

14 February 2006

ASX Announcement

ACQUISITION OPPORTUNITY: 'below rail' business of Australian Railroad Group

Babcock & Brown Infrastructure (BBI) today confirms that it will be offered the opportunity to consider an investment in the below rail business of Australian Railroad Group (ARG).

The ARG "below rail" (ie rail network infrastructure) business that will be offered to BBI consists of track (approximately 5,000 km) leased from the Western Australian Government under long term leases expiring in 2049. The below rail business provides access to that track to railway operators and end customers and has been acquired by Babcock & Brown (ASX: BNB) for \$853.5 million plus transaction costs and upfront provisions. (Refer separate announcement by BNB attached).

The "above rail" (ie rail haulage) business of ARG is being purchased by Babcock & Brown's transaction partner, Queensland Rail ("QR") and was negotiated on a private treaty basis. The transaction is subject to the receipt of a number of regulatory approvals including ACCC and FIRB. The transaction will not reach financial close before 31 March 2006.

The below rail assets which have been acquired by Babcock & Brown potentially meet BBI's investment criteria. Babcock & Brown Infrastructure Management Pty Ltd (BBIM), as manager of BBI, will be conducting its own due diligence on the below rail opportunity to determine whether the opportunity satisfies BBI's investment criteria and would be in the best interests of BBI's security holders.

Any investment decision will be made by the independent directors of the BBI Board, and will be made following consideration of a recommendation made by BBIM, after completion of its due diligence.

The earliest that the investment can complete is 31 March 2006. Following completion of the recently announced entitlement issue, BBI would have sufficient funds to undertake this investment (if approved) without the need to raise further equity capital.

Further detail on the opportunity to acquire ARG's below rail business can be found in the attached release to the ASX by Babcock & Brown (BNB).

ENDS

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About Babcock & Brown Infrastructure

Babcock & Brown Infrastructure (ASX: BBI) is a specialist investment vehicle which provides investors access to a diversified portfolio of quality infrastructure assets. BBI's investment strategy focuses on identifying, acquiring and operating quality infrastructure investments in Australia and internationally. Its investments include:

- Dalrymple Bay Coal Terminal - one of the worlds largest coal export facilities, located in Queensland, Australia;
- Powerco – the second largest electricity and gas distribution business in New Zealand;
- IEG – a gas distribution and supply business in the United Kingdom, Channel Islands, Isle of Man and Portugal;
- Ecogen – gas-fired electricity generation plants in Victoria, Australia;
- Redbank – a coal tailings-fired electricity generation plant in New South Wales, Australia;
- B&B Wind Partners – a 16.5% equity stake in a portfolio of 15 wind energy farms in the US, Spain, Germany, United States and Australia;
- PD Ports – a 100% interest in the United Kingdom's second largest port operator and the owner of the largest port in the industrial north-east; and
- Cross Sound Cable - a HVDC transmission cable which links the electricity grids of Long Island and Connecticut in the United States (subject to receipt of final approvals in the US).

BBI is managed by Babcock & Brown Infrastructure Management Pty Limited (BBIM), a wholly owned subsidiary of Babcock & Brown Limited (ASX: BNB), a global investment and advisory firm with longstanding capabilities in structured finance and the creation, syndication and management of asset and cash flow-based investments, particularly infrastructure investments.

BBI is listed on the Australian Stock Exchange and currently has a market capitalisation of approximately A\$1.85 billion.

For further information please visit our website: www.bbinfrastructure.com

14 February, 2006

ASX Release

Babcock & Brown acquires “below rail” business of Australian Railroad Group

International investment and advisory business Babcock & Brown (ASX: BNB) today announced the acquisition of the “below rail” business of Australian Railroad Group Pty Ltd (ARG) for \$853.5 million plus transaction costs and upfront provisions. The purchase price represents a 2007 EV/EBITDA multiple of 7.7 times. The “above rail” business is being purchased by Babcock & Brown’s transaction partner, QR (“Queensland Rail”) and was negotiated on a private treaty basis. The transaction is subject to the receipt of a number of regulatory approvals including ACCC and FIRB and the transaction is expected to reach financial close before 30 June 2006.

Peter Hofbauer, Babcock & Brown’s Head of Global Infrastructure said “We are very pleased to have successfully worked with our partner Queensland Rail to secure this business”.

Berry Talintyre from Babcock & Brown said “This acquisition will build on Babcock & Brown’s significant experience in the rail sector. Rail infrastructure and equipment are asset classes that require increasing levels of private sector participation, both in Australia and offshore, and this acquisition positions us well to participate in new opportunities in the sector.”

The agreement to acquire the business has been entered into by a wholly owned subsidiary of Babcock & Brown. Babcock & Brown intends to offer to Babcock & Brown Infrastructure (ASX: BBI) the opportunity to acquire the business on the same terms and conditions as it has concluded with the vendors plus transaction costs and upfront provisions. BBI is expected to undertake its own review of the acquisition and, if it is approved by the BBI Board, may be assigned to BBI prior to completion of the transaction. The acquisition will be considered by the independent directors of the BBI Board following completion of detailed due diligence.

If the BBI Board elects not to acquire the business Babcock & Brown will syndicate the investment opportunity to wholesale investors seeking exposure to infrastructure assets with strong stable cashflows.

The Business

ARG is one of Australia's largest private rail operators, operating mainly throughout Western Australia and South Australia, with smaller operations in the Northern Territory and New South Wales. ARG is owned equally by Wesfarmers Limited and US international rail operator, Genesee & Wyoming Inc.

The ARG “below rail” business leases track from the Western Australian (approximately 5,000 km) and South Australian Governments under long term leases (expiring in 49 years and 50 years from commencement in December 2000 and October 1997 respectively) and provides access to that track to railway operators and end customers.

The acquisition relates solely to the Western Australian “below rail” business, WestNet Rail, which offers track access to both the ARG “above rail” operations and third party rail operators. It is responsible for maintaining track infrastructure, supply of the train control function and determination of track access fees and overall access management.

The “below rail” business revenue is derived from the receipt of access charges. This revenue is supported by the existing customer freight haulage contracts and several direct access contracts, most of which are long term and contain options for contract renewal.

The primary customers of the business include Australia Western Railroad (being acquired by QR), Pacific National, WA government operated passenger trains and SCT. The business is exposed to certain fluctuations in commodity volumes including grain, iron ore, alumina, bauxite, caustic, sulphur, coal, mineral sands and nickel. Historical volume growth has broadly been in line with growth in WA GSP (gross state product) which has experienced an average growth rate of 4.1% a year over the ten years to 2004-05. The top nine ultimate customers of the business contribute in excess of 90% of total contracted revenue for the business.

The key operating costs of WestNet Rail are labour and infrastructure maintenance, and are relatively fixed. Capital expenditure is required for both sustaining and growth purposes. Capital expenditure in excess of the long term average stay in business capital expenditure levels is contemplated over the next few years in order to ensure that the track condition not only meets regulatory and safety requirements but also forms a solid foundation for future demand growth on the rail network.

Babcock & Brown will enter into a number of agreements in relation to this transaction including a long term access agreement with QR based on the standard WestNet agreement. WestNet Rail’s access arrangements are regulated by the WA Economic Regulation Authority under the WA Railways (Access) Code 2000 (‘Code’) with the WA rail regulatory regime becoming fully operational in 2001. Under the Code the “below rail” revenues are regulated by means of revenue floors and ceilings on routes or route sections as prescribed by the regulator. The caps are based on the gross replacement value of the line. The regulator has recently satisfactorily concluded the first 3 year anniversary review on the effectiveness of the regime.

In addition the Council of Australian Governments (“COAG”) meeting released a communiqué on Friday 10th February regarding a new national infrastructure reform

agenda. COAG has agreed a new reform agenda aimed at providing a supportive market and regulatory framework for productive investment in energy, transport and other export-oriented infrastructure, and its efficient use, by improving pricing and investment signals and establishing competitive markets. Details can be found on the COAG website www.coag.gov.au. Babcock & Brown welcomes this initiative and looks forward to participating in the process as outlined by COAG.

Please see attached further details on the acquisition.

Ends

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About Babcock & Brown

Babcock & Brown is a global investment and advisory firm with longstanding capabilities in structured finance and the creation, syndication and management of asset and cash flow-based investments. Babcock & Brown was founded in 1977 and is listed on the Australian Stock Exchange.

Babcock & Brown operates from 18 offices across Australia, the United States, Europe, Asia and Africa and has in excess of 600 employees worldwide. Babcock & Brown has five operating divisions including real estate, infrastructure and project finance, operating leasing, structured finance and corporate finance. The company has established a funds management platform across the operating divisions that has resulted in the establishment of a number of focused investment vehicles in areas including real estate, renewable energy and infrastructure.

For further information please see our website: www.babcockbrown.com

Overview of ARG's Western Australian "Below Rail" Business

1. Introduction

Australian Railroad Group Pty Ltd ("ARG") is one of Australia's largest private rail operators, operating mainly throughout Western Australia and South Australia, with smaller operations in the Northern Territory and New South Wales. ARG is owned equally by Wesfarmers Limited and US international rail operator, Genesee & Wyoming Inc (together, the "Vendors") who acquired the WA related business through the privatization of Westrail Freight in December 2000 and the SA business (Genesee & Wyoming only) through the Australian National privatization process in October 1997.

ARG, through various subsidiaries, operates a "below rail" business which leases track from the Western Australian government (approximately 5,000 km) and South Australian government under long term leases (expiring in 49 years and 50 years from commencement respectively) and provides access to that track to railway operators and end customers.

ARG also operates an "above rail" business which currently carries approximately 50 million tonnes of rail freight annually. ARG has approximately 1,100 employees (including c.175 "below rail" related employees), 200 locomotives (standard, narrow and broad gauge), over 3,000 wagons (standard, narrow and broad gauge plus approximately 600 wagons owned by customers and maintained by ARG), a range of depots, terminals and barracks and operates over approximately 10,000 kilometres of track.

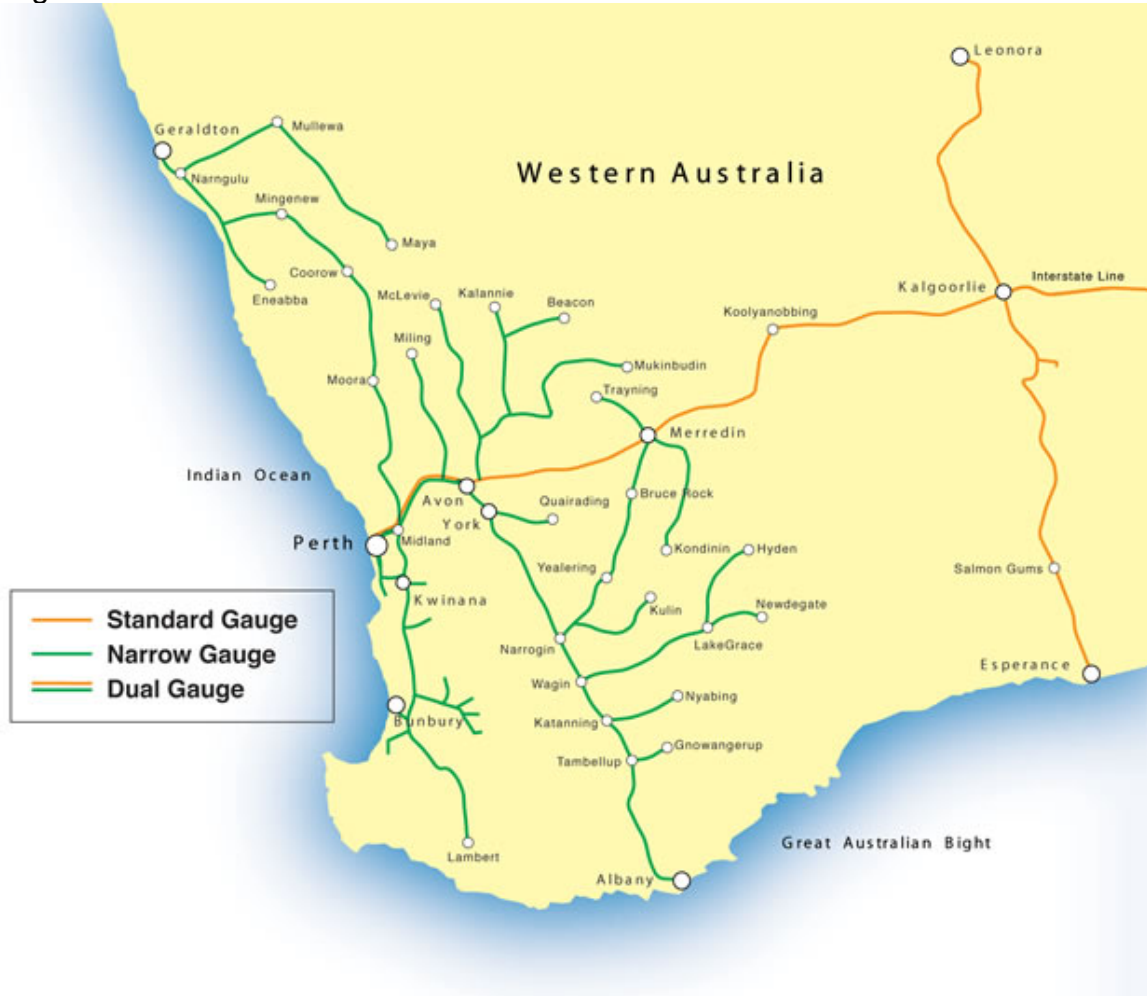
Selected related companies are also a member of the Asia Pacific Transport Consortium ("APTC") which has built and now operates the Alice Springs to Darwin Railway line.

The Transaction involves:

- i. A special purpose vehicle owned by Babcock & Brown ("BNB") or (if approved) Babcock & Brown Infrastructure purchasing the WA "below rail" business;
- ii. Queensland Rail (BNB's partner) purchasing the WA "above rail" business, P&O intermodal haulage business between Adelaide and Melbourne, Manildra haulage business in NSW and access to certain depots and facilities in South Australia; and,
- iii. The South Australian based above and "below rail" businesses, Northern Territory business and fuelling business being sold to Genesee & Wyoming.

A diagram of the ARG network in Western Australia (“WA”) being purchased by BNB is attached below:

Diagram 1: ARG Network in Western Australia



2. Outline of Existing ARG Group

Structure of ARG Group

ARG is currently operated as a vertically integrated business, but is split into the following main operating entities:

WestNet Rail which operates in Western Australia and offers track access to both the ARG “above rail” operations and third party rail operators. It is responsible for maintaining track infrastructure, supply of the train control function and determination of track access fees and overall access management. The primary customers of the WA “below rail” business include Australian Western Railroad (refer below), Pacific National, WA government operated passenger trains and SCT.

Australia Western Railroad (“AWR”) in Western Australia, whose business consists predominantly of transporting bulk intrastate rail freight. Annually, it

provides some 40,000 train services, transports about 60,000 containers and moves approximately 1.5 million tonnes by road feeder services. Main freight commodities include grain, alumina, bauxite, iron ore, nickel ore, mineral sands and woodchips.

Almost 95 percent of the freight carried by ARG in Western Australia is related to exports through the ports of Geraldton, Fremantle, Kwinana, Bunbury, Albany and Esperance.

Australia Southern Railroad in South Australia, which operates both the above and “below rail” businesses in South Australia. ARG’s South Australian operation provides intrastate rail freight services in South Australia for the haulage of bulk commodities including grain, gypsum, iron ore and limestone. It is also a major supplier of locomotives, crews and wagon leasing services to freight forwarding companies and infrastructure providers operating on interstate rail corridors. ARG’s South Australian operations have operating rights in Victoria, the Northern Territory, South Australia, Western Australia and New South Wales.

As stated above the majority of this business and related legal entities is being sold to Genesee & Wyoming.

Adelaide to Darwin business which owns a minor stake in the Asia Pacific Transport Consortium which owns and operates an approximate 1400 km rail line from Alice Springs to Darwin in the Northern Territory. It also owns a minor stake in the import-export freight company, FreightLink, which provides “above rail” services on that line.

As stated above, this business will be sold to Genesee & Wyoming.

New South Wales business which is an “above rail” only business and involved in the transportation of flour for Manildra. This business is being purchased by QR.

3. ARG Business Model

ARG’s key haulage customers (i.e. generally direct customers of the “above rail” business) include AWB/CBH, Portman, Alcoa, BHP Biliton, Worsley Alumina, Minara, Iluka Resources, Manildra, Mt Gibson and P&O. These customers account for in excess of 80% of ARG’s total freight revenue. The “below rail” operations do not earn revenue from Manildra (NSW) or P&O (SA/Victoria).

Below Rail Business Model

(i) Revenue

The “below rail” business revenue is (and will continue to be) derived from access charges paid by rail operators and occasionally directly by end customers. This revenue is supported by the existing customer freight haulage contracts and

several direct access contracts, most of which are long term and contain options for contract renewal.

Volume assumptions have been based on:

- 2006-2010 – ARG corporate plans, current end user negotiations with ARG, existing volumes and contracts, and announced customer expansion plans;
- 2010-2020 – medium to long term trends +/- WA indicators, expansion plans for specific products and taking into account forecast mine lives etc; and
- 2020-2049 – long term economic indicators adjusted for WA and mineral factors.

Access pricing is based on existing customer arrangements and a new access agreement to be entered into with QR relating to the AWR haulage upon completion of the Transaction.

(ii) Operating Costs

The majority of ARG's "below rail" operating costs are fixed and include permanent way maintenance, access management, train control and general administrative costs. ARG, like most railway networks, has a long term permanent way maintenance program that remains largely constant in real terms over the life cycle of the track network (up to 50 years). Estimates for all the operating expenditure items for the infrastructure lease term have been provided by an experienced independent technical consultant (taking into account the volume growth projections) in the business model, with the exception of corporate overheads, which are based on information sourced directly from ARG and reviewed by the independent accountants.

(iii) Capital Expenditure

A conservative capital expenditure program consistent with future haulage growth is assumed for the "below rail" assets for the remaining duration of the Infrastructure Lease. The base case assumes a significant capital expenditure buffer over what was proposed by WestNet Rail and approved by the WA Government as a sufficient level of permanent way capital expenditure over the next five years.

The rationale for this conservatism is driven by a desire to commit additional "catch-up" capital expenditure in the near term so as to ensure that the track condition not only meets the regulatory and safety requirements, but also forms a solid foundation for future demand growth on the rail network.

A recent compliance audit undertaken by Worley Parsons on behalf of the WA Government (required every 5 years under the Lease) confirmed, with few minor exceptions, that WestNet Rail complies with the Initial Performance Standards under its Infrastructure Lease. The 5 year maintenance plan agreed recently

between ARG and the WA government includes expenditure designed to remedy these exceptions to compliance.

The forecasts of network capacity expenditures had been carried out on a line by line basis over the life of the lease by BNB's independent technical consultant. Material expansion on the South West Main line (SWM) and EGR is expected to be incurred in the next five years to accommodate the growth in iron ore production. In approximately 20 years, the cumulative forecast tonnage growth on the SWM will require the whole line to be duplicated.

(iv) Management

In general, the overriding principle regarding management and employees for both the "above" and "below rail" businesses going forward is to retain the existing ARG management and employees as far as possible due to the high calibre of the people and their relevant experience. Minimal redundancies are anticipated. In addition the "below rail" business will be complemented by the resources of the Babcock & Brown Group.

4. Historical Pro-Forma Financial Overview

The two tables below provide pro-forma financial information relating to the "below rail" business only.

"Below Rail" Operations - Financial Summary for the Year Ended 30 June 2005

	Notes	\$m
Revenue	1	189.7
EBITDA	2	114.7
Interest	3	36.1
Pro forma Capital Expenditure	4	40.1

Notes

1. Pro-forma revenue is based on actual volumes for the year ended 30 June 2005 and the rates agreed in the access agreement with QR for the calendar year ending 31 December 2006.
2. Pro-forma EBITDA is based on pro-forma revenue and actual expenditure of the ARG group for the year ended 30 June 2005
3. Pro-forma interest is based on debt on acquisition of \$520m at an average interest rate of 6.95%.
4. Pro forma capital expenditure reflects the average actual 'stay in business' capital expenditure for the last four years. Higher levels of 'stay in business' capital expenditure together with a total of \$70 million of capacity and 'make good' capex are expected to be made over the next five years. The increased level of capex reflects the expected volume increases over the same period as selected projects ramp up production.
5. No tax payment is expected to be made in 2006.

BELOW RAIL PRO-FORMA BALANCE SHEET 30 JUNE 2005

Current Assets

Cash and Cash Equivalents	9,628
Trade and Other Receivables	18,864
Inventories	3,899
Prepayments	2,582
Total Current Assets	34,973

Non Current Asset

Property, Plant and Equipment	414,204
Deferred Income Tax Asset	93,094
Total Non-current Assets	507,298
Total Assets	542,271

Current Liabilities

Accounts Payable	13,373
Income Tax Payable	187
Provisions	5,203
Total Current Liabilities	18,764

Non Current Liabilities

Debt (assume facility fully drawn)	520,000
Provisions	772
Deferred Tax Liability	16,450
Derivatives	9,901
Deferred Revenue	2,334
Total Non-Current Liabilities	549,457
Total Liabilities	568,221

Net Assets (25,950)

Net fair value adjustments 420,150

Acquisition Cost of Equity Plus Costs 394,200

5. Overview of Risk Factors

i. Demand Risk

Expected usage of rail haulage services in WA is based on various expansion announcements, stated mine lives, historical growth trends and long term macro-economic forecasts. QR does not underwrite tonnage travelling across the track. Independent consultants for BNB and QR have developed the forecast volumes and haulage revenue for BNB and QR and taken into account the type of product hauled (generally ideally suited to rail), existing customer contracts, distances

hailed, any competing transport modes, history of carriage, project expansion plans and mine lives, independent GDP and minerals growth forecasts etc.

ii. Economic Risk

ARG is exposed generally to factors that may adversely affect the performance of the Western Australia economy and conditions at key export markets for its mineral and agricultural products. The service demanded by end user customers will be influenced by the level and cyclical nature of the business activities in these regions.

iii. Regulatory Risk

Below rail access charges have been agreed with QR for a period of 20 years relating to the AWR haulage and documented in an access agreement based on the standard WestNet agreement. Other access arrangements remain as per the existing arrangements.

WestNet Rail's access arrangements are regulated by the WA Economic Regulation Authority under the WA Railways (Access) Code 2000 ('Code') with the WA rail regulatory regime having become fully operational in 2001. Under the Code the "below rail" revenues are regulated by means of revenue floors and ceilings on routes or route sections as prescribed by the regulator. The caps are based on the gross replacement value of the line. The regulator has recently satisfactorily concluded the first 3 year anniversary review on the effectiveness of the regime.

In addition the Council of Australian Governments ("COAG") meeting released a communiqué on Friday 10th February regarding a new national infrastructure reform agenda. COAG has agreed a new reform agenda aimed at providing a supportive market and regulatory framework for productive investment in energy, transport and other export-oriented infrastructure, and its efficient use, by improving pricing and investment signals and establishing competitive markets. WestNet Rail will be an active participant in this process.

iv. Operating Risk

Rail is a component of an integrated logistic operation. Delay caused by any other component of this operation can influence the effectiveness and impede the cash flow generation of the "below rail" business. Unplanned delays at the mines, industrial relations issues in the "above rail" business, or demurrage at the port terminals can all contribute to potential loss of revenue. However, the "below rail" business will be protected to an extent via a level of take or pay payments in several of the end customer contracts and flagfall charges in the access arrangements.

v. Integration Risk

A program of key staff identification and retention has been developed and is in progress. The aim of this is to ensure that there is no adverse effect on the day-to-day operational outcomes of the “below rail” business. There will also be a six month transitional phase from Completion whereby BNB and QR will share certain resources and/or assist each other at cost so as to enable the parties a reasonable time period with which to finally split and integrate the businesses.

vi. Interest Rate Risk

BNB intends to hedge the interest rate risk for the existing debt beyond 2007 with ARG having exposure to interest rate movements. The company's current medium term borrowing rate is fixed but is based on high base rates. Upon financial close, it is intended that a new set of hedges will be put in place to manage exposure to any long term interest rate movements.

vii. Liquidity Risk

The current ARG corporate facility is based on an accounting based debt covenant of 2.5 to 3.0 times EBITDA interest cover. A cash reserve of A\$40 million has been incorporated in the acquisition financing plan in order to mitigate against any seasonality variation associated with the grain component of the haulage.

viii. Inflation Risk

Revenue is linked to inflation and capped at the regulatory ceiling (where applicable). The rail regulatory regime in WA allows asset owners to propose regular reviews of ceiling costs to more closely reflect actual cost increases.

ix. Construction Risk

Existing asset condition, regulatory requirements, lease conditions and forecast demand growth were all factors considered by the independent technical consultant in developing future capital expenditure forecasts. BNB is likely to retain some residual risk that the specified projects are not completed within budget, within the agreed timeframe, to the agreed specifications or successfully integrated into existing operations.

6. Material Contracts

Key Transaction Documents

The “below rail” business has, or will, enter into the following key agreements in relation to the Transaction:

i. Share Sale Agreement.

This agreement provides for the acquisition of the shares in ARG. As the “below rail” business will immediately sell the “above rail” related operating entities within the ARG Group to QR, the agreement contains mechanisms for the various representations and warranties given by the Vendors to be enforced directly by QR where relevant. The Agreement also provides for a deposit to be paid on signing. The deposit is refundable in the event that the conditions precedent are not satisfied or waived (primarily relating to regulatory approvals).

The timing for Completion included in the Share Sale Agreement is the latter of 31 March 2006 or the date of satisfaction or waiver of the conditions precedent. Other provisions of this agreement are typical for a Transaction of this nature, albeit more complex due to the splitting of the business on acquisition.

ii. Access Agreement.

This agreement will be entered into between the “above rail” entity acquired by QR (AWR) and the “below rail” entity to be acquired by BNB (WestNet Rail) upon completion. Under the agreement WestNet will grant to the QR “above rail” entity access rights to the track infrastructure. These access rights are based on the existing haulage contracts that QR will acquire. The term of the access arrangements link in to the term of the existing haulage contracts and take into account any renewals or extension options. The agreement will also set out the access charges to be paid based on certain tonnages, lines and capacity to be provided to the “above rail” business. The agreement is based on the standard access agreement currently utilized by ARG.

iii. Joint Acquisition Agreement.

This document outlines the basis on which Babcock & Brown and QR have entered into agreement to acquire ARG. Specifically it deals with:

- The allocation of the deposit and purchase price between BNB and QR.
- The internal ARG restructure required to correctly align the “above rail” and “below rail” businesses including:
 - the transfer of the NSW business and QR SA related assets out of ARG (parent entity);

- the transfer of certain IT systems to QR;
 - the release of ARG from guarantees on any “above rail” contracts including, cross border leases for rolling stock; and,
 - the assignment of all rail haulage contracts to QR entities.
- “Below rail’s” obligations to sell the restructured “above rail” business to QR.
 - The allocation of warranty and indemnity caps between “below rail” and “above rail”.
 - The allocation of completion adjustments between “above rail” and “below rail”.
 - Appropriate indemnities between “above rail” and “below rail”.
 - This agreement also provides for transitional arrangements between the “below rail” and “above rail” businesses so that the ARG business can continue to operate during the process of separation and immediately thereafter. These services include IT, HR and payroll, general ledgers and shared staff. It is envisaged that these services will be provided on a cost recovery basis during the first 6 months following completion but that thereafter both parties would operate independently of each other on a more commercial basis.

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