > BBP also incurs non-designated services which are outside the scope of the management agreement. These costs are estimated to be \$1.5 million per annum in real terms and are included in the BBP FY07 pro forma forecast and the BBP FY08 forecast;
- > Certain costs reside within the businesses which are classified as central overhead or corporate costs. These costs are of a support and administration nature.

Any incentive management fee payable to BBPM has not been included in the forecast income statements as there is no reasonable basis upon which to forecast this fee. Details of this fee are set out in section 7.11(c).

**(iv) Interest rate assumptions**

The following key assumptions have been made in relation to BBP's interest costs:

- > The majority of the project debt facilities are fully hedged against movements in interest rates through the use of interest rate swaps for the term of the debt. The sensitivity of the BBP Directors' forecasts to movements in interest rates (unhedged debt only) is set out in section 7.9(k).
- > The forecast base rate for unhedged debt is assumed to be 6.5% per annum.
- > BBP has agreed an underwritten corporate debt facility with B&B on arm's length terms to achieve an appropriate level of gearing for the portfolio while ensuring an aggregate amortising debt profile. It is expected that B&B's underwritten facility will be replaced by other lenders during BBP FY08.
- > The interest expense includes a non-cash reassessment of the net present value of the Osborne onerous contract provisions. At each reporting date this provision is reviewed and reassessed based on prevailing and forecast interest rates. This reassessment results in a non-cash charge to interest expense.

**(v) Taxation assumptions**

Due to the existence of minority interests and discrete project debt facilities within BBP, there are five tax groups within BBP. These tax groups impact the rate of utilisation of tax losses.

The various tax groups are:

Flinders – comprising all Australian resident Flinders entities with the exception of B&B Osborne Pty Limited (part of the BBP consolidated tax group). It is forecast that there will be approximately \$142 million of revenue tax losses carried forward as at 30 June 2007.

Braemar – comprising the legal entities holding the Braemar investments. It is forecast that there will be approximately \$24 million of revenue tax losses carried forward as at 30 June 2007.

Ecogen – comprising the legal entities holding the Ecogen investments. As the Ecogen group has no tax losses, it will continue to pay its statutory tax.

Redbank – comprising the legal entities holding the Redbank investments. It is forecast that there will be approximately \$84 million of carried forward tax losses after taking into account revenue tax losses (incorporating costs associated with rectification work carried out in BBP FY06) carried forward as at 30 June 2007.

The remaining legal entities within BBP are part of the BBP tax consolidated group. There are no carried forward tax losses available within this group.

For the purposes of the BBP FY08 forecasts it has been assumed that, following the exercise of the AlintaAGL put/call option, AlintaAGL will be included in the BBP tax consolidated group.

It is assumed the corporate tax rate of 30% remains unchanged.

**(vi) Inflation assumptions**

CPI is forecast to be 2.5% per annum.

**(vii) Capital expenditure and plant maintenance expenditure assumptions**

The underlying assumptions for plant maintenance and capital expenditure are to ensure that the assets are commercially, operationally and environmentally sustainable. The capital expenditure and maintenance plans are based on detailed five year and whole-of-life plans to ensure BBP plant is maintained in a prudent, safe and economical manner and consistent with the overall manufacturers' warranties and specifications. This approach also ensures that appropriate insurance coverage is achieved and maintained.

**(A) Northern (Flinders) baseload plant**

The next major overhaul for Northern has been brought forward from early BBP FY09 to fourth quarter BBP FY08. This will reduce the amount of generation capacity and increase maintenance costs for BBP FY08. The outage includes a low pressure steam turbine rotor upgrade which is expected to improve output from the unit by an increase of approximately 7MW. Additionally, bringing forward the Northern major overhaul will accelerate phase one of the replacement of instrument and controls on the first unit.

**(B) Playford (Flinders) intermediate plant**

Playford, as an older plant, has turbine overhauls scheduled every four years and boilers every two years. The next boiler overhaul is scheduled for the second quarter of BBP FY08.

**(C) Redbank baseload plant**

Redbank's boiler overhauls are currently planned annually and steam turbine generator overhauls are planned every five years.

Minor turbine work is scheduled for BBP FY08 to replace half-joint casing bolts under warranty provisions. The next steam turbine overhaul is planned for BBP FY10 and the generator overhaul planned for BBP FY12.

**(D) Newport (Ecogen) peaking plant**

The Newport Power Station turbine stages are normally overhauled on a rotating four to five year cycle. Generator tests are normally carried out every four to five years with a full generator inspection every eight to twelve years.

The planned capital expenditure and maintenance costs will increase significantly in BBP FY09 due to the planned outage covering replacement and/or refurbishment of various turbines. This work is expected to take approximately 11 weeks starting in September 2008. Contracts for the supply of spares and performance of refurbishment work are presently under negotiation.

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**(E) Braemar intermediate plant**

Braemar was commissioned in September 2006 with its first overhaul scheduled at 36,000 equivalent operating hours (EOH). Under the original operating forecast this was anticipated to occur in BBP FY11. However, with the increased generation capacity currently forecast, the first overhaul is expected to occur in first quarter BBP FY09. This overhaul will consist of disassembly, changing a selection of hot gas path components including some blades, vanes and combustor. The generator will also need disassembly and insulation works.

Under Braemar's project financing facility cash reserving for overhauls will commence BBP FY08. The cost of major maintenance will vary for each overhaul between \$16 million and \$26 million depending on the timing, parts required and the use of refurbished/new spare parts.

**(viii) BBP DRP**

BBP intends to establish a BBP DRP which will allow BBP Stapled Securityholders to reinvest their distributions in BBP. The BBP DRP is forecast to be operative during the BBP FY08 period, with an assumed 30% participation rate.

**(ix) AlintaAGL put/call option**

The pro forma forecasts for the combined BBP/Alinta group have been prepared on the basis of 67% ownership of the AlintaAGL retail and cogeneration businesses from 1 July 2007 to 30 September 2007 and 100% for the remainder of BBP FY08.

**(x) General assumptions**

The BBP Directors have also made the following general assumptions for the BBP Directors' forecasts in addition to those outlined above:

- > no imposition of carbon tax, carbon trading or other environmental regimes during the forecast period;
- > no significant change to the current legislative regimes and regulatory environments in the jurisdictions in which BBP operates;
- > no material change in the competitive activity in the markets in which BBP operates;
- > no significant change in the supply ability of BBP or its competitors or in the continuity of operations;
- > no changes in accounting standards or other mandatory professional reporting requirements of the Corporations Act or changes in BBP's accounting policies which would have a material effect on BBP's financial performance, cash flows or financial position;
- > no material change in the economic, regulatory or political conditions with respect to the industry in which BBP operates;
- > no acquisitions or investments undertaken during the forecast period, other than as disclosed in this Booklet, that will have a material impact on the financial performance and reported cash flows of BBP. It is the intention of BBP to make acquisitions or investments should suitable opportunities arise;
- > no material amendment to any agreement or arrangements relating to BBP or the assets; and
- > the opportunities (potential and existing) described in section 7.9(m) have not been included in the BBP forecasts due to their current stage of development or their prospective nature.

**(i) Segment details**

Figures 7.10, 7.11, 7.12 and 7.13 set out the segment capacity and pricing assumptions used in the forecasts. The BBP FY07 information represents the pro forma full year, with BBP FY08 showing pre and post the acquisition of the BBP Alinta Assets.

**Figure 7.10: Peak duty generators**

<b>Peak duty generators</b>	<b>Units</b>	<b>BBP BBP FY07</b>	<b>BBP BBP FY08</b>	<b>BBP &amp; Alinta BBP FY08<sup>1</sup></b>
<i>Generation</i>				
Net capacity	MW	1,245	1,245	1,339
Generation output	GWh p.a.	2,145.6	2,016.3	2,094.1
Capacity factor	%	19.7%	18.5%	17.9%
<i>Revenue</i>				
	\$m p.a.			
Contracted		120.7	114.6	114.6
Hedged		-	-	-
Unhedged pool		-	-	28.2
Other		-	-	-
		<b>120.7</b>	<b>114.6</b>	<b>142.8</b>
<i>Average pricing</i>				
	\$/MW p.a.			
Total revenue		96,936	92,047	106,641
<b>EBITDA</b>	\$m p.a.	<b>28.3</b>	<b>28.0</b>	<b>37.1</b>
<b>Depreciation and amortisation</b>	\$m p.a.	<b>9.8</b>	<b>9.9</b>	<b>15.3</b>
<i>Capital expenditure</i>				
	\$m p.a.			
Maintenance		3.3	3.1	3.1
Construction		-	-	-

Note to Figure 7.10:

<sup>1</sup> Revenue and generation metrics exclude data relating to the AlintaAGL cogeneration plants and Bell Bay Power Station. Generation metrics for BBP Alinta Assets are BBP best estimates based on BBP due diligence. Revenue for BBP Alinta Assets is based on revenue forecasts provided by Alinta.

Figure 7.11: Intermediate duty generators

Intermediate duty generators	Units	BBP BBP FY07	BBP BBP FY08	BBP & Alinta BBP FY08 <sup>1</sup>
<i>Generation</i>				
Net capacity	MW	695	695	975
Generation output	GWh p.a.	1,905.9	2,845.9	3,929.3
Capacity factor	%	31.3%	46.7%	46.0%
<i>Revenue</i>				
	\$m p.a.			
Contracted		15.8	50.4	136.5
Hedged		26.2	43.7	43.7
Unhedged pool		82.9	89.6	94.6
Other		6.1	4.4	4.4
		<b>131.0</b>	<b>188.1</b>	<b>279.2</b>
<i>Average pricing</i>				
	\$/MWh p.a.			
Generation revenue		65.56	64.57	69.95
Total revenue		68.76	66.10	71.06
<b>EBITDA</b>	\$m p.a.	<b>51.1</b>	<b>77.9</b>	<b>118.4</b>
<b>Depreciation and amortisation</b>	\$m p.a.	<b>19.3</b>	<b>34.2</b>	<b>50.0</b>
<i>Capital expenditure</i>				
	\$m p.a.			
Maintenance		5.3	7.6	7.8
Construction		14.9	3.4	25.4

Note to Figure 7.11:

<sup>1</sup> Revenue and generation metrics exclude data relating to the AlintaAGL cogeneration plants and Bell Bay Power Station. Generation metrics for BBP Alinta Assets are BBP best estimates based on BBP due diligence. Revenue for BBP Alinta Assets is based on revenue forecasts provided by Alinta.

Figure 7.12: Baseload duty generators

Baseload duty generators	Units	BBP BBP FY07	BBP BBP FY08	BBP & Alinta BBP FY08 <sup>1</sup>
<i>Generation</i>				
Net capacity	MW	675	680	808
Generation output	GWh p.a.	4,963.7	4,998.5	5,703.5
Capacity factor	%	83.9%	83.9%	80.6%
<i>Revenue</i>				
	\$m p.a.			
Contracted		54.2	60.0	70.2
Hedged		119.1	150.0	150.0
Unhedged pool		41.9	52.9	52.9
Other		6.4	7.0	7.0
		<b>221.6</b>	<b>269.9</b>	<b>280.1</b>
<i>Average pricing</i>				
	\$/MWh p.a.			
Generation revenue		43.35	52.57	47.88
Total revenue		43.65	53.97	49.10
<b>EBITDA</b>	\$m p.a.	<b>94.1</b>	<b>103.3</b>	<b>109.4</b>
<b>Depreciation and amortisation</b>	\$m p.a.	<b>24.2</b>	<b>24.4</b>	<b>24.9</b>
<i>Capital expenditure</i>				
	\$m p.a.			
Maintenance		7.5	3.1	3.9
Construction		190.9	83.4	83.4

Note to Figure 7.12:

- 1 Revenue and generation metrics exclude data relating to the AlintaAGL cogeneration plants and Bell Bay Power Station. Generation metrics for BBP Alinta Assets are BBP best estimates based on BBP due diligence. Revenue for BBP Alinta Assets is based on revenue forecasts provided by Alinta.

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Figure 7.13: Osborne Contract

<b>Osborne Contract</b>	<b>Units</b>	<b>BBP BBP FY07</b>	<b>BBP BBP FY08</b>
<i>Generation</i>			
Net capacity	MW	180	180
Generation output	GWh p.a.	1,123.3	1,129.5
Capacity factor	%	71.2%	71.4%
<i>Revenue</i>			
	\$m p.a.		
Contracted		-	-
Hedged		64.1	40.0
Unhedged pool		12.8	11.4
Other <sup>1</sup>		46.1	44.0
		<b>123.0</b>	<b>95.4</b>
<i>Average pricing</i>			
	\$/MWh p.a.		
Generation revenue		68.46	45.54
<b>Total revenue</b>		<b>109.49</b>	<b>84.45</b>

Note to Figure 7.13:

<sup>1</sup> Other revenue includes revenue from Osborne gas contracts.

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**(j) Synergies and restructure costs**

When combined, the existing assets of BBP and the BBP Alinta Assets will be Australia's largest gas-fired generation portfolio. Post-Implementation, BBP will have 15 power stations. This will ensure that costs and synergies can be maximised in the form of sharing of common inventories, bulk purchases from original equipment manufacturers, reduction in insurance costs and reduction in corporate overheads. A number of power stations also share common electricity and gas network infrastructure. This commonality will enable BBP to minimise operating costs across the portfolio and maximise margins in the highest value electricity regions, thus ensuring that returns to BBP Securityholders are in turn maximised.

BBP has completed an initial analysis of the likely cost structure it will incur in the integration of the BBP Alinta Assets into the existing BBP Portfolio.

Over a 12 month period, net savings in recurring corporate and procurement costs (\$5.6 million in BBP FY08) are expected to occur with a move to a centralised support function. It has been assumed that the transition to a centralised support function will occur in 12 months, however, the actual speed of transition is dependent on a number of factors. The full benefits of this transition are expected to be realised in BBP FY09. Further corporate cost savings may also be achievable in the event that BBP moves to 100% ownership of AlintaAGL, however, no assessment can be made on this pre Implementation.

As part of the consortium arrangements, a reserve amounting to \$23.0 million has been set aside to assist the Consortium Parties with the one-off restructuring costs that are necessary to achieve the expected recurring synergies. BBP's share of this reserve is \$4.0 million which it currently expects to be sufficient. If the amount reserved is insufficient to meet the restructuring obligations, BBP will incur its share of the shortfall under an agreement with the other Consortium Parties. The BBP Directors do not expect that a shortfall would materially impact cash distributions.

There is some uncertainty associated with the forecast financial information and actual synergies and restructuring costs may deviate from these estimates.

**(k) Sensitivity analysis**

The BBP Directors' forecasts are based on specific assumptions about future events and actions. Potential investors should be aware that future events cannot be predicted with certainty and as a result deviations from the BBP Directors' forecast in this Booklet are to be expected.

The changes in the key variables set out in the sensitivity analysis below are not an exhaustive list of the range of variations that may be experienced over the forecast period and accordingly care should be taken in interpreting these sensitivities. The sensitivity analysis is intended as a guide only and movements in one assumption may have offsetting or compounding effects on other

variables, the effects of which are not reflected in the sensitivity analysis results that are shown below.

Further, the BBP Directors would typically respond to any material adverse change in conditions by taking action they considered appropriate to minimise, to the extent possible, any adverse effect on earnings and distributions. The potential impacts of these mitigating actions are not included in the following sensitivity analysis.

**(i) Interest rates**

BBP finances its investments with a mix of equity and project or corporate debt provided by third party financiers. Where the debt financing is unhedged in relation to interest rates (i.e. the interest on the debt is based on floating market interest rates), an increase in market interest rates will increase the cost of debt service and could also impact the value of BBP's equity investment.

The majority of BBP's debt, being approximately 93% of the principal amount forecast to be outstanding as at 30 June 2007, is hedged by interest rate swaps consistent with the term of the debt. It is intended that the debt assumed as a result of the Scheme Proposal will also be hedged by interest rate swaps. The BBP forecast distributions will be affected by changes in interest rates as they affect unhedged debt. Figure 7.14 shows the sensitivity of the BBP forecast distributions to a 1.0% increase and decrease in interest rates.

**(ii) CPI inflation**

The BBP forecast distributions will be affected by changes in CPI. CPI impacts the forecast of both revenue and operating expenses, including fuel supply. Figure 7.14 shows the effect on the BBP forecast distributions of a 0.50% increase and decrease in the assumed CPI rate.

**(iii) Unhedged pool revenue**

BBP's revenue is derived from a combination of 'contracted', 'rolling hedges', 'unhedged pool' and 'other' categories. Revenues derived from the 'rolling hedges' and 'unhedged pool' are based upon spot electricity price assumptions and hedge price assumptions. The impact on the BBP forecast distributions of the average price received for 'rolling hedges' and 'unhedged pool' increasing or decreasing by 5% is shown in Figure 7.14.

**(iv) Energy output**

The BBP forecast distributions will be affected by changes to the level of assumed generation output from the Redbank, Flinders, Braemar and Bairnsdale Power Stations. Revenues from other power stations in the BBP portfolio are not materially affected by output changes as they are greatly based on capacity, not output. Figure 7.14 below shows the impact of increasing and decreasing the assumed level of generation output by 1%. For these sensitivities the gain/loss was determined at the rate of the average revenues. In practice, the gain or loss may differ from this amount depending on the contract position of the asset.

**(v) Operating expenses**

The BBP forecast distributions will be affected by changes in operating expenses from the levels forecast. Figure 7.14 shows the effect on the BBP forecast distributions of a 5% increase and decrease in operating costs. For this sensitivity analysis, operating expenses include labour costs, insurance, consumables, routine maintenance and fuel costs.

**Figure 7.14: BBP sensitivities**

BBP FY08 forecast	Net cash flow available for distribution
Base case (\$ millions)	183.1
Interest +100bps	-0.7%
Interest -100bps	+0.7%
CPI +50 bps	+0.8%
CPI -50 bps	-0.9%
Pool price +5%	+5.4%
Pool price -5%	-5.4%
Energy output +1%	+1.5%
Energy output -1%	-1.5%
Opex +5%	-8.6%
Opex -5%	+8.6%
Capital expenditure – maintenance +10%	-1.2%
Capital expenditure – maintenance -10%	+1.2%
Incentive management fee + 1% overperformance <sup>1</sup>	-1.3%

**Notes to Figure 7.14:****1 Incentive management fee**

At the end of each calendar year, BBPM may be entitled to receive an incentive management fee as described in section 7.11(c). This would be equal to 20% of the amount (if any) of the excess percentage return of the BBP Stapled Securities over the S&P/ASX200 Accumulation Index for the preceding year multiplied by BBP's market capitalisation as at the last trading day of the relevant year.

The BBP Directors' forecasts as set in Figures 7.6 and 7.8 do not include an incentive management fee. Each January the incentive management fee will be calculated based on market values.

The above calculation is based on 359 million BBP Stapled Securities (being the existing BBP Stapled Securities and assuming a 1% overperformance in BBP Stapled Securities over the S&P/ASX200 Accumulation Index). For the purposes of this calculation, the Acquisition Securities (being the additional BBP Stapled Securities issued as a result of the Scheme Proposal) have not been included as it has been assumed that no overperformance of the index occurs in relation to the Acquisition Securities.

On 7 June 2007 in a release to ASX, BBP provided clarification on the incentive management fee position for the period ending 31 December 2007. Due to the transformational nature of the Scheme Proposal, BBP and BBPM have agreed that the calculation of the incentive management fee for the period ending 31 December 2007 will be adjusted so that BBPM is not paid all of the potential incentive management fee that may otherwise be payable in connection with the Acquisition Securities. BBPM will not be entitled, under any circumstances, to an incentive management fee which is higher than it would have been under the original formula. The incentive management fee for the period ending 31 December 2007 will be calculated as follows:

- (i) an incentive management fee in relation to securities issued at the IPO will be calculated in respect of the period from their allotment on 11 December 2006 to 31 December 2007 in accordance with the BBPL Management Agreement. The IPO issue price and 20 day VWAP prior to 31 December 2007 will be used for the purpose of this calculation in accordance with the BBPL Management Agreement; plus
- (ii) an incentive management fee in relation to the Acquisition Securities will be calculated in respect of the period from their allotment (likely to be late August 2007) to 31 December 2007. The issue price of the Acquisition Securities and the 20 day VWAP prior to 31 December 2007 will be used for the purpose of this calculation. There will be no carry forward of any deficit to the extent the calculation of the incentive management fee in relation to the Acquisition Securities results in a shortfall between the BBP Stapled Security Return and the benchmark return. These terms are explained in section 7.11(c).

**2 AlintaAGL**

The full impact of selling the 67% interest in AlintaAGL or the impact of purchasing the outstanding 33% interest cannot be fully determined due to the inherent uncertainty of the future sale/purchase price on borrowings, goodwill and intangibles amortisation.

Further, due to a confidentiality agreement in place between Alinta and AGL Energy, sufficient details necessary to perform a sensitivity assessment have not been provided to the BBP Directors. All financial information incorporating any values associated with AlintaAGL was provided in aggregate with information on other Alinta assets.

**(l) BBP pro forma balance sheet**

The actual balance sheet of BBP as at 31 December 2006, the pro forma balance sheet of the BBP Alinta Assets as at 31 December 2006 and associated funding are set out in Figure 7.15.

Details of the pro forma adjustments are noted in this section 7.9(l).

**Figure 7.15: BBP pro forma balance sheet**

<b>\$ in millions</b>	<b>Reviewed actual BBP as at 31 December 2006</b>	<b>Acquired BBP Alinta Assets<sup>1,2</sup></b>	<b>Funding</b>	<b>Pro forma BBP as at 31 December 2006</b>
Cash	291.6	138.6		430.2
Receivables	64.7	203.7		268.4
Inventories	31.5	6.7		38.2
Other assets	4.5	3.8		8.3
<b>Total current assets</b>	<b>392.3</b>	<b>352.8</b>		<b>745.1</b>
<i>Non-current assets</i>				
Cash held on restricted deposit	34.6	-		34.6
Receivables	13.6	102.3		115.9
Derivative financial instruments	197.9	-		197.9
Equity accounted investments	71.7	-		71.7
Property, plant and equipment	1,483.9	833.0		2,316.9
Goodwill and intangibles	227.3	294.2	1,554.9	2,076.4
Deferred tax asset	127.4	-		127.4
Other assets	58.5	-		58.5
<b>Total non-current assets</b>	<b>2,214.9</b>	<b>1,229.5</b>	<b>1,554.9</b>	<b>4,999.3</b>
<b>Total assets</b>	<b>2,607.2</b>	<b>1,582.3</b>	<b>1,554.9</b>	<b>5,744.4</b>
<i>Current liabilities</i>				
Payables	54.5	168.8		223.3
Interest bearing liabilities	54.5	21.8		76.3
Income tax payable	1.8	-		1.8
Provisions	10.0	10.1		20.1
<b>Total current liabilities</b>	<b>120.8</b>	<b>200.7</b>		<b>321.5</b>
<i>Non-current liabilities</i>				
Retirement benefits	22.7	-		22.7
Interest bearing liabilities	1,130.0	1,081.5 <sup>3</sup>	644.2 <sup>3</sup>	2,855.7
Provisions	160.4	11.9		172.3
Deferred tax liabilities	260.5	64.7 <sup>4</sup>		325.2
Other	-	2.6		2.6
<b>Total non-current liabilities</b>	<b>1,573.6</b>	<b>1,160.7</b>	<b>644.2</b>	<b>3,378.5</b>
<b>Total liabilities</b>	<b>1,694.4</b>	<b>1,361.4</b>	<b>644.2</b>	<b>3,700.0</b>
<b>Net assets</b>	<b>912.8</b>	<b>220.9<sup>5</sup></b>	<b>910.7<sup>5</sup></b>	<b>2,044.4</b>

## Notes to Figure 7.15:

- 1 The Alinta assets and liabilities have been recognised based on information provided by Alinta (refer to section 11 – Figure 11.5). A fair value assessment will not be finalised prior to the issue of this Booklet. Any change in the value of assets or liabilities will be matched by a corresponding adjustment to intangible assets. In addition the allocation between goodwill and identifiable intangible asset will occur following Implementation. The impact of the allocation and the finalisation of the fair values could lead to changes in the depreciation and amortisation charge in the income statement. This non-cash charge will not impact BBP cash flows or distributions. The value of the consideration paid will also change depending upon the final VWAP calculation (which in turn will affect intangibles).  
In respect of the purchase of the 33% AlintaAGL business, the BBP Directors have not included an assessment of the potential acquisition value of this shareholding or included it in the pro forma balance sheet. The BBP Directors have no knowledge of AGL Energy's strategic position or intentions regarding AlintaAGL and therefore the purchase price value of this business is subject to change.
- 2 The pro forma balance sheets assume only the initial purchase of the 67% interest in AlintaAGL retail and the cogeneration assets consistent with the interests owned by Alinta at 31 December 2006. These assets are the subject of the Russian roulette clause which is detailed in section 7.6(d). BBP has not been supplied with AlintaAGL specific or discrete information and therefore no assessment has been made of the minority interest associated with this business.
- 3 The majority of external debt relating to the BBP Alinta Assets is contained in a separate legal entity outside of the entities acquired by BBP. As a result the existing Alinta external debt has been apportioned on an agreed illustrative share (approximating the external debt requirements of the acquired assets) between Consortium Parties. It is the intention of BBP to refinance the Alinta debt. The debt in the column headed "Funding" is the forecast acquisition debt provided by BBP to the Consortium.
- 4 The net amount of \$64.7 million is based on the Alinta supplied balance sheet (refer to Figure 11.5) which shows a negative "Other assets" of \$86.3 million and a negative "Deferred tax liabilities" of \$21.6 million. These items relate to deferred tax balances.
- 5 Represents the issue of 334,955,109 BBP Stapled Securities at an assumed issue price of \$3.44 per BBP Stapled Security being the price at 11.00am on 8 May 2007. The final price which will be used to value the BBP Stapled Securities will be calculated based on the VWAP of the BBP Stapled Securities over the 5 Business Days immediately following the Meeting Date. Any change in the value of the consideration paid by BBP for the BBP Alinta Assets will result in a corresponding adjustment to intangible assets. This provides an equity value of \$1,131 million. For the purpose of the elimination, this equity is shown as a combination of existing Alinta equity and funding equity. In practice, the existing Alinta net assets would be eliminated on consolidation and replaced by the BBP equity issued.

**(m) Commentary on prospects**

BBP is currently operating in a favourable trading environment. Demand for electricity is expected to continue to rise in all states and the oversupply of generation capacity built up during the 1980s and 1990s has been exhausted. By 2015, it is expected that an additional 8,000MW<sup>61</sup> of generation capacity needs to be added to the current total installed capacity of approximately 45,000MW<sup>62</sup>. BBP estimates that this growth in generation capacity will require \$10–12 billion of new capital investment. It is expected that forward electricity prices in the medium term will be maintained at or above the long run marginal cost of electricity production in order to encourage the high levels of capital investment required to meet demand.

**(i) Power generation investment opportunities**

Through its relationship with B&B, BBP has secured access to a number of quality greenfield developments which match BBP's investment criteria. For instance BBP is currently evaluating the opportunity to invest in the 640MW Uranquinty Power Station development in New South Wales. Other proposals include developments in Queensland, New South Wales, Victoria, South Australia and Western Australia.

Via the Scheme Proposal, BBP is expected to acquire the proposed 380MW Tamar Valley gas-fired power station in Tasmania upon completion of its development. Further, under the AlintaAGL joint venture, new cogeneration power station opportunities in Western Australia may also be acquired.

**(ii) New business opportunities**

Through the Scheme Proposal, BBP has the opportunity to secure 100% of AlintaAGL, the energy retailing arm of Alinta, which includes approximately 570,000 gas customers and over 1,500 wholesale electricity customers. This presents BBP with an opportunity to immediately own a sizeable retail business with a well established brand name and a scalable operating platform.

**(iii) Refinancing opportunity**

The aggregate debt of BBP after Implementation will be approximately \$2.9 billion. Of this, \$2.6 billion has the potential to be refinanced. Existing debt has primarily been raised at the project level rather than at the portfolio level. In conjunction with B&B, BBP has commenced a comprehensive review of its existing debt financing arrangements with the view to carrying out a "portfolio refinancing" of its power generation portfolio in the next 12 months. This is expected to deliver substantial value to BBP Stapled Securityholders by lowering BBP's cost of capital through lower pricing, longer amortisation profiles and improved financing terms.

## Notes:

61 Source: NEMMCO: 2006 Statement of Opportunities.

62 Source: esaa: Energy Australia 2006.

## 7.10 Board and senior management

### (a) BBP Boards of directors

Figure 7.16: BBP Directors

Director	BBPL	BBPS	Biography
Peter Hofbauer (Chairman of BBPL and BBPS – B&B executive)	X	X	Peter Hofbauer is the Global Head of B&B's Infrastructure business unit. He joined B&B in 1989 and has worked in both the Sydney and London offices. He is also a director of Babcock & Brown Infrastructure (BBIL and of the Responsible Entity of BBIT) as well as Chairman of Babcock & Brown Wind Partners (BBWPL, BBWPB and of the Responsible Entity of BBWPT).
Warren Murphy (B&B executive)	X	X	Warren Murphy is Head of Australian Energy in the Infrastructure business unit at B&B. Warren joined B&B in 1997 and is based in the Sydney office. He is also a director of Babcock & Brown Wind Partners (BBWPL, BBWPB and of the Responsible Entity of BBWPT).
John Fletcher (Independent Director)	X	X	John Fletcher is currently a director of Integral Energy Australia based in Sydney. Recent experience includes Board positions with Foodland Associated Limited, The Australian Pipeline Trust and NGC Limited of New Zealand. He has held a number of executive roles at The Australian Gas Light Company including that of CFO and he has extensive experience of the energy industry.
Len Gill (Independent Director)	X		Len Gill has extensive knowledge and over 28 years experience in the Australian energy industry. Len is the former Chief Executive Officer of TXU Australia (now TRUenergy). Prior to his appointment as CEO, Len headed TXU's wholesale energy division for five years, which included general management responsibility for power generation and gas storage assets. Len is also a former non-executive director of Verve Energy.
Peter Kinsey (Lead Independent Director)	X	X	Peter Kinsey is Regional Legal & Compliance Manager South Asia for the global ABB Limited Group and a director of ABB Australia Pty Limited and ABB Limited (New Zealand). Peter has been a corporate lawyer for over 25 years in a number of major corporations.

### (b) BBP senior management

The following key senior management personnel (employed by B&B) have been seconded to BBPM to provide management services to BBP under the BBP Management Agreements.

Further details of the management arrangements that exist between B&B and BBP are set out in section 7.14(b) and details of B&B's relationship with the B&B Funds are set out in section 9.

**Figure 7.17: Senior management personnel**

Senior executive	Biography
Dr Paul Simshauser (CEO)	Paul joined B&B in 2006. Prior to his appointment, Paul was the Chief Executive Officer of NewGen Power and was responsible for managing the operations of Braemar and Kwinana. Before joining NewGen Power, Paul was General Manager – Marketing & Trading at Stanwell Corporation following a range of positions in corporate finance within the electricity supply industry in Queensland.
Brian Green (COO)	Brian joined B&B in 2006. Prior to his appointment Brian was General Manager of Operations for NRG Australia and had responsibility for providing oversight and management of NRG's plant operations in Australia. Previously, Brian was the General Manager of Gladstone Power Station.
James Brown (CFO)	James joined B&B in 2006. He has extensive experience as a senior finance manager in listed and multinational companies and has taken leadership roles in negotiating and implementing acquisitions and business reorganisations. Prior to joining B&B, James was Chief Financial Officer at Foodland Associated Limited. Previously, James was employed as Chief Financial Officer at GE Commercial. He has also worked in finance roles at Colonial Limited and National Australia Bank.

### 7.11 Fee arrangements

Subsidiaries of B&B are the Manager of BBP and the Responsible Entity of BBPT. BBP pays the following fees to B&B for undertaking those roles and providing the other services set out below.

You should read all the information about fees and costs because it is important to understand their impact on an investment in BBP. Small differences in both investment performance and fees and costs can have a substantial impact on your long-term returns.

You will not be charged an establishment fee, contribution fee, withdrawal fee, termination fee or investment switching fee in connection with your investment in BBP.

#### (a) Responsible entity fee

BBPS is entitled under the constitution of BBPT to a management fee of 2.0% per annum of the value of the gross assets of BBPT.

BBPS has waived its right to receive the percentage fee in return for the payment of a fee of \$550,000 per annum, increased (but not decreased) for CPI (Responsible Entity fee). For so long as the BBPS Management Agreement remains in place and until BBPS gives three months notice to ASX, BBPS will continue to waive its rights to full payment of its Responsible Entity fee. The Responsible Entity fee is payable to BBPS quarterly in arrears.

BBPS may increase its fees from time to time to reflect any increase in its overheads as Responsible Entity of BBPT and at least 30 days' notice of any such increase would be given as required by law and disclosed to ASX.

Subject to the Corporations Act, BBPS is also entitled to be reimbursed from the assets of BBPT for any expenses it incurs in the proper performance of its duties in respect of BBPT.

#### (b) Base management fee

BBPM is entitled to receive base fees for services provided under the BBP Management Agreements. The aggregate fees are equal to 1.0% of BBP's Net Investment Value (NIV) (as defined in Figure 7.18), which is split between BBPL (0.8%) and BBPT (0.2%) under the BBP Management Agreements less, in the case of BBPT only, the responsible entity fee. The base fees are payable to BBPM quarterly in arrears.

Set out in Figure 7.18 is a hypothetical example of the manner in which the base fee payable to BBPM for managing BBP will be calculated. This example is provided for illustrative purposes only and does not purport to represent the likely fees payable nor the likely price of a BBP Stapled Security or relevant indices. The example is based on an approximate number of BBP Stapled Securities post-Implementation of the Share Scheme Proposal and assumes a price of a BBP Stapled Security equal to the closing price as at 27 June 2007.

**Figure 7.18: Base management fee calculation**

Days in quarter	90
Relevant quarter	Quarter to 31 December 2007
<b>NIV (for the quarter)</b>	
average market capitalisation of BBP	\$2,352,660,000 <sup>63</sup>
plus the sum of any external debt of BBP and its investee entities as at the last trading date of the relevant quarter (but excluding project debt or any project letter of credit or project bank guarantee of investee entities)	\$0
plus the sum of firm commitments to future investments of BBP and its investee entities as at the last trading day of the relevant quarter	\$0
less the sum of uncommitted cash balances of BBP and its investee entities as at the last trading day of the relevant quarter (but not including working capital and other operating cash balances and project cash balances of investee entities)	\$0
less the aggregate book value of any BBP assets which are not managed by BBPM or a related entity of BBPM	\$0
<b>NIV (for the quarter)</b>	<b>\$2,352,660,000</b>

Hypothetical base fees (for the quarter)

=  $(1.0\% \times \$2,352,660,000 \times 90/365) - \$135,616$  (being the quarterly component of the responsible entity fee payable to BBPS)  
= \$5,665,463

Hypothetical estimated annual base fee payable to BBPM  
= \$22,976,600

For the purposes of calculating the amount of each investee entity's external debt, firm commitments to future investments or uncommitted cash balance (as the case may be), the absolute amount will be reduced (if applicable) on a pro rata basis to reflect BBP's proportional interest in the investee entity.

BBPM may also be entitled to further fees for services it provides to BBPL or BBPS which are beyond the normal scope of its services under the BBP Management Agreements. Such fees will be at market rates for the respective services.

#### (c) Incentive management fee

BBPM may be entitled at the end of each calendar year (ending 31 December) to receive an incentive management fee of up to 20% of the amount of the excess (if any) of the BBP Stapled Security Return over the Benchmark Return for that year. An incentive management fee (I) for a particular calendar year will only be payable where the BBP Stapled Security Return is greater than the Benchmark Return for that year and the following formula for the calculation of the incentive management fee results in a positive number:

$$I = 20\% \times (SSR - BR + D)$$

where:

SSR is the BBP Stapled Security Return for that year;

BR is the Benchmark Return for that year; and

D is any carried forward deficit (expressed as a negative number) calculated as being equal to the lower of:

- > zero; and
- > the sum of the BBP Stapled Security Return minus the Benchmark Return for each of the prior years since the previous incentive management fee (if any) was paid, but limited to not more than the three prior years immediately preceding the relevant year.

Note:

63 Average market capitalisation assumes an average number of securities of 694 million at an average price of \$3.39 per BBP Stapled Security.

The BBP Stapled Security Return is calculated as the movement in the BBP Stapled Security Accumulation Index over that calendar year multiplied by BBP's market capitalisation at the end of the year. The BBP Stapled Security Accumulation Index will be formulated by BBPM to measure the change in value of BBP Stapled Securities (assuming that BBP Distributions are reinvested in BBP Stapled Securities).

The Benchmark Return is calculated as being equal to the movement in the Benchmark Index over that calendar year multiplied by BBP's market capitalisation at the end of the year. The Benchmark Index is the S&P/ASX200 Accumulation Index.

The calculation of the movement in the BBP Stapled Securities Accumulation Index and the Benchmark Index respectively over the calendar year will be calculated using trading data over the last 20 trading days in each relevant year.

The carrying forward for up to three years (as above) of any shortfall between the BBP Stapled Security Return and the Benchmark Return in a given year will continue on a rolling basis.

The first calculation of the incentive management fee will be made in respect of the period from 11 December 2006 when BBP was listed on ASX to 31 December 2007. In this case, the calculation of the movement in the BBP Stapled Securities Accumulation Index will be calculated by reference to the initial public offer Offer Price (\$2.50) and the total number of BBP Stapled Securities on issue immediately following the initial public offer (359,290,000), and the calculation of the movement in the Benchmark Index will be calculated by reference to the last 20 trading days prior to 11 December 2006.

Due to the transformational nature of the proposed Alinta transaction the Manager has agreed with BBP that the calculation of the total incentive management fee at 31 December 2007 will be adjusted as follows:

- (i) an incentive management fee in relation to securities issued at IPO will be calculated in respect of the period from allotment date on 11 December 2006 to 31 December 2007. The IPO issue price and 20 day VWAP prior to 31 December 2007 will be used for the purpose of this calculation consistent with the provisions of the BBPL Management Agreement; and
- (ii) an incentive management fee in relation to the tranche of securities issued as part of the Alinta transaction will be calculated in respect of the period from their allotment (likely to be late August 2007) to 31 December 2007. The Scheme issue price and 20 day VWAP prior to 31 December 2007 will be used for the purpose of this calculation. There will be no carry forward of any deficit to the extent the calculation of the incentive management fee in relation to this tranche of securities results in a shortfall between the BBP Stapled Security Return and the Benchmark Return.

The incentive management fee is payable to BBPM yearly in arrears from the assets of BBPL or, subject to the Corporations Act and the Listing Rules, up to 60% may be paid in BBP Stapled Securities to reinforce alignment between securityholders and the Manager.

Figure 7.19 details hypothetical examples of the manner in which the incentive management fee payable to BBPM for managing BBP will be calculated (in this example calculated hypothetically as at the end of the calendar year ended 31 December 2007). These examples are provided for illustrative purposes only and reflect an outperformance of 10% relative to the benchmark and an underperformance of 10% relative to the benchmark. The examples do not purport to represent the likely fees (if any) payable nor the likely price of a BBP Stapled Security or relevant indices.

Figure 7.19: Incentive management fee calculation

	Assumptions	Example 1	Example 2
	Relevant period: Calendar year to 31 December 2007		
A	Average market capitalisation over the last 20 trading days of the relevant period	\$2,352,660,000 <sup>64</sup>	\$2,352,660,000 <sup>65</sup>
B	Average closing BBP Stapled Security Accumulation Index over the last 20 trading days of the year prior to the relevant period	100	100
C	Average closing BBP Stapled Security Accumulation Index over the last 20 trading days of the relevant period	110	130
D	Average closing Benchmark Index over the last 20 trading days of the year prior to the relevant period	100	100
E	Average closing Benchmark Index over the last 20 trading days of the relevant period	120	120
	Stapled Security Return (SSR) for the relevant period	$= A \times (C-B)/B$ $= \$2,352,660,000 \times (110-100)/100$ $= \mathbf{\$235,266,000}$	$= A \times (C-B)/B$ $= \$2,352,660,000 \times (130-100)/100$ $= \mathbf{\$705,798,000}$
	Benchmark Return (BR) for the relevant period	$= A \times (E-D)/D$ $= \$2,352,660,000 \times (120-100)/100$ $= \mathbf{\$470,532,000}$	$= A \times (E-D)/D$ $= \$2,352,660,000 \times (120-100)/100$ $= \mathbf{\$470,532,000}$
	Above Benchmark Return for the relevant period	$= \text{SSR} - \text{BR}$ $= \$235,266,000 - \$470,532,000$ $= \mathbf{-\$235,266,000}$	$= \text{SSR} - \text{BR}$ $= \$705,798,000 - \$470,532,000$ $= \mathbf{\$235,266,000}$
	Incentive management fee for the relevant period <sup>66</sup>	$= 20\% \times (\text{SSR} - \text{BR} + \text{Deficit})$ $= 20\% \times (-\$235,266,000 + 0)$ $= \mathbf{\$0 \text{ (since negative result)}}$	$= 20\% \times (\text{SSR} - \text{BR} + \text{Deficit})$ $= 20\% \times (\$235,266,000 + 0)$ $= \mathbf{\$47,053,200}$
	Deficit to be carried forward to next financial year	= -\$47,053,200	= \$0

## Notes:

64 Hypothetical average market capitalisation as at 31 December 2007 assumes an average of 694 million BBP Stapled Securities on issue at \$3.39 per BBP Stapled Security.

65 See footnote above.

66 For the purpose of the hypothetical examples of the incentive management fee outlined above, it has been assumed that there is no carried forward deficit.

**(d) Manager expense amount**

The manager expense amount represents an agreed estimate of certain expenses incurred by BBPM in acting as the manager of BBP. BBPM will be paid a manager expense amount of \$6.2 million in the first year, paid pro-rata from 11 December 2006 to 30 June 2007. This base amount increases to \$6.6 million for FY08 and \$7.0 million for FY09. The base amount is subject to annual CPI increases and periodic increases approved by the relevant BBP Board to reflect increased actual or estimated expenses. In addition, BBPM is entitled to be reimbursed for various out of pocket expenses.

**(e) Other fees that may be payable to B&B**

The following fees may be incurred by BBP, however, B&B has waived its right to receive any financial advisory fees or origination and disposal fees in relation to the acquisition of the BBP Alinta Assets:

- (i) Break fees – one-third of the net value of any break, termination or similar fees received by BBP in connection with an investment or proposed investment will be paid to BBPM at the relevant time from the fees received by the relevant BBP entity.
- (ii) Financial advisory fees – B&B has entered into an Exclusive Financial Advisory Agreement with BBP. The fees for these services are negotiated at the time on reasonable market terms. More details about the Exclusive Financial Advisory Agreement are set out in section 9.3.
- (iii) Origination and disposal fees – Fees are payable under the BBP Management Agreements for services provided or procured by BBPM in relation to the origination and disposal of assets. These fees have been agreed between BBP and BBPM having regard to arm's length market fees for similar services in the

Australian market. These fees will be reviewed regularly by the independent directors of BBP and by BBPM.

Such fees are payable in relation to services in respect of a particular acquisition or disposal transaction based on a sliding scale that also includes provision for adjustment to reflect the complexity of the transaction and includes a performance component payable solely at the discretion of the independent directors of BBP. A minimum fee of approximately 1.5% of the investment value of the relevant asset is currently payable for these services and this fee can increase to approximately 4.6% (inclusive of the discretionary performance component) of investment value having regard to the size and complexity of the transaction. The maximum fee percentage payable only applies to smaller transactions with a high level of complexity. Larger, less complex transactions will have a lower fee percentage. As indicated above, a portion of this fee is at the discretion of the independent directors of BBP having regard to the performance of BBPM.

Investment value means the capital invested by BBP plus the proportion of the debt financing for the investment which is represented by BBP's investment.

- (iv) Asset management fees – BBPAM is only entitled to be paid a fee under an Asset Management Agreement if the BBPL Management Agreement is terminated or base management fees and incentive management fees are no longer payable under the BBPL Management Agreement. In these circumstances, the fee payable to BBPAM is a base fee of 0.8% per annum of the relevant BBP asset's net investment value, to be paid quarterly in arrears and BBPAM is entitled to an amount per annum in respect of expenses. There is no incentive management fee payable.

**(f) Example of annual fees and costs for an investment in BBP**

Figure 7.20 gives an example of the fees and costs attributable to a \$50,000 investment in BBP over a one year period:

**Figure 7.20: Example of annual fees and costs**

Example of annual fees and costs in BBP		Balance of \$50,000
Contribution fees	Nil	Not applicable
PLUS management costs <sup>67</sup>	Approximately 1.55% <sup>68</sup> for the twelve months ending 31 December 2007	The management costs attributable to a \$50,000 investment in BBP for one year are approximately \$776 <sup>69</sup>
EQUALS cost of fund		The fees and costs attributable to a \$50,000 investment in BBP for one year are approximately \$776 <sup>70</sup>

Notes:

67 This includes the responsible entity fee, the base management fee, the incentive management fee, the manager expense amount and the fee payable to the custodian. This does not include any financial advisory or origination or disposal fees.  
 68 Assumes, for illustrative purposes only, a 1% out performance in relation to the calculation of the incentive management fee.  
 69 Note that these fees and costs are not deducted from distributions you receive from BBP. These fees and costs are paid by BBP before distributions are paid to security holders.  
 70 See footnote above.

## 7.12 Risk factors associated with an investment in BBP

An investment in BBP involves risks that are specifically associated with power assets, those specifically associated with BBP and those specifically associated with particular assets of BBP. The key risks of this type are outlined in this section 7.12.

In addition, an investment in BBP involves general risks which relate to all investments in infrastructure assets and to any investment. The key general risks are outlined in more detail in section 12.5.

This section and section 12.5 describe the key risks of an investment in BBP considered applicable by the BBP Directors based on their assessment of the probability of the risk occurring and its expected impact if it were to occur.

It is not an exhaustive list of all possible risks associated with an investment in BBP and there is no guarantee that other risks will not also occur or, if the risks do occur, that their impact will be as described.

The risks set out in this section and in section 12.5, as well as other risks not referred to, could materially affect the financial and operating performance of BBP and the value of an investment in BBP. Some of these risks can be mitigated by appropriate action, safeguards and procedures but many cannot be mitigated effectively.

### (a) Market price of electricity is volatile

Volatility in market prices of electricity could adversely affect BBP's revenues.

Although most of the assets in the BBP Portfolio have contracted offtake arrangements (for example power purchase agreements or hedges) which seek to mitigate much of that market risk, some contracts do not cover all of the respective asset's revenue, have limited durations or will either have to be renewed or will terminate at the end of their tenures.

For those assets which do not have contracted offtake arrangements (in particular, Braemar, Flinders and Bairnsdale), revenues will be particularly dependent on the prevailing NEM pool and contract prices.

### (b) Plant and equipment availability and performance

The ability of BBP to generate revenue through its power generation assets is dependent on the availability and performance of its power generation plant and equipment. In particular disruption to generation can occur through the following:

- > mechanical failure which could arise from a number of factors including ageing, poor maintenance, technological obsolescence or failure to integrate new design with existing plant;
- > failure or shortage in fuel supply (including gas and coal);

- > failure or shortage in water supply required for operation and power augmentation (in particular, droughts can cause curtailment in water supply despite water licences being in place); and
- > low levels of demand resulting in reduced plant utilisation can also lead to increased wear and tear on plant and equipment.

Additionally, the risk of disruption to generation may have a more material adverse impact on BBP's revenues when the disruption occurs at peak times when the price of electricity is high. This may expose BBP to significant claims or payments under power purchase or hedge agreements at a time when it is not receiving revenue from the sale of electricity.

### (c) Carbon risk

The Prime Ministerial Task Group on Emissions Trading has recommended that the Australian Government introduce a national greenhouse gases emissions trading scheme. The task group recommended a free allocation of permits as compensation to existing businesses identified as likely to suffer a disproportionate loss of value during the introduction of a carbon price. However, there is a risk that a future emissions trading scheme may not provide for an allocation of free permits or that any actual allocation may not fully compensate certain assets or businesses for their actual loss of value. This may adversely affect BBP's coal plants and, in particular, Playford Power Station.

### (d) The security price may fall when BBP Stapled Securities are released from escrow

As noted in section 7.14(d), B&B has voluntarily agreed to escrow 36 million BBP Stapled Securities held by the B&B group until 11 December 2007. In addition, approximately 32.2 million BBP Stapled Securities are subject to an extended voluntary escrow period ending on 11 December 2007 making a total of approximately 68.2 million BBP Stapled Securities being released from escrow on that date.

A further 9.8 million BBP Stapled Securities held by B&B employees or affiliates are subject to securities trading policies which restrict their ability in the short term to sell those securities after the initial voluntary escrow period expires on 11 June 2007. If those securityholders who are subject to escrow restrictions choose to sell a large number of their escrow BBP Stapled Securities when the respective escrow periods come to an end, the trading price of the BBP Stapled Securities may be adversely affected at those times.

B&B has indicated that it has no current intention to dispose of any BBP Stapled Securities at the end of the escrow period. This is consistent with its philosophy of long-term co-investment in its specialised funds and asset management platform. As mentioned in section 4.3(g), B&B intends to elect to receive the Maximum Securities Alternative in respect of its Alinta Shares. As a consequence of this election, the number of BBP Stapled Securities held by B&B will increase.

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**(e) AlintaAGL**

If BBP retains AlintaAGL then the following risks will also arise:

- (i) Full retail contestability in the Western Australian gas market applied practically from 31 May 2004; and contestability for all electricity customers consuming in excess of 50MWh per annum was introduced on 1 January 2005.
- (ii) There is a risk that as Synergy (and to a lesser extent, Verve Energy) is fully able to compete in the gas market and the number of contestable customers Synergy has access to increases, the total number of gas customers serviced by AlintaAGL may reduce. This risk may be mitigated if AlintaAGL increases the number of electricity customers it supplies and/or this market also becomes fully contestable on the same timetable. In addition, existing contractual arrangements with customers will minimise the short-term impact of customer churn in gas customers to further mitigate the risk.
- (iii) The wholesale electricity market in Western Australia and the related bilateral contract market have been in operation since 21 September 2006. Due to the relatively new nature of the market there is a risk that it may operate in a manner different from that originally anticipated which may affect the expected returns to AlintaAGL.

In addition to these risks, the gas supply risks discussed in section 12.5(b) are also relevant to AlintaAGL's gas and electricity businesses and the construction risks discussed in section 12.5(h) are relevant to the construction of the Wagerup generating units.

**(f) Wesfarmers LPG Business**

An increase in the US\$/A\$ foreign exchange rate, or a decrease in the US\$ Saudi Contract Price (the globally accepted price measurement for LPG) or the LPG content of gas transported in the DBNGP may have a material adverse impact on the financial performance of the Wesfarmers LPG business.

**(g) Tamar Valley Power Station Project**

In order for the Tamar Valley Power Station Project to proceed, the gas supply agreement entered into by AEATM needed to become unconditional.

However, as discussed at section 7.7(a)(iii)(E), on 26 June 2007 the gas supply agreement lapsed. Notwithstanding this situation, a decision has been made to proceed with the acquisition of the Bell Bay Power Station.

Unless alternative sources of gas are contracted and project agreements are restructured where appropriate, there is a prospect that the other aspects of the Tamar Valley Power Station Project may not proceed. Expenditure incurred to date may need to be written off if the Project does not proceed. In addition, BBP may be exposed to NEM merchant risk for the Bell Bay Power Station units rather than long-term hedge agreements.

**7.13 Governance and other board matters**

Section 9.4 contains a detailed description of the governance and board matters relevant to BBP.

**7.14 Additional Information****(a) Rights attaching to BBP Stapled Securities**

BBP Stapled Securities issued pursuant to the Scheme Proposal will from their date of issue rank equally with the existing BBP Stapled Securities on issue (provided that they will not rank for the distribution for the half-year to 30 June 2007). The rights attaching to BBP Stapled Securities are detailed in the constitutions of BBPT and BBPL.

The key rights attaching to BBP Stapled Securities are summarised below. Rights attaching to BBP Stapled Securities may also arise under the Corporations Act, other laws and the Listing Rules. Those rights are not covered in this summary except where expressly indicated.

**(i) Voting**

At a general meeting of BBPL or BBPT, BBP Stapled Securityholders present in person or by proxy, attorney or representative have one vote on a show of hands and, in the case of BBPL, one vote on a poll for each fully paid share held in BBPL (with proportional voting rights for partly paid shares) and, in the case of BBPT, one vote for each Australian dollar of the paid up value of units held in BBPT. Voting on a special resolution of BBPT must be decided on a poll, otherwise, voting on resolutions of BBPL or BBPT is by a show of hands unless a poll is demanded.

**(ii) BBP Distributions**

BBP Distributions may be comprised of dividends payable by BBPL and distributions payable out of BBPT.

In respect of dividends payable by BBPL, the directors of BBPL may pay any interim or final distributions as, in their judgment, the financial position of BBPL justifies.

In respect of distributions payable out of BBPT, BBP Stapled Securityholders are entitled to receive their pro rata entitlement (by reference to the number of units held as a proportion of the total number of all units in BBPT) to the distributable income of BBPT for the relevant distribution period.

**(iii) Issue of further BBP Stapled Securities**

Subject to certain restrictions, BBP may issue, grant options in respect of, or otherwise dispose of BBP Stapled Securities. Any issue of new shares in BBPL must be matched by a corresponding issue of new units in BBPT which are stapled to those shares in BBPL. The same applies for any issue of new units in BBPT.

**(iv) Transfer of BBP Stapled Securities**

BBP Stapled Securityholders may transfer BBP Stapled Securities in accordance with the constitutions of BBPT and BBPL. A transfer of a share in BBPL will only be in registrable form if it relates to, or is accompanied by, a transfer of a corresponding unit in BBPT to which the share in BBPL is stapled in favour of the same transferee. The same applies for any transfer of units in BBPT.

BBP may refuse to register a transfer of BBP Stapled Securities including, where the transfer is not in registrable form or where such a refusal is permitted by the Listing Rules or ASX. Subject to the Listing Rules and ASTC Settlement Rules, while BBP is a listed entity, the BBP Directors may suspend the registration of a transfer at such times and for such periods as deemed fit.

**(v) General meetings and notice**

Each BBP Stapled Securityholder is entitled to receive notice of, and, except in certain circumstances, attend and vote at general meetings of BBPL and BBPT and to receive all notices, accounts and other documents required to be sent to BBP Stapled Securityholders under the constitutions of BBPL and BBPT or the Corporations Act.

**(vi) Winding up or termination**

BBP Stapled Securityholders are entitled on a winding up of BBPL or a termination of BBPT to receive a share in any surplus assets of BBPL in proportion to the BBP Stapled Securities held by them (subject to any special resolution or rights or restrictions attaching to any class or classes of shares) and a proportionate share of BBPT assets (after BBPS has deducted its remuneration and costs and subject to any special rights or restrictions attached to any unit in BBPT or the direction in writing of all BBP Stapled Securityholders).

**(vii) BBP Stapled Securityholder's liability**

A BBP Stapled Securityholder's liability is limited under the constitutions of BBPT and BBPL to the amount paid (or payable, in the case of partly paid BBP Stapled Securities). However, actual and prospective BBP Stapled Securityholders should note that the courts have not finally determined the extent of liability of unitholders in unit trusts.

**(b) Management arrangements****(i) BBP management arrangements**

BBPM, a subsidiary of B&B, is the Manager of BBP under 25-year Management Agreements with BBPL (**BBPL Management Agreement**) and BBPS (**BBPS Management Agreement**) (BBPL Management Agreement and BBPS Management Agreement collectively referred to as the **BBP Management Agreements**). The BBP Management Agreements are due to expire in December 2031.

Under the terms of the BBP Management Agreements, BBPM makes recommendations to BBPL and BBPS in respect of current and prospective investments and provides management services to BBPL and BBPS in its capacity as Responsible Entity for BBPT.

The key roles undertaken by BBPM include:

- (A) investing and managing the asset portfolio;
- (B) providing investment, consultation, advisory and management services in relation to authorised investments and the asset portfolio;
- (C) identifying appropriate risk management policies and procedures in respect of the asset portfolio and reporting on the adequacy and effectiveness of those policies and procedures on a regular basis to the respective BBP Board;
- (D) implementation of BBP Board decisions;
- (E) performing or procuring the performance of all reasonable accounting, tax, corporate secretarial, IT, reporting and compliance services;
- (F) managing investor and public relations;
- (G) providing any and all services that are necessary or incidental to the above;
- (H) other services to assist BBPS in performing its role as Responsible Entity; and
- (I) electricity trading, hedging, despatch and settlement services.

BBPM has appropriate delegated authority from the relevant BBP entity to do all things necessary or incidental to perform its role, including to carry out investment transactions within pre-approved limits.

In performing its role, BBPM must comply with the prevailing BBP investment strategy, the Stapling Deed and any written policy and directions of the relevant BBP entity which do not contravene any law or the relevant BBP Management Agreement and are not inconsistent with the investment strategy or the Stapling Deed.

BBPM will also provide services to BBP in relation to the acquisition and disposal of authorised investments. BBPL and BBPS have only limited rights to terminate the BBP Management Agreements. A BBP Management Agreement may be terminated by BBPL or BBPS at any time where BBPM is in material breach of the relevant BBP Management Agreement and has not been able to correct the breach within 90 days, where the B&B Group ceases to hold (directly or indirectly) more than 50% of BBPM, where an insolvency event occurs in relation to BBPM (and BBPM is not replaced by a suitable B&B Group entity within 15 days) or where certain events relating to necessary licences, permits or authorisations held by BBPM occur and are not remedied within 90 days.

Under the BBP Management Agreements, BBPM is to be remunerated through payment of base fees which will be paid by BBP to BBPM. In certain circumstances, incentive fees may be payable to BBPM. Separate fees are payable to BBPM in relation to the origination and disposal of authorised investments.

BBPM will also be reimbursed by BBP for certain costs including but not limited to those relating to the BBP Management Agreements.

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Under the BBP Management Agreements, BBPM is to be remunerated through payment of fees and reimbursed certain costs as described in section 7.11.

**(ii) BBP asset management arrangements**

In addition to the BBP Management Agreements, Babcock & Brown Power Asset Management Pty Ltd (**BBPAM**), which is a subsidiary of B&B, has entered into 25 year BBP Asset Management Agreements with each wholly owned entity that owns BBP's interests in the relevant power stations (**Owner**).

Under the terms of the BBP Asset Management Agreements, BBPAM provides asset management services to the Owners in respect of the relevant BBP assets including:

- (A) management accounting and budgeting;
- (B) organisational development, management reviews and audits;
- (C) electricity pool bidding strategies and process engineering;
- (D) environment permit compliance;
- (E) spare parts planning and coordination;
- (F) maintenance management consulting and outage planning;
- (G) human resources support;
- (H) insurance procurement and coordination;
- (I) asset financing; and
- (J) contract management and revenue risk management.

The Owner has agreed to indemnify BBPAM and its delegates and their officers, employees and agents against losses, liabilities, charges and expenses incurred by them in connection with the agreement except where the losses, liabilities, charges and expenses are caused by gross negligence, fraud, dishonesty or wilful breach of the BBP Asset Management Agreement.

BBPAM is entitled to be paid fees of 0.8% per annum of the relevant BBP asset's net investment value, to be paid quarterly in arrears, but only if the BBPL Management Agreement is terminated or the base fees and incentive fees are no longer payable under the BBPL Management Agreement referred to above (the **Fee Payment Condition**). BBPAM is entitled to an amount per annum in respect of certain expenses provided the Fee Payment Condition is satisfied. BBPAM is also entitled to recover certain costs paid by it on behalf of the Owner and certain taxes and fees at market rates for providing any non-designated services.

The Owner may terminate the BBP Asset Management Agreement immediately upon written notice if:

- > BBPAM ceases to carry on business;
- > a material breach by BBPAM of the agreement occurs and is not remedied within a 90 day period;
- > BBPAM ceases to hold any licence necessary for it to lawfully perform its obligations under the agreement and BBPAM fails to rectify this within a 90 day period; or
- > BBPAM is placed in liquidation.

BBPAM may terminate a BBP Asset Management Agreement by the provision of not less than 90 days written notice.

BBP intends to enter into BBP Asset Management Agreements with each of the relevant entities that own the BBP Alinta Assets.

**(c) Interests of BBP Directors**

Refer to section 15.22 for details on the interests of each BBP Director in relation to the Scheme Proposal.

**(d) Voluntary escrow arrangements with BBP Stapled Securityholders**

In connection with the initial public offer of BBP in December 2006 approximately 89 million BBP Stapled Securities held by previous investors in BBPL and the vendors of assets to BBP were escrowed until 11 June 2007. In addition 36 million BBP Stapled Securities held by B&B were escrowed until 11 December 2007. Holders of approximately 32.2 million of the BBP Stapled Securities that were due to be released from escrow on 11 June 2007 have agreed to extend their escrow until 11 December 2007.

Under its escrow arrangements, B&B is entitled to deal with its escrowed BBP Stapled Securities in order to transfer escrowed BBP Stapled Securities to a related entity of B&B or trust of which B&B is a beneficiary (provided such transferee agrees to be bound by the terms of the escrow) or to participate as a lender for the purposes of any stock or securities lending or pledge the escrowed BBP Stapled Securities as security for money borrowed by B&B (which security may be enforced by the lender without restriction under the escrow).

Under the escrow arrangement each BBP Stapled Securityholder has agreed that it will not sell, assign, transfer, encumber, create a security interest in, or otherwise dispose of, or agree to sell, assign, transfer, encumber, create a security interest in or otherwise dispose of the BBP Stapled Securities that are subject to the escrow. However, BBP Stapled Securityholders may accept a takeover bid for BBP, provided that holders of not less than 50% of the BBP Stapled Securities not subject to escrow which are then on issue have accepted the takeover bid and if the bid does not become unconditional, the escrow will continue to apply, and may participate in a scheme of arrangement or other re-organisation or acquisition of capital relating to BBP and if the scheme, reorganisation or acquisition is unsuccessful the escrow will continue to apply.

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8

**BABCOCK &  
BROWN  
WIND  
PARTNERS**

### 8.1 Overview

Under the Share Scheme, Alinta Shareholders may receive BBW Stapled Securities as part of the Share Scheme Consideration.

BBW listed on the ASX in October 2005. BBW's investment strategy is to build BBW Stapled Securityholder wealth through managing its portfolio of diversified wind farms and, where appropriate, through accretive acquisition of additional assets. BBW's portfolio consists of an interest in 33 wind farms across three continents, five countries, and nine wind regions. The portfolio is diversified by wind resource and geographic location, regulatory regime, equipment and service provider and revenue sources. Figure 8.4 provides a summary of the BBW Portfolio.

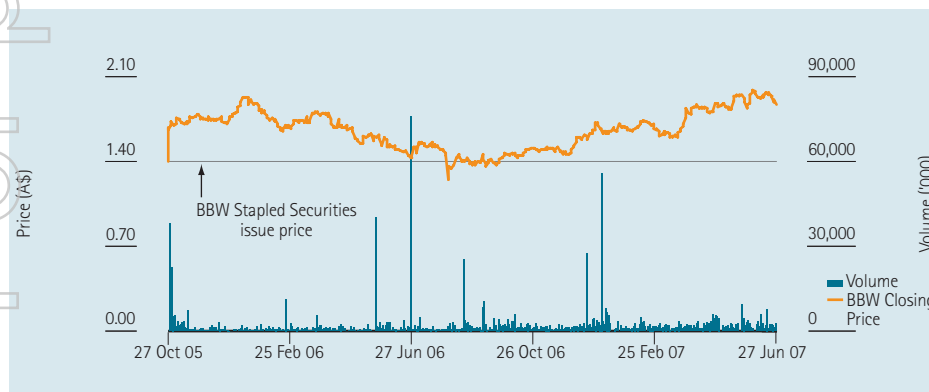
BBW's market capitalisation will increase by approximately \$243 million to \$1.5 billion following the Implementation Date, making BBW approximately the 151st largest company by market capitalisation out of companies included in the All Ordinaries Index.<sup>71</sup>

### 8.2 BBW Stapled Security prices and returns

Since listing on the ASX in October 2005, BBW has achieved a Total Securityholder Return of 52% (or approximately 29% per annum) and has outperformed Standard & Poors ASX 200 Accumulation Index (which has increased by 49%) by 6% over the same period.

BBW is currently trading on a BBW FY08 fully tax deferred forecast yield of 7.5%. BBW Stapled Securities issued to Alinta Shareholders as part of the Scheme Proposal will be eligible for the full distribution payable for the six months ending 31 December 2007.

Figure 8.1: BBW Stapled Security closing price and volume since listing



Note:  
71 On the basis of a BBW Stapled Security price of \$1.865 on 27 June 2007.

### 8.3 Industry overview

The renewable energy industry experienced strong levels of growth in investment and capacity installations in 2006. Industry investment levels reached record highs, with US\$38 billion invested in new renewable energy capacity in 2005, an increase of more than 25% on the previous year.<sup>72</sup> More than a third of this new investment can be attributed to wind energy, which attracted investors from both the finance and energy sectors.

There are a number of factors influencing this growth in renewable energy generation. In addition to the increasing focus on broader environmental concerns, the security of energy supply, growing demand and the rising cost of traditional fuels, there has been an improvement in technology and expertise in the renewable energy sector.

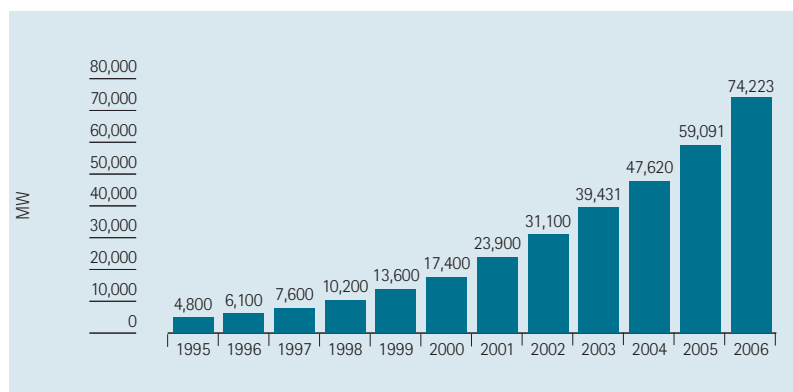
As part of this growth, wind energy has developed over the last 20 years from an emerging fuel source to a significant energy source in many countries, particularly in Europe.

Statistics released by the Global Wind Energy Council demonstrate that wind energy generation capacity has expanded from 4.8GW in 1995 to just over 74.2GW by the end of 2006, increasing by 26% from 2005 to 2006 alone.

In addition to the factors influencing the growth in renewable energy, the growth in wind energy has been driven by the following factors:

- > Wind generation costs have fallen by 50% over the last 15 years, moving towards the cost of conventional energy sources in many markets; and
- > Wind energy continues to become more price competitive as traditional fuel prices escalate and further technical efficiencies are achieved.

Figure 8.2: Global cumulative installed capacity 1995–2006



Note:

72 Renewable Energy Policy Network for the 21st Century 2006. "Renewables Global Status Report 2006 Update" (Paris: REN21 Secretariat and Washington, DC: Worldwatch Institute).

The strong growth in global wind energy is forecast to continue. Emerging Energy Research estimates average growth rates for cumulative installations through to 2010 and 2015 of 34.2% and 15.2% per annum respectively, with strong growth in particular regions such as North America and the Asia-Pacific anticipated to offset any moderating growth in Europe later in the decade.

Wind energy is expected to account for approximately 3% of global electricity generation by 2015 as forecast by Emerging Energy Research. Offshore wind energy development is expected to contribute to accelerated growth after 2015.

#### 8.4 BBW corporate structure

BBW is a stapled structure comprising:

- > Babcock & Brown Wind Partners Limited (**BBWPL**), an Australian public company;
- > Babcock & Brown Wind Partners Trust (**BBWPT**), an Australian registered managed investment scheme; and
- > Babcock & Brown Wind Partners (Bermuda) Limited (**BBWBPB**), a company established in Bermuda and registered in Australia.

Each BBW Stapled Security is made up of one share in BBWPL, one share in BBWBPB and one unit in BBWPT which are stapled together and cannot be traded or dealt with separately. BBW Stapled Securities have been quoted on ASX since 28 October 2005.

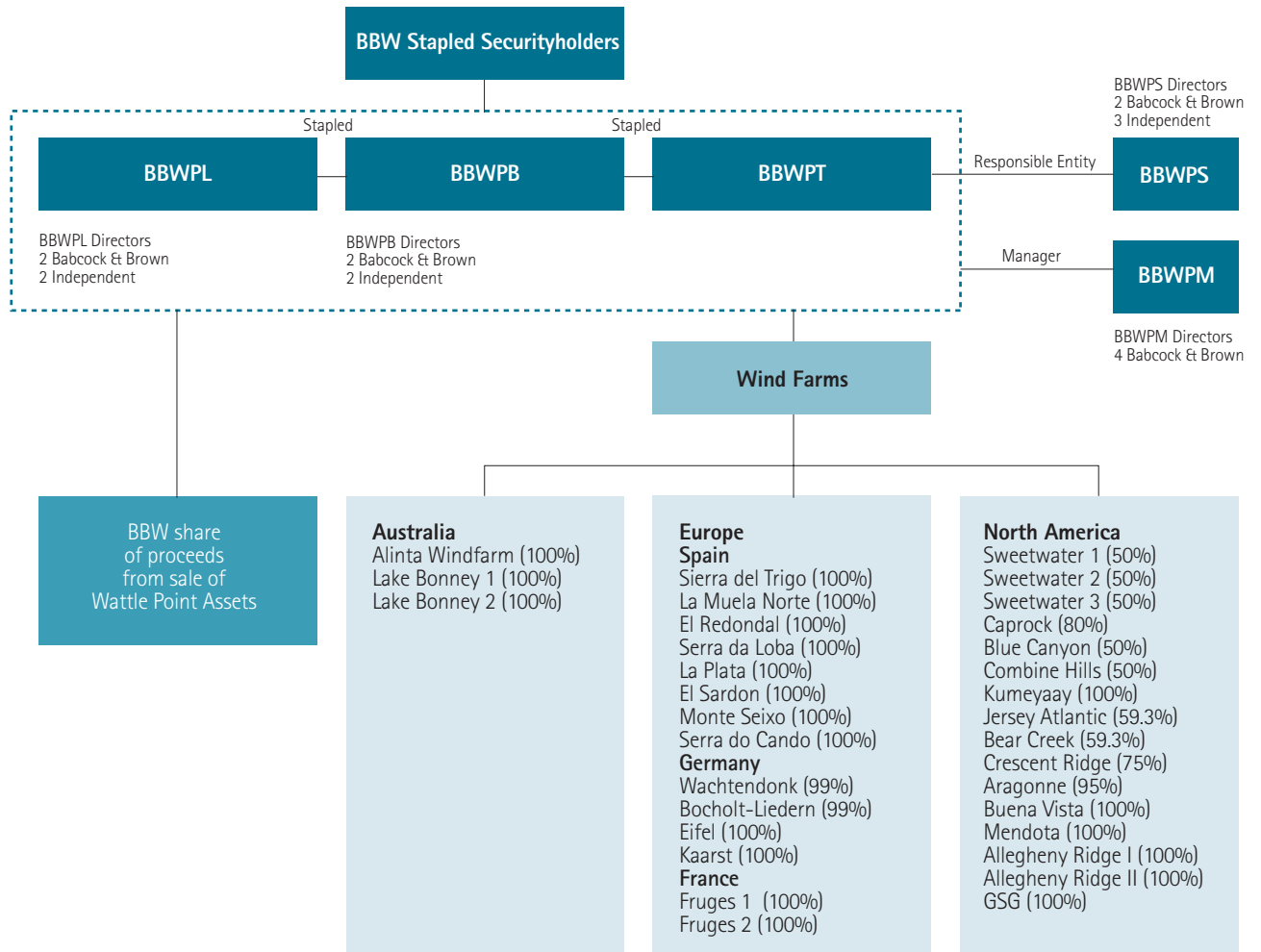
The responsible entity of BBWPT is BBWPS. BBWPM has been appointed as the manager of BBW. BBWPS and BBWPM are subsidiaries of B&B.

The following diagram provides an overview of BBW's structure.

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Figure 8.3: BBW corporate and asset ownership structure



## 8.5 BBW's existing assets

### (a) BBW Portfolio summary

Figure 8.4: Summary of the BBW Portfolio

Wind farm	Wind region	BBW equity interest (%)	Commercial operation date	Installed capacity (MW)
<b>Australia</b>				
Alinta Wind Farm	Western Australia	100%	Jan 2006	89.1
Lake Bonney 1	South Australia	100%	Mar 2005	80.5
Lake Bonney 2	South Australia	100%	Under construction (expected mid-2008)	159.0
<b>Germany</b>				
Wachtendonk	Northrhine-Westphalia	99%	Dec 2005	11.9
Bocholt-Liedern	Northrhine-Westphalia	99%	Oct 2005	7.4
Eifel Stage I & II	Rhineland-Palatinate	100%	Jun 2005 & Feb 2006	27.0
Eifel Stage III	Rhineland-Palatinate	100%	Dec 2006	8.0
Eifel Stage IV	Rhineland-Palatinate	100%	Mar 2007	1.5
Kaarst	Northrhine-Westphalia	100%	Dec 2006	10.0
Kaarst Stage II	Northrhine-Westphalia	100%	Under construction (expected end 2007)	2.0
<b>European acquisition (completed by 15 June 2007)</b>				
<b>Spain</b>				
Sierra del Trigo	Andalucia	100%	Jan 2002	15.2
La Muela Norte	Aragon	100%	Aug 2003	29.8
El Redondal	Castille & Leon	100%	Jan 2005	30.6
Serra da Loba	Galicia	100%	Oct 2005	36.0
La Plata	Castille La Mancha	100%	Jun 2005	21.3
El Sardon	Andalucia	100%	Mar 2006	25.5
Monte Seixo	Galicia	100%	Dec 1999	35.0
Serra do Cando	Galicia	100%	Dec 1999	29.2

Note to Figure 8.4:

The *wind region* column illustrates the location of each asset in the BBW Portfolio, and is a key indicator of BBW's diversification in wind resource.

Net capacity factor	Long-term mean energy production (GWh pa)	Land	Revenue source
47.0 %	366.5	25 year lease (with option to extend for a five year term)	PPA
30.3%	213.4	Lease through to 2032 (with option to extend for two additional five year terms)	PPA
34.3%	477.9	40 year lease	Market with PPA option
22.5%	23.5	Land leases with 20 year minimum tenure	Fixed tariff
20.2%	13.2	Land leases with 20 year minimum tenure	Fixed tariff
22.4%	53.0	Land leases with 20 year minimum tenure	Fixed tariff
24.3%	17.0	Land leases with 20 year minimum tenure	Fixed tariff
27.4%	3.6	Land leases with 20 year minimum tenure	Fixed tariff
22.1%	19.3	Land leases with initial terms of 25 years, with extensions of up to five years	Fixed tariff
20.8%	3.6	Land leases with initial terms of 25 years, with extensions of up to five years	Fixed tariff
24.3%	32.3	Combination of land leases, easements and surface rights with 30+ year tenure and options to extend	Market option
27.1%	70.6	Combination of land leases, easements and surface rights with 30+ year tenure and options to extend	Market option
24.8%	66.5	Combination of land leases, easements and surface rights with 30+ year tenure and options to extend	Market option
31.7%	99.9	Combination of land leases, easements and surface rights with 30+ year tenure and options to extend	Market option
24.5%	45.6	Combination of land leases, easements and surface rights with 30+ year tenure and options to extend	Market option
21.4%	47.9	Combination of land leases, easements and surface rights with 30+ year tenure and options to extend	Market option
34.0%	104.1	Surface rights with a 30 year tenure	Fixed tariff
32.0%	81.9	Surface rights with a 30 year tenure	Fixed tariff

Wind farm	Wind region	BBW equity interest (%)	Commercial operation date	Installed capacity (MW)
<b>France</b>				
Fruges 1	Pas de Calais	100%	Under construction (completion expected second half 2007)	22.0
Fruges 2	Pas de Calais	100%	Under construction (completion expected first half 2008)	30.0

USA – BBW Equity Interest, Installed Capacity (MW) and Long Term Mean Energy Production (GWh pa) are all shown on the basis of active ownership as represented by the percentage of B Class member units held by BBW.

Sweetwater 1	South – Texas	50%	Dec 2003	18.8
Sweetwater 2	South – Texas	50%	Feb 2005	45.8
Caprock	South – New Mexico	80%	Dec 2004 & Apr 2005	64.0
Blue Canyon	South – Oklahoma	50%	Dec 2003	37.1
Combine Hills	North West – Oregon	50%	Dec 2003	20.5
Sweetwater 3	South – Texas	50%	Dec 2005	67.5
Kumeyaay	South West – California	100%	Dec 2005	50.0
Jersey Atlantic	North East – New Jersey	59%	Mar 2006	4.4
Bear Creek	North East – Pennsylvania	59%	Mar 2006	14.2
Crescent Ridge	Mid West – Illinois	75%	Nov 2005	40.8
Aragonne Mesa	South – New Mexico	100%	Dec 2006	85.5
Buena Vista	South West – California	100%	Nov 2003	38.0
Mendota	Mid West – Illinois	100%	Dec 2006	51.7
Allegheny Ridge Phase I	North East – Pennsylvania	100%	Jun 2007	80.0
GSG	Mid West – Illinois	100%	Jun 2007	80.0

#### US 06 (remaining to be acquired)

Allegheny Ridge Phase II	North East – Pennsylvania	100%	Expected December 2007	70.0
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#### Proposed acquisitions (not yet acquired)

Eneris	Portugal	At least 50%	Between 1998 and 2007	262.4
US07	USA	At least 50% of B Class member units	Expected mid-2007 through to first half 2008	374.5

Net capacity factor	Long-term mean energy production (GWh pa)	Land	Revenue source
25.8%	49.7	Land leases with a minimum tenure of 25 years	Fixed tariff
26.3%	69.1	Land leases with a minimum tenure of 25 years with options to extend	Fixed tariff
43.1%	70.9	Land leases with 30 or 40 year tenure	PPA
45.1%	180.9	Land leases with 30 or 40 year tenure (from 2004)	PPA
45.2%	253.3	Land leases with two successive 25 year terms (and one 35 year term)	PPA
40.6%	132.1	Land leases with 20 year tenure and 10 year options to extend	PPA
33.3%	59.8	Land leases with 60 year tenure with an option to extend year to year thereafter	PPA
43.0%	254.3	Land leases with 40 year terms with a couple of easements that are 30 year terms	PPA
37.6%	164.6	Land leases with 25 year tenure, with option to extend for 5 years	PPA
29.4%	11.4	Land leases with 25 year tenure	PPA & market
34.9%	43.5	Land leases with 40 year tenure	PPA
36.0%	128.9	Land leases with 40 year tenure	Market
34.2%	269.2	30 year site lease from 1 January 2006	PPA
32.5%	108.3	30 year site lease	PPA
24.5%	111.0	40 year site lease	Market
34.0%	238.3	30 year lease	PPA
32.9%	230.5	50 year site lease	Market
34.0%	208.6	50 year site leases	PPA
28.6%	657	Varies, with a minimum term of the duration of the wind farm	Fixed tariff
37.8%	1.243	Land leases with 20 year tenure and 10 year options to extend	PPA & market

BBW has a history of making acquisitions and at any time may be considering various acquisition opportunities. In the period prior to the Implementation Date BBW may be undertaking due diligence investigations or be in negotiations in relation to various acquisition opportunities. This may result in BBW making acquisitions prior to or shortly after the Implementation Date.

**(b) Additional information on BBW Portfolio**

**(i) Australia**

The Australian wind energy market is still in the early stages of development and growth relative to the European and US markets. The Australian Federal Government has not ratified the Kyoto Protocol, and is now focussed heavily on encouraging the development of low emissions technologies such as "clean coal", and much less on renewable energy sources. The latest figures indicate that wind energy capacity for Australia is currently 817MW.<sup>74</sup>

Renewable energy targets are currently in place at a national level, in Victoria, and proposed for NSW, Western Australia and South Australia.

**(ii) Germany**

The German wind market is the world's largest wind market, with cumulative installed capacity of 20,622MW at the end of 2006.<sup>74</sup> Germany accounted for 27.8% of global cumulative capacity in 2006. The German market is backed by regulatory support on various levels, including extensive legislation, a commitment to the Kyoto Protocol and Government subsidised lending program.

In April 2004, an amendment to the Renewable Energy Sources Act was passed in order to provide further impetus to the German renewable energy sector. Under the Renewable Energy Sources Act (Germany), wind farms are paid a fixed tariff for electricity produced for a period of 20 years.

In March 2006, BBWPL entered into a framework agreement with Plambeck Neue Energien AG (**Plambeck Framework Agreement**). Under this agreement, BBW has secured the rights to acquire wind farms with up to approximately 300MW in aggregate.

**(iii) Spain**

The Spanish market is a significant wind energy market, with an accumulated installed capacity of 11,615MW, representing 15.6% of cumulative global capacity at the end of 2006. It is the second largest market in the world.<sup>74</sup> The Spanish Government has signed the Kyoto Protocol and the EU has set national electricity targets for the contribution of electricity from renewable energy sources as a proportion of gross consumption.

The Spanish regulatory regime allows wind generators to choose each year between a regulated 'fixed tariff', or a 'market tariff option', which is the sum of the (variable) electricity pool price plus a premium, plus reactive energy remuneration, less any imbalance charges. Most of BBW's wind farms have selected the market tariff option.

BBWPL has entered into a framework agreement dated 13 September 2005 with Babcock & Brown (UK) Holdings Limited, a UK subsidiary of Babcock & Brown (**B&B UK**), under which BBWPL is able to acquire wind farms in Spain with up to approximately 450MW in aggregate on terms which correspond to rights and obligations which B&B UK has with Gamesa Energia SA (**Gamesa Framework Agreement**).

**(iv) France**

The French wind energy market has developed more slowly than its European counterparts, but is now showing signs of increased growth. 810MW<sup>74</sup> of new capacity was installed in 2006, which was a 107% increase on the previous year, placing France in the top 10 markets in 2006 by annual MW installed. Total installed capacity in France is now 1,567MW.<sup>74</sup>

Under the Ministerial Order of July 2006, Electricite de France is obliged to buy electricity from privately owned and operated renewable energy sources in accordance with Power Purchase Agreements. The term of a PPA is 15 years starting from the industrial commissioning of the installation.

**(v) United States**

The United States is a developed wind market and, with total installed capacity of 11,603MW, at the end of 2006 accounted for 15.7% of the global market. The recent growth of the US market has been driven by the extension of the Production Tax Credit (PTC) system to 2008, which is the primary US federal government tax credit incentive for wind development.

The capital structure of the US wind farms is divided into Class A membership interests and Class B membership interests (BBW owns Class B membership interests). Class A members and Class B members enter into an agreement which governs the relationship between them and management of the business of the project entity.

The economic interests consist of two categories as follows:  
 (A) allocation of tax benefits, and  
 (B) cash distributions.

Note:

74 Global Wind Energy Council, "Global Wind Energy Outlook 2006", September 2006 and Press Release February 2007.

The typical return profile of the US assets is summarised as:

- (A) Class A members receive a significant proportion of their investment return from the allocation of PTCs and depreciation allowances;
- (B) Class A members receive all tax benefits until Class B capital is repaid;
- (C) after the Class B capital is repaid, the Class A members receive all cash distributions and all tax benefits until a target after tax return is achieved;
- (D) once this target return is achieved (**Reallocation Date**), the allocation of tax and cash benefits to Class A members is reduced to a proportion which ranges between 5% and 25%, with the remainder allocated to the Class B members;
- (E) Class B members receive 100% of the cash distributions up to the earlier of the point where all of their initial equity capital has been repaid and an agreed date. After this point, and up until the Reallocation Date, the Class B members do not receive any cash distributions; and
- (F) Class B members may have an option to acquire the Class A interests after the Reallocation Date has been reached or after ten years.

For all BBW's US assets, the relevant period for the historical and guidance information provided within this Booklet is the period when BBW, as a Class B member, receives its B class ownership proportion of all cash distributions from these wind farms.

#### (c) Location of BBW assets

The locations of the wind farms in the BBW Portfolio are illustrated in Part A.

### 8.6 Sale of Wattle Point Assets

On 23 April 2007 Alinta completed the sale of the Wattle Point Assets to a wholly owned subsidiary of ANZ's Energy Infrastructure Trust for \$225 million. On Implementation of the Share Scheme and, in accordance with the Participation Deed, BBW will receive \$211 million of the sale proceeds in consideration for the issue of 130.1 million BBW Stapled Securities and net payment of \$9.5 million in cash. This will provide BBW with enhanced capacity to pursue a range of identified value accretive acquisition opportunities.

Under the Umbrella Agreement and Participation Deed, BBW will be allocated any residual liabilities of Alinta in connection with the Wattle Point Assets which may arise after the Implementation Date. Such residual liabilities could arise in connection with the representations and warranties made by Alinta under the terms of the sale of the Wattle Point Assets, however BBW considers the likelihood of such a claim being made to be remote.

### 8.7 BBW's key strengths and investment strategy

#### (a) Key strengths of the business model

##### (i) BBW Distributions are paid from operating cash flows

It is the intention of the BBW Directors to make distributions out of net operating cash flow after taking into account other investment capital flows such as debt amortisation, the BBW DRP participation and future funding requirements or investment opportunities of the business. Over the guidance period, increases in net operating cash flow are expected given the ongoing contribution of the current operating portfolio as well as contributions from recently acquired or committed acquisitions and from assets in construction that will commence operations within the guidance period.

##### (ii) Diversification

BBW's strategy is to own and manage a diverse portfolio of wind farms. The key sources of diversity are:

- > wind resource and geographic location – the potential for BBW to be adversely impacted by lower than expected wind speeds in any one region is reduced by the BBW Portfolio being located in many wind regions;
- > regulatory regime – BBW is less likely to be negatively impacted by an adverse regulatory outcome as a result of the BBW Portfolio being governed by five regulatory regimes;
- > equipment and service providers – the impact of the failure of any one of BBW's equipment providers is reduced by the fact that the BBW Portfolio is supplied by seven different equipment providers and many service providers; and
- > revenue sources – BBW revenues are derived from a mix of PPAs, fixed tariffs and market pool arrangements, which provide the benefits of a majority of contracted or legislated income together with the ability to capitalise on attractive market conditions where appropriate.

##### (iii) Growth opportunities

BBW's strategic planning process ensures the ongoing identification of both operating and capital investment programs, the alignment of growth opportunities for each asset and identification of appropriate acquisition opportunities in that particular market or geography.

Growth opportunities for BBW include the following:

- (A) Organic growth opportunities – these include:
  - > Exposure to higher energy and certificate prices through higher prices under PPAs and the potential to benefit from higher spot electricity and certificate prices after the expiry of PPAs.
  - > Optimisation of O&M arrangements, including through competitive tendering and improving the availability of the wind farms.
- (B) Expanding the capacity and life of the current BBW Portfolio – through re-powering by replacing older wind turbines with newer, more efficient and larger capacity models.
- (C) New greenfield construction projects and acquisitions – this includes opportunities derived through the framework agreements signed with Gamesa and Plambeck (refer to section 8.5(b)), as well as through BBW's relationship with B&B.

BBW is continuously reviewing and evaluating investment opportunities and is currently reviewing and evaluating a number of near term investment opportunities. It is possible that an acquisition may be announced during or shortly after the Implementation Date. The opportunities under review and evaluation, if concluded, will be consistent with BBW's stated investment criteria. If BBW undertakes any one of these transactions prior to the Implementation Date, appropriate disclosures will be made and relevant information will be announced to ASX and made available on the BBW website at [www.bbwindpartners.com](http://www.bbwindpartners.com).

BBW is in regular contact with Gamesa and Plambeck, its framework partners, and may work with them during the coming months on delivery, under the relevant framework agreement, to BBW of wind farms from their pipeline (each a **Pipeline Wind Farm**). BBW may undertake due diligence on Pipeline Wind Farms prior to the Implementation Date and it is possible that, under the relevant framework agreement, BBW may enter into sale and purchase contracts and complete on the acquisition of Pipeline Wind Farms prior to the Implementation Date. A Pipeline Wind Farm does not typically exceed 40MW and is more commonly 25MW or less.

BBW may raise additional debt financing under its corporate facility to fund the acquisition of Pipeline Wind Farms.

Identified opportunities likely to be acquired by BBW from B&B are set out in Figure 8.5:

**Figure 8.5: BBW identified acquisition opportunities**

Name of wind portfolio	Enersis	US07
Location	Portugal	Central West & South USA
Status at completion of acquisition by BBW	Operational	Operational
BBW equity interest	At least 50%	At least 50% of Class B interests
Installed capacity (BBW's proportionate interest)	262MW	375MW
Revenue assurance	Feed-in tariff (fixed)	PPA and merchant
Number of wind farms	29	3
Wind regions	1	2
Number of turbines	267	490

B&B has offered to BBW the opportunity to acquire at least a 50% interest (**Enersis Wind Interest**) in the 524MW Portuguese wind farm portfolio which forms part of the Enersis assets which B&B acquired in 2005 (**Enersis Wind Portfolio**). BBW is currently undertaking due diligence on the assets within the Enersis Wind Portfolio and negotiating the terms of purchase from B&B. The documentation that BBW would expect to enter into with B&B (as vendor) would include a sale and purchase agreement and a shareholder agreement to govern the basis on which BBW and B&B would manage the Enersis Wind Portfolio (in which they would then each have less than 100% interest). B&B has also offered to BBW a first right of refusal to acquire B&B's remaining interest in the Enersis Wind Portfolio. Acquisition of the Enersis Wind Interest would provide BBW with exposure to further diversification across wind resource, turbine suppliers and regulatory regime (namely, the Portuguese renewable energy regulatory regime).

BBW is currently undertaking due diligence on three wind farms, namely two extensions at the Sweetwater wind farm complex in Texas (in which BBW already has an interest), and the Cedar Creek wind farm which would provide BBW with its first presence in Colorado. BBW is also starting to negotiate sale and purchase documentation regarding its proposed investment by way of subscription for Class B interests (refer to section 8.5(b) for an explanation of the capital structure of the US wind assets in which BBW invests) (**US07 Class B Interests**). Acquisition of the US07 Class B Interests would provide BBW with exposure to further diversification across wind resource, turbine suppliers and regulatory jurisdiction.

BBW confirmed on 26 April 2007 that the proposed acquisitions were expected to satisfy its investment criteria.

Due to the related party nature of the two proposed acquisitions, under BBW's corporate governance procedures, approval of the independent directors must be sought. BBW will also require approval of BBW Stapled Securityholders to acquire the Enersis Wind Interest and the US07 Class B Interests and a report from an independent expert concluding that each transaction is fair and reasonable. BBW may complete due diligence, documentation and seek independent director approval prior to the Implementation Date. BBW currently intends to distribute meeting materials to BBW Stapled Securityholders after the Implementation Date.

If approved by the BBW independent directors and BBW Stapled Securityholders, BBW:

- > expects to fund the acquisition of the Enersis Wind Interest from cash proceeds from the issue of securities in the April 2007 placement and funds raised from the Scheme Proposal and would anticipate completing the acquisition in the first half of BBW FY08;

> expects to fund the acquisition of the US07 Class B Interests from a mixture of cash proceeds from the issue of securities in the April 2007 placement and funds raised from the Scheme Proposal and debt raised under BBW's corporate facility and would anticipate completing the acquisition in the first half of BBW FY08, in stages as the wind farms become operational. The expected combined financial impact of acquiring both the Enersis Wind Interest and US07 Class B Interests is set out in section 8.9(j).

#### (iv) Refinancing of global wind farm portfolio

In May 2007 BBW refinanced and re-leveraged its global wind farm portfolio, aggregating project, asset and corporate level debt across various jurisdictions into a single corporate facility. The new facility is flexible and scalable, subject to lenders' approvals at the time of each future investment. The new facility involves a multi-currency structure with a single BBW borrower for each region (Australia, Europe and USA) and is divided between term facilities, construction facilities, working capital facilities, and letter of credit and guarantee facilities. The new facility is expected to be refinanced every two to three years. The multi-currency structure enables BBW to retain its natural currency hedge of revenues and debt service.

#### (v) Strategic relationship with Babcock & Brown

Refer to Part A of this Booklet for details on BBW's relationship with Babcock & Brown.

#### (b) Investment strategy

BBW's investment strategy is to build BBW Stapled Securityholder wealth through managing its portfolio of diversified wind farms and, where appropriate, through accretive acquisition of additional assets. A key component of BBW's growth strategy is the acquisition of wind farm assets under existing framework agreements and from B&B. Details of these framework agreements are contained within section 8.5(b).

BBW's existing assets were acquired based on the selective investment criteria and sound financial characteristics as follows:

- > No development risk.
- > Appropriate construction risk or commissioning risks.
- > Superior asset quality.
- > Favourable locations – with wind resource based on historic onsite wind data assessed by leading independent experts.
- > Attractive off-take arrangements/market conditions.
- > Predictable operating costs.
- > Long-term investment horizons with re-powering opportunities.
- > Portfolio diversification.

BBW currently has assumed construction risk with respect to the Lake Bonney 2 and Fruges I & II wind farms.

## 8.8 BBW Stapled Securities

### (a) Capital structure outline

Details of BBW Stapled Securities currently on issue, including those that may be issued as part of the Share Scheme Consideration of the Scheme Proposal, are set out in Figure 8.6.

**Figure 8.6: BBW Stapled Securities on issue**

Note	Date	Number (million)
Balance at date of Booklet	27 June 2007	673.07
BBW Stapled Securities issued as part of the Share Scheme Consideration	31 August 2007	130.18 <sup>75</sup>
Post Share Scheme closing balance	31 August 2007	803.25

### (b) BBW Distribution policy

BBW Distributions are payable half-yearly in respect of the preceding six month periods ending 31 December and 30 June.

BBW Distributions will be determined by the BBW Board each half-year ending 31 December and 30 June. BBW Directors have provided guidance that the BBW Distributions will be 12.5 cents and 14 cents per BBW Stapled Security for BBW FY07 and BBW FY08 respectively, subject to the achievement of certain assumptions.<sup>76</sup>

BBW Distributions are expected to be funded from net operating cash flows and the BBW Directors have targeted a distribution growth rate of at least 3.5% per annum over the medium term.

BBW has implemented a BBW DRP which currently allows BBW Stapled Securityholders to reinvest BBW Distributions in additional BBW Stapled Securities. The BBW Board may suspend, terminate or modify the operation of that plan at any time.

## 8.9 BBW financial information

### (a) Basis of preparation of BBW financial information

#### (i) Financial year

The financial year for BBW is the year ending 30 June.

#### (ii) BBW historical financial information

The BBW historical information has been prepared in accordance with AIFRS.

#### Notes:

<sup>75</sup> Based on the number of fully diluted Alinta Shares of 500.68 million.

<sup>76</sup> FY07 distribution guidance assumes: no incentive management fee. FY08 distribution guidance assumes US06 Portfolio is acquired materially in line with proposed timing, P50 production, no incentive management fee.

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BBW is providing a pro forma historical balance sheet as at 31 December 2006 and a reconciliation of reported net profit/loss to net operating cash flow for BBW FY06 and for the six months ended 31 December 2006. Both have been derived from the audited financial statements of BBW for the BBW FY06 and the reviewed interim financial statements for the half year ended 31 December 2006.

The BBW historical pro forma balance sheet as at 31 December 2006 set out in section 8.9(h) has been reviewed by PricewaterhouseCoopers Securities Ltd whose Investigating Accountant's Report is included in Annexure F.

**(iii) BBW net operating cash flow guidance and BBW Distribution guidance**

BBW's net operating cash flow and BBW Distribution guidance have both been prepared in accordance with AIFRS.

BBW is reconfirming net operating cash flow guidance for BBW FY08 and BBW FY09 and BBW Distribution guidance for BBW FY07 and BBW FY08.

Each has been prepared for illustrative purposes for use in this Booklet only. This financial information is based on circumstances at the date of this Booklet and an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions.

BBW's guidance has been prepared on the basis of a number of assumptions, including those assumptions contained in section 8.9(f). The information is intended to assist potential investors in assessing the reasonableness and likelihood of the assumptions occurring and is not intended to be a representation that the assumptions will occur. This guidance does not include prospective acquisitions and is not on a pro forma basis. It takes into account the expected timing of construction and acquisitions for committed transactions.

Potential investors should be aware that the timing of actual events and the magnitude of their impact may differ from that assumed in preparing the guidance and that this may have a materially positive or negative effect on BBW Distribution guidance. Potential investors are advised to review the key assumptions in conjunction with the sensitivity analysis set out in section 8.9(g).

BBW has not included a forecast income statement in this section. The rationale for this is provided in section 8.9(h).

The financial guidance information for BBW presented in this section has been prepared by the BBW Directors on the basis of material best estimate assumptions set out in section 8.9(f). While the BBW Directors consider the assumptions to be reasonable, readers should be aware that circumstances may change, and actual events and conditions and their timing and magnitude may differ from the assumptions, and this may have a positive or negative effect on BBW's actual financial performance. The BBW Directors cannot and do not give any assurance that the guidance will be achieved.

BBW has also provided information in relation to prospective acquisitions, including the impact on net operating cash flow. Refer to section 8.9(j).

**(iv) BBW's accounting policies**

The AIFRS accounting policies adopted by BBW in the preparation of the historical financial information and the operating cash flow and distribution guidance are set out in BBW's financial report for BBW FY06 (available at [www.bbwindpartners.com](http://www.bbwindpartners.com)).

**(b) BBW Financial Information**

This section contains the following information:

- > Net operating cash flow guidance for BBW FY08 and BBW FY09 (section 8.9(c));
- > BBW Distribution guidance for BBW FY07 and BBW FY08 (section 8.9(d));
- > Pro forma historical balance sheet as at 31 December 2006 (section 8.9(h));
- > Reconciliation of net profit/loss to net operating cash flow for BBW FY06 and for the six months ended 31 December 2006 (section 8.9(i)).

(collectively the **BBW Financial Information**).

The BBW Financial Information disclosed in this section should be read in conjunction with the following information disclosed in this section and other information contained in this Booklet:

- > Management, discussion and analysis – section 8.9(e) further describes significant events and historical results relating to BBW.
- > Assumptions – section 8.9(f) outlines the key assumptions used in the BBW Financial Information.
- > Sensitivity analysis – section 8.9(g) describes the impact of particular sensitivities on net operating cash flow after notional repayment of debt for BBW FY08.
- > Prospects – section 8.9(j) includes the impact of prospective acquisitions on net operating cash flow guidance for BBW FY08 and BBW FY09.
- > Risks – as described in sections 8.12 and 12.

**(c) Components of BBW net operating cash flows**

Figure 8.7 depicts components of BBW net operating cash flow for BBW FY08 and BBW FY09, on the basis of P50 production.

**Figure 8.7: BBW net operating cash flow guidance**

<b>\$ in millions</b>	<b>BBW FY08</b>	<b>BBW FY09</b>
Operating portfolio (31 December 2006) <sup>1</sup>	90.5	90.5
Acquisitions <sup>2</sup>	31.5	38.5
Assets under construction <sup>3</sup>	10.0	24.0
Other events <sup>4</sup>	(12.0)	(12.0)
<b>Net operating cash flow</b>	<b>120.0</b>	<b>141.0</b>
Notional interest on cash balances <sup>5</sup>	20.0	20.0
<b>Net operating cash flow (including notional interest)</b>	<b>140.0</b>	<b>161.0</b>
<i>Per security (cents)</i>		
Net operating cash flow per security <sup>6</sup>	17.1	19.3
Notional debt amortisation per security <sup>7</sup>	(3.1)	(4.0)
<b>Net operating cash flow after notional debt amortisation per security</b>	<b>14.0</b>	<b>15.3</b>

Notes to Figure 8.7:

- 1 Operating portfolio includes the assets in the BBW Portfolio resulting from the initial public offering plus acquisitions announced in May 2006 (US03/04 Assets (remaining B&B Class B interest – Sweetwater 1&2, Blue Canyon, Combine Hills, Caprock)), US05 (Sweetwater 3, Kumeyaay, Bear Creek, Jersey Atlantic), Crescent Ridge and Eifel.
- 2 Acquisitions assumes cash flows from US06 Portfolio (phase 1 acquired March 2007, phase 2 acquired June 2007 and phase 3 expected to be acquired in the second quarter of BBW FY08), Kaarst (acquired January 2007), Monte Seixo and Serra do Cando (acquired June 2007).
- 3 Assets under construction assumes cash flows from Lake Bonney 2 (construction expected to be completed in the second half of BBW FY08), Fruges I&II (various stages of construction expected to be completed between the end of BBW FY07 and the end of BBW FY08).
- 4 Other events include increased base fees, manager expense amount and other ancillary costs as a result of growth in the portfolio.
- 5 Notional interest on cash balances assumes cash balances after issue of securities and after acquisition of Monte Seixo and Serra do Cando increases by \$320 million. It is intended that these funds are to be utilised to purchase the prospective acquisitions. If these funds were not utilised in this manner or towards alternative accretive acquisitions, approximately \$20 million of interest income would be generated.
- 6 Net operating cash flow per security assumes 821 million securities in BBW FY08 and 835 million securities in BBW FY09.
- 7 Notional debt amortisation per security is calculated as net debt, adjusted for timing of completion of construction and acquisitions, amortised over 25 years with a residual balance of 30%.

Due to the incentive management fee only being able to be calculated retrospectively, it is excluded from this guidance as there is no reasonable basis on which to forecast.

Please refer to Figure 8.5 for further acquisition opportunities that BBW is currently considering. BBW would only commit to such opportunities where they are expected to increase net operating cash flow per security.

Figure 8.12 provides a summary of the cash flows derived from the existing portfolio plus incremental cash flows derived from assets recently acquired or that reach commercial operations in the future following construction and from prospective acquisitions.

**(d) BBW Distribution guidance**

BBW's Distribution guidance for BBW FY07 is 12.5 cents per stapled security and represents a 22.5% increase on that paid during BBW FY06 (10.2 cents per stapled security). The BBW Distribution guidance for BBW FY08 is 14.0 cents per stapled security. This represents an increase of 12% on the guidance for BBW FY07.

Distributions in both BBW FY07 and BBW FY08 are expected to be fully tax-deferred.

BBW's approach is to make distributions out of net operating cash flow after taking into account other investment capital flows such as debt amortisation, the BBW DRP participation and future funding requirements or investment opportunities of the business.

Both net operating cash flow and BBW Distribution guidance are expected to be updated within any notice of meeting materials which BBW distributes to BBW Stapled Securityholders in advance of a vote by them on a proposal for BBW to complete the prospective acquisitions.

The current BBW Directors' guidance on distribution growth of at least 3.5% in the medium term remains unchanged.

**(e) Management discussion and analysis**

The following section has been prepared with a focus on activities and events in BBW FY07.

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**(i) Production in BBW FY07**

In BBW FY07 through to 31 May 2007 total production was within expectations but 10% below the long-term mean energy production (P50). The majority of this underperformance is a result of lower than long-term average wind speeds across a number of BBW's wind farms.

**(ii) First half result**

Sales of energy from BBW wind farms (excluding the US) were \$48.6 million in the first half of BBW FY07. The adverse variance versus P50 production was \$7.3 million, \$4.4 million of which was experienced at the Olivo wind farms in Spain. This was substantially offset by Spanish tariffs above forecast in the first quarter (\$3.0 million) and the continued contribution of our new stages at the Eifel wind farm. The EBITDA margin for non-US wind farms at the operational level remained high at 82.5% of sales.

In the US, BBW's class B interest of total revenues (excluding production tax credits which are received directly by the Class A investors – refer to section 8.5(b)(v) for details) was \$25.0 million in the first half of BBW FY07 with an EBITDA margin of 62%. After operating costs and working capital requirements, the distribution from the US investments was \$13.5 million in the first half of BBW FY07.

The operational cash flow of the business including US distributions in the first half was \$53.6 million. Corporate costs were \$10.6 million including base fees of \$5.6 million and management expenses plus legal, tax and other ancillary costs of \$5.0 million. Working capital and other non-cash items made a combined contribution of \$15.5 million in the period. This figure includes ongoing amortisation of upfront operations and maintenance costs, the receipt of compensation payments relating to the Alinta wind farm in Western Australia, and the recoupment of value added tax balances accumulated in Spain.

Net interest paid was \$14.5 million while tax paid was \$2.4 million leaving net operating cash flow for the first half of \$41.5 million. The first half distribution was \$27.7 million, net of the BBW DRP.

**(iii) Investments**

Investment activity totalled \$215 million in the first half of BBW FY07. This included acquisitions of Sweetwater 3, Kumeyaay, Bear Creek and Jersey Atlantic wind farms in the US and Fruges I & II wind farms in France.

Construction at Lake Bonney 2 wind farm in Australia continued on schedule for completion by the end of BBW FY08.

In the third quarter, BBW acquired Kaarst wind farm in Germany for \$30 million as well as completing the acquisition of three of the six wind farms within the US06 Portfolio which, in total, will cost approximately \$506 million.

On 10 May 2007, BBW announced that it had agreed to acquire the Monte Seixo and Serra do Cando operating wind farms located in Spain for an enterprise value of approximately \$180 million prior to 29 June 2007.

**(iv) Funding**

On 27 April 2007, BBW successfully raised \$156.8 million from the placement of 87.1 million BBW Stapled Securities at \$1.80 per stapled security through an institutional placement. Associated with this placement, but subject to the approval of BBW Stapled Securityholders, BBW expects to raise a further \$7.8 million from the issue of 4.4 million securities at \$1.80 per stapled security to B&B in the first quarter of BBW FY08. The combined placement proceeds have contributed to the funding of the acquisitions of the Monte Seixo and Serra do Cando operating wind farms in Spain. In addition, the proceeds are expected to be utilised toward the prospective investment opportunities which are described within Figure 8.5. BBW currently expects to complete these two investment opportunities in the first half of BBW FY08.

A key activity during BBW FY07 has been to refinance the portfolio to replace project debt and other existing short term facilities. As announced on 24 May 2007, BBW signed a €1.030 billion corporate bank facility that will enable a more flexible funding approach to growth going forward.

**(f) Best estimate assumptions in the BBW Financial Information**

The BBW Financial Information in this section has been prepared by the BBW Directors on the basis of the material best estimate assumptions set out below. The BBW Directors have made reasonable enquiries in preparing the BBW Financial Information and consider the assumptions to be reasonable. This information is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring and is not a representation that the assumptions will occur.

Investors should be aware that the timing of actual events and the magnitude of their impact might differ materially from that assumed in preparing the BBW Financial Information and that this may have a positive or negative effect on BBW's actual net operating cash flow guidance and BBW Distribution guidance because the assumptions are by their very nature subject to uncertainties and contingencies, many of which will be outside the control or influence of the BBW Directors.

Accordingly, BBW cannot, and does not, give any assurance that the outcomes in the BBW Financial Information will be achieved.

The net operating cash flow guidance for the BBW FY08 and BBW FY09 and BBW Distribution guidance for BBW FY07 and BBW FY08 have been based on the following assumptions.

### (i) Revenue assumptions

The long-term mean energy production (**P50**) has been adopted for the preparation of the net operating cash flow and BBW Distribution guidance.

The P50 is based on independent expert reports for each wind farm and is regarded as the most appropriate estimate for the purposes of formulating the guidance. These estimates incorporate the proportion of time that a turbine is expected to be available to produce energy. This availability factor is based on expected down-time for such events as mechanical failure and servicing. The uncertainty of data measurement and modelling together with prediction, the achievement of expected availability levels in the initial period of operations and over the longer term and the natural variability of wind, could have a material effect on these estimates and hence the guidance.

Energy output levels used to formulate the guidance are also dependent upon construction being completed by the scheduled construction completion dates for those wind farms that are not yet operational and upon completion of acquisition of wind farms that BBW has committed to purchasing upon commencement of commercial operations.

A delay to the construction end dates or acquisition completion dates would have an impact on energy production and depending on the significance, could impact net operating cash flow and distribution.

The wind farms currently under construction are the Lake Bonney Stage 2 and Fruges I and II wind farms. Those committed acquisitions that are yet to be purchased because commercial operations are yet to be reached include the Allegheny Ridge Phase II wind farm. This wind farm project forms part of the recent US06 transaction. See also assumptions around capital expenditure in section 8.9(f)(vi).

BBW revenues are derived from a mix of PPAs, fixed tariffs and market arrangements. An estimate of the split between these types of revenues during the guidance period is shown in Figure 8.8.

**Figure 8.8: BBW revenue split**

Type of Revenue <sup>77</sup>	% of total
PPA/fixed tariff	80
Market price	20

PPAs are generally long-term supply agreements which, assuming P50, generate stable cash flows.

Tariffs from the German and French assets are fixed and consist of regulated feed-in tariffs. BBW is not aware of any upcoming reviews of the regulations in these jurisdictions.

Market price revenues relate to revenues earned from selling electricity directly to the wholesale market. This includes a component of the revenues earned from BBW's Spanish wind farms. Each year BBW has the option to accept either a regulated fixed tariff set by legislation or a market tariff option which is the sum of the (variable) electricity pool price plus a premium, plus reactive energy remuneration, less any imbalance charges. Most of BBW's Spanish wind farms have selected the market tariff option. Market prices used to determine cash flow guidance are supported by market advisor reports.

Refer to section 8.9(g) for details of the sensitivities of BBW Distribution to the P50 assumption, change in market prices and delay in timing of construction.

### (ii) Operating cost assumptions

#### (A) Operations and maintenance

All of BBW's assets have fixed price operations and maintenance contracts which represent the major operating costs for the portfolio (approximately 55%–65% of total operating costs).

These operations and maintenance costs are fixed under contract, typically with the turbine manufacturer for a term between five and 14 years from the start of operations. The remaining weighted average term for the operations and maintenance contracts currently in place for the portfolio is 4.2 years.

#### (B) Leases

Lease costs are fixed under the relevant lease contract. Figure 8.4 summarises the term of the leases for each wind farm which vary between 20 and 60 years (with options to extend in some cases).

#### (C) Connection

Connection costs are fixed under connection contracts with network service providers.

#### (D) Insurance

BBW maintains a comprehensive suite of insurances which are reviewed and updated annually. For each wind farm under construction, contract works insurance is in place for the duration of the construction period. Operating insurance premiums are usually paid in advance and are reviewed for adequacy each year with input from insurance advisors.

### (iii) Corporate costs

BBW has entered into management agreements with BBWPM under which base and incentive management fees, the manager expense amount as well as other expenses, are payable.

BBWPM is entitled to an amount per annum in respect of management expenses. This amount was initially set at \$6 million per annum and increases by CPI throughout the term of the BBWPL Management Agreement. The amount may also be increased by

Note:

<sup>77</sup> Based on GWh and on BBW's proportionate interest.

approval of the board of BBWPL at various intervals that do not exceed five years to reflect the increased actual or estimated expenses. BBWPM also has the right under the management agreements to recover ancillary costs, such as audit, tax and legal costs that it pays on behalf of BBW.

A base fee is payable quarterly in arrears – see section 8.11(b) for details on this fee.

An incentive management fee is related to the relative performance of BBW and is payable half-yearly. The fee is only payable in any half year period where BBW's performance exceeds the performance of a benchmark index on an accumulated basis. See section 8.11(c) for details on this fee.

The management expenses and base fee are incorporated within the net operating cash flow guidance. Due to the incentive management fee only being able to be calculated retrospectively, it is excluded from this guidance as there is no reasonable basis on which to forecast.

Please refer to section 8.11 for more detail on BBW fees.

#### (iv) Interest and hedging assumptions

In determining its guidance, BBW has followed its hedging policies. In the guidance period, 75% of the interest cost is at fixed rates. Borrowing costs directly attributable to assets under construction are capitalised as part of the cost of those assets. In addition to the natural hedge of borrowing in the currency of the underlying asset, BBW hedges foreign currency distributions through implementing forward exchange contracts on a rolling three year basis. Refer to the sensitivity analysis in Figure 8.9.

#### (v) Taxation assumptions

BBW's portfolio of wind farms includes entities that are subject to taxation in Australia, the USA, Germany, the UK, Spain, France and Luxembourg.

In Australia, BBWPL and its wholly owned Australian tax resident subsidiaries have formed a tax consolidated group, with BBWPL being the head company. The taxable income of BBWPL is subject to income tax in Australia at the corporate tax rate which is currently 30%. BBWPL's taxable income will primarily arise from the following sources:

- > profits from stages 1 and 2 of the Lake Bonney wind farm projects in South Australia; and
- > profits from the Alinta wind farm in Western Australia.

BBWPB is a company incorporated in Bermuda. BBWPB is currently regarded as an Australian income tax resident company. Therefore, it is subject to Australian income tax at the corporate tax rate. Currently, BBWPB does not have any significant assets and, while that continues, it is not expected to derive any material amounts of income. BBWPT is considered to be a flow through trust under Australian tax law. That is, BBWPT itself will not usually be liable to pay tax in respect of income or gains derived by the trust.

Distributions made by BBWPT will be classified between amounts that represent taxable income or tax-deferred distributions.

The relevant corporate income tax rates applicable in BBW's other current territories are:

- > United States – 35% Federal income tax (State income tax may also apply);
- > Germany – 26.375% including surcharge (2007), 15.825% including surcharge thereafter (municipal trade taxes may also apply);
- > United Kingdom – 30%;
- > Spain – 32.5% (2007); 30% thereafter;
- > France – 33.33%; and
- > Luxembourg – 29.63% (including municipal business tax).

The states of the United States in which BBW currently has operations have State corporate income tax rates ranging from 4.5% (Texas) to 9.99% (Pennsylvania). State corporate income tax paid is deductible in calculating Federal income tax liability.

German municipalities have trade tax rates ranging from 13% to 20.5%. For BBW FY07, municipal trade tax paid is deductible in calculating corporate income tax. Commencing the third quarter of BBW FY08, municipal trade tax will not be deductible in calculating corporate income tax.

#### (vi) Capital expenditure assumptions

Capital expenditure on existing operational wind farms is not material and is contained within operating costs.

#### (vii) Exchange rate assumptions

An average forward A\$/US\$ exchange rate of A\$1.00 = US\$0.8253 and US\$0.8114 for BBW FY08 and BBW FY09, respectively, has been used.

An average forward A\$/€ exchange rate of A\$1.00 = €0.6025 and €0.5896 for BBW FY08 and BBW FY09, respectively, has been used.

#### (viii) General assumptions

The BBW Directors have also made the following general assumptions for the BBW Distribution guidance:

- > no significant change to the legislative regimes and regulatory environments in the jurisdictions in which BBW operates;
- > no material change in the competitive activity in the markets in which BBW operates;
- > no material change to inflation rates from current levels;
- > no changes in accounting standards or other mandatory professional reporting requirements of the Corporations Act or changes in BBW's accounting policies which would have a material effect on BBW's cash flows or financial position;
- > no material change in the economic and political conditions with respect to the renewable energy industry in the countries in which BBW operates;
- > no material amendment to any agreement or arrangements relating to BBW or any wind farm in the BBW Portfolio; and
- > the BBW Directors and senior management of BBW being retained.

**(g) Sensitivity analysis**

The guidance is based on assumptions about future events and actions. Future events cannot be predicted with certainty and deviations from the guidance may occur.

The changes in the key variables set out in the sensitivity analysis in Figure 8.9 are not an exhaustive list of the range of variations that may be experienced over the period over which the guidance is made and accordingly care should be taken when interpreting these sensitivities. The sensitivity analysis is intended as a guide only and movements in one assumption may have offsetting or compounding effects on other variables or may also affect other variables which are not reflected in the sensitivity analysis results in Figure 8.9.

Further, the BBW Directors and management of BBW would typically respond to any material change in conditions by taking appropriate action to minimise, to the extent possible, any adverse effect on earnings and distributions. The potential impact of these mitigating actions are not included in the following sensitivity analysis.

**(i) Interest rates**

BBW finances its investments with a mix of equity and project or corporate debt provided by third party financiers. If the debt portion of this financing is unhedged in relation to interest rates (i.e. the interest on the debt is based on floating interest rates), an increase in interest rates could impact the value of BBW's equity investment and also increase the cost of debt service. In line with its treasury policy, BBW has hedged approximately 75% of the principal amount outstanding in the guidance period through interest rate swaps which are consistent with the term of the debt. The guidance will be affected by changes in interest rates as they affect unhedged debt. Figure 8.9 shows the sensitivity of the BBW Distribution guidance for BBW FY08 to a 1.00% increase/decrease in interest rates.

**(ii) Foreign exchange rates**

BBW operates in a number of countries around the world. Accordingly, it operates in a number of currencies. To mitigate this risk, BBW utilises corporate debt in the underlying currency where the asset operates as this operates as a natural hedge. BBW also has a policy of hedging forecast distributions from its assets for a period of up to three years. The guidance will be affected by changes in exchange rates in relation to unhedged distributions. Figure 8.9 shows the sensitivity of the BBW Distribution guidance for BBW FY08 to a 5% increase/decrease in foreign exchange rates.

**(iii) CPI inflation**

The guidance will be affected by changes in CPI. CPI impacts the forecast of both revenue and operating expenses. Figure 8.9 shows the effect on the BBW Distribution guidance for BBW FY08 of a 0.5% increase and decrease in the assumed CPI rate.

**(iv) Energy market prices**

BBW's revenues are derived from a mix of PPAs, fixed tariffs and market arrangements. Figure 8.9 provides an estimate of the impact on the BBW Distribution guidance of both a 5% increase and a 5% reduction in energy market prices for those projects that sell energy under market arrangements.

**(v) Portfolio production**

The estimated long-term mean energy production (**P50**) is the "central estimate" or most likely outcome for production. Probability of exceedence (**P**) means the probability that a given level of energy production will be exceeded. For example, P90 is a short form way of describing that there is a 90% probability that a given level of energy production will be exceeded. For an individual wind farm, natural wind variability remains significant in any individual year. Time significantly reduces the natural wind error making the 10 year P90 and P75s higher than the one year values (i.e. a much narrower probability distribution).

Additionally, the proportion of time that a turbine is expected to be available to produce energy is incorporated into the P50. For an individual wind farm this availability factor is significant, particularly in the initial stages of operations.

Also, the "portfolio effect" is the reduction in energy production variance of the portfolio compared with the summation of the energy production variances of the individual wind farms (i.e. the portfolio P90 is closer to the aggregate P50 than the summation of each individual wind farm's P90). The estimated P90/P50 ratio (using 1 Year P90) for the existing BBW Portfolio is 90.5% compared to 84.3% without the portfolio effect. Figure 8.9 shows the sensitivity of BBW Distribution guidance for BBW FY08 to P75 and P90 production.

**(vi) Delay in construction**

BBW's wind farms currently under construction have been progressed through the development phase by other parties and have been acquired on an "approved, contracted, and ready for construction" basis. Wind farms under construction include Lake Bonney 2, Fruges I and Fruges II. Within the guidance period the base case assumes that these assets are expected to reach commercial operations by the end of BBW FY08, the end of the second quarter of BBW FY08 and the end of BBW FY08 respectively. Figure 8.9 provides an estimate on BBW Distribution guidance for BBW FY08 of the impact of a three month delay in these construction projects, netting the loss in operational earnings against the savings in interest cost.

**(vii) Delay in committed acquisitions**

Future commitments include the completion of the acquisition of the final wind farm in the US06 Portfolio – Allegheny Ridge II. Figure 8.9 provides an estimate of the impact on BBW Distribution guidance for BBW FY08 of a three month delay in acquiring this asset, netting the loss in distributions against the savings in interest cost.

**(viii) Incentive management fee**

BBWPM is entitled to receive an incentive management fee (see section 8.11(c) for details on this fee). The BBW Distribution guidance may be affected by any outperformance by BBW against the S&P/ASX200 Accumulation Index. Figure 8.9 shows the effect on the BBW Distribution guidance for BBW FY08 of a 1% outperformance and 1% underperformance of the S&P/ASX200 Accumulation Index by BBW.

**Figure 8.9: BBW sensitivities****BBW FY08 net operating cash flow after notional repayment of debt**

<b>Base Case (14.0 cents on 821 million securities) (\$m)</b>	<b>114.9</b>
Interest +100bps	-3.2%
Interest -100bps	3.0%
+5% change in A\$/US\$ exchange rate	-0.8%
-5% change in A\$/US\$ exchange rate	0.9%
+5% change in A\$/€ exchange rate	-1.3%
-5% change in A\$/€ exchange rate	1.3%
CPI +50 bps	-0.1%
CPI -50 bps	0.1%
5% reduction in energy market prices	-2.7%
5% increase in energy market prices	2.6%
Portfolio P75 production	-11.4%
Portfolio P90 production	-21.6%
Three month delay in construction	-7.6%
Three month delay in acquisition of remaining wind farm of US06 portfolio	-1.3%
Incentive management fee + 1% outperformance <sup>78</sup>	-2.7%
Incentive management fee - 1% underperformance	0.0%

**(h) BBW pro forma balance sheet**

Figure 8.10 shows:

- > the actual balance sheet of BBW as at 31 December 2006;
- > the pro forma balance sheet of BBW as at 31 December 2006 after significant transactions between 31 December 2006 and the date of this Booklet and after BBW Alinta Assets have been acquired; and
- > the pro forma balance sheet as at 31 December 2006 after future commitments of BBW.

Note:

<sup>78</sup> As at 31 March 2007, the number of basis points relating to the underperformance of SSRI vs BRI to be carried forward to the next period and deducted from the SSRI in the quarter ended 30 June 2007 was 25.6%. The sensitivity therefore requires that the outperformance of the SSRI vs BRI was 25.6% in the quarter ended 30 June 2007 – refer to Section 8.11(c) for details.

Figure 8.10: BBW pro forma balance sheet

\$ in millions 31 December 2006	Reviewed actual BBW <sup>1</sup>	Pro forma adjustments <sup>2</sup>	BBW Alinta Assets <sup>3</sup>	Pro forma <sup>4</sup>	Future commitments <sup>5</sup>	Pro forma after future commitments <sup>6</sup>
<i>Current assets</i>						
Cash and cash equivalents	174.7	23.0	201.5 <sup>79</sup>	399.2	(3.8)	395.4
Other current assets	45.2	9.8	–	55.0	–	55.0
<b>Total current assets</b>	<b>219.9</b>	<b>32.8</b>	<b>201.5</b>	<b>454.2</b>	<b>(3.8)</b>	<b>450.4</b>
<i>Non-current assets</i>						
Equity accounted investments	255.5	410.2	–	665.7	95.8	761.5
Property, plant and equipment	727.8	228.1	–	955.9	137.3	1,093.2
Intangible assets	180.4	116.8	–	297.2	–	297.2
Other non-current assets	45.9	2.6	–	48.5	–	48.5
<b>Total non-current assets</b>	<b>1,209.6</b>	<b>757.7</b>	<b>–</b>	<b>1,967.3</b>	<b>233.1</b>	<b>2,200.4</b>
<b>Total assets</b>	<b>1,429.5</b>	<b>790.5</b>	<b>201.5</b>	<b>2,421.5</b>	<b>229.3</b>	<b>2,650.8</b>
<i>Current liabilities</i>						
Interest bearing liabilities	32.2	–	–	32.2	–	32.2
Other current liabilities	83.1	5.6	–	88.7	–	88.7
<b>Total current liabilities</b>	<b>115.3</b>	<b>5.6</b>	<b>–</b>	<b>120.9</b>	<b>–</b>	<b>120.9</b>
<i>Non-current liabilities</i>						
Interest bearing liabilities	682.8	639.2	–	1,322.0	229.3	1,551.3
Other non-current liabilities	2.6	–	–	2.6	–	2.6
<b>Total non-current liabilities</b>	<b>685.4</b>	<b>639.2</b>	<b>–</b>	<b>1,324.6</b>	<b>229.3</b>	<b>1,553.9</b>
<b>Total liabilities</b>	<b>800.7</b>	<b>644.8</b>	<b>–</b>	<b>1,445.5</b>	<b>229.3</b>	<b>1,674.8</b>
<b>Net assets</b>	<b>628.8</b>	<b>145.7</b>	<b>201.5</b>	<b>976.0</b>	<b>–</b>	<b>976.0</b>
<b>Equity</b>	<b>628.8</b>	<b>145.7</b>	<b>201.5</b>	<b>976.0</b>	<b>–</b>	<b>976.0</b>

Notes to Figure 8.10:

- 1 Reviewed actual BBW – BBW's reviewed historical balance sheet as presented in its financial report for the half year ended 31 December 2006.
- 2 Pro forma adjustments – significant transactions that have actually occurred between 31 December 2006 and the date of this Booklet. These adjustments do not include the payment of the interim BBW Distribution for BBW FY07 or the associated BBW DRP. The pro forma adjustments include the following:
  - (a) Acquisitions of Class B interests in five of the six wind farms within the US06 Portfolio (Aragonne, Mendota, Buena Vista, Allegheny Ridge Phase 1 and GSG), Kaarst in Germany and Monte Seixo and Serra do Cando in Spain. These acquisitions have resulted in BBW increasing non-current assets by approximately \$609 million, which is broken down between equity accounted investments, property, plant and equipment, intangible assets and goodwill. These acquisitions have been funded with a combination of debt and available funds.
  - (b) In January 2007 BBW announced that it had signed a conditional sale and purchase agreement with B&B for the acquisition of Class B interests in a portfolio of six US wind farms (US06 Portfolio) for approximately \$506 million. These acquisitions are assumed to be funded with cash funds available and debt in a ratio of approximately 15:85. The US06 Portfolio is being purchased in three phases between the third quarter of BBW FY07 and the second quarter of BBW FY08. The first and second acquisitions took place in March 2007 and June 2007, respectively, and have been incorporated into the pro forma adjustments. The remaining wind farm within the US06 Portfolio, which BBW is yet to acquire, is Allegheny Ridge II and this forms part of future commitments.
  - (c) In January 2007 BBW announced that it had agreed to acquire the Kaarst wind farm from German developer Plambeck under the current Plambeck Framework Agreement, for approximately \$30 million, assumed to be funded with available cash.
  - (d) In May 2007 BBW announced that it had agreed to acquire the Monte Seixo and Serra do Cando operating wind farms located in Spain for an enterprise value of approximately \$180 million from Electric Power Development Co. Limited and Marubeni Corporation. These acquisitions were identified as the 'European Acquisition' in the Institutional Placement presentation released to the market on 26 April 2007. It has been assumed that the acquisition is funded with cash funds available and debt in the ratio of approximately 20:80.
  - (e) Construction of Lake Bonney Stage 2 and Fruges I & II wind farms – continued construction on these projects amounted to approximately \$149 million from 31 December 2006 to the date of this Booklet and will be fully debt funded. Completion of construction is included within future commitments.

Note:

79 Proceeds from Alinta of \$211 million, net of transaction costs of \$9.5 million.

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- (f) Placement of 87.1 million BBW Stapled Securities in April 2007 and 4.4 million BBW Stapled Securities in the first quarter of BBW FY08. In April 2007 BBW raised approximately \$154 million, net of costs, in an institutional placement and expects to raise a further \$7.8 million in the first quarter of BBW FY08. The proceeds have assisted the funding of the purchase Monte Seixo and Serra do Cando in Spain and are expected to assist in the funding of the prospective acquisitions that are detailed in Figure 8.5.
- (g) Refinancing of BBW Portfolio. In May 2007, BBW refinanced and leveraged its global wind farm portfolio, aggregating project, asset and corporate level debt across various jurisdictions into a single corporate facility. As a result of this transaction, BBW has expensed capitalised transaction costs (\$16.0 million) relating to debt that has been refinanced through this new facility. \$33 million of costs associated with the refinancing are expected to be capitalised and included within borrowings with no net effect on the pro forma balance sheet.
- 3 BBW Alinta Assets – the assets that will be acquired from Alinta as a result of the Scheme Proposal. On Implementation of the Scheme Proposal, BBW will receive \$211 million of the sale proceeds in consideration for the issue of 130.1 million BBW Stapled Securities and payment of \$9.5 million in cash.
- 4 Pro forma – this represents the pro forma historical balance sheet. This column is shaded since it represents the estimated pro forma historical balance sheet at the date that Alinta Shareholders receive BBW Stapled Securities.
- 5 Future commitments – this represents the expected value of acquisitions and construction to which BBW is committed in periods that are from the date of this Booklet. Note that these do not include prospective acquisitions which are explained in more detail within Figure 8.5. Future commitments represent committed expenditure on acquisitions and construction. BBW has already purchased five of the six wind farms within the US06 portfolio. The final wind farm is expected to be completed by the end of second quarter BBW FY07. The cost involved in acquiring the remaining wind farm is approximately \$96 million and will be funded by available cash and existing debt facilities. BBW expects to complete construction of Lake Bonney 2 and Fruges I and Fruges II wind farms after the date of this Booklet. The expected cost to complete is \$137 million and will be funded by existing debt facilities.
- 6 Pro forma after future commitments – this represents the aggregate of the pro forma historical balance sheet after future commitments.

#### (i) Income statement information

Figure 8.11 shows a reconciliation between historical net profit/loss after tax to net operating cash flow for the BBW FY06 and the six months ended 31 December 2006.

**Figure 8.11: Reconciliation between historical net profit/loss after tax to net operating cash flow**

\$ in millions	Six months ended	
	BBW FY06	31 December 2006
<b>Loss for the period</b>	<b>(16.2)</b>	<b>(0.9)</b>
Net loss on fair value of financial assets	0.9	0.4
Share of associates' profit (US investments)	(2.1)	(1.8)
Distributions received from associates (US investments)	7.0	13.5
Depreciation and amortisation of non-current assets	20.1	16.9
Amortisation of borrowing costs capitalised	1.2	1.6
Non cash incentive management fee payment	13.0	-
Increase/(decrease) in current tax liability	0.7	(1.7)
Increase in deferred tax balances	(2.5)	(1.9)
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:		
Receivables	6.2	0.8
Prepayments and other current assets	(15.8)	10.9
Payables	1.7	3.7
<b>Net operating cash flow</b>	<b>14.2<sup>80</sup></b>	<b>41.5</b>

Note:

80 Includes incentive management fee of \$20 million paid in cash.

BBW has not provided a forecast income statement. BBW's approach is to make distributions out of net operating cash flow after taking into account other investment capital flows such as debt amortisation, the BBW DRP participation and future funding requirements or investment opportunities of the business. In addition, as BBW has a triple-stapled security structure incorporating a trust (BBWPT), it is not reliant on operating profit in order to be able to pay distributions. Consequently, BBW believes that the net operating cash flow position is more meaningful to its investors than its income statement.

A material component of the historical reconciliation between profit after tax and net operating cash flow is the difference between distributions received from associates (US investments) and the share of associates' profit (US investments). While distributions received from US associates are possible to forecast using the business assumptions in section 8.9(f), the shares of US associates' profits are determined by valuation movements. As is usual in forecasts included within public documents, movements in valuations are not forecast in the income statement as there is no reasonable basis on which to do so.

The economic return profile of the US investments varies throughout their life and this is explained in more detail in section 8.5(b)(v). For all BBW's US assets, the relevant period for the historical and guidance information provided within this document is the period when BBW, as a Class B member, receives its B class ownership proportion of all cash distributions of these wind farms.

#### **(j) Commentary on prospects**

A key component of BBW's near term growth strategy is the acquisition of wind farm assets under existing framework agreements and from B&B. BBW is continuously reviewing and evaluating investment opportunities, including on market transactions. Refer to section 8.5(b)(ii) and section 8.5(b)(iii) for detail on the existing framework agreements.

Through its relationship with B&B, BBW has identified two attractive investment opportunities in the US and Europe totalling approximately 637MW.<sup>81</sup> These assets are currently owned by B&B and BBW is currently undertaking due diligence and negotiating definitive sale and purchase documentation. Subject to approval

of the terms of acquisition by BBW's independent directors and the approval of BBW Stapled Securityholders at a general meeting, BBW expects to complete the following acquisitions in the six months ending 31 December 2007:

- > at least 50% of a company that holds the Enersis operating wind farm assets in Portugal totalling 262MW;<sup>81</sup> and
- > 100% of B&B's interests in the US07 Class B interests totalling 375MW.<sup>81</sup>

The expected financial impact of these prospective acquisitions is based on the following assumptions:

- > the acquisitions are approved by the BBW Boards following the completion of a due diligence process and sale and purchase agreements are executed;
- > the acquisitions, which would represent related party transactions, are approved by BBW Stapled Securityholders at a general meeting;
- > the Scheme Proposal is Implemented, providing net funds of \$201.5 million (ie. \$211 million less transaction costs) that would be used towards the acquisitions;
- > the acquisitions of the Enersis wind interest and the US07 Class B interests are completed in the first half of BBW FY08. The guidance for Enersis assumes the acquisition is effective from 1 July 2007 and presents a 50% interest in expected net operating cash flows. The guidance for US07 assumes acquisitions are made in line with current expectations of commencement of commercial operations in the second half of BBW FY07; and
- > BBW is able to raise adequate funds to complete the purchases within the assumed timeframe.

BBW expects that the combined enterprise value of a 50% interest in the company that holds the Enersis assets and of 100% of B&B's interest in the US07 Class B interests will lie within a range that is +/-5% of \$1,275 million. BBW expects that it will fund these acquisitions with cash funds available and debt (including debt that already exists within the company that holds the interest in the Enersis assets) in the ratio of approximately 25:75.

Figure 8.12 shows the expected cash flow impact of prospective acquisitions, on the basis of P50 production.

Note:

81 Based on BBW's proposed proportionate interest.

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**Figure 8.12: Expected cash flow impact of prospective acquisitions**

<b>\$ in millions</b>	<b>BBW FY08</b>	<b>BBW FY09</b>
Operating portfolio (31 December 2006) <sup>1</sup>	90.5	90.5
Acquisitions <sup>2</sup>	31.5	38.5
Assets under construction <sup>3</sup>	10.0	24.0
Other events <sup>4</sup>	(12.0)	(12.0)
<b>Net operating cash flow before prospective acquisitions</b>	<b>120.0</b>	<b>141.0</b>
Minimum expected accretion from prospective acquisitions <sup>5</sup>	55.2	65.4
<b>Net operating cash flow after prospective acquisitions</b>	<b>175.2</b>	<b>206.4</b>
<i>Per security (cents)</i>		
<b>Net operating cash flow per security<sup>6</sup></b>	<b>21.3</b>	<b>24.7</b>
Notional debt amortisation after prospective acquisitions <sup>7</sup>	(6.9)	(8.2)
<b>Net operating cash flow after notional debt amortisation per security</b>	<b>14.4</b>	<b>16.5</b>

## Notes to Figure 8.12:

- 1 Operating portfolio includes the assets in the BBW Portfolio resulting from the initial public offering plus acquisitions announced in May 2006 (US03/04 Assets (remaining B&B Class B interest – Sweetwater 1&2, Blue Canyon, Combine Hills, Caprock)), US05 (Sweetwater 3, Kumeyaay, Bear Creek, Jersey Atlantic), Crescent Ridge and Eifel.
- 2 Acquisitions assumes cash flows from US06 Portfolio (phase 1 acquired March 2007, phase 2 acquired June 2007 and 3 expected to be acquired in the second quarter of BBW FY08), Kaarst (acquired January 2007), Monte Seixo and Serra do Cando (acquired June 2007).
- 3 Assets under construction assumes cash flows from Lake Bonney 2 (construction expected to be completed in the second half of BBW FY08), Fruges I & II (various stages of construction expected to be completed between the end of BBW FY07 and the end of BBW FY08).
- 4 Other events include increased base fees, manager expense amount and other ancillary costs as a result of growth in the portfolio.
- 5 Minimum expected accretion from prospective acquisitions is based on current estimates of wind farms' production at P50, tariff arrangements and operating costs, net of interest cost and based on current anticipated completion dates of acquisitions (50% interest in Enersis: completed in first half of BBW FY08, effective 1 July 2007; Class B interests in US07 portfolio: first half of BBW FY08).
- 6 Net operating cash flow per security assumes 821 million securities in BBW FY08 and 835 million securities in BBW FY09.
- 7 Notional debt amortisation after prospective acquisitions is calculated as net debt, adjusted for timing of completion of construction and acquisitions, amortised over 25 years with a residual balance of 30%.

Due to the incentive management fee only being able to be calculated retrospectively, it is excluded from this guidance as there is no reasonable basis on which to forecast.

## 8.10 Board and senior management

### (a) BBW Boards of directors

Figure 8.13: BBW Boards of directors

Director	BBWPL	BBWPS	BBWPB	Biography
Peter Hofbauer (Chairman of BBWPL, BBWPS and BBWPB – B&B executive)	X	X	X	Peter Hofbauer is the Global Head of B&B's Infrastructure business unit. Peter joined B&B in 1989 and has worked in both the Sydney and London offices. He is also a director of Babcock & Brown Infrastructure (BBIL and of the Responsible Entity of BBIT) as well as Chairman of Babcock & Brown Power (BBPL and of the Responsible Entity of BBPT).
Warren Murphy (B&B executive)	X	X	X	Warren Murphy is Head of Australian Energy in the Infrastructure business unit at B&B. Warren joined B&B in 1997 and is based in the Sydney office. He is also a director of Babcock & Brown Power (BBPL and of the Responsible Entity of BBPT).
Nils Andersen (Independent Director)		X		Nils Andersen held a senior position within Vestas, the Danish wind turbine manufacturer for over 20 years based in Denmark. Throughout 2003 and 2004 Nils was based in Australia as the managing director of Vestas-Australia.
Anthony (Tony) Battle (Independent Director)	X	X	X	Tony Battle has held various senior management positions in the finance industry for over 30 years, and at various stages has been involved in the evaluation and funding of major structured and corporate financings across a number of industry sectors. Tony's most recent role was in a senior position in the Corporate & Institutional division with Calyon Australia and prior to that with Credit Lyonnais, Commonwealth Bank and Partnership Pacific.
Douglas Clemson (Independent Director)	X	X	X	Doug Clemson is the former Finance Director of Asea Brown Boveri (ABB) where, from 1988 until his retirement in 1999, he was responsible for the corporate and project finance needs of the ABB group in Australia and New Zealand.

### (b) BBW senior management

The key senior management personnel (employed by B&B) who have been seconded to BBWPM to provide management services to BBW under the BBW management arrangements are set out in Figure 8.14.

Further details of the management arrangements that exist between B&B and BBW are set out in section 8.14(b) and the relationship between B&B and the B&B Funds are set out in section 9.

**Figure 8.14: BBW senior management**

Senior Executive	Biography
Miles George (CEO)	Miles George joined the Infrastructure and Project Finance Group of B&B in 1997.  Miles was a member of the B&B team which established Global Wind Partners in 2003 initially as a single asset private equity investment vehicle – the predecessor to BBW. In 2005 Miles jointly led the B&B advisory team which structured and implemented the Initial Public Offer and listing of BBW on the ASX, and since that time he has acted as an adviser to BBW on wind farm acquisitions in Australia and overseas.
Geoff Dutailis (COO)	Geoff Dutailis joined B&B in early 2005 and initially worked on new investment opportunities for Babcock & Brown Environmental Investments Limited and preparing BBW for its initial public offer, before taking on the role of Chief Operating Officer for BBW in October 2005. Prior to joining B&B, Geoff worked at Lend Lease for almost 19 years, including seven years based in London with their European development business.
Gerard Dover (CFO)	Gerard Dover joined B&B in September 2006. Between 1990 and 1996, Gerard worked with Price Waterhouse in the UK and Sydney. He then joined AstraZeneca in the UK holding a number of finance roles before working on the spin off and initial public offer of Syngenta AG.

### 8.11 Fee arrangements

Subsidiaries of B&B are the Manager of BBW and the Responsible Entity of BBWPT. BBW pays the following fees to B&B for undertaking those roles and providing the other services set out later in this section.

You should read all the information about fees and costs because it is important to understand their impact on an investment in BBW. Small differences in both investment performance and fees and costs can have a substantial impact on your long-term returns.

You will not be charged an establishment fee, contribution fee, withdrawal fee, termination fee or investment switching fee in connection with your investment with BBW.

#### (a) Responsible Entity Fee

BBWPS is entitled under the constitution of BBWPT to a management fee of 2.0% per annum of the value of gross assets of BBWPT.

BBWPS has waived its right to receive this fee in return for the payment to it of a fee of \$512,500 (plus GST) per annum for 2007, increased (but not decreased) for CPI (**Responsible Entity Fee**).

For so long as the BBW Management Agreements remain in place, BBWPS will waive its rights. The Responsible Entity Fee is payable to BBWPS quarterly in arrears.

BBWPS may increase its remuneration from time to time to reflect any increase in its overheads as Responsible Entity of BBWPT and notice of any such increase would be given as required by law and disclosed to ASX.

#### (b) Base management fees

BBWPM is entitled to receive base management fees for services provided under the BBW Management Agreements. The base management fee is calculated quarterly as 1.4% p.a. of the BBW Net Investment Value (NIV) (as defined in Figure 8.15) which is split between BBWPL (1.0%), BBWPB (0.2%) and BBWPT (0.2%) less the amount of the Responsible Entity Fee. The base management fee is payable to BBWPM by BBW quarterly in arrears.

Set out in Figure 8.15 is a hypothetical example of the manner in which the base management fee payable to BBWPM for managing BBW will be calculated. This example is provided for illustrative purposes only and does not purport to represent the likely fees payable nor the likely price of a BBW Stapled Security or relevant indices. The example is based on an approximate number of BBW Stapled Securities post-Implementation of the Share Scheme and assumes a price of a BBW Stapled Security equal to the closing price as at 27 June 2007.

Figure 8.15: Base management fee calculation

	Days in quarter	90
	Relevant quarter	Quarter to 31 December 2007
<b>Calculated net investment value</b>		
AMC	Volume weighted average price <sup>82</sup> multiplied by the average closing number of BBW Stapled Securities <sup>83</sup> over the last 20 ASX trading days of the quarter; plus	\$1,506,920,000
D	Aggregate sum of any external debt (including without limitation, hybrids) of BBW and its wholly owned entities as at the last trading day of the relevant quarter (but not including debt of the operating or project entities wholly owned by BBW) provided that D is capped at 14% of NIV; plus	\$245,313,000
FC	Aggregate sum of firm commitments to future investments by BBW and its wholly owned entities as at the last trading day of the relevant quarter; less	\$0
UC	Aggregate number of uncommitted cash balances of BBW and its wholly owned entities as at the last trading day of the relevant quarter (but not including cash balances of operating or project vehicles wholly owned by BBW); less	\$0
EMA	Book value of any assets which are externally managed.	\$0
	<b>Net Investment Value = AMC + D + FC – (UC + EMA)</b>	<b>\$1,752,233,000</b>

Hypothetical fee payable to BBWPM for quarter:

$$= (1.4\% \times \text{Net Investment Value} \times (\text{Days}/365)) - (\text{Annual Responsible Entity Fee} \times (\text{Days}/365))$$

$$= (1.4\% \times \$1,752,233,000 \times (90/365)) - (\$512,500 \times (90/365))$$

$$= \$5,922,434 \text{ for quarter}$$

Hypothetical estimated annual base management fee payable to BBWPM:

$$= \$24,018,762$$

BBWPM may also be entitled to further fees for services it provides to BBW which are beyond the normal scope of its services under the BBW Management Agreements. Such fees will be at market rates for the respective services.

Notes:

82 Assumed to be \$1.865 for this hypothetical example.

83 Assumed to be 808 million for the purposes of this hypothetical example.

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**(c) Incentive management fee**

BBWPM may be entitled each half year (ending 30 June and 31 December) to an incentive management fee of up to 20% of the amount (if any) of any excess return of BBW Stapled Securities (as measured by the BBW Stapled Security Accumulation Index, an index formulated by BBWPM to measure the accumulated market value of BBW Stapled Securities) over the S&P/ASX 200 Accumulation Index (**Benchmark Index**).

The incentive management fee is payable in cash, though under the BBWPL Management Agreement, up to 60% may be paid in BBW Stapled Securities at the discretion of the BBWPL independent directors to reinforce alignment between securityholders and the Manager.

The incentive management fee is only payable in any half-year period (subject to any underperformance as described in the following paragraphs) where the movement of the BBW Stapled Security Accumulation Index is greater than that of the Benchmark Index for that period.

If the BBW Stapled Security Accumulation Index is less than the Benchmark Index in any half year period, the number of basis points by which the BBW Stapled Security Accumulation Index

is less than the Benchmark Index will be carried forward and deducted from the BBW Stapled Security Accumulation Index of the subsequent period for the purpose of calculating the incentive management fee.

Consequently, any underperformance of the BBW Stapled Security Accumulation Index compared to the Benchmark Index must be made back before any further incentive management fee is paid to BBWPM. If the BBW Stapled Security Accumulation Index continues to be less than the Benchmark Index, this shortfall is carried forward to the following periods indefinitely until such time that the accumulated BBW Stapled Security Accumulation Index exceeds the Benchmark Index.

Set out in Figure 8.16 are hypothetical examples of the manner in which the incentive management fee payable to BBWPM for managing BBW will be calculated (in this example calculated as at the end of the half-year ended 31 December 2007). These examples are provided for illustrative purposes only and reflect an outperformance of 10% relative to the Benchmark Index and an underperformance of 10% relative to the Benchmark Index. These examples do not purport to represent the likely fees (if any) payable nor the likely price of a BBW Stapled Security or relevant indices.

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Figure 8.16: Incentive management fee calculations

	Assumptions	Example 1	Example 2
	Relevant period Half calendar year to 31 December 2007 <sup>84</sup>		
A	Average market capitalisation over the last 20 trading days of the relevant period	1,506,920,000 <sup>85</sup>	\$1,506,920,000 <sup>85</sup>
B	Average closing BBW Stapled Security Accumulation Index over the last 20 trading days of the year prior to the relevant period	100	100
C	Average closing BBW Stapled Security Accumulation Index over the last 20 trading days of the relevant period	105	115
D	Average closing Benchmark Index over the last 20 trading days of the year prior to the relevant period	100	100
E	Average closing Benchmark Index over the last 20 trading days of the relevant period	110	110
F	Deduction to be carried forward in respect of prior underperformance	0%	0%
	Adjusted movement in BBW Stapled Security Accumulation Index (Adjusted SSRI)	$= [(C-B)/B] - F$ $= [(105-100)/100] - 0\%$ $= 5\% - 0\%$ $= 5\%$	$= [(C-B)/B] - F$ $= [(115-100)/100] - 0\%$ $= 15\% - 0\%$ $= 15\%$
	Movement in Benchmark Index (BRI)	$= (E-D)/D$ $= (110-100)/100$ $= 10\%$	$= (E-D)/D$ $= (110-100)/100$ $= 10\%$
	BBW Stapled Security Return (SSR) for the relevant period	$= A \times \text{Adjusted SSRI}$ $= \$1,506,920,000 \times 5\%$ $= \$75,346,000$	$= A \times \text{Adjusted SSRI}$ $= \$1,506,920,000 \times 15\%$ $= \$226,038,000$
	Benchmark Return (BR) for the relevant period	$= A \times \text{BRI}$ $= \$1,506,920,000 \times 10\%$ $= \$150,692,000$	$= A \times \text{BRI}$ $= \$1,506,920,000 \times 10\%$ $= \$150,692,000$
	Above Benchmark Return for the relevant period	$= \text{SSR} - \text{BR}$ $= \$75,346,000 -$ $\$150,692,000$ $= -\$75,346,000$	$= \text{SSR} - \text{BR}$ $= \$226,038,000 -$ $\$150,692,000$ $= \$75,346,000$
	Incentive management fee for the relevant period <sup>86</sup>	$= 20\% \times (\text{SSR} - \text{BR})$ $= 20\% \times -\$75,346,000$ $= \$0$ (since negative result)	$= 20\% \times (\text{SSR} - \text{BR})$ $= 20\% \times \$75,346,000$ $= \$15,069,200$
	SSRI deduction to be carried forward to next financial year	$= \text{Adjusted SSRI} - \text{BRI}$ $= 5\% - 10\%$ $= -5\%$	$= \text{Adjusted SSRI} - \text{BRI}$ $= 10\% - 5\%$ $= \text{Nil}$ (since positive result)

## Notes:

84 Note that the incentive management fee payable to BBWPM is calculated on a half-yearly basis whereas the incentive management fee payable to BBIM and BBPM as described in sections 5.11(c) and 7.11(c) respectively are calculated on an annual basis.

85 Hypothetical average market capitalisation as at 31 December 2007 assumes an average of 808 million BBW Stapled Securities on issue at \$1.865 per BBW Stapled Security.

86 For the purpose of the hypothetical examples of the incentive management fee outlined above, it has been assumed that there is no carried forward deficit.

Note that although for the purpose of the hypothetical examples of the incentive management fee it has been assumed that there is no carried forward deduction in respect of prior underperformance, the cumulative carried forward deduction for determining future incentive management fees as at half-year ending 31 December 2006 was 26.461%. If this carried forward deduction were used in the hypothetical examples, the incentive management fee would be nil in both hypothetical examples.

#### (d) Manager expense amount

The manager expense amount represents an agreed estimate of certain expenses incurred by BBWPM in acting as the manager of BBW. This amount was initially set at \$6 million per annum, which is payable by BBW. The base amount is subject to annual CPI increases and periodic increases approved by the board of BBWPL to reflect increased actual or estimated expenses. The amount for BBW FY07 is expected to be \$6.291 million. In addition, BBWPM is entitled to be reimbursed for various out of pocket expenses.

#### (e) Other fees that may be payable to B&B

The following fees may be incurred by BBW, however B&B has waived its right to receive any financial advisory fees from BBW in relation to the Scheme Proposal:

- (i) Break fees – one third of the net value of any break, termination or similar fees received by BBW in connection with an investment or proposed investment will be paid to BBWPM at the relevant time from the fees received by the relevant BBW entity.
- (ii) Financial advisory fees – B&B has entered into an Exclusive Financial Advisory Agreement with BBW. The fees for these services are negotiated at the time on reasonable market terms.  
Fees payable in relation to services in respect of a particular acquisition transaction are based on a sliding scale that also includes provision for adjustment to reflect the complexity of the transaction and includes a performance component payable solely at the discretion of the independent directors of BBW. The quantum of fees payable in relation to an acquisition must be at least 1.5% of the investment value of the relevant target. A higher fee will apply in respect of smaller transactions with a high level of complexity and larger, less complex transactions will have a lower fee percentage.  
In the context of this agreement, investment value means the capital invested by BBW plus the proportion of the debt financing for the investment which is represented by BBW's investment.  
More details on the Exclusive Financial Advisory Agreement are set out in section 9.3.
- (iii) Additional fees – at commercial rates prevailing at the time of the contract.

#### (f) Example of annual fees and costs for an investment in BBW

Figure 8.17 gives an example of the fees and costs attributable to a \$50,000 investment in BBW over a one year period:

**Figure 8.17: Example of annual fees and costs**

Example of annual fees and costs in BBW		Balance of \$50,000
Contribution fees	Nil	Not applicable
PLUS management costs <sup>87</sup>	Approximately 2.25% <sup>88</sup> for the twelve months ending 30 June 2008	The management costs attributable to a \$50,000 investment in BBW for one year are approximately \$1,126 <sup>89</sup>
EQUALS cost of fund		The fees and costs attributable to a \$50,000 investment in BBW for one year are approximately \$1,126 <sup>89</sup>

Notes:

<sup>87</sup> This includes the responsible entity fee, the base management fee, the incentive management fee, the manager expense amount and the fee payable to the custodian.

This does not include any financial advisory or origination or disposal fees.

<sup>88</sup> Assumes, for illustrative purposes only, a 1% out performance in relation to the calculation of the incentive management fee.

<sup>89</sup> Note that these fees and costs are not deducted from distributions you receive from BBW. These fees and costs are paid by BBW before distributions are paid to securityholders.

## 8.12 Risk factors associated with an investment in BBW

An investment in BBW involves many risks that are specifically associated with wind energy generation, those specifically associated with BBW and those specifically associated with particular assets of BBW. The key risks of this type are outlined in this section 8.12.

In addition, an investment in BBW involves many general risks which relate to all investments in infrastructure assets, or even more general risks which relate to any equity investment. The key general risks are outlined in more detail in section 12.5.

This section and section 12.5 describe the key risks of an investment in BBW considered applicable by the BBW Directors based on their assessment of the probability of the risk occurring and expected impact if it were to occur. It is not an exhaustive list of all possible risks associated with an investment in BBW and there is no guarantee that other risks will not occur or, if the risks do occur, that their impact will be as described.

The risks set out in this section, and in section 12.5, as well as other risks not referred to, could materially affect the financial and operating performance of BBW and the value of an investment in BBW. Some of these risks can be mitigated by appropriate action, safeguards and procedures but many cannot be mitigated effectively.

### (a) Renewable energy regulatory risks

Wind energy projects are generally dependent on mandatory or voluntary renewable energy incentive or emissions trading schemes and other government initiatives for their economic viability. These government initiatives or programs may cease or alter over time. With increasing social and political concern regarding climate change, escalating prices of fossil fuels and security of energy supply issues, renewable energy is high on the global political agenda and it is therefore expected further consideration of renewable energy incentive schemes will be given by governments in the foreseeable future.

### (b) Market risk (electricity and renewable energy rights)

Demand for electricity and renewable energy rights is volatile being dependent on a number of factors including economic conditions, growth in energy demand, government policy, weather, availability and price of alternative fuels and energy sources.

This volatility may impact on the price of electricity and renewable energy rights positively or negatively.

It is common for wind farm project companies to have power purchase agreements that seek to mitigate much of the risk associated with movement in the market price of electricity and renewable energy rights. These agreements have differing duration and, upon their expiry, the wind farm project company may seek to enter into a new contract (which may be on better or worse terms than the expired contract depending on the market conditions at that time) or choose to sell its electricity directly into the market at pool prices.

A portion of BBW's energy production is exposed to market prices. Although BBW's pool price assumptions in its financial forecasts are generally supported by independent market adviser reports, the revenues derived from the sales of this energy remain uncertain.

### (c) Wind variability and energy yield estimates

Wind resource and energy yield assessments are undertaken for each wind farm by independent technical advisers. These assessments are used as the basis for financial forecasts and to establish ranges for sensitivity analysis. These assessments retain a degree of uncertainty relating to the recording of historical wind data, wind and energy modelling and the natural variability of wind and may be recalibrated following several years of generation. There is no guarantee that any particular level of energy production will be achieved.

Variability around the estimated amount of energy produced by a wind farm and the revenue generated by it is likely to affect the economic performance of the owner of the wind farm project company.

### (d) Delay in acquisition or failure to satisfy conditions precedent

Delay in satisfaction of the conditions precedent could delay completion of acquisition of the wind farms which BBW has contracted to acquire but not yet completed. Failure by either party to satisfy a condition precedent which is not waived by the other party may prevent completion from occurring at all. The risk of a delay in completing an acquisition of a wind farm which is already operational (such as the possible acquisition of at least a 50% interest in Enersis) is lower than in the case where a wind farm is to be acquired at the commencement of operation (such as the remaining wind farm in the US06 portfolio and the possible acquisition of US07 Class B Interests).

## 8.13 Governance and other board matters

Section 9.4 contains a detailed description of the governance and board matters relevant to BBW.

## 8.14 Additional information

### (a) Rights attaching to BBW Stapled Securities

BBW Stapled Securities issued pursuant to the Scheme will from their date of issue rank equally with the existing BBW Stapled Securities on issue (provided that they will not rank for the distribution for the half-year to 30 June 2007). The rights attaching to BBW Stapled Securities are detailed in the constitutions of BBWPL, BBWPB and BBWPT.

The key rights attaching to BBW Stapled Securities are summarised in this section. Rights attaching to BBW Stapled Securities may also arise under the Corporations Act, other laws and the Listing Rules. Those rights are not covered in this summary except where expressly indicated.

#### (i) Voting

At a general meeting of BBWPL, BBWPB or BBWPT, BBW Stapled Securityholders present in person or by proxy, attorney or representative have one vote on a show of hands and, in the case of BBWPL and BBWPB, one vote on a poll for each fully paid share in BBWPL and share in BBWPB, and in the case of BBWPT, one vote for each Australian Dollar of paid up value of units in BBWPT held. Voting on a special resolution of BBWPT must be decided on a poll, otherwise, voting on resolutions of BBWPL, BBWPB or BBWPT is by a show of hands unless a poll is demanded.

#### (ii) BBW Distributions

BBW Distributions may be comprised of dividends payable by BBWPL, dividends payable by BBWPB and/or distributions payable out of BBWPT.

In respect of dividends payable by BBWPL or BBWPB, the Directors of BBWPL and BBWPB may pay any interim or final dividends as, in their judgment, the financial position of BBWPL and BBWPB justifies.

In respect of distributions payable out of BBWPT, BBW Stapled Securityholders are entitled to receive their pro rata entitlement (by reference to the number of units held as a proportion of the total number of all units in BBWPT) to the distributable income of BBWPT for the relevant distribution period.

#### (iii) Issue of further BBW Stapled Securities

Subject to certain restrictions, BBW may issue, grant options in respect of, or otherwise dispose of BBW Stapled Securities. Any issue of new shares in BBWPL must be matched by a corresponding issue of new units in BBWPT and new shares in BBWPB which are stapled to those shares in BBWPL. The same applies for any issue of new units in BBWPT and new shares in BBWPB.

#### (iv) Transfer of BBW Stapled Securities

BBW Stapled Securityholders may transfer BBW Stapled Securities in accordance with the respective BBWPL, BBWPB and BBWPT constitutions. A transfer of a share in BBWPL will only be in registrable form if it relates to, or is accompanied by, a transfer of a corresponding unit in BBWPT and a corresponding share in BBWPB to which the share in BBWPL is stapled in favour of the same transferee. The same applies for any transfer of units in BBWPT or transfer of shares in BBWPB.

BBW may refuse to register a transfer of BBW Stapled Securities including where the transfer is not in registrable form or where such a refusal is permitted by the Listing Rules or ASX. Subject to the Listing Rules and ASTC Settlement Rules, while BBW is a listed entity, the BBW Directors may suspend the registration of a transfer at such times and for such periods as they deem fit.

#### (v) General meetings and notice

Each BBW Stapled Securityholder is entitled to receive notice of, and except in certain circumstances, attend and vote at general meetings of BBWPL, BBWPB and BBWPT and to receive all notices, accounts and other documents required to be sent to BBW Stapled Securityholders under the constitutions of BBWPL, BBWPB, or BBWPT, or the Corporations Act.

#### (vi) Winding up or termination

BBW Stapled Securityholders are entitled on a winding up of BBWPL or a winding up of BBWPB or termination of BBWPT to receive a share in any surplus assets of BBWPL or BBWPB as relevant in proportion to the BBW Stapled Securities held by them (subject to any special resolution or rights or restrictions attaching to any class or classes of shares) and a proportionate share of BBWPT assets (after BBWPS has deducted its remuneration and costs and subject to any special rights or restrictions attached to any unit in BBWPT or the direction in writing of all BBW Stapled Securityholders).

#### (vii) BBW Stapled Securityholder's liability

A BBW Stapled Securityholder's liability is limited under the constitutions of BBWPT, BBWPB and BBWPL to the amount paid. However, BBW Stapled Securityholders should note that the courts have not finally determined the extent of liability of unit holders in unit trusts.

**(b) Management arrangements**

BBWPM, a subsidiary of B&B, is the Manager of BBW under the 25 year BBWPB Management Agreement, BBWPL Management Agreement and BBWPS Management Agreement. The BBW Management Agreements are due to expire in October 2030.

Under the terms of the BBW Management Agreements, BBWPM makes recommendations to BBWPB, BBWPL and BBWPS in respect of current and prospective investments and provides management services to BBWPB, BBWPL and BBWPS in its capacity as Responsible Entity of BBWPT.

The key roles undertaken by BBWPM include:

- > investing and managing the asset portfolio;
- > providing investment, consultation, advisory and management services generally in relation to authorised investments and the asset portfolio;
- > identifying appropriate risk management policies and procedures in respect of the asset portfolio and reporting on the adequacy and effectiveness of those policies and procedures on a regular basis to the respective BBW Board;
- > the implementation of BBW Board decisions;
- > performing or procuring the performance of all reasonable accounting, tax, corporate secretarial, IT, reporting and compliance services;
- > managing investor and public relations;
- > providing any and all services that are necessary or incidental to the above; and
- > other services to assist BBWPS in performing its role as Responsible Entity.

BBWPM has appropriate delegated authority from the relevant BBW entity to do all things necessary or incidental to perform its role, including to carry out investment transactions within pre-approved limits.

BBWPM will also provide services to BBW in relation to the acquisition and disposal of authorised investments. BBWPM will provide its services to BBW through the BBW Management Agreements. BBWPL, BBWPB and BBWPS have only limited rights to terminate the BBW Management Agreements. A BBW Management Agreement may be terminated by BBWPL, BBWPB or BBWPS at any time where BBWPM is in material breach of the relevant BBW Management Agreement and has not been able to correct the breach within 90 days, where the B&B Group ceases to hold (directly or indirectly) more than 50% of BBWPM, where an insolvency event occurs in relation to BBWPM or where certain events relating to necessary licences, permits or authorisations held by BBWPM occur and are not remedied within 90 days.

Under the BBW Management Agreements, BBWPM is to be remunerated through payment of base fees as described in section 8.11(b) which will be paid by BBW to BBWPM. In certain circumstances, an incentive management fee as described in section 8.11(c) may also be payable to BBWPM. Separate fees are payable to BBWPM in relation to the origination and disposal of authorised investments.

BBWPM will also be reimbursed by BBW for certain costs including but not limited to those relating to the BBW Management Agreements.

In performing its role, BBWPM must comply with the prevailing BBW investment strategy, the BBW Stapling Deed and any written policy and directions of the relevant BBW entity which do not contravene any law or the relevant BBW Management Agreement and are not inconsistent with the investment strategy or the BBW Stapling Deed.

**(c) Interests of BBW Directors**

Refer to section 15.22 for details on the interests of each BBW Director in relation to the Scheme Proposal.

**(d) Bermuda law issues**

BBWPB is incorporated in Bermuda. Some implications of this are as follows:

**(i) Takeovers**

Unlike BBWPL and BBWPT, BBWPB is not subject to the sections in Chapter 6 of the Corporations Act dealing with the acquisition of shares (including substantial holdings and takeovers). Bermuda company law does not have a takeover code which effectively means that a takeover of BBWPB will be regulated under Australian takeover law. However, section 103 of the Bermuda Companies Act provides that where an offer is made for shares of a company and, within four months of the offer the holders of not less than 90% of the shares which are the subject of such offer accept, the offeror may by notice require the non-tendering shareholders to transfer their shares on the terms of the offer. Dissenting shareholders may apply to the court within one month of the notice, objecting to the transfer. The test is one of fairness to the body of the shareholders and not to individuals, and the burden is on the dissenting shareholder to prove unfairness, not merely that the scheme is open to criticism.

**(ii) Taxation exemption**

At the date of this Booklet, BBWPB is not subject to any Bermuda income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax. BBWPB has obtained an assurance from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act, 1966 that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not, until 28 March 2016, be applicable to BBWPB or to any of its operations or to its shares, debentures or other obligations except insofar as such tax applies to persons ordinarily resident in Bermuda or to any taxes payable by BBWPB in respect of real property owned or leased by BBWPB in Bermuda.

**(iii) Regulation in Bermuda**

BBWPB is classified by the Bermuda Monetary Authority (**BMA**) as a Bermuda Standard Scheme under the Investment Funds Act 2006 (**IFA**). As a regulated mutual fund, BBWPB is subject to supervision of the BMA which may, at any time, instruct BBWPB to have its accounts audited and to submit them to the BMA within such time as the BMA specifies. In addition, the BMA may ask BBWPB and/or any of its directors to give the BMA such information or such explanation in respect of BBWPB as the BMA may reasonably require to enable it to carry out its duties under the IFA. BBWPB and/or its directors must give the BMA access to or provide at any reasonable time all records relating to BBWPB and the BMA may copy or take an extract of any record to which it is given access. The BMA may take certain actions if it is satisfied that a regulated mutual fund is or is likely to become unable to meet its obligations as they fall due or is carrying on business or is winding up its business voluntarily in a manner that is prejudicial to the shareholders or its creditors.

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9

**BABCOCK &  
BROWN'S  
RELATIONSHIP  
WITH THE  
B&B FUNDS**

## 9.1 Summary of relationship between B&B and the B&B Funds

### (a) Overview

B&B has established a number of B&B managed infrastructure funds in Australia, including BBI, BBP and BBW, with each of those funds having a B&B subsidiary as its external Manager. Each Manager has been appointed by the relevant fund to provide investment, advisory and management services in relation to the fund's assets and to identify and evaluate investment opportunities consistent with the fund's investment mandate. Each B&B Fund's executive management team is employed by B&B and seconded to the relevant Manager to provide the services under the Management Agreements.

The Manager of each B&B Fund receives fees for acting as Manager, including base and incentive fees. The incentive fees are directly related to the performance of the B&B Fund. More detail is set out in sections 5.11, 7.11 and 8.11.

The Responsible Entity for each of the registered managed investment schemes forming part of the B&B Funds, is a subsidiary of B&B and is entitled to fees in its role as Responsible Entity of that managed investment scheme. More details are set out in sections 5.11(a), 7.11(a) and 8.11(a).

The Responsible Entities of the registered managed investment schemes of BBP and BBW have appointed Babcock & Brown Asset Holdings Pty Ltd, a B&B related entity, as custodian of the assets of those schemes, for which that company receives custodian fees.

B&B also acts as a financial advisor to the B&B Funds, providing access to further investment opportunities for those funds. B&B earns market based financial advisory fees in this capacity (as approved by the independent directors of each B&B Fund) when acquisitions are successful. In the case of the acquisition of the Alinta Assets, B&B has agreed to waive the financial advisory fees it may otherwise receive from the B&B Funds.

There is a strong alignment of interests between each B&B Fund and B&B, through branding, investment and manager obligations. In addition, B&B has a direct ownership stake in each of the B&B Funds. B&B's ownership stakes in BBI, BBP and BBW as at 27 June 2007 are set out in Figure 9.1:

Figure 9.1: B&B holding in the B&B Funds

Fund	B&B current ownership 27 June 2007 (Securities)	B&B current ownership (% of total Securities on issue)
BBI	141.8m	7.7%
BBP	36.0m	10.0%
BBW	81.2m	12.1%

Note to Figure 9.1:  
The 81.2 million securities held by B&B in BBW does not include an outstanding issue to B&B of 4.35 million securities which is subject to BBW Stapled Securityholder approval.

The strategic relationship between B&B and the B&B Funds has delivered strong deal flow and value to the securityholders in those funds.

### (b) Strategic relationship with B&B

One of the key strengths of the business model is each of the B&B Funds' strategic relationship with B&B, which provides:

- > breadth of access to more than 390 dedicated infrastructure professionals in 21 offices worldwide;
- > breadth and depth of industry relationships;
- > access to uncontested acquisition opportunities;
- > access to a broad range of financing and related market opportunities; and
- > opportunities for co-investment in large acquisitions.

### (c) A global executive management team

The Manager of each B&B Fund has assembled a team of senior executives with extensive experience and expertise in the management of each of their relevant businesses, who work in a true partnership with the local management team of each asset business within the portfolio.

### (d) Comprehensive risk and asset management

The Manager of each B&B Fund applies their financial expertise to effectively manage both foreign exchange and interest rate exposure.

Each B&B Fund maintains moderate gearing levels and a strong interest coverage.

## 9.2 Management services

### (a) Responsible Entity

The Responsible Entities of the registered managed investment schemes forming part of BBI, BBP and BBW are subsidiaries of B&B and are set out in Figure 9.2:

**Figure 9.2: The Responsible Entities of the B&B Funds**

Fund	Managed investment scheme	Responsible Entity
BBI	Babcock & Brown Infrastructure Trust	BBIS, a subsidiary of B&B
BBP	Babcock & Brown Power Trust	BBPS, a subsidiary of B&B
BBW	Babcock & Brown Wind Partners Trust	BBWPS, a subsidiary of B&B

A responsible entity is a public company licensed by ASIC to operate a registered managed investment scheme.

The Responsible Entities of the managed investment schemes referred to above are obliged to operate the respective schemes in accordance with each scheme's constitution and the Corporations Act.

### (b) Manager

The Managers of BBI, BBP and BBW are subsidiaries of B&B and are listed below:

**Figure 9.3: The Managers of the B&B Funds**

Fund	Entities that have each appointed a manager	Manager
BBI	BBIL and BBIS	BBIM, a subsidiary of B&B
BBP	BBPL and BBPS	BBPM, a subsidiary of B&B
BBW	BBWPL, BBWPS and BBWPB	BBWPM, a subsidiary of B&B

Each of the Managers referred to above provides management services and makes recommendations to the respective B&B Fund entities under 25 year Management Agreements.

Further details of the key roles that are undertaken by the Managers of BBI, BBP and BBW are set out in sections 5.14(b), 7.14(b) and 8.14(b).

## 9.3 Financial advisory services

B&B is highly experienced in originating, structuring and providing financial advice on infrastructure transactions. B&B has created a number of externally managed infrastructure funds, including BBI, BBP and BBW. These funds have the benefit of access to B&B's global infrastructure expertise, including in excess of 390 B&B staff in 21 offices world-wide.

To take advantage of the investment advisory and structuring skills of B&B, each of the B&B Funds has appointed B&B as its exclusive financial advisor. This financial advisory arrangement is separate to the Manager's role. Separate fees are payable by the B&B Funds for these financial advisory services. More details on these fees are set out in sections 5.11, 7.11 and 8.11.

The key roles that may be undertaken by B&B in providing financial advisory services to the B&B Funds include:

Transaction Facilitation Services:

- > arranging due diligence reviews by appropriate advisors;
- > developing an appropriate bid strategy for the transaction;
- > developing a cash flow financial model for the transaction;
- > undertaking an economic valuation of the transaction;
- > identifying suitable corporate structures for the transaction;
- > preparation and negotiation of the transaction documentation;
- > obtaining required regulatory approvals; and
- > assisting in closing the transaction.

Debt and equity facilitation services:

- > Identifying and arranging suitable funding structures with regard to senior and subordinated debt, equity and quasi-equity, including evaluating the existing capitalisation of the target; and
- > Arranging the preparation of any prospectus and/or information memorandum required to be presented to potential third party equity or quasi-equity investors.

## 9.4 Governance and other board matters

### (a) General

The B&B Group has adopted a corporate governance framework for its managed funds and this includes a number of key principles to ensure the independence of each of the specialised funds which may be listed or unlisted trusts, companies, partnerships or stapled entities. In the context of the B&B Funds, these include:

- > Each B&B Fund will report on its corporate governance framework and adopt, where considered appropriate, the best practice recommendations contained in the relevant stock exchange's corporate governance guidelines.
  - > A majority of directors of each B&B Fund (in aggregate across the relevant fund) are independent and appropriately qualified. The definition of "independent" is the definition set out in ASX guidelines.
  - > Where the chairman of a B&B Fund board is a B&B Group executive, a lead independent non-executive director is appointed for the respective board.
  - > Each B&B Fund has its own chief executive officer (CEO) whose primary responsibility is the operation and management of the relevant B&B Fund.
  - > The management of each B&B Fund is carried out by employees who report to the CEO of a B&B Fund with respect to their fund responsibilities and who understand that their primary duty in performing such responsibilities is to the securityholders of that B&B Fund. These staff are seconded by B&B to the relevant Manager and are dedicated to the management of the relevant B&B Fund.
  - > Each B&B Fund board will monitor the performance of the Manager and management team providing services to that B&B Fund. Each Manager will provide periodic reports to the relevant B&B Fund board confirming that it has complied with its obligations under the Management Agreement.
  - > The independent directors of the B&B Fund boards will be given the opportunity to provide formal input to B&B on the performance of the Manager as a whole and the key employees of B&B who perform services for them.
  - > The CEO of a B&B Fund may only be removed by agreement between the independent non-executive directors of that fund and B&B, unless the CEO has accepted an alternative role within B&B or has resigned from B&B or the CEO's employment with B&B has been terminated for cause by B&B.
  - > Under the Management Agreements, all matters to be approved by a B&B Fund board must be recommended by the Manager. A B&B Fund board is under no obligation to act on any recommendation of the Manager.
- > Each B&B Fund board has the right to seek independent professional advice (including but not limited to legal, accounting and financial advice) at the expense of the B&B Fund on any matter connected with the discharge of its duties. Directors of a B&B Fund board therefore have, if they so require, access to information relevant to investment and management decisions that is free from material conflicts of interest that might compromise the integrity of analysis.
  - > Related party transactions with B&B Group members are clearly identified and governed by rules requiring that they be undertaken on arm's length terms. Each B&B Fund has adopted a Conflicts of Interests Policy that sets out the principles and processes for managing conflicts of interest that may arise from time to time between the B&B Fund, the Manager and B&B.
  - > Only the independent non-executive directors of the B&B Fund make decisions about transactions that involve any member of the B&B Group. B&B executives who are directors of a B&B Fund board do not vote on related party matters.
  - > Any fees to be paid to members of the B&B Group which introduce transactions or otherwise provide services to any B&B Fund require approval by the independent non-executive directors of that fund. Fee schedules and mandate terms and conditions for transactions or services conducted by the B&B Group for B&B Funds are based on market conditions and must be on arm's length terms.
  - > No B&B Fund has an exclusive right to participate in investment opportunities originated or identified by the manager or the B&B Group. As between B&B Funds managed by the B&B Group, in determining whether a B&B Fund is offered an opportunity, the B&B Group will have regard to the following principles:
    - > whether the opportunity is within a B&B Fund's investment objectives and policy;
    - > whether the B&B Fund is able to finance the investment at that time and at what cost; and
    - > the capacity and interest of other funds managed by the B&B Group (including other B&B Funds) for that investment.
- Where the B&B Group is offering an investment opportunity to one or more of the funds managed by the B&B Group and that opportunity is of interest to and within the investment objectives and policy of more than one B&B Fund in the B&B Group, the B&B Group will determine whether and to whom to offer the opportunity after taking into account each fund's investment strategy, policy and objectives and each fund's willingness to acquire less than all of the investment. The B&B Fund will decide whether or not to accept any investment opportunity offered to it by the B&B Group.

- > Each employee of B&B who performs services for a B&B Fund is subject to the B&B Group's risk management and other policies and each B&B Fund adopts, where appropriate, policies consistent with those maintained by B&B.
- > In addition, the B&B Code of Conduct applies to all B&B Group staff which includes the specialised funds staff. The objectives of the Code of Conduct are to ensure that:
  - > high standards of corporate and individual behaviour are observed by all employees in the context of their employment with the B&B Group;
  - > employees are aware of their responsibilities to the B&B Group under their contract of employment and always act in an ethical and professional manner; and
  - > all persons dealing with the B&B Group, whether it be employees, shareholders, suppliers, clients or competitors can be guided by the stated values and practices of the B&B Group.

#### **(b) Corporate disclosure**

The B&B Fund boards have put in place policies designed to ensure that each fund meets all applicable standards of disclosure pursuant to the Listing Rules. All material disclosed to ASX is also promptly displayed on the website of the respective B&B Fund.

#### **(c) Audit, risk and compliance committees**

To assist in the execution of their responsibilities, the boards of the B&B Funds have established committees covering audit, risk and compliance. Each committee reports to their respective board to assist directors in carrying out their obligations. The boards, via their respective committees, are committed to the management of risk throughout the operations of the respective B&B Fund.

#### **(d) Compliance plan**

In accordance with Part 5C.4 of the Corporations Act relating to registered managed investment schemes, the responsible entity for each such scheme forming part of the B&B Funds has prepared a Compliance Plan that has been lodged with ASIC. Each Compliance Plan describes the procedures that the responsible entity will apply in operating the scheme to ensure compliance with the Corporations Act and the constitution of the scheme.

#### **(e) Dealing in stapled securities in a B&B Fund**

The boards of the B&B Funds have approved policies for dealing in the stapled securities of their respective fund by the directors, management and senior executives of that fund. These trading policies specify the periods during which the purchase and sale of stapled securities may occur by such persons and set out a notification procedure concerning any such transactions.

#### **(f) Custodian**

The Responsible Entities of the registered managed investment schemes of BBP and BBW have appointed Babcock & Brown Asset Holdings Pty Ltd as custodian of the assets of those schemes. The custodian holds the assets of each scheme as directed by the relevant Responsible Entity and acts only on the instructions of that Responsible Entity. BBIS has not appointed a third party custodian in relation to BBIT.

### **9.5 Additional information**

#### **(a) Funds pending re-investment**

If any of the B&B Funds has available funds pending re-investment or distribution of cash receipts, any such cash is generally applied towards reducing short-term debt or held as cash or invested in cash equivalents, near cash instruments, money market instruments and money market funds and cash funds. The B&B Funds may also from time to time hold other financial instruments designed for efficient portfolio management or to hedge interest, inflation or currency rate risks.

The B&B Funds, subject to the approval of their respective boards, may also lend available funds which they hold as part of their cash management practices. Such loans may be made to entities within the B&B Group provided they are on arm's length terms (including market rates of interest) (**Loans**).

It is anticipated by the BBI Board, BBP Board and BBW Board that B&B may, if opportunities arise, primarily use any Loans to invest in the origination, development or financing of assets within the investment criteria of the relevant B&B Fund (having advanced the Loan). Where B&B applies Loan funds to such assets, B&B would make the relevant assets available to the relevant B&B Fund at cost (including holding costs) plus financial advisory and/or origination fees. The relevant B&B Fund would be under no obligation to acquire such assets. Further, any acquisitions would be subject to its due diligence and approval processes (including independent director and stapled securityholder approval if required under the Listing Rules).

#### **(b) Complaint handling procedure**

The B&B Funds have procedures in place to properly consider and deal with any complaints received from BBI Stapled Securityholders, BBP Stapled Securityholders and BBW Stapled Securityholders.

If securityholders wish to register a complaint, they should contact the relevant compliance manager for the respective Responsible Entity (contact details are shown in the Corporate Directory at the back of this document). The Responsible Entity will acknowledge the complaint, investigate it and decide what action needs to be taken. The Responsible Entity will notify the securityholder of its decision, together with any remedies that are available or other avenues of appeal against the decision.

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If you are not satisfied that your complaint has been properly handled by the Responsible Entity within 45 days of receipt, complaints about your investment in a B&B Fund can be made to:

Financial Industry Complaints Service Limited  
PO Box 579  
Collins Street West  
Melbourne VIC 8007  
Australia  
Telephone number: 1300 780 808

**(c) Investment considerations**

Each B&B Fund will comply with its obligations at law in relation to the selection, retention or realisation of any investment, including any such obligations relating to labour standards or environmental issues. Each B&B Fund will also comply with the normal standards of corporate governance and corporate behaviour observed by other public listed entities in Australia, but will not otherwise be bound by any specific social, environmental, labour standards or ethical agenda in the selection, retention or realisation of any investment.

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10

APA GROUP

As part of the Scheme Proposal, Alinta intends to distribute the existing APA Securities held by members of the Alinta Group. Prior to the APA Distribution, members of the Alinta Group will reorganise their holdings of APA Securities, so that Alinta becomes the registered holder of the Alinta Group's interest in APA. Alinta will then implement the APA Distribution.

Alinta Shareholders who receive an APA Distribution will have a direct holding in APA Securities.<sup>90</sup> Currently, Alinta Shareholders have an indirect investment in APA Securities. This section outlines the details of Alinta's investment in the APA Securities, explains how the APA Securities will be distributed to the Alinta Shareholders and the nature of the investment that Alinta Shareholders who receive an APA Distribution will have after Implementation.

### 10.1 Sources of information

The following description of APA and the APA Securities and the financial information concerning APA contained in this section has been prepared by Alinta using publicly available information. This information has not been independently verified by Alinta. To the maximum extent permitted by law, Alinta does not make any representation or warranty, express or implied, as to the accuracy, currency or completeness of this information.

The information about APA and the APA Securities provided in this section should not be considered comprehensive. Further information on APA is available on APA's website: [www.pipelinetrust.com.au](http://www.pipelinetrust.com.au) and in ASX announcements (see section 10.7). Alinta makes no representation or warranty, express or implied, as to the accuracy, currency or completeness of any information available on APA's website or the ASX website.

### 10.2 Profile of APA Securities

APA is an ASX listed entity with a market capitalisation as at 27 June 2007 of approximately \$1.8 billion. Alinta is currently the largest single securityholder in APA with an interest of approximately 35%. The only other significant securityholder in APA as at 27 June 2007 is Petronas Australia Pty Ltd, with a 10.4% interest.

APA listed on ASX in 2000 under the name Australian Pipeline Trust. In December 2006, APA changed its name from Australian Pipeline Trust to APA Group.

APA comprises Australian Pipeline Trust (ARSN 091 678 778) (APT) and APT Investment Trust (ARSN 115 585 441) (APTIT). The responsible entity for APT and APTIT is APL. Each APA Security consists of one unit in APT stapled to one unit in APTIT (i.e. it is not possible to transfer a unit in APT without also transferring a unit in APTIT, and vice versa).

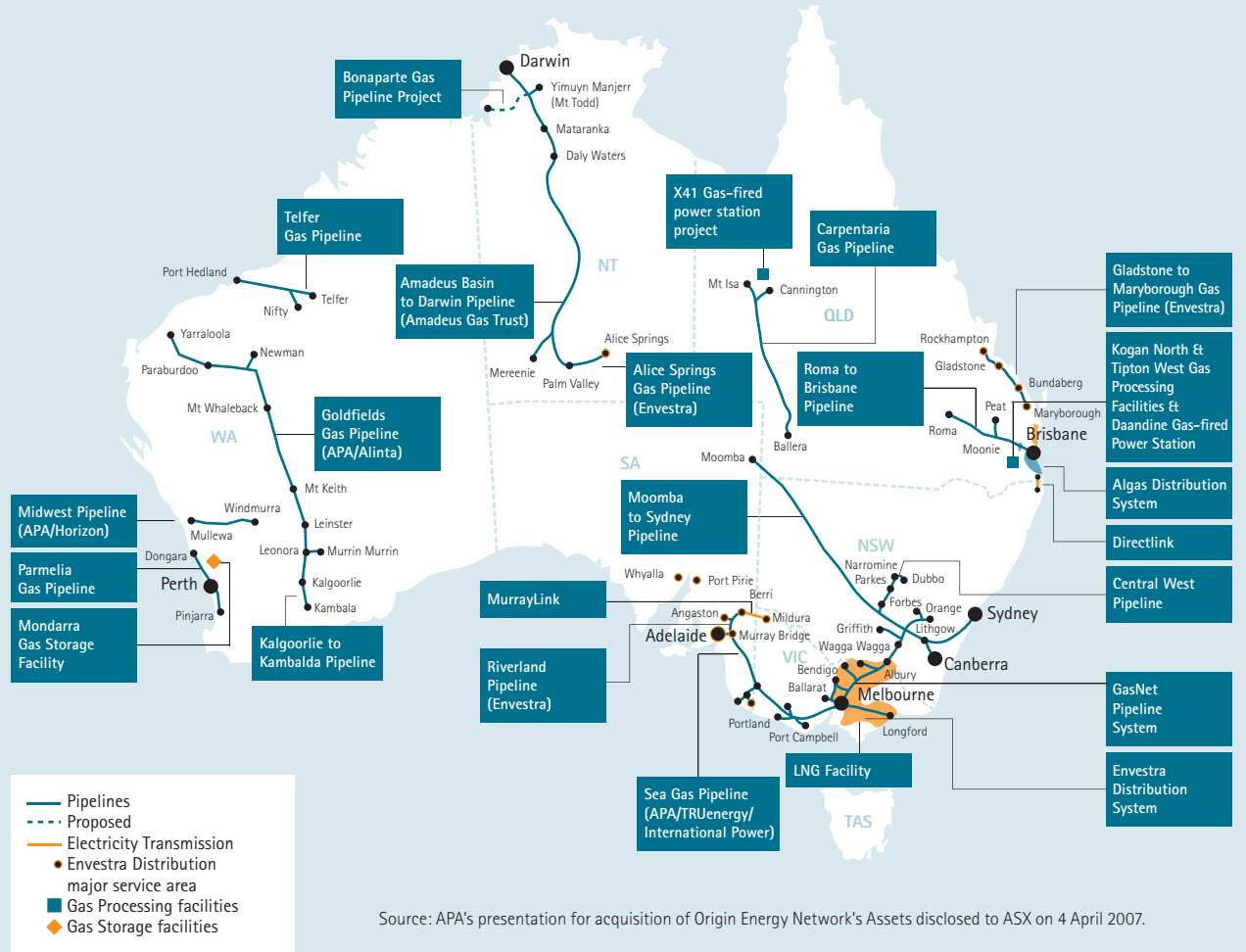
APA has interests in gas transmission pipelines, gas distribution networks, gas processing and storage facilities, gas-fired power generation, electricity transmission and asset management.

Since 2005, APA has been pursuing a strategy to acquire and develop interests in complementary energy infrastructure. This strategy has resulted in a number of recent investments including (but not limited to) the networks business of Origin Energy, the Murraylink and DirectLink electricity transmission assets and the Allgas gas distribution network. APA has stated that it is actively seeking further opportunities for growth in gas transmission pipelines and complementary energy infrastructure that is consistent with its strategy and investment criteria.

Note:

<sup>90</sup> Unless their APA Securities are sold for them by the Nominee under the Cash Out Facility.

Figure 10.1: APA assets as at April 2007



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**(a) Business overview****(i) Gas transmission**

APA owns, or has interests in, more than 10,000 kilometres of gas transmission pipelines, with a presence in all mainland states and territories.

APA's interests in major pipelines include:

Asset	State	Length (km)	Interest <sup>1</sup>
<b>Fully owned assets</b>			
Moomba to Sydney Pipeline System	NSW	2,029	100%
GasNet Victorian gas network	Vic	1,930	100%
Central West Pipeline	NSW	255	100%
Roma to Brisbane Pipeline System (including Peat Lateral)	Qld	851 (972)	100%
Carpentaria Gas Pipeline	Qld	840	100%
Parmelia Gas Pipeline	WA	445	100%
Port Hedland to Telfer Lateral	WA	443	100%
<b>Partly owned assets</b>			
Amadeus Basin to Darwin Pipeline System (including Darwin distribution system)	NT	1,681	96%
Goldfields Gas Pipeline System (including Newman Lateral)	WA	1,427	88%
Midwest Gas Pipeline	WA	353	50%
SEA Gas	Vic/SA	680	33%

Note:

<sup>1</sup> Rounded to nearest percentage.

APA also owns a number of smaller pipeline laterals.

**(ii) Gas distribution**

In November 2006 APA acquired Allgas, one of the two major gas distribution networks in Queensland. Allgas services high population growth centres in south east Queensland and northern NSW and includes over 2,300 kilometres of distribution mains.

In April 2007, APA announced that it had acquired a 17.2% interest in Envestra through its acquisition of Origin Energy's networks businesses. Envestra is an ASX listed entity which owns approximately 19,100 kilometres of gas distribution networks in South Australia, Victoria, Queensland, New South Wales and the Northern Territory.

**(iii) Electricity transmission**

APA owns the following electricity transmission assets:

- (A) Murraylink – a 180 kilometre underground high voltage direct current cable interconnector connecting the Victorian and South Australian electricity transmission networks. Acquired by APA in March 2006.
- (B) DirectLink – one of two electricity transmission links between the New South Wales and Queensland power grids. Acquired by APA in February 2007.

**(iv) Gas facilities**

APA has invested in a number of gas facilities, including gas processing facilities at Kogan North and Tipton West (both in Queensland) and a gas storage facility at Mondarra (Western Australia).

**(v) Power generation**

In 2006, APA entered into agreements to build, own and operate the Daandine Power Station in Kogan (27MW) and the Xstrata Power Station in Mt Isa (30MW). APA has also been selected as preferred infrastructure partner in relation to the 30MW Richmond Valley Power Station.

**(vi) Asset management**

APA acquired Origin Energy Asset Management (OEAM) as part of its acquisition of Origin Energy's networks businesses announced in April 2007. OEAM is a major service provider to gas networks in Australia. Approximately 90% of current revenue is sourced from operating and management agreements with Envestra.

**(b) Historic financial performance**

APA's financial performance for the years ended 30 June 2005 and 30 June 2006, and for the six months ended 31 December 2006, is provided below.

	Year ended 30 June 2006 \$m	Year ended 30 June 2005 \$m	Six months to 31 Dec 2006 \$m
Before significant items:			
Total revenue	367.3	379.0	243.3
EBITDA	178.9	200.4	134.9
EBIT	142.5	161.6	105.8
Pre-tax profit	78.0	90.4	48.6
Operating profit after income tax and minorities	51.4	60.7	32.6
Significant items after income tax	58.2	1.9	(0.4)
Net profit attributable to securityholders	109.5	62.5	32.3

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Consistent with its strategic plan, APA has made a series of acquisitions and new investments, expanding its total asset base from \$2.1 billion as at 30 June 2006 to \$4.0 billion at 31 December 2006.

APA's balance sheet as at 31 December 2006 is provided below.

	\$m
Cash and cash equivalents	227.1
Other current assets	77.5
<b>Total current assets</b>	<b>304.6</b>
Property, plant and equipment	3,405.6
Other non-current assets	299.9
<b>Total non-current assets</b>	<b>3,705.5</b>
<b>Total assets</b>	<b>4,010.1</b>
Short term debt	861.0
Other current liabilities	129.8
<b>Total current liabilities</b>	<b>990.7</b>
Long term debt	1,578.0
Other non-current liabilities	254.6
<b>Total non-current liabilities</b>	<b>1,832.5</b>
<b>Total liabilities</b>	<b>2,823.3</b>
Parent equity interest	884.8
Minority interests	302.1
<b>Net assets</b>	<b>1,186.9</b>

In addition, on 28 May 2007 APA announced that it had raised US\$654 million (A\$811 million) through a private placement to North American investors.

**(c) Distributions**

APA's distributions per security from 2004 to 2006, and forecast distributions per security in 2007 and 2008, are provided below. APA has provided guidance on the 2007 financial year forecast distributions per security of \$0.28, which represents a 17% increase over the 2006 financial year.

APA has delivered growth in distributions per security at a CAGR of 9.2% over the period 2004 to 2007.

APA has stated that its primary strategic objective is to grow distributions per security by at least CPI annually.

**(d) APA Security price performance**

Since listing in June 2000 to 27 June 2007, APA has delivered an average annual total securityholder return of approximately 20%. This compares to approximately 15% for the S&P/ASX 200 Accumulation Index over the same period.

The peak in the APA Security price (see Figure 10.3) corresponds to the announcement on 17 August 2006 that Alinta had acquired approximately 4% of APA Securities at prices up to \$5.00 per APA Security.

The closing price for APA Securities on 27 June 2007 was \$4.15. In the three months prior to 27 June 2007, the highest and lowest trading prices of APA Securities were \$4.49 and \$4.05 respectively.

**(e) Further information**

Further information on APA is available on [www.pipelinetrust.com.au](http://www.pipelinetrust.com.au)

**10.3 Distribution mechanism**

The Consideration to be received by Alinta Shareholders includes the APA Distribution, which is intended to be a distribution of 0.301 APA Securities for each Alinta Share held. The APA Distribution will occur by a combination of the APA Dividend and the Capital Reduction.

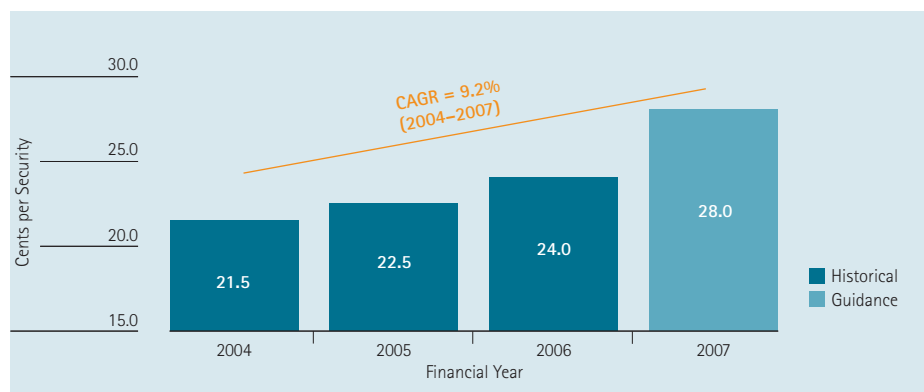
**(a) APA Dividend**

The Alinta Directors intend to declare a dividend of \$0.93 per Alinta Share, to be paid on the Implementation Date to Alinta Shareholders on the Alinta Register at the Record Date (these persons are also the Share Scheme Participants). The declaration of this dividend will be subject to the Share Scheme and the Capital Reduction proceeding. The value of the dividend component of the APA Distribution is fixed. It is to be satisfied by the distribution *in specie* of APA Securities having a value on the trading date before the Implementation Date intended to be \$0.93. The APA Dividend will be franked to the maximum extent possible (\$0.40 per Alinta Share).<sup>91</sup>

**(b) Capital Reduction**

Under the Capital Reduction, the share capital of Alinta will be reduced by an amount per Alinta Share on issue at the Record Date. The amount of the Capital Reduction per such Alinta Share will be determined on the Implementation Date and will be equal to the value of 0.301 APA Securities on the Implementation Date (based on the VWAP of the APA Securities on ASX on the trading day immediately prior to the Implementation Date) less the APA Dividend (intended to be \$0.93). In return for the reduction of capital per Alinta Share, Alinta Shareholders will receive a distribution *in specie* of APA Securities having a value equal to

**Figure 10.2: APA distributions per security**



Note:

91 For Alinta Shareholders who can utilise the franking credits. See Section 14 for more detail.

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the value of the 0.301 APA Securities on the trading day before the Implementation Date less the APA Dividend (intended to be \$0.93). If any Alinta Shareholder would receive a fraction of an APA Security, that fraction will be replaced with cash (based on the VWAP of APA Securities on ASX on the Business Day two Business Days before the Implementation Date).

The resolution to approve the Capital Reduction is conditional upon the Share Scheme becoming Effective. The Share Scheme is conditional on the Capital Reduction being approved.

#### (c) Approval required and General Meeting

The APA Distribution has been approved by the Alinta Directors in accordance with Alinta's constitution, subject to the Share Scheme and the Capital Reduction being Implemented.

Under the Corporations Act, Alinta is permitted to reduce its share capital if the reduction:

- (i) is fair and reasonable to Alinta Shareholders as a whole;
- (ii) does not materially prejudice Alinta's ability to pay its creditors; and
- (iii) is approved by Alinta Shareholders in accordance with the Corporations Act.

The Independent Expert has considered the Capital Reduction and concluded that it is fair and reasonable to Alinta Shareholders as a whole and does not materially prejudice Alinta's ability to pay its creditors.

The Capital Reduction is an equal capital reduction under section 256B(2) of the Corporations Act.

The General Meeting to consider and, if thought fit, pass the resolution to implement the Capital Reduction will be held following the Share Scheme Meeting at the Perth Convention Exhibition Centre, Riverside Theatre, 21 Mounts Bay Road, Perth, WA 6000 and not before 12pm WST (2pm AEST) on 15 August 2007. Notice of the General Meeting is set out in Annexure D to this Booklet.

#### (d) Ineligible Overseas Shareholders

The APA Distribution is not available to Ineligible Overseas Shareholders.

Alinta will be under no obligation to transfer APA Securities to an Ineligible Overseas Shareholder and will instead arrange for the Nominee to sell them on behalf of the Ineligible Overseas Shareholder during five Business Days after the Implementation Date and account to the Ineligible Overseas Shareholders for the net proceeds of sale (after deducting the costs of sale) in full satisfaction of the Ineligible Overseas Shareholder's rights under the APA Dividend and Capital Reduction.

### 10.4 Rights attaching to APA Securities

APA Securities consist of units in APT and APTIT which are stapled together (i.e. a unit in APT cannot be transferred without a unit in APTIT and vice versa). Both APT and APTIT are registered managed investment schemes under the Corporations Act, of which APL is the responsible entity.

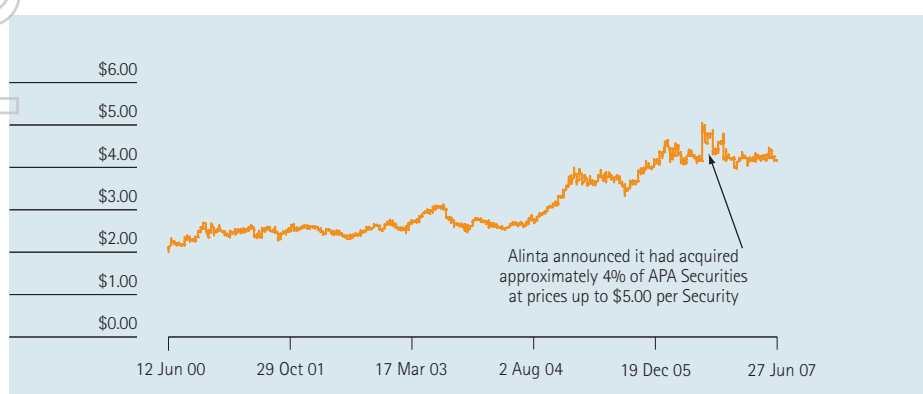
The APA Securities to be distributed under the Share Scheme will be distributed fully paid and will rank equally for distributions and other rights with all other APA Securities on issue from their date of distribution.

#### (a) The constitutions of APT and APTIT

Upon receipt of APA Securities under the Share Scheme, you will become members of, and bound by, the constitution of APT and APTIT.

The constitutions of APT and APTIT set out the principal rights and obligations attaching to APA Securities. Those rights and obligations are regulated by the Corporations Act, the Listing Rules and general law.

Figure 10.3: APA Security price since listing



The following provides a summary of the key rights and obligations attaching to APA Securities. It does not purport to be exhaustive or to constitute a definitive statement of the rights and obligations of holders of APA Securities. You should seek your own advice when trying to establish the rights and obligations attaching to APA Securities in specific circumstances.

**(b) Rights attaching to APA Securities**

**(i) General meeting and notices**

Each holder of an APA Security is entitled to receive notice of and, except in certain circumstances, attend and vote at general meetings of APA and to receive all notices, accounts and other documents required to be sent to unit holders under the constitutions of APT or APTIT, the Corporations Act or the Listing Rules.

**(ii) Voting rights**

At a general meeting of APA, each holder of an APA Security present in person or voting by an attorney, representative or proxy has one vote on a show of hands and one vote for each dollar of the value of APA Securities held on a poll. Voting on resolutions is by a show of hands unless a poll is demanded, except in the case of a special resolution, which must be decided on a poll.

**(iii) Issue of APA Securities**

APL may issue, or grant options in respect of, further APA Securities. Any issue of new units in APT must be matched by a corresponding issue of units in APTIT, which are stapled to the units in APT to form APA Securities.

**(iv) Transfer of shares**

Subject to the constitutions of APT and APTIT, the Corporations Act and the Listing Rules, APA Securities are freely transferable. Holders of APA Securities may transfer APA Securities by a proper instrument of transfer, in the manner prescribed by APL.

APL may refuse to register a transfer of APA Securities in certain circumstances, including where the transfer is not in the proper form or where such a refusal is permitted or required by the Listing Rules or ASX. The transfer of a unit in APT or APTIT must be accompanied by a transfer of the corresponding APTIT or APT unit respectively to which that unit is stapled, in the absence of which APL will in any event transfer the corresponding stapled unit to the same transferee.

**(v) Distributions**

The directors of APL may pay any interim or final distributions to holders of APA Securities as, in their judgment, the financial position of APA justifies.

When a distribution is made, the amount payable to a holder of APA Securities will depend on the number of APA Securities held by the securityholder (excluding amounts credited).

Subject to the terms of issue of particular APA Securities, holders of APA Securities on the register at the end of a distribution period are entitled to a share in APA's income proportionate to the number of APA Securities held by them. Unless distributions are to be reinvested or APL otherwise considers that it is in the interests of securityholders to delay payment, APL will pay distributions within three months of the end of the relevant distribution period.

APT is deemed to be a company for tax purposes. Consequently, certain distributions it pays to APT securityholders are deemed to be dividends for tax purposes. Such distributions may also have franking credits attached to them.

**(vi) Winding up**

In the event that APA is wound up, holders of APA Securities are entitled to receive a proportionate share of the APA assets (after APL has deducted its remuneration and costs, and subject to any special rights or restrictions attaching to any APA Security or the direction in writing of all securityholders).

**(vii) Distribution reinvestment and share plans**

APL may adopt and implement a distribution reinvestment plan under which holders of APA Securities may request that all or a proportion of specified distributions payable to them be satisfied by the issue of further APA Securities to them.

**(viii) Liability of securityholders**

Constitutions of APT and APTIT state that the liability of a holder of an APA Security is limited to the amount paid (or payable, in the case of partly paid APA Securities) for those APA Securities. The APA Securities being distributed are fully paid.

However, it should be noted that the courts have not finally determined the extent of liability of unitholders in unit trusts.

**(ix) Fees, expenses and indemnity**

APL is indemnified and entitled to be reimbursed out of, or have paid out of, the assets of APA, all costs incurred in the proper performance of its duties or the exercise of its powers, in the course of its office or in relation to the administration or management of APA.

**10.5 Divestment constraints**

Alinta acquired 19.7% of the 35% interest in APT under the AGL Merger. It acquired the balance of its interest by a combination of market acquisitions and participation in a placement and renounceable rights issue. On 3 August 2006, the ACCC announced that it would not oppose the proposed acquisition by Alinta of the AGL infrastructure assets, which included APT, under the AGL Merger, after accepting court enforceable undertakings from Alinta pursuant to section 87B of the Trade Practices Act.

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In the undertakings of 3 August 2006, Alinta undertook, among other things, to divest all of the units it holds in APT and all of the shares it holds in APL, including any rights or options to acquire shares in APL or units in APT by a confidential divestment date.

On 27 November 2006, the ACCC accepted revised court-enforceable undertakings offered by Alinta (which replaced the undertakings of 3 August 2006) in relation to a proposal by Alinta to acquire further units in APT and shares in APL. In order to comply with the undertakings, the Nominee under the Cash Out Facility will be instructed not to sell APA Securities to any individual purchaser that would acquire more than 5% of APA Securities unless they are approved by the ACCC. **On 27 June 2007**, the ACCC informed Alinta that it had no objection to Alinta distributing the APA Securities to Alinta Shareholders on a pro rata basis provided that no Alinta Shareholder then has an interest in more than 5% of APA Securities.

Copies of the ACCC's press releases and the undertakings of 3 August and 27 November 2006 can be obtained from the ACCC's website or by calling the Alinta Information Line on 1800 135 107 (within Australia) or +61 2 8268 3641 (outside Australia), Monday to Friday between 7.00am to 5.00pm (WST) (9.00am to 7.00pm AEST).

### 10.6 Undertakings by the Consortium Parties

Information on undertakings offered by certain Consortium Parties to the ACCC in respect of the APA Securities is outlined in section 15.24(c).

### 10.7 APA ASX announcements

APA Securities are listed on ASX and, accordingly, APA is subject to the periodic and continuous disclosure requirements prescribed under the Corporations Act and the Listing Rules. For information concerning the financial position and affairs of APA, you should refer to the full range of information that has been disclosed by APA pursuant to these requirements. Copies of announcements made by APA to ASX are available from ASX at [www.asx.com.au](http://www.asx.com.au) and from APA at [www.pipelinetrust.com.au](http://www.pipelinetrust.com.au). This information may be relevant to your assessment of the Scheme Proposal.

### 10.8 APA Separation

On 28 June 2007 Alinta and APA entered into agreements to separate various interests and conclude outstanding litigation.

The agreements have the following aspects:

- (i) Alinta agreed that it would dispose of its 35% unit holding in APA pursuant to the Scheme Proposal. If the Scheme Proposal does not proceed Alinta will distribute the APA Securities either pro rata to its own shareholders or by bookbuild by 14 December 2007.<sup>91A</sup>

- (ii) Alinta and APA agreed arrangements to enable termination of agreements under which an Alinta subsidiary operates and maintains various APA pipelines (including the Moomba to Sydney pipeline) and also for the transfer to an APA nominated buyer of operating arrangements relating to non APA owned pipelines which operate in conjunction with APA owned pipelines. The gross consideration payable by APA to Alinta for the arrangements is \$210 million. This aspect of the agreements is conditional on ASX granting APA a waiver of ASX Listing Rule 10.1 or APA securityholders approving the entry into the agreement with a substantial security holder (Alinta). If this condition is not satisfied, APA must take certain steps to facilitate Alinta disposing of the operations and maintenance contracts relating to APA pipelines to a third party.
- (iii) Alinta and APA also agreed to terminate several items of litigation between them, including the litigation referred to in section 10.9 below.

Alinta believes that it is in the best interests of shareholders for it to dispose of its 35% APA stake. If the Scheme Proposal does not proceed it intends (and has agreed with APA) to distribute the 35% APA Group holding either pro rata to its shareholders or by bookbuild by 14 December 2007.<sup>91A</sup>

### 10.9 Litigation

The Full Federal Court found that Alinta's entry into the Merger Implementation Agreement with AGL and subsequent purchase of a 10.25% stake in APA contravened section 606 of the Corporations Act. Despite Alinta's view that it acted lawfully at all times in relation to its acquisition of this stake, it considers that the time and expense of pursuing an appeal to the High Court is not justified, in light of its decision to distribute the securities. In order to facilitate Implementation of the Scheme Proposal (if approved by Alinta Shareholders), and as part of the agreements referred to in section 10.8, Alinta consented to orders requiring it to distribute the 10.25% stake in APA (which now represents 9.8% of APA) by a distribution pro rata to its own shareholders or by bookbuild. If the Scheme Proposal proceeds, the distribution will be effected as part of that proposal.

The Full Federal Court also ruled (in favour of Alinta) that the Takeovers Panel's declaration of unacceptable circumstances in relation to the purchase of the 10.25% stake in APA was invalid. The High Court has granted the Commonwealth Attorney-General special leave to appeal this decision.

No date has yet been set for the hearing of the appeal to the High Court. It is considered unlikely that the High Court will deliver a decision before the Implementation Date. (For further information on possible risks of a decision before the Implementation Date, see section 12.2(a)).

Note:

91A No person may have an interest in more than 5% of APA following participation in the bookbuild.

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# 11

# ALINTA FINANCIAL INFORMATION

## 11.1 Basis of preparation for Alinta financial information

### (a) Alinta historical financial information

The historical financial information has been derived from the audited financial statements of Alinta for the year ended 31 December 2006.

### (b) Alinta forecast financial information

The pro forma forecast financial information for the six month periods ending 30 June 2007, 31 December 2007 and 30 June 2008 respectively have been prepared for illustrative purposes for use in this Booklet only. The pro forma forecast financial information is based on circumstances at the date of this Booklet and an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions.

Alinta has a financial year end of 31 December. The presentation of six monthly forecast information has been provided to allow this information to be presented on a 30 June year end basis consistent with the information contained within sections 5.9, 7.9 and 8.9.

### (c) Alinta's accounting policies

The AIFRS accounting policies adopted by Alinta in the preparation of the financial information for the periods ending 31 December 2006 to 30 June 2008 are set out in Alinta's financial report for the year ended 31 December 2006 (available at [www.alinta.net.au](http://www.alinta.net.au)). The financial information has been presented in an abbreviated form. It does not contain all the disclosures that are usually provided in an annual report prepared in accordance with the Corporations Act.

This section contains the following information:

- > Historical income statement for the year ended 31 December 2006;
- > Pro forma forecast income statements for the six month periods ending 30 June 2007, 31 December 2007 and 30 June 2008 respectively;
- > Reconciliation of pro forma profit attributable to members of Alinta to the results expected to be reported for the six month period ending 30 June 2007;
- > Composition of pro forma forecast income statement for the year ending 30 June 2008;
- > Pro forma balance sheet as at 31 December 2006; and
- > Composition of pro forma balance sheet as at 31 December 2006,

(collectively, **the Alinta Financial Information**).

The results and net assets of existing Alinta entities have been allocated to the respective Consortium member (Figures 11.3 and 11.5) consistent with the assumptions of the proposed allocations of the Alinta businesses, as detailed in section 4.3(b) of this Booklet.

The Alinta Directors' forecasts should be read in conjunction with the assumptions upon which they are based in section 11.6.

The financial information in this section should be read in conjunction with the risks described in section 12 and other information contained in this Booklet.

The Alinta Financial Information contained in this section has been reviewed by PricewaterhouseCoopers Securities Ltd whose Investigating Accountant's Report relating to the Alinta Financial Information is included in Annexure F to this Booklet.

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## 11.2 Alinta pro forma income statements

The historical and pro forma forecast Alinta income statements are summarised in Figure 11.1.

Figure 11.1: Alinta pro forma income statements

	Historical results year ended 31 December 2006 <sup>1</sup>	Pro forma forecast results six months ending 30 June 2007 <sup>2</sup>	Pro forma forecast results six months ending 31 December 2007 <sup>3</sup>	Pro forma forecast results year ending 31 December 2007	Pro forma forecast results six months ending 30 June 2008	Pro forma forecast results year ending 30 June 2008
<b>\$ in millions</b>						
<b>Total revenue from ordinary activities</b>	<b>1,374.4</b>	<b>1,101.2</b>	<b>1,212.4</b>	<b>2,313.6</b>	<b>1,127.0</b>	<b>2,339.4</b>
Cost of sales	(1,003.2)	(547.5)	(586.9)	(1,134.4)	(540.3)	(1,127.2)
Operating and maintenance costs	(132.4)	(193.3)	(192.5)	(385.8)	(154.4)	(346.9)
<b>EBITDA from ordinary activities</b>	<b>238.8</b>	<b>360.4</b>	<b>433.0</b>	<b>793.4</b>	<b>432.3</b>	<b>865.3</b>
Share of net profits of associates	18.9	22.1	20.9	43.0	16.5	37.4
Dividend Income (APA)	9.9	21.1	21.1	42.2	21.9	43.0
Dividend Income (AGL)	77.1	-	-	-	-	-
Preference dividend income	16.3	8.1	8.2	16.3	8.1	16.3
<b>Total EBITDA</b>	<b>361.0</b>	<b>411.7</b>	<b>483.2</b>	<b>894.9</b>	<b>478.8</b>	<b>962.0</b>
Depreciation and amortisation	(59.7)	(103.8)	(110.1)	(213.9)	(116.7)	(226.8)
<b>EBIT</b>	<b>301.3</b>	<b>307.9</b>	<b>373.1</b>	<b>681.0</b>	<b>362.1</b>	<b>735.2</b>
Net interest expense	(133.3)	(205.4)	(218.6)	(424.0)	(220.0)	(438.6)
<b>EBT</b>	<b>168.0</b>	<b>102.5</b>	<b>154.5</b>	<b>257.0</b>	<b>142.1</b>	<b>296.6</b>
Income tax benefit/(expense)	2.2	(25.0)	(41.7)	(66.7)	(38.9)	(80.6)
<b>NPAT</b>	<b>170.2</b>	<b>77.5</b>	<b>112.8</b>	<b>190.3</b>	<b>103.2</b>	<b>216.0</b>
Outside equity interest	2.4	2.5	(2.8)	(0.3)	(0.1)	(2.9)
<b>Profit attributable to members of Alinta</b>	<b>172.6</b>	<b>80.0</b>	<b>110.0</b>	<b>190.0</b>	<b>103.1</b>	<b>213.1</b>
<b>Adjusted profit attributable to members of Alinta<sup>5</sup></b>	<b>194.5</b>			<b>210.5</b>		<b>218.4</b>
Weighted average number of issued shares (millions)	307.1			494.3 <sup>4</sup>		495.6 <sup>4</sup>
<b>Basic earnings per share (cents)</b>	<b>56.2</b>			<b>38.4</b>		<b>43.0</b>
<b>Basic earnings per share (cents) using adjusted profit<sup>5</sup></b>	<b>63.3</b>			<b>42.6</b>		<b>44.1</b>

Notes to Figure 11.1:

- 1 Only includes results for the infrastructure assets acquired from AGL with effect from 25 October 2006.
- 2 Excludes the impact of items which are considered one-off or non-recurring in nature (refer Figure 11.2).
- 3 Excludes the impact of one-off or non-recurring legal and regulatory expenses of \$3.4 million (\$2.4 million after tax) and excludes any transaction costs associated with the Scheme Proposal.
- 4 Assumes a 20% dividend reinvestment plan participation rate.
- 5 The adjusted profit attributable to members of Alinta in Figure 11.1 excludes restructure costs and costs associated with the implementation of cost saving initiatives (after tax) of \$21.9 million, \$20.5 million, and \$5.3 million, for the year ended 31 December 2006, and the years ending 31 December 2007 and 30 June 2008 respectively. These have been removed to show earnings per share on a normalised basis in the respective periods.

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### 11.3 Commentary on Alinta results – year ended 31 December 2006

Refer to Alinta financial report for the year ended 31 December 2006 for commentary on the results on a segmental basis (available at [www.alinta.net.au](http://www.alinta.net.au)).

### 11.4 Reconciliation of Alinta pro forma profit attributable to members of the Alinta Group to results expected to be reported for the six month period ending 30 June 2007

The pro forma profit attributable to members of the Alinta Group contained in Figure 11.1 above has been displayed on a normalised basis (i.e. to exclude the impact of one-off or non-recurring items). Figure 11.2 below reconciles the pro forma forecast profit attributable to members of the Alinta Group to the results expected to be reported for the six month period ending 30 June 2007.

**Figure 11.2: Reconciliation of Alinta pro forma profit attributable to members of the Alinta Group to expected results**

<b>\$ in millions</b>	<b>Forecast results six month period ending 30 June 2007</b>
<b>Pro forma profit attributable to members of the Alinta Group<sup>1</sup></b>	<b>80.0</b>
Less: non-recurring project, legal and regulatory expenses (after tax) <sup>2</sup>	(17.7)
Plus: profit on disposal of Wattle Point Assets (after tax)	7.1
Plus: one-off tax credit <sup>3</sup>	20.0
<b>Expected reportable profit attributable to members of the Alinta Group</b>	<b>89.4</b>

Notes to Figure 11.2:

- 1 As per Figure 11.1.
- 2 Project costs, inclusive of termination fees paid to investment banks in cessation of ongoing mandates, in relation to the Scheme Proposal of \$25.3 million (\$17.7 million after tax).
- 3 Tax adjustments made predominantly as a result of the resolution of certain positions adopted as part of the AGL Merger.

## 11.5 Composition of Alinta pro forma income statements

The composition of the forecast Alinta pro forma income statements are summarised in Figure 11.3.

### Figure 11.3: Alinta pro forma income statement split by acquiring entity

Note that the allocation of Alinta results to each Consortium Party has resulted in a number of transactions that were previously classed as inter-company transactions (and therefore eliminated on consolidation in Figure 11.1) being classified as external transactions post Implementation. As a result the individual line items preceding 'EBITDA from ordinary operations' for the individual Consortium Parties do not sum to the pro forma forecast results in the second column of Figure 11.3.

	Pro forma forecast results year ending	Pro forma results – BBI Assets <sup>1</sup> year ending	Pro forma results – BBP Assets year ending	Pro forma results – BBW Assets year ending	Pro forma results – APT <sup>2</sup> year ending	Pro forma results Other <sup>1</sup> year ending
\$ in millions	30 June 2008	30 June 2008	30 June 2008	30 June 2008	30 June 2008	30 June 2008
<b>Total revenue from ordinary activities</b>	2,339.4	291.8	1,029.9	–	–	1,205.9
Cost of sales	(1,127.2)	(4.6)	(726.2)	–	–	(234.3)
Operating and maintenance costs	(346.9)	(156.9)	(102.9)	–	–	(437.4)
<b>EBITDA from ordinary activities</b>	<b>865.3</b>	<b>130.3</b>	<b>200.8</b>	<b>–</b>	<b>–</b>	<b>534.2</b>
Share of net profits of associates	37.4	8.6	–	–	–	28.8
Dividend income (APA)	43.0	–	–	–	43.0	–
Preference dividend income	16.3	–	–	–	–	16.3
<b>Total EBITDA</b>	<b>962.0</b>	<b>138.9</b>	<b>200.8</b>	<b>–</b>	<b>43.0</b>	<b>579.3</b>
Depreciation and amortisation	(226.8)	(53.6)	(44.9)	–	–	(128.3)
<b>EBIT</b>	<b>735.2</b>	<b>85.3</b>	<b>155.9</b>	<b>–</b>	<b>43.0</b>	<b>451.0</b>
Net interest expense <sup>3</sup>	(438.6)					
<b>EBT</b>	<b>296.6</b>					
Income tax benefit/(expense) <sup>3</sup>	(80.6)					
<b>NPAT</b>	<b>216.0</b>					
Outside equity interest	(2.9)					
<b>Profit attributable to members of Alinta</b>	<b>213.1</b>					

Notes to Figure 11.3:

- Revenue derived from asset management contracts has been apportioned based on whether the work is undertaken from the Eastern depots ('Other') or Western depot ('BBI'). Costs in relation to these contracts have been apportioned proportionally with revenue.
- Based on the average of publicly available broker consensus forecast distributions.
- The apportionment of these items is not relevant as under the Scheme Proposal they will be determined by the relevant funding structures and tax attributes of the respective B&B Funds and SPI.

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### 11.6 Best estimate assumptions underlying the Alinta forecasts

In forecasting earnings for the six months ending 30 June 2007, 31 December 2007 and 30 June 2008 as disclosed in Figure 11.1, the Alinta Directors have made the assumptions below. Actual comparisons for the year ended 31 December 2006 are provided where appropriate for comparative purposes.

#### (a) Revenue assumptions (for assets transferred to BBP)

	Actual year ended 31 December 2006	Forecast six months ending 30 June 2007	Forecast six months ending 31 December 2007	Forecast six months ending 30 June 2008
<i>Energy Markets</i>				
Gas volumes sold (GJ)	53.2	26.0	28.9	25.4
New customer connections	20,744	8,805	9,871	9,706
Electricity sold (GWh)	1,806	1,250	1,305	1,371

Gas and electricity prices are consistent with the current regulatory price paths in Alinta's energy markets with no significant changes in 2007 and 2008.

#### *Wesfarmers LPG*

Volume (tonnes)	163,340	82,508	86,411	71,513
Average effective A\$/US\$ exchange rate	0.75	0.79	0.78	0.74
LPG prices (average US\$/tonne)	511.5	525.5	528.2	520.0

#### *Power Generation*

Output (GWh)		694,432	665,403	786,137
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The power generation output assumptions are based on commissioning of the first cogeneration power station on 14 March 2006, the second power station on 1 February 2007, and a third power station on 1 October 2007.

#### (b) Revenue assumptions (for assets transferred to BBI)

	Actual year ended 31 December 2006	Forecast six months ending 30 June 2007	Forecast six months ending 31 December 2007	Forecast six months ending 30 June 2008
<i>Energy Distribution – AGN</i>				
Gas volumes (PJ)	31.0	15.0	17.0	15.5
Average tariff (A\$/GJ)	3.87	4.07	4.22	4.08

**(c) Revenue assumptions (for assets transferred to other Consortium members)**

	Actual year ended 31 December 2006	Forecast six months ending 30 June 2007	Forecast six months ending 31 December 2007	Forecast six months ending 30 June 2008
<i>Energy distribution – NSW</i>				
Gas volumes (PJ)	32.7	14.2	18.1	14.7
Average tariff (A\$/GJ)	8.52	9.30	8.66	9.49
<i>Energy distribution – Solaris</i>				
Electricity volumes (GWh)	4,215	2,124	2,207	2,126
Average tariff (A\$/MWh)	43.43	45.08	44.48	44.69

**(d) Asset management revenue and operating expenditure assumptions**

Operating expenditure and associated revenue relating to the operation, management and maintenance of the infrastructure assets has been forecast on the basis of the ability to execute the operating plan to meet planned network/generation availability and performance efficiency over the forecast period.

**(e) Cost assumptions**

The majority of gas/electricity costs are based on contractual commitments. Uncontracted costs reflect market prices which vary from time to time with wages increasing by 5% per annum and other expenditure increasing in line with CPI as detailed below.

**(f) Interest assumptions**

Interest on Alinta Network Holdings' \$570 million senior debt facility is assumed to be at an effective rate of 6.0% for the year ending 31 December 2007 and 6.5% for the six months ending 30 June 2008, of which 80% is hedged throughout the forecast period. Interest on the unhedged portion has been based on a rate of 6.45% plus a margin of 50 basis points. It has been assumed that the Term Loan facility which matures in September 2008 will be refinanced at similar margins.

Interest on Alinta's \$240 million cogeneration construction facility is assumed to be at an effective rate of 6.5% for the year ending 31 December 2007 and 6.8% for the six months ending 30 June 2008, of which 80% is hedged throughout the forecast period. Interest on the unhedged portion has been based on a rate of 6.45% plus a margin of 110 basis points.

Interest on Alinta's \$500 million Wagerup construction facility is assumed to be at effective rates of 6.5% for the year ending 31 December 2007 and 6.8% for the six months ending 30 June 2008, of which 100% is hedged until September 2008 and thereafter 80% is hedged. The facility is expected to be drawn to \$280 million during September 2007.

Interest on Alinta LGA financing facilities is assumed to be at an effective rate of 7% for the year ending 31 December 2007 and 6.8% for the six months ending 30 June 2008. 80% of the financing facilities are at fixed rates through either underlying fixed debt instruments or interest rate swaps. Interest on the unhedged portion has been based on a rate of 6.45% plus an average margin of 45 basis points.

Interest on the Alinta Energy Holdings financing facilities is assumed to be at an effective rate of 7.4% for the year ending 31 December 2007 and 7.1% for the six months ending 30 June 2008. Interest on the unhedged portion has been based on a rate of 6.45% plus an average margin of 60 basis points.

AlintaAGL has a loan note with a value of \$247 million with its minority shareholder. This loan note matures in 2016 and has a coupon rate of 9.8%.

Interest on excess cash is assumed to accrue at an average rate of 6.0%.

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**(g) Taxation assumptions**

Taxation assumptions reflect a corporate tax rate of approximately 30.0% including tax incurred within the share of profits of equity accounted associates.

**(h) Inflation assumptions**

CPI of between 2.5% and 3.0% over the forecast period (variations relate to state based fluctuations).

**(i) Capital expenditure assumptions**

\$ in millions	Pro forma forecast results	Pro forma results – BBI assets	Pro forma results – BBP assets	Pro forma results – BBW assets	Pro forma results – APT	Pro forma results – Other
Six months ending 30 June 2007	338.8	21.3	201.3	–	–	116.2
Six months ending 31 December 2007	294.0	32.9	134.8	–	–	126.3
Six months ending 30 June 2008	315.7	37.3	118.0	–	–	160.4

**(j) General assumptions**

The Alinta Directors have also made the following general assumptions for the Alinta forecasts in addition to those outlined above:

- no changes of a material nature to Alinta's accounting policies, the Australian Accounting Standards, Statements of Accounting Concepts or other mandatory professional reporting requirements including Urgent Issues Group and the Corporations Act which could have a material effect on Alinta's forecast financial results;
- no significant changes in legislation, regulatory requirements, government policy, or to the political or economic environment in Australia and New Zealand within which Alinta operates;
- no significant industrial, contractual, competitive or political disturbances impacting Alinta and/or the continuity of its operations;
- no material environmental losses or material legal claims not previously recognised;
- no significant change to the competitive landscape of the energy industry in which Alinta has an interest; and
- no change in taxation legislation which will have a material impact on Alinta's forecast financial results.

## 11.7 Alinta pro forma balance sheet

Set out below is the pro forma balance sheet for Alinta as at 31 December 2006.

**Figure 11.4: Alinta pro forma balance sheet**

\$ in millions	Audited actual Alinta 31 December 2006	Pro forma adjustments <sup>1</sup>	Pro forma Alinta 31 December 2006
<i>Current assets</i>			
Cash	400.2	-	400.2
Receivables	611.7	(211.0)	400.7
Inventories	10.0	-	10.0
Financial assets	633.1	-	633.1
Other assets	4.6	-	4.6
<b>Total current assets</b>	<b>1,659.6</b>	<b>(211.0)</b>	<b>1,448.6</b>
<i>Non-current assets</i>			
Receivables	230.2	-	230.2
Equity accounted investments	636.6	-	636.6
Property, plant and equipment	6,069.8	-	6,069.8
Goodwill and intangibles	2,368.5	67.4	2,435.9
Other assets	36.3	-	36.3
<b>Total non-current assets</b>	<b>9,341.4</b>	<b>67.4</b>	<b>9,408.8</b>
<b>Total assets</b>	<b>11,001.0</b>	<b>(143.6)</b>	<b>10,857.4</b>
<i>Current liabilities</i>			
Payables	458.3	(188.6)	269.7
Interest bearing liabilities	1,161.5	(225.0)	936.5
Income tax payable	24.9	-	24.9
Provisions	154.7	-	154.7
Other	44.1	-	44.1
<b>Total current liabilities</b>	<b>1,843.5</b>	<b>(413.6)</b>	<b>1,429.9</b>
<i>Non-current liabilities</i>			
Interest bearing liabilities	5,100.0	363.7	5,463.7
Provisions	86.6	-	86.6
Deferred tax liabilities	177.1	26.2	203.3
Other	5.9	-	5.9
<b>Total non-current liabilities</b>	<b>5,369.6</b>	<b>389.9</b>	<b>5,759.5</b>
<b>Total liabilities</b>	<b>7,213.1</b>	<b>(23.7)</b>	<b>7,189.4</b>
<b>Net assets</b>	<b>3,787.9</b>	<b>(119.9)</b>	<b>3,668.0</b>

Notes to Figure 11.4:

Pro forma adjustments reflect:

- 1 The payment of \$188.6 million payable to former AIH shareholders who had accepted Alinta's cash bid prior to 31 December 2006, financed by borrowings.
- 2 The acquisition of the remaining interest in AIH post 31 December 2006, requiring the recognition of \$40.7 million goodwill and the reduction of \$134.4 million minority interest, financed by \$175.1 million of additional borrowings.
- 3 The disposal of the Wattle Point Assets, resulting in the removal of \$211 million finance lease receivables, \$13.8 million goodwill and \$14.3 million deferred tax liabilities. The cash proceeds of \$225.0 million have been applied to reduce borrowings.
- 4 The finalisation of tax bases of the infrastructure assets acquired from AGL following the AGL Merger, resulting in an increase in deferred tax balances, and a corresponding increase in goodwill.

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## 11.8 Composition of Alinta pro forma balance sheet

Figure 11.5: Alinta pro forma balance sheet split by acquiring entity

\$ in millions	Pro forma Alinta 31 Dec 2006	BBI assets <sup>1</sup> 31 Dec 2006	BBP assets <sup>2</sup> 31 Dec 2006	BBW assets <sup>3</sup> 31 Dec 2006	APA 31 Dec 2006	Other assets 31 Dec 2006
<i>Current assets</i>						
Cash	400.2	0.7	138.6	211.0	–	49.9
Receivables	400.7	19.8	203.7	–	–	177.2
Inventories	10.0	0.6	6.7	–	–	2.7
Financial assets	633.1	–	–	–	633.1	–
Other assets	4.6	0.8	3.8	–	–	–
<b>Total current assets</b>	<b>1,448.6</b>	<b>21.9</b>	<b>352.8</b>	<b>211.0</b>	<b>633.1</b>	<b>229.8</b>
<i>Non-current assets</i>						
Receivables	230.2	3.4	102.3	–	–	124.5
Equity accounted investments	636.6	116.8	–	–	–	519.8
Property, plant and equipment	6,069.8	1,113.5	833.0	–	–	4,123.3
Goodwill and intangibles	2,435.9	158.7	294.2	–	–	1,983.0
Other assets	36.3	88.7	(86.3) <sup>5</sup>	–	–	33.9
<b>Total non-current assets</b>	<b>9,408.8</b>	<b>1,481.1</b>	<b>1,143.2</b>	<b>–</b>	<b>–</b>	<b>6,784.5</b>
<b>Total assets</b>	<b>10,857.4</b>	<b>1,503.0</b>	<b>1,496.0</b>	<b>211.0</b>	<b>633.1</b>	<b>7,014.3</b>
<i>Current liabilities</i>						
Payables	269.7	57.6	168.8	–	–	43.3
Interest bearing liabilities <sup>4</sup>	936.5	111.5	21.8	–	–	803.2
Income tax payable	24.9	24.9	–	–	–	–
Provisions	154.7	87.6	10.1	–	–	57.0
Other	44.1	–	–	–	–	44.1
<b>Total current liabilities</b>	<b>1,429.9</b>	<b>281.6</b>	<b>200.7</b>	<b>–</b>	<b>–</b>	<b>947.6</b>
<i>Non-current liabilities</i>						
Interest bearing liabilities <sup>4</sup>	5,463.7	834.5	1,081.5	–	–	3,547.7
Provisions	86.6	26.1	11.9	–	–	48.6
Deferred tax liabilities	203.3	158.5	(21.6) <sup>5</sup>	–	–	66.4
Other	5.9	1.1	2.6	–	–	2.2
<b>Total non-current liabilities</b>	<b>5,759.5</b>	<b>1,020.2</b>	<b>1,074.4</b>	<b>–</b>	<b>–</b>	<b>3,664.9</b>
<b>Total liabilities</b>	<b>7,189.4</b>	<b>1,301.8</b>	<b>1,275.1</b>	<b>–</b>	<b>–</b>	<b>4,612.5</b>
<b>Net assets</b>	<b>3,668.0</b>	<b>201.2</b>	<b>220.9</b>	<b>211.0</b>	<b>633.1</b>	<b>2,401.8</b>

Notes to Figure 11.5:

- 1 Includes 33% of AAM balances, and 20% of Agility Management Pty Ltd (**Agility**) balances.
- 2 Cash of \$211.0 million allocated to BBW in accordance with the SIA.
- 3 Includes 67% of AAM balances, and 80% of Agility balances.
- 4 Allocation of external interest bearing liabilities as advised by the Consortium.
- 5 These items relate to deferred tax balances and net to a \$64.7 million deferred tax liability.

### 11.9 Sensitivity analysis of the Alinta forecasts

The forecast in Figure 11.1 is based on certain best estimate assumptions about future events. The outcome of these future events cannot be predicted with certainty and, as a result, variations from forecast financial information are to be expected.

The figures below present a summary of sensitivities of the forecast financial information for the six months ending 30 June 2007, 31 December 2007 and 31 June 2008 to movements in a number of material assumptions.

Care should be taken in interpreting these sensitivities as they consider movements on an isolated basis, whereas in reality, management would be expected to respond to any adverse changes in these key variables to minimise the net effect on financial performance.

#### (a) Changes in interest rates

Movements in interest rates affect the unhedged portion of debt. The figure below shows the estimated impact of a 0.5% movement in the interest rate on unhedged debt on NPAT for the six months ending 30 June 2007, 31 December 2007, and 30 June 2008.

\$ in millions	Forecast six months ending 30 June 2007	Forecast six months ending 31 December 2007	Forecast six months ending 30 June 2008
Increase of 0.5%	(1.5)	(3.2)	(3.2)
Decrease of 0.5%	1.5	3.2	3.2

#### (b) US\$ exchange rate

\$ in millions	Forecast six months ending 30 June 2007	Forecast six months ending 31 December 2007	Forecast six months ending 30 June 2008
Increase of \$0.05	(0.6)	(1.1)	(1.0)
Decrease of \$0.05	1.0	1.2	1.1

#### (c) Potential divestment/termination of APA Pipeline Management Agreement

Under the ACCC undertakings in relation to Alinta's retention of an interest in APA Group (as set out in section 10.5), Alinta must divest the management contracts for the Moomba to Sydney Pipeline and Parmelia Pipeline by a non-disclosed specified date. Should these contracts be divested in the forecast period, the NPAT contribution of the Alinta Group (and the 'Other' segment within Figure 11.3) will be reduced to the extent that any reinvestment of the proceeds on sale do not exceed the NPAT contribution of these contracts.

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# 12 RISKS

## 12.1 Introduction

There are a number of risks associated with the Scheme Proposal and the Post-Implementation Transactions that may have an impact on the financial returns received by Alinta Securityholders. These risks will be important for Alinta Securityholders to understand.

Alinta Securityholders are already exposed to a number of risks through their existing securityholding. A number of these risks are inherent in investing in securities generally and also inherent in any energy and infrastructure business like that of Alinta. Under the Schemes, Alinta will be acquired by the Bidder in exchange for the Scheme Consideration which may include, in the case of the Share Scheme, BBI EPS and the B&B Fund Securities. The Bidder has indicated that it will distribute the Alinta Assets and operations to BBI, BBP and SPI as described in Figure 1.2. Alinta Shareholders who acquire BBI EPS and the B&B Fund Securities will become exposed to the risks associated with having an interest in BBI EPS and the B&B Funds, including their respective assets.

The key risks have been presented within the following categories:

- (a) Section 12.2: risks arising from the Scheme Proposal;
- (b) Section 12.3: risks arising from Implementation and the Post-Implementation Transactions;
- (c) Section 12.4: risks which are new or changed for Alinta Shareholders; and
- (d) Section 12.5: general investment risks for B&B Funds.

Risks which are unique to an investment in BBI, BBP or BBW or the BBI EPS are described in this section and in sections 5.12, 6.6, 7.12 and 8.12 respectively.

Additional risks not presently known to Alinta (or B&B or a B&B Fund) or, if known, not considered material, may also have an adverse impact.

**In deciding whether to vote in favour of the Scheme Proposal, you should read this Booklet in its entirety and carefully consider the risks outlined in this section and elsewhere in this Booklet, including sections 5.12, 6.6, 7.12 and 8.12.**

Your Alinta Directors believe that the advantages of participating in the Scheme Proposal outweigh the associated potential risks.

## 12.2 Risks arising from the Scheme Proposal

There are a number of risks arising from the Scheme Proposal for Alinta Securityholders. These are described below.

### (a) Risks associated with the Consideration Alternatives

Section 13.2 describes the Consideration Alternatives available to Alinta Shareholders. There are a number of risks associated with the Consideration which are set out below.

#### (i) Consideration outcomes

There are a number of possible consideration outcomes for Alinta Shareholders. As described in section 13.2, there are limits on the total amount of cash and total number of B&B Fund Securities and BBI EPS available to Alinta Shareholders. The exact mix of cash, B&B Fund Securities or BBI EPS each Alinta Shareholder receives under the Consideration Alternatives will depend on the elections of other Alinta Shareholders. Therefore, despite an election, Alinta Shareholders may not receive a maximum allocation of their preferred form of consideration.

Alinta Shareholders will not know the exact form of the Share Scheme Consideration they will receive until around the Implementation Date.

#### (ii) Small parcels of B&B Fund Securities, BBI EPS and APA Securities

Under the Consideration Alternatives, Alinta Shareholders may receive small parcels of B&B Fund Securities, BBI EPS and APA Securities. Alinta Shareholders electing the Maximum Cash Alternative may elect to have any Unmarketable Parcel of securities sold for them free of brokerage. Prior to 31 January 2008, each of the B&B Funds will also offer a facility to Alinta Shareholders to top-up any Unmarketable Parcel of B&B Fund Securities they receive as a result of the Scheme.

#### (iii) BBI EPS

Section 6.6 sets out a number of risks associated with BBI EPS.

#### (iv) Fluctuation in the market prices of B&B Fund Securities and APA Securities prior to the Record Date

The value of each Consideration Alternative will depend, in part, on the value of B&B Fund Securities and APA Securities at the Record Date. The value will be determined based on VWAP over the five Business Days immediately following the Meeting Date, which covers the days immediately prior to the Record Date on the current timetable. Accordingly, any fluctuations in the market prices of B&B Fund Securities or APA Securities prior to the Record Date will affect the value of the consideration received by Alinta Shareholders under the Scheme Proposal.

**(v) Cash Out Facility**

Small Alinta Shareholders are being offered a Cash Out Facility. Small Alinta Shareholders electing the Cash Out Alternative and Ineligible Overseas Shareholders will:

- > receive the Default Consideration and the APA Distribution; and
- > any B&B Fund Securities, APA Securities or BBI EPS<sup>92</sup> which form part of that consideration will be sold following Implementation and the proceeds paid to the Alinta Shareholder. The actual amount of cash to be received under the Cash Out Facility is not guaranteed or fixed, and will depend on the price at which the securities can be sold (and, in the case of Ineligible Overseas Shareholders who are not Small Alinta Shareholders, on the costs of sale). As such, the value of the consideration received may be more or less than the value of consideration received under other Consideration Alternatives.

Similar considerations will apply to Share Scheme Participants electing the Maximum Cash Consideration who choose to have Unmarketable Parcels cashed out under the Cash Out Facility.

**(vi) Flowback**

There is a risk that if a significant number of Alinta Shareholders receiving B&B Fund Securities or APA Securities seek to sell their securities, this may adversely impact the price of those securities. Similarly, the sale of B&B Fund Securities and APA Securities by the Nominee for Ineligible Overseas Shareholders who are unable to receive such securities and for others using the Cash Out Facility may also adversely impact on the price of B&B Fund Securities and APA Securities.

**(vii) High Court Decision**

The relief being sought by the Commonwealth Attorney-General in his appeal to the High Court (see section 10.9) includes the reinstatement of orders made by the Takeovers Panel in relation to Alinta's acquisition of a 10.25% stake in APA last year. If the High Court proceeding continues (notwithstanding the settlement of the matter as between APA and Alinta) and the Takeovers Panel's orders were reinstated and not modified by the Takeovers Panel, the stake would be vested in ASIC which would appoint a broker to sell the securities by bookbuild.

It is considered unlikely that any High Court decision will be delivered before the Implementation Date. However, if a decision is delivered before the Implementation Date which has the effect of reinstating the Takeovers Panel's orders, the proceeds of sale of the relevant APA Securities will be distributed pro rata to shareholders, rather than the underlying securities (and, if necessary, the Implementation Date could be delayed to enable distribution of the cash proceeds to coincide with distribution of the Share Scheme Consideration). There is a risk that the price realised on sale of those securities in these circumstances might be less than the current value of APA Securities.

Note:

92 In the case of New Zealand Shareholders or Ineligible Overseas Shareholders, BBI Stapled Securities will be sold in lieu of BBI EPS as set out in section 13.2(j).

**(b) Alinta Optionholders**

Risks for Alinta Optionholders are generally different from those for Alinta Shareholders as Alinta Optionholders will not receive Consideration Securities under the Scheme Proposal. Under the Option Scheme, Alinta Optionholders are effectively being offered the equivalent value of the Consideration Securities in cash as part of the Option Scheme Consideration. Accordingly, the key risks for Alinta Optionholders are the consequences of fluctuation in the market prices of B&B Fund Securities and APA Securities prior to the Record Date (described in paragraph 12.2(a)(iv)) and the risk of the Court not approving the Share Scheme or Option Scheme. Further, if the Option Scheme is not approved but the Share Scheme is Implemented, Alinta Optionholders may, in the future, hold shares in a company which is not listed. See section 15.4 for more details.

In addition, Alinta Optionholders who did not exercise their Alinta Options and acquire Alinta Shares before 3 July 2007 will not be entitled to receive the benefit of the franking credits in respect of the APA Dividend. However, Alinta Optionholders are receiving the benefits of participation in a valuation reflecting the acquisition of Alinta and (for those Alinta Optionholders whose Alinta Options have not previously vested) acceleration of vesting.

**(c) Tax**

More detailed information about the taxation implications of the Scheme Proposal are set out in section 14.

**(i) Taxation of equity investments**

Tax rules or their interpretation in relation to equity investments may change following the Implementation of the Share Scheme. In particular, both the level and basis of taxation may change. This could alter the tax treatment of distributions in the hands of Alinta Shareholders, as well as the tax treatment of a subsequent disposal of those equity investments.

An investment in the B&B Funds involves tax considerations which may differ for each Alinta Shareholder. Each Alinta Shareholder is encouraged to seek professional tax advice in connection with any investment in the B&B Funds.

**(ii) ATO Class Ruling**

The ATO may not provide favourable class rulings on all, or some, of the matters referred to in the Tax Opinion. If this occurs, the tax liability of Alinta Shareholders could be higher than would otherwise have been the case. The Consortium will notify Alinta Shareholders of any changes that will result.

**(iii) Capital gains tax**

Alinta Shareholders may be subject to significant CGT with respect to their receipt of the Consideration. Alinta Shareholders may be able to reduce their CGT liability by electing to receive the Maximum Preference Shares Alternative. While the BBI EPS is expected to provide CGT rollover relief, it is a fixed income

security (with limited growth potential) which may or may not suit individual shareholders' investment objectives. When the BBI EPS are sold, or redeemed or converted into BBI Stapled Securities, a CGT Event is expected to arise and the tax deferred on the initial rollover will be payable.

### 12.3 Risks arising from Implementation and Post-Implementation Transactions

There are a number of risks associated with Implementation or the Post-Implementation Transactions which may affect the ability of the Consortium Parties to implement the Post-Implementation Transactions or the continued operation of the Alinta Assets and may have an adverse effect on the performance of a B&B Fund. These are set out below.

#### (a) Effect of change in control on contractual provisions and third party consents

Some of the material agreements to which Alinta (or its relevant subsidiary) is a party contain restrictions on a change of control of a party or assignment of an interest in the agreement which may be triggered by the Implementation of the Scheme Proposal or by completion of any subsequent Post-Implementation Transactions required to separate the assets and businesses of Alinta amongst the Consortium. While the consent of relevant counterparties will be sought, there is no certainty that consent will be obtained or that the existing terms and conditions of any contract including pricing will continue to apply. In relation to certain agreements, the counterparty may be able to (or may seek to) impose conditions, change terms and conditions including pricing or terminate the relevant agreement in certain circumstances.

Implementation of the Scheme Proposal is not conditional upon obtaining any consents or consents being given on acceptable terms.

If consent is given subject to conditions, such conditions may not be acceptable to the relevant B&B Fund (or SPI in the case of MGN or the TGP related agreements which they will be allocated or enter into) or may not be capable of being satisfied by the relevant B&B Fund or SPI.

If a counterparty terminates an agreement, the relevant B&B Fund acquiring the assets and/or business to which the agreement relates could lose the benefit of the agreement and additionally may not be able to obtain similarly favourable terms upon entry into replacement agreements (if at all) and, in some circumstances, replacement agreements (including management agreements or back to back agreements which allow the economic benefits to be obtained by the relevant entity without transferring an agreement) may not be a feasible alternative. The losses associated with the termination of such agreements may have an adverse effect on the financial performance of the relevant B&B Fund.

Separately, in order to obtain third party consents it may be necessary to renegotiate the terms of certain agreements. The new terms may not, on balance, be as favourable to the relevant B&B Fund acquiring the asset or business to which the agreement relates.

#### (b) Other transaction risks for B&B Funds

##### (i) AlintaAGL – Shareholders' Agreement

The joint venture arrangements entered into between Alinta and AGL Energy include put/call options that are triggered upon a change in control of Alinta or AGL Energy. These mechanisms exist to effect a transaction whereby either Alinta or AGL Energy acquires 100% ownership of the AlintaAGL joint venture subsequent to a change of control.

Should the Share Scheme be Implemented, the put/call options will be triggered and AGL Energy will have the right to acquire Alinta's 67% interest in the AlintaAGL joint venture at a price nominated by Alinta. Should AGL Energy not accept the nominated price, then AGL Energy must put its 33% interest in the joint venture to Alinta at the same price (on a per share basis) and Alinta must acquire AGL Energy's 33% interest in the joint venture.

Because the put/call options are not triggered until the Implementation Date, at the time of dispatch of this Booklet it is unknown whether or not 100% of AlintaAGL will be transferred to BBP or whether AGL Energy will own the 100% interest in AlintaAGL and BBP will receive the cash consideration paid by AGL Energy for the 67% of AlintaAGL not previously owned by it. The risks associated with an investment in BBP are therefore subject to the outcome of these arrangements.

The potential financial outcomes in relation to the AlintaAGL put/call options are dealt with in section 7.9(h)(ix).

##### (ii) Loss of key personnel or contractors

There is a risk that the B&B Funds may not be able to retain key technical and managerial personnel from within Alinta's business (particularly senior personnel). This risk may be increased if there is an extended period of disruption to the business during Implementation of the Scheme Proposal (see paragraph 12.3(c)(ii) below). Such loss may adversely affect business continuity in respect of the acquired assets or operations and reduce corporate knowledge of Alinta's assets and operations. The impact of the loss of key personnel is described further in section 12.5(aa).

There is also a risk that the Post-Implementation Transactions may result in key personnel with specific knowledge and experience of a particular asset/business being employed by entities which do not own or control those assets.

Where one or a limited number of key senior personnel have specific knowledge or skill in relation to an asset or component of Alinta's business, there is also a related separation risk (set out in further detail in paragraph 12.3(c)(iv)).

**(iii) Loss of customers/market share**

There is a risk that relationships with customers, key providers or third parties may be impaired and market share or growth opportunities lost as a result of the Scheme Proposal and Post-Implementation Transactions. Such loss may adversely affect the future operations of the relevant B&B Fund.

**(iv) Alinta brand**

The Alinta brand is well known in the Australian market. Any use of alternative brands in connection with the Alinta assets and operations may have adverse impacts on future growth and business opportunities of the B&B Funds.

**(v) ACCC undertakings**

Various members of the Alinta Group have given formal enforceable undertakings to the ACCC under section 87B of the Trade Practices Act 1974:

- (A) in October 2004, at the time of the acquisition of the Dampier to Bunbury Natural Gas Pipeline; and
- (B) in November 2006, in relation to the AGL Merger.

In general terms, these undertakings impose restrictions on the activities of the relevant Alinta entities as to the manner in which certain assets are managed and businesses are conducted, and impose positive obligations on those entities with respect to certain assets and businesses, such as (in the case of the AGL Merger) the divestment of specified assets within a nominated time. The undertakings can be viewed on the ACCC's website at [www.accc.gov.au](http://www.accc.gov.au).

If Alinta's undertakings continue in force after the Implementation of the Scheme Proposal, some elements of those undertakings may no longer be appropriate. There is a risk that the entities that own or operate the assets or businesses subject to the undertaking will be under an unnecessary restriction, or have an unnecessary obligation, which may put them at a competitive disadvantage. To resolve this issue, and to help ensure that the ACCC does not object to any part of the Scheme Proposal, the Consortium intends to seek the consent of the ACCC to the withdrawal of the Alinta undertakings on Implementation of the Scheme Proposal, on the basis that they will be effectively replaced by the undertakings described in section 15.24(c). The new undertakings offered to the ACCC by the Consortium may result in significant compliance costs.

Furthermore, in order for the ACCC to give clearance to particular aspects of the Implementation of the Scheme Proposal or Post-Implementation Transactions, additional restrictions or positive obligations may be required. These additional restrictions or obligations (in the form of court enforceable undertakings given to the ACCC by the Consortium) may not allow the relevant asset or business to operate or be managed in the manner contemplated when the SIA was entered into, or may result in significant compliance costs.

**(c) Separation risk**

There are a number of business-related risks associated with the Post-Implementation Transactions (including the transfer of assets and businesses to the B&B Funds). The key risks are described below.

- (i) There is a risk that the Bidder (for whatever reason) may not or cannot carry out the Post-Implementation Transactions in which it distributes the Alinta Assets to BBI, BBP and SPI as described in Figure 1.2, or that such restructure or transfer is delayed or can only occur on terms which adversely affect the B&B Funds in the future.
- (ii) There is a risk that separation of the Alinta Assets between the Consortium may take longer than expected or may involve greater costs (including transaction costs) and business disruption than anticipated and that some aspects of the separation will not be achieved in the manner anticipated. This could adversely affect the B&B Funds in the future.
- (iii) There may be a loss of economies of scale and synergies which currently exist within the Alinta Group. This may result in a potential loss of commercial leverage gained from the pre-Implementation ability to enter into national and/or cross-asset arrangements.
- (iv) A further risk exists in relation to the synergies of an individual or small number of key personnel managing similar information technology applications or assets across the various Alinta businesses (particularly at senior management levels). If technology applications need to be reproduced for each member of the Consortium, this may create a risk of duplication. Even if technology systems and applications can be separated between members of the Consortium, there is the risk that the members of the Consortium will be unable to retain or obtain sufficient key personnel to manage these applications or assets, having financial impacts and business disruption implications. These risks are discussed in more detail in paragraph 12.3(d) below.
- (v) The head office, corporate and other services which were previously provided to businesses within the Alinta Group may not be provided in an efficient and cost-effective way to each of the businesses after they have been transferred to the various recipients, the B&B Funds or SPI.
- (vi) In particular, the ability to comply with relevant finance reporting requirements may be reduced as a result of:
  - (A) the separation of centralised finance functions and personnel; and
  - (B) a lack of information transfer prior to that separation. Reduced reporting abilities could impact on management of the Alinta Assets during the Implementation and post-Implementation periods and the maximisation of commercial opportunities during that time. There may also be a risk that statutory reporting requirements may not be complied with on time.

- (vii) The restructure proposed as part of the Post-Implementation Transactions may result in a business or asset being allocated to one Consortium Party, but liabilities relating to that business or asset (such as guarantees) remaining with or being allocated to a different Consortium Party. The Umbrella Agreement described in section 15.12(b) provides for a “wrong pockets” arrangement between them which may mitigate this risk.
- (viii) There is a risk that a B&B Fund does not have, might not obtain, or might not be able to comply with, licences and permits necessary for the conduct of a business being acquired. Failure to do this may have an adverse effect on a business. The Consortium agreements described in section 15.12 may mitigate this risk to some degree.
- (ix) Certain of the Consortium arrangements described in section 15.12 are not complete or have not been fully documented. There is a risk that the Consortium will not be able to agree outstanding matters and such failure may have an adverse impact on the intentions of the Consortium described in section 4.3 and the future performance of the relevant Alinta Assets or B&B Fund. As the Consortium has conducted limited due diligence, there is also a risk that the arrangements agreed between them will not be effective, nor resolve potential business disruption issues and costs, and that the intentions of the Consortium will change following the review and assessment described in section 4.3.

#### (d) Technology risks

Prior to Implementation, a number of information technology systems, applications and business processes were deployed in the delivery of business functions within the Alinta Group. After Implementation and the Post-Implementation Transactions, those functions will be separated between (and within) the B&B Funds and SPI. The B&B Funds and SPI may enter into a transitional services agreement relating to the provision of such functions to the various businesses/assets (see section 4.3(c)(iii)(B)). Each B&B Fund and SPI will need to integrate those functions with their existing capabilities.

There is a risk that there may be difficulties associated with splitting or transitioning systems and corporate operations to reflect the division of assets and businesses. The systems of SPI and the B&B Funds may not be compatible with or may be difficult to integrate with those of Alinta.

B&B Funds will depend on the continued operation of the relevant computer systems and network infrastructure for critical functions for the businesses to be acquired. System interruptions that result in the unavailability of services may reduce the relevant B&B Fund's ability to compete effectively and could have an adverse effect on its operations and financial performance.

The establishment of equivalent functions within the B&B Funds may take longer than expected or may involve greater costs than anticipated.

There are some related risks concerning the management of information during the transitional period when information technology systems are being separated, or new information technology systems are being established. In particular, having regard to the complexity of the systems and regulatory requirements, there is a risk that:

- (i) confidential or commercially sensitive information, or information that is otherwise subject to regulatory obligations, may be accessed by persons or businesses who should not be permitted to receive it;
- (ii) businesses that have been separated may not have access to information that is necessary for their operations; and/or
- (iii) as noted in sections 12.3(c)(iv) and (vi) above, the commercial benefits of that knowledge or information may not be able to be exploited.

#### (e) APA Securities

As a result of the distribution of APA Securities to Alinta Shareholders described in section 10, Alinta Shareholders (other than those whose APA Securities are sold for them by the Nominee under the Cash Out Facility) will hold securities directly in APA rather than through Alinta. Alinta Shareholders will therefore be directly exposed to the risks and performance of APA.

For a description of the financial performance, businesses and risks of APA, Alinta Shareholders are referred to [www.pipelinetrust.com.au](http://www.pipelinetrust.com.au).

#### (f) Effects of reduction in size and diversification

After Implementation, Share Scheme Participants who receive B&B Fund Securities will hold securities in each B&B Fund which will be smaller and less diversified, or diversified in a different manner, from Alinta. The effect of a significant adverse event in Alinta which may have been offset by a favourable development in another business or asset in Alinta may not be able to be offset by favourable developments in a B&B Fund. Accordingly, the proportionate impact of an adverse development on the value of a share in a B&B Fund may be more significant than the impact of the same adverse development on the value of an Alinta Share.

However, the aggregation of the Alinta Assets within the relevant B&B Funds may provide offsetting diversification benefits previously not available to Alinta Shareholders.

#### (g) Separation between ownership and operation

Alinta's strategic approach to asset acquisitions has been to acquire both an equity interest and to undertake the management and operational roles. The synergies and benefits of this approach will not necessarily exist after the Post-Implementation Transactions are given effect. A B&B Fund will own the asset and in some instances SPI will operate it (namely Multinet and TGP). This represents a separation of ownership and operation between the B&B Funds.

Accordingly, after the Post-Implementation Transactions have been completed, the commercial interests of the manager and owners of those assets are differently aligned and there is a risk that this change could adversely affect service delivery and operator performance.

Further, the legal relationship under the relevant equity and management agreements may be to some degree compromised by this separation and the commercial synergies that arise between holding equity and undertaking management of the asset may not work as effectively or may not be available.

#### **(h) AGL integration**

The process of integration pursuant to the AGL Merger of the assets of AGL and assets of Alinta's Predecessor has not been completed. There is a risk that the Scheme Proposal and Post-Implementation Transactions may have an adverse effect on the synergies, cost savings and other benefits of the AGL Merger.

There is also a risk that the outstanding AGL integration activities may delay or restrict the facilitation (in the most effective manner) of the Post-Implementation Transactions.

#### **(i) Financing arrangements**

There is a risk that the Implementation of the Scheme Proposal and Post-Implementation Transactions may give rise to a failure to comply with financing covenants or review events which may result in the acceleration of repayments. This risk may be mitigated by B&B Funds securing appropriate underwriting and alternative debt facilities.

### **12.4 New or changed risks for Alinta Shareholders**

Alinta Shareholders are already exposed to a number of risks through their existing Alinta Shares. For Share Scheme Participants receiving B&B Fund Securities, the nature of those risks may change as a result of the Scheme Proposal or the Post-Implementation Transactions. The risks described in this section reflect those risks which are new or different from those to which Alinta Shareholders are currently exposed.

#### **(a) Investment profile**

Share Scheme Participants receiving the B&B Fund Securities will have exposure to the economic performance of these funds that will differ from the economic exposure of Alinta.

For a description of the financial performance and risks associated with an investment in the B&B Funds, Alinta Shareholders should refer to sections 5, 7 and 8.

#### **(b) Differing growth strategies**

The growth strategies adopted by the B&B Funds are likely to be different from those adopted by Alinta. They will have different credit profiles which will alter the ability to access capital or debt to support growth strategies. Accordingly, there is a risk that the growth achieved by Alinta in the past may not be maintained at current levels by each of the B&B Funds following the Implementation of the Scheme Proposal.

#### **(c) New market risk**

As a result of acquiring B&B Fund Securities, Alinta Shareholders will be exposed to different markets and industries both within and outside Australia. The risks associated with the different assets, industries and markets are described in sections 5.12, 6.6, 7.12 and 8.12.

#### **(d) AGL Energy**

Implementation of the AGL Merger occurred in October 2006. A number of agreements govern the ongoing relationship between Alinta and AGL Energy. It is not clear how the rights, obligations, benefits and liabilities of Alinta or Alinta's Predecessor under those agreements will be allocated between the Consortium Parties. Certain rights, obligations, benefits and liabilities have not been exercised or crystallised at the date of this Booklet. There is a risk that the Scheme Proposal or the Post-Implementation Transactions could adversely affect these rights and obligations or benefits and liabilities.

#### **(e) Management arrangements with B&B and other related entities**

Section 9 describes the relationships between B&B and the B&B Funds, including the BBI Management Agreements, BBP Management Agreements and BBW Management Agreements (**Management Agreements** for the purpose of this paragraph). It also describes the fees payable to B&B or its related entities in respect of such arrangements.

The Management Agreements may continue even if there is a change of control of the B&B Fund or if the relevant Responsible Entity of BBIT, BBPT or BBWPT is removed and a new responsible entity is appointed. The fees payable under the Management Agreements would continue to be paid to BBIM, BBPM and BBWPM (as applicable). Accordingly, a person considering appointment as responsible entity of BBIT, BBPT or BBWPT or taking over a B&B Fund may have a disincentive as they would not necessarily be able to appoint their own manager or manage the B&B Fund's assets themselves. The restrictions on termination of the Management Agreements may have an adverse effect on the price of securities in the B&B Fund if BBIM, BBPM and BBWPM (as appropriate) do not perform as expected.

Future growth of each B&B Fund is to some degree dependent on the acquisition opportunities arising from these relationships described in the Management Agreements and the continued strength of the relationship.

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The scope of services provided by B&B under and the terms of the Management Agreements will impose material impediments to the replacement of B&B or its related entity. These impediments may include increased costs of introducing a new service provider and the ability to integrate a new service provider.

### 12.5 General risks – B&B Funds

Sections 5.12, 6.6, 7.12 and 8.12 contain an outline of the key risks associated with an investment in each B&B Fund and the BBI EPS. In addition to these risks, you should be aware of a number of general risks that relate to an investment in an infrastructure asset, or even more general risks which relate to any equity investment. These risks are outlined in this section 12.5. Alinta Shareholders are already exposed to a number of risks described in this section.

#### (a) General economic risks

Examples of general economic risks that may affect an investment in a B&B Fund include:

- (i) changes in economic conditions and outlook in any country in which a B&B Fund has an asset;
- (ii) changes in political conditions in any country in which a B&B Fund has an asset;
- (iii) changes in government, industrial, fiscal or monetary policies in any country in which a B&B Fund has an asset; and
- (iv) events of force majeure (these risks are further described in section 12.5(r)).

#### (b) Demand risks

Although in many cases, the revenue derived from infrastructure and power assets is secured through take-or-pay (or equivalent) type contracts or based on regulated tariffs, revenue in some infrastructure and power assets is affected by demand.

For example, the volume of gas transported and electricity delivered through networks is dependent on end-user demand and is subject to a range of variables, including economic and social conditions, adverse competition, population growth, availability of adequate supplies of gas or electricity and natural resources, industry or other issues, government policy and alternative fuels or energy sources.

Usage is also very sensitive to weather patterns and periods of unseasonably warm winters and cool summers may reduce energy consumption and have an adverse impact on earnings. The prices at which an energy business buys and sells a commodity are dependent on specific market forces. Returns from an energy business may reduce where either suppliers or competitors gain a more dominant position in the market.

#### (c) Competition risk

The infrastructure and power industries can be competitive and may be subject to potential entry by new competitors as well as the addition of new capacity by existing operators.

Each B&B Fund may be affected by the existence of other competing assets owned and operated by parties other than that B&B Fund. There can be no assurance that a B&B Fund will be able to match its competitors in service or price.

Furthermore, when a B&B Fund seeks to acquire new investments, it usually does so in a competitive environment, with other parties seeking to acquire the same assets. Each B&B Fund has to date shown discipline in adhering to its respective investment criteria and each fund intends to continue to do so.

#### (d) General regulatory risks

Each B&B Fund is subject to extensive regulation in multiple jurisdictions. Infrastructure-related businesses involve ongoing commitments to governmental agencies. These commitments expose each B&B Fund to a higher level of regulatory control than typically imposed on other businesses.

The risk that the governmental agency will repeal, amend, enact or promulgate a new law or regulation, or that a government authority will issue a new interpretation of the law or regulations, can affect a project substantially and impose additional capital and operational obligations on each of the B&B Funds. This may also be due to court decisions and actions of government agencies that affect the performance of each B&B Fund's business.

It is possible that businesses owned by B&B Funds that are not currently subject to regulation have the potential for regulatory intervention. A business may be fined, prohibited from engaging in business activities or subject to limitations or conditions on business activities. Further, any decision made by an economic regulator (such as a competition authority) to regulate non-regulated assets of any business in any B&B Fund portfolio, may significantly change the economics of that asset.

Areas of B&B Funds' businesses are also subject to price and quality thresholds, and failure to adhere to these thresholds may lead to the imposition of fines or greater price controls. The imposition of price controls, new laws or regulations or changes in the enforcement of existing laws or regulations may adversely affect the performance of any business in any B&B Fund's portfolio, which has the potential to impact its cash flow and its ability to meet forecast distribution guidance.

If the outcome of current litigation, such as that between AAM and the Essential Services Commission (Victoria) or the proceedings before the Gas Review Board (WA) described in paragraph 5.12(e) above, required that AAM be licensed as a service provider in relation to the MGN or the DBNGP, respectively, it could potentially have implications for infrastructure assets governed by other licensing or regulatory regimes as well. This could create uncertainty as to how the ownership and operation of those assets should be licensed, and accordingly how ownership, operation and financing of relevant infrastructure assets can be structured.

Changes to regulatory regimes in the energy industry are also likely to impact on businesses in B&B Funds' portfolios, especially if those changes are accompanied by a period of regulatory uncertainty. In particular:

- (i) the proposed shift from state-based regulators of electricity and gas transmission and distribution networks to a national regulator (the Australian Energy Regulator); and
- (ii) proposed amendments to the National Third Party Access Regime for Natural Gas Pipeline Systems, may have implications for the operations of those networks.

Similarly, changes to regulatory regimes reflecting climate change, carbon emission trading schemes or other environmental issues may also have implications for B&B Funds.

#### **(e) Litigation risks**

B&B Funds are exposed to the risk of litigation or disputes with various parties, such as competitors, customers, regulators, stamp duty and tax authorities and insurance companies in the case of contested compensation. Litigation risks include, but are not limited to, customer claims, native title claims, tenure disputes, stamp duty, taxation disputes, environmental claims, occupational health and safety claims, legal action from special interest groups and disputes in relation to material contracts, including as a result of non-performance, as well as third party losses resulting from asset disruptions. Legal action may impede the completion of particular projects undertaken. Losses as a result of litigation proceedings can have a material adverse effect on financial performance, cash flow and the ability to meet forecast distribution guidance.

#### **(f) Environmental laws and regulations**

Environmental laws and regulations affect the operation of infrastructure assets. These laws and regulations impose standards, including in relation to health and environmental issues. They also impose penalties and other liabilities for violations and, in certain circumstances, impose obligations to remediate and rehabilitate current and former facilities and locations where operations are, or were, conducted.

#### **(g) Borrowing risk**

Funds from senior debt providers and equity investors typically finance the construction of assets in B&B Fund portfolios. The terms of debt provided by banks are complex, impose a number of onerous obligations on the borrower and afford numerous rights and remedies to the senior lenders. At the end of the construction phase, the senior debt can be repaid either by equity or by longer-term debt financing provided by financiers.

Under the financing agreements, the ability of any individual asset entity to make distributions to the B&B Fund is subject to numerous tests. Failure to meet these tests may result in such amounts being "locked-up" for periods of time or, depending on the circumstances and terms on which the debt has been borrowed, being "swept" and applied in mandatory prepayment of the senior debt. This situation typically arises before an event of default occurs. Any such "lock-up" will have an adverse impact on the ability of the asset entity to make cash distributions to the B&B Fund and, in turn, the B&B Fund's ability to make cash distributions to its equity investors.

Under the terms on which senior debt is provided, senior lenders have the benefit of security over substantially all of the assets of the asset company. If the asset entity is in breach of its obligations under these debt arrangements, the senior lenders may be able to enforce their security over those assets. Any such enforcement action, including enforcing step-in rights and/or the possible disposal of the asset by the senior lenders, is likely to be to the material economic detriment of the B&B Fund.

Infrastructure projects are typically highly geared during the construction phase and may continue to be so during their operating life.

Where project debt facilities are required to be refinanced during the term of the relevant project, there is also a risk that the project entity will be unable to arrange refinancing facilities when required to repay the maturing facilities and that the terms of any such refinancings are less favourable than expected.

#### **(h) Construction risks**

There are construction risks inherent to investing in infrastructure assets. Investments in new infrastructure projects during the construction phase are likely to retain some residual risk relating to the project being completed within budget, within the agreed timeframe and to the agreed specification, or successfully integrated into the existing business.

During the construction phase, the major risks include a delay in the projected completion of the project and a resultant delay in the commencement of cash flows, an increase in the capital needed to complete construction, and the insolvency of the head contractor, a major subcontractor and/or a key equipment supplier.

Construction costs may exceed estimates for various reasons, including inaccurate engineering and planning, labour and building material costs in excess of expectations and unanticipated problems with project start-up. Such unexpected increases may result in increased debt service costs and funds being insufficient to complete construction. Delays in project completion can result in an increase in total project construction costs through higher capitalised interest charges and additional labour and material expenses and, consequently, an increase in debt service costs. It may also affect the scheduled flow of project revenues necessary to cover the scheduled operations phase debt service costs, operations and maintenance expenses and damage payments for late delivery.

The experience, reputation and financial, human and technical resources of the head contractor, key subcontractors and major equipment suppliers for a project are factors relevant in determining the likelihood of the timely completion of the project at the stated price.

Satisfactory financial resources are necessary to support the construction contractor's obligations relating to liquidated damage payments, indemnities, and self-insurance obligations. Sufficient human and technical resources are also necessary to enable them to satisfy their contractual requirements.

**(i) Operations and maintenance risk**

Availability and performance of infrastructure plant and equipment to specification is essential for projected infrastructure revenues to be achieved. Events which can affect operation of equipment include equipment failure, non-performance to specification, accidents, damage by third parties and natural disasters. Events may result in injury or loss of human life, employee compensation claims, damage to infrastructure and short or long-term closure of part or all of the facilities, loss of customers, substantial litigation penalties for regulatory or commercial non-compliance and environmental liability. Many but not all risks can be allocated to contractors under operations and maintenance contracts. If the level of maintenance (including capital) expenditure is different from that projected, it will impact on the projected cash flow available from the project.

Furthermore, while infrastructure assets have largely predictable operating costs, there is a risk that costs could increase, for example labour costs due to labour market conditions, insurance costs (which are largely beyond the control of the owner of the asset) and maintenance costs, in the event of uninsurable plant wear and tear and increases in costs of spare parts.

**(j) Technology risk**

There is a risk of technology failure (such as for reasons related to quality or appropriateness for conditions) or, for the long-term owner of infrastructure assets, technological redundancy or obsolescence.

**(k) Insurance risk**

Each B&B Fund may take out appropriate insurance, on industry terms, in respect of insurable risks. However, notwithstanding any insurance, various risks will remain with the B&B Fund, including, for example, where an insurer disputes a claim and/or fails to pay the full amount of the loss claim. It will be at the discretion of the B&B Fund as to the level and type of insurance to be secured for the assets. It may not always be possible to obtain insurance on commercially reasonable terms. The B&B Fund may also self-insure and/or carry large deductibles. Insurance proceeds may not be adequate to cover all potential liabilities and losses, including replacement cost, lost revenues, increased expenses and third party liability.

**(l) Failure to achieve growth risk**

Most businesses within the portfolios of the B&B Funds are capital intensive and their growth will be, in part, dependent upon the funds' ability to construct and/or acquire assets at competitive costs. There is a risk that any one or more B&B Funds may be unable to secure appropriate infrastructure investments or to obtain capital on suitable terms, thereby limiting the growth of the affected B&B Funds.

**(m) Due diligence**

From time to time, B&B Funds may make new investments. Each B&B Fund has considerable expertise in the assessment and structuring of infrastructure projects, and it engages external expert assistance where required. However, investors in B&B Funds ultimately bear the risk of whether the project is well conceived and whether the underlying assumptions are realised.

During the due diligence process, B&B Funds review financial and other information made available by various parties on assets which are being acquired. No assurance can be given as to the accuracy or completeness of information made available and relied upon as part of that process. If this information is incorrect or inaccurate, future financial performance, cash flows and prospects of the acquired asset may differ from that expected and that difference may be adverse.

**(n) Interest rate risk**

Infrastructure sector businesses typically borrow money and accordingly are potentially exposed to adverse interest rate movements that may increase the financial risk inherent in them. Whilst this risk may be reduced through interest rate hedging, such as interest rate swaps or other mechanisms, there is sometimes residual exposure. Movements in interest rates may affect the appropriate discount rate to be used to value investments.

There is a possibility of an increase in the interest expense due to the credit quality of B&B Funds being different to the credit rating of Alinta.

**(o) Foreign exchange risk**

B&B Funds may have some contracts with companies which are denominated in currencies other than Australian dollars from time to time. As such, investments in, and returns from, the assets which are the subject of these contracts are exposed to exchange rate movements between those currencies and the Australian dollar.

B&B Funds may (where appropriate) hedge all or a portion of known foreign currency cash flows and/or borrow in the local currency providing a natural hedge.

**(p) Losses on hedging**

B&B Funds enter into contracts on a forward basis to hedge against price volatility and to hedge some of its input costs, commodity sales, interest rate and exchange rate exposures. These hedging transactions will expose B&B Funds to the risk of financial loss in the event of a mismatch between the expected exposure being hedged and the actual exposure (basis risk) or credit risk in the event of default by a counterparty when these hedges are transacted over-the-counter. In addition, under AIFRS, those hedges deemed ineffective under the accounting standards will introduce volatility into the financial statements as movements in fair value are recognised in the income statement. Swap break fees may also be payable where hedges are unwound or terminated.

**(q) Inflation risk**

Depending on the cash inflows and outflows for a business and their respective escalation factors, returns from asset entities to B&B Funds can be affected by changes in the rate of inflation.

**(r) Force majeure risk**

Force majeure is the term generally used to refer to an event beyond the control of a party to a contract and can be relevant where that party is claiming under the contract that the event has occurred. An event of force majeure includes "acts of god" (such as fire, flood and earthquakes), "acts of man" (such as strikes and industrial action) and "acts of government" (such as embargos).

Some force majeure risks are uninsurable or not fully insured and, if such an event occurs, this can have an adverse effect on an asset (or its cash flows) owned by a B&B Fund, as well as the B&B Fund itself.

**(s) Stock market risk**

Investors in B&B Funds will be exposed to risks associated with any investment in securities of an entity listed on any domestic or international stock market. The price of the securities on ASX may affect the market performance of any B&B Fund security, including general stock market performance, general economic conditions, variations in the local and global market for listed stocks, changes to government policy, legislation or regulation and inclusion or removal from major market indices, as well as the specific performance of the B&B Fund.

In particular, security prices are subject to wide fluctuations, which may reflect a diverse range of non-issuer specific influences on the international market. However, such market fluctuations may materially adversely affect the market price of securities in any B&B Fund. No B&B Fund nor any of the directors of any B&B Fund nor any other person guarantees the market performance of the securities of any B&B Fund.

Future capital raisings by the B&B Funds may also impact the market price of securities in the relevant B&B Fund and/or dilute securityholders.

**(t) Change in law (including taxation)**

The B&B Funds operate in many countries, each with separate taxation authorities and differing regulations which result in significant complexity.

Changes in government legislation and policy, in particular changes to tax legislation, including tax treaties between relevant countries, and interpretation of such legislation or policy, may affect the future earnings or asset values, increase the amount of tax paid by a B&B Fund or affect the treatment of tax losses that may have been, or may be, accumulated, and this may affect the relative attractiveness of investing in any one or more B&B Fund. These changes may influence both profit and loss for accounting purposes and the total tax that any one or more B&B Fund has to pay.

Under current Australian taxation law and the distribution policy for each of BBI, BBP and BBW, the relevant trust entity within each structure (namely BBIT, BBPT and BBWPT respectively (each a "Relevant Trust" for the purpose of this paragraph)) is a flow-through entity for tax purposes and is not required to pay income tax. However, if the Relevant Trust were to be considered to carry on or control a trading business, then the Relevant Trust may be treated as a public trading trust for tax purposes (in which case, the trustee would be subject to tax on the net income of the Relevant Trust at the corporate tax rate and flow-through tax treatment would cease to be available). The impact of any future change in law is difficult to predict. Investors should be aware that if there is a legislative change to the taxation of unit trusts, or a change in the interpretation of current tax laws, any such change could affect the taxation treatment of distributions from the Relevant Trust.

Changes in accounting standards or their interpretation which occur after the date of this Booklet may impact on the Scheme Proposal and may increase the costs associated with the Scheme Proposal and the ongoing business of the B&B Fund.

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**(u) Forecasts**

Any forward-looking information relating to any B&B Fund in this Booklet may contain forecasts of yields and financial results over an extended period. It is prudent to approach forecasts as being less reliable the longer the period of the forecasts and the greater the number of variables that may affect the forecasts. There are many variables that may interact in complex ways, co-vary and affect the actual results as compared to any forecasts. Investors should be aware that these forecast results may not be achieved and should not place undue reliance upon them. This risk is described in more detail in the Important Notice at the front of this Booklet.

**(v) Counterparty creditworthiness**

Some businesses owned by B&B Funds derive revenue from significant contracts with large customers. These businesses can be exposed to some credit risk through these contracts. A default by a major customer could have a material adverse effect on the financial performance of the business which, in turn, could materially affect the financial performance of the B&B Fund.

**(w) Joint venture risk**

B&B Funds co-invest in certain assets with third parties. Owning an interest in an asset with co-owners imposes restrictions which do not exist where the asset is wholly owned, especially regarding the ability of a co-owner to make business decisions without consultation with or unanimous agreement of the other co-owners. There may also be other limitations such as the inability to sell the interest without the co-owners' prior consent or pre-emption rights. Unless resolved in a timely manner, disagreements between co-owners may have an adverse impact on the value of the asset and on the B&B Fund.

**(x) Occupational health and safety risk**

Some of the tasks undertaken by employees are inherently dangerous and have the ability to result in serious injury or death. Occupational health and safety legislation and regulations differ in each jurisdiction. If a serious accident were to occur, it could result in material compensation payments having to be made, the loss of a licence or permit required to carry on the business, or other legislative sanction, all of which have the potential to impact the B&B Fund's cash flow and its ability to meet future distributions.

**(y) Permit, licence and consent risk**

B&B Funds and their respective businesses require certain permits, licences and consents in order to operate. The conditions and costs of these may be changed on any renewal, or, in some cases, may not be renewed due to unforeseen circumstances or a subsequent change in regulations. In any such event, the renewal or non-renewal could have a material adverse effect on the company's financial performance.

**(z) Land title risk**

Infrastructure assets may require large areas of land on which to be constructed and operated. The rights to use the land can be obtained through freehold title, leases and other rights of use. Different jurisdictions adopt different systems of land title and in some jurisdictions it may not be possible to ascertain definitively who has the legal right to enter into land tenure arrangements with the asset owner. In some jurisdictions, it is possible to claim indigenous rights to land, including in Australia where the existence or declaration of native title may affect the existing or future activities of a B&B Fund and impact on its operational and financial performance.

**(aa) Loss of key management risk**

B&B Fund businesses are complex and require a high degree of understanding of relevant issues by senior management. This level of understanding is built up over time spent managing the business. There is a risk that a B&B Fund or its businesses could lose key members of its management team and their value-adding corporate knowledge and expertise.

**(bb) Industrial action**

Industrial action, renegotiations of enterprise bargaining agreements or claims by employees or their unions may interrupt B&B Funds' ability to effectively use the Alinta Assets.

**(cc) Transmission risk**

Power generators must be connected to the electricity grid to supply electricity to customers. If a grid fails or experiences "down time", if the power generator does not comply with technical grid requirements and/or if marginal loss factors are adversely impacted, the generator may not be able to deliver the expected volume of electricity to its respective off-taker (pool or off-take counterparty). This may result in reduced revenue and may potentially expose the generator to non-performance penalties and claims from its customers under power purchase and other agreements.

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# 13

# IMPLEMENTATION OF THE SCHEME PROPOSAL

### 13.1 Introduction

Two schemes of arrangement have been proposed under Part 5.1 of the Corporations Act, being a Share Scheme between Alinta and Alinta Shareholders and an Option Scheme between Alinta and Alinta Optionholders, in addition to the APA Distribution. This section sets out how the Scheme Proposal is to be Implemented. Importantly, for the Share Scheme and the APA Distribution to take effect, the requisite majorities of Alinta Shareholders must approve the Share Scheme and the Capital Reduction and the Share Scheme must be approved by the Court. In order for the Option Scheme to take effect, the Share Scheme must become Effective (including the approval of the Capital Reduction) and the requisite majorities of Alinta Optionholders, and the Court, must approve the Option Scheme.

### 13.2 Share Scheme

#### (a) Share Scheme Consideration

Subject to the Share Scheme becoming Effective and the Capital Reduction being approved, all of the Scheme Shares will be transferred to the Bidder and Share Scheme Participants will be entitled to receive the APA Distribution and the Share Scheme Consideration for each Alinta Share held at the Record Date. The Share Scheme Consideration under each Consideration Alternative is determined under the Share Scheme which is set out in full in Annexure A. In summary, for each Scheme Share, unless an Alinta Shareholder elects another Consideration Alternative,<sup>93</sup> an Alinta Shareholder will receive the Default Consideration, namely the following:

- (i) a payment of \$8.925 in cash;
  - (ii) the issue of 1.599 BBI EPS;
  - (iii) the issue of 0.752 BBI Stapled Securities;
  - (iv) the issue of 0.669 BBP Stapled Securities; and
  - (v) the issue of 0.26 BBW Stapled Securities;
- (Base Consideration) adjusted as outlined in sections 13.2(a), (b) and (c), together with:
- (vi) the APA Distribution (as described in section 10); and
  - (vii) \$0.40 of franking credits (for those Alinta Shareholders who are entitled to the benefit of them).<sup>94</sup>

Each BBI Stapled Security, BBP Stapled Security and BBW Stapled Security issued under the Share Scheme will rank *pari passu* in all respects (including as to distributions) with other BBI Stapled Securities, BBP Stapled Securities and BBW Stapled Securities (as the case may be) at the date of issue, provided that they will not rank for the distributions for the half-year to 30 June 2007.

The BBI EPS will be issued on the terms set out in section 6 and Annexure H.

Under the APA Distribution, the APA Securities will be distributed as outlined in section 10.

In determining the Default Consideration, the cash component of the Base Consideration may be subject to the following adjustments:

- (viii) The cash component will be reduced by any Transaction Dividend which Alinta pays on or before the Implementation Date (other than to the extent the Transaction Dividend reflects distributions received by Alinta on its APA Securities prior to the Implementation Date or payment of some or all of the APA Distribution).<sup>95</sup>
- (ix) The cash component of the Base Consideration will be increased by an amount equal to \$20 million for each month that Implementation is delayed after 31 August 2007 but only to the extent that such delay results from a breach of the SIA by the Bidder (such amount to be pro rated if Implementation occurs during a month) divided by the number of Alinta Shares and Alinta Options on issue on the Record Date.
- (x) The cash component of the Base Consideration will be increased or reduced by the amount by which the Working Capital of Alinta as at 30 June 2007 is greater than \$190,240,000 or less than \$184,240,000 (as the case may be) divided by the number of Alinta Shares and Alinta Options on issue on the Record Date.

#### (b) Consideration Alternatives

Each Share Scheme Participant may elect to receive one of four alternative forms of Share Scheme Consideration. There is an additional fifth alternative for Small Alinta Shareholders who wish to participate in the Cash Out Facility. Any election (other than an election to receive the Default Consideration) must be made on the pink Election Form enclosed with this Booklet. The Election Form must be received no later than Thursday, 23 August 2007 at 5.00pm (WST) 7.00pm (AEST).

Notes:

<sup>93</sup> Special rules apply to Ineligible Overseas Shareholders and New Zealand Shareholders. See section 13.2(j).

<sup>94</sup> Alinta Shareholders who acquire Alinta Shares within 45 days of the Effective Date (not including the date of acquisition or the Effective Date) will not be entitled to the benefit of franking credits in respect of the APA Dividend to the extent they relate to those Alinta Shares. Alinta Shareholders should seek their own specific taxation advice for their individual circumstances. See section 14 for more information.

<sup>95</sup> The SIA provides that Alinta may pay one or more Transaction Dividends at any time on or before the Implementation Date (including a dividend representing payment of the APA Distribution) notwithstanding that the record date for such dividends is not the Record Date. Any Transaction Dividend representing payment of some or all of the APA Distribution may be in the form of a distribution in specie of APA Securities or a distribution of the net proceeds of sale of any APA Securities (or a combination of both). If Alinta pays such a Transaction Dividend, then the existing APA Distribution will be reduced by the total amount of that Transaction Dividend divided by the number of Alinta Shares and Alinta Options on issue on the Record Date (including by reducing the number of APA Securities available for distribution pro rata to Alinta Shareholders under the Share Scheme). Alinta Shareholders will not be entitled to the benefit of any franking credit in respect of such Transaction Dividends in relation to any Alinta Shares which they have held for less than 45 days as at the date of payment of the Transaction Dividend (excluding the date of acquisition of the Alinta Shares and the date of payment of the relevant Transaction Dividend).

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Special rules apply to Ineligible Overseas Shareholders and New Zealand Shareholders, and they should refer to section 13.2(j).

The value of each of the Consideration Alternatives (before any sale under the Cash Out Facility occurs) will be the same as at the Record Date. For this purpose, the B&B Fund Securities will be valued as at the Record Date, based on the VWAP over the five Business Days immediately following the Meeting Date, which covers the days immediately prior to the Record Date on the current timetable, and the BBI EPS will be valued at \$1.00 each.

All Share Scheme Participants will still receive the APA Distribution (although some Alinta Shareholders will have all APA Securities they are distributed sold for them under the Cash Out Facility).

#### Alternative 1: Default Alternative

Any Share Scheme Participant who does not make an election will receive the Default Consideration. If you wish to receive the Default Consideration, you do not need to do anything (unless you are a Small Alinta Shareholder and wish to participate in the Cash Out Facility, in which case use Alternative 5 below). In determining the Default Consideration, the Base Consideration described in paragraph (a) above may be adjusted due to the take-up of the other Consideration Alternatives, as explained further in paragraph (c) below.

#### Alternative 2: Maximum Preference Shares Alternative

Share Scheme Participants may elect to receive more BBI EPS and less (if any) of the B&B Fund Securities Component and the Cash Component of the Share Scheme Consideration.

Share Scheme Participants who elect to receive the Maximum Preference Shares Alternative will receive a priority allocation of up to \$12,000 BBI EPS before any remaining entitlements to BBI EPS are allocated (provided this priority allocation does not exceed the available BBI EPS).<sup>96</sup> This may allow Alinta Shareholders with small holdings to maximise their CGT rollover relief by receiving all of their Share Scheme Consideration in BBI EPS.

The total number of BBI EPS available to all Alinta Shareholders who elect the Maximum Preference Shares Alternative is limited as set out in paragraph (c)(i) below. If demand under the Maximum Preference Shares Alternative exceeds the BBI EPS available, allocation of BBI EPS will be scaled back as set out in that paragraph.

#### Alternative 3: Maximum Cash Alternative

Share Scheme Participants may elect to receive more cash and less (if any) of the B&B Fund Securities Component and the BBI EPS Component of the Share Scheme Consideration.

The total amount of cash available to all Alinta Shareholders who elect the Maximum Cash Alternative will be equal to the total amount of cash available under the Share Scheme (see below) less the total cash allocated to the Default Consideration (including the Cash Out Alternative, which is a variant of the Default Consideration). If demand under the Maximum Cash Alternative exceeds the amount of cash available, allocations of cash will be scaled back on a pro rata basis.

Share Scheme Participants who elect the Maximum Cash Alternative may also elect to have any Unmarketable Parcels of Consideration Securities they would otherwise receive sold for them by the Nominee and the proceeds provided in cash (without any charge for brokerage).

#### Alternative 4: Maximum Securities Alternative

Share Scheme Participants may elect to receive more B&B Fund Securities and less (if any) of the Cash Component and BBI EPS Component of the Share Scheme Consideration.

The total number of B&B Fund Securities available to all Alinta Shareholders who elect the Maximum Securities Alternative will be equal to the total number of B&B Fund Securities available under the Share Scheme (see below) less the B&B Fund Securities allocated to the Default Consideration (including the Cash Out Alternative, which is a variant of the Default Consideration). If demand under the Maximum Securities Alternative exceeds the number of B&B Fund Securities available, allocations of B&B Fund Securities will be scaled back on a pro rata basis.

#### Alternative 5: Cash Out Alternative for Small Alinta Shareholders

Small Alinta Shareholders (i.e. those holding 1,000 or less Alinta Shares) may elect to receive the Default Consideration and have any B&B Fund Securities and BBI EPS and any APA Securities distributed under the APA Distribution sold for them by a Nominee and the proceeds provided in cash (without any charge for brokerage). The Cash Out Facility is described further in section 13.2(k) of this Booklet.

The actual mix of cash, B&B Fund Securities and BBI EPS that Alinta Shareholders will receive will depend on the preferences of other Alinta Shareholders, as the total available cash, B&B Fund Securities and BBI EPS being provided by the Consortium to all Alinta Shareholders is limited to approximately the following amounts (assuming all Alinta Options have been exercised by the Record Date<sup>97</sup> and subject to the adjustments summarised in paragraph (c) below under schedule 1 of the Share Scheme):

- > Total available cash for the Cash Component = \$4,468.6 million.
- > Total available BBI Stapled Securities = 376.5 million.

Note:

<sup>96</sup> Any scale back required under that priority allocation will occur on a per Alinta Shareholder rather than per Alinta Share basis.

<sup>97</sup> Also assumes no substitution of BBI Stapled Securities for BBI EPS in relation to Ineligible Overseas Shareholders and New Zealand Shareholders as referred to in Section 13.2(j).

- > Total available BBP Stapled Securities = 335.0 million.
- > Total available BBW Stapled Securities = 130.2 million.
- > Total available BBI EPS = 800 million.

If the limits on the consideration available result in scale back of the preferred consideration under the Maximum Preference Shares Alternative, Maximum Cash Alternative or Maximum Securities Alternative, each such Consideration Alternative will receive a proportional allocation of the other forms of consideration that remain after each form of consideration has been allocated to:

- > the Consideration Alternative that maximises that form of consideration; and
- > the Default Consideration (including the Cash Out Alternative, which is a variant of the Default Consideration),

so as to ensure that the value of each Consideration Alternative is equal to the value of the Base Consideration on the Record Date. (The value will be determined based on the VWAP over the five Business Days immediately following the Meeting Date, which covers the days immediately prior to the Record Date on the current timetable, and based on BBI EPS trading at their issue price of \$1.00.)

Alinta Shareholders will not know the precise mix of cash, B&B Fund Securities and BBI EPS they will receive until after they are required to vote on the Share Scheme (although, depending on the elections they make, they may know minimum numbers). Due to the limited pools of cash, B&B Fund Securities and BBI EPS available, it is possible that Alinta Shareholders making an election may receive a similar amount of cash, B&B Fund Securities and BBI EPS as they would under an alternative election.

See section 13.2(l) of this Booklet for information on trading B&B Fund Securities and BBI EPS on ASX. **Alinta Shareholders who trade their securities on a deferred settlement basis before being advised of their final entitlements do so at their own risk.**

#### **(c) Further adjustments to Consideration Alternatives after elections made**

Once the elections of the Consideration Alternatives have been made, further adjustments to the consideration payable under each of the Consideration Alternatives will be made (in accordance with Schedule 1 of the Share Scheme) as follows:

- (i) BBI EPS<sup>98</sup> will only be allocated up to the BBI EPS Cap. Adjustments to the \$12,000 priority allocation amount described above will be made to ensure that the priority allocation does not exceed the BBI EPS Cap. If the priority allocation does not exceed the BBI EPS Cap, a secondary allocation on a per Alinta Share (rather than per Alinta Shareholder) basis will occur. If the priority and secondary allocations exceed the BBI EPS Cap, then the secondary allocation will be scaled back so that the BBI EPS Cap is not exceeded.

- (ii) The Base Consideration may be adjusted so that fewer BBI EPS Securities are received in the Default Consideration. The number of BBI EPS received per Alinta Share in the Default Consideration will be equal to the lowest of:

- > 1.599;
- > the number of any BBI EPS remaining under the BBI EPS Cap after allocations under the Maximum Preference Shares Alternative are completed (**Residual BBI EPS**) divided by the number of Alinta Shares to receive the Default Consideration (including under the Cash Out Alternative); and
- > if the Residual BBI EPS is less than 250 million, zero.

- (iii) If such an adjustment to the Base Consideration occurs, the Cash Component and B&B Fund Securities Component of the Base Consideration will be adjusted (in accordance with Schedule 1 of the Share Scheme) so that the value of the Default Consideration will be the same as the value of the Base Consideration on the Record Date (provided that the cash will not be less than \$8.925). (The value will be determined based on the VWAP over the five Business Days immediately following the Meeting Date, which covers the days immediately prior to the Record Date on the current timetable, and based on BBI EPS trading at their issue price of \$1.00.)

- (iv) If the Residual BBI EPS is less than 250 million, the Alinta Shareholders who receive the Default Consideration will not receive any BBI EPS. BBI Stapled Securities will be provided instead. The number of BBI Stapled Securities available for the Scheme Consideration will increase by the Residual BBI EPS divided by the value of a BBI Stapled Security. In this case, only those BBI EPS elected for under the Maximum Preference Share Alternative will be issued. BBI will issue to Scheme Participants additional BBI Stapled Securities equal to the Residual BBI EPS divided by the value as at the Record Date of a BBI Stapled Security. (The value will be determined based on the VWAP over the five Business Days immediately following the Meeting Date, which covers the days immediately prior to the Record Date on the current timetable.)

- (v) The number of securities received under each Consideration Alternative is subject to the effects of rounding.

#### **(d) Effect of Share Scheme on Scheme Shares**

If the Scheme Proposal is Implemented, the Scheme Shares, together with all rights and entitlements attaching to those shares as at the Implementation Date (other than entitlement to the APA Distribution), will, without the need for any further act by any Share Scheme Participant (other than acts performed by Alinta or its directors as attorney or agent for Share Scheme Participants under the Scheme), be transferred to the Bidder on the Implementation Date and the transfer will be deemed to be Effective on the Implementation Date.

#### Notes:

98 Including all BBI Stapled Securities issued in lieu of BBI EPS for New Zealand Shareholders or Ineligible Overseas Shareholders as set out in section 13.2(j).

Under the Share Scheme, each Share Scheme Participant irrevocably appoints Alinta and each Alinta Director as its attorney from the Effective Date with power:

- (i) in the case of Scheme Shares in a CHESS Holding:
  - (A) to cause a message to be transmitted to ASTC in accordance with ASTC Settlement Rules so as to transfer to the Bidder the Scheme Shares held by the Share Scheme Participant from the CHESS Subregister of Alinta to the issuer sponsored subregister operated by Alinta; or
  - (B) to complete and sign on behalf of Share Scheme Participants any required form of transfer to the Bidder of such Scheme Shares (which may be a master transfer of all Scheme Shares);
- (ii) in the case of Scheme Shares that are registered in the issuer sponsored subregister of the Alinta Share Register, to complete and sign on behalf of Share Scheme Participants any required form for the transfer to the Bidder of such shares (which may be a master transfer of all Scheme Shares); and
- (iii) in the case of all Scheme Shares, to exercise all powers and rights which the Share Scheme Participant could lawfully exercise as the registered holder of the Scheme Shares including without limitation attending and voting at any meeting of Alinta (which meeting the Share Scheme Participant undertakes not to otherwise attend or vote at in person or by proxy or other representative), requisitioning any meeting of Alinta and doing all things incidental and ancillary to any of the foregoing and it is acknowledged and agreed that, in exercising such powers, the attorney may act in the interests of the Bidder, and will act at its discretion, as the intended registered holder of those shares.

**(e) Approvals required from Share Scheme Participants and the Court**

For the Share Scheme to take effect, section 411(4) of the Corporations Act requires a meeting of Alinta Shareholders be held at which the Share Scheme must be agreed to by a resolution passed by a majority in number of Alinta Shareholders present and voting (either in person or by proxy) at the Share Scheme Meeting and representing in aggregate not less than 75% of the votes cast on the resolution at the Share Scheme Meeting. The result of the Share Scheme Meeting must then be provided to the Court which will consider whether or not to approve the Share Scheme.

Of the 495,218,848 Alinta Shares on issue, B&B currently holds 13,361,992 Alinta Shares. These shares form a different class for the purpose of the Share Scheme and, as such, consent to the Share Scheme will be given separately from other Alinta Shareholders and these shares will not be voted at the Share Scheme Meeting. The holder of these Alinta Shares is entitled to vote at the General Meeting and intends to vote in favour of the Capital Reduction.

On 2 July 2007, the Court made the requisite order that the Share Scheme Meeting be held. The order made by the Court convening

Notes:

<sup>99</sup> Interest will be to the account of Alinta.

<sup>100</sup> Not including shares to be sold by the Nominee under the Cash Out Facility.

the Share Scheme Meeting does not constitute an endorsement of, or any other expression of opinion on, the Share Scheme or this Booklet. Approval of the Share Scheme by the Court will be required at the Second Court Date.

**(f) Conditions precedent to Implementation of the Share Scheme**

The obligations of Alinta, the Bidder, SPI and BBIPL to implement the Share Scheme are subject to the satisfaction (or waiver) of the Conditions set out in section 13.6(a)(vi) of this Booklet (to the extent and in the manner set out in the SIA).

The Bidder has notified Alinta that the conditions relating to FIRB Consent and OIO approval have been satisfied.

It is intended that the Conditions will be satisfied by the Second Court Date. At the time of the Meetings, not all of the Conditions will necessarily be satisfied, but you will be updated as to the status of the Conditions.

**(g) Determination of entitlements**

For the purpose of determining which Alinta Shareholders are eligible to participate in the Share Scheme, dealings in Alinta Shares will be recognised only if:

- (i) in the case of dealings of the type to be effected using CHESS, the transferee is registered as the holder of the relevant Alinta Shares on or before the Record Date; and
- (ii) in all other cases, registrable transfers or transmission applications in respect of those dealings are received by the Share Registry on or before the Record Date.

**(h) Payment of Share Scheme Consideration and APA Distribution**

Under the Deed Poll, the Bidder must provide, or procure the provision of, the Share Scheme Consideration to the Share Scheme Participants on the Implementation Date (intended to be 31 August 2007).

In relation to the Cash Component of the Scheme Consideration, prior to, or simultaneous with, the transfer of the Scheme Shares, the Bidder will deposit the cash into an account in the name of Alinta<sup>99</sup> with those funds to be held on trust by Alinta for the purposes of paying the Scheme Consideration to Scheme Participants on, or as soon as practicable after, the Implementation Date by cheque sent to their Registered Address.

The Bidder will register, or cause to be registered, the Share Scheme Participants as the holders of the B&B Fund Securities and BBI EPS to which they become entitled under the Share Scheme<sup>100</sup> on:

- (i) if the Scheme Shares were held by the Share Scheme Participant on the Record Date on an uncertificated issuer sponsored subregister of Scheme Shares, an uncertificated issuer sponsored subregister of B&B Fund Securities and BBI EPS (respectively); or

- (ii) if the Scheme Shares were held by the Share Scheme Participant on the Record Date on an uncertificated CHES Subregister of Scheme Shares, on an uncertificated CHES Subregister of B&B Fund Securities and BBI EPS (respectively).

In either case, such registration is to occur on the Implementation Date immediately after the transfer of the Scheme Shares to the Bidder.

The Bidder will register the Nominee as the holder of each of the B&B Fund Securities and BBI EPS issued to it to be sold under the Cash Out Facility on the Implementation Date immediately after the transfer of the Scheme Shares to the Bidder takes effect.

On, or as soon as practicable after, the Implementation Date, the Bidder must send holding statements or notices confirming the issue and allotment of BBI EPS and B&B Fund Securities to:

- (i) the Share Scheme Participants who become entitled to those securities under the Share Scheme by post to their Registered Address; and
- (ii) the Nominee who is issued those securities under the Share Scheme to be sold under the Cash Out Facility.

In the event that the Bidder fails to comply with its obligations under the Deed Poll, the Share Scheme Participants may rely on and enforce the Deed Poll in accordance with its terms even though the Share Scheme Participants are not a party to it. Under the Share Scheme, each Share Scheme Participant irrevocably appoints Alinta and any of the Alinta Directors as its agent and attorney to, among other things, enforce the Deed Poll against the Bidder, BBIPL and SPI.

Alinta will provide, or procure the provision of, the APA Distribution to the Share Scheme Participants on the Implementation Date, prior to the transfer of Scheme Shares to the Bidder, and Alinta will hold the entitlements of Scheme Participants on trust until received by Scheme Participants.

In respect of any cash component of the APA Distribution, Alinta will pay that cash amount on, or as soon as practicable after, the Implementation Date by sending a cheque for the cash amount due to each Share Scheme Participant to his or her Registered Address. The APA Securities are to be distributed under the APA Distribution by procuring the due execution of a transfer of such APA Securities to each Share Scheme Participant (or the Nominee to be sold under the Cash Out Facility) and on, or as soon as practicable after, the Implementation Date requesting the entry of that Share Scheme Participant's (or Nominee's) name in the register of members of APT and APTIT.

#### **(i) Consents and warranty of Share Scheme Participants**

Under the Share Scheme, each Share Scheme Participant, without the need for any further act on their part, irrevocably appoints Alinta and any of its directors (or Alinta's sub-delegates) as its agent and attorney for the purpose of executing any document or doing any other act necessary to give effect to the terms of the Share Scheme and enforcing the Deed Poll against the Bidder, BBIPL or SPI.

Each Share Scheme Participant consents to several matters under the Share Scheme, including that it:

- (i) consents to Alinta (or its sub-delegates) doing all things and executing all deeds, instruments, transfers or other documents as may be necessary, incidental or expedient to Implementation;
- (ii) acknowledges that the Share Scheme binds Alinta and all of the Alinta Shareholders from time to time (including those who do not attend the Share Scheme Meeting, do not vote at that meeting or vote against the Share Scheme or against the Capital Reduction);
- (iii) agrees to the transfer of their Alinta Shares, together with all rights and entitlements attaching to those Alinta Shares (other than entitlements to the APA Distribution), to the Bidder, in accordance with the Share Scheme;
- (iv) from the Effective Date until the Bidder is registered as holder of all Alinta Shares, irrevocably appoints Alinta and each of its directors and officers, jointly and severally, as its attorney and agent (and directs Alinta in such capacity) to appoint the chairman of the Bidder as its sole proxy and, where applicable, corporate representative to attend shareholders' meetings of Alinta, exercise the votes attaching to the Alinta Shares registered in the name of the Share Scheme Participant and sign any Alinta Shareholders' resolution, and must take all other action in the capacity of a registered holder of Alinta Shares as the Bidder reasonably directs;
- (v) may not attend or vote at any of the meetings referred to in paragraph (iv) above or sign any Alinta Shareholders' resolution (whether in person, by proxy or by corporate representative) other than as described in paragraph (iv) above;
- (vi) agrees to become a holder of APA Securities, B&B Fund Securities and BBI EPS to which it becomes entitled under the Share Scheme, and to be bound by the constitutions of the issuers of those securities (as amended from time to time), and that its holdings of those securities will be registered in the same names as its holding of Scheme Shares; and
- (vii) agrees that all binding instructions or notifications in relation to the Scheme Shares (including as to payment of distributions) will be deemed to apply to B&B Fund Securities and BBI EPS issued under the Scheme Proposal (until otherwise revoked or amended).

If a Court proposes to approve the Share Scheme subject to any alterations or conditions, Alinta may (with the Bidder's consent) consent to those alterations or conditions on behalf of a Share Scheme Participant.

Each Share Scheme Participant is taken to have warranted to the Bidder that all of their Alinta Shares (including any rights attaching to those Alinta Shares) which are transferred under the Share Scheme will, at the date of transfer, be fully paid and free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind, and that they have full power and capacity to transfer their Alinta Shares together with any rights attaching to those Alinta Shares.

#### **(j) Ineligible Overseas Shareholders**

Alinta Shareholders whose address is shown in the Alinta Register on the Record Date as in Australia and its external territories, the United Kingdom or Hong Kong and who are not US Shareholders will be entitled to receive the Share Scheme Consideration pursuant to the Share Scheme in the manner outlined above.

Alinta Shareholders whose address is shown in the Alinta Register on the Record Date as in New Zealand and who are not US Shareholders will be treated in the same way as Australian Alinta Shareholders, except that they may not receive BBI EPS. They therefore cannot choose the Maximum Preference Shares Alternative, and BBI Stapled Securities will be substituted, if relevant, for any BBI EPS they would otherwise receive under any other Consideration Alternative. The amount of BBI Stapled Securities issued to New Zealand Shareholders to substitute for BBI EPS will be such that the value of the affected Consideration Alternatives at the Record Date will be the same for the New Zealand Shareholders as it will be for the other Alinta Shareholders (based on the BBI EPS being valued at their issue price of \$1.00 and the B&B Fund Securities being valued at the VWAP over the five Business Days immediately following the Meeting Date, which covers the days immediately prior to the Record Date on the current timetable).

Alinta Shareholders whose address is shown in the Alinta Register on the Record Date as in a place outside the places referred to above and those Alinta Shareholders who are US Shareholders have been classified as Ineligible Overseas Shareholders because the issue or transfer to them of B&B Funds Securities, BBI EPS and the APA Securities, or any investment decision relating to those securities, may be prohibited by the laws of the jurisdictions in which they reside or may require compliance with conditions or legal requirements which Alinta regards as unreasonably onerous.

Ineligible Overseas Shareholders will be entitled to participate in the Share Scheme on the same basis as all Alinta Shareholders. However, Ineligible Overseas Shareholders will not be entitled to select among the Consideration Alternatives, nor receive the B&B Fund Securities, BBI EPS or the APA Securities. Instead, the B&B Fund Securities, BBI EPS and the APA Securities that they otherwise would have received (based on the Default Consideration, but with an equivalent value of BBI Stapled Securities substituted for BBI EPS, if relevant<sup>101</sup>) will be issued to a Nominee and dealt with pursuant to the Cash Out Facility described below.

#### **(k) Cash Out Facility**

Small Alinta Shareholders who elect the Cash Out Alternative and Ineligible Overseas Shareholders will be entitled to the Default Consideration<sup>102</sup> and the APA Distribution. However, these Alinta Shareholders will not receive any B&B Fund Securities, BBI EPS or APA Securities. Similarly, Alinta Shareholders electing the Maximum Cash Alternative and further electing to have Unmarketable Parcels sold under the Cash Out Facility will not receive Unmarketable Parcels. Instead, the securities they would otherwise have received will be issued to the Nominee.

The Nominee will sell the relevant securities on ASX or by bookbuild or other sale process on behalf of all of the relevant Alinta Shareholders as soon as is reasonably practicable (and in any event by no later than five Business Days after the Implementation Date) at such price or prices and on such other terms as the Nominee determines in good faith at the risk of the Alinta Shareholder. The Nominee will then remit the proceeds of the sale of the securities to the Bidder within five Business Days of the receipt by the Nominee of the whole proceeds of sale. The Bidder will then pay to each relevant Alinta Shareholder the average proceeds of sale of the securities to which the Alinta Shareholder would otherwise have been entitled in full satisfaction of that Alinta Shareholder's rights under the Share Scheme to that component of the Share Scheme Consideration or the APA Distribution. The average is determined by the proportion of the proceeds of sale that a particular security of an Alinta Shareholder bears to the proceeds of the sale of all securities of Alinta Shareholders. Applicable brokerage will also be deducted from that average amount in the case of Ineligible Overseas Shareholders other than Ineligible Overseas Shareholders who are also Small Alinta Shareholders, as explained below.

It should be noted that fees, taxes and other charges other than brokerage and stamp duty will be deducted from the proceeds. In addition, Ineligible Overseas Shareholders (who are not Small Alinta Shareholders) may have brokerage deducted. Small Alinta Shareholders whose Unmarketable Parcels are being sold, will receive proceeds free of brokerage.

#### Notes:

101 For this purpose BBI EPS will be valued at \$1.00 and BBI Stapled Securities on the basis of the VWAP over the five Business Days immediately following the Meeting Date, which covers the days immediately prior to the Record Date on the current timetable.

102 Subject to substitution of BBI Stapled Securities for BBI EPS, if relevant, in the case of New Zealand Shareholders and Ineligible Overseas Shareholders as referred to in section 13.2(j).

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In order to comply with the undertakings to the ACCC referred to in section 10.5, the Nominee will be instructed not to sell APA Securities such that any person acquires a substantial holding in the APA Group or any substantial holder acquires more than 5% of the APA Group under the sale, unless they are approved by the ACCC.

The proceeds of sale of B&B Fund Securities, BBI EPS and the APA Securities will be paid by the Bidder to Alinta Shareholders within five Business Days of receipt of proceeds of sale from the Nominee by cheque in Australian currency drawn on an Australian bank. Full details of this process are contained in clause 3.5 of the Share Scheme (which is set out in Annexure A).

Alinta, the Bidder and the Nominee give no assurance as to the price that will be achieved for the sale of securities under the Cash Out Facility. The proceeds that Alinta Shareholders receive may be more or less than the current market price of the relevant Consideration Securities.

The implementation of the Cash Out Facility may result in a significant number of B&B Fund Securities, BBI EPS and APA Securities being offered for sale at the same time. This could have the effect of depressing the sale price of those securities. For more information on this risk, please see section 12.2(a)(vi).

Under the Share Scheme, Alinta Shareholders participating in the Cash Out Facility appoint Alinta as their agent to receive any financial services guide or other notice given by the Nominee. Copies of any documents Alinta receives from the Nominee as agent for Alinta Shareholders will be published on Alinta's website.

#### **(l) Trading of Alinta Shares, B&B Fund Securities, BBI EPS and APA Securities on ASX**

ASX trading of Alinta Shares is expected to be suspended at close of trading on the Effective Date.

The B&B Funds and the BBI EPS Issuer will apply for the B&B Fund Securities and BBI EPS that are to be issued under the Share Scheme to be quoted on ASX on a deferred delivery basis as soon as possible after the Record Date (although there is no guarantee ASX will agree to deferred delivery quotation).

It is expected that deferred delivery quotation will take place on the Implementation Date, after which time Alinta Shareholders can ascertain their final entitlements by contacting the Alinta Information Line on 1800 135 107 (within Australia) or +61 2 8268 3641 (outside Australia).

It is the responsibility of Alinta Shareholders to ensure they do not trade more securities than they are certain of receiving. **Alinta Shareholders who trade B&B Fund Securities or BBI EPS on a deferred delivery basis before being advised of their final entitlements do so at their own risk.**

Deferred delivery trading of B&B Fund Securities and BBI EPS is expected to continue until the B&B Funds and the BBI EPS Issuer have advised ASX that securities have been issued, which is expected to be on the Implementation Date. Normal delivery trading is expected to commence on the following Business Day.

The APA Securities to be distributed in the APA Distribution are already quoted on ASX. There will be no arrangements for deferred delivery trading of APA Securities prior to the Implementation Date.

#### **(m) Fractional entitlements**

If the number of Alinta Shares held by a Share Scheme Participant is such that the aggregate entitlement to BBI Stapled Securities, BBP Stapled Securities, BBW Stapled Securities or BBI EPS is not a whole number, then (subject to Schedule 1 of the Share Scheme) the entitlement in each case must be rounded up or down to the nearest whole number, with fractions of 0.5 being rounded up. If the number of Scheme Shares held by a Share Scheme Participant is such that the aggregate entitlement to an APA Security is not a whole number, then the entitlement will be rounded down to the nearest whole number of securities and the balance of the entitlement (representing the value of a fraction of an APA Security) will be paid in cash.

If the Bidder reasonably believes that any Share Scheme Participant has manipulated their holding of Scheme Shares to take advantage of rounding or any other allocation mechanism, then the entitlements of the Share Scheme Participant will be aggregated and treated as though the suspected manipulation had not occurred.

In addition, rounding decisions are subject to the overriding principle that in no event shall the total numbers of BBI EPS or B&B Fund Securities issued under the Share Scheme exceed the total numbers referred to in paragraph 1(h) of schedule 1 of the Share Scheme (summarised in section 13.1(b)), and in the event that the other rounding principles would otherwise have that effect, fractional entitlements will be adjusted in good faith by the Bidder and Alinta so that as many as possible of the available securities (but no more than the available securities) are allocated under the Share Scheme.

### **13.3 Information for Alinta Optionholders who wish to participate in the Share Scheme**

This section sets out information for Alinta Optionholders who wish to exercise their Alinta Options and participate in the Share Scheme. If you choose to exercise your Alinta Options, you will need to provide cleared funds for their exercise. If you become a Share Scheme Participant, you will be able to elect one of the Consideration Alternatives for the Alinta Shares you are entitled to receive on the exercise of your Alinta Options (see section 13.2).

#### **(a) If your Alinta Options have vested**

Alinta Optionholders whose Alinta Options have already vested and who wish to participate in the Share Scheme may exercise their Alinta Options in accordance with their terms and conditions at any time until the Exercise Deadline.

Alinta Optionholders who exercise their Alinta Options and become Share Scheme Participants will only be entitled to the benefit of franking credits in respect of the APA Dividend (see section 1.1) if they acquire their Alinta Shares and hold them for at least 45 days prior to the Effective Date (not including the date of acquisition or the Effective Date) i.e. before 3 July 2007. See section 14.1 for more information regarding the 45-day rule and general tax implications of participating in the Share Scheme.

**(b) If your Alinta Options have not yet vested**

From the Effective Date of the Share Scheme, all outstanding Alinta Options (whether previously vested or not) will vest and can be exercised in accordance with their terms and conditions. Alinta Optionholders will have two Business Days between the Effective Date and the Exercise Deadline to exercise their Alinta Options in order to become Share Scheme Participants. These Alinta Optionholders will not be entitled to the benefit of franking credits in respect of the APA Dividend.

**(c) What if I have not exercised my Alinta Options by the Exercise Deadline?**

If the Option Scheme is Effective, you will not be able to exercise your Alinta Options after the Exercise Deadline. Your Alinta Options will be cancelled in accordance with the Option Scheme and you will receive the Option Scheme Consideration. See section 13.4.

If the Option Scheme is not Effective, your Alinta Options will not be cancelled and you will continue to hold them. All Alinta Options will vest on the Effective Date of the Share Scheme and will be exercisable until their applicable expiry dates. If you have not exercised your Alinta Options by the Exercise Deadline, you will not become a Share Scheme Participant. In this case you would hold your Alinta Options, and any Alinta Shares acquired on exercise of your Alinta Options, subject to the Bidder's rights to compulsorily acquire them in accordance with Chapter 6A of the Corporations Act. If this circumstance arises it is the Bidder's current intention to exercise that right. See section 15.4 for more details.

### 13.4 Option Scheme

**(a) Effect of the Option Scheme on Alinta Options**

On the Implementation Date, all of the Alinta Options outstanding on the Implementation Date (together with all rights and entitlements attaching to those options as at the Implementation Date) will be cancelled and the Option Scheme Participants will be entitled to receive the Option Scheme Consideration for each Alinta Option held at the Record Date. The Option Scheme will apply to all outstanding Alinta Options on the Implementation Date, regardless of whether they were vested or unvested as at the Effective Date of the Option Scheme.

See section 15.2(a) for a summary of the effect of the Option Scheme on the Alinta Executive Option Plan.

**(b) Option Scheme Consideration**

Each Option Scheme Participant will receive a cash amount which is equal to the value (excluding franking credits) to be received for each Alinta Share under the Base Consideration and APA Distribution<sup>103</sup> per Alinta Option, less the exercise price of each Alinta Option. See section 13.2(a) for a description of the Base Consideration under the Share Scheme. Option Scheme Participants will not be entitled to the benefit of any franking credits.

In order to determine the value of the Base Consideration for the purposes of determining the Option Scheme Consideration, the value of the B&B Fund Securities (which forms part of the Base Consideration) will be based on the VWAP of those securities on ASX over the five Business Day period immediately following the Meeting Date (which covers the days immediately prior to the Record Date on the current timetable) and BBI EPS will be valued at \$1.00 each.

The Bidder will, on the Implementation Date (which is expected to be 31 August 2007), dispatch or procure the dispatch to each Option Scheme Participant by pre-paid post to their Registered Address, a pre-printed cheque in the name of the Option Scheme Participant for the total amount payable to each Option Scheme Participant.

In the event that the Bidder fails to comply with its obligations under the Option Scheme, the Option Scheme Participants may rely on and enforce the Deed Poll in accordance with its terms even though the Option Scheme Participants are not party to it. Under the Option Scheme, each Option Scheme Participant irrevocably appoints Alinta and any of the Alinta Directors as its agent and attorney to, among other things, enforce the Deed Poll against the Bidder, BBIP and SPI.

Australian Alinta Optionholders should refer to section 14.3 for the taxation implications of the Option Scheme.

**(c) Approvals required from Option Scheme Participants and the Court**

On 2 July 2007, the Court made the requisite order that the Option Scheme Meeting be held. The order made by the Court convening the Option Scheme Meeting does not constitute an endorsement of, or any other expression of opinion on, the Option Scheme or this Booklet.

For the Option Scheme to take effect, section 411(4) of the Corporations Act requires a meeting of Alinta Optionholders be held at which the Option Scheme must be agreed to by a resolution passed by a majority in number of Alinta Optionholders present and voting (either in person or by proxy) at the Option Scheme Meeting where the debts and claims against Alinta of that majority amount in aggregate to at least 75% of the debts and claims of Alinta Optionholders present and voting (either in person or by proxy).

Note:

103 After adding back the amount of any Transaction Dividend or capital reduction deducted from them.

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The debts and claims of Alinta Optionholders for this purpose are based on the value of their Alinta Options. This will be treated as equal to the value of the Base Consideration and the APA Distribution multiplied by the number of Options held by that Optionholder, less the exercise price(s) of those Options. The Base Consideration and the APA Distribution will be valued on the following basis:

- (i) for any part of that consideration that consists of a cash amount or BBI EPS, that cash amount or the face value of those BBI EPS;
- (ii) for any part of that consideration that consists of securities listed on ASX, the value of those securities based on the VWAP of those securities on ASX over the five Business Day period immediately before the date for determining eligibility to vote.

The result of the Option Scheme Meeting must be provided to the Court which will consider whether or not to approve the Option Scheme.

**(d) Conditions precedent to implementation of the Option Scheme**

The obligations of Alinta, the Bidder, SPI and BBIPL to implement the Option Scheme are subject to the conditions set out in section 13.6(a)(vii) of this Booklet.

In addition, Implementation of the Option Scheme is conditional on Implementation of the Share Scheme.

It is intended that the Conditions will be satisfied by the Second Court Date. At the time of the Meetings, not all of the Conditions will necessarily be satisfied, but you will be updated as to the status of the Conditions.

**(e) Participating Optionholders**

Each person who is entered in the Alinta Register on the Record Date as an Alinta Optionholder will be regarded as an Option Scheme Participant (whether their Registered Address is in Australia or New Zealand) and will be entitled to receive the Option Scheme Consideration pursuant to the Option Scheme.

**(f) Determination of entitlements**

The terms of the Option Scheme solely determine the entitlements to the Option Scheme Consideration. Alinta will not accept as valid, nor recognise for any purpose, any notice of exercise of an Alinta Option received:

- (i) by the Exercise Deadline, otherwise than in accordance with the terms and conditions of the Alinta Option; or
- (ii) after the Exercise Deadline.

**(g) Consents of Option Scheme Participants**

Each Option Scheme Participant:

- (i) consents to Alinta doing all things and executing all deeds, instruments or other documents as may be necessary, incidental or expedient to Implementation of the Option Scheme;

- (ii) acknowledges that the Option Scheme binds Alinta and all of the Alinta Optionholders from time to time (including those who do not attend the Option Scheme Meeting, do not vote at that meeting or vote against the Option Scheme); and
- (iii) agrees to the cancellation of their Alinta Options, together with all rights and entitlements to those Alinta Options in accordance with the Option Scheme.

**13.5 Timetable for Implementing the Schemes**

An indicative timetable setting out the important dates for the Scheme Proposal, and in particular the Share Scheme and the Option Scheme, is provided in the front of this Booklet. Timing of the events referred to below could change for a number of reasons, including delay in obtaining Alinta Shareholder or Court approval in relation to the Share Scheme, or Alinta Optionholder or Court approval in relation to the Option Scheme, or Alinta Shareholder approval in relation to the Capital Reduction. Alinta reserves the right to vary any or all of the times or dates referred to without notifying Alinta Shareholders or Alinta Optionholders of those changes.

**(a) Share Scheme**

The Alinta Shareholders will be asked to vote on the Share Scheme at the Share Scheme Meeting on 15 August 2007. The Alinta Shareholders will also be asked to vote on the Capital Reduction to implement part of the APA Distribution at a General Meeting to be held after the Share Scheme Meeting.

If the Share Scheme and the Capital Reduction are approved by the Alinta Shareholders and all other Conditions of the Share Scheme are satisfied or waived:

- (i) the Court will be asked to approve the Share Scheme pursuant to section 411(4)(b) of the Corporations Act at a hearing to be held shortly after the Share Scheme Meeting. It is expected that this hearing will be held on or about 17 August 2007 and after the hearing Alinta will notify ASX that it intends to lodge the Court Orders;
- (ii) if the Court approves the Share Scheme, the Effective Date will be the date the Court Orders approving the Share Scheme take effect. Ordinarily this would be the date on which the Court Orders are lodged with ASIC. It is expected that this will occur on or about 17 August 2007;
- (iii) Alinta will notify ASX when the Share Scheme becomes Effective;
- (iv) at the opening of trading on ASX on the first business day following the Effective Date (expected to be 20 August 2007), Alinta Shares will cease trading on ASX with an entitlement to the Share Scheme Consideration and the APA Distribution (that is, purchasers of Alinta Shares prior to that date will be entitled to receive the Share Scheme Consideration and the APA Distribution, provided they remain on the Alinta Register on the Record Date); and

- (v) on the Implementation Date (expected to be 31 August 2007):
- (A) the APA Distribution will be made to Alinta Shareholders on the Alinta Register at the Record Date (who are also the Share Scheme Participants);
  - (B) the Scheme Shares, together with all rights and entitlements attaching to those shares, will, without the need for any further act by any Share Scheme Participant (other than acts performed by Alinta or its directors as attorney or agent for Share Scheme Participants under the Scheme), be transferred to the Bidder;
  - (C) the Bidder will pay, or procure the payment of, the Share Scheme Consideration to the Share Scheme Participants;
  - (D) the Bidder will register the Share Scheme Participants (to the extent that they are not issued to the Nominee for sale) as the holders of the B&B Fund Securities and BBI EPS to which they become entitled under the Share Scheme; and
  - (E) the Bidder will register the Nominee as the holder of each of the securities it is issued to sell under the Share Scheme.

#### (b) Option Scheme

The Alinta Optionholders will be asked to vote on the Option Scheme at the Option Scheme Meeting on 15 August 2007.

If the Option Scheme is approved by the Alinta Optionholders and all other Conditions of the Option Scheme are satisfied or waived:

- (i) the Court will be asked to approve the Option Scheme pursuant to section 411(4)(b) of the Corporations Act at a hearing to be held shortly after the Option Scheme Meeting. It is expected that this hearing will be held on or about 17 August 2007;
- (ii) if the Court approves the Option Scheme, the Option Scheme Effective Date will be the date on which the Share Scheme becomes effective pursuant to section 411(10) of the Corporations Act. Ordinarily this would be the date on which the Court Orders are lodged with ASIC. It is expected that this will occur on or about 17 August 2007;
- (iii) Alinta will notify ASX when the Option Scheme becomes Effective; and
- (iv) on the Implementation Date (expected to be 31 August 2007):
  - (A) all of the Alinta Options outstanding on the Record Date (together with all rights and entitlements attaching to those Alinta Options) will be cancelled and the Alinta Optionholders will be entitled to receive for each Alinta Option held at the Record Date the Option Scheme Consideration; and
  - (B) the Bidder will provide the Option Scheme Consideration to Alinta (as a loan), and procure the dispatch by Alinta to each Option Scheme Participant by pre-paid post to their Registered Address a pre-printed cheque in the name of the Option Scheme Participant for the total amount payable to each Option Scheme Participant.

## 13.6 Scheme Agreements

### (a) Amended and Restated Scheme Implementation Agreement

Alinta, the Bidder, SPI and BBIPL entered into the Original SIA on 30 March 2007 to establish the basis on which the Scheme Proposal will be proposed and, if approved by Alinta Shareholders and Alinta Optionholders, implemented. Following receipt of the Macquarie Bank Consortium's Revised Proposal on 4 May 2007 (which is described in section 2.4 above) and the revised bid of the Consortium, Alinta, the Bidder, SPI and BBIPL entered into the SIA on 11 May 2007. References in this Booklet to the Scheme Implementation Agreement or SIA are to that agreement as restated and amended. The key terms of the SIA are summarised below.

#### (i) General

Alinta and the Bidder agree to take all steps necessary to Implement the Scheme Proposal.

Each party gives or has given on its behalf standard warranties with respect to its power and capacity to enter into the SIA and to perform its obligations under the SIA. SPI and BBIPL warrant that they are not aware of any additional regulatory approvals that they expect to obtain. SPI and BBIPL also warrant that, as at the Second Court Date, they will have financing available to satisfy their covenant to pay the Share Scheme Consideration and the Option Scheme Consideration on behalf of the Bidder (in accordance with their Participating Percentages), which financing will not be subject to any additional condition which is not a mechanical or administrative condition within their control or that of the Bidder.

BBIPL further warrants that the issue of the B&B Fund Securities and the BBI EPS pursuant to the Share Scheme is authorised under the terms of the constitution of the relevant issuing entity, and that there is no additional price sensitive information in respect of the B&B Fund Securities that a reasonable person would expect to have a material adverse effect on the price or value of B&B Fund Securities which has not been announced.

Alinta agrees to consult with the Bidder in relation to the conduct of its business and to conduct its business in the ordinary course consistent with past practice.

The Bidder has agreed to pay all stamp duty payable on the transactions contemplated by the Agreement.

#### (ii) No solicitation

Alinta has agreed that until Implementation of the Schemes or termination of the SIA, neither it nor its Representatives will solicit any enquiries, negotiations, proposals or discussions in relation to a Competing Proposal.

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**(iii) No talk, due diligence or commitments**

Alinta has agreed that until Implementation of the Schemes or termination of the SIA, neither it nor its Representatives will participate in discussions with, provide information to, or enter into any arrangement or understanding with a third party in relation to a Competing Proposal, unless the Alinta Board determines that to not do so would be likely to constitute a breach of the Alinta Directors' fiduciary or statutory duties.

**(iv) Break Fee**

Alinta has agreed to pay the Bidder a Break Fee of \$59,250,000 if:

- (A) at any time before earlier of 30 November 2007 and the termination of the SIA in accordance with clause 9.1 of that agreement (other than a termination arising in connection with a Third Party Proposal prior to the announcement of that proposal), a Third Party Proposal is announced and thereafter the Third Party Proposal becomes unconditional and the bidder under the Third Party Proposal acquires a relevant interest in more than 50% of Alinta's issued ordinary share capital, or all or the majority of the Alinta Group's assets, or otherwise merges or amalgamates with Alinta;
- (B) the majority of Alinta Directors withdraw their recommendation of the Share Scheme in order to recommend an Alinta Internal Restructure; or
- (C) Alinta is in material breach of the SIA and that breach is not remedied by Alinta within five Business Days (or such shorter period ending on the Second Court Date) of receiving notice of the breach.

**(v) Termination**

The SIA may be terminated:

- (A) if a Condition cannot be satisfied or is neither satisfied nor waived;
- (B) if the Share Scheme has not come into effect by 30 November 2007;
- (C) if the Share Scheme is not approved by the requisite majority of Alinta Shareholders;
- (D) if the order or ruling of a court or Government Agency prevents the Scheme Proposal from coming into effect;
- (E) if the Independent Expert's Report states that the Share Scheme is not in the best interests of the Alinta Shareholders;
- (F) by the Bidder if, before the Second Court Date, the majority of the Alinta Directors adversely change their recommendation to approve the Schemes; or
- (G) if, before the Second Court Date, a party is in material breach of the SIA and that breach is not remedied within five Business Days of receiving notice of the breach.

**(vi) Conditions to Share Scheme**

The Share Scheme will not come into effect unless each of the following Conditions is satisfied or waived:

- (A) the Share Scheme is approved by the requisite majority of Alinta Shareholders;
- (B) the Share Scheme comes into effect before 30 November 2007;
- (C) no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing

the implementation of the Share Scheme is in effect at the Second Court Date;

- (D) from the date of the SIA until the Second Court Date, no Prescribed Event or Material Adverse Change occurs, and there are no Alinta Material Transactions without the prior consent of the Bidder;
- (E) the representations and warranties of the parties set out in the SIA and summarised in section 13.6(a)(i), of this Booklet are materially true and correct as at the date of the SIA and as at the Second Court Date;
- (F) at all times during the period from the date of the SIA until 8.00am on the Second Court Date:
  - (I) if the S&P/ASX200 Industrials Index is no less than 9691.3, the value of the B&B Fund Securities Component (on the basis that BBI Stapled Securities are substituted for BBI EPS in accordance with clause 3.2(k) of the SIA) is no less than \$5.2704; or
  - (II) if the S&P/ASX200 Industrials Index is less than 9691.3, the value of the B&B Fund Securities Component (on the basis that BBI Stapled Securities are substituted for BBI EPS in accordance with clause 3.2(k) of the SIA) is no less than \$5.2704 multiplied by (A), where (A) equals the S&P/ASX200 Industrials Index at the date of the calculation divided by 9691.3.

The value of the B&B Fund Securities Component under this paragraph (F) is to be calculated based on the VWAP of the relevant securities over the previous 20 consecutive trading days; and
- (G) as at 8.00am on the Second Court Date, the SIA has not been terminated.

**(vii) Conditions to Option Scheme**

The Option Scheme will not come into effect unless each of the Conditions above in section (vi) and each of the following Conditions is satisfied or waived and the Share Scheme becomes Effective:

- (A) the Option Scheme is approved by the requisite majority of Alinta Optionholders;
- (B) the Option Scheme comes into effect before 30 November 2007;
- (C) ASX grants Alinta a waiver from Listing Rule 6.23.2 in respect of cancellations of the Alinta Options conditional only on the Share Scheme and the Option Scheme becoming Effective and details of the cancellation being set out in the Booklet; and
- (D) no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the implementation of the Option Scheme is in effect at the Second Court Date.

**(b) Deed Poll**

The Deed Poll has been signed by the Bidder, SPI and the BBIPL and sets out the covenants given by each of these parties in favour of Scheme Participants, including that the Bidder will pay the Share Scheme Consideration and Option Scheme Consideration. The terms of the Deed Poll are set out in full in Annexure B to this Booklet.

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# 14

# TAXATION IMPLICATIONS OF THE SCHEMES

## 14.1 Australian tax implications of the Share Scheme

### (a) What is this section about?

This section provides a basic overview of the Australian income tax and GST consequences for certain Alinta Shareholders participating in the Share Scheme. Refer to section 14.1(b) for the taxation characteristics which you must satisfy in order for this section to be relevant to you.

There is a guide to help you calculate your income tax payable arising from participation in the Share Scheme (refer to the calculation methodology in section 14.1(i) (**Calculation Methodology**)).

There is also an Example of how to apply the Calculation Methodology in section 14.1(j) (**Example**) and a basic overview of the tax cost base of the assets you receive in section 14.1(k).

The Australian tax implications of the Option Scheme are set out in the PricewaterhouseCoopers opinion at section 14.3.

The New Zealand tax implications of the Share Scheme are discussed at section 14.4.

### (b) The taxation assumptions in section 14

This section 14 only applies to Alinta Shareholders who meet all of the following conditions:

- (i) they are individuals who are Australian tax residents;
- (ii) they did not acquire their Scheme Shares under an employee share scheme;
- (iii) they hold their Scheme Shares on capital account;
- (iv) they satisfy the requirements of the 45 day rule for entitlement to franking credits; and
- (v) they are not eligible to choose the indexation method when determining the amount of a capital gain in respect of the Scheme Shares.

The information in this section is based on the allocation of the APA Distribution between the APA Dividend and the APA Capital Return Component in the Tax Opinion in section 14.2 (which may change). It also assumes that an Alinta Shareholder receives the Base Consideration in respect of their Scheme Shares and that the relative values of the various components of the Base Consideration are as set out in the Tax Opinion in section 14.2 (which also may change). Alinta Shareholders should therefore seek appropriate independent professional advice that considers the tax consequences of the Share Scheme in respect of their own specific circumstances.

**(c) From a tax perspective – what happens in the Share Scheme?**

There are three "tax" transactions associated with the Share Scheme that could have income tax consequences for you. The following table sets out these transactions, the broad income tax consequences and a reference to the Calculation Methodology table in section 14.1(i).

**Figure 14.1: Calculation Methodology**

<b>Tax transaction</b>	<b>Income tax consequences</b>	<b>Calculation Methodology steps (section 14.1(i))</b>
1. The APA Distribution	<p>This involves two tax calculations, as the APA Distribution is expected to comprise two components:</p> <p>(a) APA Dividend – which requires a dividend income and franking credit entitlement calculation; and</p> <p>(b) APA Capital Return Component – which requires a CGT calculation.</p> <p>An ATO Class Ruling is being sought to confirm the amounts of each component of the APA Distribution and the availability of franking credits.</p>	<p>Step 1 for the dividend income and franking credit</p> <p>Step 2 for the CGT calculation</p>
2. The exchange of Scheme Shares for BBI EPS	<p>Depending on your circumstances you may elect to obtain CGT rollover to the extent you exchange Scheme Shares for BBI EPS, in which case no tax may be payable on this calculation.</p> <p>An ATO Class Ruling is also being sought to confirm that you, depending on your circumstances, will be able to elect for CGT rollover to the extent you receive BBI EPS. An appropriate proportion of the cost base of your Scheme Shares will then become the cost base of your BBI EPS.</p>	Steps 2, 3 and 6
3. The exchange of Scheme Shares for the Cash Component and the B&B Fund Securities Component	This involves a CGT calculation.	Steps 2, 4 and 5

It should be noted that if you elect to exchange BBI EPS for BBI Stapled Securities, a capital gain may arise. The terms of the BBI EPS are in section 6.

**(d) ATO Class Rulings**

ATO Class Rulings have been sought to confirm:

**(i) The amount of the APA Distribution that is considered a dividend (APA Dividend)**

The amount that is a dividend will be assessable income and may carry franking credits. Independent tax advice to Alinta confirms that, based on the APA Group security price of \$4.18 (which price is likely to change), the amount of the dividend should be \$0.93 and the franking credit should be \$0.40 per Scheme Share.

**(ii) The amount of the APA Distribution that is considered a return of capital (APA Capital Return Component)**

The amount that is a return of capital will reduce your cost base in your Scheme Shares and may give rise to a capital gain. Independent tax advice to Alinta confirms that, based on the APA Group security price of \$4.18 (which price is likely to change), the amount of the capital return should be \$0.33 per Scheme Share.

**(iii) That you may elect CGT rollover to the extent that you receive BBI EPS in exchange for your Scheme Shares**

Independent tax advice to BBI has confirmed that CGT rollover will be available.

Alinta Shareholders can rely on the ATO Class Rulings to the extent the Share Scheme is carried out as described in the Class Rulings and their circumstances are appropriate.

The ATO Class Rulings will be provided to you once they have been obtained from the ATO. Further guidance will be provided to you if the ATO Class Rulings are not issued as expected and, in particular, you may be notified of different amounts comprising the dividend, franking credit and/or capital return components.

**(e) What information do you need to calculate the tax consequences?****Tax Transaction 1 – the APA Distribution (Tax Transaction 1)**

For the APA Distribution (Tax Transaction 1 in Figure 14.1 above) you will need to know:

- (i) the tax cost base of each of your Scheme Shares; and
- (ii) the date on which you acquired, or are deemed to have acquired, each of your Scheme Shares,

and Alinta will notify you of:

- (iii) the amount of the dividend – this is expected to be \$0.93 per Scheme Share based on the APA Security price of \$4.18 (which price is likely to change), (to be confirmed in the ATO Class Ruling);
- (iv) the amount of the franking credit attached to the dividend – this is expected to be \$0.40 per Scheme Share based on the APA Security price of \$4.18 (to be confirmed in the ATO Class Ruling); and
- (v) the amount of the capital return – this is expected to be \$0.33 per Scheme Share based on the APA Security price of \$4.18 (which price is likely to change), (to be confirmed in the ATO Class Ruling).

**Tax Transactions 2 and 3 – the exchange of Scheme Shares (Tax Transactions 2 and 3)**

In Tax Transactions 2 and 3 (refer to Figure 14.1), you exchange Scheme Shares for the BBI EPS, Cash Component and B&B Fund Securities Component. To calculate the tax consequences, you will need to know:

- (i) the tax cost base of each of your Scheme Shares (as adjusted for Tax Transaction 1); and
- (ii) the date on which you acquired, or are deemed to have acquired, each of your Scheme Shares,

and the Consortium will notify you of:

- (iii) the amount of the Cash Component that you receive under the Share Scheme; and
- (iv) the market value of the BBI EPS Component and the B&B Fund Securities Component that you receive under the Share Scheme.

The amount of the Cash Component and the market values of the BBI EPS Component and B&B Fund Securities Component that you receive will depend on the elections made by Alinta Shareholders and will not be known until after the Share Scheme has been Implemented. After the Share Scheme is Implemented, this information will be posted on the Alinta and B&B websites for each of the Consideration Alternatives. If you do not make an election, you will receive the Base Consideration (refer to section 13.2 for further details). Details of the exact consideration that you will receive will be sent to you.

Your accountant or taxation advisor should be able to advise you of the cost base and acquisition date for each of your Scheme Shares.

For former AGL shareholders who acquired Scheme Shares in the AGL Merger – information regarding your cost base in the Scheme Shares and your deemed date of acquisition is available on the AGL website ([www.agl.com.au](http://www.agl.com.au)).

**(f) Your individual circumstances will impact your tax consequences**

You should read the Tax Opinion in section 14.2 for an overview of the Australian income tax and GST consequences of the Share Scheme. You should obtain independent tax advice when calculating the income tax consequences of the Share Scheme. You cannot rely on the Calculation Methodology and the Example below without obtaining your own independent tax advice. The Calculation Methodology and the Example are based on existing tax law at the date of the Share Scheme and the assumptions described below.

**(g) What assumptions have been made in the Calculation Methodology and Example**

The Calculation Methodology and the Example set out below are based on the assumption that you receive the APA Distribution and the Base Consideration (as set out in section 13.2) in respect of your Scheme Shares. The assumptions set out in section 14.1(b) also apply to the Calculation Methodology and Example.

Some of the assumptions in section 14.1(b) are described in technical taxation terms. Your taxation advisor will be able to assist you in determining whether these terms apply to your individual circumstances.

**(h) The APA Distribution and the Base Consideration**

The following table is a guide to assist you in applying the Calculation Methodology described in section 14.1(i) below.

Note that the market value of the APA Distribution and each component of the Base Consideration will not be known until after the Share Scheme is Implemented. Apart from the APA Distribution, you may not receive all of the components listed in the table below.

The market values provided in this table are for the purposes of the Example in section 14.1(j) only.

Figure 14.2: Guide to assist Alinta Shareholders in applying the Calculation Methodology

Tax transaction	Component for the Calculation Methodology	If you receive for one (1) Scheme Share ...	which equals... \$ market value	What kind of tax calculation do you make?
1	Amount A	APA Distribution		
	Amount Ai	APA Capital Return Component	0.33	CGT calculation <sup>1</sup>
	Amount Aii	APA Dividend Component	0.93	Fully franked dividend – franking credit of \$0.40 expected
3	Amount B	Cash Component	8.925	CGT calculation
2	Amount C	1.599 BBI EPS	1.599	CGT calculation <sup>2</sup>
3	Amount D	0.752 BBI Stapled Securities	1.32	CGT calculation
3	Amount E	0.669 BBP Stapled Securities	2.30	CGT calculation
3	Amount F	0.260 BBW Stapled Securities	0.50	CGT calculation
		<b>Total</b>	<b>15.904</b>	

Notes to Figure 14.2:

- The APA Capital Return Component should reduce the cost base and reduced cost base of each Scheme Share, but should not trigger a capital gain unless the APA Capital Return Component exceeds the cost base of a particular Scheme Share.
- The exchange of a Scheme Share for BBI EPS should not trigger a capital gain to the extent that the Alinta Shareholder chooses CGT rollover. However, in that case a proportion of the cost base of the Scheme Share will become the cost base of the BBI EPS.

**(i) The Calculation Methodology**

The following methodology is based on the assumptions set out above in sections 14.1(g) and 14.1(h).

Step	Instructions	Notes and is tax payable?
<b>Step 1</b>	<p>Include Amount Aii as the franked amount in the dividend section of your tax return.</p> <p>Include the franking credit amount as the franking credit in the dividend section of your tax return.</p> <p>Both of these amounts, when added together, represent your assessable income from the dividend component of the APA Distribution.</p>	<p>Tax should only be payable on these components if your tax rate exceeds 30%.</p> <p>If your tax rate is less than 30% and you are an individual or superannuation fund, you should receive a refund of some of the franking credit.</p> <p>A Class Ruling is being sought from the ATO to confirm the amount of the dividend component of the APA Distribution (Amount Aii) and the franking credit attached thereto.</p>
<b>Step 2</b>	<p>Subtract Amount Ai from your cost base in the Scheme Shares.</p> <p>Cost Base in Scheme Shares</p> <p><i>less</i></p> <p>Amount Ai</p> <p><i>equals</i></p> <p><b>Step 2 Cost Base Amount</b></p>	<p>If your <b>Step 2 Cost Base Amount</b> is negative, a taxable capital gain should arise to this extent. Your <b>Step 2 Cost Base Amount</b> will then be \$nil.</p> <p>As a practical matter, a taxable capital gain should only arise if your cost base in Scheme Shares is less than \$0.33 per share.</p> <p>A Class Ruling is being sought from the ATO to confirm the amount of the APA Capital Return Component of the APA Distribution (Amount Ai).</p>
<b>Step 3</b>	<p>Apportion your <b>Step 2 Cost Base Amount</b> over Amounts B, C, D, E and F and multiply the result by Amount C.</p> <p>Step 2 Cost Base Amount</p> <p><i>divided by</i></p> <p>Amount B + Amount C + Amount D + Amount E + Amount F (\$14.644)</p> <p><i>multiplied by</i></p> <p>Amount C (\$1.599)</p> <p><i>equals</i></p> <p><b>Cost Base Allocated to BBI EPS</b></p>	<p>This step works out your cost base attributable to the BBI EPS portion of the proceeds you receive.</p> <p>This is an interim calculation step only – no tax is payable.</p> <p>Note: If your <b>Step 2 Cost Base Amount</b> was negative, your <b>Cost Base Allocated to BBI EPS</b> will be \$nil.</p>

Step	Instructions	Notes and is tax payable?
<b>Step 4</b>	Subtract the Cost Base Allocated to BBI EPS from your <b>Step 2 Cost Base Amount</b> .  Step 2 Cost Base Amount  <i>less</i>  Cost Base Allocated to BBI EPS  <i>equals</i>  <b>Cost Base Allocated to Cash Component and B&amp;B Fund Securities Component</b>	This step works out your cost base attributable to the other components of the proceeds you receive.  This is an interim calculation step only – no tax is payable.  Note: If your <b>Step 2 Cost Base Amount</b> was negative, your <b>Cost Base Allocated to Cash Component and B&amp;B Fund Securities Component</b> will be \$nil.
<b>Step 5</b>	Subtract your <b>Cost Base Allocated to Cash Component and B&amp;B Fund Securities Component</b> from Amounts B, D, E and F.  Amount B + Amount D + Amount E + Amount F (\$13.045)  <i>less</i>  Cost Base Allocated to Cash Component and B&B Fund Securities Component (refer to Step 4)  <i>equals</i>  <b>Step 5 Capital Gain/(Capital Loss)</b>	A taxable capital gain will arise if this calculation gives rise to a positive amount. A capital loss will arise if this calculation gives rise to a negative amount. Note that if you make a capital loss, your cost base can be reduced in certain circumstances.  Practically, if your <b>Cost Base Allocated to Cash Component and B&amp;B Fund Securities Component</b> is less than \$13.045, a taxable capital gain should arise.
<b>Step 6</b>	Subtract <b>Cost Base Allocated to BBI EPS</b> from Amount C.  Amount C (\$1.599)  <i>less</i>  Cost Base Allocated to BBI EPS (refer to Step 3)  <i>equals</i>  <b>Step 6 Capital Gain/(Capital Loss)</b>	A taxable capital gain will arise if this calculation gives rise to a positive amount. A capital loss will arise if this calculation gives rise to a negative amount. Note that if you make a capital loss, your cost base can be reduced in certain circumstances.  Practically, if your <b>Cost Base Allocated to BBI EPS</b> is less than \$1.599, a taxable capital gain should arise.  A Class Ruling from the ATO is being sought to confirm that you can obtain CGT rollover. If you are eligible, then you may elect CGT rollover to disregard any capital gain that arises from this calculation. However, you cannot elect CGT rollover to disregard any capital loss.

Step	Instructions	Notes and is tax payable?
<b>Step 7</b>	<p>Work out your total Capital Gain/(Capital Loss) from participating in the Share Scheme.</p> <p>If your <b>Step 2 Cost Base Amount</b> was negative, the extent to which it was negative (eg if your Step 2 Cost Base Amount was -\$0.10, this would be \$0.10).</p> <p><i>plus</i></p> <p><b>Step 5 Capital Gain/(Capital Loss)</b></p> <p><i>plus</i></p> <p><b>Step 6 Capital Gain/(Capital Loss)</b> if you did not elect CGT rollover</p> <p><i>equals</i></p> <p><b>Capital Gain/(Capital Loss) from the Share Scheme</b></p>	
<b>Step 8</b>	<p>Include the Capital Gain/(Capital Loss) from the Share Scheme and other capital gains/(capital losses) in your income tax return to determine your Net Capital Gain/(Capital Loss) for the income tax year.</p> <p>If you are eligible you may apply the <b>Step 6 Capital Gain/(Capital Loss)</b> to reduce your capital gain from the Share Scheme and other discount capital gains for the income year (after offsetting available capital losses).</p>	<p>Refer to the Tax Opinion in section 14.2 for further details on the CGT discount.</p>

**(j) Example – you are an individual with a cost base per Scheme Share of \$2.125**

This Example assumes the same assumptions as were set out at 14.1(g) above, and the following further assumptions:

- (i) the APA Dividend is fully franked – franking credits of \$0.40;
- (ii) your tax rate is 30% (excluding Medicare Levy);
- (iii) you have held your Scheme Shares for at least 12 months prior to sale;
- (iv) you have no costs of sale or costs of acquisition of your Scheme Shares; and
- (v) you have no other capital gains or capital losses in the income year ending 30 June 2008.

Based on these assumptions:

Step	Instructions	Calculation amounts	\$
<b>Step 1</b> APA Dividend	Insert the amount of the APA Dividend as the franked amount in the dividend section of your tax return	\$0.93 (Amount Aii)	0.93
	Insert the amount of the franking credit as the franking credit amount in the dividend section of your tax return	\$0.40 (franking credit)	0.40
	Taxable dividend income		1.33
	Tax on dividend income	30% (tax rate) x taxable dividend income	(0.40)
	Franking credit rebate	Franking credit	0.40
	<b>Net tax payable @ 30% tax rate</b>		<b>Nil</b>
<b>Step 2</b> APA Capital Return Component	Cost base in Scheme Shares	Assumed to be \$2.125	2.125
		Comprising: > Initial Public Offering price \$2.25; less > Repayment of Stapled Loan in 2001 \$0.125	
	<i>less</i> APA Capital Return Component of APA Distribution	\$0.33 (Amount Ai)	(0.33)
	<b>equals Step 2 Cost Base Amount</b>		<b>1.795</b>
<b>Step 3</b> Apportion your Cost Base Allocated to BBI EPS	Step 2 Cost Base Amount	As per Step 2 above	1.795
	<i>divided by</i> the market value of the Cash Component, BBI EPS and B&B Fund Securities received	\$8.925 (Amount B) + \$1.599 (Amount C) + \$1.32 (Amount D) + \$2.30 (Amount E) + \$0.50 (Amount F)	14.644
	<i>multiplied by</i> the market value of the BBI EPS	\$1.599 (Amount C)	1.599
	<b>equals Cost Base Allocated to BBI EPS</b>		<b>0.196</b>
<b>Step 4</b> Apportion your Cost Base Allocated to Cash Component and B&B Fund Securities Component	Step 2 Cost Base Amount	As per Step 2 above	1.795
	<i>less</i> Cost Base Allocated to BBI EPS	As per Step 3 above	(0.196)
	<b>equals Cost Base Allocated to Cash Component and B&amp;B Fund Securities Component</b>		<b>1.599</b>
<b>Step 5</b> Calculate your Capital Gain for the Cash Component and B&B Fund Securities Component	The Cash Component and B&B Fund Securities Component – that is, excluding BBI EPS	\$8.925 (Amount B) + \$1.32 (Amount D) + \$2.30 (Amount E) + \$0.50 (Amount F)	13.045
	<i>less</i> Cost Base Allocated to B&B Fund Securities Component	As per Step 4 above	(1.599)
	<b>equals Step 5 Capital Gain Amount</b>		<b>11.446</b>

Step	Instructions	Calculation amounts	\$
<b>Step 6</b> Calculate your Capital Gain for BBI EPS	The market value of BBI EPS	\$1.599 (Amount C)	1.599
	<i>less</i> Cost Base Allocated to BBI EPS	As per Step 3 above	(0.196)
	<i>equals</i> Step 6 Capital Gain		1.403
	<b>Step 6 Capital Gain if you elect CGT rollover</b>		<b>\$nil<sup>104</sup></b>
<b>Step 7</b> Calculate your capital gain for the Share Scheme This calculation assumes that you have elected CGT rollover in Step 6	Step 2 Cost Base Amount if negative	Not negative – \$nil	0
	<i>plus</i> Step 5 Capital Gain Amount	As per Step 5 – \$11.446	11.446
	<i>plus</i> Step 6 Capital Gain if you elect CGT rollover	As per Step 6 – \$nil	0
	<i>equals</i> Capital Gain/(Capital Loss) from the Share Scheme		<b>11.446<sup>105</sup></b>
<b>Step 8</b> Calculate your Net Capital Gain/(Capital Loss) for the Income Tax Year	Other current year capital gains not eligible for the CGT discount	Assumed to be \$nil	0
	<i>less</i> current year capital losses and capital losses carried forward from prior years (applied in that order)	Assumed to be \$nil	0
	<b>Prima Facie Net Capital Gain Not Eligible for CGT Discount</b>		0
	<b>Capital Gain/(Capital Loss) from the Share Scheme</b>	As per Step 7 – \$11.446	11.446
	<i>plus</i> other capital gains eligible for CGT Discount	Assumed to be \$nil	0
	<i>equals</i> Capital Gains Eligible for CGT discount		11.446
	<i>less</i> any remaining unapplied capital losses	Assumed to be \$nil	0
	<i>multiply</i> Capital Gains Eligible for the CGT discount (from above) reduced by unapplied capital losses by the CGT discount	It is assumed that the capital gain from the Share Scheme is eligible for the CGT discount and you are an individual with no capital losses – hence the CGT discount is 50% of \$11.446	(5.723)
	<i>equals</i> Capital Gains after CGT Discount		5.723
	<i>Add</i> Prima Facie Net Capital Gain not Eligible for CGT Discount (from above)		0
	<i>equals</i> Net Capital Gain/(Capital Loss) for the Income Tax Year		<b>5.723</b>
<b>Tax payable on net capital gain @ 30% tax rate</b>		<b>1.717<sup>106</sup></b>	
<b>Total net tax payable if you elect CGT rollover equals the net tax payable in Step 1 plus the tax payable on the net capital gain from Step 8 (excluding Medicare Levy)</b>			<b>1.717</b>

## Notes:

104 If you elect CGT rollover, your cost base in BBI EPS would be \$0.196. If you do not elect CGT rollover, your Step 6 Capital Gain will be \$1.403 in this example.

105 If you do not elect CGT rollover, your Capital Gain/(Capital Loss) from the Share Scheme would be \$12.849 based on the assumptions used in this example.

106 If you do not elect CGT rollover, your tax payable (excluding Medicare Levy) from the Share Scheme would be \$1.927 based on the assumptions used in this example.

**(k) Your cost base in the assets you receive**

The following table sets out the cost base of the assets you receive for each Scheme Share, assuming that you receive the APA Securities and the Base Consideration (as in the Example in section 14.1(j)). You will be advised of the number of APA Securities, the B&B Fund Securities Component and BBI EPS that you receive per Scheme Share after the Share Scheme is implemented.

<b>CGT cost base of APA Securities, B&amp;B Fund Securities Component and BBI EPS if you elect CGT rollover<sup>107</sup></b>	<b>\$</b>
0.301 APA Securities	1.26
1.599 BBI EPS <sup>108</sup>	0.196
0.752 BBI Stapled Securities	1.32
0.669 BBP Stapled Securities	2.30
0.260 BBW Stapled Securities	0.50

It should be noted that the APA Securities and the B&B Fund Securities Component are stapled securities. As such, your cost base will need to be split as between each asset that you receive.

For example, the BBI Stapled Securities comprise a unit in BBIT and a share in BBIL. Your cost base will need to be divided as between the unit in BBIT and the share in BBIL on a reasonable basis (such as the relative market value of the unit in BBIT and the share in BBIL). Information regarding the relative market values of the securities of the B&B Funds is available on each of the B&B Funds' websites.

Your cost base may also include your costs of acquiring and disposing of your Scheme Shares.

Refer to the Tax Opinion in section 14.2 for further details as to how to calculate your cost bases in the assets you receive. Your accountant or taxation advisor should be consulted to take into account your specific circumstances.

**Notes:**

<sup>107</sup> To determine the total CGT base of the securities that you acquire, you will need to multiply each amount for each security by the number of Alinta Shares you held.

<sup>108</sup> If you do not elect CGT rollover, the CGT cost base of the BBI EPS will be \$1.599 as opposed to \$0.196 (in this example) – refer to the Tax Opinion in section 14.2 for further details.

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## 14.2 Ernst & Young Independent Tax Opinion



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27 June 2007

The Directors  
Alinta Limited  
Alinta Plaza  
12-14 The Esplanade  
PERTH WA 6000

Dear Directors

### Independent Tax Opinion

We have been requested to provide our independent income tax opinion (**Opinion**) regarding the proposed acquisition of 100% of the shares in Alinta Limited (**Alinta**) and certain tax matters relating to the Scheme Booklet issued in connection with the Share Scheme.

In this Opinion, capitalised terms have the meanings set out in the glossary to the Scheme Booklet, except where otherwise indicated.

### Scope of Opinion

Our advice is general in nature and the individual circumstances of each Alinta Shareholder may affect the income tax implications of the Share Scheme to that Alinta Shareholder. This Opinion and the information contained in it is not, and is not intended to be, income tax advice to any Alinta Shareholder. Alinta Shareholders should seek appropriate independent professional advice that considers the income tax implications in respect of their own specific circumstances. We disclaim all liability to any Alinta Shareholder or any other party for all costs, loss, damage and liability that the Alinta Shareholder or other party may suffer or incur arising from or relating to, or in any way connected with, (a) the contents of our Opinion or (b) the provision of our Opinion to the Alinta Shareholder or other party or (c) the reliance on our Opinion by the Alinta Shareholder or other party.

The Opinion set out below is primarily relevant for Alinta Shareholders investing on capital account (who are not Ineligible Overseas Shareholders or New Zealand Shareholders). Different outcomes will potentially arise for Alinta Shareholders who are investing on revenue account. We recommend that those Alinta Shareholders seek professional income tax advice in relation to the Share Scheme.

The summary of the Australian income tax and goods and services tax implications set out below is based on established judicial and administrative interpretations of the Income Tax Assessment Act 1997 (Cth) (**the 1997 Act**), the Income Tax Assessment Act 1936 (Cth) (**the 1936 Act**) and the A New Tax System (Goods and Services Tax) Act 1999 (Cth) as at the date of this Opinion. Whilst we have had regard to proposed changes to tax law to the extent possible in the preparation of this Opinion, we do not undertake to update our Opinion in respect of any future changes to the tax law.

Taxation is only one of the matters that must be considered when making a decision on a financial product. Ernst & Young is not licensed to provide financial product advice under the Corporations Act. Under the Corporations Act, this Opinion is not required to be provided to you by the holder of an Australian Financial Services License. You should consider taking advice from the holder of an Australian Financial Services License before making a decision on a financial product.

### The Share Scheme

The terms of the Share Scheme are as set out in Section 13 of the Scheme Booklet. The Share Scheme comprises a distribution of stapled securities in the APA Group (**APA Securities**) and a combination of the following forms of consideration in exchange for shares in Alinta:

- > Cash;
- > Exchangeable Preference Shares in BBI EPS Limited (**BBI EPS**);
- > Stapled securities in Babcock & Brown Infrastructure (**BBI**);
- > Stapled securities in Babcock & Brown Power (**BBP**); and
- > Stapled securities in Babcock & Brown Wind Partners (**BBW**).



In this Opinion, BBI, BBP and BBW Stapled Securities are collectively referred to as **B&B Fund Securities**. Each Alinta Shareholder can receive the APA Distribution and the Default Consideration which includes a combination of the above components of the consideration. Under the Default Consideration, Alinta Shareholders receive consideration determined after adjustments to the following Base Consideration in respect of each Scheme Share they hold (subject to the elections of other Alinta Shareholders as discussed in Section 13 of the Scheme Booklet):

- > a minimum of \$8.925 cash;
- > a maximum of 1.599 BBI EPS valued at \$1.599;
- > a minimum of 0.752 BBI Stapled Securities valued at \$1.32;
- > a minimum of 0.669 BBP Stapled Securities valued at \$2.30; and
- > a minimum of 0.260 BBW Stapled Securities valued at \$0.50,

together with a distribution of 0.301 APA Securities valued at \$1.26 under the APA Distribution.

Alternatively, Alinta Shareholders may elect to maximise the value of certain components of the consideration (cash, B&B Fund Securities, or BBI EPS) under the Share Scheme (although all Alinta Shareholders will receive the distribution of APA Securities). Regardless of the option chosen, all Alinta Shareholders will receive consideration equivalent to a value of \$14.644 in respect of the disposal of their Scheme Shares (i.e. not including the distribution of APA Securities to be received in respect of their Scheme Shares).

The values of securities mentioned in this Opinion are based on the five business days VWAP for the period ended 27 June 2007. The market prices of the securities to be issued on the Implementation Date may be different to the values used in this Opinion. We understand that after the implementation of the Share Scheme, Alinta Shareholders will be provided with guidance on the values of securities issued. That information will also be available on the Babcock & Brown (**B&B**) website ([www.babcockbrown.com](http://www.babcockbrown.com)). These details will be relevant in ascertaining the income tax implications associated with the Share Scheme, and the resulting income tax compliance obligations for Alinta Shareholders.

Alinta Shareholders holding 1,000 or less Scheme Shares may also elect to participate in the Cash Out Facility and have the securities they receive in exchange for their Scheme Shares sold by a nominee.

#### **Income Tax Implications**

Subject to the scope of our Opinion as set out above, the income tax implications for Alinta Shareholders from the Share Scheme are summarised below.

We note that Class Ruling requests have been lodged with the Australian Taxation Office (**ATO**) to confirm a number of the income tax implications discussed in this Opinion. Copies of ATO Class Rulings will be published on the B&B website when issued by the ATO.

Further guidance will be provided to Alinta Shareholders if the ATO response to a Ruling request is not consistent with the views expressed in this Opinion.

#### **Distribution of APA Securities to Alinta Shareholders**

As part of the Share Scheme, Alinta will distribute 0.301 APA Securities (with a value of \$1.26) to Alinta Shareholders for each Scheme Share that they hold. This distribution will occur regardless of which combination of cash and securities the Alinta Shareholder chooses under the Share Scheme.

The distribution of the APA Securities will be made by way of a fully franked dividend of \$0.93 per Scheme Share and a return of capital of \$0.33 per Scheme Share. We understand that if the market price of the APA Securities changes, this will not impact the amount of the dividend but will only impact the value of the return of capital.

For completeness, we note that the ATO has the power under Section 45B of the 1936 Act to deem a portion of the amount of the return of capital to be an unfranked dividend for income tax purposes. A Class Ruling from the ATO has been requested to confirm, amongst other things, that Section 45B will not apply to any portion of the return of capital. In addition, the ATO has been requested to confirm the availability of franking credits to relevant Alinta Shareholders in respect of this proposed distribution.

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We understand that, depending upon the outcome of current court proceedings between Alinta and the APA Group, Alinta Shareholders may receive a distribution that is attributable to Alinta's APA Securities in an alternative form.

#### **Income Tax Treatment of the APA Dividend**

The income tax treatment of the dividend received will depend upon the specific characteristics of the Alinta Shareholder as set out below:

##### **Australian Resident individuals**

The Dividend Component of the distribution received by an Australian Resident individual Alinta Shareholder should be included in their Australian assessable income, together with the amount of any franking credit attached to the dividend. A franking credit will be 'attached' to the dividend to the extent that the dividend received is franked. Alinta Shareholders will be advised of the franking credits attached to the dividend received – although we understand that it is expected to be fully franked. The franking credit attached to the dividend should generally – subject to satisfying certain holding period rules described below – be allowed as a tax offset against the tax payable on the Alinta Shareholder's total taxable income. In some circumstances, the tax offset may result in a tax refund being payable to the Alinta Shareholder.

##### **Australian Resident companies**

The taxation treatment of the dividend received by an Australian Resident company is generally the same as that described above for an Australian Resident individual. However, the tax offset generated from the franking credits received cannot give rise to a tax refund. In certain circumstances the amount of the franking offset in excess of the tax payable by the company may be carried forward into future income years as a revenue loss. The amount of the revenue loss is calculated by dividing the excess franking offset by the corporate tax rate.

##### **Australian Resident trusts**

Distributions in the form of dividend income ultimately received by Australian Resident beneficiaries of trusts should generally, subject to certain holding period rules described below, be eligible for a tax offset equal to the beneficiary's share of franking credits attached to the dividend income distribution. The tax treatment of the dividend then depends on the legal identity of the beneficiary as an individual, a company or a trust.

If the trust has a net loss or does not have net income, the tax offset is effectively lost. However, if the trust has at least \$1 of net income, all of the tax offset should be able to be utilised by the beneficiaries presently entitled to that net income comprising the dividend from Alinta.

In certain circumstances, the trustee may be required to make a family trust election to enable a beneficiary to obtain a tax offset from franking credits attached to dividends paid to the trust. We recommend that you seek advice from your professional adviser in this regard.

Where the trustee is subject to tax, it may also be entitled to a proportion of the franking credits on dividend distributions received in the same way as if the trustee were an individual (as discussed above).

The comments above relate to Australian Resident beneficiaries who are not under a legal disability. If the beneficiary is a Non-Resident or under a legal disability, we recommend you seek independent professional taxation advice.

##### **Australian Resident superannuation funds**

The taxation treatment of the dividend received by an Australian Resident superannuation fund is generally the same as that described above for an Australian Resident individual. In addition, superannuation funds also receive full tax offsets for franking credits notwithstanding that part of the fund's franked distribution income may be exempt from tax. Excess offsets should be refundable.

##### **45-day holding period rule**

In certain circumstances, an Alinta Shareholder's entitlement to the benefit of the franking credit tax offset may be denied where specific 'holding period' rules relating to the underlying investment in Alinta are not satisfied. The holding period rules broadly require the Alinta Shareholder to hold the shares in respect of which a dividend has been paid, at risk, for a minimum period of 45 days during the relevant period (excluding the dates of acquisition and disposal of the Scheme Shares). In the case of dividend income ultimately received by an Australian Resident beneficiary of a trust, the trustee must hold the Scheme Shares at risk, and the beneficiary must also hold its beneficial interest in the shares at risk, during the relevant period. The application of those rules will depend on the specific Alinta Shareholder's circumstances and are beyond the scope of this Opinion. However, these rules should generally not apply to long term investments or to an individual Alinta Shareholder whose total entitlement to franking credits does not exceed \$5,000 in relation to a year of income.



#### Non-Australian tax residents

Dividends paid by an Australian Resident company to non-Australian tax residents (**Non-Residents**) should prima facie be subject to Australian dividend withholding tax at a rate of 30%. We note that this rate can be reduced under the terms of a relevant Double Tax Agreement.

However, no Australian dividend withholding tax should be payable to the extent that the dividend is franked. Where the dividend to be paid to Investors is fully franked, no Australian dividend withholding tax should apply.

Non-Resident Investors should not otherwise be subject to Australian income tax on the dividend component of the distribution.

#### Income Tax Treatment of the Return of Capital

The Capital Return Component of the distribution received by an Alinta Shareholder will trigger a 'CGT Event' and should reduce that Alinta Shareholder's Capital Gains Tax (CGT) cost base in their Scheme Shares by the amount of the distribution. Any such cost base reduction is triggered when the distribution is received.

If the Capital Return Component of the distribution exceeds the Alinta Shareholder's cost base of their Scheme Shares calculated just prior to the cost base reduction, a prima facie capital gain equal to the excess may arise. Any such prima facie capital gain may be eligible to be reduced by the CGT discount. Our comments in relation to the potential CGT discount are outlined below.

Alinta Shareholders that are former AGL shareholders should be aware that the cost base of the Scheme Shares that they acquired under the 2006 Scheme of Arrangement between AGL and Alinta will need to be calculated in accordance with the formula set out in the relevant Class Ruling (CR 2006/125).

#### Cost base of APA Securities

The cost base of the APA Securities held by Alinta Shareholders after the distribution should equal \$1.26 per Scheme Share, being the amount of the dividend and return of capital.

The date of acquisition of the APA Securities should be the same as the date of distribution of those securities.

#### Consideration Received on Disposal of Scheme Shares

After the distribution of APA Securities to Alinta Shareholders, it is necessary to consider the income tax implications associated with the consideration received upon disposal of Scheme Shares under the Share Scheme. For Alinta Shareholders who hold their shares in Alinta on capital account, the income tax treatment of the forms of consideration should be considered primarily under the CGT rules.

We note that a series of calculations will be required to be performed in relation to determining the capital gain (or loss) made in relation to the disposal of the Scheme Shares (including the availability of CGT rollover relief as discussed below).

As discussed in more detail below, the following steps should be undertaken in determining the capital gain or loss made on each of the Scheme Shares:

- > determine the prima facie capital gain or loss for each share disposed of by subtracting the cost base (or reduced cost base) of each Scheme Share disposed of from the value of the consideration received;
- > if a prima facie capital gain arises, reduce that capital gain to the extent to which CGT rollover relief is available and chosen; and
- > to the extent of any remaining capital gain (after applying any capital losses), determine the availability of the CGT discount to reduce the net capital gain (after applying any capital losses) resulting from the disposal of the Scheme Shares.

Please refer below and to section 14.1 of the Scheme Booklet for a more detailed example of this calculation based on a hypothetical Alinta Shareholder scenario.

#### Prima Facie Capital Gain or Loss Calculation

The prima facie capital gain (or loss) realised by Alinta Shareholders as a result of the disposal of their Scheme Shares should be calculated as the difference between the proceeds from the Share Scheme and the Alinta Shareholder's cost base (or reduced cost base) of the Scheme Shares disposed of. The proceeds from the Share Scheme should be the value of any consideration received from the disposal of Scheme Shares (which does not include the distribution of APA Securities as discussed above). An Alinta Shareholder's cost base should be determined after taking into account the Capital Return Component of the distribution of the APA Securities as discussed above.



For example, if an Alinta Shareholder has a cost base in their Scheme Shares of \$2.125, and they acquired those shares at least 12 months prior to the Share Scheme, they should calculate their prima facie capital gain as follows. Based on the closing values of the shares on 27 June 2007, the total amount of consideration after distribution of APA Securities as discussed above is \$14.644. The Alinta Shareholder's \$2.125 cost base is first reduced by the \$0.33 return of capital discussed above resulting in a balance of \$1.795. As such, the Alinta Shareholder should realise a capital gain before considering the availability of CGT rollover relief and the CGT discount of \$12.849 (being \$14.644 less \$1.795). The amount of the return of capital may change if the value of the APA Securities is not the same as the closing value on 27 June 2007. Further guidance on the value of APA Securities will be provided after the distribution is made.

#### Availability of CGT Rollover Relief

If an Alinta Shareholder makes a prima facie capital gain on the disposal of their Scheme Shares, they should be eligible to claim CGT rollover relief to the extent they receive BBI EPS as consideration for their Scheme Shares, provided that as a result of the Share Scheme, the acquiring entity (ES&L Pty Limited) and the other members of its wholly-owned company group become the owner of 80% or more of the Scheme Shares.

To determine the extent of the prima facie capital gain that can be disregarded, Alinta Shareholders should undertake the following steps:

- > determine the extent to which the cost base of their Scheme Shares (after taking into account the Capital Return Component of the distribution of APA Securities as discussed above) can be allocated to the BBI EPS Component of their consideration (discussed below); and
- > determine the extent to which the prima facie capital gain on their Scheme Shares relates to the BBI EPS Component of their consideration by subtracting the cost base (in their Scheme Shares) allocated to the BBI EPS from the value of the BBI EPS received.

Ordinarily, the cost base allocated to the BBI EPS Component of consideration should be a proportion of the Alinta Shareholder's cost base (in their Scheme Shares) allocated on a reasonable basis. One such method of apportionment would be to use a relative value method. That is, the proportion of the total cost base to be applied to the BBI EPS Component of the consideration received should equal the value of those BBI EPS (at the time of acquisition) relative to the total consideration received (excluding the distribution of APA Securities as discussed above).

Following on from the example above (based on an Alinta Shareholder receiving the Base Consideration and the assumed facts noted above), the Alinta Shareholder's cost base (in their Scheme Shares) of \$1.795 (after the distribution of APA Securities) should be allocated to the different components of their consideration. The table below outlines the outcome of using a relative value method of allocating the cost base on the basis of the relative values of the proceeds received (a different allocation will arise if the Alinta Shareholder elects to receive a different mixture of consideration or due to the effects of rounding):

Consideration	Capital Proceeds \$		Cost Base Allocation \$	Cost Base Allocated \$
BBI EPS	1.599	=	$\left(\frac{1.599}{14.644}\right) \times 1.795$	0.196
Balance of consideration	13.045	=	$\left(\frac{13.045}{14.644}\right) \times 1.795$	1.599
<b>TOTAL</b>	<b>14.644</b>		<b>1.795</b>	<b>1.795</b>

In order for CGT rollover relief to apply, the Alinta Shareholder is required to make a choice to apply the rollover. The choice is evidenced by the disclosures made in the Alinta Shareholder's income tax return. No formal election or notification is required to be lodged with the ATO.



CGT rollover relief should be available on the BBI EPS Component of the consideration received for the Share Scheme. Where Alinta Shareholders are eligible for and choose CGT rollover relief they will be able to disregard the part of their prima facie capital gain that is attributable to the BBI EPS received as consideration. Accordingly, to the extent an Alinta Shareholder only receives BBI EPS for the disposal of their Scheme Shares and they elect for CGT rollover relief to apply, no capital gain should arise on disposal of their Scheme Shares. We note that the choice to apply CGT rollover relief may be made on an asset by asset basis. That is, an Alinta Shareholder may choose to apply the rollover relief for some of their Scheme Shares but not others. The Class Ruling discussed above has also been requested to confirm that CGT rollover relief will apply.

*Following on from the example above, where CGT rollover relief is chosen in relation to the BBI EPS Component of the consideration, the prima facie capital gain that can be disregarded by the Alinta Shareholder in this situation should be \$1.403 per Scheme Share (being \$1.599 of capital proceeds less \$0.196 of cost base allocated to those proceeds). The resulting taxable gain before considering the availability of the CGT discount would be \$11.446 (being the prima facie capital gain of \$12.849 less the amount disregarded under CGT rollover relief of \$1.403).*

A CGT discount may be available to Alinta Shareholders who make a capital gain and do not choose to apply CGT rollover relief. Our comments in relation to the CGT discount are outlined further below.

#### **Cost base of BBI EPS**

To the extent that Alinta Shareholders are eligible for and choose for CGT rollover relief to apply, their cost base (and reduced cost base) of BBI EPS acquired should be equal to the portion of their original cost base (and reduced cost base) in their Scheme Shares allocated to the BBI EPS Component of their consideration. This cost base should be allocated amongst the BBI EPS issued in exchange for their Scheme Shares. Where CGT rollover relief is chosen, the acquisition date of the BBI EPS for CGT purposes is deemed to be the date that the original Scheme Shares were acquired. This is important in determining the availability of the CGT discount on the subsequent disposal (such as when the BBI EPS are redeemed, resold or converted) of the BBI EPS as discussed below.

To the extent that CGT rollover relief is not chosen, the cost base of BBI EPS acquired should be the proportion of the market value of the Scheme Shares exchanged for BBI EPS under the Share Scheme, plus incidental costs of acquiring and disposing of the BBI EPS. Where CGT rollover relief is not chosen, the acquisition date of the BBI EPS for CGT purposes is deemed to be the date of the implementation of the Share Scheme. This is important in determining the availability of the CGT discount on the subsequent disposal (such as when the BBI EPS are redeemed, resold or converted) of the BBI EPS as discussed below.

#### **Distributions on BBI EPS**

Alinta Shareholders are expected to receive dividend distributions in relation to their BBI EPS. For income tax purposes, the BBI EPS should be deemed to be a debt interest and any return on the BBI EPS should constitute an interest payment (which cannot be franked, and therefore will not entitle the holder to franking credits or offsets). An interest payment received on the BBI EPS should ordinarily be included in an Alinta Shareholder's assessable income in the year in which it is derived. For those Alinta Shareholders that hold their BBI EPS on capital account and are not taxed on an accruals basis, that income should be considered to be derived when it is received.

#### **Subsequent disposal of BBI EPS**

Where the BBI EPS are subsequently disposed of, redeemed or converted for stapled securities in BBI, a prima facie capital gain (or loss) should be realised by Alinta Shareholders. The capital gain (or loss) should be calculated as the difference between the proceeds from the disposal and the Alinta Shareholder's cost base (or reduced cost base) of the BBI EPS. The cost base (or reduced cost base) of the BBI EPS will depend on an Alinta Shareholder's choice to obtain CGT rollover relief as discussed above. There should be no CGT rollover relief available on conversion of BBI EPS to BBI Stapled Securities.

#### **Cost base of securities received in BBI**

At the time of the acquisition of the BBI Stapled Securities issued on implementation of the Share Scheme, their cost base should be the proportion of the market value of the Scheme Shares exchanged for BBI Stapled Securities under the Share Scheme (practically, this should equal the market value of the BBI Stapled Securities issued to you), plus incidental costs of acquiring the BBI Stapled Securities (if any). The acquisition date for the BBI Stapled Securities for CGT purposes should be the Implementation Date of the Share Scheme. This is important in determining the availability of the CGT discount on a subsequent disposal of the BBI Stapled Securities. Subsequent cost base adjustments may be required (e.g. for costs of disposal or tax deferred distributions).

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For Australian income tax and CGT purposes, each BBI Stapled Security, comprising one share in Babcock & Brown Infrastructure Limited and one unit in Babcock & Brown Infrastructure Trust, is treated as two separate assets.

Information regarding the taxation implications of holding BBI Stapled Securities (including details of tax deferred distributions) is published on the BBI website ([www.bbinfrastructure.com](http://www.bbinfrastructure.com)). Your tax advisor should be able to assist you in this regard.

#### Cost base of securities received in BBP

At the time of the acquisition of the BBP Stapled Securities issued on implementation of the Share Scheme, their cost base should be the proportion of the market value of the Scheme Shares exchanged for BBP Stapled Securities under the Share Scheme (practically, this should equal the market value of the BBP Stapled Securities issued to you), plus any incidental costs of acquiring the BBP Stapled Securities (if any). The acquisition date for the BBP Stapled Securities for CGT purposes should be the Implementation Date of the Share Scheme. This is important in determining the availability of the CGT discount on a subsequent disposal of the BBP Stapled Securities. Subsequent cost base adjustments may be required (e.g. for costs of disposal or tax deferred distributions).

For Australian income tax and CGT purposes, each BBP Stapled Security, comprising one share in Babcock & Brown Power Limited and one unit in Babcock & Brown Power Trust, is treated as two separate assets.

Information regarding the taxation implications of holding BBP Stapled Securities (including details of tax deferred distributions made) is published on the BBP website ([www.bbpower.com](http://www.bbpower.com)). Your tax advisor should be able to assist you in this regard.

#### Cost base of securities received in BBW

At the time of the acquisition of the BBW Stapled Securities issued on implementation of the Share Scheme, their cost base should be the proportion of the market value of the Scheme Shares exchanged for BBW Stapled Securities under the Share Scheme (practically, this should equal the market value of the BBW Stapled Securities issued to you), plus incidental costs of acquiring the BBW Stapled Securities (if any). The acquisition date for the BBW Stapled Securities for CGT purposes should be the Implementation Date of the Share Scheme. This is important in determining the availability of the CGT discount on a subsequent disposal of the BBW Stapled Securities. Subsequent cost base adjustments may be required (e.g. for costs of disposal or tax deferred distributions).

For Australian income tax and CGT purposes, each BBW Stapled Security, comprising one share in Babcock & Brown Wind Partners Limited, one share in Babcock & Brown Wind Partners (Bermuda) Limited and one unit in Babcock & Brown Wind Partners Trust, is treated as three separate assets.

Information regarding the taxation implications of holding BBW Stapled Securities (including details of tax deferred distributions made) is published on the BBW website ([www.bbwindpartners.com](http://www.bbwindpartners.com)). Your tax advisor should be able to assist you in this regard.

Following on from the example above (where CGT rollover relief has been chosen), the cost base and the acquisition date for CGT purposes for each of the components of consideration are outlined below:

Consideration	CGT Rollover Relief Chosen		No CGT Rollover	
	Cost Base \$	Acquisition Date	Cost Base \$	Acquisition Date
BBI EPS	0.196	Note 1	1.599	Note 2
BBI Stapled Securities	1.32	Note 2	1.32	Note 2
BBP Stapled Securities	2.30	Note 2	2.30	Note 2
BBW Stapled Securities	0.50	Note 2	0.50	Note 2

Note 1: The acquisition date should be the date the Alinta Shareholder's original Scheme Shares were deemed to be acquired for CGT purposes.

Note 2: The acquisition date should be the Implementation Date of the Share Scheme.



### Discount of capital gains

As noted above, Alinta Shareholders who hold their Scheme Shares on capital account may be eligible for a CGT discount on their resulting net capital gain. This is only relevant in the specific circumstances noted above. Broadly, only individuals and trustees of trusts can claim the 50% CGT discount. For trustees (responsible entities) of complying superannuation funds, a CGT discount of 33 $\frac{1}{3}$ % may be claimed. Companies are not eligible to claim a CGT discount.

To be eligible for the CGT discount, the Scheme Shares must have been held for at least 12 months prior to the Implementation Date for the Share Scheme. No indexation is taken into account in calculating the net capital gain for these purposes. The CGT discount is taken into account after applying any available capital losses (such as capital losses incurred under this Share Scheme) against the capital gain eligible for the CGT discount.

*Following on from the example above (and disregarding the impact of any capital losses), the table below summarises the resulting capital gain to an Alinta Shareholder (not being a complying superannuation fund) with a cost base of their Scheme Shares of \$2.125 per share:*

Net Capital Gain	CGT Rollover Relief Chosen \$	No CGT Rollover Relief Chosen \$
Alinta Shareholder eligible for the 50% CGT discount	5.723	6.425
Alinta Shareholder not eligible for the CGT discount	11.446	12.849

### Non-Residents

Capital gains derived by a Non-Resident are generally only subject to income tax in Australia to the extent that they relate to relevant direct and indirect interests in Australian real property. In the context of the Share Scheme, where a Non-Resident Investor indirectly holds an interest in Australian real property through shares in a company or units in a trust, any capital gains may trigger a CGT liability. However, capital gains are not subject to tax in Australia where Investors hold less than 10% of the interests in that company or trust at the time of the disposal or for a period of 12 months in the two years prior to disposal. As a result, a Non-Resident Investor who (together with its associates) holds less than a 10% interest in Alinta at the relevant times should not be subject to Australian income tax resulting from any capital gain derived in relation to the disposal of Scheme Shares under the Share Scheme. We understand that there are no Non-Residents who (together with their associates) hold more than 10% of the shares in Alinta at the time of implementation of the Share Scheme or in any 12 month period in the two years prior to implementation.

### Cash Out Facility

Alinta Shareholders holding 1,000 or less Scheme Shares may elect for the securities they receive in exchange for their Scheme Shares to be sold. The disposal of their securities through the Cash Out Facility should give rise to a CGT event, with the difference between the proceeds received from that sale and the cost base in those securities giving rise to a capital gain or loss. This difference may arise, for example, because of movements in the market prices of the securities between the Implementation Date of the Share Scheme and the date of sale under the Cash Out Facility. This calculation should be done on a security by security basis. The cost base of an Alinta Shareholder's securities should be the amount determined applying the principles set out above.

For those Alinta Shareholders who elect to use the Cash Out Facility, the CGT discount may be available for any prima facie capital gain arising up to the Implementation Date of the Share Scheme (on any component of consideration received). Further, the CGT discount may also be available for any prima facie capital gain arising on the disposal of the BBI EPS where the Alinta Shareholder is eligible for and has chosen for CGT rollover relief to apply, as discussed above. If an Alinta Shareholder is eligible for, but does not choose, CGT rollover relief then one consequence may be to exclude from the CGT discount any capital gain that accrues on the BBI EPS between the Implementation Date of the Share Scheme and the date of the sale under the Cash Out Facility. Please refer to our comments above in relation to the eligibility of certain Alinta Shareholders for the CGT discount.

The CGT discount will not be available for any prima facie capital gain arising on any other securities (i.e. BBP Stapled Securities, BBW Stapled Securities and BBI Stapled Securities) between the Implementation Date of the Share Scheme and the date of the sale under the Cash Out Facility.

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### Goods and Services Tax (GST)

Based on current GST legislation, the disposal of Scheme Shares under the Share Scheme should not be subject to GST.

Further, the acquisition and future redemption or disposal of the BBI EPS or B&B Fund Securities is likely to be an input taxed financial supply, and therefore should not be subject to GST.

No GST should be payable in respect of distributions paid on the BBI EPS or B&B Fund Securities.

Where an Australian Resident is registered for Australian GST it will not generally be entitled to claim full input tax credits in respect of the GST incurred on their expenses relating to the acquisition or disposal of the BBI EPS or B&B Fund Securities (for example, lawyers' and accountants' fees).

Alinta Shareholders should seek their own advice on the impact of GST in their own particular circumstances.

### Tax File Number and Australian Business Number

Australian Resident Alinta Shareholders may quote their Tax File Number (TFN) or, where relevant, Australian Business Number (ABN) to each of BBI, BBP, BBW or BBI EPS Limited (**Relevant Entity**). If a TFN or ABN is not quoted to a particular Relevant Entity, and no exemption is applicable, tax may be deducted by that Relevant Entity from the unfranked portion of dividends distributed to Alinta Shareholders, any distributions that are not wholly tax deferred (including returns of capital), or any distributions on the BBI EPS. The rate of withholding is expected to be 46.5 percent at the time of any distribution.

Alinta Shareholders that hold their BBI EPS and B&B Fund Securities as part of an enterprise may quote their ABN instead of their TFN.

Yours faithfully

A handwritten signature in black ink that reads 'Paul Laxon'.

**Paul Laxon**  
Partner

### 14.3 PricewaterhouseCoopers Opinion on Australian Tax Implications of Option Scheme

**PRICEWATERHOUSECOOPERS**

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The Directors  
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27 June 2007

Dear Directors

#### Scheme of Arrangement (Option Scheme)

We have been requested to provide a summary of the tax implications for participants in the Alinta Executive Option Plan as a result of entering into the Scheme of Arrangement between Alinta Limited, ES&L Pty Limited, Babcock & Brown International Pty Limited and Singapore Power International Pte Ltd. In this advice, capitalised terms have the meanings set out in the glossary to this Booklet except where otherwise indicated.

#### Scope of Advice

The comments below are only relevant to Alinta Executive Option Plan participants who are residents of Australia for tax purposes.

Whilst every effort has been made to ensure accuracy, neither PricewaterhouseCoopers or any partner or employee of PricewaterhouseCoopers, shall be liable on any ground whatsoever to any party in respect of decisions or actions they may take as a result of using this taxation summary. The information contained in the taxation summary should not be treated as a substitute for advice concerning individual situations or circumstances.

The information contained in this document does not constitute "financial product advice" within the meaning of the Corporations Act 2001 (Cth) (Corporations Act). The PricewaterhouseCoopers partnership which is providing this advice is not licensed to provide financial product advice under the Corporations Act. To the extent that this document contains any information about a "financial product" within the meaning of the Corporations Act, taxation is only one of the matters that must be considered when making a decision about the relevant financial product. This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider taking advice from a person who is licensed to provide financial product advice under the Corporations Act. Any recipient should, before acting on this material, also consider the appropriateness of this material having regard to their objectives, financial situation and needs and consider obtaining independent financial advice. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

#### The Option Scheme

The terms of the Option Scheme are as set out in Section 13 of the Scheme Booklet. Under the Option Scheme:

- > Alinta Optionholders will have their Alinta Options cancelled and will receive an amount equal to the value of the consideration to be received by Alinta Shareholders for their Alinta Shares<sup>109</sup> less the exercise price of the Alinta Options.
- > If an Alinta Optionholder exercises an Alinta Option and acquires an Alinta Share they will then participate in the Share Scheme and will, absent any election, receive the APA Distribution and the following Base Consideration (after adjustments) for each Scheme Share as follows:
  - (a) the distribution by Alinta of 0.301 APA Securities (a stapled security)
  - (b) \$8.925 in cash (subject to adjustment for any Transaction Dividend)
  - (c) the issue of 1.599 BBI EPS (exchange preferred shares)
  - (d) the issue of 0.752 BBI Securities (a stapled security)
  - (e) the issue of 0.669 BBP Securities (a stapled security)
  - (f) the issue of 0.260 BBWP Securities (a stapled security)

The adjusted Base Consideration is referred to as the Default Consideration.

#### Note:

<sup>109</sup> After adding back the amount of any Transaction Dividend or capital reduction provided prior to the Implementation Date and deducted from the Consideration to be received by Alinta Shareholders..

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Each Alinta Shareholder will, unless they elect otherwise, receive the Default Consideration or alternatively maximise the value of certain components of the consideration (cash, scrip or BBI EPS).

This advice proceeds on the basis that if there are any unvested options they will be deemed by the Board to be vested and will participate in the Scheme Proposal.

### **Taxation implications – cancellation of options**

The income tax implications for participants in relation to the receipt of the Option Scheme Consideration will depend upon whether the participant made an election to be assessed on the value of the Alinta Options in the year of income in which they were granted.

#### **Upfront election made in year Alinta Options were acquired**

In this case the participants would have elected to be subject to income tax on the value of the Alinta Options in the year they were acquired. This election needs to be made before the participant lodges their tax return for the year the Alinta Options were granted. Therefore, any consideration received for the disposal of those Alinta Options will not be within the employee share plan rules in the income tax legislation. The cancellation will be regarded as a disposal of an asset for capital gains tax ("CGT") purposes in the year of income in which the cancellation occurs.

Therefore, a CGT event will arise and the capital gain will be the Option Scheme Consideration less the value of the Alinta Options subject to income tax in the year of grant. That capital gain will be reduced by the 50% discount if the Alinta Options have been held for more than twelve months as at the date of cancellation.

Alinta Optionholders will be required to fund any tax liability arising on lodgement of their income tax return for that year of income.

#### **Upfront election not made**

If a participant in the option plan has chosen to defer their income tax liability beyond the year of grant, then the cancellation of the Alinta Options would be a "cessation time" under the employee share plan income tax rules. In that case the employee will be required to include the full amount of the Option Scheme Consideration in their ordinary assessable income in the year the cancellation occurs.

Participants will be required to fund any tax liability arising on lodgement of their income tax return for that year of income.

### **Taxation implications – exercise of options and participation in the Share Scheme**

The income tax implications for participants who exercise their Alinta Options and participate in the Share Scheme will depend on whether the participant made an election to be assessed on the value of their Alinta Options in the year of income in which the options were granted.

#### **Upfront election made in year options acquired**

As above, in this case the participants would have elected to be subject to income tax on the value of the Alinta Options in the year they were acquired. Therefore, the exercise of the option will not create an income tax event. The subsequent disposal of the Alinta Shares as a result of participation in the Share Scheme will be a "CGT Event". In such a case, as the Alinta Shares are likely to have been held for less than twelve months after exercise of the options, the assessable capital gain will be the value of the property received through participating in the Share Scheme less the sum of the taxable amount of the Alinta Options at grant plus the exercise price. The 50% CGT discount rules will not apply and, as set out in the Independent Tax Opinion from Ernst & Young to Alinta Limited dated 27 June 2007, the scrip for scrip CGT rollover rules will not apply in full to the consideration received.

Participants will be required to fund any tax liability arising on lodgement of their income tax return for that year of income.

**Upfront election not made**

If a participant in the option plan has chosen to defer their income tax liability, then exercise of the Alinta Options and the participation in the Share Scheme (assumed to be within thirty days of the exercise of the options) will be a "cessation time" under the employee share plan tax rules.

If the Share Scheme Consideration is received within thirty days of the exercise of the Alinta Options the assessable amount will be the value of shares and property received on disposal of the options. If the transaction takes more than thirty days after the Alinta Options were exercised then different rules will apply.

We have reviewed the Share Scheme and the "rollover" provisions in Division 13A of the *Income Tax Assessment Act 1936*. Given the nature of the property received, the Share Scheme Consideration is unlikely to meet the requirements of the rollover provisions on the basis that the components of the consideration received will not "match" the shares which are being replaced.

**Taxation of dividend component of APA Distribution**

To the extent that an Alinta Optionholder participates in the Share Scheme, if the period of ownership of the Alinta Share is less than 45 days the shareholder will not satisfy the 45 day "holding period" test. The 45 day period does not include the date of acquisition and date of disposal of the Alinta Shares.

Therefore, provided the Alinta Shares are held for at least 47 days prior to and including the Effective Date, then the requisite holding period should be satisfied (refer to the Tax Opinion in section 14.2 for further discussion on this matter). This means that the options have to be exercised and Alinta Optionholders need to hold their Alinta Shares at least 47 days prior to and including the Effective Date to benefit from any franking credits.

If the total amount of the franking credits that could be claimed by a shareholder on all dividends is less than \$5,000, the shareholder will not be subject to the holding period test.

Yours sincerely

A handwritten signature in black ink, appearing to read "John W Sullivan".

**John W Sullivan**  
Partner  
Tax Services

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## 14.4 New Zealand tax implications of Share Scheme

### (a) Introduction

The following is a general description of the New Zealand taxation consequences for Alinta Shareholders if there is acceptance of the Share Scheme by Alinta Shareholders.

The description is based upon the New Zealand law and administrative practice in effect at the date of this Booklet. It is general in nature and is not intended to be an authoritative or complete statement of the laws applicable to the particular circumstances of every Alinta Shareholder.

This section does not constitute taxation advice and Alinta Shareholders should seek independent taxation advice in relation to their own particular circumstances.

The following summary is intended only for a New Zealand resident Alinta Shareholder who is not a "transitional resident". Broadly, a transitional resident is a person who acquired a permanent place of abode in New Zealand after 31 March 2006 without previously having been resident in New Zealand in the last 10 years and not more than 48 months have passed since that permanent place of abode was acquired.

A transitional resident is exempt from New Zealand income tax on certain investment income derived from outside New Zealand.

The following summary also does not address the New Zealand taxation consequences of the Option Scheme, DESP and the NZESP. You should obtain your own independent taxation advice on those matters.

### (b) Disposal of Scheme Shares

A disposal of your Scheme Shares will occur upon implementation of the Share Scheme. In consideration of the disposal you will receive the Share Scheme Consideration. Alternatively, under the Cash Out Facility, if applicable, you will receive cash only.

The New Zealand taxation consequences of implementation of the Share Scheme depend upon whether you hold your Scheme Shares on capital account or on revenue account. Broadly, Scheme Shares would be regarded as held on capital account unless the Scheme Shares were acquired with the purpose of resale, or with the dominant purpose of resale if there was more than one purpose of acquisition, or as part of a share dealing or a share investment business.

If you have any questions about the taxation aspects of holding or disposing of Scheme Shares, then you should seek specific advice from a professional taxation adviser before making a decision whether or not to vote in favour of the Share Scheme.

### (i) Scheme Shares are held on capital account

If you hold your Scheme Shares on capital account for taxation purposes, Implementation of the Share Scheme will, subject to one exception, result in you deriving a capital gain or incurring a capital loss which is not recognised for New Zealand income tax purposes.

The exception is in relation to the APA Distribution comprising the APA Dividend and the Capital Reduction. The APA Distribution will be classified as a dividend for income tax purposes. As such the total amount of the APA Distribution will be part of your taxable income, attracting income tax at your marginal rate of income tax.

The amount of the dividend that is taxable income is calculated by reference to the cash distributed to you as the APA Dividend and the market value of the APA Securities distributed in specie as the APA Capital Return Component. Alinta will notify you of:

- > the amount of the APA Dividend; and
- > the amount of the Capital Reduction.

Since both components of the APA Distribution will be expressed in Australian dollars, there must be a conversion into a New Zealand dollar equivalent amount by use of an acceptable rate of exchange. An acceptable rate of exchange may be obtained from the New Zealand website of the Inland Revenue Department ([www.ird.govt.nz](http://www.ird.govt.nz)). Alternatively, you may apply a rate of exchange obtained from a trading bank that was in force for the Implementation Date.

### (ii) Scheme Shares are held on revenue account

If you hold your Scheme Shares on revenue account for taxation purposes, Implementation of the Share Scheme will result in you deriving a gain or incurring a loss that is recognised for New Zealand income tax purposes.

The amount of the assessable gain/loss would not include the APA Distribution. The APA Distribution from Alinta is classified as a dividend for income tax purposes and, as such, will be part of your taxable income subject to income tax at your marginal rate of income tax.

The summary outlined in section 14.4(b)(i) above indicates how you may determine the New Zealand dollar amount of the APA Distribution that is a dividend and part of your taxable income.

The amount of the assessable gain/loss should be calculated by reference to the remainder of the consideration received from disposal of your Scheme Shares (i.e. excluding the APA Distribution). The remainder of the consideration will comprise cash and the B&B Fund Securities Component or cash only under the Cash Out Facility. The Consortium will notify you of:

- > the amount of the Cash Component that you receive under the Share Scheme; and
- > the market value of the B&B Fund Securities Component that you receive under the Share Scheme.

The amount of the Cash Component and the B&B Fund Securities Component, or the cash received under the Cash Out Facility, must be converted into a New Zealand dollar equivalent amount to arrive at the amount of your assessable income/loss. The summary outlined in section 14.4(b)(i) above indicates how you may determine the New Zealand dollar equivalent amount.

**(c) Continuing to hold your securities**

There will be New Zealand income tax implications for each tax year you continue to hold any of the APA Securities and the B&B Fund Securities. The income tax implications are governed by whether the APA Securities and the B&B Fund Securities are subject to the rules for the taxation of interests in a "foreign investment fund".

**(i) Whether the foreign investment fund rules apply**

The APA Securities and the B&B Fund Securities you will hold are classified as shares in a foreign company for New Zealand income tax purposes. As such, the APA Securities and the B&B Fund Securities are potentially subject to the foreign investment fund rules.

There are limited categories of Australian securities that are excluded from taxation under the foreign investment fund rules. It is likely that your APA Securities and B&B Fund Securities will not fall within any of the exclusions. Legislative proposals intend that a "stapled security" (being a share that ordinarily may not be disposed of unless with rights in another company) shall not be within the scope of the exclusions from foreign investment fund taxation.

Your APA Securities and B&B Fund Securities will be subject to taxation under the foreign investment fund rules unless you are a natural person whose total cost of all foreign investment fund interests at all times during the tax year does not exceed \$NZ50,000. The \$NZ50,000 cost threshold is applied to all foreign investment fund interests, inclusive of your APA Securities and B&B Fund Securities, subject to a limited number of exclusions. The most common exclusions are likely to be the exclusions for interests (such as non-stapled shares or unit trust interests) that are included in an approved index under the ASX Market Rules in respect of an issuer who is required to maintain a franking account and for interests in certain Australian unit trusts associated with an Resident Withholding Tax proxy.

The cost of your APA Securities and B&B Fund Securities should be determined by reference to the market value advised to you as converted into a New Zealand dollar equivalent amount by use of an acceptable rate of exchange.

If the \$NZ50,000 cost threshold is exceeded, taxation under the foreign investment fund rules applies to all foreign investment fund interests and not just the excess over \$NZ50,000.

**(ii) Application of a calculation method**

The taxable income from your APA Securities and B&B Fund Securities for a tax year must be ascertained pursuant to one of the calculation methods set out in the foreign investment fund rules. There is scope for you to choose one of the authorised calculation methods, subject to meeting the requirements permitting adoption of the method chosen. The "fair dividend rate method" is likely to be the calculation method most commonly applied if your APA Securities and B&B Fund Securities are a "portfolio" investment (being an interest of less than 10% in the security issuer) and do not involve shares that are more akin to a debt investment.

Under the fair dividend rate method, taxable income may be 5% of the market value of the APA Securities and B&B Fund Securities on 1 April in each year. Alternatively, if you are an investor that is a "unit valuer", taxable income is 5% of the average value of the APA Securities and B&B Fund Securities for the tax year. If your securities are acquired and disposed of within the same tax year, your taxable income is the lesser of 5% of the cost of the APA Securities and B&B Fund Securities or 5% of the gain on disposal.

If you are an investor who is a natural person or the trustee of a family trust, you may choose to apply the "comparative value method" instead of the fair dividend rate method for the tax year. The comparative value method must be applied for all of your foreign investment fund interests for that year. Under the comparative value method, taxable income for the tax year is the year's appreciation in value and all dividends derived during the year.

The cost method is a third method that may be chosen to calculate taxable income under the foreign investment fund rules. Under the cost method, taxable income is 5% of the cost of your APA Securities and B&B Fund Securities with a deemed 5% increase in cost from year-to-year.

The taxable income in Australian dollars revealed by the fair dividend rate method or the comparative value method or the cost method must be converted into a New Zealand dollar equivalent amount by use of an acceptable rate of exchange. The rate of exchange must be one that was in force on the day for ascertaining market value or a rate of exchange that is the average close of trading spot exchange rate for the 15th day of each month in the tax year. One of these rates may be found on the New Zealand Inland Revenue Department website ([www.ird.govt.nz](http://www.ird.govt.nz)).

If your APA Securities and B&B Fund Securities are subject to income tax under the fair dividend rate method or the cost method, any dividend or other distribution received from the APA Securities and B&B Fund Securities is not a further item of taxable income. Any withholding tax paid in Australia on the dividend or distribution may, however, be claimed as a credit against New Zealand income tax payable for the tax year. A claim for the tax credit must be supported by a copy of the statement showing payment of the withholding tax in Australia.

**(iii) Disposal of your APA Securities and your B&B Fund Securities**

If you dispose of your APA Securities and your B&B Fund Securities, and at the time of disposal the APA Securities and B&B Fund Securities are subject to the foreign investment fund rules, any gain upon disposal is not a receipt of further taxable income (unless acquisition and disposal occurs within the same tax year, as noted in section 14.4(c)(ii) above). Any loss realised on disposal of the APA Securities and B&B Fund Securities is generally not recognised for income tax purposes.

If you dispose of your APA Securities and your B&B Fund Securities, and at the time of disposal the APA Securities and B&B Fund Securities are not subject to the foreign investment fund rules, any gain/loss realised on the disposal is recognised for income tax purposes only if the APA Securities and B&B Fund Securities are held on revenue account.

**(iv) Your APA Securities and your B&B Fund Securities are not subject to the foreign investment fund rules**

If your APA Securities and your B&B Fund Securities are not subject to the foreign investment fund rules, any dividend or other distribution (such as the receipt of bonus units) is an item of taxable income. A credit against New Zealand income tax payable for the tax year may be claimed for any withholding tax paid in Australia (the claim is to be supported by a copy of the statement showing payment of the withholding tax in Australia).

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ADDITIONAL  
INFORMATION

### 15.1 Alinta Shares and Alinta Options

As of 27 June 2007, there are 495,218,848 Alinta Shares and 5,461,435 Alinta Options on issue.

### 15.2 Impact of Schemes on Alinta Employee Incentive Plans

Alinta currently has three equity incentive plans for employees and directors. These are the Alinta Executive Option Plan, the Alinta Deferred Employee Share Plan (DESP) (for Australian employees) and the New Zealand Employee Share Plan (NZESP) (for New Zealand employees).

Sections 15.2 and 15.3 summarise the effect of the Share Scheme and Option Scheme on these plans if the Schemes become Effective.

#### (a) Alinta Executive Option Plan

Upon the Share Scheme becoming Effective, the Alinta Board will approve the termination of the Alinta Executive Option Plan.

The outstanding Alinta Options as at the Record Date, all of which are subject to the Alinta Executive Option Plan, will be cancelled in accordance with the Option Scheme, in return for payment of the Option Scheme Consideration.

See section 14.3 for the general tax consequences of the Option Scheme. Alinta Optionholders should seek their own specific taxation advice for their individual circumstances.

#### (b) DESP

As at 27 June 2007 at 5.00pm (AEST), 733,946 Alinta Shares are held under the DESP.

Under the DESP, the Share Plan Trustee periodically acquires Alinta Shares. Alinta Shares acquired under the DESP are held by the Share Plan Trustee on behalf of DESP members in accordance with the terms of the plan, unless and until the Alinta Shares are withdrawn from the plan and transferred to the DESP members, or sold on their behalf.

DESP members are not entitled to withdraw their allocated Alinta Shares from the DESP within 12 months from the date on which the Alinta Shares were first allocated to them, except in certain specified circumstances.

DESP members who are entitled to withdraw their Alinta Shares from the DESP may do so in accordance with the plan before the Record Date for the Share Scheme. However, DESP members who wish to do so should allow at least three business days' notice to the Share Plan Trustee, including payment of any applicable transfer fee, prior to the Record Date for the Share Scheme, to enable the Share Plan Trustee to process any withdrawal applications. Alinta will not recognise any transfer applications in respect of Alinta Shares received after the Record Date for the Share Scheme.

DESP members can direct the Share Plan Trustee how to vote their allocated Alinta Shares at the Share Scheme Meeting and General Meeting, if the Share Plan Trustee is the holder of their allocated Alinta Shares on the date set for establishing voting entitlements at those Meetings. The Share Plan Trustee will send voting forms to DESP members. The Share Plan Trustee will not vote on matters dealt with at the meetings by a show of hands.

DESP members can direct the Share Plan Trustee to make an election for Share Scheme Consideration in respect of their allocated Alinta Shares by filling out an Election Form (which will be sent to them by the Share Plan Trustee) – see the instructions under the section headed "How to Make an Election for Share Scheme Consideration" in this Booklet. DESP members whose allocated Alinta Shares number 1,000 or less may elect the Cash Out Alternative. Election Forms must be returned to the Share Plan Trustee by 5.00pm (AEST), 17 August 2007.

Alinta intends that further contributions to the DESP will cease from the end of July 2007. Upon the Share Scheme becoming Effective, the Alinta Board will approve the winding up of the DESP. The Share Plan Trustee will receive the Share Scheme Consideration and the APA Distribution on behalf of those DESP members who have Alinta Shares allocated to them under the DESP as at the Record Date. The Share Plan Trustee will make arrangements to distribute the Share Scheme Consideration and the APA Distribution to the relevant DESP members as soon as practicable after the Implementation Date.

DESP members should seek their own specific taxation advice for their individual circumstances.

#### (c) NZESP

As at 27 June 2007, 10,128 Alinta Shares are held under the NZESP.

Under the NZESP, the plan manager periodically acquires Alinta Shares. Alinta Shares acquired under the NZESP are registered in the names of the NZESP members and are managed on their behalf in accordance with the NZESP rules.

NZESP members are not entitled to withdraw their allocated Alinta Shares from the NZESP within 12 months from the date on which the Alinta Shares were first allocated to them, except in certain specified circumstances.

NZESP members who are entitled to withdraw their Alinta Shares from the NZESP and trade them may do so in accordance with the plan before the Record Date for the Share Scheme.

NZESP members can vote their allocated Alinta Shares at the Share Scheme Meeting and General Meeting.

Alinta intends that further contributions to the NZESP will cease from the end of July 2007. Upon the Share Scheme becoming Effective, the Alinta Board will approve lifting of the withdrawal restrictions applicable to all Alinta Shares held under the NZESP and will approve the winding up of the plan.

The Consideration Securities transferred to NZESP members as part of the Share Scheme will be held directly by them and will not be subject to any share plan or any other vesting or trading restrictions.

NZESP members should seek their own specific taxation advice for their individual circumstances.

### 15.3 Impact on Alinta Employee Incentive Plans if the Schemes are not Implemented

If the Option Scheme is not Implemented but the Share Scheme is Implemented, the Alinta Executive Option Plan, DESP and NZESP will be terminated as set out in section 15.2.

If both the Share Scheme and the Option Scheme are not Implemented, these consequences will apply:

- (a) The Alinta Executive Option Plan will remain in place and the Alinta Options will remain held by the Alinta Optionholders on the same terms and conditions which currently apply to them.
- (b) The DESP and NZESP will not be terminated and Alinta Shares held under those plans will continue to be held under the plans in accordance with their terms.
- (c) As noted in section 2.5, Alinta will consider alternatives for the future of its business, including internal restructure options. The Alinta Executive Option Plan, DESP and NZESP are unlikely to continue in their current form and may ultimately be wound up or terminated if an internal restructure option is implemented in the future. Alinta Securityholders will be kept informed of developments.

### 15.4 Additional information for Alinta Optionholders

If the Share Scheme is Effective, all Alinta Optionholders will have the opportunity to exercise their Alinta Options and participate in the Share Scheme, provided they exercise their Alinta Options by the Exercise Deadline. Alinta Optionholders should refer to section 13.3.

If the Share Scheme is Implemented but the Option Scheme is not Implemented, those Alinta Optionholders who have not exercised their Alinta Options will retain their Alinta Options and will not receive the Option Scheme Consideration.

All Alinta Options will vest from the Effective Date of the Share Scheme. As set out in section 13.3, Alinta Optionholders who do not exercise their Alinta Options by the Exercise Deadline will not be able to participate in the Share Scheme.

Following Implementation of the Share Scheme, Alinta will become a wholly owned subsidiary of the Bidder and an application will be made for Alinta to be delisted from ASX. Alinta Optionholders who exercise their Alinta Options at this time would receive shares in an unlisted company.

The Bidder will be entitled to compulsorily acquire all outstanding Alinta Options (and any Alinta Shares issued on exercise of any outstanding Alinta Options) in accordance with Chapter 6A of the Corporations Act. If this circumstance arises it is the Bidder's current intention to exercise that right.

The Bidder will be obliged to engage an independent expert approved by ASIC to give its opinion whether the price which the Bidder offers to Alinta Optionholders for the acquisition of any outstanding Alinta Options is a fair value. Alinta Optionholders will be sent a copy of the expert's report together with the offer from the Bidder to acquire the Alinta Options. Alinta Optionholders who receive Alinta Shares on exercise of their Alinta Options will also be sent a copy of an independent expert's report stating the expert's opinion whether the price offered for the acquisition of outstanding Alinta Shares is a fair value.

Alinta Optionholders also have the right to require the Bidder to acquire their Alinta Options on terms agreed between them and the Bidder, or on terms determined by the Court on the application of an Alinta Optionholder.

If Alinta Optionholders who together hold at least 10% of Alinta Options covered by a compulsory acquisition notice issued by the Bidder object to the acquisition (within the objection period set out in the compulsory acquisition notice, which must be at least one month), the Bidder may apply to the Court for approval of its acquisition of the outstanding Alinta Options. The Bidder will bear the costs that a person incurs on legal proceedings in relation to the application unless the Court is satisfied that the objection was improper, vexatious or otherwise unreasonable. The Court will only approve the acquisition if the price offered for the Alinta Options is a fair value.

There is no guarantee that the price offered to Alinta Optionholders for the compulsory acquisition of their Alinta Options will be better than the Option Scheme Consideration, but Alinta Optionholders should be aware that this is possible.

## 15.5 Alinta officers

### (a) Marketable Securities held by or on behalf of Alinta Directors

The number, description and amount of Alinta Shares and Alinta Options held by or on behalf of each Alinta Director as at 27 June 2007 are set out below. Other than as set out below, no Marketable Securities of Alinta are held by or on behalf of Alinta Directors as at 27 June 2007.

Figure 15.1: Marketable Securities held by or on behalf of Alinta Directors

Name of Alinta Director	Number of Alinta ordinary Shares held	Number of Alinta Shares held under the DESP	Number of Alinta Options held
J H (John) Akehurst	25,000	Nil	Nil
F E (Fiona) Harris	8,068	10,783	Nil
T R (Tina) McMeckan	7,189	9,679	Nil
M J (Michael) Wilkins	5,000	1,981	Nil

The Alinta Directors consider that the Scheme Proposal is in the best interests of Alinta and Alinta Securityholders and each Alinta Director intends to vote in favour of the Scheme Proposal in respect of the Alinta Shares that they hold, in the absence of a superior proposal and subject to the Independent Expert continuing to conclude that the Scheme Proposal is in the best interests of the Alinta Securityholders.

The effect of the Scheme Proposal on the Alinta Shares and Alinta Options held by Alinta Directors is the same as the Scheme Proposal's effect on the like interests of all other Alinta Securityholders.

No Marketable Securities of the Bidder are held by or on behalf of any Alinta Director and no Alinta Director has acquired or disposed of a relevant interest in any securities issued by the Bidder in the four month period immediately preceding the date of this Booklet.

The numbers, description and amount of B&B Shares, BBI Stapled Securities, BBP Stapled Securities, BBW Stapled Securities and SP AusNet Shares held by or on behalf of each Alinta Director as at 27 June 2007 is set out below. Other than as set out below, no Marketable Securities of B&B, the B&B Funds, BBI EPS Issuer or SP AusNet are held by or on behalf of Alinta Directors as at 27 June 2007.

Figure 15.2: B&B Shares, BBI Stapled Securities, BBP Stapled Securities, BBW Stapled Securities and SP AusNet Shares held by or on behalf of each Alinta Director

Name of Alinta Director	Number of B&B Shares held	Number of BBI Stapled Securities held	Number of BBP Stapled Securities held	Number of BBW Stapled Securities held	Number of SP AusNet Shares held
J H (John) Akehurst	Nil	Nil	Nil	Nil	Nil
F E (Fiona) Harris	Nil	Nil	Nil	Nil	Nil
T R (Tina) McMeckan	900	12,158	Nil	35,310	Nil
M J (Michael) Wilkins	Nil	Nil	Nil	Nil	Nil

### (b) Payments or other benefits to Alinta Directors, secretaries and executive officers

No Alinta Directors, secretaries or executive officers of Alinta (or any of its related bodies corporate) will receive any payment or other benefit through the Scheme Proposal as compensation for loss of, or as consideration for or in connection with his or her retirement from office in Alinta or any of its related bodies corporate.

Except as set out below or disclosed elsewhere in this Booklet, no Alinta Directors, secretaries or executive officers of Alinta (or any of its related bodies corporate) will receive any payment or other benefit through the Scheme Proposal other than:

- (i) any allocation of Consideration to which they are entitled as an Alinta Shareholder or Alinta Optionholder on equivalent terms to all Scheme Participants; and
- (ii) in relation to the treatment of any Alinta Shares allocated to them under the DESP, as set out in section 15.2(b).

In addition, based on past practice, certain non-executive directors of Alinta may receive a payment (in addition to their annual directors' fees) on Implementation of the Scheme Proposal for additional services rendered by them as members of the committee appointed by the Alinta Board in connection with the Scheme Proposal.

After taking advice from external remuneration consultants Godfrey Remuneration Group, the Board has resolved to pay special exertion benefits of \$821,688 in aggregate to the Alinta Directors to reflect the significant volume of additional work undertaken by them following the MBO Proposal, including work relating to the Alinta Internal Restructure, the Macquarie Bank Consortium Proposal, the Macquarie Bank Consortium Revised Proposal and, ultimately, the Scheme Proposal. From 9 January 2007 to the date of this Booklet, that additional work included 59 Board sub-committee meetings, 21 additional Board meetings and ten due diligence committee meetings. The Alinta Directors' entitlement to the special exertion benefits is not contingent on the Scheme Proposal proceeding.

Alinta has agreed that a limited number of non-director senior executives of the Alinta Group critical to the business will be eligible to receive retention bonus payments as an incentive for remaining with the Alinta Group during an unsettling period, and working hard to support the business during a period of intense corporate activity. The agreement to make this payment was not specific to the Scheme proceeding; it could also have been triggered by an alternative corporate transaction occurring. Half of the bonus payment will be made on Implementation, with the balance generally to be paid three months after Implementation. The aggregate amount of such bonus payments will be approximately \$5.5 million.

In addition, earlier this year certain non-director senior executives of Alinta who were eligible to participate in the 2007 offering under the Alinta Executive Option Plan were offered a cash incentive payment in lieu of participation in that plan. Awards of options under the Alinta Executive Option Plan (and its predecessor plan) have typically been made in March of each year to provide a long-term incentive for senior Alinta Group employees. This year, cash incentives were offered instead of participation in the Alinta Executive Option Plan as it was recognised at the time of the grant that the Alinta Executive Option Plan might terminate and that the Alinta Options might be cancelled or acquired as a result of the Scheme Proposal. The aggregate amount of such incentive payments will be approximately \$6.5 million, depending on the ultimate value of the purchase consideration of the proposal. Payment of these incentives will be made upon Implementation. The cash incentive alternative will be based on the difference between the Alinta share price VWAP for the five days prior to 7 March (\$14.4413) and the value of the Option Scheme Consideration multiplied by the number of Alinta Options that would otherwise have been issued in the normal course.

### (c) No agreements or arrangements with Alinta Directors in connection with the Scheme Proposal

Other than:

- (i) the arrangements set out in section 15.2(b) in relation to the DESP; and
- (ii) the possible payments to certain non-executive directors of Alinta referred to in section 15.5(b),

there are no other agreements or arrangements made between an Alinta Director and any other person in connection with, or conditional on, the outcome of the Scheme Proposal and no Alinta Director has any interest in any contract entered into by any Consortium Party.

### 15.6 Material changes to the financial position of Alinta

To the knowledge of the Alinta Directors, and except as disclosed elsewhere in this Booklet, the financial position of Alinta has not materially changed since the date of the last balance sheet sent to Alinta Shareholders (being 31 December 2006) other than as disclosed to ASX.

### 15.7 Outline of financing of Consideration

#### (a) Share Scheme Consideration and APA Distribution split

**Figure 15.3: Share Scheme Consideration and APA Distribution split based on the five Business Day VWAPs to 27 June 2007**

	Equity Contribution <sup>1</sup>
Cash Component	\$4.5 billion
Securities Component – BBI Stapled Securities and BBI EPS	\$1.5 billion
Securities Component – BBP Stapled Securities	\$1.2 billion
Securities Component – BBW Stapled Securities	\$0.2 billion
APA Distribution Component	\$0.6 billion
<b>Total</b>	<b>\$8.0 billion</b>

Note to Figure 15.3:

<sup>1</sup> These contributions assume that all Alinta Options are exercised by the Record Date. If some of the Alinta Options remain unexercised and on issue at the Record Date, then part of the cash component described above which is not required to pay the Share Scheme Consideration may be used to fund the Option Scheme Consideration (assuming the Option Scheme becomes Effective). B&B Fund Securities may also be issued to fund the B&B Funds' share of the Option Scheme Consideration and this may occur as part of the bookbuild or other sale process undertaken by the Nominee as described in section 13.2(k).

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**(b) Singapore Power International's equity funding**

SPI has confirmed availability of funding for its share of the equity contribution requirements of the Scheme Proposal. This commitment was approved by the SPI board on 23 March 2007.

SPI is able to fund its equity commitment using a combination of the following sources of funds:

- > internal cash resources; and
- > corporate debt facilities.

**(i) Internal cash resources**

SPI's parent, SP, has the benefit of a strong balance sheet. Headquartered in Singapore, rated AA by Standard & Poor's and Aa1 by Moody's Investors Services, SP is one of the largest companies in Singapore. For the financial year ended 31 March 2006, SP and its subsidiaries reported a revenue of S\$4.8 billion, net profit after tax of S\$1.3 billion, total assets of S\$18.7 billion and cash and cash equivalents of S\$1.8 billion.

**(ii) Corporate debt facilities**

In addition, SP has secured credit-approved debt commitments from major banks and financial institutions (the **Finance Parties**) to finance SPI's share of the acquisition enterprise value for the Scheme Proposal.

Guaranteed by SP, the facilities will be provided to a subsidiary of SP (**SP Borrower**) for this transaction. The debt facilities will be available for drawing with three business days' notice, upon execution of facility documentation.

To maximise funding certainty, the conditions precedent to the debt facilities have been negotiated such that they are limited in number, including, in addition to conditions which are also conditions of the Share Scheme or mechanical or administrative conditions within the control of SP or SP Borrower, execution of facility documentation, customary corporate authorisations and opinions, no material misrepresentation in relation to matters within the control of the SP Borrower or SP and no material breach of the facility documentation by SP or SP Borrower.

**(c) Historical B&B Funds' Securities prices****Figure 15.4: Historical B&B Funds' Securities prices**

Date	BBI Stapled Security price	BBP Stapled Security price	BBW Stapled Security price
Closing price on 2 July 2007 (being the business day prior to this Booklet being lodged for registration with ASIC)	\$1.73	\$3.41	\$1.97
Highest recorded sale price in the three months to 2 July 2007, and the date on which it occurred	\$2.03 (22 May 2007)	\$3.80 (24 May 2007)	\$2.07 (17 May 2007)
Lowest recorded sale price in the three months to 2 July 2007, and the date on which it occurred	\$1.70 (25 June 2007)	\$2.85 (3 April 2007)	\$1.78 (23 April 2007)
Closing price on 29 March 2007 (being the business day prior to Alinta's announcement of the Original Scheme Proposal)	\$1.83	\$2.88	\$1.76

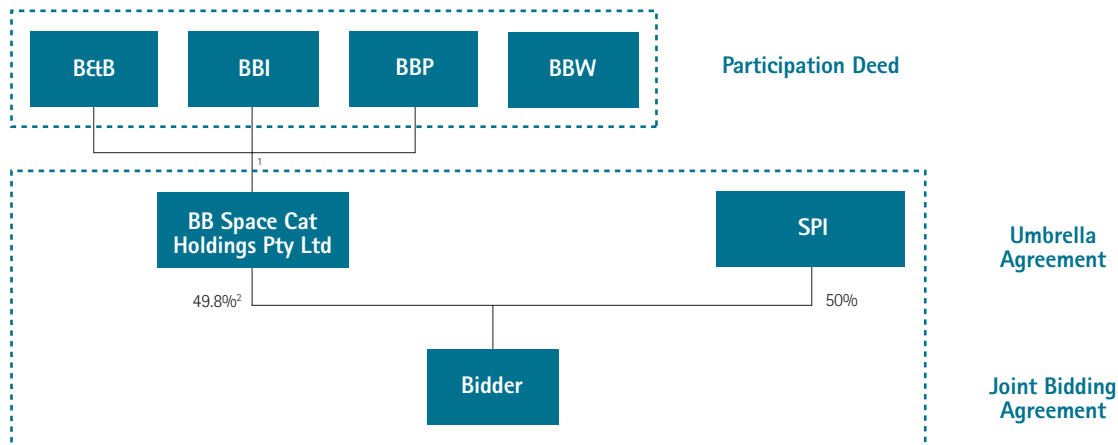
## 15.8 Details of Consortium

Arrangements between the Consortium Parties have been formalised through a number of agreements that have set out a clear and agreed commercial basis for the Consortium Parties in relation to the Post-Implementation Transactions. These agreements include:

- > the Joint Bidding Agreement between SPI, BB SPV and the Bidder;
  - > the Umbrella Agreement between BB SPV, SPI, B&B and the Bidder; and
  - > the Participation Deed between BBIL, BBPL and BBWPL, their respective special purpose subsidiaries, B&B and BB SPV.
- Further details in respect of these agreements are set out in section 15.12.

The Bidder has been incorporated by the Consortium for the purpose of the Scheme Proposal. Shareholders in the Bidder are SPI and BB SPV, which is owned by wholly owned subsidiaries of B&B, BBI and BBP. This ownership and contractual structure is set out diagrammatically in Figure 15.5 in a simplified manner.

**Figure 15.5: Consortium structure**



Notes to Figure 15.5:

- 1 Indirect.
- 2 One share in Bidder (0.2%) is held by a subsidiary of B&B.

The final form of the Consortium structure was designed to:

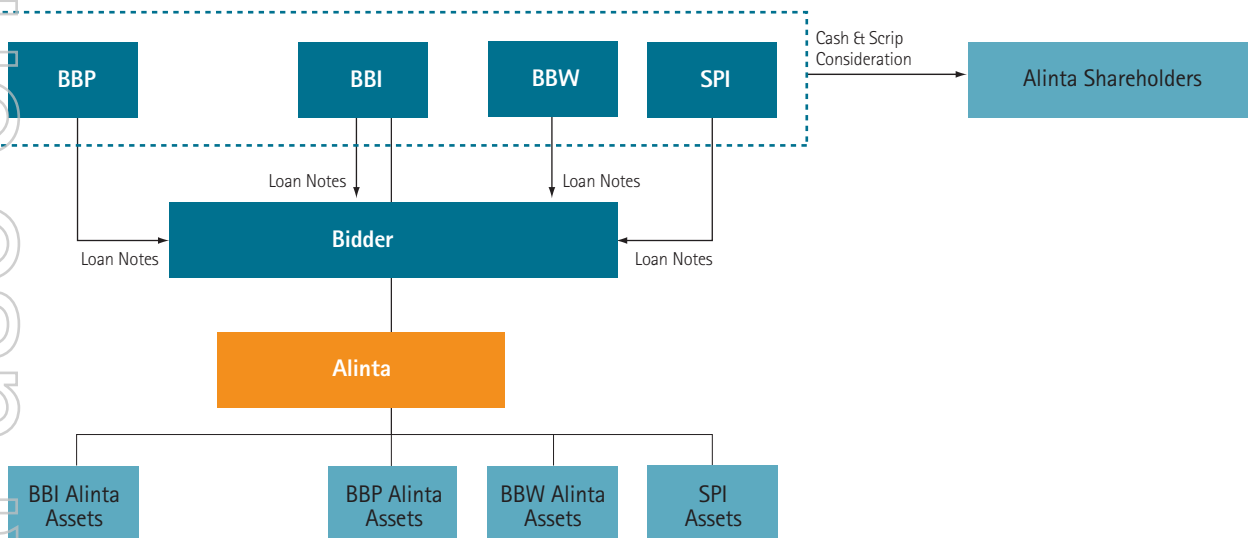
- > maximise value to Alinta Securityholders;
- > maximise certainty of funding; and
- > minimise regulatory risk.

Subsequent to the Scheme Proposal being Implemented, the Consortium Parties will undertake a corporate restructure of the existing Alinta Group to give effect to their commercial arrangements.

The following steps will occur upon the Share Scheme becoming Effective:

- > Alinta will distribute APA Securities to Alinta Shareholders by way of a dividend and return of capital. The dividend component of this distribution is expected to be franked as detailed in the Independent Tax Opinion in section 14.2. This will also be confirmed through a Class Ruling to be obtained from the ATO.
- > BBI (or its affiliated entities) will acquire all the shares held by BBPL and B&B (or their respective affiliated entities) in BB SPV for \$1.00 per share and BB SPV will acquire all of the shares in the Bidder held by SPI.
- > The Bidder will be capitalised by a combination of loan notes, described in section 15.10, and equity instruments. Funding for substantially all of the Scheme Consideration will be represented by the loan notes. Figure 15.5 depicts this arrangement in a simplified manner.

Figure 15.6: Capitalisation of the Bidder



### 15.9 Immediately after Implementation of the Share Scheme

Immediately after Implementation of the Share Scheme, the Bidder will become the holder of all of the Alinta Shares, with other Consortium Parties having contractual rights to have their respective allocated Alinta Assets transferred to them or, where this is not immediately possible, the right to manage and responsibility for such Alinta Assets.

Following Implementation, the Bidder will be in a position to execute a restructure of Alinta, including the Post-Implementation Transactions. Each Post-Implementation Transaction will occur subject to any third party consent issues subsisting at the time of Implementation, and any transitional arrangements required to facilitate operational and head office separation.

### 15.10 Description of loan notes

Loan notes will be issued by the Bidder to subsidiaries of BBIL, BBW, BBPL and a subsidiary of SPI (each a holder of one or more loan notes). The subscription amount payable by each holder of a loan note will be the enterprise value of the relevant Alinta Asset(s) to be acquired by that holder, net of debt which the parties agree will be retained and allocated to the relevant Alinta Asset. Interest may be charged on each loan note.

Each holder of a loan note will have the exclusive right and responsibility to manage the Alinta Asset allocated to the holder of the loan note until such time as the business is transferred to it. The transfer of the relevant Alinta Asset to the holder of the loan note will effect the redemption of that loan note.

### 15.11 Material contracts – Amended and Restated Scheme Implementation Agreement (SIA)

The SIA is a material contract. See section 13.6(a) for a summary of this agreement.

### 15.12 Material contracts – Consortium arrangements

#### (a) Joint Bidding Agreement

SPI entered into a Joint Bidding Agreement with BB SPV and the Bidder on 23 March 2007 to establish the basis on which the Scheme Proposal will be undertaken by the parties.

#### (i) Bidder

The current and anticipated shareholding structure of the Bidder is set out in section 15.8.

BB SPV and SPI have each appointed three directors to the board of the Bidder.

#### (ii) Standstill

Each party has agreed not to acquire or sell Alinta securities or vote any Alinta securities at a general or extraordinary general meeting of holders of Alinta securities without the other party's approval.

A Consortium Committee comprising three officers of each of SPI and BB SPV facilitates the evaluation, preparation and finalisation of the Schemes.

BB SPV's right to appoint three directors to the board of the Bidder and three nominees to the Consortium Committee has been split between BBI, BBP and B&B under the Participation Deed.

**(iii) Proposal**

Each party must execute all documents and do all acts and things necessary for the Implementation and performance of the Schemes.

The parties must prepare and provide all information relating to them which is required to be included in this Booklet. A party who provides such information is responsible for such information.

**(iv) Funding**

B&B and SPI will be severally responsible for the total Scheme Consideration payable by the Bidder under the Schemes, in proportion to their respective Participating Percentage, including any additional funding required at the Implementation Date pursuant to the terms of the Umbrella Agreement.

**(v) Conduct of the Alinta Group**

From the Implementation Date until completion of the last of the separation transactions to be effected in accordance with the Umbrella Agreement:

- > The Alinta Board will comprise three BB SPV nominees and three SPI nominees (with all resolutions of the Alinta Board requiring unanimous resolution) until more than 75% in terms of total enterprise value of the Alinta Assets allocated to SPI has been transferred to SPI or its nominees. Immediately following this, the three SPI nominees will resign as directors of Alinta.
- > The Bidder will only pass resolutions as Alinta's sole shareholder in accordance with the instructions of the Consortium Committee.
- > All decisions concerning the Alinta Assets allocated to SPI or BB SPV (respectively) are to be referred to SPI or BB SPV (respectively) for prior written approval.

From the Implementation Date until completion of the separation of the relevant Alinta Assets allocated to SPI or BB SPV, the board of directors of any entity that is within an Alinta Asset allocated to SPI will only comprise nominees of SPI and any entity that is within an Alinta Asset allocated to BB SPV will only comprise nominees of BB SPV.

Between the Implementation Date and completion of the last separation transaction relating to an Alinta Asset allocated to SPI, except as otherwise required, the Bidder must not, without the prior written approval of the Consortium Committee, take certain actions, sell or encumber any assets used in the conduct of an Alinta Asset allocated to SPI and/or incur any obligations or liabilities which may need to be performed or satisfied by an Alinta Asset allocated to SPI.

**(vi) Termination**

The Joint Bidding Agreement will terminate automatically on the day that the shareholders of Alinta vote not to approve the Share Scheme or the relevant Court refuses to approve the Share Scheme.

If Alinta does not put the Share Scheme to the Alinta Shareholders or the Share Scheme's terms and conditions are not satisfied or waived by the parties, and no agreement has been reached as to amendments to the Schemes or an alternative transaction structure, then either SPI or BB SPV may terminate the Joint Bidding Agreement.

If a third party announces an intention to make a takeover offer or proposes a scheme of arrangement or other Competing Proposal, and no agreement has been reached between SPI and BB SPV on amendments to be made to the terms of the Scheme or to proceed with an alternative transaction structure, then either SPI or BB SPV may terminate the Joint Bidding Agreement after the SIA has been terminated.

SPI may terminate the Joint Bidding Agreement if BB SPV or B&B is in material unremedied breach of the Joint Bidding Agreement or the Umbrella Agreement and BB SPV may terminate the Joint Bidding Agreement if SPI is in material unremedied breach of either the Joint Bidding Agreement or the Umbrella Agreement.

Neither SPI nor BB SPV may terminate the Joint Bidding Agreement if the Bidder is in material breach of either the Joint Bidding Agreement or the Umbrella Agreement.

**(b) Umbrella Agreement**

SPI, BB SPV, B&B and the Bidder entered into an Umbrella Agreement on 23 March 2007 to address transitional, commercial and legal issues arising in connection with the legal and economic separation of the Alinta Group after the Implementation Date. B&B has guaranteed to SPI the performance of BB SPV's obligations under the Umbrella Agreement and the Joint Bidding Agreement.

**(i) Purpose and objectives**

The general objective of the Umbrella Agreement is that each party will nominate parties to acquire the Alinta Assets designated to them for the agreed values, on a basis which is relative to each party's contribution to the Scheme Consideration. Business-specific liabilities are to be met by the party to whom the Alinta Asset has been allocated, and any residual assets or liabilities will be shared in accordance with their respective Participating Percentage: 65.2% SPI and 34.8% BB SPV.

An Implementation committee comprising three officers of each of BB SPV and SPI is to facilitate the day-to-day management of the separation of the Alinta Group into the BBP Alinta Assets, BBI Alinta Assets, BBI Alinta Assets and SPI businesses. Any matter before the Implementation committee may be referred to the Consortium Committee for approval.

**(ii) Business transfers**

The parties have agreed to allocate the Alinta Assets between them as set out in section 1.1.

Each party has severally agreed to contribute funds to the Bidder (and in the case of B&B, procure the provision of B&B Fund Securities and BBI EPS consideration) to satisfy the Scheme Consideration and provide for the retirement of certain components of Alinta's corporate debt as required. Responsibility for Alinta's corporate debt has been allocated among the parties in an agreed manner. The party to whom Alinta's corporate debt has been allocated must either take on that debt in conjunction with acquiring the relevant Alinta Assets or arrange for the refinancing of that debt.

**(iii) Group restructure**

The restructure of the Alinta Group and the separation of the Alinta Assets allocated to SPI and the Alinta Assets allocated to BB SPV will be achieved in accordance with a restructure plan agreed by the parties. Bidder will become a consolidated group and all the members of the Bidder consolidated group will enter into a tax sharing agreement and tax funding agreement on terms acceptable to them.

The parties must use their best endeavours to obtain informal clearance from the ACCC in relation to the Scheme Proposal and the transfers of the Alinta Assets. If there are insurmountable regulatory issues affecting a particular Alinta Asset and the relevant party has given an undertaking to the ACCC to dispose of that business in order to address those regulatory issues, then, provided that it is acceptable to the ACCC:

- if the relevant party is BB SPV, it shall grant SPI or its nominee; or
- if the relevant party is SPI, SPI shall grant BB SPV or its nominee,

a last right of refusal to acquire the business in question on terms and conditions no less favourable than those offered to (or by) any third party.

In circumstances where it is not possible to novate or assign a contract for the provision of services which is required to give effect to the restructure of the Alinta Group, the relevant party will seek to convey the economic benefit of, and responsibility for, the contract from the party with the contract (principal) to the party to which it was intended to be novated or assigned (subcontractor). The subcontractor will indemnify the principal against all claims, damages, demands or losses incurred by the principal in providing the services.

To the extent that any Alinta entity owned by BB SPV or SPI has given any guarantee or undertaking in relation to any liability of an Alinta Asset other than a business allocated to SPI or BB SPV respectively, B&B or SPI (as applicable) must use its best endeavours to procure the release of the guarantor from that guarantee or undertaking and indemnify the guarantor in relation to any liability incurred by the guarantor under or in connection

with the guarantee.

Liabilities which relate specifically to a particular business are to be met by the party to whom the Alinta Asset has been allocated. Transaction costs and liabilities which do not relate to a particular business are shared in accordance with the Participating Percentages. A funding mechanism has been agreed which provides for all such costs and liabilities, which are expected to be paid within one month of the Implementation Date, to be funded at that date and for monthly calls to be made thereafter, secured by rolling letters of credit of \$10 million from each party, which expires twelve months after the Implementation Date.

A "wrong pockets" clause provides for the parties to use best endeavours to identify within six months of Implementation any assets, contracts or liabilities that were not transferred to the relevant Consortium Party and to procure such a transfer.

The employment of all Alinta employees whose employment relates solely or predominantly to a particular Alinta Asset are proposed to be employed by the purchaser of that business. Those Alinta employees whose employment does not relate solely or predominantly to a particular Alinta Asset will be considered by the parties with a view to resolving which party should engage those employees. Redundancy payments in respect of any such employees shall be shared according to the Participating Percentages.

**(iv) Separation arrangements**

All shared infrastructure will be transferred with the Alinta Asset that is the predominant user of that infrastructure as at the Implementation Date, but the transferee must make that infrastructure available to each other Alinta Asset which currently uses it for 12 months (with an option to extend for a further six months). The user must, with the cooperation of the service provider, use reasonable endeavours to establish its own capability in respect of the service as soon as reasonably practicable.

The Implementation committee will develop an operation separation plan which will address the manner in which items of shared infrastructure are to be transferred to a particular Alinta Asset and the manner in which users are to be provided with ongoing or transitional access to shared infrastructure.

The parties will put in place any contracts required to address ongoing commercial relationships between them in respect of the assets acquired in good faith. The fees charged for any shared infrastructure will be specified in any such contracts and shall reflect the actual costs incurred by the service provider in providing the service, including an appropriate allocation of overheads but excluding any profit margin.

**(c) Participation Deed**

The Joint Bidding Agreement and Umbrella Agreement provide for the allocation of certain Alinta Assets, liabilities, debt and responsibilities as between BB SPV and SPI. BB SPV's obligations under those agreements are guaranteed by BBIPL.

The subsequent split of the Alinta Assets and liabilities allocated to BB SPV between each of the B&B Funds and B&B is addressed in the Participation Deed, which was entered into by BBIPL, BBIL, BBPL, a subsidiary of each of them, BBWPL and BB SPV on 16 April 2007. The Participation Deed provides for the following:

- > A subsidiary of BBIL to acquire all the shares in BB SPV when the Share Scheme becomes Effective (see above).
- > One nominee of each of BBP, B&B and BBI to act as a director of both BB SPV and the Bidder, and to serve on the Consortium Committee.
- > The split of the Alinta Assets and debt allocated to BB SPV under the Umbrella Agreement as between each of B&B, BBI, BBP and BBW. The allocation is reflected in this Booklet (including the allocation of Alinta's debt, which is reflected in the pro forma financial information for each of the B&B Funds in this Booklet). Where an Alinta Asset is allocated to B&B or a B&B Fund under the Participation Deed, liabilities that relate solely to that Alinta Asset are the responsibility of that party.
- > Decision-making in relation to particular Alinta Assets. Where an Alinta Asset has been allocated to BB SPV under the Umbrella Agreement and in turn to B&B or a B&B Fund under the Participation Deed, decisions in relation to that Alinta Asset are generally to be made in accordance with the wishes of either B&B or that B&B Fund (as the case may be). This is consistent with the structure of the loan notes, under which the holder of a loan note in relation to an Alinta Asset (being the designated purchaser of that Alinta Asset) is responsible for controlling that Alinta Asset.
- > Each of B&B and the B&B Funds (or their subsidiaries) to satisfy BB SPV's funding obligations under the Joint Bidding Agreement and Umbrella Agreement in respect of the Schemes. These funding obligations relate principally to the payment of cash by B&B and the issue of securities by each of the B&B Funds under the Schemes, and in the case of the B&B Funds are reflected in the pro forma financial information and capital structure information for the B&B Funds in this Booklet.
- > The allocation of BB SPV's responsibility for transaction costs and unallocated liabilities between B&B, BBI and BBP. Generally, these liabilities and costs are to be allocated in proportion to the values of the Alinta Assets being acquired by each of B&B, BBI and BBP.

**15.13 Consortium acquisitions in the last four months and benefits**

Except as disclosed elsewhere in this Booklet, during the four month period immediately preceding the date of this Booklet, none of the Bidder, SPI, B&B or the B&B Funds or any associate of them:

- (a) has provided, or agreed to provide, consideration for an Alinta Share or Alinta Option under a purchase agreement; or
- (b) has given or offered to give a benefit to another person where the benefit was likely to induce the other person or an associate to vote in favour of the Scheme Proposal or dispose of Alinta Shares or Alinta Options.

**15.14 Quotation of B&B Fund Securities and BBI EPS on ASX**

The BBI Stapled Securities, BBP Stapled Securities and BBW Stapled Securities are quoted on ASX.

Applications will be made by each of BBI, BBP and BBW to ASX for official quotation of the stapled securities to be issued as Share Scheme Consideration.

The BBI EPS Issuer will apply to be admitted to the official list of ASX and for the quotation of the BBI EPS on ASX.

**15.15 Ineligible Overseas Shareholders**

Neither this Booklet nor the Share Scheme constitutes, or is intended to constitute, an offer of securities in any place in which, or to any person to whom, the making of such an offer would not be lawful under the laws of any jurisdiction outside Australia and its external territories and shall not form the basis of any contract. The treatment of Ineligible Overseas Shareholders is dealt with in section 13.2(j).

**15.16 ASIC relief****(a) BBI EPS**

BBI has applied to ASIC for:

- (i) a modification of sections 707(3) and (4) and sections 1012C(6) and (7) of the Corporations Act in relation to the onsale of BBI Stapled Securities issued on the conversion of BBI EPS; and
- (ii) an exemption from sections 1012B and 1016A(2) of the Corporations Act so that BBI is not required to provide a product disclosure statement in relation to the issue of BBI Stapled Securities issued on conversion of BBI EPS and to enable BBI Stapled Securities to be issued on conversion without BBI receiving an application form.

**(b) Cash Out Facility**

B&B has applied to ASIC for the following exemptions from and modifications to the Corporations Act to facilitate the Cash Out Facility:

- (i) Chapter 5C and Part 7.9 to the extent that the Cash Out Facility may be a managed investment scheme; and
- (ii) Chapters 6 and 6C to the extent that the sale agent, B&B, Alinta or their associates may contravene the takeover provisions by acquiring a relevant interest in B&B Fund Securities, BBI EPS or APA Securities and so the sale agent, B&B, Alinta or their associates do not have to lodge substantial holder notices.

**(c) Disclosure to Alinta Optionholders**

ASIC has granted relief to permit Alinta to send this Booklet to Alinta Optionholders, although in relation to the Option Scheme it does not set out all the requirements of Part 2 of Schedule 8 to the Corporations Regulations.

**(d) Disclosure of Alinta Optionholders' names required by the Share Scheme**

ASIC has granted relief to permit Alinta to omit from the Booklet the name of each Alinta Optionholder at the Record Date as a creditor of Alinta as required by paragraph 8201(c) of Part 2 of Schedule 8 to the Corporations Regulations.

**15.17 ASX waivers****(a) Listing Rules 10.1 and 11.1**

ASX has provided the following confirmations and waivers in relation to the Scheme Proposal:

- (i) waivers from Listing Rule 10.1 to permit acquisitions or disposals of a substantial asset by B&B, BBI, BBW and BBP (or any of their child entities) to or from the Bidder and/or the Alinta Group, without having to seek securityholder approval; and
- (ii) confirmation that Listing Rule 11.1 does not apply to the Scheme Proposal.

**(b) Listing Rule 6.23.2**

ASX has granted a waiver of ASX Listing Rule 6.23.2 to allow the Alinta Options to be cancelled without Alinta Shareholder approval. The waiver is subject to the following conditions:

- (i) Alinta Shareholders and the Court approve the Share Scheme;
- (ii) Alinta Optionholders and the Court approve the Option Scheme; and
- (iii) full details of the cancellation of the Alinta Options are set out to ASX's satisfaction in the Booklet.

**(c) Listing Rule 7.40**

ASX has indicated that it will grant a waiver of Listing Rule 7.40 to allow the timetable for the Capital Reduction and the Share Scheme not to comply with Appendix 7A of the Listing Rule.

**(d) Listing of BBI EPS Issuer and quotation of BBI EPS**

BBI EPS Issuer has sought an in-principle confirmation from ASX that it will classify BBI EPS as "debt securities" for the purposes of Listing Rule 1.8 Condition 1, and accordingly that it is prepared to grant BBI EPS Issuer as ASX Debt Listing.

**(e) Waivers and confirmations for BBI EPS Issuer**

On the basis that BBI EPS Issuer requires a Debt Listing subject to compliance with Listing Rules 1.1 conditions 1, 1A, 2, 6 (on the basis BBI EPS are treated as the main class of securities of BBI EPS Issuer), 7, 12 and 14, and Listing Rules 3.1A and 3.1B, and Chapter 6 (as has been volunteered in the application to ASX), BBI EPS Issuer has sought from ASX:

- (i) confirmation that BBI EPS Issuer's structure and operations are appropriate for a listed entity for the purposes of Listing Rule 1.1 Condition 1;
- (ii) confirmation that BBI EPS Issuer's constitution need only comply with the Listing Rules to the extent that they are not waived by ASX for the purposes of Listing Rule 1.1 condition 2;
- (iii) confirmation that the BBI EPS Terms are appropriate and equitable for the purposes of Listing Rule 6.1;
- (iv) confirmation that the dividends to which BBI EPS Holders will be entitled will be at a "commercial rate" for the purpose of Listing Rule 6.5;
- (v) waiver of Listing Rule 6.7 to the extent necessary to not require BBI EPS Issuer to send notices for an annual general meeting to BBI EPS Holders where no resolutions are to be considered at the meeting on which they will have a right to vote;
- (vi) confirmation that a change in the distribution rate or the frequency and timing of the payment of dividends in relation to the BBI EPS as contemplated by the reset process set out in the BBI EPS Terms is not a change to BBI EPS Holder's rights to receive distributions for the purposes of Listing Rule 6.10; and
- (vii) confirmation that the conversion and redemption arrangements in relation to the BBI EPS do not constitute a divestment of the BBI EPS for the purposes of Listing Rule 6.12.

**(f) Waivers and confirmation for BBI in relation to BBI EPS**

BBI has sought:

- (i) confirmation from ASX that it considers that the issue of BBI EPS from the perspective of BBI will be within exception 5 in Listing Rule 7.2 as an issue under a merger by way of scheme of arrangement under Part 5.1 of the Corporations Act, and that any issue of BBI Stapled Securities on conversion of BBI EPS will be within exception 4 in Listing Rule 7.2 as an issue on the conversion of convertible securities issued in compliance with the Listing Rules.
- (ii) a waiver of Listing Rule 10.11 to permit the issue of BBI Stapled Securities on exchange of the BBI EPS in accordance with the BBI EPS Terms to BBI EPS Holders that are related parties of BBI at the relevant time, without the approval of existing BBI Stapled Securityholders.

**15.18 Effect on Alinta creditors**

Alinta has paid and is paying all its creditors within normal terms

of trade and is solvent and is trading in an ordinary commercial manner. The Schemes will not adversely affect the interests of Alinta's creditors. The Scheme Proposal includes the Capital Reduction. Alinta believes that the Capital Reduction will not materially prejudice its ability to pay its creditors. The Independent Expert has expressed the view that the Capital Reduction is fair and reasonable to Alinta Shareholders as a whole and does not materially prejudice Alinta's ability to pay its creditors.

### 15.19 Right to inspect and obtain copy of Alinta Option Register

In accordance with the Corporations Act, any Alinta Optionholder has the right to inspect the register of Alinta Optionholders, which contains details of the name and address of all Alinta Optionholders and the terms of the Alinta Options.

A copy of the register of Alinta Options will be made available to Alinta Optionholders upon request. A small fee may be charged by Alinta for copies.

### 15.20 Removal of Alinta from the official list

Following Implementation of the Share Scheme, application will be made to ASX for removal of Alinta from the official list of ASX.

### 15.21 Consents and disclaimers of responsibility

#### (a) Consent to be named

The following parties have given and have not, before the time of registration of this Booklet by ASIC, withdrawn their written consent to be named in this Booklet in the form and context in which they are named:

- (i) Blake Dawson Waldron as legal adviser to Alinta;
- (ii) Carnegie, Wylie & Company Pty Ltd as financial adviser to Alinta;
- (iii) JP Morgan Australia Limited as financial adviser to Alinta;
- (iv) Bidder, in respect of the Bidder Information only;
- (v) Freehills as legal adviser to SPI, B&B, BBI, BBP and BBW;
- (vi) Chang, Pistilli & Simmons as legal adviser to B&B;
- (vii) Ernst & Young as taxation adviser regarding the Share Scheme;
- (viii) Grant Samuel as the Independent Expert;
- (ix) PricewaterhouseCoopers Securities Limited as the Investigating Accountant for Alinta, BBI, BBP and BBW;
- (x) PricewaterhouseCoopers as auditor of BBP and BBW;
- (xi) PricewaterhouseCoopers as taxation adviser regarding the Option Scheme;
- (xii) Intelligent Energy Systems as market adviser to BBP;
- (xiii) Emerging Energy Research as market adviser to BBW;
- (xiv) Global Wind Energy Council as market adviser to BBW;
- (xv) Computershare as the Share Registry of Alinta;
- (xvi) KPMG as auditor of Alinta; and
- (xvii) Godfrey Remuneration Group as external remuneration consultant to Alinta.

Moody's Investors Services has not given its consent to be named in this Booklet. SP is publicly rated by Moody's. As at the date of this Booklet the senior unsecured rating of SP is Aa1 (under review for possible downgrade). Moody's has rated SP Aa1 since June 2005. BBI also is publicly rated by Moody's. As at the date of this Booklet, the credit rating of BBI's long term senior secured debt is Baa3 (under review for downgrade). Moody's has rated BBI's long term senior secured debt as Baa3 since February 2006. Moody's long-term senior debt rating is a current opinion of the future ability of an issuer to repay its long-term debt obligations. As the following table indicates, a long-term credit rating of Baa3 or above is considered to be investment grade.

Figure 15.7: Moody's rating System

Investment grade	Speculative grade
Aaa	Ba1
Aa1	Ba2
Aa2	Ba3
Aa3	B1
A1	B2
A2	B3
A3	Caa1
Baa1	Caa2
Baa2	Caa3
Baa3	Ca

Ratings are statements of opinion, not a statement of fact or recommendations to buy, sell or hold any securities or financial products. Ratings may be changed, withdrawn or suspended at any time.

#### (b) Consent to the inclusion of information

The following parties have given and have not, before the time of registration of this Booklet by ASIC, withdrawn their written consent to the inclusion of the following information in this Booklet in the form and context in which it is included and to all references in this Booklet to that information in the form and context in which they appear:

- (i) PricewaterhouseCoopers Securities Limited in respect of the inclusion of the Investigating Accountant's Reports;
- (ii) PricewaterhouseCoopers in respect of the inclusion of the tax opinion in section 14.3;
- (iii) Bidder, in respect of the inclusion of the Bidder Information only;
- (iv) BBI in respect of the BBI Information only;
- (v) BBP in respect of the BBP Information only;

- (vi) BBW in respect of the BBW Information only;
- (vii) SPI in respect of the SPI Information only;
- (viii) Ernst & Young in respect of the inclusion of the tax opinion in section 14.2; and
- (ix) Grant Samuel in respect of the inclusion of the Independent Expert's Report.

**(c) Disclaimers of responsibility**

Each person named in section 15.21(a) and (b):

- (i) has not authorised or caused the issue of this Booklet;
- (ii) does not make, or purport to make, any statement in this Booklet or any statement on which a statement in this Booklet is based other than, in the case of a person referred to in section 15.21, a statement included in this Booklet with the consent of that person; and
- (iii) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Booklet, other than a reference to its name and, in the case of a person referred to in section 15.21, any statement or report which has been included in this Booklet with the consent of that person.

**15.22 Disclosure of interests of certain persons**

Except as disclosed below or elsewhere in this Booklet, no:

- (a) Alinta Director;
- (b) director of the Bidder, SPI, the BBI EPS Issuer, BBI, BBP or BBW; or
- (c) person named in this Booklet as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Booklet,

holds at the date of this Booklet or held at any time during the last two years before lodgement of this Booklet with ASIC, any interest in:

- (a) the formation or promotion of the Bidder, BBI EPS Issuer, BBI, BBP or BBW;
- (b) the Schemes;
- (c) property acquired or proposed to be acquired by the Bidder, SPI, BBI EPS Issuer, BBI, BBP or BBW in connection with its formation or promotion of the Schemes; or
- (d) the B&B Fund Securities<sup>110</sup> or the Bidder,

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any Alinta Director or any director of the Bidder, SPI, the BBI EPS Issuer, BBI, BBP or BBW:

- (e) to induce him or her to become, or to qualify him or her as, a director; or
- (f) for services rendered by him or her in connection with the formation or promotion of the BBI EPS Issuer, BBI, BBP or BBW or the Schemes.

Directors of the BBI EPS Issuer, BBI, BBP and BBW are not required under their respective constitutions to hold any BBI EPS or B&B Fund Securities. As at the date of this Booklet, the following directors of the BBI EPS Issuer, BBI, BBP and BBW hold B&B Fund Securities or Alinta Shares<sup>110</sup> either directly or indirectly:

Note:

<sup>110</sup> The directors of each of the B&B Funds have only disclosed their interests in the B&B Funds of which they are a director.

Figure 15.8: BBI Directors and BBI EPS Issuer directors' interests

Name of BBI Director	Number of BBI Stapled Securities (prior to the Scheme)	Number of Alinta Shares	Voting intention in relation to the Share Scheme	Intended election in relation to the Share Scheme Consideration
Phillip Green	13,618,924	Nil	N/A	N/A
Peter Hofbauer	9,693,987	Nil	N/A	N/A
Hon Dr David Hamill	80,061	Nil	N/A	N/A
Leigh Hall	419,269	Nil	N/A	N/A
Barry Upson	98,167 10,000 BBI NZ SPARCS <sup>111</sup>	Nil	N/A	N/A

Figure 15.9: BBP Directors' interests

Name of BBP Director	Number of BBP Stapled Securities (prior to the Scheme)	Number of Alinta Shares	Voting intention in relation to the Share Scheme	Intended election in relation to the Share Scheme Consideration
Peter Hofbauer	1,238,383	Nil	N/A	N/A
Warren Murphy	931,162	Nil	N/A	N/A
John Fletcher	80,000	43,000	Vote in favour	Default Consideration
Len Gill	40,000	Nil	N/A	N/A
Peter Kinsey	16,000	Nil	N/A	N/A

Figure 15.10: BBW Directors' interests

Name of BBW Director	Number of BBW Stapled Securities (prior to the Scheme)	Number of Alinta Shares	Voting intention in relation to the Share Scheme	Intended election in relation to the Share Scheme Consideration
Peter Hofbauer	3,421,874	Nil	N/A	N/A
Warren Murphy	2,033,708	Nil	N/A	N/A
Nils Andersen	11,109	Nil	N/A	N/A
Anthony Battle	32,316	1,041	Vote in favour	Default Consideration
Douglas Clemson	140,000	Nil	N/A	N/A

## Note:

<sup>111</sup> BBI Networks (New Zealand) Limited, a wholly owned subsidiary of Babcock & Brown Infrastructure Limited ("Issuer"), has issued BBI NZ SPARCS, a convertible security listed on the NZX. In certain circumstances, BBI NZ SPARCS may be converted to BBI Stapled Securities. In the event that BBI NZ SPARCS are to be converted, the Issuer may determine, in its absolute discretion, whether the relevant BBI NZ SPARCS are to be exchanged for BBI Stapled Securities, redeemed for cash or exchanged and redeemed for a combination of BBI Stapled Securities and cash (with such combination to be determined at the Issuer's discretion). A summary of the terms and conditions of the conversion of BBI NZ SPARCS is set out in section 4.8 of the Prospectus and Investment Statement issued at the time the BBI NZ SPARCS were issued.

### 15.23 Disclosure of fees and benefits received by certain persons

The persons named in this Booklet as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Booklet are:

- (a) Blake Dawson Waldron as legal adviser to Alinta;
- (b) Carnegie, Wylie & Company Pty Ltd as financial adviser to Alinta;
- (c) JP Morgan as financial adviser to Alinta;
- (d) Freehills as legal adviser to SPI, B&B, BBI, BBP and BBW;
- (e) Chang, Pistilli & Simmons as legal adviser to B&B;
- (f) Ernst & Young as taxation adviser regarding the Share Scheme;
- (g) KPMG as auditor of Alinta;
- (h) PricewaterhouseCoopers Securities Limited as Investigating Accountant for Alinta, BBI, BBP and BBW;
- (i) PricewaterhouseCoopers as auditor of BBP and BBW;
- (j) PricewaterhouseCoopers as taxation adviser regarding the Option Scheme;
- (k) Intelligent Energy Systems as market adviser to BBP;
- (l) Emerging Energy Research as market adviser to BBW;
- (m) Global Wind Energy Council as market adviser to BBW;
- (n) Godfrey Remuneration Group as external remuneration consultant to Alinta;
- (o) Grant Samuel as the Independent Expert; and
- (p) Computershare as the Share Registry.

Each of them will be entitled to receive professional fees charged in accordance with their normal basis of charging. The fees received by PricewaterhouseCoopers Securities Limited as Investigating Accountant are discussed in the Financial Services Guides in the Investigating Accountant's Reports in Annexure F.

Phillip Green (a Director of BBI), Peter Hofbauer (a Director of BBI, BBP and BBW) and Warren Murphy (a Director of BBP and BBW) are executives of, and shareholders in, B&B and therefore may have an indirect interest in fees payable to B&B by each of BBI, BBP and BBW.

Peter Hofbauer and Warren Murphy had interests in the formation or promotion of BBP and BBW, as set out in sections 13.7 and 13.9 of the combined prospectus and product disclosure statement dated 26 September 2005 for the initial public offer of BBW and as set out in sections 13.10 and 13.12 of the combined prospectus and product disclosure statement dated 10 November 2006, for the initial public offer of BBP. The BBP and BBW combined prospectus and product disclosure statement for the initial public offer of BBP and BBW (as applicable) can be accessed at [www.bbpower.com](http://www.bbpower.com) and [www.bbwindpartners.com](http://www.bbwindpartners.com) respectively.

The independent non-executive directors of the B&B Funds receive directors' fees on commercial market terms during their tenure as a director of the relevant B&B Fund.

Len Gill (an independent non-executive director of BBPL) has entered into a consultancy agreement with BBPL, pursuant to which he will provide management consultancy services to BBP on normal market terms and conditions.

### 15.24 Regulatory and legal

#### (a) Foreign exchange controls

The Reserve Bank of Australia generally does not restrict the import and export of Australian dollars. There are currently no Australian exchange controls or other limitations, other than an applicable withholding of Australian tax, which restrict the remittances of any dividend, interest or other payment by Alinta to non-resident holders of Alinta Shares outside Australia, provided they are not certain persons identified as supporters of the former Government of the Federal Republic of Yugoslavia, specified ministers and senior officials of the Government of Zimbabwe or certain entities associated with the Democratic People's Republic of Korea (North Korea), in which case remittance is prohibited without the specific approval of the Reserve Bank of Australia under the *Banking (Foreign Exchange) Regulations 1959* (Cth).

Accounts of persons and entities identified from time to time by the Australian Minister of Foreign Affairs as being associated with terrorism and any person named on the list maintained pursuant to paragraph 2 of Resolution 1390 of the Security Council of the United Nations are frozen, and transactions with these entities are prohibited, under Part 4 of the *Charter of the United Nations Act 1945* (Cth) and the *Charter of the United Nations (Terrorism and Dealing with Assets) Regulations 2002* (Cth).

#### (b) Restrictions on foreign ownership

The right of non-residents to hold or vote BBI Stapled Securities, BBP Stapled Securities, BBW Stapled Securities and APA Securities and BBI EPS is limited by the FATA. The FATA may affect the right of certain persons, including US residents, to hold or control BBI Stapled Securities, BBP Stapled Securities, BBW Stapled Securities, APA Securities and BBI EPS.

Acquisitions of shares in Australian companies by foreign interests are subject to review and approval by the Treasurer of the Commonwealth of Australia under the FATA, unless certain exceptions apply. The FATA applies to any acquisition by a foreign person alone or together with its associates which would result in a holding of 15% or more of the issued shares of, or control of 15% or more of the voting power in, an Australian company. Further, it applies to any acquisition by non-associated foreign persons together with their associates which would result in a holding by these persons of 40% or more of the issued shares of, or control of 40% or more of the voting power in, an Australian company.

#### (c) ACCC undertakings offered by BBI, BBP and SPI

The Consortium has been engaged in detailed discussions with the ACCC in relation to the Scheme Proposal. The ACCC is currently conducting market enquiries in respect of the Scheme Proposal. To help ensure the ACCC does not object to any part of the Scheme Proposal, the Consortium has offered to enter into court enforceable undertakings to:

- (i) Ensure APA Securities and any material interest in APL is divested if, for any reason, they are held by the Bidder after the Schemes are Implemented. In the interim period, ringfencing arrangements will be in place.

- (ii) Ensure the Moomba to Sydney Pipeline asset management role is performed by an independent person approved by the ACCC. In the interim period, ringfencing arrangements will be in place.
- (iii) Ensure the asset management roles for DBNGP and Parmelia Pipelines are performed by different entities. In the interim period, ringfencing arrangements will be in place.

Other obligations, including independent audit and pipeline shipper protection, will also exist.

The proposed undertakings are intended to effectively replace and fulfil a similar function to the pre-existing undertakings given by Alinta to the ACCC in 2006 as a result of the AGL Merger.

As discussed in section 10.8, the Consortium and Alinta have entered into an agreement with APA under which the asset management arrangements between the Alinta Group and APA relating to the Moomba to Sydney Pipeline and the Parmelia Pipeline will be cancelled.

In relation to the operation and management of the DBNGP, BBI and BBP have offered to enter into undertakings aimed at replacing and, in some aspects, strengthening the pre-existing undertakings given by Alinta in 2004 when it acquired an interest in, and the operating role for, the DBNGP. The proposed undertakings are designed to achieve ringfencing between the operation and management of the DBNGP (to be conducted by BBI) and certain downstream gas and electricity businesses in Western Australia held by BBP, including AlintaAGL (67% of which will be acquired by BBP).

### 15.25 Notifiable interests

As at 27 June 2007, the following persons had notified Alinta in accordance with section 671B of the Corporations Act that they had a relevant interest in Alinta Shares:

- (a) Barclays Group (lodged by Barclays Global Investors Australia Limited);
- (b) Tricom Holdings Limited; and
- (c) Merrill Lynch & Co, Inc.

### 15.26 Supplementary information

If, between the date of lodgement of this Booklet for registration by ASIC and the Effective Date, Alinta becomes aware that:

- (a) a material statement in this Booklet is false or misleading;
- (b) there is a material omission from this Booklet;
- (c) a significant change affecting a matter included in this Booklet has occurred; or
- (d) a significant new matter has arisen which would have been required to be included in this Booklet if it had arisen before the date of lodgement of this Booklet for registration by ASIC,

Alinta will prepare a supplementary document to this Booklet.

The form which the supplementary document may take will depend on the nature and timing of the new or changed circumstances.

The supplementary document will be available from Alinta's website at [www.alinta.net.au](http://www.alinta.net.au)

### 15.27 B&B Funds' reporting and disclosure obligations

The B&B Fund Securities are listed on ASX and, accordingly, the B&B Funds are subject to the periodic and continuous disclosure requirements prescribed under the Corporations Act and the Listing Rules.

Copies of announcements made by the B&B Funds to ASX are available from ASX at [www.asx.com.au](http://www.asx.com.au) and from the B&B Funds' websites (BBI at [www.bbifrastructure.com](http://www.bbifrastructure.com), BBP at [www.bbpower.com](http://www.bbpower.com) and BBW at [www.bbwindpartners.com](http://www.bbwindpartners.com)).

The following documents relating to BBI and BBW are available on BBI and BBW's websites:

- > annual report for the year ended 30 June 2006; and
- > half-year report for the six months ended 31 December 2006.

BBP's half-year report for the six months ended 31 December 2006 is available on its website.

Viewing of these documents and any others available under the B&B Funds' regular reporting and disclosure obligations is also available at the B&B Funds' registered offices during business hours.

Copies of documents lodged with ASIC in relation to the B&B Funds may be obtained from, or inspected at, an ASIC office.

### 15.28 Broker handling fees

The Consortium may offer to pay a commission to brokers who solicit elections for the Maximum Securities Consideration, but has made no final decision in relation to the matter at this stage. If the Consortium makes a decision to offer such a commission to brokers, it will make an announcement to the ASX confirming this.

Any commission payments will be paid only in respect of parcels of Alinta Shares held by retail Alinta Shareholders who lodge elections for the Maximum Securities Consideration, and who do not change that election, and will only be paid if the Scheme Proposal is implemented. A retail Alinta Shareholder for these purposes is one who is not a broker or an associate of a broker and held less than 6,000 Alinta Shares at the date of this Booklet (subject to any variations announced to ASX).

If such arrangements are put in place, commission payments will not exceed 0.75% of the value of the consideration payable for parcels of Alinta Shares held by retail Alinta Shareholders who lodge elections for the Maximum Securities Consideration, and who do not change that election, and will be subject to minimum payments (not exceeding \$50) and maximum payments (not exceeding \$750) for each election.

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If a commission is offered, it will be payable to brokers only and subject to the condition that no part of the fee will be able to be passed on or paid to Alinta Shareholders.

It is the Consortium's intention that, once an offer of commission has been made to any broker by the Consortium, the commission arrangement will remain in place until the Election Time and the amount of the commission offered will not be increased.

### 15.29 Other information relevant to the making of a decision in relation to the Scheme Proposal

There is no information material to the making of a decision:

- (a) in relation to the Scheme Proposal;
- (b) by an Alinta Shareholder whether or not to vote in favour of the Scheme Proposal; or
- (c) by an Alinta Optionholder whether or not to vote in favour of the Option Scheme,

(being information that is within the knowledge of any Alinta Director or of a related body corporate) that has not previously been disclosed to Alinta Securityholders and Scheme Participants other than as set out elsewhere in this Booklet and the Annexures.

### 15.30 Further information

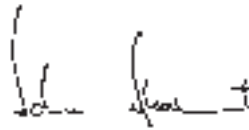
Further information on Alinta, the Scheme Proposal and the Consortium can be found:

- (a) on Alinta's website: [www.alinta.net.au](http://www.alinta.net.au);
- (b) through the Alinta Information Line on 1800 135 107 or +612 8268 3641;
- (c) on the B&B website relating to the Scheme Proposal: [www.alintaoffer.com](http://www.alintaoffer.com);
- (d) through the Babcock & Brown Alinta Proposal Information line on 1800 774 356;
- (e) on SPI's website: [www.singaporepower.com.sg](http://www.singaporepower.com.sg);
- (f) on BBI's website: [www.bbinfrastructure.com](http://www.bbinfrastructure.com);
- (g) on BBP's website: [www.bbpower.com](http://www.bbpower.com);
- (h) on BBW's website: [www.bbwindpartners.com](http://www.bbwindpartners.com); and/or
- (i) on B&B's website: [www.babcockbrown.com](http://www.babcockbrown.com).

### 15.31 Alinta Directors consent to lodgement

Each Alinta Director has given, and not withdrawn, their consent to the lodgement of this Booklet with ASIC.

BY ORDER OF THE BOARD OF ALINTA LIMITED



**John Akehurst**  
Chairman

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# 16

# GLOSSARY AND INTERPRETATION

## 16.1 Definitions

The following is a glossary of certain terms used in this Booklet.

**AAM** means the entities comprising:

- (a) Alinta Asset Management Pty Ltd (ACN 104 352 650) and its subsidiary Dampier to Bunbury Pipeline Employment Pty Ltd (ACN 080 679 732);
- (b) Alinta Asset Management (2) Pty Ltd (ACN 073 613 733) and its subsidiaries;
- (c) Alinta ASB Pty Ltd (ACN 090 855 306);
- (d) Alinta Asset Management (3) Pty Ltd (ACN 086 013 461);
- (e) Alinta Asset Management (4) Pty Ltd (ACN 009 641 187); and
- (f) Alinta Asset Management (5) Pty Ltd (ACN 081 638 217).

**ACCC** means the Australian Competition and Consumer Commission.

**Acquire** means (for the purposes of the definition of Alinta Material Transaction) in relation to any asset, any acquisition including an assignment, transfer, exchange, direction to a trustee to transfer the legal interest, enforcement of an Encumbrance, whether directly or indirectly or by operation of law, or any other transaction that has a similar commercial or economic effect.

**AEATM** means Alinta EATM Pty Ltd (ACN 083 050 168).

**AEST** means Australian Eastern Standard Time.

**AGL** means The Australian Gas Light Company (ACN 052 167 405) (now known as Alinta LGA Limited) and its subsidiaries.

**AGL Energy** means AGL Energy Limited (ACN 115 061 375) and its subsidiaries.

**AGL Merger** means the merger of Alinta 2000 Limited (ACN 087 857 001) (formerly Alinta Limited (ACN 087 857 001)) with Alinta LGA (formerly AGL) which was implemented by schemes of arrangement on 25 October 2006.

**AGN** means the gas distribution network owned by AlintaGas Networks Pty Ltd (ACN 089 531 975) in Western Australia.

**AIFRS** means Australian equivalents to the International Financial Reporting Standards.

**AIH** means Alinta Infrastructure Holdings, the stapled entities comprising Alinta Infrastructure Limited (ACN 108 311 100), Alinta Infrastructure Investment Trust (ARSN 115 766 179) and Alinta Infrastructure Trust (ARSN 115 765 985).

**Alinta** means Alinta Limited (ACN 119 985 590) and, where the context requires, namely for references prior to October 2006, means Alinta's Predecessor.

**AlintaAGL** means AlintaAGL Pty Ltd (ACN 102 848 055) and its controlled entities.

**Alinta Assets** means the assets of Alinta that will be transferred to the Bidder pursuant to the Schemes and divided between the Consortium Parties under the Post-Implementation Transactions including the BBI Alinta Assets and the BBP Alinta Assets.

**Alinta Board** means the board of directors of Alinta.

**Alinta Directors** means the directors of Alinta as at the date of this Booklet.

**Alinta Employee Incentive Plan** means any equity incentive plan for employees or directors of Alinta, including:

- (a) the Alinta Executive Option Plan;
- (b) the DESP; and
- (c) the NZESP.

**Alinta Executive Option Plan** means the plan established by Alinta on 11 October 2006.

**Alinta Forecast Information** means Alinta's forecast income statements for the years ending 30 June 2007 and 30 June 2008.

**Alinta Group** means Alinta and each of its subsidiaries.

**Alinta Information Line** means the helpline for Alinta Securityholders in relation to the Scheme Proposal, which may be contacted on 1800 135 107 (within Australia) or +61 2 8268 3641 (outside Australia) between 7.00am to 5.00pm (WST), 9.00am to 7.00pm (AEST) Monday to Friday.

**Alinta Internal Restructure** means (for the purposes of the definitions of Competing Proposal, Excluded Transaction and Third Party Proposal) a proposal instigated or agreed to by the Alinta Board that can fairly be regarded as an internal reconstruction of the Alinta Group, including any demerger, reorganisation or Disposal of a substantial part of the assets or business of the Alinta Group.

**Alinta LGA** means Alinta LGA Limited (formerly The Australian Gas Light Company) (ACN 052 167 405) and its subsidiaries.

**Alinta Material Transaction** (for the purposes of the Conditions) means:

- (a) **(acquisition of an asset)** Alinta or a wholly owned controlled entity of Alinta Acquiring (including by way of subscription for equity), leasing, or entering into a binding commitment or granting a person an irrevocable option to require it to Acquire or lease, any asset for a consideration of \$100 million or more;
- (b) **(disposal of asset)** Alinta or a wholly owned controlled entity of Alinta Disposing of or leasing, or entering into a binding commitment or granting a person an irrevocable option to require it to Dispose of or lease, any asset (except for the Alinta Group's APA Securities) for a consideration of \$100 million or more;

- (c) **(joint venture)** Alinta or a wholly owned controlled entity of Alinta entering into a joint venture, partnership or other similar arrangement involving a commitment of greater than \$100 million;
- (d) **(financial commitment)** Alinta or a wholly owned controlled entity of Alinta incurring any financial commitment of \$100 million or more, other than in respect of:
- (i) any refinancing or replacing of debt facilities existing at the date of the Original SIA;
  - (ii) security given in the ordinary course of business in respect of the performance of contractual obligations by any member of the Alinta Group; or
  - (iii) construction projects that are either in existence or being negotiated as at the date of the Original SIA;
- (e) **(non-wholly owned entities)** Alinta or a wholly owned controlled entity exercises its rights as a securityholder of a non-wholly owned controlled entity of Alinta to procure or approve the doing by that entity of any thing referred to in paragraphs (a) to (d) above inclusive, or fails to exercise its rights as a securityholder to restrain a non-wholly owned controlled entity of Alinta from doing any thing referred to in paragraphs (a) to (d) above inclusive;
- (f) **(aggregation)** matters occur which would be covered by any of paragraphs (a) to (e) above inclusive if the relevant monetary thresholds in those paragraphs were reached (except for capital expenditure within the ordinary course of business of Alinta or any of its controlled entities), and the aggregate of the consideration and commitments involved exceeds \$350 million;
- (g) **(declare dividend)** Alinta declares any dividend or pays, makes or incurs any liability to pay or make any distribution whether by way of dividend, capital distribution, bonus or other share of its profits or assets other than a Transaction Dividend or the final dividend of 8.375 cents per Alinta Share announced on 28 February 2007;
- (h) **(severance payments)** Alinta or a wholly owned controlled entity of Alinta materially increases any severance or termination payment or superannuation entitlements payable to any executive officer or director of Alinta or its wholly owned controlled entities (excluding, for the avoidance of doubt, any payment of additional remuneration to Alinta directors for extra services performed which is made in accordance with Alinta's constitution and Alinta's normal policies and complies with the Corporations Act and the Listing Rules),
- but does not include:
- (i) an Excluded Transaction;
  - (j) any matter required to be done or procured by Alinta, or a Material Subsidiary, under this document or the Schemes;
  - (k) any matter which arises through the performance by Alinta or its subsidiaries of contractual obligations existing at the date of the Original SIA; or
  - (l) any matter which arises as a result of an order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or Government Agency, or any undertaking given to such a court or Government Agency.

**Alinta Option** means each option to subscribe for an Alinta Share.

**Alinta Optionholder** means each person entered in the Alinta Register as a holder of Alinta Options.

**Alinta's Predecessor** means Alinta 2000 Limited, formerly Alinta Limited (ACN 087 857 001).

**Alinta Register** means the register of members and register of optionholders of Alinta as the case may be maintained by the Share Registry.

**Alinta Securityholder** means an Alinta Shareholder or an Alinta Optionholder.

**Alinta Share** means each fully paid ordinary share in the capital of Alinta.

**Alinta Shareholder** means each person entered in the Alinta Register as a holder of Alinta Shares. Where the context requires, it includes each person who has Alinta Shares allocated to them under the terms of the DESP.

**APA or APA Group** means an ASX listed entity comprising APT and APTIT.

**APA Capital Return Component** means the capital reduction component of the APA Distribution.

**APA Distribution** means, subject to payment of any Transaction Dividend as contemplated by clause 3.6(a) of the Share Scheme, or the effects of rounding under clause 3.9(b) of the Share Scheme, the distribution by Alinta of:

- (a) 0.301 APA Securities; or
- (b) if some or all of the Alinta Group's APA Securities have been sold, the distribution by Alinta of:
  - (i) an amount of cash determined by dividing the net amount realised by the Alinta Group on the sale of APA Securities by the number of Alinta Shares and Alinta Options on issue on the Record Date; and
  - (ii) if some of the Alinta Group's APA Securities have not been sold, a number of APA Securities determined by dividing the number of remaining APA Securities by the number of Alinta Shares and Alinta Options on issue on the Record Date,

for each Scheme Share, by way of a combination of equal capital reduction and dividend (as set out in section 10).

**APA Dividend** means the dividend component of the APA Distribution per Alinta Share declared by the Alinta Directors.

**APA Distribution Component** means, for each Alinta Share, the component of the Consideration to be received by Alinta Shareholders made up of the APA Distribution.

**APA Note** means a note issued by the Bidder which entitles the holder to receive one APA Security (or the net proceeds of sale of such security) upon that APA Security (or the proceeds) becoming available for distribution to that holder.

**APA Securities** means units in APT stapled to units in APTIT.

**APL** means Australian Pipeline Limited (ACN 091 344 704), the responsible entity of APT and APTIT.

**APT** means Australian Pipeline Trust (ARSN 091 678 778).

**APTIT** means APT Investment Trust (ARSN 115 585 441).

**ASIC** means the Australian Securities and Investments Commission.

**ASTC** means the ASX Settlement and Transfer Corporation Pty Ltd (ACN 008 504 532).

**ASTC Settlement Rules** means the operating rules of the ASTC for the purposes of the Corporations Act.

**ASX** means ASX Limited (ACN 008 624 691) or, if the context requires, the financial market conducted by it.

**ATO** means the Australian Taxation Office.

**Australian Accounting Standard** means an accounting standard made by the Australian Accounting Standards Board in accordance with the Corporations Act.

**A\$, \$, dollars or cents** means the lawful currency of Australia (unless otherwise stated).

**B&B or Babcock & Brown** means Babcock & Brown Limited (ACN 108 614 955) and, where the context permits, its consolidated entities (including BBIPL).

**B&B Forecast Information** means the information referred to in paragraph (e) of "Preparation of, and responsibility for, this Booklet" in the Important Notice section at the front of Part B of this Booklet.

**B&B Funds** means BBI, BBP and BBW.

**B&B Fund Securities** means BBI Stapled Securities, BBP Stapled Securities and BBW Stapled Securities.

**B&B Fund Securities Component** means, for each Scheme Share, that component of the Share Scheme Consideration comprising B&B Fund Securities.

**B&B Group** means Babcock & Brown and its controlled entities and operations.

**B&B Information** means the information referred to in paragraph (d) of "Preparation of, and responsibility for, this Booklet" in the Important Notice section at the front of Part B of this Booklet.

**Base Consideration** means the consideration for each Scheme Share that forms the basis for calculation of the consideration provided under the Consideration Alternatives in accordance with schedule 1 of the Share Scheme and as described in section 13.2.

**Baseload** means electricity generation units with a typical utilisation rate of greater than 50%.

**BBI** means Babcock & Brown Infrastructure Group, the listed stapled entity comprising BBIL and BBIT.

**BBI Alinta Assets** means the assets described in sections 5.6(a) to (e).

**BBI Board** means the boards of BBIL and BBIS, either separately or collectively as the context requires.

**BBI Directors** means the directors of BBIL and BBIS, either separately or collectively as the context requires.

**BBI Distributions** means dividends payable by BBIL and distributions payable out of BBIT.

**BBI Distribution Stopper** has the meaning given to it in section 6.7(b) of this Booklet.

**BBI DRP** means a distribution reinvestment plan established by BBI.

**BBI EPS** means exchangeable preference shares issued by the BBI EPS Issuer for face value of \$1.00, the terms of which are set out in section 6 of this Booklet.

**BBI EPS Cap** means the maximum number of BBI EPS that are available to be issued as consideration under the Share Scheme, being  $(800 \text{ million} \times X / (X + Y))$ , where X is the number of Alinta Shares on issue at the Record Date and Y is the number of Alinta Options on issue at the Record Date.

**BBI EPS Component** means for each Scheme Share, that component of the Share Scheme Consideration comprising BBI EPS.

**BBI EPS Holder** means a person entered on the register of the BBI EPS Issuer as a holder of BBI EPS.

**BBI EPS Issuer** means BBI EPS Limited (ACN 125 830 631).

**BBI EPS Terms** means the terms of issue of BBI EPS.

**BBI FY06** means the BBI financial year ending 30 June 2006.

**BBI FY07** means the BBI financial year ending 30 June 2007.

**BBI FY08** means the BBI financial year ending 30 June 2008.

**BBI FY09** means the BBI financial year ending 30 June 2009.

**BBI Management Agreements** means collectively, the BBIL Management Agreement and the BBIS Management Agreement.

**BBI NZ SPARCS** means a convertible security listed on the New Zealand Exchange Limited issued by BBI Networks (New Zealand) Limited (a wholly owned subsidiary of BBIL).

**BBI Portfolio** means the portfolio of assets partially or wholly owned by BBI.

**BBI Stapled Security** means a stapled security in BBI, comprising one fully paid share in BBIL and one fully paid unit in BBIT.

**BBI Stapled Securityholder** means a holder of a BBI Stapled Security.

**BBI Stapling Deed** means the stapling deed setting out the terms on which the BBI Stapled Securities are stapled together (as amended from time to time).

**BBIL** means Babcock & Brown Infrastructure Limited (ACN 100 364 234).

**BBIL Management Agreement** means the 25 year management agreement between BBIM, BBIL and others appointing BBIM as the manager of BBIL.

**BBIM** means Babcock & Brown Infrastructure Management Pty Limited (ACN 113 585 229).

**BBIPL** means Babcock & Brown International Pty Ltd (ACN 108 617 483).

**BBIS** means Babcock & Brown Investor Services Limited (ACN 099 717 638, AFSL No. 219673).

**BBIS Management Agreement** means the 25 year management agreement between BBIM and BBIS appointing BBIM as the manager of BBIS.

**BBIT** means Babcock & Brown Infrastructure Trust (ARSN 100 375 479).

**BBP** means Babcock & Brown Power, the listed stapled entity comprising BBPL and BBPT.

**BBP Alinta Assets** means the assets described in section 7.6(a) to (d) of the Booklet.

**BBPAM** means Babcock & Brown Power Asset Management Pty Ltd (ACN 122 495 907).

**BBP Asset Management Agreements** means the 25 year asset management agreements entered into between BBPAM, and each wholly owned entity that owns BBP's interests in certain relevant power stations, the details of which are set out in section 7.14(b)(ii).

**BBP Board** means the boards of BBPL and BBPS, either separately or collectively as the context requires.

**BBP Directors** means the directors of BBPL and BBPS, either separately or collectively as the context requires.

**BBP Distributions** means dividends payable by BBPL and distributions payable out of BBPT.

**BBP DRP** means a distribution reinvestment plan to be established by BBP.

**BBP FY07** means the BBP financial year ending 30 June 2007.

**BBP FY08** means the BBP financial year ending 30 June 2008.

**BBP FY09** means the BBP financial year ending 30 June 2009.

**BBPM** means Babcock & Brown Power Management Pty Ltd (ACN 122 225 334).

**BBP Management Agreements** means collectively, the BBPL Management Agreement and the BBPS Management Agreement.

**BBP Portfolio** means the portfolio of assets partially or wholly owned by BBP.

**BBP Stapled Security** means a stapled security in BBP, comprising one share in BBPL and one unit in BBPT.

**BBP Stapled Securityholder** means a holder of a BBP Stapled Security.

**BBP Stapled Security Return** means the amount described in section 7.11(c).

**BBP Stapling Deed** means the stapling deed setting out the terms on which the BBP Stapled Securities are stapled together (as amended from time to time).

**BBPL** means Babcock & Brown Power Limited (ACN 116 665 608).

**BBPL Management Agreement** means the 25 year management agreement between BBPM and BBPL appointing BBPM as the manager of BBPL.

**BBPS** means Babcock & Brown Power Services Limited (ACN 118 165 156).

**BBPS Management Agreement** means the 25 year management agreement between BBPM and BBPS appointing BBPM as the manager of BBPS.

**BBPT** means Babcock & Brown Power Trust (ARSN 122 375 562).

**BB SPV** means BB Space Cat Holdings Pty Ltd.

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**BBW** means Babcock & Brown Wind Partners, the listed stapled entity comprising BBWPL, BBWPB and BBWPT.

**BBW Board** means the boards of BBWPL, BBWPB and BBWPS, either separately or collectively as the context requires.

**BBW Directors** means the directors of BBWPL, BBWPB and BBWPS, either separately or collectively as the context requires.

**BBW Distributions** means dividends payable by BBWPL, dividends payable by BBWPB and distributions payable out of BBWPT.

**BBW DRP** means a distribution reinvestment plan established by BBW.

**BBW FY06** means the BBW financial year ended 30 June 2006.

**BBW FY07** means the BBW financial year ending 30 June 2007.

**BBW FY08** means the BBW financial year ending 30 June 2008.

**BBW FY09** means the BBW financial year ending 30 June 2009.

**BBW Management Agreements** means collectively, the BBWPB Management Agreement, BBWPS Management Agreement and the BBWPL Management Agreement.

**BBW Portfolio** means the portfolio of assets partially or wholly owned by BBW.

**BBW Stapled Security** means a stapled security in BBW, comprising one ordinary share in BBWPL, one ordinary share in BBWPB and one unit in BBWPT.

**BBW Stapled Security Accumulation Index** means the index described in section 8.11(c).

**BBW Stapled Securityholder** means a holder of a BBW Stapled Security.

**BBW Stapling Deed** means the stapling deed setting out the terms on which the BBW Stapled Securities are stapled together (as amended from time to time).

**BBWPB** means Babcock & Brown Wind Partners (Bermuda) Limited (ARBN 116 360 715).

**BBWPB Management Agreement** means the 25 year management agreement between BBWPM and BBWPB appointing BBWPM as the Manager of BBWPB.

**BBWPL** means Babcock & Brown Wind Partners Limited (ACN 105 051 616).

**BBWPL Management Agreement** means the 25 year management agreement between BBWPM and BBWPL appointing BBWPM as the Manager of BBWPL.

**BBWPM** means Babcock & Brown Wind Partners Management Pty Limited (ACN 122 722 776).

**BBWPS** means Babcock & Brown Wind Partners Services Limited (ACN 113 813 997).

**BBWPS Management Agreement** means the 25 year management agreement between BBWPM and BBWPS appointing BBWPM as the Manager of BBWPS.

**BBWPT** means Babcock & Brown Wind Partners Trust (ARSN 116 244 118).

**Bidder** means ES & L Pty Limited (ACN 124 513 971).

**Bidder Information** means the information referred to in paragraph (b) of "Preparation of, and responsibility for, this Booklet" in the Important Notice section at the front of Part B of this Booklet.

**Booklet** means the explanatory statement for the Schemes, comprising this document which is divided into Parts A and B.

**Break Fee** means an amount of \$59,250,000 which may become payable pursuant to the SIA.

**Business Day** means a day (other than a Saturday, Sunday or public holiday) on which banks are open for general banking business in Melbourne, Sydney, Perth and Singapore.

**CAGR** means compound annual growth rate

**Capital Reduction** means the proposed capital reduction of Alinta under section 256C of the Corporations Act.

**Cash Component** means that component of the Share Scheme Consideration comprised of cash.

**Cash Out Alternative** means an election by Small Alinta Shareholders to receive the Default Consideration and the APA Distribution and to have Consideration Securities to which they become entitled sold under the Cash Out Facility and the proceeds remitted to that Small Alinta Shareholder.

**Cash Out Facility** means the mechanism through which Alinta Shareholders receive the cash proceeds of sale of any Consideration Securities they would otherwise receive as described in section 13.

**CGT** means Australian capital gains tax.

**CGT Event** has the meaning set out in the *Income Tax Assessment Act 1997* (Cth).

**CHESS** means the Clearing House Electronic Subregister System operated by ASTC, which provides for the electronic transfer, settlement and registration of securities.

**CHES Holding** means a holding of shares on the CHES Subregister of Alinta.

**CHES Subregister** has the meaning set out in the ASTC Settlement Rules.

**Competing Proposal** means any transaction, proposal or offer (including a scheme of arrangement, purchase, merger, amalgamation, dual listed structure, stapled security structure, business combination, liquidation, dissolution, securitisation, takeover bid or otherwise but excluding an Alinta Internal Restructure that would, if completed substantially in accordance with its terms, result in:

- (a) any person or persons other than Bidder or its associates (or affiliates as contemplated by the Post-Implementation Transactions) acquiring an interest in all or a substantial part of the business, assets or property of the Alinta Group, a relevant interest in more than 10% of the voting shares of Alinta or control (within the meaning of section 50AA of the Corporations Act) of Alinta;
- (b) Alinta and another person or persons operating under a stapled security structure, dual listed company, or similar structure;
- (c) Alinta issuing at least 10% of its current issued shares, or securities which are convertible into at least that number of shares, as consideration for the assets or securities of another person or otherwise as part of a reconstruction proposal; or
- (d) a substantial part of the business, assets or property of the Alinta Group being Disposed of, demerged or separated from the rest of the Alinta Group's business or assets.

**Condition** means:

- (a) for the Share Scheme, a condition precedent to the Share Scheme summarised in section 13.6(a)(vi) of this Booklet; and
- (b) for the Option Scheme, a condition precedent to the Option Scheme summarised in section 13.6(a)(vii) of this Booklet.

**Consideration** means the Share Scheme Consideration, the APA Distribution and the Option Scheme Consideration.

**Consideration Alternatives** means the Default Alternative, Maximum Preference Shares Alternative, Maximum Cash Alternative, Maximum Securities Alternative and Cash Out Alternative.

**Consideration Securities** means BBI EPS, B&B Fund Securities and APA Securities forming part of the Consideration.

**Consortium** or **Consortium Parties** means the Bidder, each of the B&B Funds and SPI.

**Consortium Committee** means the committee comprising three officers of each of SPI and BB SPV established to facilitate the evaluation, preparation and finalisation of the Schemes.

**Corporations Act** means the *Corporations Act 2001* (Cth).

**Corporations Regulations** means the *Corporations Regulations 2001* (Cth).

**Court** means the Federal Court of Australia.

**Court Orders** means the orders of the Court under section 411(4)(b) of the Corporations Act approving the Schemes.

**CPI** means the Australian Consumer Price Index.

**DBNGP** means the gas transmission pipeline that runs between Dampier and Bunbury in Western Australia.

**Deed Poll** means the document set out in Annexure B being the deed by the Bidder, SPI and BBIPL pursuant to which they covenant in favour of the Scheme Participants to perform obligations under the SIA.

**Default Alternative** means the option to receive the Default Consideration under the Share Scheme.

**Default Consideration** means the Base Consideration adjusted in accordance with schedule 1 of the Share Scheme and as described in section 13.2.

**DESP** means the Alinta Deferred Employee Share Plan established by Alinta on 11 October 2006.

**Dispose** means (for the purposes of the definitions of Alinta Material Transaction and Competing Proposal) in relation to an asset, any disposal including an assignment, transfer, exchange, pledge, declaration of trust, Encumbrance, hypothecation, swap, option or other disposition or alienation of that asset, whether directly or indirectly or by operation of law or any other transaction that has a similar commercial or economic effect.

**EBIT** means profit from ordinary activities before borrowing costs and income tax expense.

**EBITDA** means profit from ordinary activities before borrowing costs, income tax expense, depreciation and amortisation.

**Effective** means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act (and, if applicable, section 411(6) of the Corporations Act) in relation to the Scheme.

**Effective Date** means the date upon which the Share Scheme becomes Effective, which is intended to be the same date as the Option Scheme Effective Date.

**EIA** has the meaning given to it in the definition of Macquarie Bank Consortium's Revised Proposal.

**Election Form** means the pink election form on which Share Scheme Participants may elect to receive a Consideration Alternative.

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**Election Time** means the due date and time for the Election Form, scheduled to be 5.00pm WST (7.00pm AEST) on 23 August 2007.

**Encumbrance** means (for the purposes of the definitions of Acquire, Dispose and Prescribed Event) any mortgage, pledge, lien or charge or any security or preferential interest or arrangement of any kind.

**Excluded Transaction** means any thing contemplated by and consistent with:

- (a) ASX announcements released by Alinta before 29 March 2007;
- (b) information made available by Alinta to the Bidder or a Consortium Party in the data room before 29 March 2007; or
- (c) any information tabled or disclosed in a meeting of a transition committee of Alinta and the Bidder before the date of the SIA; except for any Alinta Internal Restructure.

**Exclusive Financial Advisory Agreement** means the agreement between B&B and BBI, BBW and BBP respectively the details of which are set out in section 9.3 of the Booklet.

**Exercise Deadline** means 5.00pm WST (7.00pm AEST) on the day which is two Business Days before the Record Date.

**FATA** means *Foreign Acquisitions and Takeovers Act 1975* (Cth).

**FIRB Consent** means that the Treasurer of the Commonwealth of Australia provides written notification under FATA that the Commonwealth Government has no objection under the Federal Government's foreign investment policy or under FATA to the Bidder acquiring all the Alinta Shares and the Alinta Options under the Schemes.

**FY** means financial year.

**General Meeting** means a meeting of the Alinta Shareholders to consider and, if thought fit, approve the proposed Capital Reduction.

**Government Agency** means a government, government department or a governmental, semi-governmental, administrative, statutory or judicial entity, agency, authority, commission, department, tribunal, or person charged with the administration of a law or agency, whether in Australia or elsewhere, including ACCC, ASIC, the Takeovers Panel, and any self-regulatory organisation established under statute or by ASX.

**GST** has the same meaning as GST in *A New Tax System (Goods and Services Tax) Act 1999* (Cth).

**GST Law** means the same as "GST law" means in *A New Tax System (Goods and Services Tax) Act 1999* (Cth).

**GW** means gigawatt, a measure of energy consumption.

**GWh** means GW hours, a measure of the rate of energy consumption.

**Implementation** means the implementation of the Share Scheme or the Option Scheme (as the case may be), upon it becoming Effective or, if the context requires, the implementation of the Scheme Proposal.

**Implementation Date** means 31 August 2007 (or any other date agreed in writing by Alinta and the Bidder).

**Independent Expert or Grant Samuel** means Grant Samuel & Associates Pty Limited (ACN 050 036 372).

**Independent Expert's Report** means an expert's report (including any update to such a report or any supplementary or replacement report) by the Independent Expert, stating whether or not in his or her opinion the Scheme Proposal is in the best interests of the Alinta Securityholders and setting out his or her reasons for those opinions. The Independent Expert's Report is set out at Annexure G.

**Ineligible Overseas Shareholder** means:

- (a) a US Shareholder; and
- (b) a Scheme Participant whose Registered Address is in any jurisdiction other than the United Kingdom, Hong Kong, New Zealand or Australia and its external territories, unless Alinta or the Bidder agree that a Scheme Participant whose Registered Address is in any other jurisdiction should not be an Ineligible Overseas Shareholder, in accordance with the terms of the Share Scheme.

**Insolvency Event** means, for a person, being in liquidation or provisional liquidation or under administration, having a controller or analogous person appointed to it or any of its property, being taken under section 459F(1) of the Corporations Act to have failed to comply with a statutory demand, being unable to pay its debts or otherwise insolvent, dying, ceasing to be of full legal capacity or otherwise becoming incapable of managing its own affairs for any reason, becoming an insolvent under administration (as defined in section 9 of the Corporations Act), entering into a compromise or arrangement with, or assignment for the benefit of, any of its members (other than the Share Scheme) or creditors (other than the Option Scheme) or any analogous event.

**Intermediate** means electricity generation with a typical utilisation of 20–50%.

**Internal Restructure Proposal** means the proposed internal restructure of Alinta in order to separate Alinta into two independent entities: a services company, ServiceCo, and an infrastructure company, AssetCo.

**Investigating Accountant** means PricewaterhouseCoopers Securities Limited.

**Investigating Accountant's Report** means a report of the Investigating Accountant set out in Annexure F and **Investigating Accountant's Reports** means all of them.

**Joint Bidding Agreement** means the Joint Bidding Agreement entered into between SPI, BB SPV and the Bidder, dated 23 March 2007.

**Listing Rule** means a listing rule of ASX.

**Loss** means a damage, loss, cost, expense or liability incurred by the person concerned, however it arises and whether it is present or future, fixed or unascertained, actual or contingent.

**LPG** means liquefied petroleum gas.

**Macquarie Bank** means Macquarie Bank Limited (ACN 008 583 542).

**Macquarie Bank Consortium** means the Alinta Partners Consortium (which includes Essential Infrastructure Australia Limited (ACN 124 574 116)) sponsored by Macquarie Bank.

**Macquarie Bank Consortium Proposal** means the proposed acquisition of Alinta by the Macquarie Bank Consortium which lapsed on 26 March 2007.

**Macquarie Bank Consortium's Revised Proposal** means a proposal where Alinta Shareholders were offered one of the following alternatives per Alinta Share:

- (a) cash of \$15.80;
- (b) 1.7015 shares in a new entity, Energy Infrastructure Australia (EIA) and \$0.93 cash, the combination of which Macquarie Bank believed to be valued at \$15.80; or
- (c) 1.000 EIA shares, 1.6558 APA Securities and \$0.93 cash, the combination of which Macquarie Bank believed to be valued at \$16.60. However, holders of only 19% of Alinta's shares could accept this alternative and receive a full allocation of APA Securities. If more than 19% chose this option, Alinta Shareholders would receive a smaller number of APA Securities and larger number of EIA shares, reducing the stated value of the alternative per Alinta Share to a minimum of \$15.95 if all Alinta Shareholders elected this option.

EIA was to be a new entity which would have owned a 100% interest in the cogeneration units located at Pinjarra and Wagerup and all of Alinta's existing assets other than the West Australian energy retail business, the APA Securities and the asset management contracts for the APA assets. EIA would have had \$3.2 billion in additional debt relative to Alinta. The Macquarie Bank Consortium valued EIA at \$8.71 per share, based on forecast 2008 fully tax deferred distributions of \$0.74 per share and an 8.5% yield.

**Management Agreements** means, collectively, the BBI Management Agreements, BBP Management Agreements and the BBW Management Agreements.

**Marketable Securities** has the meaning given to it in the Corporations Act.

**Manager** means the respective managers of each B&B Fund as described in section 9.2(b).

**Material Adverse Change** means (for the purposes of the Conditions) one or more occurrences, events or matters occurring or being announced or becoming known to the Bidder which individually, or when aggregated with all such occurrences, events or matters:

- (a) diminishes, or could reasonably be expected to diminish the total consolidated net assets of the Alinta Group by \$500,000,000 or more; or
- (b) adversely impacts, or could reasonably be expected to adversely impact, the recurring EBITDA of the consolidated Alinta Group by \$75,000,000 or more per annum, other than,
- (c) occurrences, events or matters to the extent resulting from:
  - (i) changes in general economic or political conditions or the securities, credit or financial markets in general;
  - (ii) changes in generally accepted accounting principles or the interpretation of them; or
  - (iii) any weather related event or natural disaster;
- (d) an event, occurrence or matter resulting from anything required to be done or procured by the Alinta Group pursuant to the SIA or the Schemes or anything done or procured by the Alinta Group with the written consent of, or at the written request of, the Bidder; or
- (e) an event, occurrence or matter which was disclosed in writing to the Bidder by Alinta prior to 29 March 2007 or which was disclosed in a meeting of a transition committee of Alinta and the Bidder before 11 May 2007.

**Material Subsidiary** means a subsidiary or controlled entity of Alinta with gross assets of more than \$250 million as at 31 December 2006.

**Maximum Cash Alternative** means the option to receive the Maximum Cash Consideration under the Share Scheme.

**Maximum Cash Consideration** means the Base Consideration adjusted to increase the cash received, and reduce the B&B Fund Securities Component and BBI EPS Component received as described in section 13.2.

**Maximum Preference Shares Alternative** means the option to receive the Maximum Preference Shares Consideration.

**Maximum Preference Shares Consideration** means the Base Consideration adjusted to increase the BBI EPS received, and reduce the Cash Component received and B&B Fund Securities Component received, as described in section 13.2.

**Maximum Securities Alternative** means the option to receive the Maximum Securities Consideration.

**Maximum Securities Consideration** means the Base Consideration adjusted to increase the B&B Fund Securities Component received, and reduce the Cash Component and the BBI EPS Component received, as described in section 13.2.

**MBO or MBO Proposal** means a previous potential proposal to acquire Alinta being developed by Macquarie Bank together with the MBO Group announced on 9 January 2007.

**MBO Group** means John Poynton, Bob Browning, Chris Indermaur, Stephen Pearce and Murray King.

**Meetings** means the Scheme Meetings and the General Meeting.

**Meeting Date** means the date of the Meetings, expected to be 15 August 2007.

**MGN** means the Multinet Gas Network located in Melbourne's east.

**Moody's Investors Service** means Moody's Investors Service Pty Limited (ACN 003 399 657).

**Mtpa** means million tonnes per annum.

**MW** means megawatt, a measure of energy consumption.

**MWh** means MW hours, a measure of the rate of energy consumption.

**NEMMCO** means National Electricity Market Management Company Limited (ACN 072 010 327).

**New Zealand Shareholder or NZ Shareholder** means an Alinta Shareholder with a registered address in New Zealand.

**Nominee** means a person appointed for the purposes of selling Consideration Securities under the Cash Out Facility, who will be nominated by the Bidder prior to the Second Court Date and approved by Alinta (such approval not to be unreasonably withheld or delayed).

**NPAT** means net profit after tax.

**NZ\$** means the lawful currency of New Zealand.

**NZESP** means the Alinta New Zealand Employee Share Plan established by Alinta in September 2006.

**OIO** means the Overseas Investment Office, New Zealand.

**Option Scheme** means a scheme of arrangement under Part 5.1 of the Corporations Act to be proposed between Alinta and Alinta Optionholders substantially in the form set out in Annexure A subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and approved in writing by Alinta and the Bidder (or one such other terms as are agreed in writing between Alinta and the Bidder).

**Option Scheme Consideration** means an amount equal to the Value of the Base Consideration and the APA Distribution (after adding back the amount of any Transaction Dividend or capital reduction that was deducted from them) per Alinta Option less the amount (if any) of the exercise price payable in respect of the relevant Alinta Option (such consideration to be payable in cash), being the consideration to be provided by Alinta to Alinta Optionholders for the cancellation of each Alinta Option under the terms of the Option Scheme.

**Option Scheme Effective Date** means the date on which the Option Scheme becomes Effective.

**Option Scheme Meeting** means the meeting of Alinta Optionholders convened by the Court under section 411(1) of the Corporations Act to consider the Option Scheme.

**Option Scheme Participant** means each Alinta Optionholder on the Record Date.

**Origin Energy** means Origin Energy Limited (ACN 000 051 696) and its subsidiaries.

**Original Scheme Proposal** means the proposal made by the Consortium and recommended by the Alinta Board on 30 March 2007.

**Original SIA** means the scheme implementation agreement between Alinta, the Bidder, SPI and BBIPPL dated 30 March 2007.

**Participating Percentage** means, in the case of SPI, 65.2% and, in the case of BBIPPL, 34.8%.

**Participation Deed** means the deed entered into between BBIL, BBPL and BBWPL, and their respective subsidiaries, BBIPPL and BB SPV, described in section 15.12(c) of this Booklet.

**Peak** means electricity generation with a typical utilisation of less than 20%.

**Post-Implementation Transactions** means the transactions contemplated by the Consortium Parties in respect of the businesses and assets of the Alinta Group as described in section 13.

**PPAs** means power purchase agreements.

**Prescribed Event** means (for the purposes of the Conditions), in relation to Alinta:

- (a) **(convert shares)** Alinta, or a Material Subsidiary, converts all or any of its shares into a larger or smaller number of shares;
- (b) **(reduce share capital)** Alinta, or a Material Subsidiary, resolves to reduce its share capital in any way;
- (c) **(buy-back)** Alinta, or a Material Subsidiary:
  - (i) enters into a buy-back agreement; or
  - (ii) resolves to approve the terms of a buy-back agreement under section 257C(1) or 257D(1) of the Corporations Act;

- (d) (**issue shares or options**) Alinta, or a Material Subsidiary, issues shares or grants an option over its shares, or agrees to make such an issue or grant such an option, excluding:
- (i) any issue or grant contemplated by the Schemes; and
  - (ii) any issue of shares pursuant to the exercise of Alinta Options;
- (e) (**issue convertible securities**) Alinta, or a Material Subsidiary, issues, or agrees to issue, securities or other instruments convertible into shares or debt securities;
- (f) (**create mortgage**) Alinta, or a Material Subsidiary, creating, or agreeing to create, any mortgage, charge, lien or other Encumbrance over the whole or a substantial part of the business or property of Alinta, or a Material Subsidiary, other than in respect of:
- (i) any refinancing or replacing of debt facilities existing at the date of the Original SIA;
  - (ii) security given in the ordinary course of business in respect of the performance of contractual obligations by any member of the Alinta Group; or
  - (iii) construction projects that are either in existence or being negotiated as at the date of the Original SIA;
- (g) (**Insolvency Event**) an Insolvency Event occurring in relation to Alinta, or a Material Subsidiary of Alinta; and
- (h) (**change to constitution**) Alinta, or a Material Subsidiary, makes any material change or amendment to its constitution, but excluding any matter required to be done or procured by Alinta, or a Material Subsidiary, under the SIA or the Schemes or an Excluded Transaction.

**PTC** means production tax credit.

**Record Date** means 5.00pm WST (7.00pm AEST) on the day which is four Business Days after the Effective Date, or any other date agreed by the parties to be the record date to determine entitlements to receive the APA Distribution and the Share Scheme Consideration under the Share Scheme and the Option Scheme Consideration under the Option Scheme.

**Registered Address** means in relation to a Scheme Participant, the address of the relevant person shown in the Alinta Register on the Record Date.

**Representatives** means, in respect of a party, its subsidiaries and each director, officer, employee, adviser, agent or it or its subsidiaries.

**Residual BBI EPS** has the meaning given to it in section 13.2(c)(ii).

**Responsible Entity** means the respective responsible entity of each B&B Fund as described in section 9.2(a).

**Review** means any review performed by any one or more of the Consortium Parties or the Consortium as a whole regarding any one or more of the Alinta Assets, but not limited to organisation, financial, strategic and operational reviews.

**S&P** means Standard & Poor's (Australia) Pty Ltd (ACN 007 324 852).

**Scheme Consideration** means the Share Scheme Consideration and the Option Scheme Consideration.

**Scheme Meetings** means the Share Scheme Meeting and the Option Scheme Meeting.

**Scheme Participants** means each Alinta Shareholder and each Alinta Optionholder as at 5.00pm on the Record Date.

**Scheme Proposal** means the implementation of the Share Scheme and the Option Scheme and the associated Capital Reduction.

**Scheme Share** means an Alinta Share on issue at the Record Date.

**Schemes** means the Share Scheme and the Option Scheme and **Scheme** means either one of them.

**SEC** means the US Securities and Exchange Commission.

**Second Court Date** means the first day on which the Court hears the application for an order under section 411(4)(b) approving the Share Scheme or, if the application is adjourned or subject to appeal for any reason, the first day on which the adjourned or appealed application is heard, which is intended to be the date on which the Court hears the application for an order under section 411(4)(b) approving the Option Scheme.

**Securities Act** means the *US Securities Act of 1933*, as amended.

**Share Plan Trustee** means the trustee of the DESP.

**Share Registry or Computershare** means Computershare Investor Services Pty Limited (ACN 078 279 277).

**Share Scheme** means a scheme of arrangement under Part 5.1 of the Corporations Act to be proposed between Alinta and Alinta Shareholders substantially in the form set out in Annexure A subject to any alterations or conditions made or required by the Court under section 411(6) and approved in writing by Alinta and the Bidder (or one such other terms as are agreed in writing between Alinta and the Bidder).

**Share Scheme Consideration** means the consideration Share Scheme Participants receive for the transfer to the Bidder of each Scheme Share under the elected Consideration Alternative determined by the terms of the Share Scheme (and described in section 13.2).

**Share Scheme Meeting** means the meeting of Alinta Shareholders convened by the Court pursuant to section 411(1) of the Corporations Act to consider the Share Scheme.

**Share Scheme Participants** means, collectively, the holders of Alinta Shares on issue on the Record Date.

**SIA** means the Amended and Restated Scheme Implementation Agreement between Alinta, the Bidder, SPI and BBIPPL dated 11 May 2007 (as amended).

**Singapore Exchange** means Singapore Exchange Securities Trading Limited.

**Small Alinta Shareholders** means those Alinta Shareholders who are shown in the Alinta Register on the Record Date to hold 1,000 Alinta Shares or less.

**SP** means Singapore Power Limited.

**SP AusNet** means the stapled entity trading as SP AusNet admitted to the official list of ASX and the Singapore Exchange on 14 December 2005.

**SPI** means Singapore Power International Pte Ltd.

**SPI Information** means the information referred to in paragraph (c) of "Preparation of, and responsibility for, this Booklet" in the Important Notice section at the front of Part B of this Booklet.

**Synergy** means Electricity Retail Corporation established by section 4(1)(c) of the *Electricity Corporation Act 2005* (Western Australia).

**S\$** means the lawful currency of Singapore.

**Takeovers Panel** means the Takeovers Panel constituted under the *Australian Securities and Investments Commission Act 2001* (Cth).

**Tax Opinion** means the independent tax opinion from Ernst & Young contained in section 14.2.

**TFN** means tax file number.

**TGP** means the sub-sea and onshore gas pipeline system which transports gas from the Longford compressor station in the Gippsland Basin in Victoria, to Tasmania.

**Third Party Proposal** means any proposal (including a scheme of arrangement) or offer (not being an Alinta Internal Restructure) which would if completed substantially in accordance with its terms, result in:

- (a) any person or persons other than the Bidder (or any of its associates) acquiring:
  - (i) an interest in all or a substantial part of the assets of Alinta; or
  - (ii) a relevant interest in more than 50% of the voting shares in Alinta; or
- (b) Alinta and another person or persons operating under a dual listed company, or similar structure.

**Total Securityholder Return** means the return earned on an investment in BBI, BBP or BBW (as the case may be) over a specified period, assuming that all relevant distributions made during the period are re-invested into the relevant security.

**Trade Practices Act** means *Trade Practices Act 1974* (Cth).

**Transaction Dividend** means any dividend or dividends which Alinta, in its discretion, notifies to the Bidder in writing and announces and pays after 11 May 2007 and on or before the Implementation Date (not including the final dividend of 8.375 cents per Alinta Share announced on 28 February 2007) which dividend or dividends must be fully franked and must not exceed in aggregate an amount per Alinta Share equal to \$500 million divided by the number of Alinta Shares on issue, plus:

- (a) the amount of any distributions that Alinta has received or becomes entitled to receive on or before the Implementation Date in respect of the Alinta Group's APA Securities divided by the number of Alinta Shares and Alinta Options on issue;
- (b) the amount of any dividends which represent payment of the APA Distribution; and
- (c) the amount of any increase in the Share Scheme Consideration referred to in section 13.2(a)(ix).

**TRUenergy** means TRUenergy Pty Ltd (ACN 086 014 968).

**Umbrella Agreement** means the agreement between BB SPV, SPI, BBIPPL and the Bidder dated 23 March 2007.

**Unmarketable Parcel** means a parcel of securities that is not a marketable parcel as defined in the ASX Market Rules Procedures.

**US or USA or United States** means United States of America, its territories and possessions, any State of the United States, and the District of Columbia.

**US07 Class B Interests** means the interests described in section 8.7(a)(iii) of Part B of this Booklet.

**US Securities Act** means the *US Securities Act of 1933*, as amended.

**US Shareholder** means a Scheme Participant who:

- (a) is a resident of, or a person in, the United States; or
- (b) holds Scheme Shares on behalf of a resident of, or a person in, the United States who beneficially owns Scheme Shares, provided that, for the avoidance of doubt, such Scheme Participant will not be a US Shareholder in respect of any other holding of Scheme Shares that is separately noted on the Register if a resident of, or a person in, the United States does not beneficially own any Scheme Shares in such separately noted holding.

**Value** means, in relation to consideration:

- (a) for any part of that consideration that consists of a cash amount or BBI EPS, that cash amount or the face value of those BBI EPS (respectively); and
- (b) for any part of that consideration that consists of securities listed on ASX, the value of those securities based on the volume weighted average price of those securities on ASX over the five Business Day period immediately after the Meeting Date.

**vested**, in relation to an Alinta Option, means that the option is then exercisable.

**VWAP** means the volume weighted average price of a particular security on ASX over a specified period of time.

**WACC** means Weighted Average Cost of Capital.

**Wattle Point Assets** means the shares in Wattle Point Wind Farm Pty Limited and its assets comprising the 55 wind turbines located at Wattle Point, South Australia.

**Wesfarmers LPG** means Wesfarmers LPG Pty Ltd (ACN 009 214 831).

**Working Capital of Alinta** means the working capital of Alinta (excluding AlintaAGL) calculated by Alinta (to be reviewed by the Investigating Accountant and in consultation with the Bidder) using the same methodology as that used by Alinta to prepare the document entitled "Alinta Working Capital – 30 June 2007" and initialled by Alinta and the Bidder for the purposes of identification. For the purposes of this definition, working capital:

- (a) includes current receivables, inventory and accounts payable (trade/other creditors);
- (b) excludes current prepayments, financial assets, deferred costs, interest receivables, hedge receivables, related party receivables and other current assets;
- (c) excludes cash, current borrowings and interest bearing liabilities, tax liabilities, provisions, financial liabilities, interest payables, hedge payables, related party payables and other current liabilities; and
- (d) excludes all items of a non-current nature.

**WST** means Western Standard Time, being the time in the State of Western Australia.

## 16.2 Interpretation

Except as otherwise provided:

- (a) All words and phrases used in this Booklet have the meanings (if any) given to them by the Corporations Act, the Listing Rules or the ASTC Settlement Rules.
- (b) Headings are for ease of reference only and will not affect the interpretation of this Booklet.
- (c) Words importing the singular, where the context requires, include the plural and vice versa and words importing any gender include all genders.
- (d) References to sections are sections of this Booklet unless stated otherwise.
- (e) A reference to:
  - (i) legislation (including subordinate legislation) is to that legislation as amended, re-enacted or replaced, and includes any subordinate legislation issued under it;
  - (ii) a document or agreement, or a provision of a document or agreement, is to that document, agreement or provision as amended, supplemented, replaced or novated;
  - (iii) a person includes any type of entity or body of persons, whether or not it is incorporated or has a separate legal identity, and any executor, administrator or successor in law of the person; and
  - (iv) anything (including a right, obligation or concept) includes each part of it.
- (f) If a word is defined, another part of speech has a corresponding meaning.
- (g) If an example is given of anything (including a right, obligation or concept), such as by saying it includes something else, the example does not limit the scope of that thing.
- (h) A reference to **information** is to information of any kind in any form or medium, whether formal or informal, written or unwritten, for example, computer software or programs, concepts, data, drawings, ideas, knowledge, procedures, source codes or object codes, technology or trade secrets.
- (i) Words defined in the GST Law have the same meaning in sections concerning GST.
- (j) The word **applicable** when used of a law is used to refer to any relevant law (including any subordinate or delegated legislation or statutory instrument of any kind) of a jurisdiction in or out of Australia, and also to any relevant judgment, order, policy, guideline, official directive or request (even if it does not have the force of law) of any Government Agency within or outside Australia.
- (k) Unless otherwise stated, a reference to time in this document is a reference to time in Perth, Western Australia.
- (l) The word "includes" in any form is not a word of limitation.
- (m) A reference to an asset includes a right or other property.
- (n) References to paragraphs are references to paragraphs within the section of this Booklet in which the reference to the paragraph is made.

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