BABCOCK & BROWN
WIND PARTNERS

Babcock & Brown Wind Partners Limited · ABN 39 105 051 616
Babcock & Brown Wind Partners Trust · ARSN 116 244 118
Babcock & Brown Wind Partners Bermuda Limited · ARBN 116 360 715
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ASX Release

7 September 2006

APPENDIX 4E AND FINANCIAL STATEMENTS TO 30 JUNE 2006

Attached are the Appendix 4E and financial statements to 30 June 2006 for Babcock & Brown Wind Partners.

ENDS

Further Information:

Peter O'Connell	Rosalie Duff
Chief Executive Officer	Investor Relations Manager
Babcock & Brown Wind Partners	Babcock & Brown Wind Partners
Phone: +61 2 9229 1800	Phone: +61 2 9229 1800

BABCOCK & BROWN
WIND PARTNERS

About Babcock & Brown Wind Partners

Babcock & Brown Wind Partners (ASX: BBW) is a specialist investment fund focused on the wind energy sector. BBW listed on the Australian Stock Exchange on 28 October 2005 and has a market capitalisation of approximately A$850 million.

It is a stapled entity comprising Babcock & Brown Wind Partners Limited (ABN 39 105 051 616), Babcock & Brown Wind Partners Trust (ARSN 116 244 118) and Babcock & Brown Wind Partners (Bermuda) Limited (ARBN 116 360 715).

BBW's portfolio comprises an interest in or agreement to buy 23 wind farms on three continents that have a total installed capacity of approximately 1,150 MW and are diversified by geography, currency, equipment supplier, customer and regulatory regime.

BBW is managed by Babcock & Brown Infrastructure Management Pty Limited, 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. Babcock & Brown has a long history of experience in the renewable energy field and extensive experience in the wind energy sector, having arranged financing for over 3000MW of wind energy projects and companies for nearly 20 years, with an estimated value over US$3 billion. Babcock & Brown's roles have included acting as an adviser/arranger of limited recourse project financing, arranging equity placements, lease adviser, project developer, principal equity investor and fund manager for wind energy projects situated in Europe, North America and Australia. Babcock & Brown has developed specialist local expertise and experience in the wind energy sector in each of these regions which it brings to its management and financial advisory roles of BBW.

BBW's investment strategy is to grow security holder wealth through management of the initial portfolio and the acquisition of additional wind energy generation assets.

For further information please visit our website : **www.bbwindpartners.com**

BABCOCK & BROWN WIND PARTNERS GROUP

APPENDIX 4E

Preliminary Final Report

Name of entity:	**Babcock & Brown Wind Partners ("BBW"), a stapled entity comprising Babcock & Brown Wind Partners Limited (ABN 39 105 051 616), Babcock & Brown Wind Partners (Bermuda) Limited (ARBN 116 360 715), and Babcock & Brown Wind Partners Services Limited (ABN 61 113 813 997) (AFSL 290 710), as Responsible Entity of the Babcock & Brown Wind Partners Trust (ARSN 116 244 118)**
ABN:	**As Above**

Details of the reporting period

Current Period:	1 July 2005 - 30 June 2006
Previous Corresponding Period:	1 July 2004 - 30 June 2005

Results for announcement to the market

		% Movement	2006 A$'000	2005 A$'000
2.1	Revenues from ordinary activities*	308.0%	67,750	16,607

* Comprises product revenue. The inclusion of the compensation for loss of revenue of $5,250,000 results in revenue of $73,000,000. This represents an increase of 340% over 2005.

2.2	Profit / (Loss) from ordinary activities after tax attributable to members	N/A	(16,235)	2,674
2.3	Loss for the period attributable to members	N/A	(16,235)	2,674
2.4	Distributions	**Amount per security**	**Franked amount per security**	
	Final distribution Interim distribution	5.1 cents 5.1 cents	- -	
2.5	Record date for determining entitlement to the Final Distribution	30 June 2006		
2.6	Provide a brief explanation of any of the figures reported above necessary to enable the figures to be understood: Refer to section 14			

3. Income Statement with notes

Refer to the Income Statements in the attached financial statements.

4. Balance Sheet with notes

Refer to the Balance Sheet in the attached financial statements.

5. Cash Flows Statements with notes

Refer to the Cash Flows Statements in the attached financial statements.

6. Details of distributions

	Record Date	Payment Date
2006 Interim Distribution	31 December 2005	23 March 2006
2006 Final Distribution	30 June 2006	29 September 2006

BBW anticipates that it will pay a final distribution of 5.1 cents per stapled security on 29 September 2006. In March 2006, BBW paid an interim distribution of 5.1 cents per stapled security. The distribution that is paid on 29 September 2006 will be fully tax deferred.

7. Details of distribution reinvestment plan

Babcock & Brown Wind Partners established a Distribution Reinvestment Plan (DRP) in June 2006 under which eligible stapled security holders were invited to reinvest part of any distribution received in additional stapled securities.

In relation to participating in the DRP for the 2006 Final Distribution, eligible stapled security holders were required to lodge their DRP application forms with the registry by 30 June 2006.

The price of stapled securities issued under the DRP is determined by the market price formula detailed in the DRP Terms and Conditions booklet. For the 2006 Final Distribution, the Boards of the BBW entities have determined to allot the new BBW stapled securities under the DRP to participating security holders at a discount of 2.5% to the weighted average market price of the stapled securities as calculated in accordance with the terms and conditions of the DRP.

Unless subsequently amended or withdrawn, DRP application forms received by the registry following 30 June 2006 will be included as DRP participants for future distribution payments.

8. Statement of retained earnings showing movements

Refer to the attached financial statements (Note 20, Retained Earnings)

9.Net tangible asset backing per unit

	Current Period	Previous Period
Net tangible assets backing per stapled security	1.30	N/A*

The previous period is disclosed as not applicable as a result of the significant change in operations. Additionally, the comparative period was prior to the entity listing on the Australian Stock Exchange ("ASX").

10. Control gained or lost over entities during the period

10.1 Name of entity (or group of entities) over which control was gained	1. Montes de Leon, SAU 2. B&B Eifel UK Limited 3. Serra da Loba SAU 4. Societe d'Exploitation du Parc Eolien de Fond due Moulin SARL 5. Societe d'Exploitation du Parc Eolien Le Marquay SARL 6. Societe d'Exploitation du Parc Eolien de Mont Felix SARL 7. Del Sardon SAU 8. Babcock & Brown Wind Partners-US LLC
10.2 Date control was gained	1. 27 October 2005 2. 1 January 2006 3. 3 March 2006 4. 30 March 2006 5. 30 March 2006 6. 30 March 2006 7. 10 May 2006 8. 30 June 2006
10.3 Consolidated profit after tax from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) since the date in the current period on which control was acquired	1. $802,000 2. $303,000 3. $951,000 4. Nil (under construction) 5. Nil (under construction) 6. Nil (under construction) 7. $198,000 8. Nil
10.4 Profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) for the whole of the previous corresponding period	Not applicable

Refer to the attached financial statements (Note 26, Subsidiaries and Note 27, Acquisition of Businesses) for further information regarding the subsidiary entities.

11. Details of associates and joint venture entities

11.1 Name of entity (or group of entities) over which significant influence was gained	1. Blue Canyon Windpower, Eurus Combine Hills, Sweetwater 1, Sweetwater 2, Caprock 2. Crescent Ridge Holdings LLC
11.2 Date significant influence was gained	1. 30 November 2005 2. 30 June 2006
11.3 Percentage holding in the associate	Refer to Note 9, Investments Accounted for Using the Equity Method, of the Financial Statements
11.4 Consolidated profit after tax from ordinary activities and extraordinary items after tax of the associate (or group of entities) since the date in the current period.	1. $2,074,000 2. Nil
11.5 Profit (loss) from ordinary activities and extraordinary items after tax of the associate (or group of entities) for the whole of the previous corresponding period	Not applicable

12. Other significant information

Refer to the attached Directors' Report and ASX announcement.

13. Accounting standards used by foreign entities

Refer to the attached financial statements Note 1 Statement of Significant Accounting Policies.

14. Commentary on results

Babcock & Brown Wind Partners (ASX: BBW) today announced its FY2006 final result and confirmed payment of a fully taxed deferred final distribution of 5.1 cents per stapled security to be paid to security holders on 29 September 2006 taking total fully tax deferred distributions for FY 2006 to 10.2 cents per stapled security as forecast at the time of the IPO.

The 2006 financial year produced a sound performance for security holders with total product revenue of $73m and EBITDA (after associates) of $51.8m being achieved. The composition of the result, as previously outlined in the Supplementary Investor Information released to the market on 14 August 2006, was different from initial expectations.

In summary the result contained a number of non-recurring items and operational variances. These events resulted in BBW not achieving the FY 2006 Directors' forecast for revenue of $77m and EBITDA (after associates) of $57.5m. The non-recurring items included delays in the acquisitions of the Olivo wind farms in Spain, and delayed construction of the Niederrhein wind farm in Germany, which collectively resulted in a $9.3m revenue reduction.

The impact of the delays was further exacerbated by low wind conditions in May and June across the European portfolio and at Lake Bonney 1 which resulted in a $8.7m revenue reduction.

Operational variances such as the receipt of pre-commissioning revenues from the Alinta wind farm, increased tariffs available under the Spanish market option, and the contribution from Eifel, which was not originally included in the FY 2006 Directors forecast help to mitigate the impact from these variances. BBW also reached a commercial settlement with Vestas resulting in $5.3 million compensation paid to BBW for loss of revenue because of commissioning issues at the Alinta wind farm. Collectively these items contributed $14m in revenue and to some extent offset the non-recurring factors.

The combined financial impact of the delays, operational variances and compensation, resulted in EBITDA (after associates) to be $5.7m below FY 2006 Directors' forecast. Net interest paid was $5.4 million below FY06 Directors' forecast, because of acquisition delays, which had a positive impact on operational cash flows. The aggregate impact of reduced EBITDA (after associates) and reduced interest expense resulted in a positive impact of $0.3 million on operational cashflows.

Outlook

Over the long term, it is BBW's objective to build security holder wealth through the ongoing management and operation of a diversified portfolio of high quality wind energy investments.

BBW's gearing remains conservative, with a net debt to net debt plus equity ratio of 30.9% on a consolidated basis. In terms of managing the next phase of growth, a review of BBW's corporate debt and capital structure is currently underway. BBW has a range of funding options which will be examined and which may eliminate the need to raise any material additional ordinary equity in the near term.

BBW commences the 2007 financial year, with ownership of 19 fully operational wind farms, versus the IPO forecast of 16 and P50 generation of 1,361Gwh per annum, 21% ahead of the IPO FY 2007 forecast generation.

BBW confirmed that the distribution guidance for 2007 has been upgraded from 11.20 cents per stapled security to 12.5[1] cents per stapled security: representing an increase of 11%. Further BBW is targeting at least 3.5% compound annual growth in distributions over the medium term.

Further materials in relation to the full year result are contained within the accompanying investor presentation.

Distribution

The directors have confirmed that a fully tax deferred final distribution of 5.1 cents per stapled security for the half year end 30 June 2006 will be paid to security holders on 29 September 2006.

It is expected that the FY07 distribution will be 100% tax deferred.

[1] FY07 Distribution guidance assumes: No material reduction in Spanish tariffs, P50 wind performance, no performance fee.

DRP

BBW has previously announced the implementation of a Distribution Reinvestment Plan ("DRP"). Eligible security holders will be able to elect to reinvest distributions in the purchase of further BBW stapled securities at a discount of 2.5% from the average weighted market price (refer to the Appendix 4E Information attached for further details).

15. International Financial Reporting Standards ("IFRS")

Refer to the attached financial statements Note 33, Impacts of the adoption of Australian equivalents to IFRS.

16. Audit / review of accounts upon which this report is based

This report is based on accounts which have been audited, refer to the attached financial statements.

17. Qualification of audit / review

Not applicable

Contents

Directors' Report

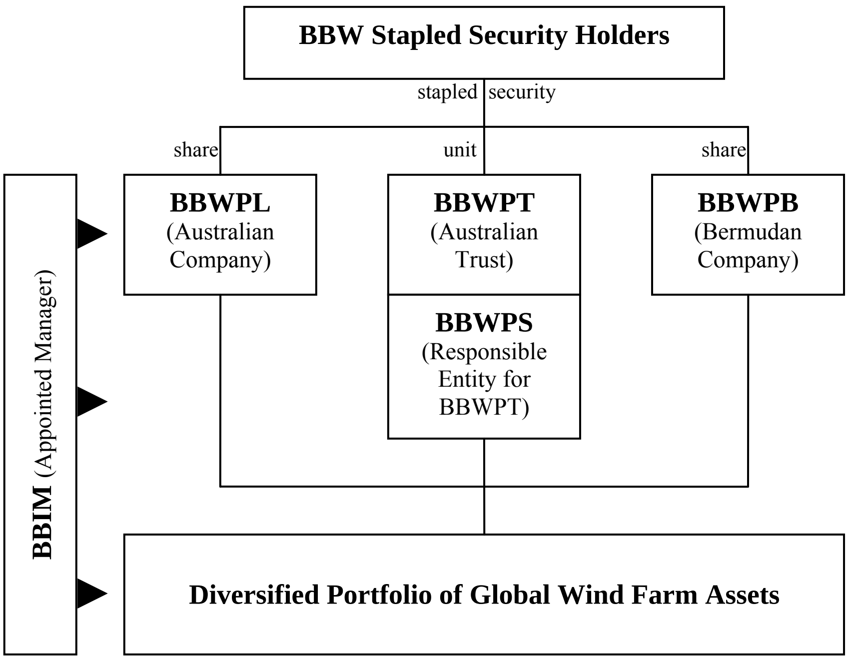
The Babcock & Brown Wind Partners Group ("**BBW**") consists of the following entities:

- Babcock & Brown Wind Partners Limited ("**BBWPL**");
- Babcock & Brown Wind Partners Trust ("**BBWPT**");
- Babcock & Brown Wind Partners (Bermuda) Limited ("**BBWPB**"); and
- the subsidiary entities of BBWPL and BBWPT.

One share in each of BBWPL and BBWPB and one unit in BBWPT have been stapled together to form a single BBW stapled security, tradable on the Australian Stock Exchange.

Babcock & Brown Wind Partners Services Limited ("**BBWPS**") is the Responsible Entity of BBWPT. Babcock & Brown Infrastructure Management Pty Limited ("**BBIM**") has been appointed as the Manager of BBW under long-term management agreements. BBWPS and BBIM are wholly owned subsidiaries of Babcock & Brown Limited ("Babcock & Brown").

The following diagram provides an overview of BBW's structure.



In respect of the year ended 30 June 2006, the directors submit the following report for BBW.

Directors

The names and particulars of the directors of BBW during or since the end of the financial year are set out below.

Name	*Particulars*
Peter Hofbauer **Chairman of BBWPL, BBWPB and BBWPS** *Appointed to BBWPL on 11 June 2003* *Appointed to BBWPB on* *14 September 2005* *Appointed to BBWPS on 14 April 2005*	Peter Hofbauer is the Global Head of Babcock & Brown's Infrastructure & Project Finance business unit and co-ordinates the group's infrastructure and project finance activities worldwide. He joined Babcock & Brown in 1989 and has worked in both the Sydney and London offices. Prior to joining Babcock & Brown, Peter worked with Price Waterhouse and Partnership Pacific Limited/Westpac Bank. He is also a director of Babcock & Brown Infrastructure Limited and of the responsible entity of Babcock & Brown Infrastructure Trust. Peter is also a former director of Babcock & Brown Environmental Investments Limited. Peter holds a Bachelor of Business degree and is a member of the Institute of Chartered Accountants and the Taxation Institute of Australia.
Anthony Battle **Lead Independent Director of BBWPL, BBWPB and BBWPS** *Appointed to BBWPL on 9 September 2005* *Appointed to BBWPB on* *14 September 2005* *Appointed to BBWPS on 9 September 2005*	Anthony (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. On a number of different occasions during his career, Tony has been a member of the boards of directors, executive management committees and credit committees. His most recent role was in a senior position in the Corporate & Institutional division with Calyon Australia (following the merging of the international business operations of Credit Agricole Indosuez and Credit Lyonnais) and prior to that with Credit Lyonnais, Commonwealth Bank and Partnership Pacific. Tony holds a Bachelor of Commerce. Tony is a Fellow of the Australian Institute of Company Directors and an Associate of Chartered Secretaries Australia.
Douglas Clemson **Independent Director of BBWPL, BBWPB and BBWPS** *Appointed to BBWPL on 9 September 2005* *Appointed to BBWPB on*	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. He was instrumental in the establishment of the activities of ABB Financial Services and its participation in the co-development, construction and funding of a number of important power generation, transportation and infrastructure projects in this region. Prior to joining ABB, Doug held senior line management and finance executive positions with manufacturing groups, ACI and Smiths Industries. He is the recent chairman of Redbank Power and his previous directorships include General and Cologne Reinsurance, Electric Power Transmission Group, ABB Australia, ABB New Zealand, and Smiths Industries. Prior to joining the BBW Boards he was an

14 September 2005 *Appointed to BBWPS on 9 September 2005*	independent director of Babcock & Brown Infrastructure (formerly Prime infrastructure). Doug is a qualified accountant and a Fellow of the Institute of Chartered Accountants in Australia and the Australian Institute of Company Directors.
Nils Andersen **Independent Director of BBWPS** *Appointed to BBWPS on 9 September 2005*	Until recently, Nils Andersen held a senior position within Vestas, the Danish wind turbine manufacturer. Nils worked at Vestas for over 20 years. He was based in Denmark until 2003 when he was appointed as managing director of Vestas-Australia and was responsible for sales and marketing in the Pacific Region and South Africa. Nils started his career with Vestas as the export manager, responsible for market development worldwide and with a special focus on Indian sub-continent and Asia-Pacific countries. He subsequently held a number of management positions in sales and market development reporting to the CEO and then the board. His experience expands across the globe. Nils has also held industry positions such as export trade and international development councils and between 1994 and 1998 he was the vice-president of the European Wind Industry Association. Nils has held a number of board positions within the Vestas group of companies. Before joining Vestas, Nils worked for FL Smidth, a leading manufacturer in cement plants based in Denmark. He worked with FL Smidth in Brazil, South Africa and Denmark. Nils holds a Bachelor of Engineering degree and is a mechanical engineer by training. Nils has recently relocated back to Denmark.
Warren Murphy (Babcock & Brown executive) **Director of BBWPL, BBWPB and BBWPS** *Appointed to BBWPL on 24 November 2003* *Appointed to BBWPB on* *14 September 2005* *Appointed to BBWPS on 14 April 2005*	Warren Murphy is a senior executive in the Infrastructure & Project Finance group at Babcock & Brown, based in the Sydney office. Warren has led the development of Babcock & Brown's energy sector capability in Australia and New Zealand, including the renewable energy business, and has specialised in the development of new projects in the infrastructure sector. Recent transactions include the co-development of Redbank, Oakey, Braemar and Kwinana power stations, and the co-development of a number of renewable energy projects, including the Alinta and Lake Bonney wind farms in the initial portfolio of BBW. Prior to joining Babcock & Brown in 1997, Warren was a director of the project finance division of AIDC and before that worked at Westpac Banking Corporation. Warren holds a Bachelor of Engineering (Hons) and a Bachelor of Commerce in Accounting and Economics.
Michael Garland (Babcock & Brown executive) **Alternate Director for Peter Hofbauer on BBWPL, BBWPB and BBWPS** *Appointed 14 September 2005*	Michael Garland manages the US Infrastructure & Project Finance team of Babcock & Brown. Prior to joining Babcock & Brown in 1986, Michael was a director of the State of California Energy Assessments Office where he was responsible for the implementation of the State Government's environmental and energy policies. Michael also coordinated and oversaw the design, construction, financing and operation of the California State energy facilities. Michael is a graduate of the University of California at Berkeley and is based in the San Francisco office of Babcock & Brown.
Antonino Lo Bianco (Babcock & Brown executive) **Alternate Director for**	Antonino Lo Bianco manages the European Infrastructure & Project Finance team of Babcock & Brown. Prior to joining Babcock & Brown in 1993, Antonino worked with Nomura International plc as a member of its Italian Corporate Finance Group.

Warren Murphy on BBWPL, BBWPB and BBWPS *Appointed 14 September 2005*	Antonino is a graduate in Business Administration from Bocconi University in Milan and is based in the Milan office of Babcock & Brown.
Phillip Green (Babcock & Brown executive) **Former Director of BBWPS** *Appointed 14 April 2005* *Resigned 9 September 2005*	Phillip Green joined Babcock & Brown in 1984 and is Managing Director and Chief Executive Officer of Babcock & Brown Limited. Prior to joining Babcock & Brown, Phillip worked as a Senior Manager with Arthur Anderson where he specialised in taxation. Phillip is a Director of a number of companies including Chairman of Babcock & Brown Infrastructure Limited, Chairman of Babcock & Brown Environmental Investments Limited, Babcock & Brown Capital Limited, Everest Babcock & Brown Alternative Investments, Thakral Holdings Limited, and a Director of the trustees of Babcock & Brown Japan Property Trust and MTM Entertainment Trust. Phillip is also a Trustee of the SCG Trust. Phillip holds Bachelor of Commerce and Bachelor of Law degrees from the University of New South Wales. Phillip qualified as a Chartered Accountant in 1981 and was admitted as a solicitor in NSW in 1978.
Miles George (Babcock & Brown executive) **Former Director of BBWPL and BBWPS** *Appointed to BBWPL on 12 August 2005 and resigned 9 September 2005* *Appointed to BBWPS on 14 April 2005 and resigned 9 September 2005*	Miles George joined Babcock & Brown in 1997, specialising in the area of new project development and investment in the infrastructure, resources and manufacturing sectors. Prior to joining Babcock & Brown, Miles was Director of Project Finance with AIDC Limited. Miles holds degrees of Bachelor of Engineering and Master of Business Administration (Distinction) from the University of Melbourne.
Jeffrey Pollock (Babcock & Brown executive) **Former Director of BBWPL** *Appointed 24 November 2003* *Resigned 9 September 2005*	Jeffrey Pollock joined Babcock & Brown Infrastructure (then Prime Infrastructure) in January 2002. A qualified accountant, Jeffrey previously worked in public practice for the international accounting firm, Ernst & Young, and in the financial services industry. Jeffrey also worked as a senior manager at Price Waterhouse (now PricewaterhouseCoopers) in Brisbane and as a Director of the Queensland Government's Office of Energy, where he primarily dealt with energy reform issues. Jeffrey holds a Bachelor of Accountancy from the University of Glasgow, and has been a member of the Institute of Chartered Accountants of Scotland since 1988.
Christopher Chapman (Babcock & Brown executive) **Former Director of BBWPL** *Appointed 24 November 2003* *Resigned 9 September 2005*	Christopher Chapman resigned from the Babcock & Brown Group in February 2006. Prior to leaving Babcock & Brown, Christopher held the position of Chief Operating Officer, Babcock & Brown Specialised Funds, and prior to that, Christopher was Managing Director of Babcock & Brown Infrastructure from October 2003.

Company Secretaries

The names and particulars of the Company Secretaries of BBW during or since the end of the financial year are set out below.

Name	*Particulars*
David Richardson **Company Secretary of BBWPL, BBWPB and BBWPS** *Appointed 26 October 2005*	David Richardson joined Babcock & Brown in 2005 as Company Secretary for a number of the Specialised Funds and is responsible for the company secretarial function for the respective Boards and Committees, as well as the corporate governance requirements within those Funds. Prior to joining Babcock & Brown, David was a Company Secretary within the AMP Group, and at various stages was appointed Company Secretary for the AMP Capital Investors, Financial Services and Insurance divisions. David holds a Diploma of Law, Bachelor of Economics and a Graduate Diploma in Company Secretarial Practice. David is a Member of Chartered Secretaries Australia.
Judith Howard **Former Company Secretary of BBWPL and BBWPS** *Appointed to BBWPL on 28 July 2005 and resigned 9 March 2006* *Appointed to BBWPS on 28 July 2005 and resigned 9 March 2006*	Judith Howard resigned from the Babcock & Brown Group in March 2006. Prior to leaving Babcock & Brown, Judith held the position of Company Secretary of the Babcock & Brown Group from July 2005. Prior to joining Babcock & Brown, Judith was the Company Secretary of Seven Network Limited for over 10 years.
Paul Ferguson **Former Company Secretary of BBWPL** *Appointed 11 June 2003* *Resigned 26 October 2005*	Paul Ferguson is Head of the Australian Legal Group of Babcock & Brown. Prior to joining Babcock & Brown in 2001, Paul was the National Corporate Trust Manager for the trustee arm of the National Australia Bank and a Senior Associate in the Sydney law firm Moray & Agnew. Paul holds Bachelor of Science (Chemistry major) and Bachelor of Law degrees from the University of Sydney and is a member of the Law Society of New South Wales.
Sarah Zanon **Former Company Secretary of BBWPS** *Appointed 14 April 2005* *Resigned 1 August 2005*	Sarah Zanon joined Babcock & Brown in April 2000 and is a senior lawyer in the group's Australian Legal Department, responsible for both corporate and transactional matters. Prior to joining Babcock & Brown, Sarah worked in senior legal and compliance roles within the finance and funds management industries, including with EquitiLink, Perpetual Trustees and Price Waterhouse. Sarah holds Bachelor of Commerce (Accounting) and Bachelor of Law degrees from the University of New South Wales, as well as a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia.

Former partners of the audit firm

No current Directors or Officers of BBW have been Partners of PricewaterhouseCoopers at a time when that firm was the auditor of BBW.

Principal activities

BBW's principal activities include:

- managing its current portfolio of wind farms; and
- seeking to identify and acquire additional wind farms which meet BBW's investment criteria.

To further expand its diversified portfolio of global wind energy generation assets, BBW intends to utilise its relationship with Babcock & Brown and develop other strategic alliances with wind generation development companies.

Review of operations

A review of the operations of BBW and the results of those operations for the year ended 30 June 2006 is included in the attached Appendix 4E.

Changes in state of affairs

During the financial year there was no significant change in the state of affairs of the consolidated entity other than that referred to in the financial statements or notes.

Subsequent events

Acquisitions under the US Framework Agreement

In July 2006, BBW acquired certain Class B membership interests in two US wind farms under the US Framework Agreement (refer section 12.4 of the IPO Prospectus and Product Disclosure Statement, dated 26 September 2005) for $93,516,000.

Crescent Ridge Wind Farm – Sale of 25% interest to Eurus Energy America LLC

On 30 June 2006, BBW acquired 100% of the Class B membership interests in Crescent Ridge Holdings from Eurus Energy America. At that time, BBW entered into an agreement whereby Eurus had the ability to buy back 25% of these Class B membership interests. In August 2006, Eurus paid BBW $14,207,000 for this 25% interest in Class B membership interests. This reduced BBW's effective equity interest in the Crescent Ridge wind farm from 47% to 35%.

Future developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

Environmental regulations

To the best of their knowledge and belief after making due enquiry, the Directors have determined that BBW has complied with all significant environmental regulations applicable to its operations.

Distributions

An interim distribution of 5.1 cents per stapled security for the half year to 31 December 2005 was paid on 23 March 2006.

BBW will also pay a final distribution of 5.1 cents per stapled security for the full year to 30 June 2006 on or about 29 September 2006.

Remuneration Report

Specialised Fund Platform

Babcock & Brown has established a Specialised Funds platform which consists of entities ("Funds") established and managed by Babcock & Brown wholly owned subsidiaries under long term Management Agreements. All staff who are employed full time in the management of the Funds or whose employment from time to time relates to the Funds are Babcock & Brown employees and are remunerated in accordance with Babcock & Brown's remuneration policies. Accordingly, this Remuneration Report details the philosophy and framework currently applicable to the Babcock & Brown Group ("B&B Group"). It should be noted that the employees of subsidiaries of BBW may be remunerated on a different basis than that applicable to Babcock & Brown employees.

Babcock & Brown is currently reviewing the philosophy and framework as it applies to the Babcock & Brown employees in the Specialised Funds platform. Babcock & Brown intends that the remuneration policies applicable to these employees should be designed to further align their interests with the interests of the Manager and the investors in the Funds.

The remuneration strategy of Babcock & Brown is critical to achieving BBW's overall objective of producing enhanced returns for investors through a strong performance culture.

The Babcock & Brown remuneration philosophy seeks to focus on:

- Driving performance over and above security holder and market expectations; and
- Ensuring variable pay is directly linked to performance and that individuals who contribute to this performance are rewarded.

This report outlines the remuneration arrangements in place for Directors and Executives of BBW, and is applicable to all Key Management Personnel responsible for the management of BBW. In this report, Executives refers to Key Management Personnel and the highest remunerated executives of BBW.

The following persons were Directors of BBW from the date BBW listed on the Australian Stock Exchange (28 October 2005) to the date of this report:

Directors	
Peter Hofbauer[1]	Non-Executive Chairman of BBWPL, BBWPB and BBWPS
Nils Andersen	Independent Non-Executive Director of BBWPS
Anthony Battle	Lead Independent Non-Executive Director of BBWPL, BBWPB and BBWPS
Douglas Clemson	Independent Non-Executive Director of BBWPL, BBWPB and BBWPS
Warren Murphy[1]	Non-Executive Director of BBWPL, BBWPB and BBWPS

The following persons were Executives of BBW from the date BBW listed on the Australian Stock Exchange (28 October 2005) to the date of this report:

Executives[1]

Peter O'Connell	Chief Executive Officer
Geoff Dutaillis	Chief Operating Officer
David Richardson	Company Secretary

[1] The above Non-Executive Directors and Executives are employed by Babcock & Brown Australia Pty Limited.

Role of the Babcock & Brown Remuneration Committee

The Babcock & Brown Remuneration Committee ("B&B Remuneration Committee") assists the Babcock & Brown Board in achieving fairness and transparency in relation to remuneration issues whilst overseeing the remuneration and human resources policies and practices of the B&B Group.

The B&B Remuneration Committee seeks to ensure that the remuneration framework is consistent with market expectations for listed entities and stakeholder body guidelines. In doing this, the B&B Remuneration Committee seeks advice from independent remuneration advisors.

Membership of the B&B Remuneration Committee

The B&B Remuneration Committee consists of five Babcock & Brown Directors, of which three are independent Non-Executive Directors. Its members throughout 2005/2006 were:

- Ian Martin (Chair)
- James Babcock
- Phillip Green
- Elizabeth Nosworthy
- Michael Sharpe

Executives – Remuneration Policy

The B&B Board recognises that Babcock & Brown operates in a global market place and its success is ultimately dependent on its people. In light of this, Babcock & Brown aims to attract, retain and motivate highly-specialised and skilled employees from a global pool of talent who have the expertise to manage BBW in the best interests of the security holders of BBW.

Attracting, developing and retaining talent is essential for BBW's ongoing success. In the last year, Babcock & Brown secured the services of key individuals in a number of areas to manage the operations of the growing Specialised Funds platform. The recruitment of further key employees is integral to meeting the growth strategy of the Specialised Funds.

Babcock & Brown Executives who are Directors of BBW have significant security holdings in BBW.

Remuneration Framework and Philosophy

The Babcock & Brown remuneration framework has three components which are consistent with those of its competitors and have been designed to drive superior levels of performance and to closely align Executive and security holder interests:

- Fixed remuneration (base salary and benefits, primarily superannuation and ancillary benefits);
- Short-term Incentive Plan (annual cash bonus and equity deferral); and
- Long-term Incentive Plan (executive share options and performance rights).

The remuneration philosophy currently provides for Executive remuneration to be significantly "at-risk", meaning that base salary and benefits form the only part of potential annual remuneration known at the commencement of a Financial Year.

Fixed Remuneration

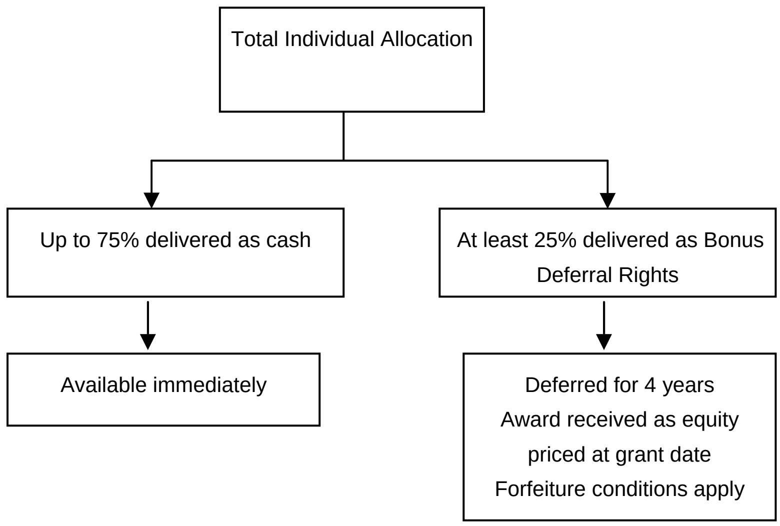
The Babcock & Brown Board has set fixed remuneration for BBW Executives at or lower than the median for comparable executives in companies with comparable businesses to that of BBW. This complements the strategy of weighting the variable amount of Executive pay to encourage superior performance consistent with a strong performance oriented culture. Adjustments to fixed remuneration are made annually and are based on job role, pay relative to comparable market pay and performance in the role.

The fixed remuneration component for the Executives generally includes cash salary as well as non-cash benefits, primarily superannuation and ancillary benefits.

Short Term Incentive Plan (STIP) – Delivered as Cash and Deferred Equity (Bonus Deferral Rights)

For employees who receive a STIP allocation above a certain threshold level (see below), the STIP allocation is made partly in cash and partly through a grant of Bonus Deferral Rights. All bonuses below the threshold level ($350,000 in 2005) are generally delivered entirely as cash.

The following diagram shows how the STIP delivery mechanism operates for rewards greater than the above threshold level. The threshold is subject to annual review:



Under the Bonus Deferral Rights Plan at least 25% of the STIP allocation above the threshold level is delivered as Bonus Deferral Rights which entitle the holder to shares in Babcock & Brown at no cost after a four year vesting period. The Bonus Deferral Rights act as a retention mechanism. Any Executive leaving Babcock & Brown will forfeit their Bonus Deferral Rights if they terminate employment within the four-year vesting period, unless special circumstances, such as redundancy or retirement, apply. The Babcock & Brown Board also reserves the right to allow vesting in other circumstances which would include an employee leaving Babcock & Brown to pursue other interests which the Babcock & Brown Board is satisfied will not compete with the B&B Group or BBW.

As part of the corporate governance framework for Babcock & Brown's Specialised Funds, BBW will develop specific Key Performance Indicators for the senior management providing services to the Fund. The framework provides that BBW Independent Directors will be given the opportunity to provide formal input to Babcock & Brown on the performance of the Manager as a whole and the key Babcock & Brown employees who perform services to BBW. The framework also provides that this input will be taken into account in determining the proposed remuneration of those key employees, as it relates to the services to BBW, and the Independent Directors are consulted on that remuneration.

As Short-term Incentive allocations are determined after the end of the financial year and are directly dependent on the B&B Group's financial performance, employees are not advised of a target bonus amount. As such, Chapter 2M.3.03(2)(c)(i)(ii) of the Corporations Act 2001 Regulations does not apply to Babcock & Brown.

Long-term Incentive Plan (LTIP)

To complement the STIP, Babcock & Brown has established a LTIP which aims to motivate and retain key executives. Going forward, selected employees will receive a mix of:

- Executive Share Options: These will entitle the employee to one share in Babcock & Brown upon vesting subject to the payment of an exercise price. The exercise price on each option will generally be based on the market value of shares at the time of grant; and/or
- Performance Rights: These will entitle the employee to one share in Babcock & Brown upon vesting.

Vesting of Executive Share Options and Performance Rights will typically be three years and be subject to performance hurdles. For the year ending 31 December 2005, those performance hurdles relate to the Total Shareholder Return (TSR) of Babcock & Brown Limited in comparison to all ASX 100 index companies over a 3 year period. Going forward, as part of the review of the remuneration philosophy and framework as it applies to the Babcock & Brown employees in the Specialised Funds platform, Babcock & Brown anticipates that such performance hurdles for LTIP awarded to those employees will take into account BBW's performance.

Remuneration of the Directors and Executives for the year ended 30 June 2006

Details of the nature and amount of each element of the emoluments of each Director and relevant Executive of BBW for the 12 months ended 30 June 2006 are set out in the table below.

	Short-term			Post Employment	Equity	Other	Total
	Salary, Fees & Commissions	Cash Bonus	Non-cash Benefits	Superannuation	Options[5]		
	A$	A$	A$	A$	A$	A$	A$
Current Directors							
P Hofbauer[1]	-	-	-	-	-	-	-
W Murphy[1]	-	-	-	-	-	-	-
N Andersen[2]	27,711	-	-	2,494	-	-	30,205
T Battle	74,636	-	-	6,717	-	-	81,353
D Clemson	71,680	-	-	6,451	-	-	78,131
Former Directors							
C Chapman[1]	-	-	-	-	-	-	-
M George[1]	-	-	-	-	-	-	-
P Green[1]	-	-	-	-	-	-	-
J Pollock[1]	-	-	-	-	-	-	-
Total	174,027	-	-	15,662	-	-	189,689
Executives[3]							
P O'Connell	357,500	455,667	-	14,162	18,644	4,055	850,028
G Dutaillis	215,312	138,750	-	9,104	6,992	-	370,158
D Richardson[4]	45,657	8,800	-	3,642	-	-	58,099
Total	618,469	603,217	-	26,908	25,636	4,055	1,278,285

1 These non-executive Directors are not remunerated by BBW.
2 N Andersen is an independent non-executive Director of Babcock & Brown Wind Partners Services Limited only (the Responsible Entity of the Babcock & Brown Wind Partners Trust).
3 These are the Executives that received the highest emoluments in 2005/2006. Executive fees paid for their services is part of the Babcock & Brown Infrastructure Management Pty Limited management agreement.
4 The remuneration for the services provided to BBW by D Richardson cannot be determined due to his other commitments within the B&B Group. However, the remuneration included above has been based on an assessment by management of the services performed directly for BBW.
5 BBW does not operate an options scheme in relation to BBW stapled securities. The options held by P O'Connell and G Dutaillis relate to options that each holds over shares in Babcock & Brown Limited.

Executive Employment Contracts

The employment contracts for the above Directors and Executives employed by Babcock & Brown Australia Pty Ltd contain the conditions below.

Length of contract	• Open-ended
Frequency of base remuneration review	• Annual
Benefits	• Executives are entitled to participate in Company benefit plans that are made available.
STIP Participation	• Executives are eligible for an award of STI remuneration from the STIP pool available (if any).
Non-compete clauses	• If P Hofbauer leaves the B&B Group within 3 years of the IPO of Babcock & Brown Limited, he will (other than in limited circumstances) be prohibited from competing with the B&B Group for 12 months from the date of such departure. • Breach of the non competition restraint will entitle the group to claim a pre-agreed amount of US$1.5m or US$4m from the Executive in breach.
Termination of employment	• Employment of P Hofbauer and P O'Connell is able to be terminated by either party on three month's written notice and the Company may elect to pay the executive three months' salary in lieu of notice. • Employment of G Dutaillis and D Richardson is able to be terminated by either party on one month's written notice and the Company may elect to pay the executive one months' salary in lieu of notice.

Security holdings

As at 30 June 2006, the relevant interests of the Directors and Executives of BBW are set out in the table below.

	Balance 1.07.05	Purchased	Sale of Shares	Balance 30.06.06
Current Directors				
P Hofbauer[1]	959,577	1,571,000	-	2,530,577
W Murphy	959,577	1,000,000	-	1,959,577
N Andersen	-	10,700	-	10,700
A Battle	-	30,000	-	30,000
D Clemson	-	140,000	-	140,000
Former Directors[2]				
C Chapman	-	-	-	-
M George	-	-	-	-
P Green	-	-	-	-
J Pollock	-	-	-	-
Total	1,919,154	2,751,700	-	4,670,854
Executives				
P O'Connell	-	716,000	(716,000)	-
G Dutaillis	-	535,000	-	535,000
D Richardson	-	-	-	-
Total	-	1,251,000	(716,000)	535,000

[1] As disclosed in accordance with the ASX Listing Rules, P Hofbauer has further increased his interests in BBW securities since 30 June 2006.

[2] All former Directors resigned prior to the BBW Initial Public Offer in October 2005 and therefore details of their BBW security holdings, if any, have not been disclosed.

Independent Non-Executive Directors – Remuneration Policy and Structure

Independent Directors' individual fees, including committee fees, are determined by the BBW Boards within the aggregate amount approved by security holders. Babcock & Brown senior executives who are Directors of BBW do not receive any Directors fees from BBW.

Independent Directors receive a cash fee for service. They do not receive any performance-based remuneration or any retirement benefits, other than receiving statutory superannuation.

Annual fees payable to Independent Non-Executive Directors are set out below. Note that P Hofbauer does not receive any fees as Chairman of the BBWPL, BBWPB and BBWPS Boards nor as a Member of the BBWPL, BBWPB and BBWPS Audit, Risk & Compliance Committees.

Board / Committee	Role	Fee (p.a.)
BBWPL Board	Independent Director	$37,500
BBWPB Board	Independent Director	$10,000
BBWPS Board	Independent Director	$37,500
BBWPL/BBWPB/BBWPS	Lead Independent Director	$10,000
BBWPL Audit, Risk & Compliance Committee	Independent Chairman	$4,000
	Independent Member	$2,000
BBWPB Audit, Risk & Compliance Committee	Independent Chairman	$4,000
	Independent Member	$2,000
BBWPS Audit, Risk & Compliance Committee	Independent Chairman	$4,000
	Independent Member	$2,000

Directors' Meetings – 1 July 2005 to 30 June 2006

The following table sets out the number of Directors' meetings held during the year to 30 June 2006 and the number of meetings attended by each Director (while they were a director). During the financial year, there were 20 BBWPL Board meetings held, 14 BBWPB Board meetings held, and 16 BBWPS Board meetings held.

	BBWPL Board		BBWPB Board		BBWPS Board	
Current Directors	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
P Hofbauer	20	16	14	13	16	13
N Andersen	N/A	N/A	N/A	N/A	16	11
A Battle	17	14	14	13	16	14
D Clemson	17	16	14	13	16	15
W Murphy	20	18	14	13	16	15
Former Directors						

C Chapman	4	1	N/A	N/A	N/A	N/A
M George	1	1	N/A	N/A	1	1
P Green	N/A	N/A	N/A	N/A	1	0
J Pollock	4	3	N/A	N/A	N/A	N/A

Committee Meetings – 1 July 2005 to 30 June 2006

The following table sets out the number of BBWPL, BBWPB and BBWPS Audit, Risk & Compliance Committee meetings held during the year to 30 June 2006 and the number of meetings attended by each Committee Member.

	Audit, Risk & Compliance Committees	
Committee Members	**Held**	**Attended**
D Clemson	3	3
A Battle	3	3
P Hofbauer	3	3

Indemnification of Officers

BBW has agreed to indemnify all directors and officers against losses incurred in their role as director, secretary, executive or other employee of BBW or its subsidiaries, subject to certain exclusions, including to the extent that such indemnity is prohibited by the Corporations Act or any other law. The agreement stipulates that BBW will meet the full amount of any such liabilities costs and expenses (including legal fees). BBW has not been advised of any claims under any of the above indemnities.

During the financial year BBW paid insurance premiums for a directors' and officers' liability insurance contract, that provides cover for the current and former directors, secretaries and executive officers of both BBW and its subsidiaries. The Directors have not included details of the nature of the liabilities covered in this contract or the amount of the premium paid, as disclosure is prohibited under the terms of the contract.

Proceedings on behalf of the company

No person has applied for leave of the Court to bring proceedings on behalf of BBW, or to intervene in any proceedings to which BBW is a party, for the purpose of taking responsibility on behalf of BBW for all or part of these proceedings. BBW was not a party to any such proceedings during the year.

Non-audit services

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 5 to the financial statements.

Auditor's independence declaration

The auditor's independence declaration is included in the financial report.

Rounding

BBWPL is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order, amounts in the Directors' report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

This report is made in accordance with a resolution of the directors pursuant to section 298(2) of the *Corporations Act 2001*.

On behalf of the Directors of BBW:

Peter Hofbauer
Chairman
Sydney, 7 September 2006

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Auditors' Independence Declaration

As lead auditor for the audit of Babcock & Brown Wind Partners Limited for the year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Babcock & Brown Wind Partners Limited and the entities it controlled during the period.

AJ Wilson
Partner
PricewaterhouseCoopers

Sydney
7 September 2006

Income statement for the year ended 30 June 2006

		Consolidated		Parent Entity	
	Note	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Revenue	2	82,222	22,020	42,970	474
Other income	2	9,711	1,197	292	224
Operating expenses	2	(16,264)	(5,760)	(2,469)	(1,279)
Depreciation and amortisation expense	2	(20,061)	(5,970)	(1,514)	-
Finance costs	2	(29,587)	(7,693)	(6,156)	(900)
Management charges	2	(44,379)	-	(42,493)	-
Share of net profit from investments accounted for using the equity method	9	2,074	-	-	-
Net (loss) / profit before income tax expense		(16,284)	3,794	(9,370)	(1,481)
Income tax benefit / (expense)	3	49	(1,120)	1,886	317
Net (loss) / profit for the year		(16,235)	2,674	(7,484)	(1,164)
Attributable to stapled security holders as:					
Equity holders of the parent		(20,442)	2,720	(7,484)	(1,164)
Equity holders of the other stapled entities (minority interests)		4,207	(46)	-	-
		(16,235)	2,674	(7,484)	(1,164)
Earnings per share of the parent based on earnings attributable to the equity holders of the parent:					
Basic (cents per security)	21	(0.05)	0.02		
Diluted (cents per security)	21	(0.05)	0.02		

The above income statements should be read in conjunction with the accompanying notes included on pages *21* to *98.*

Balance sheet as at 30 June 2006

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Current assets					
Cash and cash equivalents	31	311,195	110,114	64,166	27,852
Receivables	6	20,355	8,230	31,378	10,102
Prepayments	7	3,722	5,703	961	-
Other current assets	8	26,211	12,409	2,208	1,059
Derivative financial instruments	10	194	-	-	-
Total current assets		361,677	136,456	98,713	39,013
Non-current assets					
Receivables	6	-	10,734	531,124	141,676
Prepayments	7	24,295	25,919	10,327	-
Investments accounted for using the equity method	9	176,049	-	-	-
Shares in controlled entities		-	-	42,766	-
Derivative financial instruments	10	12,845	-	32	-
Property, plant and equipment	11	664,882	378,201	-	-
Deferred tax assets	3	10,631	4,292	9,061	2,632
Goodwill	12	16,502	1,798	-	-
Intangible assets	13	146,154	23,751	3,586	-
Total non-current assets		1,051,358	444,695	596,896	144,308
Total assets		1,413,035	581,151	695,609	183,321
Current liabilities					
Payables	14	56,897	26,762	10,689	7,630
Borrowings	15	39,878	185,769	-	8,662
Derivative financial instruments	16	1,966	-	922	-
Current tax payables	3	1,743	1,094	-	-
Total current liabilities		100,484	213,625	11,611	16,292
Non-current liabilities					
Payables	14	-	2,234	-	-
Borrowings	15	631,489	188,335	688,220	166,518
Derivative financial instruments	16	1,662	-	1,402	-
Deferred tax liabilities	3	13,381	5,801	-	-
Total non-current liabilities		646,532	196,370	689,622	166,518
Total liabilities		747,016	409,995	701,233	182,810
Net assets/(liabilities)		666,019	171,156	(5,624)	511
Equity holders of the parent					
Contributed equity	18	4,454	1,748	4,454	1,748
Reserves	19	(13,868)	(4,553)	(1,357)	-
Retained earnings	20	(18,126)	2,316	(8,721)	(1,237)
		(27,540)	(489)	(5,624)	511
Equity holders of the other stapled entities (minority interests)					
Contributed equity	18	701,680	163,140	-	-
Reserves	19	(21,635)	-	-	-
Retained earnings	20	4,207	-	-	-
		684,252	163,140	-	-
Other minority interests	9	9,307	8,505	-	-
Total equity		666,019	171,156	(5,624)	511

The above balance sheets should be read in conjunction with the accompanying notes included on pages *21* to *98*.

Statement of changes in equity for the year ended 30 June 2006

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Total equity at the beginning of the year		171,156	63,741	511	548
Adjustment to equity on adoption of AASB 132 and AASB 139:					
- Derivative financial instruments	19	(7,491)	-	-	-
- Transfer of net assets attributable to security holders from equity to liability*	18	(163,140)	-	-	-
Restated total equity at the beginning of the financial year		525	63,741	511	548
Movement in fair value of derivatives	19	14,676	-	(1,357)	-
Exchange differences on translation of foreign operations		11,307	(4,553)	-	-
Net income recognised directly in equity		25,983	(4,553)	(1,357)	-
Net (loss) / profit for the year		(16,235)	2,674	(7,484)	(1,164)
Total recognised income and expense for the year		9,748	(1,879)	(8,841)	(1,164)
Transactions with equity holders in their capacity as equity holders:					
Transfer of net assets attributable to security holders from liability to equity*	18	161,512	-	-	-
Contributions of equity, net of costs paid	18	487,048	121,304	2,025	1,127
Minority interest on acquisition of subsidiary**		802	-	-	-
Securities issued as consideration for purchase of interest in subsidiaries	18	68,000	-	-	-
Securities issued as consideration for payment of incentive fee	18	13,028	-	681	-
Reserves recognised on purchase of increased interest in a subsidiary***	18	(27,807)	-	-	-
Minority interest recognised on purchase of increased interest in a subsidiary***	18	(21,635)	-	-	-
Distributions paid*	22	(25,202)	(12,010)	-	-
Total equity at the end of the year		666,019	171,156	(5,624)	511
Total recognised income and expenses for the year is attributable to:					
Equity holders of the parent		5,541	(1,833)	(8,841)	(1,164)
Equity holders of the other stapled entities		4,207	(46)	-	-
		9,748	(1,879)	(8,841)	(1,164)

* Upon implementation of A-IFRS in the year ended 30 June 2006, security holder interests were initially accounted for as debt. Following a change in the BBWPT constitution on 12 September 2005, security holders were reclassified as equity. Under the election granted under AASB 132 and AASB 139, these interests were also accounted for as equity in the comparative period. BBWPT paid a distribution of $1,628,000 in August 2005, prior to the change in the constitution, which has been recognised as a reduction in this debt.

** The movement of $802,000 relates to (i) the elimination of the minority, $8,505,000, upon the purchase of the remaining 25% share of Walkaway Wind Power Pty Limited (see *** below) and (ii) the recording of a minority interest of $9,307,000 in relation to an 80% held subsidiary of Babcock & Brown Wind Partners-US LLC (see Note 9), an entity over which control was gained on 30 June 2006.

*** This item relates to the acquisition of the remaining 25% interest in Walkaway Wind Power Pty Limited ("WWP") (also see Note 18). Prior to this acquisition BBWPL owned 75% of the share capital of WWP and consolidated WWP accordingly. Hence, this stepped acquisition does not result in a change in control and, consequently, the excess of the consideration over the fair value of the net assets purchased is recognised within equity. Since BBWPL has been deemed the parent, the portion that relates to BBWPT's acquisition has been disclosed as a minority interest.

The above statements of changes in equity should be read in conjunction with the accompanying notes on pages *21* to *98*.

Cash flow statement for the year ended 30 June 2006

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Cash flows from operating activities					
Receipts from customers		88,374	10,871	-	-
Payments to suppliers		(66,634)	(1,463)	(34,792)	(1,944)
Interest received		14,396	5,377	9,145	539
Distributions received from associates		7,024	-	-	-
Interest and other costs of finance paid		(27,212)	(8,028)	(895)	(966)
Income tax paid		(1,790)	-	-	-
Net cash provided by/(used in) operating activities	31(f)	14,158	6,757	(26,542)	(2,371)
Cash flows from investing activities					
Payment for property, plant and equipment		(76,632)	(213,757)	-	-
Payment for intangible assets		(18,271)	-	(5,100)	-
Payment for investments in controlled entities		(98,971)	(35,708)	(17,968)	-
Prepaid investment		(10,181)	-	-	-
Payment for investments in associates		(146,838)	-	-	-
Loans to related parties		-	-	(373,318)	-
Repayment of loans by related parties		-	-	9,044	-
Net cash used in by investing activities		(350,893)	(249,465)	(387,342)	-
Cash flows from financing activities					
Proceeds from issues of equity securities, net of costs	18	487,048	121,305	2,024	1,128
Proceeds from borrowings		404,761	167,466	1,704	-
Repayment of borrowings		(312,038)	(12,043)	-	-
Proceeds from related parties		-	8,661	506,531	115,704
Repayment of borrowings to related parties		(18,785)	-	(59,848)	(86,609)
Distributions paid to security holders*		(26,830)	(12,010)	-	-
Net cash provided by financing activities		534,156	273,379	450,411	30,223
Net increase in cash and cash equivalents		197,421	30,671	36,527	27,852
Cash and cash equivalents at the beginning of the financial year		110,114	79,443	27,852	-
Effects of exchange rate changes on the balance of cash held in foreign currencies		3,660	-	(213)	-
Cash and cash equivalents at the end of the financial year	31(a)	311,195	110,114	64,166	27,852

* Upon implementation of A-IFRS in the year ended 30 June 2006 and prior to a change in the Trust's constitution in September 2005, security holder interests were initially accounted for as debt. BBWPT paid a distribution of $1,628,000 in August 2005, prior to the change in the constitution, which has been recognised as a reduction in this debt.

The above cash flow statements should be read in conjunction with the accompanying notes on pages *21* to *98*.

Notes to the financial statements for the year ended 30 June 2006

1. Summary of accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

This financial report is a general purpose financial report which has been prepared in accordance with Australian equivalents to International Financial Reporting Standards ("A-IFRS"), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

Accounting Standards include A-IFRS. Compliance with A-IFRS ensures that the consolidated financial statements and notes of BBWPL comply with International Financial Reporting Standards ("IFRS"). The parent entity financial statements and notes also comply with IFRS except for the disclosure requirements in IAS 32 *'Financial Instruments: Disclosure and Presentation'* as the Australian equivalent Accounting Standard, AASB 132 *'Financial Instruments: Disclosure and Presentation'* does not require such disclosures to be presented by the parent entity where its separate financial statements are presented together with the consolidated financial statements of the consolidated entity.

Application of AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*

This financial report is the first BBWP financial report to be prepared in accordance with A-IFRS. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of BBWP until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles ("AGAAP"). AGAAP differs in certain respects from A-IFRS. When preparing the BBWP financial report for the year ended 30 June 2006, management has amended certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with A-IFRS. The comparative figures are restated to reflect these adjustments, except as stated below.

BBWP has taken the election available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. BBWP has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

Reconciliations and descriptions of the effect of transition from previous AGAAP to A-IFRS on BBWP's equity and its net profit/ loss are given in Note 33.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through the income statement.

Stapled security

The shares of Babcock & Brown Wind Partners Limited ("BBWPL" or the "Company") and Babcock & Brown Wind Partners (Bermuda) Limited ("BBWPB") and the units of Babcock & Brown Wind Partners Trust ("BBWPT" or the "Trust") are combined and issued as stapled securities in Babcock & Brown Wind Partners Group ("BBWP" or the "Group"). The shares of BBWPL and BBWPB and the units of BBWPT cannot be traded separately and can only be traded as stapled securities.

This financial report consists of the consolidated financial statements of BBWPL, which comprises BBWPL and its controlled entities, BBWPT and its controlled entities and BBWPB, together acting as BBWP.

1. Summary of accounting policies *(cont'd)*

(b) Consolidated accounts

UIG 1013: Consolidated Financial Reports in relation to Pre-Date-of-Transition Stapling Arrangements requires one of the stapled entities of an existing stapled structure to be identified as the parent entity for the purpose of preparing consolidated financial reports. In accordance with this requirement, BBWPL has been identified as the parent of the consolidated group comprising BBWPL and its controlled entities, BWPT and its controlled entities and BBWPB.

In accordance with UIG 1013, consolidated financial statements have been prepared by BBWPL as the identified parent of BBWP and the combined financial report prepared for BBWP at 1 July 2004 has been used for the purpose of applying AASB 1 at the date of transition to restate BBWP's comparative information. The financial statements of BBWP should be read in conjunction with the separate financial statements of BBWPT for the period ended 30 June 2006.

AASB Interpretation 1002, Post-Date-of-Transition Stapling Arrangements, applies to stapling arrangements occurring during annual reporting periods ending on or after 31 December 2005 where the identified parent does not obtain an ownership interest in the entity whose securities have been stapled. As a consequence of the stapling arrangement involving no acquisition consideration and no ownership interest being acquired by the combining entities, no goodwill is recognised in relation to the stapling arrangement and the interests of the equity holders in the stapled securities are treated as minority interests.

Whilst stapled arrangements occurring prior to the application of AASB Interpretation 1002 are grandfathered and can continue to be accounted for in accordance with the principles established in UIG 1013, for disclosure purposes and the fact that BBWP has entered into stapling arrangements both pre and post transition to A-IFRS, the interests of the equity holders in all stapled securities (regardless of whether the stapling occurred pre or post transition to A-IFRS) has been treated as minority interest under the principles established in AASB Interpretation 1002.

(c) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of the entities controlled by BBWPL at 30 June 2006, including those deemed to be controlled by BBWPL by identifying it as the parent of BBWP on transition to A-IFRS, and the results of those controlled entities for the period then ended. The effects of all transactions between entities in the consolidated group are eliminated in full. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

Where control of an entity is obtained during the financial period, its results are included in the consolidated income statement from the date on which control is obtained. Where control of an entity ceases during the financial period its results are included for that part of the period during which control existed.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to the income statement in the period of acquisition. The interest of minority shareholders is stated at the minority's croportion of the fair values of the assets and liabilities recognised.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated group are eliminated in full.

Investments in subsidiaries are accounted for at cost in the individual financial statements of BBWPL.

1. Summary of accounting policies *(cont'd)*

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill net of any accumulated impairment loss identified on acquisition.

Refer to Note 9 for a further explanation of equity accounting of associates.

(d) Payables

Trade payables and other accounts payable are recognised when the consolidated group becomes obliged to make future payments resulting from the purchase of goods and services.

(e) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the consolidated group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(o)). If the cost of the subsidiary acquired is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(f) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the income statement over the period of the borrowing using the effective interest rate method.

Interest expense is recognised on an effective yield basis.

1. Summary of accounting policies *(cont'd)*

(g) Borrowing costs

Borrowing costs directly attributable to assets under construction are capitalised as part of the cost of those assets. Other borrowing costs are expensed.

(h) Assets under construction

Costs incurred in relation to assets under construction are deferred to future periods.

Deferred costs are transferred to plant and equipment from the time the asset is held ready for use on a commercial basis.

Deferred costs are amortised from the commencement of the project to which they relate on a straight-line basis over the period of the expected benefit.

(i) Property, plant and equipment

On initial adoption of A-IFRS, the directors elected to deem the fair values of plant and equipment at cost for accounting purposes, as permitted by the first time adoption provisions in AASB 1.

Plant and equipment, including equipment under finance lease, are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on plant and equipment. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period. The following estimated useful lives are used in the calculation of depreciation:

Plant and equipment	25 years

1. Summary of accounting policies *(cont'd)*

(j) Derivative financial instruments

The consolidated group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward foreign exchange contracts and interest rate swaps and cross currency swaps.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognised in the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in the income statement depends on the nature of the hedge relationship.

The consolidated group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions (cash flow hedges), or hedges of net investments in foreign operations.

<u>Fair value hedge</u>

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement immediately, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the income statement from that date.

<u>Cash flow hedge</u>

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts deferred in equity are recycled in the income statement in the periods when the hedged item is recognised in the income statement. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the income statement.

<u>Net investment hedge</u>

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the foreign currency translation reserve; the gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses deferred in the foreign currency translation reserve are recognised immediately in the income statement when the foreign operation is disposed of.

1. Summary of accounting policies *(cont'd)*

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

Under AGAAP, the net amount receivable or payable under interest rate swap agreements was progressively brought to account over the period to settlement. The amount recognised was accounted for as an adjustment to interest and finance charges during the period and included in other debtors or other creditors at each reporting date.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised through the income statement.

(k) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

ii. for receivables and payables which are recognised inclusive of GST, the net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(l) Financial instruments issued by the Company

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Upon implementation of A-IFRS in the year ended 30 June 2006, security holder interests were initially accounted for as debt. Following a change in the BBWPT constitution on 12 September 2005, security holders were reclassified as equity. Under the election granted under AASB 132 and AASB 139, these interests were accounted for as equity in the comparative period.

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

1. Summary of accounting policies *(cont'd)*

(m) Foreign currency

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is the Group's functional and presentation currency.

Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in the income statement in the period in which they arise except that:

- exchange differences which relate to assets under construction for future productive use are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, are recognised in the foreign currency translation reserve and recognised in the income statement on disposal of the net investment.

Foreign operations

On consolidation, the assets and liabilities of the consolidated entity's overseas operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and recognised in the income statement on disposal of the foreign operation.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity on or after the date of transition to A-IFRS are treated as assets and liabilities of the foreign entity and translated at exchange rates prevailing at the reporting date. Goodwill arising on acquisitions before the date of transition to A-IFRS was treated as an Australian dollar denominated asset but has now been restated.

1. Summary of accounting policies *(cont'd)*

(n) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Under current Bermudian law, BBWPB will not be subject to any income, withholding or capital gains taxes in Bermuda.

1. Summary of accounting policies *(cont'd)*

Tax consolidation

Legislation to allow groups, comprising a parent entity and its Australian wholly owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantially enacted on 21 October 2002. This legislation includes both mandatory and elective elements, and is applicable to BBWPL and its controlled entities. This legislation is not applicable to the Trust.

At the date of this report the Directors of the Company intend for those entities within the consolidated entity that are wholly owned Australian resident entities to be taxed as a single entity with effect from 1 July 2003.

The head entity, BBWPL, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred amounts, BBWPL also recognizes the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognized as amounts receivable from or payable to other entities in the group. Details about the tax funding agreement are disclosed in Note 3.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(o) Intangible assets

Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and not amortised, but tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Framework Agreements

Costs incurred with respect to entering into framework agreements, which provide a pre-emptive right to acquire assets (subject to certain conditions being met), have been capitalised. To the extent that an agreement relates to a specific asset(s), the related costs are capitalised as an ancillary cost of acquisition. Where an agreement does not relate to a specific asset, the costs are capitalised and amortised over the period of the agreements, which vary from 15 months to 3 years .

Licenses

Licenses are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of licenses over their estimated useful lives, which are up to 25 years.

(p) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Consolidated entity as lessee

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

1. Summary of accounting policies *(cont'd)*

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the consolidated entity's general policy on borrowing costs.

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease incentives

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(q) Impairment of assets

At each reporting date, the consolidated group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

For assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating unit). If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the income statement immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the income statement immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

1. Summary of accounting policies *(cont'd)*

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and in banks, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(s) Provisions

Provisions are recognised when the consolidated group has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

1. Summary of accounting policies *(cont'd)*

Distributions and dividends

Provision is made for the amount of any distribution or dividend declared being appropriately authorized and no longer at the discretion of the entity, on or before the end of, but not distributed at, balance date.

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of trade allowances and duties and taxes paid.

Product sales

Product sales are generated from the sale of electricity generated from the Group's wind farms. Revenues from product sales are recognised on an accruals basis. Product sales revenue is only recognised when the significant risks and rewards of ownership of the products has passed to the buyer and the Group attains the right to be compensated.

Revenue from rendering of services is recognised when services are provided (refer note 29).

Other revenue

Interest income is recognised using the effective interest method.

Dividend income is recognised when the right to receive payment is established.

(u) Loans and receivables

Trade receivables, loans and other receivables are recorded at amortised cost less impairment.

A provision for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of loans and receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

1. Summary of accounting policies *(cont'd)*

(v) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, eg as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(w) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(x) Fair value estimation

The fair value of the financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purpose.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market prices for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(y) Segment reporting

A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

1. Summary of accounting policies *(cont'd)*

(z) Rounding of amounts

The consolidated entity is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(aa) New accounting standards and UIG interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2006 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) UIG 4 *Determining whether an Asset Contains a Lease*

UIG 4 is applicable to annual periods beginning on or after 1 January 2006. The Group has not elected to adopt UIG 4 early. It will apply UIG 4 in its 2007 financial statements including the UIG 4 transition provisions. The Group will therefore apply UIG 4 on the basis of facts and circumstances that existed as of 1 July 2006. Implementation of UIG 4 is expected to result in the Group accounting for revenue generated from certain power purchase arrangements as lease income. The Group has not, as yet, quantified the effect of this UIG.

(ii) AASB 2005-9 *Amendments to Australian Accounting Standards [AASB 4, AASB 1023, AASB139 & AASB 132]*

AASB 2005-9 is applicable to annual reporting periods beginning on or after 1 January 2006. The amendments relate to the accounting for financial guarantee contracts. The Group has not elected to adopt the amendments early. It will apply the revised standards in its 30 June 2007 financial statements. Application of the revised rules may result in the recognition of financial liabilities in the financial statements. An assessment has not yet been performed. The new rules will be implemented retrospectively with a restatement of the comparatives as required by AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors.*

(iii) AASB 7 *Financial Instruments: Disclosures* and AASB 2005-10 *Amendments to Australian Accounting Standards* [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's financial instruments.

(iv) AASB 2006-1 *Amendments to Australian Accounting Standards* [AASB 121]

AASB 2006-1 is applicable to annual reporting periods ending on or after 31 December 2006. The amendment relates to monetary items that form part of a reporting entity's net investment in a foreign operation. It removes the requirement that such monetary items had to be denominated either in the functional currency of the reporting entity or the foreign operation. Babcock & Brown Wind Partners Group will conduct an assessment of the impact of this standard.

(ab) Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

(i) Estimated useful economic life of property, plant and equipment

As disclosed in Note 1(i) the Group depreciates property, plant and equipment over 25 years. This period of depreciation is utilised for assets that have useful economic lives in excess of 25 years as the life of the project is 25 years and no determination to extend the life of the project has been made at this stage.

(ii) Income taxes
The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provision in the period in which such determination is made.

2. Profit from operations

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Revenue				
Revenue from the sale of energy and products	67,750	16,607	-	-
Revenue from the rendering of services	-	-	33,825	-
	67,750	16,607	33,825	-
Interest income	14,472	5,413	9,145	474
	82,222	22,020	42,970	474
Other income				
Compensation for loss of revenue*	5,250	-	-	-
Fair value gains on financial instruments	291	-	123	-
Foreign exchange gains	4,170	1,197	169	224
	9,711	1,197	292	224

* Under the Variation Deed to the Engineering, Procurement & Construction contract ("EPC"), the contractor has agreed to compensate a subsidiary of BBW for loss of revenue as a result of delays under the EPC during the year ended 30 June 2006 in the amount of $5,250,000 (also refer to note 6 Receivables)

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
(Loss)/profit before income tax has been arrived at after charging the following expenses:				
Operating expenses:				
Connection fees	1,662	1,015	-	-
Administration, consulting and legal fees	3,998	1,677	2,469	1,279
Wind farm operations and maintenance costs	10,604	3,068	-	-
	16,264	5,760	2,469	1,279
Depreciation of property, plant & equipment	16,217	5,672	-	-
Amortisation of intangible assets	3,844	298	1,514	-
	20,061	5,970	1,514	-
Finance costs:				
Interest expense	25,705	7,477	4,348	900
Fair value losses on financial instruments	1,143	-	476	-
Other finance charges	2,739	216	1,332	-
	29,587	7,693	6,156	900
Management charges*:				
Base fees	11,229	-	9,343	-
Incentive fee	33,150	-	33,150	-
	44,379	-	42,493	-

*Refer to Note 18 and Note 29 for further details.

3. Income taxes

(a) Income tax expense

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Income tax comprises:				
Current tax	(3,070)	(2,450)	(1,805)	(317)
Deferred tax	3,021	3,570	(81)	-
Under / (over) provided in prior years	-	-	-	-
	(49)	1,120	(1,886)	(317)
Deferred income tax expense included in income tax (revenue) / expense comprises:				
Decrease / (increase) in deferred tax assets*	(345)	(1,971)	(81)	-
(Decrease) / increase in deferred tax liabilities	3,366	5,541	-	-
	3,021	3,570	(81)	-

* Tax losses derived in the current year are shown as current tax expense.

(b) Numerical reconciliation of income tax/(benefit) expense to prima facie tax payable:

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
(Loss)/profit from continuing operations before income tax expense	(16,284)	3,794	(9,370)	(1,481)
Income tax expense calculated at 30% (2005: 30%)	(4,885)	1,138	(2,811)	(444)
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:				
Non-deductible expenses	231	1,143	-	-
Non-assessable income	(1,199)	-	-	-
Non-deductible expenses for trade tax purposes	64	-	-	-
Amortisation of goodwill	120	-	-	-
Amortisation of framework agreements	454	-	454	-
Unrealised foreign exchange movement	-	(1,327)	-	-
Management Fee	4,900	-	-	-
Sundry items	(104)	(121)	(134)	127
Difference in overseas tax rates	(236)	287	-	-
Previously recognised and unused tax losses	606	-	605	-
Income tax (benefit)/expenses	(49)	1,120	(1,886)	(317)

3. Income taxes (cont'd)

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
(c) Amounts recognised directly in equity				
The following current and deferred amounts were not recognised in net profit or loss but charged directly to equity during the period:				
Current tax	-	-	-	-
Net deferred tax	(5,062)	-	151	-
	(5,062)	-	151	-
(d) Tax losses				
Unused tax losses for which no deferred tax asset has been recognised	-	-	-	-
Potential tax benefit @ 30%	-	-	-	-

(e) Tax consolidation

BBWPL and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is BBWPL. The members of the tax-consolidated group are identified at note 26.

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, BBWPL and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
(f) Current tax liabilities				
Current tax payables:				
Income tax payable attributable to:				
Overseas entities in the group	1,745	1,093	-	-

(g) Deferred tax balances

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Deferred tax assets comprise:				
Unused revenue tax losses - corporate	9,222	4,092	8,249	2,582
Unused tax losses for trade tax purposes	64	-	-	-
Deductible equity raising costs	119	-	119	-
Effect of Hedge Movements	731	-	687	-
Unrealised foreign exchange loss	495	200	6	50
	10,631	4,292	9,061	2,632
Deferred tax liabilities comprise:				
Expenses capitalized	(720)	-	-	-
Income set off against project cost	502	-	-	-
Depreciation	(8,156)	(5,241)	-	-
Deconstruction reserve	(44)	-	-	-
Lease expenses	(376)	-	-	-
Imputed interest	-	(183)	-	-
Effect of hedge movements	(2,932)	-		
Uplift in property, plant and equipment in relation to acquisitions	(1,599)	(377)	-	-
Amortisation of goodwill	(56)	-	-	-
	(13,381)	(5,801)	-	-

3. Income taxes *(cont'd)*

Taxable and deductible temporary differences arise from the following:

	Consolidated				
2006	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Acquisi-tions/ disposals $'000	Closing balance $'000
Gross deferred tax liabilities:					
Expenses capitalized	-	(720)	-	-	(720)
Income settled off against project cost	-	502	-	-	502
Depreciation	(5,241)	(2,915)	-	-	(8,156)
Deconstruction reserve	-	(44)	-	-	(44)
Lease expenses	-	(376)	-	-	(376)
Imputed interest	(183)	183	-	-	-
Uplift in property, plant and equipment in relation to acquisitions	(377)	-	-	(1,222)	(1,599)
Effect of hedge movements	-	-	(2,932)	-	(2,932)
Amortisation of goodwill	-	(56)	-	-	(56)
	(5,801)	(3,426)	(2,932)	(1,222)	(13,381)
Gross deferred tax assets:					
Unused revenue tax losses – corporate	4,092	5,130	-	-	9,222
Unused tax losses for trade tax purposes	-	64	-	-	64
Deductible equity raising costs	-	-	119	-	119
Effect of hedge movements	-	150	581	-	731
Unrealised foreign exchange loss	200	-	290	-	490
Sundry	-	5	-	-	5
	4,292	5,349	990	-	10,631

3. Income taxes *(cont'd)*

	Consolidated				
2005	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Acquisitions/ disposals $'000	Closing balance $'000
Gross deferred tax liabilities:					
Depreciation	(2,019)	(3,222)	-	-	(5,241)
Imputed Interest	-	(183)	-	-	(183)
Uplift in property, plant and equipment in relation to acquisitions	-	-	-	(377)	(377)
Unrealised foreign exchange movements	(50)	-	50	-	-
	(2,069)	(3,405)	50	(377)	(5,801)
Gross deferred tax assets:					
Unused revenue tax losses – corporate	1,833	2,259	-	-	4,092
Unrealised foreign exchange loss	-	-	200	-	200
Sundry	-	-	-	-	-
	1,833	2,259	200	-	4,292

4. Key management personnel remuneration

(a) Names and positions held by stapled entity directors in office at any time during the financial year are:

Stapled Entity Directors

Current

Mr P Hofbauer*	Non-Executive Chairman
Mr W Murphy*	Non-Executive Director
Mr N Andersen**	Independent Non-Executive Director, appointed 9 September 2005
Mr A Battle***	Independent Non-Executive Director, appointed 9 September 2005
Mr D Clemson	Independent Non-Executive Director, appointed 9 September 2005

Former

Mr M George	Director, appointed 12 August 2005, resigned 9 September 2005
Mr C Chapman	Director, resigned 9 September 2005
Mr J Pollock	Director, resigned 9 September 2005
Mr P Green	Director, appointed 4 April 2005, resigned 9 September 2005

** Mr N Andersen is a director of BBWPS only
*** Mr Battle is the Lead Independent Director of BBW

Specified Executives

Peter O'Connell*	Chief Executive Officer, appointed 1 September 2005
Geoff Dutaillis*	Chief Operating Officer, appointed 1 October 2005

* The above non-executive directors and executives are employed by Babcock & Brown Australia Pty Limited

(b) Stapled Entity Directors' and Executives' Remuneration

30 June 2006	Short-term			Post Employment	Equity	Other	Total
	Salary, Fees & Commissions	Cash Bonus	Non-cash Benefits	Superannuation	Options		
	$	$	$	$	$	$	$
Current Directors							
P Hofbauer*	-	-	-	-	-	-	-
W Murphy*	-	-	-	-	-	-	-
N Andersen	27,711	-	-	2,494	-	-	30,205
A Battle	74,636	-	-	6,717	-	-	81,353
D Clemson	71,680	-	-	6,451	-	-	78,131
Former Directors							
M George*	-	-	-	-	-	-	-
C Chapman*	-	-	-	-	-	-	-
J Pollock*	-	-	-	-	-	-	-
P Green*	-	-	-	-	-	-	-
Total	174,027	-	-	15,662	-	-	189,689
Executives							
P O'Connell	357,500	455,667	-	14,162	18,644	4,055	850,028
G Dutaillis	215,312	138,750	-	9,104	6,992	-	370,158
Total	572,812	594,417	-	23,266	25,636	4,055	1,220,186

4. Key management personnel remuneration *(cont'd)*

* Messrs Hofbauer, Murphy, George, Chapman, Pollock and Green are, or were, non-executive directors of BBW and were not remunerated by BBW. None has received a fee for the services that they have provided to BBW. Furthermore, the remuneration for their service to BBW cannot be determined due to their other commitments within the Babcock & Brown Group.

In the year ended 30 June 2005, the key management consisted entirely of the non-executive directors in office at that time. Again, none received a fee for the services that they provided to BBW and the remuneration for their service to BBW cannot be determined due to their other commitments within the B&B Group.

(c) Options and Rights Holdings

BBW does not operate an option scheme. Consequently, no director or executive holds any options to purchase the stapled securities of BBW.

The remuneration referred to above in section (b) in relation to Messrs O'Connell and Dutaillis relates to options that each holds to purchase shares in Babcock & Brown Limited.

(d) Security Holdings

Number of Securities Held by Stapled Entity Directors and Executives as at 30 June 2006.

	Balance 1.07.05	Purchased	Sale of Securities	Balance 30.06.06
Current Directors				
P Hofbauer	959,577	1,571,000	-	2,530,577
W Murphy	959,577	1,000,000	-	1,959,577
N Andersen	-	10,700	-	10,700
A Battle	-	30,000	-	30,000
D Clemson	-	140,000	-	140,000
Former Directors				
M George*	-	-	-	-
C Chapman*	-	-	-	-
J Pollock*	-	-	-	-
P Green*	-	-	-	-
Total	1,919,154	2,751,700	-	4,670,854
Executives				
P O'Connell	-	716,000	(716,000)	-
G Dutaillis	-	535,000	-	535,000
Total	-	1,251,000	(716,000)	535,000

* The security holdings of Messrs George, Chapman, Pollock and Green, if any, have not been disclosed as they were directors prior to BBW's initial public listing on the Australian Stock Exchange.

4. Key management personnel remuneration *(cont'd)*

Number of Securities Held by Stapled Entity Directors as at 30 June 2005.

	Balance 1.07.04	Purchased	Sale of Securities	Balance 30.06.05
Current Directors				
P Hofbauer	360,392	599,185	-	959,577
W Murphy	360,392	599,185	-	959,577
N Andersen	-	-	-	-
A Battle	-	-	-	-
D Clemson	-	-	-	-
Former Directors				
M George*	-	-	-	-
C Chapman*	-	-	-	-
J Pollock*	-	-	-	-
P Green*	-	-	-	-
Total	720,784	1,198,370	-	1,919,154

* The security holdings of Messrs George, Chapman, Pollock and Green, if any, have not been disclosed as they were directors prior to BBW's initial public listing on the Australian Stock Exchange.

No shares were held by Messrs O'Connell and Dutaillis prior to their appointment as executives of BBW.

4. Key management personnel remuneration *(cont'd)*

(e) Remuneration Practices

Specialised Fund Platform
Babcock & Brown has established a Specialised Funds platform which consists of entities (Funds) established and managed by Babcock & Brown wholly owned subsidiaries under long term Management Agreements. All staff who are employed full time in the management of the Funds or whose employment from time to time relates to the Funds are Babcock & Brown employees and are remunerated in accordance with Babcock & Brown's remuneration policies. Accordingly, this Remuneration Report details the philosophy and framework currently applicable to the Babcock & Brown Group ("B&B Group").

Babcock & Brown is currently reviewing the remuneration philosophy and framework as it applies to the Babcock & Brown employees in the Specialised Funds platform. Babcock & Brown intends that the remuneration policies applicable to these employees should be designed to further align their interests with the interests of the Manager and the investors in the Funds. Due to the current structure of the remuneration policy, a formal link of the BBW Directors and Executives remuneration and BBW performance has not been established.

The remuneration strategy of Babcock & Brown is critical to achieving BBW's overall objective of producing enhanced returns for investors through a strong performance culture.

The Babcock & Brown remuneration philosophy seeks to focus on:

- Driving performance over and above shareholder and market expectations; and
- Ensuring variable pay is very directly linked to performance and that individuals who contribute to this performance are rewarded.

This report outlines the remuneration arrangements in place for Directors and Executives of BBW, and is applicable to all Key Management responsible for the management of BBW. In this report, Executives refers to Key Management Personnel and the highest remunerated executives of BBW.

Remuneration Committee

Role of the Babcock & Brown Remuneration Committee

The Babcock & Brown Remuneration Committee (B&B Remuneration Committee) assists the Babcock & Brown Board in achieving fairness and transparency in relation to remuneration issues whilst overseeing the remuneration and human resources policies and practices of the B&B Group.

The B&B Remuneration Committee also seeks to ensure that the remuneration framework is consistent with market expectations for listed entities and stakeholder body guidelines. In doing this, the B&B Remuneration Committee seeks advice from independent remuneration advisors.

Membership of the B&B Remuneration Committee

The B&B Remuneration Committee consists of five Directors, of which three are Independent Non-Executive Directors. Its members throughout 2005/2006 were:

- Ian Martin (Chair)
- James Babcock
- Phillip Green
- Elizabeth Nosworthy
- Michael Sharpe

(e) Remuneration Practices (continued)

Executives - Remuneration Policy

The Babcock & Brown Board recognises that Babcock & Brown operates in a global market place and its success is ultimately dependent on its people. In light of this, Babcock & Brown aims to attract, retain and motivate highly-specialised and skilled employees from a global pool of talent who have the expertise to manage BBW in the best interests of the share holders of BBW.

Attracting, developing and retaining talent is essential for BBW's ongoing success. In the last year, Babcock & Brown secured the services of key individuals in a number of areas to manage the operations of the growing Specialised Funds platform. The recruitment of further key employees is integral to meeting the growth strategy of the Specialised Funds.

Babcock & Brown Executives who are Directors of BBW have significant shareholdings in BBW.

Remuneration Framework and Philosophy

The Babcock & Brown remuneration framework has three components which are consistent with those of competitors and have been designed to drive superior levels of performance and to closely align Executive and shareholder interests:

- Fixed remuneration (base salary and benefits, primarily superannuation and ancillary benefits);
- Short-term Incentive Plan (annual cash bonus and equity deferral); and
- Long-term Incentive Plan (executive share options and performance rights).

The remuneration philosophy currently provides for Executive remuneration to be significantly "at-risk", meaning that base salary and benefits form the only part of potential annual remuneration known at the commencement of a Financial Year.

Fixed Remuneration

The Babcock & Brown Board has set fixed remuneration for its Executives at or lower than the median for comparable executives in companies with comparable businesses of BBW. This complements the strategy of weighting the variable amount of Executive pay to encourage superior performance consistent with a strong performance oriented culture. Adjustments to fixed remuneration are made annually and are based on job role, pay relative to comparable market pay and performance in the role.

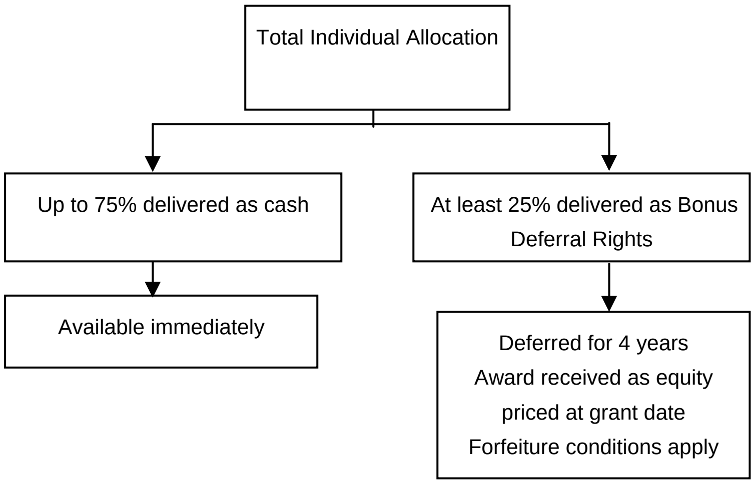
The fixed remuneration component for the Executives generally includes cash salary as well as non-cash benefits, primarily superannuation and ancillary benefits.

Short Term Incentive Plan (STIP) – Delivered as Cash and Deferred Equity (Bonus Deferral Rights)

For employees who receive a STIP allocation above a certain threshold level (see below), the STIP allocation is made partly in cash and partly through a grant of Bonus Deferral Rights.

All bonuses below the threshold level ($350,000 in 2005) are generally delivered entirely as cash.

The following diagram shows how the STIP delivery mechanism operates for rewards above the above threshold level. The threshold is subject to annual review:



Under the Bonus Deferral Rights Plan at least 25% of the STIP allocation above the threshold level is delivered as Bonus Deferral Rights which entitle the holder to shares in Babcock & Brown at no cost after a four year vesting period.

The Bonus Deferral Rights act as a retention mechanism. Any Executive leaving Babcock & Brown will forfeit their Bonus Deferral Rights if they terminate employment within the four-year vesting period, unless special circumstances, such as redundancy or retirement, apply. The B&B Board also reserves the right to allow vesting in other circumstances which would include an employee leaving Babcock & Brown to pursue other interests which the B&B Board is satisfied will not compete with the B&B Group (including BBW).

As part of the corporate governance framework set out in the Corporate Governance Statement, BBW's Board going forward will develop specific Key Performance Indicators for the senior management providing services to BBW. The framework provides that BBW's independent directors will be given the opportunity to provide formal input to Babcock & Brown on the performance of the Manager as a whole and the key Babcock & Brown employees who perform services for them. The framework also provides that this input will be taken into account in determining the proposed remuneration of those key employees, as it relates to the services to BBW, and the independent directors are consulted on that remuneration.

As Short-term Incentive allocations are determined after the end of the financial year and are directly dependent on the B&B Group's financial performance, employees are not advised of a target bonus amount. As such, Chapter 2M.3.03(2)(c)(i)(ii) of the Corporations Act 2001 Regulations does not apply to Babcock & Brown.

Long-term Incentive Plan (LTIP)

To complement the STIP, Babcock & Brown has established a LTIP which aims to motivate and retain key executives. Going forward, selected employees will receive a mix of:

- Executive Share Options: These will entitle the employee to one share in Babcock & Brown upon vesting subject to the payment of an exercise price. The exercise price on each option will generally be based on the market value of shares at the time of grant; and/or
- Performance Rights: These will entitle the employee to one share in Babcock & Brown upon vesting.

Vesting of Executive Share Options and Performance Rights will typically be three years and be subject to performance hurdles. For Babcock & Brown's year ended 31 December 2005, those performance hurdles relate to the Total Shareholder Return (TSR) of Babcock & Brown Limited in comparison to all ASX 100 index companies over a 3 year period. Going forward, as part of the review of the remuneration philosophy and framework as it applies to Babcock & Brown employees in the Specialised Funds platform, Babcock & Brown anticipates that such performance hurdles for LTIP awarded to those employees will take into account BBW's performance.

Independent Non-Executive Directors - Remuneration Policy and Structure

Independent Non-Executive Directors' individual fees, including committee fees and subsidiary Board memberships, are determined by the BBW Board within the aggregate amount approved by shareholders. The current maximum aggregate amount which may be paid to all Non-Executive Directors is $500,000 per annum as approved by shareholders. Babcock & Brown senior executives who are directors of BBW do not receive any directors' fees and none are paid to Babcock & Brown for their services.

Independent Non-Executive Directors receive a cash fee for service. They do not receive any performance-based remuneration or any retirement benefits, other than receiving statutory superannuation.

Fees payable to Independent Non-Executive Directors during the year ended 30 June 2006 are set out below:

Board / Committee	**Role**	**Fee**
Board – BBWPL	Chair	$ Nil
	Member	$37,500
Board –BBWPS	Chair	$ Nil
	Member	$37,500
Board – BBWPB	Chair	$ Nil
	Member	$10,000
BBW	Lead independent	$10,000
Audit, Risk & Compliance Committees of each of the Stapled Entities	Chair	$12,000
	Member	$6,000

(f) Director Related Transactions

There are no director-related transactions.

5. Remuneration of auditors

	Consolidated 2006 $	Consolidated 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Assurance services				
PricewaterhouseCoopers (2005: Ernst & Young)				
Audit services				
Audit and review of the financial report	451,330	236,235	25,677	5,112
Other assurance services				
Assistance with transition to Australian-equivalents to International Financial Reporting Standards	95,009	-	-	-
	546,339	236,235	25,677	5,112

6. Receivables

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Current				
Trade debtors	14,709	8,130	-	-
Compensation for loss of revenue (see Note 2)	5,250	-	-	-
Interest receivable	175	100	-	-
Amounts due from related parties (Note 29)	-	-	31,378	10,102
Other receivables	221	-	-	-
	20,355	8,230	31,378	10,102
Non-current				
Amounts due from related parties (Note 29)	-	10,734	531,124	141,676
	-	10,734	531,124	141,676

7. Prepayments

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Current				
Prepaid operations expenses	2,042	1,867	-	-
Other prepayments	1,680	3,836	961	-
	3,722	5,703	961	-
Non-current				
Prepaid operations expenses	9,171	6,837	-	-
Prepaid investment costs (Note 27)	10,327	-	10,327	-
Other prepayments	4,797	19,082	-	-
	24,295	25,919	10,327	-

8. Other current assets

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Goods & Services Tax and other tax receivables	25,792	12,230	2,208	1,059
Other	419	179	-	-
	26,211	12,409	2,208	1,059

9. Investments accounted for using the equity method

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Investments in associates	176,049	-	-	-

Name of entity	Principal activity	Country of incorporation	Ownership interest 2006 %	Ownership interest 2005 %	Carrying value 2006 $'000	Carrying value 2005 $'000
Blue Canyon Windpower LLC	Wind energy	USA	8%	-	15,385	-
Caprock Wind LLC	Wind energy	USA	16%	-	43,281	-
Crescent Ridge LLC*	Wind energy	USA	47%	-	63,820	-
Eurus Combine Hills I LLC	Wind energy	USA	14%	-	12,266	-
Sweetwater Wind 1 LLC	Wind energy	USA	11%	-	11,057	-
Sweetwater Wind 2 LLC	Wind energy	USA	11%	-	30,240	-
					176,049	-

* Subsequent to the year end BBW sold 25% of its interest in Crescent Ridge (see Note 30).

Summarised financial information of associates:

	Group's share of:			
2006	Assets $'000	Liabilities $'000	Revenue $'000	Net Profit after Tax* $'000
Blue Canyon Windpower LLC	8,427	84	353	786
Caprock Wind LLC	20,146	353	825	971
Crescent Ridge LLC	58,904	2,161	-	-
Eurus Combine Hills I LLC	7,774	1,198	346	313
Sweetwater Wind 1 LLC	6,272	102	258	4
Sweetwater Wind 2 LLC	16,543	245	698	-
	118,066	4,143	2,480	2,074

* This represents BBW's share of net profit after tax based on the method of equity accounting described below.

During the year ended 30 June 2006, BBW invested in the following wind farms:

- US03/04 Assets:
    - Sweetwater 1
    - Sweetwater 2
    - Caprock
    - Blue Canyon
    - Combine Hills
- Crescent Ridge

During the year, BBW invested $103,652,000 in the US03/04 assets and $55,215,000 in Crescent Ridge, plus ancillary costs of $8,715,000. Subsequent to the year end, BBW invested in additional U.S. wind farms – refer to Note 30.

Long term equity funding in the US wind farms is contributed by Class A Members and Class B Members. Class A Members are allocated 100% of the tax benefits that flow from a project and after Class B capital is repaid, all cash distributions until a target return is achieved at which time their portion of the allocation of tax benefits and cash is reduced to approximately 15%-25% and the remaining 75%-85% is allocated to the Class B Members. BBW has invested in Class B Membership interests in each of the above wind farms.

The Class A Members receive a significant portion of their return on investment from the allocation of Production Tax Credits ("PTCs") to them (available during the first 10 years of operation calculated on the electricity sales of a windfarm) and depreciation deductions on plant & equipment. Because the Class A Members are allocated all of the tax benefits prior to the Reallocation Date, the Class A Members may receive more of their economic return through tax benefits than as a direct cash return.

The Class B members (including indirectly BBW) receive 100% of the cash distributions until the earlier of the point where (i) they have received cash in an amount equal to 100% of their initial capital investment made at the time of funding the long term equity to the Project LLC and (ii) a specified date that is later than the date when 100% of Class B initial capital investment is expected to have been repaid. Thereafter, until the Reallocation Date, the Class A Members receive 100% of the cash distributions. After the Reallocation Date the cash distributions are split between the Class A Members and Class B Members (including indirectly BBWP) in the same proportion as the taxable income and PTCs (if any) are split after the Reallocation Date.

As the Class A Members and the Class B Members contributed long term equity funding at the commencement of operations, their investment was prior to, and is therefore different in quantum from, the investment made by BBWP pursuant to the US Acquisition to acquire indirect interests in the Class B Memberships interests held by the Investment LLCs. The initial Class B capital investment of each Investment LLC to be repaid by each Project LLC is not the same amount as that which BBWP has invested in Babcock & Brown Wind Partners-US LLC ("BBWPUS"). In addition, the terms on which the capital contribution of the Class B Members is repaid differs from the terms on which BBWPs capital contribution is repayable under the BBWPUS LLC Agreement.

Managing member of Project LLC

Each Project LLC is managed by a management committee comprised only of the Class B members (this is the class in which BBW is indirectly investing). Decisions are made by majority vote so typically no Class B Member has a controlling position in cases where there are more than one Class B Member.

Each of the Investment LLCs, as a Class B Member of a Project LLC, is either the sole managing member or the co-managing member of the Project LLC. The duties of the managing member(s) consist principally of the selection and supervision of contractors and service providers to the Project LLC, including the O&M contractor, the Project Administrator and the Fiscal Administrator, and communicating with investors (Class A Members).

Approval of major decisions, such as financing, asset disposition and modifications to key agreements depends upon the stage of the investment, namely whether before or after the Reallocation Date. Prior to the Reallocation Date, major decisions require the approval of a supermajority which varies by Project LLC. After the Reallocation Date, major decisions require the approval of a majority of interest in the rights to distributable cash; accordingly such decisions are within the control of the Class B Members if they act together. The management committee must prepare an annual budget for approval with voting as set out above.

Accounting for and earnings trend of the US Assets

Upon initial purchase of 80% of BBWPUS, BBW's investment did not represent a controlling interest. Given BBW's restricted ability to influence financial and operating decisions and the respective roles of BBW and other members of BBWPUS, BBW's investment in BBWPUS qualifies as an associate and will be accounted for using the equity method.

BBWP will initially record its investment at cost and subsequently adjust for its proportionate interest in post-acquisition changes in the net assets of BBWPUS.

The initial investment made by the Class B Members in each of the Project LLCs, in which BBW will acquire an indirect interest through BBWPUS, represents typically 25% of the total capital contributions of the Class A Members and Class B Members as a whole. However, given the profile of returns, the roles of the respective members, and the operation of the management committee, the Investment LLCs (as Class B Members) are expected to account for the Project LLCs as associates.

Equity accounted earnings that are recorded by the Investment LLCs and Class B Members will be determined by reference to period on period changes in their legal entitlement to the net assets of the Project LLCs, adjusted for distributions received. BBW has recognised 80% of the equity accounted earnings that flow up to and are recorded in BBWPUS.

Distributions by the Project LLCs, which are made in the period within which capital is repaid to Class B Members, necessarily reduce the net asset of the Project LLCs and hence the entitlement to those net assets by BBWPUS (and indirectly BBW). In this period within which capital is repaid to Class B Members, distributions are greater than equity accounted earnings. In the subsequent period but prior to the Reallocation Date, Class B Members do not receive any distributions which result in an increase in equity accounted earnings recognised by Investment LLCs. Following the Reallocation Date Class B Members receive the majority of distributions which, again reduce the net assets of the Project LLCs and hence the entitlement to those net assets by BBWPUS.

9. Investments accounted for using the equity method *(cont'd)*

Subsequent to the initial 80% purchase, BBW purchased the remaining 20% of BBWPUS in June 2006 and gained control. BBW accounted for the acquisition at fair value. As a result of the fact that BBWPUS has an ownership interest of less than 100% in one of the Investment LLCs, BBW recorded a minority interest. This minority interest amounted to $9,307,000 at 30 June 2006. Following this purchase of the remaining 20% of BBWPUS, BBW will account for 100% of the equity accounted earnings that flow up to BBWPUS from the Project LLCs.

The investment in Crescent Ridge is structured similarly to that of the US03/04 assets. As a consequence, equity accounted earnings are determined by reference to period on period changes in BBW's legal entitlement to the net assets of Crescent Ridge, adjusted for distributions received.

Distributions received from associates

During the year, the consolidated entity received distributions of $7,024,000 (2005: N/A) from its associates.

Contingent liabilities and capital commitments

The consolidated entity's share of the contingent liabilities of associates is disclosed in Note 24. None of the associates has any capital commitments.

10. Derivative financial instruments - assets

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current				
At fair value (2005: cost):				
Interest rate swaps	194	-	-	-
	194	-	-	-
Non-current				
At fair value (2005: cost):				
Foreign currency forward contracts	597	-	-	-
Interest rate swaps	12,248	-	32	-
	12,845	-	32	-

Refer note 32 for further information.

11. Property, plant and equipment

	Assets under construction $'000	Consolidated Plant & Equipment at cost $'000	Total $'000
Gross carrying amount			
Balance at 1 July 2004	93,132	-	93,132
Additions	195,568	-	195,568
Transfers	(137,912)	137,912	-
Acquisitions through business combinations	-	95,173	95,173
Balance at 1 July 2005	150,788	233,085	383,873
Additions	102,550	4,304	106,854
Transfers	(217,751)	217,751	-
Acquisitions through business combinations	4,100	171,981	176,081
Net foreign currency exchange differences	994	19,635	20,629
Balance at 30 June 2006	40,681	646,756	687,437
Accumulated depreciation/ amortisation and impairment			
Balance at 1 July 2004	-	-	-
Depreciation expense	-	(5,672)	(5,672)
Net foreign currency exchange differences	-	-	-
Balance at 1 July 2005	-	(5,672)	(5,672)
Depreciation expense	-	(16,217)	(16,217)
Net foreign currency exchange differences	-	(666)	(666)
Balance at 30 June 2006	-	(22,555)	(22,555)
Net book value			
As at 30 June 2005	150,788	227,413	378,201
As at 30 June 2006	40,681	624,201	664,882

The Group has certain assets valued at $46,231,000 which are accounted for under finance leases (2005: nil). Refer to Note 15 and Note 25.

The parent entity does not have property, plant and equipment.

12. Goodwill

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Gross carrying amount				
Balance at beginning of financial year	1,798	-	-	-
Additional amounts recognised from business combinations occurring during the period (Note 27)	14,704	1,798	-	-
Balance at end of financial year	16,502	1,798	-	-
Net book value				
At the beginning of the financial year	1,798	-	-	-
At the end of the financial year	16,502	1,798	-	-

Under AASB 3, Business Combinations, an entity is permitted a period of 12 months from acquisition date to complete the purchase accounting. BBW engaged an independent advisor to perform an exercise to allocate the purchase price paid at acquisition for the Olivo assets. As a result of this purchase price allocation, the goodwill balance in the prior year in relation to these assets has been restated to zero and the majority transferred to licences. Refer to Note 33 for further information.

Allocation of goodwill to cash-generating units

As permitted under AASB 3, Business Combinations, an exercise to allocate the purchase price paid for each of Eifel and Fruges will take place within a 12 month period from acquisition. This could result in a revision to the amount of goodwill recorded. As a result, at reporting date goodwill has not yet been allocated to a cash generating unit. Accordingly, no impairment testing of these amounts has been undertaken.

13. Intangible assets

	Consolidated		
	Framework agreement $'000	Project-related agreements and licenses $'000	Total $'000
Balance at 1 July 2004			
Additions through business combinations	-	24,049	24,049
Balance at 1 July 2005	-	24,049	24,049
Additions	5,100	33,171	38,271
Additions through business combinations	-	82,132	82,132
Net foreign currency exchange differences	-	5,966	5,966
Balance at 30 June 2006	5,100	145,318	150,418
Accumulated amortisation and impairment			
Balance at 1 July 2004	-	-	-
Amortisation expense	-	(298)	(298)
Balance at 1 July 2005	-	(298)	(298)
Amortisation expense (i)	(1,514)	(2,330)	(3,844)
Net foreign currency exchange differences	-	(122)	(122)
Balance at 30 June 2006	(1,514)	(2,750)	(4,264)
Net book value			
As at 30 June 2005	-	23,751	23,751
As at 30 June 2006	3,586	142,568	146,154

	Parent Entity		
	Framework agreement	Project-related agreements and licenses	Total
Balance at 1 July 2004 and 1 July 2005	-	-	-
Additions	5,100	-	5,100
Balance at 30 June 2006	5,100	-	5,100
Accumulated amortisation and impairment			
Balance at 1 July 2004 and 1 July 2005	-	-	-
Amortisation expense (i)	(1,514)	-	(1,514)
Balance at 30 June 2006	(1,514)	-	(1,514)
Net book value			
As at 30 June 2005	-	-	-
As at 30 June 2006	3,586	-	3,586

(i) Amortisation expense is included in the line item Depreciation and Amortisation in the income statement.

Significant intangible assets

Lake Bonney Stage 2

In September 2005 the Group entered into a Project Development Agreement ("PDA") in relation to Lake Bonney Stage 2.

Under this PDA a fee of $20,000,000 was paid through the issuance of 14,286,000 stapled securities, each valued at $1.40 (see Note 18 Contributed Equity). Half of the fee was payable to a subsidiary of Babcock & Brown Limited - refer to Note 29. These securities were returnable to the extent that the developers did not meet certain conditions under the PDA. At 31 December 2005 the date by which the conditions needed to be met was not reached and accordingly the fee was disclosed as a prepayment in the accounts for the half year ended 31 December 2005.

In May 2006, the conditions of the PDA were fulfilled and the Group commenced construction of Lake Bonney Stage 2. Additional costs of $13,171,000 were incurred in relation to other project-related agreements and licenses connected with Lake Bonney Stage 2.

Olivo

Following the allocation of the purchase price paid for each of the six wind farms that comprise the Olivo portfolio, project-related licenses amounting to $106,181,000 have been recorded. This has resulted in a restatement of prior year balances – refer to Note 33. The licenses are to be amortised over a period of 25 years.

14. Payables

	Consolidated		Parent	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current				
Accounts payables	38,424	11,516	1,998	167
Amounts due to related parties (Note 29)	15,046	9,555	4,819	7,463
Interest payable	1,004	-	3,872	-
Goods and services tax payable	2,423	5,691	-	-
	56,897	26,762	10,689	7,630
Non-current				
Amounts payable to related parties (Note 29)	-	2,234	-	-
	-	2,234	-	-

15. Borrowings

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent 2006 $'000	Parent 2005 $'000
Current				
Unsecured				
At amortised cost (2005: cost):				
Loans from related parties*	-	8,662	-	8,662
	-	8,662	-	8,662
Secured				
At amortised cost (2005: cost):				
Bank loans - Lake Bonney loan facility (ii)	5,604		-	-
Bank loans - Walkaway loan facility (iv)	-	160,202	-	-
Bank loans - Olivento loan facility (v)	30,667	11,556	-	-
Bank loans – Niederrhein loan facility (vi)	1,886	5,349	-	-
	38,157	177,107	-	-
Finance lease liabilities (vi)	1,721	-	-	-
Banking facilities	39,878	177,107	-	-
	39,878	185,769	-	8,662
Non-current				
Unsecured				
At amortised cost (2005: cost):				
Loans from related parties	-	-	678,932	166,518
	-	-	678,932	166,518
Secured				
At amortised cost (2005: cost):				
Babcock & Brown Wind Partners – Corporate Facility (i)	3,288	-	3,288	-
Bank loans - Lake Bonney loan facility (ii)	121,726	97,543	-	-
Lake Bonney mezzanine debt facility (iii)	15,908	-	-	-
Bank loans - Walkaway loan facility (iv)	169,150	-	-	-
Bank loans - Olivento loan facility (v)	254,895	90,792	-	-
Bank loans – Niederrhein loan facility (vi)	26,651	-	-	-
	591,618	188,335	3,288	-
Finance lease liabilities (vi)	39,871	-	-	-
	631,489	188,335	688,220	166,518

* Further information relating to loans from related parties is set out in Note 29.

(i) Corporate facility

BBWPL entered into a €30,000,000 facility earlier in the year. This facility was extended to €150,000,000 in May 2006. Amounts owing under the facility are secured by a fixed and floating charge over specific cash balances and other assets.

Drawings under the facility are in multiple currencies to match the underlying currencies of BBW's investments and provide a natural foreign currency hedge in relation to the debt servicing of amounts drawn under the facility.

The facility has a three year term and has been provided by BOS International (Australia) Limited, BNP Paribas and Australia and New Zealand Banking Group Limited.

At balance date, BBWPL had drawn funds of $9,588,000 (before cost of $6,300,000) and a financial guarantee of $99,000,000 under the facility. BBWPL pays interest based on Euribor (Euro drawings), BBR (Australian Dollar) or LIBOR (other currencies), plus a margin. BBWPL is required to and has entered into financial instruments to fix the interest rate for a portion of the loan.

No repayments are due under the facility until the end of the three year term, although BBWPL is permitted to make repayments as and when it wants.

At balance date, approximately $149,592,000 of the facility was unused.

(ii) Lake Bonney loan facility

This facility was re-financed during the year to accommodate the construction of Lake Bonney Stage 2 and ongoing operations of Lake Bonney Stage 1. The re-financed facility incorporates construction, term and working capital facilities.

The combined facilities have been provided by Dexia Credit Local Asia Pacific Pty Limited, KBC Finance Ireland, Societe Generale Australia and Suncorp Metway Limited.

The construction facility is repaid once construction of Lake Bonney Stage 2 is completed. The repayment is, in part, funded by the consolidated group, but also through additional drawings under the term facility. The final repayment dates of the working capital and term facilities are in June 2011 and December 2014, respectively.

The construction facility has a limit of $310,000,000 and had a balance of $41,335,000 at the balance date. Costs of $ 8,030,000 were incurred in relation to arranging the facility and will be amortised over the term. The interest rate on the construction facility is at a margin of 1.10% per annum over a base rate. The base rate is a floating rate set by reference to the average BBSY Bid Rate. Lake Bonney Wind Power Pty Limited has entered into financial instruments to fix the interest rate for a portion of the loan.

The term facility has a limit of $95,000,000 up to the point when Lake Bonney Stage 2 has been constructed and $280,000,000 thereafter.

The term facility had a balance of $94,025,000 at the balance date, which included $5,604,000 that is due and repayable during the year ended 30 June 2007.

There was no balance outstanding under the working capital facility at balance date, which has a limit of $6,000,000 from the point following construction of Lake Bonney Stage 2.

The interest rate on the term and working capital facilities is at a margin of 1.00% for the period through May 2008, 1.25% for the period from May 2008 to May 2013 and 1.40% per annum for the period after May 2013, over a base rate. The base rate is a floating rate set by reference to the average BBSY Bid Rate.

(iii) Lake Bonney mezzanine debt facility

This facility has been provided by NM Rothschild & Sons (Australia) Limited. It has a limit of $16,500,000, which can be increased to $20,000,000. The balance of funds drawn at balance date was $16,449,000 less cost incurred of $ 541,000.

The interest rate on the facility is at a margin of 4.0% per annum prior to 31 May 2011 and 4.5% thereafter, over a base rate. The base rate is a floating rate set by reference to the average BBSY Bid Rate.

The final repayment date of the mezzanine debt facility is December 2015. No amounts are repayable within the next financial year ended 30 June 2007.

(iv) Walkaway loan facility

This facility incorporates construction, term and working capital facilities and is provided by BNP Paribas and the Commonwealth Bank of Australia.

The construction facility had a limit of $206,016,000 and was converted into the term facility in June 2006. At balance date the limit of the term facility, $169,150,000, was fully drawn. No amounts are repayable during the year ended 30 June 2007. No amounts have been drawn under the working capital facility, which has a limit of $2,000,000

The interest rate on the construction facility is at a margin of 1.05% per annum over a base rate. The base rate is a floating rate set by reference to the average BBSY Bid Rate.

The interest rate on the term and working capital facilities is 1.05% per annum through December 2010, 1.25% per annum from December 2010 to December 2015 and 1.40% per annum therafter.

The final repayment date under the term facility is December 2018.

(v) Olivento loan facility

The facility incorporates term, working capital and VAT facilities and has been provided by Dexia Credit Local, Dexia Sabadell Banco Local, S.A. and the Bank of Scotland.

The limit of the term facility is €165,000,000. The term facility had a balance of €147,174,000 at balance date. Of the €147,174,000, €6,967,000 is repayable within the year ended 30 June 2007.

The limit of the working capital facility is €10,000,000, all of which was drawn at balance date and none of which is repayable in the year ended 30 June 2007.

The limit of the VAT facility is €19,000,000. There is a balance of €10,837,000 at the balance date, which is expected to be fully repaid in the year ended 30 June 2007.

The rate of interest on the term facility is at a margin of 1.10% for the period up to 31 December 2006, 1.20% for the period up to 31 December 2009 and 1.25% per annum thereafter, over a base rate. The base rate is a floating rate set by reference to the average Euribor rate for the period. Olivento has entered into financial instruments to fix the rate of interest.

The rates of interest on the working capital and VAT facilities are at a margin of 1.10% and 0.60% over the base rate noted above.

The final repayment date of the term and working capital facilities is December 2020.

(vi) Niederrhein loan facility
The facility incorporates term, debt service reserve and decommissioning facilities and has been provided by HSH Nordbank.

The limit of the term facility is €17,252,000. The term facility had a balance of €16,580,086 at balance date, of which €1,095,528 is repayable within the year ended 30 June 2007.

The limit of the debt service reserve and the decommissioning reserve facility is €1,650,000, none of which was drawn at balance date.

The rate of interest on the term facility ranges between 3.25% fixed and EURIBOR plus a margin of 2.5%.

The rates of interest on the debt service and the decommissioning reserve facilities are EURIBOR plus a margin of 1.5%.

The final repayment date of the term and working capital facilities is 30 June 2020.

(vi) Finance lease liabilities
Refer to Note 25.

Assets pledged as security
Bank loans of project-level subsidiaries are secured by a combination of fixed and floating charges over the assets of these entities.

The corporate facility is secured by a fixed and floating charge over certain cash balances of $6,951,000 and a fixed a floating charge over the remaining assets of the Group.

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

The carrying amounts of assets pledged as security for current and non-current borrowings are:

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current				
Cash and cash equivalents	124,177	32,437	6,951	-
Receivables	43,825	38,911	-	-
Total current assets pledged as security	168,002	71,348	6,951	-
Non-current				
Receivables	14,342	-	-	-
Property, plant and equipment	656,839	399,877	-	-
Total non-current assets pledged as security	671,181	399,877	-	-
Total assets pledged as security	839,183	471,225	6,951	-

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000

16. Derivative financial instruments

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Current				
At fair value:				
Foreign currency forward contracts	1,100	-	903	-
Interest rate swaps	866	-	19	-
	1,966	-	922	-
Non-current				
At fair value:				
Foreign currency forward contracts	1,402	-	1,402	-
Interest rate swaps	260	-	-	-
	1,662	-	1,402	-

Refer Note 32 for further information.

17. Capitalised borrowing costs

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Borrowing costs capitalised during the financial year	5,615	12,476	-	-
Weighted average capitalisation rate on funds borrowed generally	5.7%	6.3%	-	-

18. Contributed equity

	Consolidated No'000	Consolidated $'000	Parent Entity No'000	Parent Entity $'000
Fully paid stapled securities/shares				
Balance as at 1 July 2004	62,116	62,116	62,116	621
Capital raisings (i)	100,640	112,800	100,640	1,127
Transfer to retained earnings	-	(10,028)	-	-
Balance as at 30 June 2005	162,756	164,888	162,756	1,748
Transfer of net assets attributable to security holders from equity to liability (ii)	-	(163,140)	-	-
Transfer of net assets attributable to security holders from liability to equity (ii)	-	161,512	-	-
Lake Bonney 2 (iii)	14,286	20,000	14,286	200
Alinta Wind Farm (iv)	34,286	48,000	34,286	480
Capital raising, net of issue costs (v)	356,937	487,048	356,937	2,024
Incentive fee (vi)	7,037	13,028	7,037	2
Capital distribution – refer Note 22	-	(25,202)	-	-
Balance as at 30 June 2006	575,302	706,134	575,302	4,454
Attributable to:				
Equity holders of the parent		4,454		4,454
Equity holders of the other stapled securities (minority interests)		701,680		-
		706,134		4,454

Stapled securities entitle the holder to participate in dividends from BBWPL and BBWPB and in distributions from BBWPT. The holder is entitled to participate in the proceeds on winding up of the company in proportion to the number of and amounts paid on the securities held.

(i) Capital raisings – 2005
In August 2004 the entity issued 41,944,000 securities at a price of $1.08. Total proceeds amounted to $45,300,000. In March 2005 the entity issued 58,696,000 securities at a price of $1.15. Total proceeds amounted to $67,500,000.

(ii) Change in Constitution

Upon the implementation of A-IFRS, security holder interests were initially accounted for as debt. Following a change in the BBWPT constitution on 12 September 2005, security holder interests were reclassified as equity. Under the election granted under AASB 132 and AASB 139, these interests were also accounted for as equity in the comparative period. BBWPT paid a distribution of $1,628.000 in August 2005, prior to the change in the constitution, which has been recognised as a reduction in this debt.

(iii) Lake Bonney Stage 2

In September 2005 BBWPL and BBWPS, as responsible entity of BBWPT, entered into a Project Development Agreement ("PDA") with both a subsidiary of Babcock & Brown Limited and of National Power Partners LLC ("LB2 Vendors") in respect of Lake Bonney Stage 2 ("LB2 Agreement").

The consideration payable to the LB2 Vendors under the LB2 Agreement was $20,000,000 and was satisfied through the issue of shares and units by BBWPL and BBWPS, respectively ("LB2 Consideration Securities"). The combined fair value of each share and unit that comprised the LB2 Consideration Securities was $1.40, which was based on the offer price of stapled securities at the subsequent initial public offering in October 2005. Correspondingly, BBWPL issued 14,286,000 shares and BBWPS issued 14,286,000 units.

Subsequently, pursuant to the initial public offering in October 2005, each share in BBWPL and each unit in BBWPT was stapled to a share in BBWPB.

(iv) Alinta Wind Farm

In September 2005, BBWPL and BBWPS entered into a Sale and Purchase Agreement to purchase the remaining 25% of Walkaway Wind Power Pty Limited ("Walkaway Acquisition Agreement") that was not previously owned by BBWP. The consideration payable under the Walkaway Acquisition Agreement was $48,000,000, which was satisfied through the issue of shares and units by BBWPL and BBWPS, respectively ("Walkaway Purchase Price Securities"). In addition to the issue of shares and units, ancillary costs of $1,442,000 were incurred.

The combined fair value of each share and unit that comprised the Walkaway Purchase Price Securities was $1.40, which was based on the offer price of stapled securities at the subsequent initial public offering in October 2005. Correspondingly, BBWPL issued 34,286,000 shares and BBWPS issued 34,286,000 units.

Subsequently, pursuant to the initial public offering in October 2005, each share in BBWPL and each unit in BBWPT was stapled to a share in BBWPB.

(v) Capital raising, net of issue costs

During the year ended 30 June 2006, BBW issued 282,837,000 stapled securities pursuant to its initial public offering. Each stapled security was valued at $1.40 and total proceeds amounted to $395,972,000 before costs of $25,180,000.

In June 2006, BBW issued 74,100,000 stapled securities pursuant to a private placement. Each stapled security was valued at $1.60 and total proceeds amounted to $118,560,000 before costs of $2,304,000.

	Consolidated		Parent Entity	
	No'000	$'000	No'000	$'000
Initial public offer	282,837	395,972	282,837	2,828
Capital raising	74,100	118,560	74,100	12
	356,937	514,532	356,937	2,840
Less: Issue costs	-	(27,484)	-	(816)
	356,937	487,048	356,937	2,024

(vi) Incentive Fee

The Management Agreement entered into between BBWPL and Babcock & Brown Infrastructure Management Pty Limited includes provisions for an incentive fee (see Note 29). Under the Agreement, up to 60% of the incentive fee may be paid in stapled securities. The incentive fee amounted to $33,150,000 and approximately 40%, or $13,028,000 was settled through the issue of 7,037,000 stapled securities at a price of $1.85 per stapled security.

19. Reserves

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Foreign currency translation	6,754	(4,553)	-	-
Hedging	7,185	-	(1,357)	-
Acquisition	(49,442)	-	-	-
	(35,503)	(4,553)	(1,357)	-
Attributable to:				
Equity holders of the parent	(13,868)	(4,553)	(1,357)	-
Equity holders of the other stapled securities (minority interests)	(21,635)	-	-	-
	(35,503)	(4,553)	(1,357)	-
Foreign currency translation reserve				
Balance at beginning of financial year	(4,553)	-	-	-
Translation of foreign operations	11,307	(4,553)	-	-
Deferred tax arising from translation	-	-	-	-
Balance at end of financial year	6,754	(4,553)	-	-

Exchange differences arising on translation of foreign controlled entities are taken to the foreign currency translation reserve, as described in Note 1. The reserve is recognised in profit and loss when the net investment is disposed of.

19. Reserves *(cont'd)*

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Hedging reserve				
Balance at beginning of financial year	-	-	-	-
Adjustments on adoption of accounting policies specified by AASB 132 and AASB 139 (refer note 1(ae))	(7,491)	-	-	-
Restated balance at 1 July 2005	(7,491)	-	-	-
Gain/(loss) recognised:		-	-	-
Forward exchange contracts	(1,053)	-	(1,952)	-
Interest rate swaps	18,808	-	13	-
Deferred tax arising on hedges	(3,079)	-	582	-
Balance at end of financial year	7,185	-	(1,357)	-

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in Note 1. Amounts are recognised in profit and loss when the associated hedged transaction settles.

	Consolidated 2006 $'000	Consolidated 2005 $'000
Acquisition reserve		
Balance at beginning of financial year	-	-
Alinta Wind Farm	(49,442)	-
Balance at end of financial year	(49,442)	-

Prior to the acquisition BBWPL owned 75% of the share capital of Walkaway Wind Power Pty Limited ("WWP")` and consolidated WWP accordingly. Therefore, the acquisition of the remaining 25% did not result in a change of control but was an acquisition of the minority shareholders. These transactions are treated as transactions between owners of the group. Additional goodwill is recognised only to the extent that it represents goodwill which was attributable to the minority interest at the acquisition date but is now attributable to the parent entity. No such goodwill was recognised in relation to WWP. The difference between the purchase consideration and the amount by which minority interest is adjusted was recognised in the acquisition reserve.

20. Retained earnings

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Balance at beginning of financial year	2,316	1,625	(1,237)	(73)
Adjustments on adoption of AIFRS		-	-	-
Restated balance at beginning of financial year	2,316	1,625	(1,237)	(73)
Net profit attributable to stapled security holders	(16,235)	2,674	(7,484)	(1,164)
Transfer from contributed equity	-	10,027	-	-
Distributions provided for or paid (note 22)	-	(12,010)	-	-
Deferred tax recognised directly in equity	-	-	-	-
Balance at end of financial year	(13,919)	2,316	(8,721)	(1,237)
Attributable to:				
Equity holders of the parent	(18,126)	2,316	(8,721)	(1,237)
Equity holders of the other stapled securities (minority interests)	4,207	-	-	-
	(13,919)	2,316	(8,721)	(1,237)

21. Earnings per security/ share

	Consolidated	
	2006 Cents per security	2005 Cents per security
Basic and diluted earnings per stapled security/ parent entity share:		
Parent entity share	(0.05)	0.02
Stapled security	(0.04)	0.02

The earnings and weighted average number of securities/ shares used in the calculation of basic and diluted earnings per security/ share are as follows:

	2006 $'000	2005 $'000
Earnings attributable to the parent entity share holders	(20,442)	2,720
Earnings attributable to the stapled security holders	(16,235)	2,674

	2006 No.'000	2005 No.'000
Weighted average number of securities/ shares for the purposes of basic and diluted earnings per security/ share	386,137	114,096

22. Distributions and finance costs paid

	2006 Cents per security	2006 Total $'000	2005 Cents per security	2005 Total $'000
Recognised amounts				
Ordinary securities				
Finance cost in respect of 2006 year (2005: distribution)*	1.0	1,628	2.8	1,746
Interim distributions	5.1	25,202	2.2	2,289
			2.8	7,975
		26,830		12,010

*Upon implementation of A-IFRS and prior to a change in BBWPT's constitution, security holder interests were initially accounted for as debt. BBWPT paid a distribution of $1,628,000 in August 2005, which has been recognised as a reduction in this debt as a finance cost.

On 7 September 2006, the board of directors of BBWP declared a final distribution in respect of the year ended 30 June 2006 of 5.1 cents per stapled security. The amount that will be paid on 29 September 2006 is $22,824,000.

No franking credits have been generated by the parent entity.

23. Commitments for expenditure

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
(a) Capital expenditure commitments				
Not longer than 1 year	109,561	128,905	-	-
Longer than 1 year and not longer than 5 years	158,088	4,000	-	-
Longer than 5 years	-	20,000	-	-
	267,649	152,905	-	-
			-	-

(b) Lease commitments

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in note 25 to the financial statements.

	Consolidated		Company	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
(c) Other expenditure commitments				
Other				
Not longer than 1 year	4,038	-	-	-
Longer than 1 year and not longer than 5 years	15,785	-	-	-
Longer than 5 years	54,827	-	-	-
	74,650	-	-	-

24. Contingent liabilities and contingent assets

	Consolidated		Parent Entity	
Contingent liabilities	2006 $'000	2005 $'000	2006 $'000	2005 $'00(
Letters of credit	108,540	10,694	99,000	-
Guarantees	59,211	-	54,679	-
Arising from equity accounted investments				
Consolidated entity's share of associates' contingent liabilities	874	-	-	-

A letter of credit for $99,000,000 has been provided to the financiers of the Lake Bonney Stage 2 project as security in support of LBWP's equity commitment under the financing documents.
Guarantees generally relate to windfarm operations and decommissioning .

25. Leases

Finance leases TBD

Leasing arrangements

Finance leases relate to assets at the Eifel wind farm.

Finance lease liabilities

	Minimum future lease payments			
	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
No later than 1 year	5,523	-	-	-
Later than 1 year and not later than 5 years	22,090	-	-	-
Later than five years	55,002	-	-	-
Minimum lease payments*	82,615	-	-	-
Less future finance charges	(41,023)	-	-	-
Present value of minimum lease payments	41,592	-	-	-
Included in the financial statements as:				
Current borrowings (note 15)	1,721	-	-	-
Non-current borrowings (note 15)	39,871	-	-	-
	41,592	-	-	-

* Minimum future lease payments include the aggregate of all lease payments and any guaranteed residual.

Operating leases

Leasing arrangements

The finance leases have a term of 14 years with a option to purchase at the end of the term.

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Non-cancellable operating lease payments				
Not longer than 1 year	1,777	1,321	-	-
Longer than 1 year and not longer than 5 years	8,160	7,409	-	-
Longer than 5 years	59,406	53,431	-	-
	69,343	62,161	-	-

26. Subsidiaries

	Name of entity	Country of incorporation	Ownership interest 2006 %	2005 %
	Parent entity			
*	Babcock & Brown Wind Partners Limited	Australia		
	Other stapled entities			
	Babcock & Brown Wind Partners (Bermuda) Limited	Bermuda		
	Babcock & Brown Wind Partners Trust	Australia		
	Subsidiaries of BBW			
	B&B Blue Canyon LLC	USA	100%	-
	B&B Caprock LLC	USA	80%	-
	B&B Combine Hills LLC	USA	100%	-
	B&B Eifel UK Ltd	UK	100%	-
*	B&B LB2 Pty Limited	Australia	100%	-
	B&B Sweetwater 1 LLC	USA	100%	-
	B&B Sweetwater 2 LLC	USA	100%	-
*	B&B Walkaway Pty Limited	Australia	100%	-
	B&B Walkaway Trust	Australia	100%	-
*	B&B Wind Pty Limited	Australia	100%	100%
*	BBWP Europe Pty Limited	Australia	100%	-
*	BBWP Europe 2 Pty Limited	Australia	100%	-
	BBWP (US) LLC	USA	100%	-
*	BBWP (US) Pty Limited	Australia	100%	-
	Babcock & Brown Wind Partners France SAS	France	100%	-
	Babcock & Brown Wind Partners Trust	Australia	100%	100%
	Babcock & Brown Wind Partners US LLC	USA	100%	-
	Babcock & Brown Wind Partners (Bermuda) Limited	Bermuda	100%	-
	Babcock & Brown Wind Partners (Spain) S.L.	Spain	100%	-
*	CS Walkaway Pty Limited	Australia	100%	-
	CS Walkaway Trust	Australia	100%	-
	Global Wind Partners UK Ltd	UK	100%	100%
	Global Wind Partners UK 2 Ltd	UK	100%	100%
	Global Wind Partners UK 3 Ltd	UK	100%	-
*	GWP Europe Pty Limited	Australia	100%	100%
*	GWP Europe 2 Pty Limited	Australia	100%	100%
*	GWP Walkaway Pty Limited	Australia	100%	100%
*	Lake Bonney Wind Power Pty Limited	Australia	100%	100%
*	Lake Bonney Wind Power 2 Pty Limited	Australia	100%	-
	Lake Bonney Wind Power 3 Pty Limited	Australia	100%	-
*	NPP LB2 LLC	USA	100%	-
*	NPP Projects I LLC	USA	100%	100%
*	NPP Projects V LLC	USA	100%	-
*	NPP Walkaway Pty Limited	Australia	100%	-
*	NPP Walkaway Trust	Australia	100%	-
	Olivento S.L.	Spain	100%	100%
	Renewable Power Ventures Investment Trust	Australia	100%	-
	Sistemas Energeticos Del Sardon S.A.U.	Spain	100%	-
	Sistemas Energeticos Montes de Leon S.A.U.	Spain	100%	-
	Sistemas Energeticos Opinen S.A.U.	Spain	-	100%
	Sistemas Energeticos Serra da Loba S.A.U.	Spain	100%	-
	Sistemas Energeticos Sierra del Trigo S.A.U.	Spain	-	100%
	Sistemas Energeticos Villarubia S.A.U.	Spain	-	100%
	Societe d'Exploitation du Parc Eolien de Fond Du Moulin SARL	France	100%	-
	Societe d'Exploitation du Parc Eolien de Mont Felix SARL	France	100%	-
	Societe d'Exploitation du Parc Eolien Le Marquay SARL	France	100%	-
	Walkaway Wind Power Pty Limited	Australia	100%	75%
	Windpark Eifel GmbH & Co KG Partnership	Germany	100%	-

Windpark Niederrhein GmbH & Co KG Partnership	Germany	99%	99%

* Denotes a member of the BBWPL tax consolidated group.

27. Acquisition of businesses

Babcock & Brown Wind Partners (Bermuda) Limited

The shares in Babcock & Brown Wind Partners (Bermuda) Limited are stapled to shares in BBWPL and units in BBWPT. AASB Interpretation 1002 applies to stapling arrangements occurring during annual reporting periods ending on or after 31 December 2005 where the identified parent, in this case BBWPL, does not obtain an ownership interest in the entity whose securities have been stapled, BBWPB. As a consequence of the stapling arrangement involving no acquisition consideration and no ownership interest being acquired by the combining entities, no goodwill is recognised in relation to the stapling arrangement and the interests of the equity holders in the stapled securities are treated as minority interests.

Walkaway Wind Power Pty Limited

In September 2005, BBWPL and BBWPS entered into a Sale and Purchase Agreement to purchase the remaining 25% of Walkaway Wind Power Pty Limited ("Walkaway Acquisition Agreement") that was not previously owned by BBW. The consideration payable under the Walkaway Acquisition Agreement was $48,000,000, which was satisfied through the issue of shares and units by BBWPL and BBWPS, respectively ("Walkaway Purchase Price Securities"). In addition to the issue of shares and units, ancillary costs of $1,442,000 were incurred. The combined fair value of each share and unit that comprised the Walkaway Purchase Price Securities was $1.40, which was based on the offer price of stapled securities at the subsequent initial public offering in October 2005. Correspondingly, BBWPL issued 34,286,000 shares and BBWPS issued 34,286,000 units.

Subsequently, pursuant to the initial public offering in October 2005, each share in BBWPL and each unit in BBWPT was stapled to a share in BBWPB.

The transaction resulted in the purchase of 100% of the following entities:

- CS Walkaway PtyLimited
- CS Walkaway Trust
- B&B Walkaway Pty Limited
- B&B Walkaway Trust
- NPP Projects V LLC

These entities indirectly own 25% of Walkaway Wind Power Pty Limited ("WWP"). This acquisition resulted in the Group increasing its ownership interest in the share capital of WWP from 75% to 100%. The fair value of the net assets of the purchased group was nil. Given that there was no goodwill recognised upon the initial transaction, in which 75% of WWP was purchased, no goodwill is recognised as a result of this transaction. The purchase price of $49,442,000 has been recognised within equity. Furthermore, since BBWPL already controlled WWP, WWP's net assets and results continue to be consolidated.

During the year ended 30 June 2006, BBW purchased 100% of the share capital of three wind farms in relation to the Olivo portfolio. The entities that were purchased were Montes de Leon S.A.U., Del Sardon S.A.U. and Serra da Loba S.A.U. An exercise to allocate the purchase price paid for these assets was undertaken and the following summarises the carrying and fair values at acquisition following this exercise:

	$'000 Carrying value	$'000 Fair value
Consideration		
Cash paid, net of cash acquired		71,235
Net assets acquired		
Cash	5,873	5,873
Receivables	17,336	17,336
Other assets	3,473	3,473
Licenses	-	74,367
Plant and equipment	137,807	139,668
Deferred tax asset	-	189
Payables	(4,650)	(4,650)
Interest bearing liabilities	(158,555)	(158,555)
Deferred tax liability	-	(593)
	1,284	77,108
Less: cash acquired		(5,873)
Implied goodwill		-
		71,235

The acquired businesses contributed revenues of $11,728,000 and net profit of $1,951,000 to the Group for the period from acquisition to 30 June 2006. If the acquisitions had occurred on 1 July 2005, a further $19,259,000 of revenue and $3,409,000 of net profit would have been contributed to the Group.

During the year ended 30 June 2005, BBW purchased 100% of the share capital of three wind farms in relation to the Olivo portfolio. The entities that were purchased were Sierra del Trigo S.A.U., Opinen S.A.U. and Villarubia S.A.U. An exercise to allocate the purchase price paid for these assets was undertaken and the following summarises the carrying and fair values at acquisition following this exercise:

	$'000	$'000
	Carrying value	**Fair value**
Consideration		
Cash paid, net of cash acquired		40,966
Net assets acquired		
Cash	2,032	2,032
Receivables	8,352	8,352
Other assets	1,160	1,160
Licenses	-	25,072
Plant and equipment	98,619	101,400
Payables	(4,760)	(4,760)
Interest bearing liabilities	(89,368)	(89,368)
Deferred tax liability	-	(890)
	16,035	42,998
Less: cash acquired		(2,032)
Implied goodwill		-
		40,966

Eifel

During the year, BBW purchased 100% of the share capital of B&B Eifel UK Limited ("Eifel UK"). Eifel UK has a 100% interest in the Windpark Eifel GmbH & Co KG partnership, which operates the Eifel wind farm. The purchase price was approximately $6,646,000, which includes associated costs of $2,950,000. The provisional values of net assets acquired, $2,747,000, comprised the following:

	$'000
	Provisional values
Consideration	
Cash paid, net of cash acquired	4,160
Net assets acquired	
Cash	2,486
Receivables	667
Plant and equipment	36,322
Purchased goodwill	8,356
Payables	(1,141)
Interest bearing liabilities	(43,943)
	2,747
Less: cash acquired	(2,486)
Implied goodwill	3,899
	4,160

The acquired business contributed revenues of $2,131,000 and net loss of $123,000 to the Group for the period from acquisition, 1 January 2006, to 30 June 2006. If the acquisition had occurred on 1 July 2005, a further $5,500,000 of revenue and $265,000 of net profit would have been contributed to the Group.

AASB 3, Business Combinations requires the assets liabilities of a subsidiary to be recognised by the acquiring entity at fair value. AASB 3 also allows an acquiring entity 12 months from acquisition date to finalise the acquisition accounting. Any movements in the acquired net assets based on fair values will be recognised in the year ended 30 June 2007 and comparatives will be appropriately restated..

Fruges

During the year, BBW acquired 100% of three companies in France, Societe d’Exploitation du Parc Eolien Le Marquay SARL, Societe d’Exploitation du Parc Eolien Fond du Moulin SARL and Societe d’Exploitation du Parc Eolien Mont Felix SARL. Each of the three companies is in the process of developing a wind farm in France (the “Fruges Wind Farms”).

The Fruges Wind Farms are in the construction phase and contributed no amount of revenue or net profit/ loss to the Group’s result.

The purchase price paid was approximately $12,000 for each company, plus costs of approximately $2,214,000. The book value of the net assets comprised cash of approximately $12,000 and goodwill of approximately $2,214,000 has been recognised.

Plambeck

BBW entered into a Framework Agreement with Plambeck Neue Energien AG in March 2006. Under this Agreement a prepayment of €6,000,000 (A$ 10,327,000) was made towards future investments. The amount paid will reduce the purchase price of future acquisitions under the Agreement.

28. Segment information

The Group operates in one business segment, the generation of electricity from wind energy.

The wind farms that generate this electricity are located in Australia, Europe and the United States. BBW reports its primary segment information on a geographical basis.

The France operations were in construction phase and hence no revenue was generated from that segment. This segment is expected to start commercial operations from February 2007.

The U.S. wind farms are equity accounted, hence segment revenues and results do not include the U.S. BBW's share of net profit or loss of this associate is disclosed in the income statement.

Segment revenues

	External sales		Inter-segment		Other		Total	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Australia	30,644	9,005	-		9,891	4,757	40,535	13,762
Spain	32,446	7,602	-	-	169	172	32,615	7,774
Germany	4,660	-	-	-	13	-	4,673	-
Total of all segments	67,750	16,607			10,073	4,929	77,823	21,536
Share of profits of associates, net of tax (U.S.A.)							2,074	-
Unallocated							14,110	1,681
Consolidated							94,007	23,217

Segment results

	Australia		Spain		Germany		Total	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Segmental result	9,668	2,479	8,719	2,318	1,017	-	19,404	4,797
Share of profits of associates, net of tax (U.S.A.)							2,074	-
Unallocated							(37,762)	(1,003)
(Loss)/profit before income tax expense							(16,284)	3,794
Income tax expense							(49)	(1,120)
(Loss)/profit for the period							(16,235)	2,674

Note, segment results for France are nil.

Segment assets and liabilities

	Assets		Liabilities	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Australia	608,260	348,076	325,388	288,419
Spain	401,569	217,992	213,368	117,148
Germany	87,591	15,083	41,182	4,428
France	13,052	-	7,298	-
United States of America	302,461	-	159,780	-
Total of all segments	1,412,933	581,151	747,016	409,995
Eliminations				-
Unallocated	102	-	-	-
Consolidated	1,413,035	581,151	747,016	409,995

28. Segment information (cont'd)

Other segment information

		Australia	Spain	Germany	France	Unallocated	Consolidated
		2006 $'000	2006 $'000	2006 $'000	2006 $'000	2006 $'000	2006 $'000
	Carrying value of investments accounted for using the equity method	-	-	-	-	176,049	176,049
	Share of net profit/ (loss) of associates and jointly controlled entities accounted for under the equity method	-	-	-	-	2,074	2,074
	Acquisition of segment assets:						
	Property, plant & equipment	64,444	-	29,169	7,708	-	101,321
	Intangible assets	33,313	-	-	-	5,100	38,413
	Other	-	-	310	-	-	310
	Depreciation and amortisation of segment assets	(9,727)	(7,603)	(1,217)	-	(1,514)	(20,061)
	Other significant expenses:						
	Management charges	-	-	-	-	(44,379)	(44,379)
	Finance costs	(15,263)	(9,747)	(1,566)	-	(3,011)	(29,587)
	Administration, consultancy and legal fees	-	(1,031)	-	-	(2,967)	(3,998)
	Operating & Maintenance expense	(2,854)	(2,915)	(259)	-	-	(6,028)
	Land lease expense	(469)	(448)	(230)	-	-	(1,146)
	Connection fees	(1,652)	-	(10)	-	-	(1,662)

28. Segment information (cont'd)
Other segment information

		Australia	Spain	Germany	Unallocated	Consolidated
		2005 $'000	2005 $'000	2005 $'000	2005 $'000	2005 $'000
	Carrying value of investments accounted for using the equity method	-	-	-	-	-
	Share of net profit/ (loss) of associates and jointly controlled entities accounted for under the equity method	-	-	-	-	-
	Acquisition of segment assets:	-	-	-	-	-
	Property, plant & equipment	-	88,222	12,732	-	100,954
	Intangible assets	-	25,573	-	-	25,573
	Other non current assets	-	76,614	-	-	76,614
	Impairment losses	-	-	-	-	-
	Reversals of impairment losses	-	-	-	-	-
	Depreciation and amortisation of segment assets	(3,678)	(2,293)	-	-	(5,971)
	Other significant expenses:					
	Interest expense	(5,115)	(1,662)	-	(956)	(7,733)
	Administration, consultancy and legal fees	(56)	(341)	-	(1,280)	(1,677)
	Operating & Maintenance expense	(779)	(1,200)	-	-	(1,979)
	Land lease expense	(238)	-	-	-	(238)
	Connection fees	(1,014)	-	-	-	(1,014)

29. Related party disclosures

(a) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage ownership held in subsidiaries are disclosed in Note 26 to the financial statements.

Equity interests in associates

Details of interests in associates are disclosed in Note 9 to the financial statements.

(b) Key management personnel disclosures

Details of key management personnel remuneration are disclosed in Note 4 to the financial statements.

(c) Other related party transactions

29. Related party disclosures *(cont'd)*

Transactions involving the parent entity
During the financial year, $33,825,000 of management services were charged to various subsidiary entities by the parent entity, BBWPL.

Transactions involving other related parties
Receivables from related parties are disclosed in Note 6. Payables to related parties are disclosed in Note 14. Transactions were made on normal commercial terms and conditions at market rates.

Custodian, Responsible Entity and Manager fees and costs
Under the terms of the Custodian Agreement with Babcock & Brown Asset Holdings Pty Limited ("BBAH"), which is a subsidiary of Babcock & Brown Limited, 0.0125% of the gross asset value of BBWPT is payable. During the year ended 30 June 2006, fees paid or payable to the Custodian by the Group were $50,000.

Under BBWPT's constitution BBWPS is entitled to a management fee of 2% per annum of the value of the gross assets of BBW. BBWPS has exercised its right under the constitution to waive the fee referred to above such that it is paid remuneration of $500,000 per annum. BBWPT incurred an amount of $347,000 in the year ended 30 June 2006 as the entitlement relates to only a part of the year. Prior to BBWPS becoming responsible entity of BBWPT, a trustee fee was payable. This amounted to $326,000 during the year ended 30 June 2006 (2005: $864,000).

Under the management agreements between Babcock & Brown Infrastructure Management Pty Limited ("BBIM" or the "Manager"), which is a subsidiary of Babcock & Brown Limited, and each of BBWPL, BBWPS (as responsible entity of BBWPT) and BBWPB, a base fee of 1.4% per annum of the net investment value of BBW at the end of each quarter is payable. Additionally, a performance fee is payable half-yearly calculated as 20% of the amount (if any) of the excess percentage return of BBW over the S&P/ ASX 200 Accumulation Index for each half year, multiplied by BBW's market capitalization at the end of the half year.

Base management fees paid or payable to BBIM were $7,165,000 during the year. Of this amount, BBWPL incurred $5,279,000, BBWPT incurred $730,000 and BBWPB incurred $1,156,000. Performance fees paid or payable to BBIM by BBWPL were $33,150,000 during the year.

Under the management agreement between BBWPL and BBIM, the Manager is entitled to an amount per annum in respect of expenses. This amount was set at $6,000,000 per annum in relation to the period following the IPO through to 30 June 2006. During the year BBWPL reimbursed BBIM $4,064,000 representing out-of-pocket expenses incurred by the Manager in the performance of its duties for the period to 30 June 2006.

Under a management agreement between Olivento S.L. and each of Babcock & Brown Limited and Babcock & Brown S.L., approximately $1,030,000 was paid during the year ended 30 June 2006.

Transactions with associates
Ownership interests in, and distributions received from, associates are set out in Note 9.

Related party transactions associated with the IPO
BBW entered into an IPO Financial Advisory Agreement with BBA. Under this Agreement, BBW paid BBA an IPO advisory fee of $9,580,000. BBWPL's share was $96,000, BBWPT's share was $9,382,000 and BBWPB's share was $102,000.

Additionally, as part of the IPO Financial Advisory Agreement, BBWPL paid BBA financial advisory fees amounting to $7,719,000 in relation to certain acquisitions and framework agreements.

BBW entered into a Foundation Offer Underwriting Agreement with BBAH in relation to 132,837,384 stapled securities. Under the Agreement BBW paid 2.5% of the issue price of these securities, $4,649,000. BBWPL's share was $46,000, BBWPT's share was $4,557,000 and BBWPB's share was $46,000.

Other related party transactions following the IPO

In addition to the above that relate to the IPO, at 30 June 2006, companies within the Babcock & Brown Limited group held 81,162,000 stapled securities in BBW and during the year ended 30 June 2006 received $3,779,000 as distributions on stapled securities held.

BBWPL has entered into tax sharing and tax funding agreements. The terms of these agreements are provided in Note 3.

BBWPL, BBWPS (as responsible entity of BBWPT) and BBWPB have entered into an Exclusive Financial Advisory Agreement with Babcock & Brown Australia Pty Limited ("BBA"), a subsidiary of Babcock & Brown Limited. Under this Agreement, the following payments have been made with respect to certain transactions. During the year ended 30 June 2006, $19,879,000 (2005: $10,660,000) of fees were paid or were payable by the Group to BBA for financial advisory and debt arranging services in relation to various accretive acquisitions.

During the year ended 30 June 2006, the Group paid BBA $4,584,000 for debt advisory fees associated with securing the corporate facility referred to in Note 15 and $10,000,000, settled through the issue of stapled securities, in respect of the Lake Bonney Stage 2 Project Development Agreement.

During the year ended 30 June 2006, the Group paid a subsidiary of Babcock & Brown Limited interest of $256,000 (2005: $953,000) relating to an outstanding loan that was repaid in November 2005. The interest rate on the loan was 8.75%.

The BBW Group paid approximately $210,000 to Renerco A.G. under Technical Management Agreements during the year ended 30 June 2006.

In relation to the Lake Bonney Stage 2 project Lake Bonney Wind Power Pty Limited reimbursed Babcock & Brown Windpower Pty Limited approximately $24,000,000 of costs relating to construction.

Related party balances

At the year end the BBW Group owed the following amounts to various subsidiaries of Babcock & Brown:

Babcock & Brown Australia Pty Limited	$10,029,000
Babcock & Brown Infrastructure Management Pty Limited	$4,554,000
Babcock & Brown Wind Partners Services Limited	$138,000
B&B Windpower Pty Limited	$244,000
Babcock & Brown Asset Holdings Pty Limited	$19,000

(d) Parent entities

The parent entity in the consolidated entity is BBWPL.
The ultimate Australian parent entity is BBWPL.
The ultimate parent entity is BBWPL.

30. Subsequent events

Acquisitions under the US Framework Agreement

In July 2006, the Group acquired certain Class B membership interests in two US wind farms under the US Framework Agreement (refer section 12.4 of the IPO Prospectus and Product Disclosure Statement, dated 26 September 2005) for $93,516,000.

Crescent Ridge – Sale of 25% interest to Eurus Energy America LLC

On 30 June 2006, BBW acquired 100% of the Class B member interests in Crescent Ridge Holdings from Eurus. At that time, BBW entered into an agreement whereby Eurus had the ability to buy back 25% of these Class B member interests. In August 2006, Eurus paid BBW $14,207,000 for this 25% interest in Class B interests. This reduced BBW's effective equity interest from 47% to 35%.

31. Notes to the cash flow statement

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Cash and cash equivalents	311,195	110,114	64,166	27,852
	311,195	110,114	64,166	27,852

(b) Businesses acquired

During the financial year, 8 businesses were acquired. Details of the acquisition are as follows (Note 27):

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Consideration				
Cash and cash equivalents	107,342	39,280	-	-
Fair value of net assets acquired			-	-
Current assets:			-	-
Receivables and other current assets	19,667	8,727	-	-
			-	-
			-	-
Non-current assets:			-	-
Property, plant and equipment	170,990	98,660	-	-
Equity accounted investments	19,744	-		
Purchased goodwill	8,356	-	-	-
Licenses	74,367	-	-	-
Deferred tax assets	189	-	-	-
Current liabilities:				
Payables	(5,791)	(5,086)	-	-
Non-current liabilities:				
Loans	(203,869)	(90,717)	-	-
Deferred tax liabilities	(593)	-	-	-
Net assets acquired	83,060	11,584	-	-
Premium on acquisition	15,911	24,124	-	-
Net cash outflow on acquisition				
Cash and cash equivalents consideration	107,342	39,280	-	-
Less cash and cash equivalent balances			-	-
acquired	(8,371)	(3,572)		
Cash paid for purchase of controlled entity	98,971	35,708	-	-

31. Notes to the cash flow statement (cont'd)

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
(c) Non-cash financing and investing activities				
Walkaway Wind Power Pty Limited (Note 18)	48,000	-	27,086	-
Lake Bonney Wind Power Pty Limited (Note 18)	20,000	-	-	-
	68,000	-	27,086	-
(d) Financing facilities				
Secured bank loan facilities with various maturity dates through to December 2020 and which may be extended by mutual agreement:				
• Amount used	606,459	361,067	108,588	-
• Total amount available	508,230	78,525	149,592	-

Drawings under the Corporate Facility are subject to debt sizing parameters that are based on the forecast future cash flows of the Group. The amount used by the parent includes a letter of credit of $99,000,000.

(e) Restricted cash balances

As at balance date $79,012,000 of cash held is restricted and includes amounts held under debt service and project cost reserves, as well as funds that have been cash collateralised in relation to guarantees.

31. Notes to the cash flow statement *(cont'd)*

(f) Reconciliation of profit for the period to net cash flows from operating activities

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
(Loss)/profit for the period	(16,235)	2,674	(7,484)	(1,164)
(Gain)/loss on revaluation of fair value through profit or loss financial assets	852	-	353	-
Share of associates' profit (less dividends)	4,951	-	-	-
Depreciation and amortisation of non-current assets	20,061	5,970	1,514	-
Foreign exchange (gain)/loss	-	-	(106)	
Amortisation of borrowing costs capitalised	1,232		913	-
Non-cash incentive fee payment	13,028	-	13,028	-
Increase/(decrease) in current tax liability	652	1,094	-	-
(Increase)/ decrease in deferred tax balances	(2,491)	468	(5,847)	(2,869)
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase)/decrease in assets:				
Current receivables	6,235	(11,800)	(35,616)	(1,920)
Other current assets	(15,829)	(13,928)	(2,109)	-
Increase/(decrease) in liabilities:				
Current payables	1,702	22,279	8,812	3,582
Net cash from operating activities	14,158	6,757	(26,542)	(2,371)

32. Financial instruments

(a) Financial risk management objectives

The consolidated entity's treasury function provides services to the business, co-ordinates access to domestic and international financial markets, and manages the financial risks relating to the operations of the consolidated entity.

The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the consolidated entity's policies approved by the board of directors, which provide written principles on the use of financial derivatives.

The consolidated entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The consolidated entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- interest rate swaps
- foreign currency forward contracts

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

(c) Foreign currency risk management

The group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

Forward foreign exchange contracts

It is the policy of the consolidated entity to enter into underlying debt arrangements in the local currency. Where necessary, however, forward foreign exchange contracts are entered into to cover specific foreign currency payments and receipts within 50% to 100% of the exposure generated.

The following table details the forward foreign currency contracts outstanding as at reporting date:

Outstanding contracts	Average exchange rate 2006	2005	Foreign currency 2006 FC'000	2005 FC'000	Contract value 2006 $'000	2005 $'000	Fair value 2006 $'000	2005 $'000
Buy EURO sell AUD	0.5691	-	71,982	-	126,484	-	467	-
Buy USD sell EUR	0.7398	-	6,879	-	9,298	-	31	-
Sell EUR buy AUD	0.5860	-	24,984	-	42,633	-	(1,862)	-
Sell USD buy AUD	0.7482	-	27,555	-	36,821	-	(443)	-
			131,400	-	215,236		(1,807)	-

The consolidated entity has entered into contracts to hedge foreign currency payments under a construction contract. It has also entered into contracts to hedge its net investment in overseas entities. The consolidated entity has entered into forward foreign exchange contracts (for terms not exceeding 26 months) to hedge the exchange rate risk arising from these anticipated future transactions.

As at reporting date the aggregate amount of unrealized losses under forward foreign exchange contracts relating to anticipated future transactions is $1,053,000 (2005: nil). In the current year, these unrealised losses have been deferred in the hedging reserve to the extent the hedge is effective.

The cash flows are expected to occur at various dates between one month to 2 years. At balance date, the details of outstanding contracts are:

Buy Euro	**Sold Australian Dollar**		**Average exchange rate**	
	2006	2005	**2006**	2005
0-1 year	65,800	-	0.5691	-
1-2 years	60,784	-	0.5691	-
Buy USD	**Sold Euro**		**Average exchange rate**	
	2006	2005	**2006**	2005
0-1 year	-	-	-	-
1-2 years	9,298	-	0.7398	-
Buy AUD	**Sold Euro**		**Average exchange rate**	
	2006	2005	**2006**	2005
0-1 year	15,502	-	0.5989	-
1-2 years	27,131	-	0.5787	-
Buy AUD	**Sold USD**		**Average exchange rate**	
	2006	2005	**2006**	2005
0-1 year	26,156	-	0.7467	-
1-2 years	10,655	-	0.7525	-

32. Financial instruments (cont'd)

(d) Interest rate risk management

The consolidated entity is exposed to interest rate risk as it borrows funds at floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts.

Interest rate swap contracts

Under interest rate swap contracts, the consolidated entity agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the consolidated entity to mitigate the risk of changing interest rates on debt held. The fair value of interest rate swaps are based on market values of equivalent instruments at the reporting date and are disclosed below. The average interest rate is based on the outstanding balances at the start of the financial year.

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at reporting date:

Outstanding floating for fixed contracts	Average contracted fixed interest rate 2006 %	Average contracted fixed interest rate 2005 %	Notional principal amount 2006 $'000	Notional principal amount 2005 $'000	Fair value 2006 $'000	Fair value 2005 $'000
Fixed swap – Australia	6.23	5.81	(304,566)	(333,211)	2,497	-
Fixed swap - Europe	3.64	3.74	(142,643)	(74,713)	8,819	-
			(447,209)	(407,924)	11,316	-

From 1 July 2005, interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated and effective as cash flow hedges. Interest rate swaps outstanding at 1 July 2005 were recognised as financial assets on adoption of the accounting policies specified in Note 1.

32. Financial instruments (cont'd)

	Weighted average effective interest rate	Variable interest rate	Fixed maturity dates						Non interest bearing	Total
			Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years		
2006	**%**	**$**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets:										
Cash and cash equivalents	2.75	232,183	6,090	2,261	4,381	3,668	4,017	58,595	-	311,195
Receivables	-	-	-	-	-	-	-	-	20,355	20,355
GST and other receivables	-	-	-	-	-	-	-	-	25,830	25,830
Investments accounted for using the equity method	-	-	-	-	-	-	-	-	176,049	176,049
		232,183	6,090	2,261	4,381	3,668	4,017	58,595	222,234	533,429
Financial liabilities:										
Payables	-	-	-	-	-	-	-	-	56,897	56,897
Interest rate swaps*	5.10	(567,850)	-	-	46,555	-	-	521,295	-	-
Other payables	-	-	-	-	-	-	-	-	26,005	26,005
Bank loans	5.76	629,774	-	-	-	-	-	-	-	629,774
Related party loans	-	-	-	-	-	-	-	-	-	-
Finance lease liabilities	6.29	-	1,783	1,895	2,015	2,142	2,277	31,480	-	41,592
		61,924	1,783	1,895	48,570	2,142	2,277	552,775	82,902	754,268

* Notional principal amounts.

Financial instruments (cont'd)

The following table details the consolidated entity's exposure to interest rate risk as at 30 June 2005:

2005	Weighted average effective interest rate	Variable interest rate	Maturity dates: Less than 1 year	Maturity dates: 1-5 years	Maturity dates: More than 5 years	Non interest bearing	Total
	%	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets:							
Cash and cash equivalents	-	60,393	49,721	-	-	-	110,114
Current receivables	-	-	-	-	-	8,230	8,230
Non current receivables	-	-	-	-	-	10,734	10,734
GST and other receivables	-	-	-	-	-	12,408	12,408
		60,393	49,721	-	-	31,372	141,486
Financial liabilities:							
Related party payables	-	-	9,555	-	-	-	9,555
Other current payables	-	-	-	-	-	11,516	11,516
Other non current payables	-	-	-	-	-	2,234	2,234
Related party loans	8.68	-	8,661	-	-	163,036	171,697
GST Payable	-	-	5,690	-	-	-	5,690
Bank loans	6.28	365,441	-	-	-	-	365,441
Interest rate swaps	-	(313,203)	162,318	-	150,885	-	-
		52,238	186,224	-	150,885	176,786	566,133

(d) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The consolidated entity exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the audit committee annually. The consolidated entity measures credit risk on a fair value basis.

Trade accounts receivable consist of a small number of customers, spread across diverse geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

The consolidated entity does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the consolidated entity's maximum exposure to credit risk.

32. Financial instruments (cont'd)

(e) Fair value of financial instruments

The directors are of the opinion that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values (2005: net fair value).

The fair values and net fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.
- the fair value of derivative instruments, included in hedging assets and liabilities, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments.

Transaction costs are included in the determination of net fair value.

(f) Liquidity risk management

The consolidated entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

33. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards

The consolidated entity changed its accounting policies on 1 July 2005 to comply with Australian equivalents to International Financial Reporting Standards ('A-IFRS'). The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 *'First-time Adoption of Australian Equivalents to International Financial Reporting Standards'*, with 1 July 2004 as the date of transition, except for financial instruments, including derivatives, where the date of transition is 1 July 2005 (refer note X).

An explanation of how the transition from superseded policies to A-IFRS has affected the company and consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Effect of A-IFRS on the balance sheet as at 1 July 2004

There is no effect of A-IFRS on the balance sheet as at 1 July 2004. Note that BBWP has taken advantage of the election available to it under AASB 132 and AASB 139.

Effect of A-IFRS on the income statement for the financial year ended 30 June 2005

		Consolidated				Parent Entity		
	Note	AGAAP* $'000	Effect of transition to A-IFRS $'000	PPA (d) $'000	A-IFRS, INCL PPA $'000	AGAAP* $'000	Effect of transition to A-IFRS $'000	A-IFRS $'000
Revenue from continuing activities		**22,020**	**-**	**-**	**22,020**	**474**	**-**	**474**
Other income		1,197	-	-	1,197	224	-	224
Share of net profit of associates accounted for using the equity method		-	-	-	-	-	-	-
Operating expenses		(4,944)	-	(816)	(5,760)	(1,279)	-	(1,279)
Depreciation and amortisation expense		(6,101)	429	(298)	(5,970)	-	-	-
Borrowing costs		(7,693)	-	-	(7,693)	(900)	-	(900)
Management charges		-	-	-	-	-	-	-
Other expenses		-	-	-	-	-	-	-
Net profit / (loss)before income tax expense		4,479	429	(1,114)	3,794	(1,481)	-	(1,481)
Income tax (expense) /revenue		(1,776)	-	656	(1,120)	348	(31)	317
Net (loss) / profit for the period		2,703	429	(458)	2,674	(1,133)	(31)	(1,164)
Attributable to stapled security holders as:								
Equity holders of the parent		2,749	429	(458)	2,720	(1,133)	(31)	(1,164)
Equity holders of the other stapled entities (minority interests)		(46)	-	-	(46)	-	-	-
		2,703	429	(458)	2,674	(1,133)	(31)	(1,164)
Other minority interests		-	-	-	-	-	-	-
		2,703	429	(458)	2,674	(1,133)	(31)	(1,164)

* Reported financial results for the year ended 30 June 2005.

33. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)

Effect of A-IFRS on the balance sheet as at 30 June 2005

		Consolidated				Parent Entity		
	Note	AGAAP* $'000	Effect of transition to A-IFRS $'000	PPA (d) $,000	A-IFRS $'000	AGAAP* $'000	Effect of transition to A-IFRS $'000	A-IFRS $'000
Current assets								
Cash & cash equivalents		110,114	-	-	110,114	27,852	-	27,852
Receivables		8,230	-	-	8,230	10,102	-	10,102
Prepayments		5,703	-	-	5,703	-	-	-
Other assets		12,409	-	-	12,409	1,059	-	1,059
Total current assets		136,456	-	-	136,456	39,013	-	39,013
Non-current assets								
Receivables		10,734	-	-	10,734	141,781	(105)	141,676
Prepayments		26,538	-	(619)	25,919	-	-	-
Investments accounted for using the equity method		-	-	-	-	-	-	-
Other financial assets		-	-	-	-	-	-	-
Property, plant and equipment		375,660	-	2,541	378,201	-	-	-
Deferred tax assets		4,292	-	-	4,292	2,527	105	2,632
Goodwill		28,218	(879)	(25,541)	1,798	-	-	-
Intangible assets		-	-	23,751	23,751	-	-	-
Total non-current assets		445,442	(879)	132	444,695	144,308	-	144,308
Total assets		581,898	(879)	132	581,151	183,321	-	183,321
Current liabilities								
Payables		26,762	-	-	26,762	7,630	-	7,630
Borrowings		185,769	-	-	185,769	8,662	-	8,662
Current tax payables		1,094	-	-	1,094	-	-	-
Total current liabilities		213,625	-	-	213,625	16,292	-	16,292
Non-current liabilities								
Payables		2,234	-	-	2,234	-	-	-
Borrowings		188,335	-	-	188,335	163,036	3,482	166,518
Other financial liabilities		-	-	-	-	-	-	-
Deferred tax liabilities		5,211	-	590	5,801	3,451	(3,451)	-
Total non-current liabilities		195,780	-	590	196,370	166,487	(31)	166,518
Total liabilities		409,405	-		409,995	182,779	(31)	182,810
Net assets		172,493	(879)	(458)	171,156	542	(31)	511
Equity holders of the parent								
Contributed equity		1,748	-	-	1,748	1,748	-	1,748
Reserves		(3,245)	(1,308)		(4,553)	-	-	-
Retained earnings		2,345	429	(458)	2,316	(1,206)	(31)	(1,237)
		848	(879)	(458)	(489)	542	(31)	511
Equity holders of the other stapled entities (minority interests)								
Contributed equity		163,140	-	-	163,140	-	-	-
Reserves		-	-	-	-	-	-	-
Retained earnings		-	-	-	-	-	-	-
		163,140	-	-	163,140	-	-	-
Other minority interests		8,505	-	-	8,505	-	-	-
Total equity		172,493	(879)	(458)	171,156	542	(31)	511

* Reported financial position for the financial year ended 30 June 2005.

33. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)

Adjustments on transition to AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*: 1 July 2005

		Consolidated			Parent Entity		
	Note	30 June 2005 $'000	Adjustment $'000	1 July 2005 $'000	30 June 2005 $'000	Adjustment $'000	1 July 2005 $'000
Current assets							
Cash & cash equivalents		110,114	-	110,114	27,852	-	27,852
Receivables		8,230	-	8,230	10,102	-	10,102
Prepayments		5,703	-	5,703	-	-	-
Other assets		12,409	-	12,409	1,059	-	1,059
Total current assets		136,456	-	136,456	39,013	-	39,013
Non-current assets							
Receivables		10,734	-	10,734	141,676	-	141,676
Prepayments		25,919	-	25,926	-	-	-
Investments accounted for using the equity method		-	-	-	-	-	-
Other financial assets		-	-	-	-	-	-
Property, plant and equipment		378,201	-	378,201	-	-	-
Deferred tax assets		4,292	3,211	7,503	2,632	-	2,632
Goodwill		1,798	-	1,798	-	-	-
Intangible assets		23,751	-	23,751	-	-	-
Total non-current assets		444,695	3,211	447,906	144,308	-	144,308
Total assets		581,151	3,211	584,362	183,321	-	183,321
Current liabilities							
Payables		26,762	-	26,762	7,630	-	7,630
Borrowings		185,769	-	185,769	8,662	-	8,662
Unit holder liabilities		-	163,140	163,140	-	-	-
Other financial liabilities		-	121	121	-	-	-
Current tax payables		1,094	-	1,094	-	-	-
Total current liabilities		213,625	163,261	376,886	16,292	-	16,292
Non-current liabilities							
Payables		2,234	-	2,234	-	-	-
Borrowings		188,335	-	188,335	166,518	-	166,518
Other financial liabilities		-	10,581	10,581	-	-	-
Deferred tax liabilities		5,801	-	5,801	-	-	-
Total non-current liabilities		196,370	10,581	206,951	166,518	-	166,518
Total liabilities		409,995	173,842	583,837	182,810	-	182,810
Net assets		171,156	(170,631)	525	511	-	511
Equity holders of the parent							
Contributed equity		1,748	-	1,748	1,748	-	1,748
Reserves		(4,553)	(7,491)	(12,044)	-	-	-
Retained earnings		2,316		2,316	(1,237)	-	(1,237)
		(489)	(7,491)	(7,980)	511	-	511
Equity holders of the other stapled securities (minority interests)							
Contributed equity		163,140	(163,140)	-	-	-	-
Reserves		-	-	-	-	-	-
Retained earnings		-	-	-	-	-	-
		163,140	(163,140)	-	-	-	-
Other minority interests		8,505	-	8,505	-	-	-
Total equity		171,156	(170,631)	525	511	-	511

33. Impacts of the adoption of Australian equivalents to International Financial Reporting Standards (cont'd)

Effect of A-IFRS on the cash flow statement for the financial year ended 30 June 2005

There are no material differences between the cash flow statement presented under A-IFRS and the cash flow statement presented under the superseded policies.

Notes to the reconciliations of income and equity

(a) Goodwill

Goodwill is the difference between the cost of an acquisition and the fair value of the identifiable net assets acquired.

Under AGAAP, goodwill can be amortised over a period of time not exceeding 20 years. The investment in Olivo wind farms in Spain exceeded the fair value of net assets acquired and hence resulted in the recognition of goodwill. Amortisation expense relating specifically to these assets has been incurred in 2005 financial statements as prepared under AGAAP.

Under A-IFRS, goodwill is tested for impairment on an annual basis and is not amortised. Consequently, the amortisation expense of $429,000, which was incurred under AGAAP in 2005, is not charged under A-IFRS and there is a corresponding increase in the amount of intangible assets.

Furthermore, under AGAAP, goodwill that relates to the acquisition of a foreign entity is translated at the rate of exchange at the time of the transaction, whereas, under A-IFRS, the current rate at balance date is used.

In 2005, the acquisition of three Olivo wind farms in Spain resulted in the recognition of goodwill. Under A-IFRS, the translation of this goodwill at balance date results in an Australian dollar equivalent amount that is $1,308,000 lower than the AGAAP equivalent translation at historic rates.

The combined effect of the above is to decrease goodwill by $879,000.

(b) Financial instruments – cash flow hedges

Derivative contracts (financial instruments) are used to hedge exposures to interest rates. Under AGAAP, these derivative contracts are accounted for as hedges.

Under AGAAP, where a derivative contract is entered to hedge a transaction, gains and losses are deferred and brought to account in the same period as the hedged transaction. Under A-IFRS, derivatives can only be classified as hedges to the extent that effectiveness tests are met. If these tests are satisfied, any gains and losses on the derivative are recognised within equity until the hedged transaction occurs at which point they are released to profit and loss. To the extent that the tests are not satisfied, then all or some of the gains and losses are immediately reflected within profit and loss.

Derivative contracts have been entered into to mitigate interest rate exposure. These contracts have been treated as hedges and gains and losses have been recognised at the time that the hedged transaction takes place.

Under A-IFRS, derivative contracts effectively hedge interest rate exposure. The fair value of these contracts was $10,702,000 and has been recognised as Other Financial Liabilities. A deferred tax asset of $3,211,000 has been recorded, and the net reserve of $7,491,000 has been recognised within Equity.

(c) Financial instruments – transfer of equity to debt

Due to the finite life clause contained within the BBWPT Trust Constitution, upon adoption of AASB 132 on 1 July 2005, the units in BBWPT, $163,140,000, were classified as debt for accounting purposes.

The Trust Constitution was amended on 12 September 2005 such that the finite life clauses were removed. Accordingly, the units in BBWPT were reclassified as equity for accounting purposes at 12 September 2005.

(d) Purchase price allocation

Following a purchase price allocation exercise conducted to allocate the fair value relating to the acquisition of Spanish wind farms (Note 27), goodwill that was recorded upon the initial date of acquisition was allocated mostly to licenses and to property, plant and equipment.

Directors' declaration

In the opinion of the directors of Babcock & Brown Wind Partners Limited ("BBWPL"):

(a) the financial statements and notes set out on pages 16 to 98 are in accordance with the *Corporations Act 2001* including:
  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  (ii) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2006 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable

The directors have been given the declarations by the chief executive officer and the chief financial officer required by section 295A of the *Corporations Act 2001.*

This declaration is made in accordance with a resolution of the directors pursuant to section 295(5) of the *Corporations Act 2001.*

On behalf of the Directors of BBWPL:

Peter Hofbauer
Director
Sydney, 7 September 2006

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Independent Audit Report to the members of Babcock & Brown Wind Partners Limited

Audit opinion

In our opinion the financial report of Babcock & Brown Wind Partners Limited:

- gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Babcock & Brown Wind Partners Limited and the Babcock & Brown Wind Partners Group (defined below) as at 30 June 2006, and of their performance for the year ended on that date, and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for both Babcock & Brown Wind Partners Limited (the company) and the Babcock & Brown Wind Partners Group (the consolidated entity) for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during the year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website: http://www.pwc.com/au/financialstatementaudit.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

PricewaterhouseCoopers

AJ Wilson
Partner

Sydney
7 September 2006