

# 2008

ANNUAL REPORT





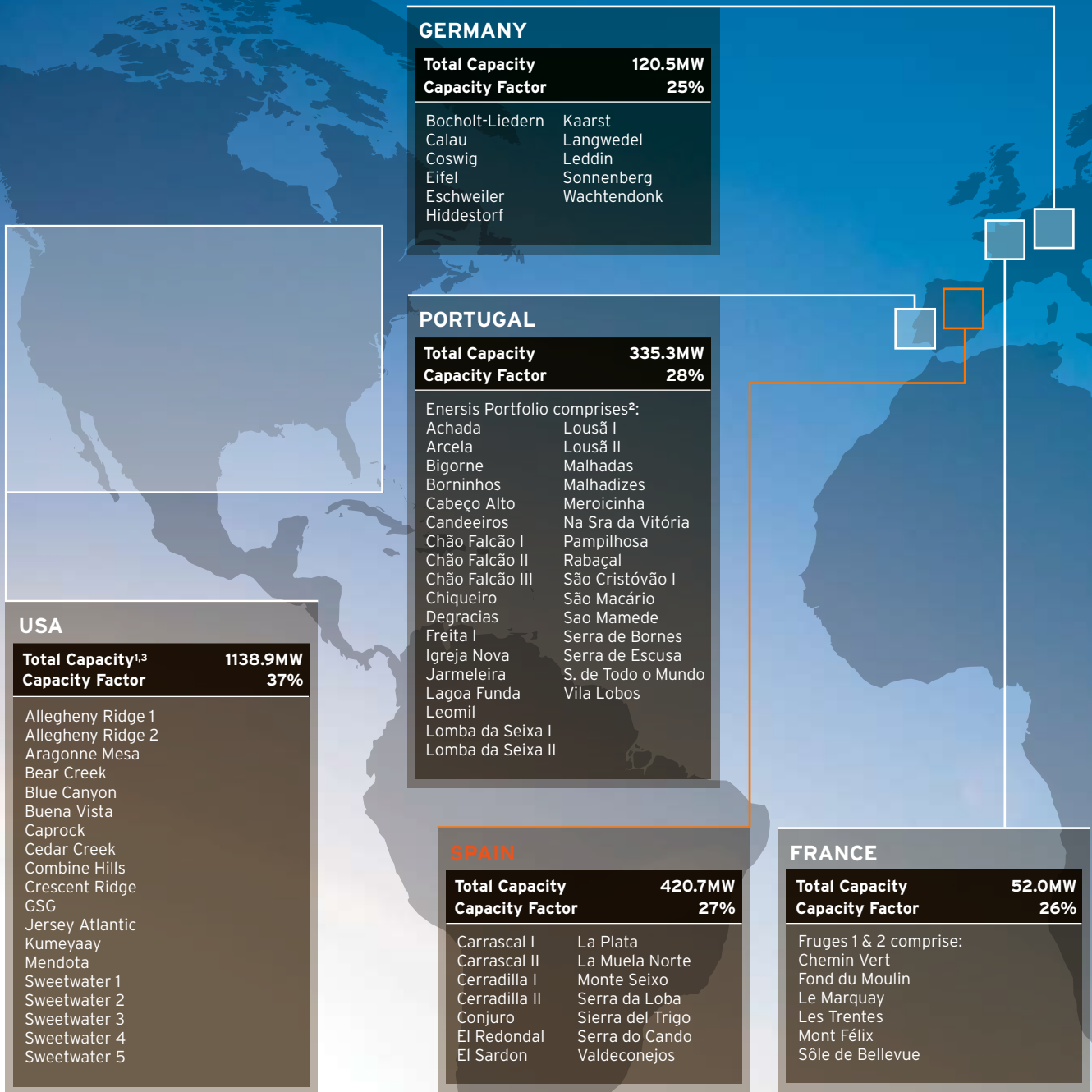
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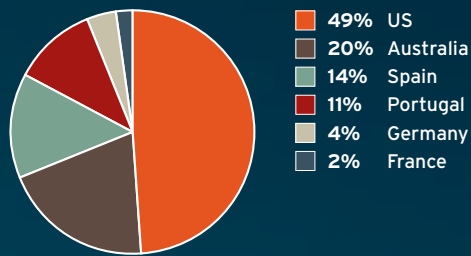
# Global Wind Energy Portfolio



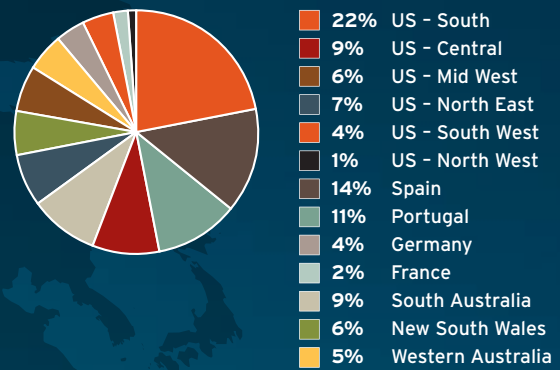
□ 2008 Divestments

- 1 Represents BBW's % ownership of Class B Member Units. BBW owns 100% of Class B Member Units of a 95% interest in Aragonne Mesa.
- 2 BBW owns a 50% interest in the Enersis Portfolio of wind farms.
- 3 Includes Allegheny Ridge 2 (70MW) which is yet to be acquired.

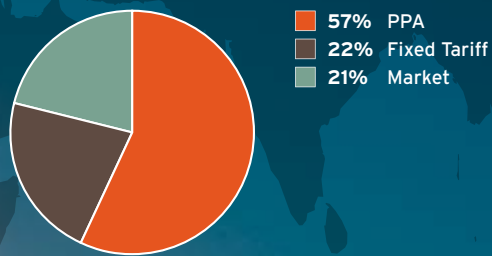
### REGULATORY REGIME



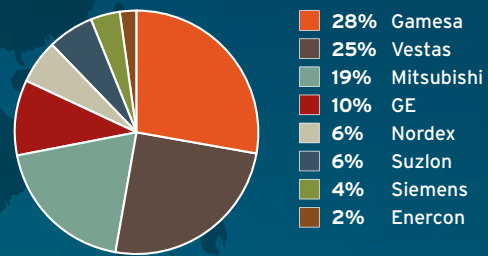
### WIND RESOURCE



### REVENUE ASSURANCE



### EQUIPMENT AND SERVICE



Note: The Spanish tariff is assumed to be 56% Market, 44% Fixed (based on expectations for current year).

### AUSTRALIA

**Total Capacity** 460.9MW  
**Capacity Factor** 36%

Alinta  
 Capital  
 Lake Bonney 1  
 Lake Bonney 2





# Company Highlights

## 2005

### OCTOBER 2005

Babcock & Brown Wind Partners is admitted onto the Official List of the Australian Securities Exchange (ASX Code: **BBW**) with an application price of \$1.40 per Stapled Security, and an initial market capitalisation of approximately \$692 million

### DECEMBER 2005

BBW acquires Class B membership interests in Sweetwater 1 & 2, Caprock, Blue Canyon and Combine Hills wind farms located in the US, collectively known as the US03/04 portfolio (186MW)

## 2006

### FEBRUARY 2006

BBW completes the acquisition of Eifel wind farm located in Germany (35MW)

Financial close of an additional 1.5MW at Eifel was completed in March 2007

### MARCH 2006

BBW agrees to acquire Fruges 1 wind farms under construction located in France (22MW)

BBW enters into a German Framework Agreement with Plambeck Neue Energien AG

### MAY 2006

BBW completes \$118.6 million capital raising at a price of \$1.60 per stapled security

### JUNE 2006

BBW commences construction of the Lake Bonney 2 wind farm located in South Australia (159MW)

Finalised the purchase of the Fruges 1 wind farms (22MW)

BBW increases its ownership of Class B membership interests in the US03/04 portfolio

### JULY 2006

BBW acquires Class B membership interests in the Sweetwater 3 (67.5MW) and Kumeyaay (50MW) wind farms located in the US

### DECEMBER 2006

BBW achieves practical completion for the Alinta wind farm, located in Western Australia (89.1MW)

BBW acquires Fruges 2 wind farms under construction located in France (30MW)

BBW acquires Class B membership interest in Bear Creek and Jersey Atlantic wind farms (16.6MW), located in the US

## 2007

### JANUARY 2007

BBW acquires the Kaarst I wind farm (10MW) located in Germany, representing the first wind farm acquired under the terms of the Plambeck Framework Agreement

An additional 2MW (Kaarst II) was acquired in May 2008

### FEBRUARY 2007

BBW receives securityholder approval for the acquisition of Class B membership interests in the US06 Portfolio (335.2MW)

### MARCH 2007

BBW acquires the initial three wind farms of the US06 Portfolio including Buena Vista (38MW), Aragonne Mesa (85.5MW) and Mendota wind farms (51.7MW)

BBW forms part of the Babcock & Brown and Singapore Power International Pte Ltd Consortium bidding for the issued share capital of Alinta

### APRIL 2007

Miles George appointed as the permanent Chief Executive Officer

BBW instructs Alinta to sell Wattle Point wind farm in exchange for net proceeds of \$201.5 million

BBW completes \$156.8 million institutional placement at a price of \$1.80 per Stapled Security

### MAY 2007

BBW completes €1.03 billion refinancing of its global wind farm portfolio

BBW acquires the Monte Seixo (35MW) and Serra do Cando (29.2MW) wind farms located in Spain

# 2008

## JULY 2007

BBW completes second stage financial closing for the US06 portfolio with the acquisition of Allegheny Ridge 1 (80MW) and GSG (80MW) wind farms

BBW acquires a 70% interest in the Conjuero wind farms (11.9MW) located in Spain. The remaining 30% interest (5.1MW) was acquired in August 2007 with a total of (17MW)

## AUGUST 2007

Syndication of BBW's €1.03 billion global corporate facility successfully completed

BBW acquires a 97% interest in the Valdeconejos wind farm (31.2MW) located in Spain

## OCTOBER 2007

Securityholders approve the acquisition of the US07 Portfolio (371MW) and 50% of the Enersis Portfolio (257MW)

Security Purchase Plan closed with total proceeds of approximately \$47 million

BBW extends the Gamesa framework agreement to include 90MW in Germany

## NOVEMBER 2007

BBW achieves financial closing for Cedar Creek wind farm (200.3MW) as part of US07 portfolio acquisition

## DECEMBER 2007

BBW completes the acquisition of a 50% interest in the Enersis portfolio of wind farms (257MW) located in Portugal

BBW acquires the Hiddestorf, Langwedel and Leddin wind farms (33MW) located in Germany

BBW achieves financial closing for Sweetwater 4 & 5 wind farms (170.3MW) as part of the US07 portfolio acquisition

BBW acquires Capital wind farm (132.3MW) under construction located in Australia

BBW acquires the Carrascal I & II and Cerradilla I & II wind farms (150MW) under construction, located in Spain

## FEBRUARY 2008

BBW announces a strategic initiative to unlock portfolio value of its European wind energy portfolio

## MARCH 2008

BBW receives commitments in excess of €430 million in relation to the syndication process for additional corporate facilities

Deutsche Bank AG and J.P. Morgan plc appointed as Joint Sale Advisers in relation to the strategic initiative

## JULY 2008

BBW acquires the Calau, Coswig, Eschweiler and Sonnenberg wind farms (19.6MW) located in Germany

BBW signs supply agreement for Sydney Water Desalination Plant with output from the Capital Wind farm

## AUGUST 2008

BBW announces sale of Spanish Portfolio for \$1.42 billion

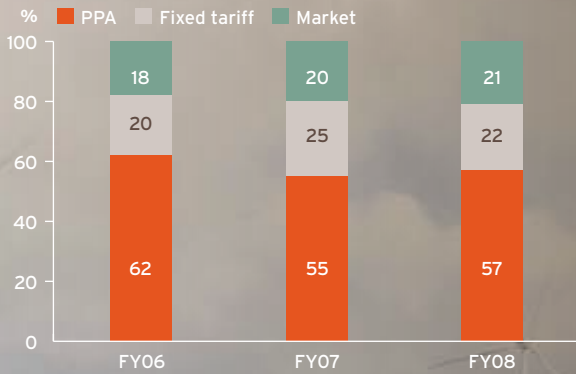
## SEPTEMBER 2008

BBW announces on-market buy-back of up to 10% of its securities over the next twelve months



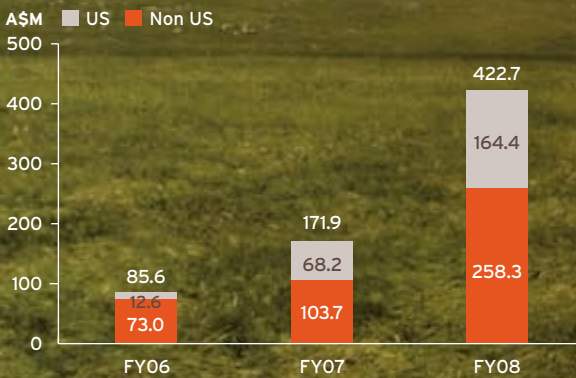
# Financial Highlights

## REVENUE CERTAINTY



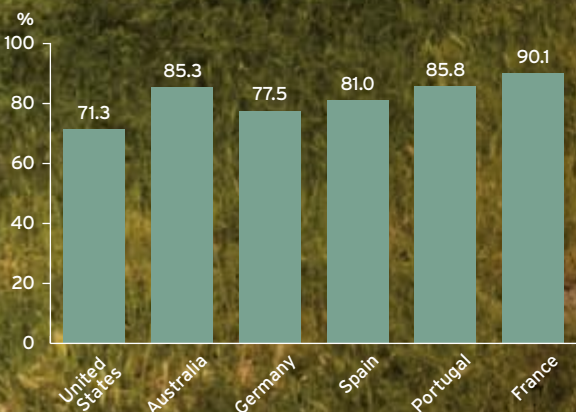
A high proportion of revenue is underwritten by Power Purchase Agreements (PPAs) and fixed feed-in tariffs, providing greater revenue certainty.

## REVENUE



Strong revenue growth attributable to accretive acquisitions and investments and active portfolio management.

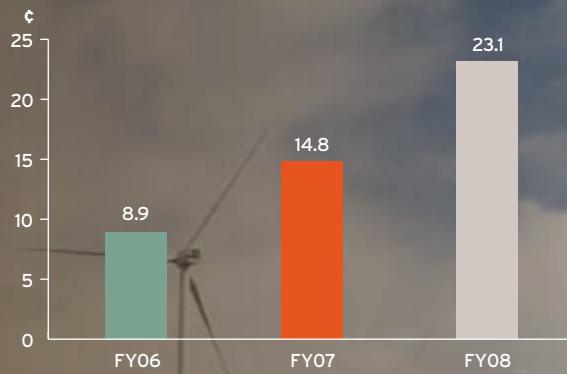
## EBITDA MARGIN



Wind is a zero cost fuel and provides for high and stable EBITDA margins across the portfolio.

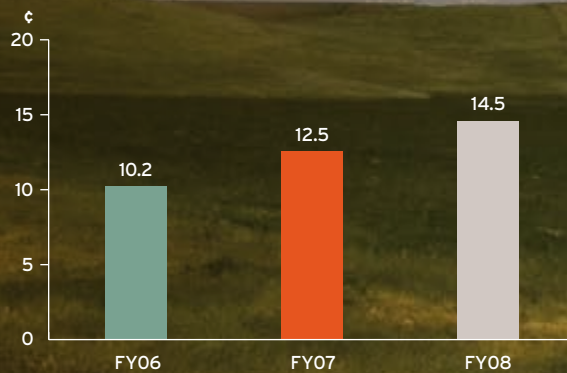


### NET OPERATING CASH FLOW PER SECURITY



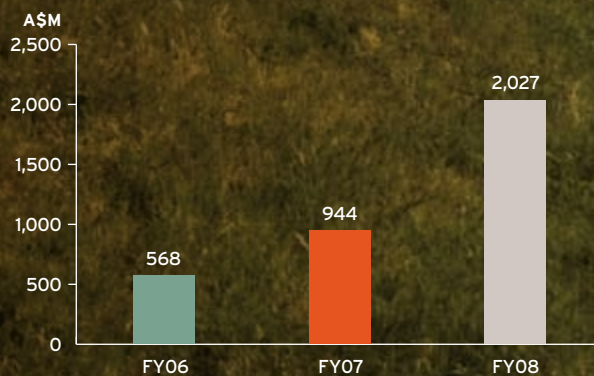
Predictable revenue growth and stable costs facilitate strong operating cashflow.

### DISTRIBUTIONS PER SECURITY



BBW maintains its long standing policy of paying distributions out of net operating cash flow after debt repayment.

### ACQUISITIONS AND INVESTMENTS



Since IPO, BBW has consistently delivered growth in its wind energy portfolio and maintains a disciplined bottom-up approach to investments.

# Chairman's Report

## GLOBAL LEADER IN WIND ENERGY GENERATION

On behalf of the Babcock & Brown Wind Partners (BBW) Boards, I am pleased to present you with BBW's 2008 Annual Report, in this, our third year since listing. BBW was established as a unique pure wind energy business and has become a global leader in wind energy generation. BBW has not departed from its objective, providing securityholders access to a portfolio of wind generation assets with stable and predictable cash flows. The last twelve months have seen BBW further execute its investment strategy to achieve this objective. In the 2008 financial year BBW delivered strong cash flow with net operating cash flow up 115% to \$188.8 million. This result reflects

In a year of considerable volatility in financial markets, our focus on risk management and our prudent approach to managing BBW's balance sheet have proven beneficial for securityholders. As at 30 June 2008, BBW's consolidated market gearing was approximately 65.1%<sup>1</sup> and the interest cover ratio of 2.6 times was above our newly stated target of 2.5 times.

## STRATEGIC INITIATIVE

BBW first listed on the Australian Securities Exchange in October 2005 and since that time has grown and diversified its portfolio of wind farms, establishing its position as a major global wind energy business.

## IN 2008 BBW DELIVERED ON ITS OBJECTIVE, PROVIDING SECURITYHOLDERS ACCESS TO A LEADING GLOBAL WIND ENERGY PORTFOLIO WITH STABLE AND PREDICTABLE CASHFLOWS

higher average electricity and green credit prices, the construction of Lake Bonney 2 wind farm in Australia and the successful completion of two large scale acquisitions - namely the US07 Portfolio and 50% of the Portuguese "Enersis" Portfolio.

In recognition of the increase in net operating cash flow and as a sign of our confidence in the underlying quality of BBW's portfolio, the Directors declared a 14.5 cent per security full year distribution, up 16% on the previous year. In line with BBW's long held policy, the distributions have been paid from net operating cash flow after actual debt repayments.

The first half of the 2008 financial year saw BBW continue its proven strategy of acquiring, constructing and managing assets, resulting in strong cash flow generation. However, during this period it became evident that on a range of valuation measures a substantial valuation gap existed between the value attributed to BBW's wind energy portfolio by the stock market and the value attributed to other wind energy assets. This valuation gap was further widened by the general decline in the value of listed securities which has affected BBW along with the broader market.

<sup>1</sup> On a net debt to market enterprise value basis. Includes 50% of the gross debt (\$605m) and cash (\$14m) of the Enersis Portfolio net debt. Based on 868m securities and a security price of \$1.65 as at 30 June 2008.





This valuation gap had been emerging for some time as evidenced by the inability of BBW to competitively participate in any material acquisitions from third party vendors during FY08, notwithstanding participating in a range of accretive acquisitions from the Babcock & Brown pipeline and pursuant to previously negotiated Framework Agreements.

On 28 February 2008, BBW announced a strategic initiative with the objective to demonstrate and capture unrecognised value in the European wind energy portfolio via a coordinated process of potential individual country sales.

To date, BBW has agreed to sell its portfolio of operating Spanish wind energy assets with an installed capacity of 420.7MW. This sale, representing a disposal of approximately 17% of BBW's total wind energy portfolio, is expected to result in an estimated profit before transaction costs<sup>1</sup> of approximately \$266 million in the 2009 financial year. The sale price of \$1.42 billion when measured on a per megawatt basis is at the upper end of the range for recent comparable trade sales of Spanish operating wind energy assets and unlocks significant unrecognised value for securityholders.

The Directors are committed to achieving the best outcome for securityholders either through the strategic initiative or otherwise and will only divest assets where unrecognised value is maximised and captured. Following the evaluation of offers received for the German portfolio which represents approximately 4% of BBW's total wind energy portfolio, it was considered that a sale of the German assets would not achieve that objective in the short term.

In relation to the Portuguese and French portfolios the sale process continues and has been extended to provide further time for bidders to complete their analysis, with any potential sale likely to be agreed in the final quarter of 2008.

#### **FUTURE GROWTH OPPORTUNITIES**

BBW's business is in a strong operational and financial position as evidenced by the continued coverage of distributions and debt repayments from net operating cash flow and a strong balance sheet position. Furthermore, the \$1.42 billion proceeds from the sale of the Spanish portfolio provide BBW with financial flexibility, after repaying debt associated with the Spanish portfolio, to consider a range of potential capital management and reinvestment initiatives.

On 16 September 2008, the Boards approved an on-market buy-back of up to 10% of issued capital to be conducted over 12 months. The Boards' believe that the current security price does not reflect the underlying quality or value of BBW's global wind energy portfolio and considers the buy-back of securities to be in the best interests of securityholders. The buy-back will be executed in the context of BBW's prevailing liquidity and financial position.

BBW will consider near term reinvestment opportunities including potential acquisitions from the Framework Agreements and "infill" opportunities, which include an extension to the existing Lake Bonney 2 wind farm in Australia.

<sup>1</sup> Transaction costs include tax, fees and other expenses.



# Chairman's Report

## **DISTRIBUTION AND NET OPERATING CASH FLOW GUIDANCE**

BBW operates in a high growth industry with global installed capacity growing by an average of 24% pa for the past five years<sup>1</sup>. Existing conditions in global debt markets may restrict BBW's funding options for organic and new growth projects over the next few years. Acknowledging these conditions and the growth market in which BBW operates, and also taking account of the reduced net operating cash flow following the sale of the Spanish wind energy portfolio, the Directors have decided to re-align BBW's distribution guidance to provide additional balance sheet flexibility.

Revised guidance for FY09 net operating cash flow is 21.4 cents per stapled security and distribution guidance has been re-stated to not less than 9 cents

## **RELATIONSHIP WITH BABCOCK & BROWN**

Babcock & Brown has a significant long-term holding in BBW of approximately 11% and has been appointed as the long-term manager of BBW pursuant to the Management Agreements executed in September 2005 as described in the Prospectus issued at the time of IPO and listing of BBW on the Australian Securities Exchange, and as amended in July 2007. Other material agreements between Babcock & Brown and BBW include an exclusive financial advisory mandate, the Spanish Framework Agreement (also described in the Prospectus) and the strategic initiative Process Agreement announced in February this year.

BBW and Babcock & Brown have no loans to or security shared with each other. BBW and other Babcock & Brown managed funds have no loans to or security shared

## **THE RECENT SALE OF BBW'S SPANISH WIND ENERGY PORTFOLIO, COMBINED WITH THE CONTINUED STRONG OPERATIONAL PERFORMANCE OF THE BUSINESS, PROVIDES BBW WITH FLEXIBILITY TO CONSIDER CAPITAL MANAGEMENT INITIATIVES AND REINVESTMENT OPPORTUNITIES**

per stapled security. This guidance is consistent with BBW's long held policy of paying distributions from available net operating cash flow after expected debt repayments. This guidance assumes no further divestments and that net proceeds from the Spanish wind energy sale are not reinvested.

The Directors have reconfirmed the medium-term distribution growth target of 3.5% pa from the current portfolio and the additional medium-term growth target of 5% pa assuming continuing accretive acquisitions.

## **MANAGEMENT RESOURCES**

The success of BBW is highly dependent on the quality of the management and staff dedicated to BBW by the manager, Babcock & Brown Wind Partners Management Pty Ltd (**BBWPM**). The Boards strongly support staff retention and the provision of incentives that align compensation of the management team with the performance of the business. As in previous annual reports, details on remuneration policies including at risk compensation through incentives and longer-term compensation entitlements are set out in the Remuneration Report within the Directors' Report.

with each other. Furthermore, the terms of BBW's Global Corporate Debt Facility do not reference Babcock & Brown.

Babcock & Brown is widely recognised as a global leader in renewable energy, particularly wind energy. The strategic alignment with Babcock & Brown has been a pivotal feature of BBW's growth and success and remains a key driver of BBW's growth strategy going forward. The significant level of intellectual capital and global relationships held by Babcock & Brown, coupled with potential new investment opportunities available from Babcock & Brown's development pipeline provide significant value to BBW. The potential investments include a wide range of leading projects under development in key growth markets for BBW including North America, the Australia/Pacific region and in Europe. While BBW has historically been Babcock & Brown's preferred purchaser of its wind energy development pipeline, BBW will only acquire assets where BBW has the clear financial capability to do so and if offered assets meet its disciplined acquisition criteria including internal rate of return and accretion hurdles, which apply to all opportunities whether from Babcock & Brown or any other party.



The Babcock & Brown pipeline, together with the negotiated European Framework Agreements underpin the Boards' confidence that BBW can continue to selectively source attractive additions to its portfolio in the medium term. In the case of opportunities sourced from the Babcock & Brown pipeline, related party transactions require approval of the independent Directors and if material also require securityholder approval.

#### **BOARD CHANGES**

Following my appointment as Babcock & Brown's Chief Investment Officer, I have advised the BBW Boards of my intention to step down as a Director upon a new independent Chairman being appointed. The independent Directors have also confirmed that it is their intention to appoint another Babcock & Brown executive once the new independent Chairman is appointed. The process to appoint a new independent Chairman for the BBW Boards is underway with a number of candidates identified and it is expected that this appointment will be finalised by year end.

#### **OUTLOOK**

It is the Boards' primary objective to build securityholders' wealth through the ongoing management and operation of BBW's global wind energy business, and where appropriate to manage its portfolio through selective accretive acquisitions and divestments. Any decision to divest assets from the portfolio will focus on maintaining and enhancing BBW's position to continue to deliver strong growth in returns to securityholders.

As highlighted, the recent sale of BBW's Spanish wind energy portfolio, combined with the continued strong operational performance of the business, provides BBW with flexibility to consider capital management initiatives and reinvestment opportunities. BBW will further consider such initiatives and opportunities when the strategic initiative is completed later this year.

Following the strategic initiative, the Directors have determined to formally investigate a secondary listing on one of the US or European stock exchanges. BBW is currently in the process of reviewing whether such a secondary listing is appropriate.

The management team dedicated to BBW by BBWPM has made an outstanding contribution towards building BBW into a global business. On behalf of the Directors, I acknowledge the significant achievements of the team in producing another successful year.

I also acknowledge the dedication and commitment of my fellow Directors.

I feel confident that I am leaving BBW in excellent shape and have no doubt in the ability of my fellow Directors and the BBWPM management team to continue to take BBW forward as a leading global wind energy business.

I would like to thank all securityholders for their ongoing interest and continued support during the year, and reinforce the Boards' and the Manager's ongoing commitment to generating value for all securityholders.

The Directors and I look forward to welcoming you at our Annual General Meeting to be held at 11.00am on 26 November 2008 at the Sofitel Wentworth Sydney.



PETER HOFBAUER  
Chairman



# Chief Executive Officer's Report<sup>1</sup>

I am pleased to report that the 2008 financial year was a period of significant achievement for BBW with generation, EBITDA from operations and net operating cash flow more than doubling compared to the previous financial year.

Similarly, net operating cash flow on a per security basis, which has been a key measure for driving the business, has increased by approximately two and a half times since FY06.

BBW's balance sheet remains strong with all of its debt covenants comfortably met. BBW also continued to uphold its long-standing policy of paying distributions from net operating cash flow after debt repayment.

As outlined by the Chairman, the sale of BBW's Spanish portfolio demonstrates and captures unrecognised value in accordance with the objective of the strategic initiative, returning total proceeds of \$1.42 billion for approximately 17% of our total portfolio (on a capacity basis) and an estimated profit before transaction costs of \$266 million.

The proceeds from the Spanish sale will also reduce our net debt position by over 40% at financial close, providing financial flexibility to consider capital management and reinvestment initiatives.

## WIND ENERGY FUNDAMENTALS AND DRIVERS

Long-term fundamentals for wind energy industry continue to strengthen in response to government initiatives to combat climate change, security of energy supply concerns and rising fossil fuel prices flowing through to electricity prices. Consequently, regulatory frameworks to encourage renewable energy generation continue to strengthen in all jurisdictions, including those where BBW owns and operates wind farms.

The more recent widespread and substantial increases in fossil fuel and electricity prices have

provided further incentives for new renewable energy investment, with the cost of wind energy now comparable with new entrant costs for coal and gas fired generation in many markets.

Accordingly, wind energy's share of new build generation is rising and has accounted for over one-third of all new build electricity generation plant capacity installed in Europe and the US over the past two years.

## FY08 RESULT

Total revenue increased by 146% to \$422.7 million. New wind farm acquisitions, pre-commissioning revenue from the Lake Bonney 2 wind farm and higher average electricity and green credit prices contributed to the increase.

New wind farm acquisitions in the US, including the US06 and US07 Portfolios, contributed \$88.5 million in revenue. The "Enersis" Portuguese Portfolio and Spanish wind farms including Valdeconejos, Monte Seixo and Serra do Cando contributed \$123.7 million in revenue, while revenues from the Lake Bonney 2 wind farm contributed \$24.8 million. New wind farm operations in Germany and France contributed a further \$7.8 million to the FY08 result.

Total revenue benefited from an increase in tariffs largely as a result of a substantial rise in average market prices together with higher prices achieved under new long-term power purchase agreements.

EBITDA from operations increased by 164% to \$333.7 million reflecting the abovementioned growth in the portfolio and higher EBITDA margins. BBW's wind energy portfolio has exhibited a compound annual growth in EBITDA of 127% pa since IPO and a portfolio EBITDA margin of 79% in FY08.

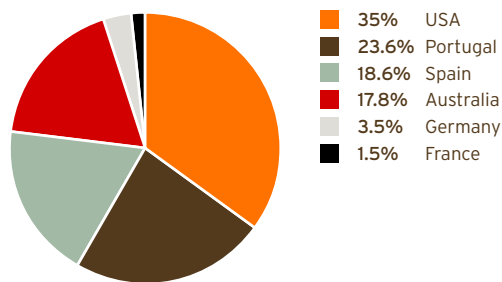
<sup>1</sup> Figures shown are consistent with BBW's FY08 Results Presentation and based on BBW's proportional ownership of assets (including US operations based on B class interest) and from the date of economic ownership.





Securityholders continue to benefit from the increasing scale and diversification of the portfolio. At year end, BBW's portfolio comprised 87<sup>1</sup> wind farms of which 77 were operational during FY08, resulting in a diversified spread of earnings across six countries and 13 distinct wind regions.

#### CONTRIBUTION TO EBITDA<sup>1</sup>



<sup>1</sup> EBITDA before corporate costs and management fees.

Net operating cash flow increased by 115% to \$188.8 million and clearly demonstrated the resilient characteristics of BBW's highly contracted business model with predictable revenue growth and stable costs.

BBW's long-held policy is to fully cover distributions and debt repayments from net operating cash flow. I am pleased to report that net operating cash flow of \$188.8 million more than fully covered the actual debt repayment of \$89.8 million and the distribution of \$74.5 million (net of distribution reinvestment) in FY08.

Furthermore, the increase in net operating cash flow also resulted in an uplift in distributions of 16% to 14.5 cents per security.

<sup>1</sup> Includes Allegheny Ridge 2 (70MW) which is yet to be acquired.

#### OPERATIONAL PERFORMANCE

A 121% increase in generation to 5,145GWh for the 12 months to 30 June 2008, reflects the increasing scale of BBW's global wind energy portfolio. For FY08, the portfolio achieved a Capacity Factor of 32% which translates to a performance of 98% of forecast. This represents a significant improvement on the previous corresponding period when portfolio performance reached 90% of forecast generation.

Portfolio diversification and scale reduced the effect of natural wind variability during FY08. Lower wind resource in Europe and Australia was significantly offset by higher wind resource in the US. Furthermore, the portfolio captured higher average prices through a prudent balance of exposure to market prices and contracted rates resulting in average prices increasing by 11% across the portfolio.

The Australian portfolio performed at a relatively high average Capacity Factor of 36%. The overall result of 89% of the long-term mean energy production reflects the lower than expected contribution of the Lake Bonney 2 wind farm through its commissioning phase. However, this was more than offset by a higher than forecast average market price in South Australia. All operating wind farms within the Australian portfolio are running well with turbine and site availability above budget. Favourable pricing and optimal availability contributed to an EBITDA margin of 85% in FY08.

The Spanish portfolio underperformed in generation terms with the wind farms achieving a Capacity Factor of 22% or 90% of Forecast. This underperformance was offset by above forecast tariffs under the Market Option. The tariff achieved, under Market Option, was above forecast because of rising wholesale electricity prices, low hydro capacity and imputed carbon costs. Overall, the Spanish portfolio achieved an EBITDA margin of 81%.



# Chief Executive Officer's Report

The German wind farms achieved a Capacity Factor of 19% in generation terms or 85% of forecast. The underperformance of the German portfolio resulted from a combination of lower than forecast wind speeds and blade problems affecting several turbines. BBW will receive compensation for the associated lost production.

The Portuguese portfolio achieved a Capacity Factor of 26% in generation terms or 92% of forecast. The primary reasons for this underperformance were low wind conditions, particularly in the final quarter of last year and retrofit programs under way at two of the larger wind farms. Other than for these two wind farms, turbine and site availability was in line with expectations. In addition, the Portuguese portfolio earned significant revenues from a reactive energy component compensating for the lower average production, with the portfolio achieving an EBITDA margin of 86%.

FY08 includes the operating result for five of the six wind farms in France for the first time. The production levels are relatively modest, given the wind farms only commenced commercial operations from late 2007. The wind farms achieved a Capacity Factor of 25% or 92% of forecast. EBITDA margins of 90% were achieved.

The US portfolio, BBW's largest on a country basis, outperformed in generation terms at a Capacity Factor of 36%, which was 104% of forecast, representing an increase of 14% on FY07. This performance has resulted from a combination of better wind speeds, and importantly, the ability to optimise turbine and site availability. In addition, BBW has been able to capture higher average prices through a prudent balance of exposure to market prices and contracted rates. The average price achieved in FY08 is approximately 15% higher than FY07. Market exposure in the US in FY08 was around 17%, although BBW has recently entered into a power purchase agreement for the Crescent Ridge wind farm on favourable terms.

## ACQUISITION AND CONSTRUCTION ACTIVITIES

BBW invested a total of \$2.03 billion on acquisitions and construction projects during the year, adding substantially to the scale and diversification of the portfolio.

First half highlights included the acquisition of the US07 Portfolio (371MW)<sup>1</sup> and 50% of the Portuguese "Enersis" portfolio (257MW). The acquisition of these two large-scale portfolios represented a step change in BBW's growth profile, increasing the generation capacity of the portfolio at the time by approximately 42%. BBW also acquired five wind farms in Spain under the terms of the Gamesa framework agreement

including the Valdeconejos (31.2MW), Carrascal (I & II) and Cerradilla (I & II) (150MW) wind farms. The Carrascal and Cerradilla wind farms were under construction at the time of acquisition and have since entered commercial operations.

The acquisition of the Capital wind farm (132.3MW) in New South Wales represented a further step change, strengthening BBW's position as Australia's leading wind farm owner and operator. The Capital wind farm has been under development since 2002 and is the first large, utility scale wind farm to be located in New South Wales. Currently under construction, the wind farm is expected to be operational by mid-2009. It is worth noting that the Capital wind farm has recently been contracted to supply renewable energy to Sydney Water's desalination plant which is currently under construction.

Finally, construction of the Lake Bonney 2 wind farm (159MW) was completed during FY08. In aggregate, construction projects totalling 369MW became operational during FY08.

A further seven wind farms were acquired in Germany totalling 52.7MW.

## BALANCE SHEET MANAGEMENT AND RISK MANAGEMENT

Funding for acquisitions and construction activities resulted in an increase in net debt from \$1.079 billion at the end of FY07 to \$2.67 billion at the end of FY08. In addition, BBW issued 195.5 million new stapled securities during the period.

As at 30 June 2008, consolidated market gearing was approximately 65.1%<sup>2</sup> and the interest cover ratio of 2.6 times was above BBW's newly stated target of 2.5 times. In addition, all of BBW's financial covenants were and continue to be comfortably met.

The recently announced sale of BBW's Spanish wind energy portfolio will reduce net debt by over 40% to \$1.88 billion upon completion. Accordingly, on a pro-forma basis BBW's consolidated market gearing will be 56.6% with an interest cover ratio of 3.5 times.

Committed capital expenditure and future construction costs of wind farms under construction are fully covered by existing cash of \$194 million and existing committed funding sources of \$448 million.

BBW continues to maintain prudent balance sheet and risk management practices. Approximately 80% of BBW's debt is hedged for interest rate exposure on a long-term amortising basis, with the average maturity of swaps being 9.5 years. BBW's average interest rate including margin was 6.15%, demonstrating the benefits of BBW's ongoing interest rate hedging arrangements.

1 Ownership represents equity interest. For the US wind farms this is on the basis of active ownership as represented by the percentage ownership of Class B Membership interest.

2 On a net debt to market enterprise value basis. Includes 50% of the gross debt (\$605m) and cash (\$14m) of the Enersis Portfolio net debt. Based on 868m securities and a security price of \$1.65 as at 30 June 2008.



BBW's corporate debt facilities are structured as long-term amortising facilities with no refinancing anticipated prior to 2010. The Portuguese portfolio debt facility of \$591.4 million<sup>1</sup> is a non-recourse facility and has a final maturity date of 2024. There are no share price acceleration triggers contained within the BBW corporate facilities or the Portuguese portfolio facility. Furthermore, BBW has no material off-balance sheet liabilities.

BBW manages its foreign currency exposure on the basis that the Australian Dollar is its base currency and to the extent possible matches its non-Australian Dollar assets and investments with borrowings in the same currency as a "natural hedge." BBW also has a stated strategy of hedging foreign subsidiary returns to Australian Dollars on a rolling three year basis.

The significant appreciation of the Australian Dollar against the US Dollar during the year reduced revenues by \$24.2 million. However, after the natural hedge of BBW's operational and interest costs combined with its currency hedging program, Net Operating Cash Flow was reduced by only \$1.3 million.

#### OUTLOOK

The fundamentals of BBW's wind energy business remain sound as demonstrated by the strengthening drivers for wind energy, continued strong operational performance of the portfolio and the recent validation of asset values via the announced sale of the Spanish wind energy portfolio.

The asset management team remains focused on managing the wind farms for maximum performance via ongoing improvements in availability. In addition, we also remain focused on capturing higher prices through a prudent balance of exposure to market prices and contracted PPA's. We have recently entered into fixed price contracts for the Capital and Crescent Ridge wind farms, securing attractive prices for the portfolio.

As outlined by the Chairman, BBW announced that it intends to undertake an on-market buy-back of up to 10% of its securities over the next 12 months - consistent with BBW's strategic initiative to demonstrate and capture unrecognised value. In addition, BBW will also consider selective acquisitions from the framework agreements and a potential extension of up to 40MW to the Lake Bonney 2 wind farm. BBW's disciplined approach to acquisitions means we will only acquire assets if they meet our strict investment criteria, including being accretive to net operating cash flow on a per security basis.

Revised net operating cash flow and distribution guidance has been provided by the Boards with FY09 net operating cash flow of 21.4 cents per stapled security and distribution guidance of not less than 9 cents per stapled security. This guidance reflects the impact of the Spanish sale on net operating cashflow and assumes no further reinvestments, capital management initiatives or divestments.

In addition, the Directors have reconfirmed the medium-term distribution growth target of 3.5% pa from the current portfolio and the additional medium-term growth target of 5% pa assuming continuing accretive acquisitions.

I look forward to meeting securityholders at the AGM and reporting to you again with further updates in relation to the strategic initiative.



MILES GEORGE  
Chief Executive Officer



<sup>1</sup> Represents BBW's 50% share.

# Market Overview

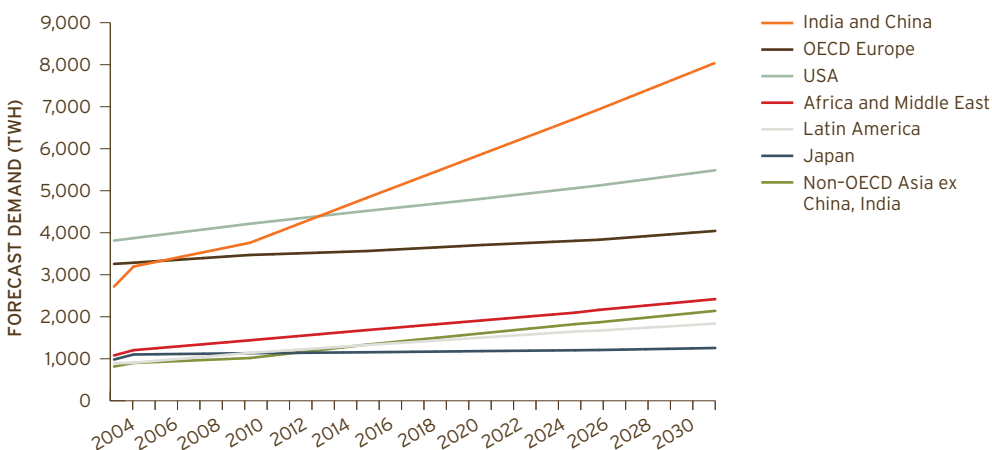
## WIND ENERGY FUNDAMENTALS CONTINUE TO STRENGTHEN AS GLOBAL ENERGY MIX FACES REALITIES OF CARBON-CONSTRAINED GROWTH

**CONSTRAINTS ON NEWLY CONSTRUCTED ELECTRICITY INFRASTRUCTURE, COMBINED WITH A RAPID INCREASE IN DEMAND, ARE PUSHING RENEWABLE ENERGY TECHNOLOGIES INTO THE MAINSTREAM TO ADDRESS LOOMING GLOBAL ELECTRICITY SUPPLY BOTTLENECKS.**

Global electricity demand continues to grow at a rapid 5% annually, forcing the energy industry to respond within an increasingly complex market environment for new capacity planning. Key factors shaping this energy landscape include:

- **Greenhouse gas emission reduction policies.** Led by Europe and the Kyoto Protocol, carbon emission reduction initiatives are gaining political ground in the US, pointing toward a heavily carbon-constrained environment to meet future energy needs.
- **Rising conventional energy costs.** The increasing inclusion of carbon value in energy prices, coupled with continued fossil fuel price volatility and steady resource depletion, undermine the economic feasibility of the existing energy model dependent on thermal and nuclear technologies, in addition to badly needed upgrades and replacement of existing infrastructure.
- **Strategic goal for energy independence.** Countries with limited domestic supplies of traditional energy fuels are increasingly focused on securing the supply of energy from sources within their control and reducing their dependence on imports.
- **Steadily increasing, geographically diversifying demand.** China, India, along with OECD countries are requiring major electricity generation build-out to fuel long-term economic growth, with few signs of slowing in the medium-term.

EXHIBIT 1: GLOBAL ELECTRICITY DEMAND FORECASTS, 2004-2030



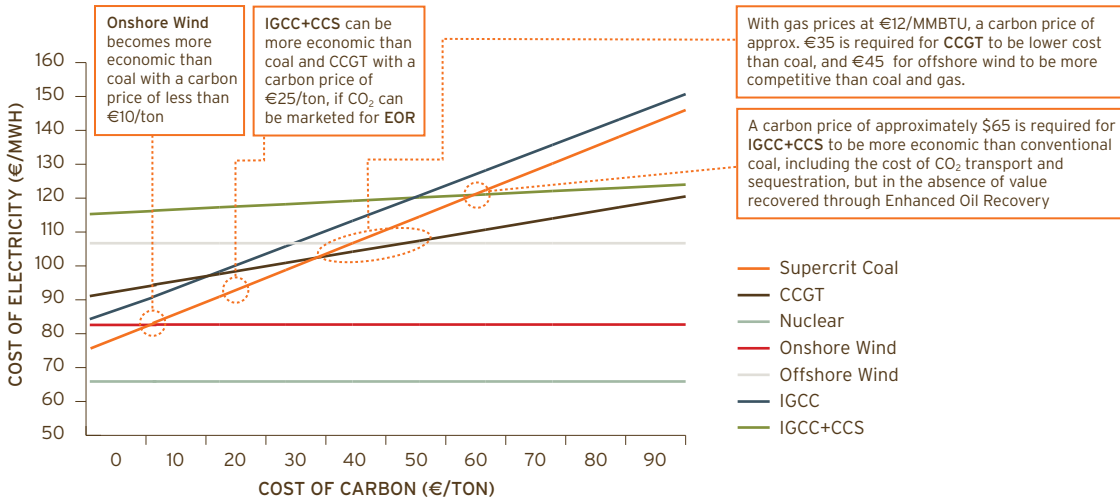
Source: IEA, 2007.

A global consensus has emerged concerning the threats of climate change resulting from global warming, and more concrete policy steps are being put into action to address this impending environmental challenge. Examples include the Kyoto Protocol's activation of its second commitment period from 2008-2012, strengthening of the European emissions trading scheme and renewable energy targets, USA state-led initiatives to curb emissions, and a surge in developing-country project proposals to offset CO<sub>2</sub>.

Electricity generation, estimated to account for over 20% of global CO<sub>2</sub> emissions, represents a key target for carbon controls. The increasing application of carbon value to energy costs is making the economic relationship between emissions reduction, energy technology viability, and electricity prices even more evident.



**EXHIBIT 2: CO2 EMISSIONS PRICE IMPACT ON ELECTRICITY GENERATION TECHNOLOGIES**



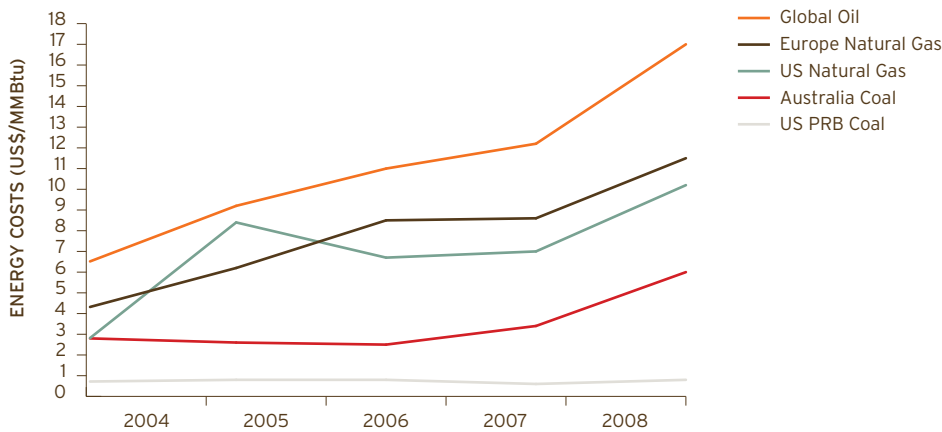
Source: Emerging Energy Research. Assumes natural gas prices of €12/MMBTu and bituminous coal prices of \$110/ton.

**MEETING INCREASING DEMAND FOR ELECTRICITY HAS BECOME MORE CHALLENGING THAN EVER AS CARBON CONSTRAINTS AND INCREASING COSTS LIMIT THE OPTIONS AVAILABLE. A NEW COMPETITIVE LANDSCAPE FOR POWER GENERATION IS EMERGING, REQUIRING NEW SOLUTIONS.**

The implementation of carbon pricing coupled with a high dependence on imported coal and natural gas is driving significant cost convergence between conventional and emerging power generation technologies. On a level basis, factoring in a carbon cost of €40/tonne and fuel price volatility, the cost of electricity generation from traditional fuel sources is expected to rise to a band between US\$70-90/MWh.

Fossil fuel prices have surged in 2008 for thermal generation, calling into question the long-held cost advantage of these technologies. At the same time, major capacity gaps are arising from nuclear, coal, and oil plant decommissioning totaling 180 GW for replacement by 2020 in Europe alone. Added to these concerns is the spike in commodities prices such as steel and copper for new generation plant. The result of these combined cost drivers is that capacity planning faces a major near-term challenge in assembling the most secure, cost effective, environmentally-friendly and socially acceptable mix of generation solutions.

**EXHIBIT 3: HISTORICAL FUEL COSTS, 2004-2008**



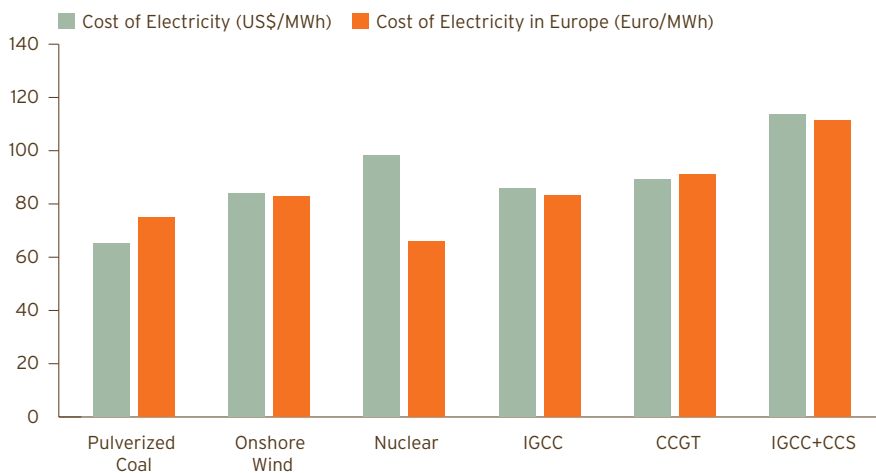
Source: World Bank, IEA.

# Market Overview

Existing thermal and nuclear generation technologies are expected to continue to see rising costs. Skyrocketing commodity and fossil fuel prices continue to establish new price thresholds at which wind and nuclear power generation technologies will be cost competitive, causing a steady shift in capacity planning. Combined Cycle Gas Turbine (CCGT) power costs for base load power look significantly less attractive than just a year ago, considering fuel price increases of over 30% in both the USA and Europe in 2008.

Impending global carbon legislation, rising coal prices and escalating planning opposition are expected to eliminate conventional coal's cost advantage in several regions. At the same time, nuclear energy has the potential to be the lowest cost form of power generation in a carbon constrained world, but faces the greatest plant cost uncertainty over the next decade. These market conditions for new building of conventional power plants create a major opportunity for scale renewable energy technologies.

**EXHIBIT 4: US, EUROPE TECHNOLOGY COST OF ENERGY COMPARISON**

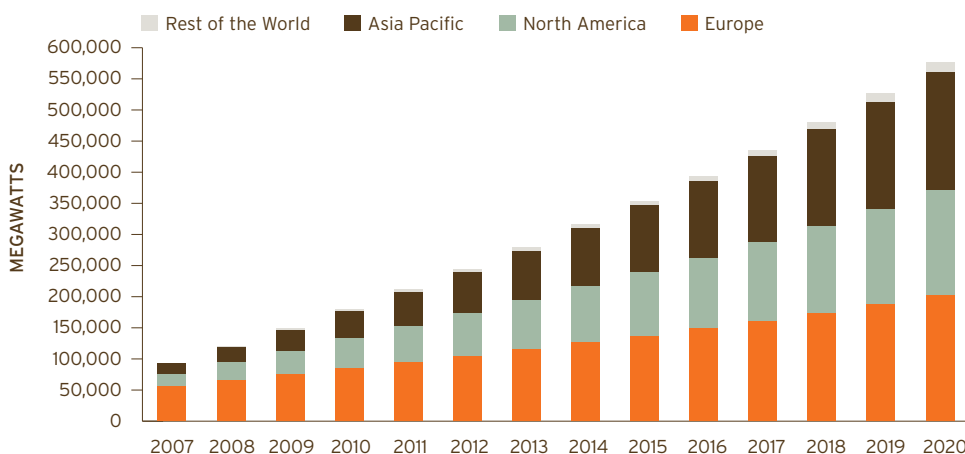


Source: Emerging Energy Research.

**WIND ENERGY HAS BECOME A MAINSTREAM POWER GENERATION OPTION IN MANY MARKETS, PAVING THE WAY FOR INCREASED GLOBAL PENETRATION BASED ON IMPROVING COST COMPETITIVENESS AND ENVIRONMENTAL BENEFITS.**

Wind energy's improving cost position relative to other generation technologies has placed the industry into pole position as the most scalable renewable energy solution. Growing at a 30% rate in annual additions, wind energy continues to tap new pockets of demand, most recently in Midwestern USA, Northern China, and Eastern Europe, while Central and Southern European markets still anchor the global market and new regions such as Latin America and the Middle East begin to install projects. Wind energy is set to increase from 120 GW in 2008 to nearly 600 GW through to 2020 and is expected to be more evenly split between Europe, North America and Asia.

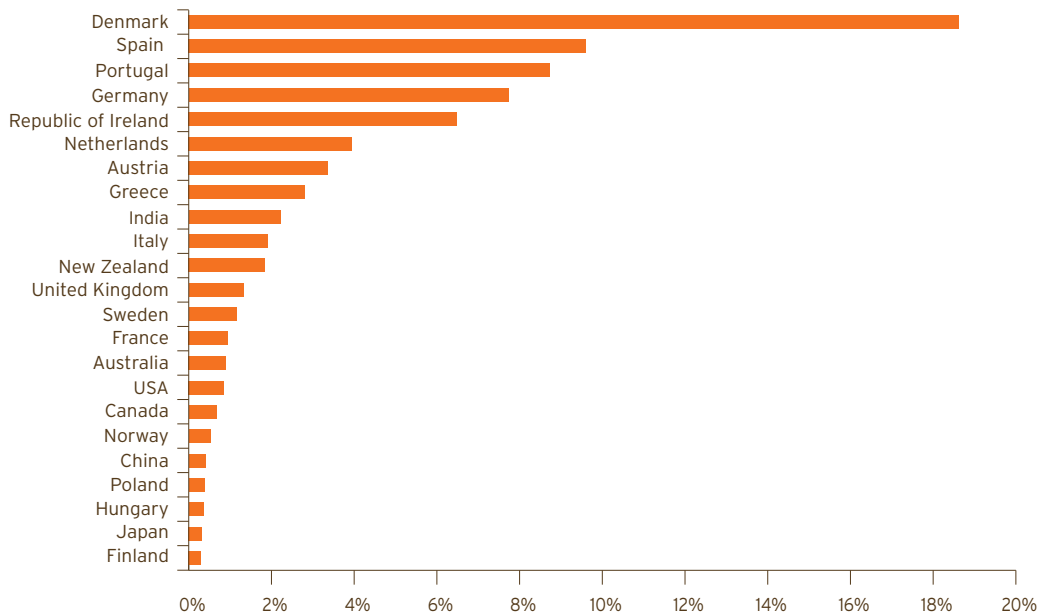
**EXHIBIT 5: TOTAL WIND POWER GENERATION CAPACITY, 2007-2020**



Source: Emerging Energy Research.



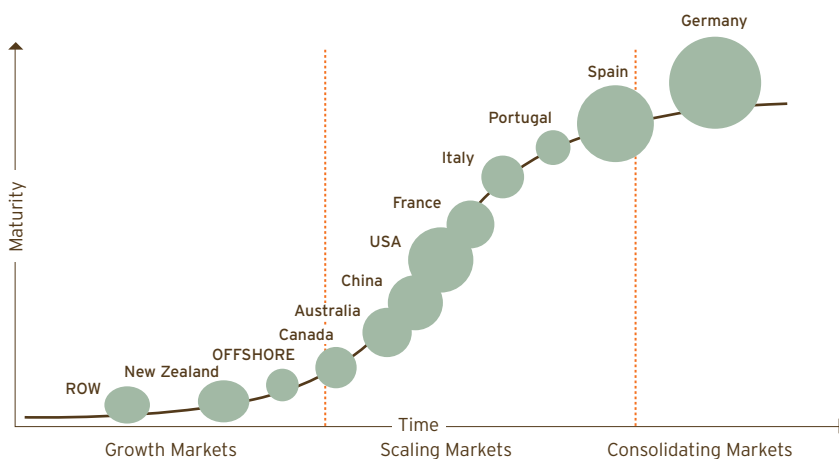
**EXHIBIT 6: GLOBAL WIND POWER PENETRATION (EST.), KEY COUNTRIES 2007**



Source: BP Statistical Factbook, IEA, National transmission operators, Emerging Energy Research. Assumes 25% capacity factor.

Increasing wind energy penetration on the back of strong growth in MW additions, points to the rapid maturing of several wind energy markets from a regulatory, resource availability, and competitive perspective. The pioneering European markets of Germany and Spain have reached a point of consolidation and steady build of new plants, while scaling markets such as Italy, Portugal and France are boasting continued growth led by national utilities. At the same time, major growth is still expected in North America and the Asia/Pacific region that are moving from an initial growth period into a surging phase of industry build-out.

**EXHIBIT 7: KEY WIND ENERGY MARKET MATURITY**



Significant growth opportunities remain for players such as BBW, able to navigate the increasingly competitive landscape in consolidating markets whilst benefitting from strong existing positions and access to opportunities in the key scaling and growth markets.

# Portfolio Summary

Country	Wind Region	No. of Wind Farms	Capacity (MW)	
			Total	Ownership <sup>1</sup>
<b>AUSTRALIA</b>	Western Australia	1	89	89
	South Australia	2	240	240
	New South Wales	1	132	132
<b>Sub-total</b>		4	461	461
<b>SPAIN</b>	Spain	14	422	421
<b>GERMANY</b>	Germany	11	121	120
<b>FRANCE</b>	France	6	52	52
<b>PORTUGAL</b>	Portugal	33	681	335
<b>US</b>	US - South	8	830	489
	US - North West	1	41	21
	US - South West	2	88	88
	US - North East	4	182	169
	US - Central	1	301	200
	US - Mid West	3	186	173
<b>Sub-total<sup>3</sup></b>		19	1,627	1,139
<b>Sub-total - Operational<sup>4</sup></b>		77	2,957	2,200
<b>Sub-total - Under Construction</b>		10	406	328
<b>Total as at 30 June 2008</b>		<b>87</b>	<b>3,363</b>	<b>2,528</b>
<b>Post Balance Date Divestments</b>				
<b>Spain</b>		14	422	421
<b>Sub-total - Operational</b>		63	2,535	1,779
<b>Sub-total - Under Construction</b>		10	406	328
<b>Total including proposed divestments</b>		<b>73</b>	<b>2,941</b>	<b>2,108</b>

1 Ownership represents equity interest. For the USA wind farms this is on the basis of active ownership as represented by the percentage ownership of Class B Member interest.

2 "PPA": Power Purchase Agreement.

3 Includes Allegheny Ridge 2 (70MW) which is yet to be acquired.

4 Lake Bonney 2 had not reached final completion as at 30 June but all turbines were operational.





No. of Turbines	Long-term Mean Energy Production (GWh pa)		Capacity Factor %	Energy Sale <sup>2</sup>
	Total	Ownership <sup>1</sup>		
54	367	367	47	
99	691	691	33	
63	415	415	36	
216	1,473	1,473	36	PPA & Market
397	997	994	27	Market + Fixed
74	260	259	25	Fixed
26	119	119	26	Fixed
331	1,688	832	28	Fixed
607	2,908	1,703	40	
41	120	60	33	
63	273	273	35	
92	540	501	34	
274	959	640	36	
136	513	470	31	
1,213	5,313	3,647	37	PPA & Market
2,071	8,712	6,383	33	
186	1,137	940	33	
<b>2,257</b>	<b>9,849</b>	<b>7,324</b>	<b>33</b>	
397	997	994	27	Market + Fixed
1,674	7,716	5,390	35	
186	1,137	940	33	
<b>1,860</b>	<b>8,853</b>	<b>6,330</b>	<b>34</b>	



# Australia

Australia is a prime market for wind energy, supported by some of the world's best wind resources. Good access to grid infrastructure and strong regulatory support for renewable energy led to a total installed capacity of 824MW as at the end of 2007. The ongoing expansion of the Australian wind energy industry will be underpinned by the government's commitment to an expanded Renewable Energy Target and the Carbon Pollution Reduction Scheme. The Australian market remains a significant opportunity for BBW.

In 2001, the Australian Government introduced a Mandatory Renewable Energy Target (MRET) which required the production of an additional 9,500GWh of electricity from renewable sources per year by 2010. With this target fully subscribed, a number of State Governments had implemented mandatory renewable energy schemes. In 2007, the newly elected Labor Government committed to an expanded MRET target of 45,000GWh by 2020, in support of its overall goal of a 20% share for renewable energy in Australia's electricity supply by 2020. The Australian and State Governments are currently working to bring the existing Federal MRET and the various State based targets into a single expanded national MRET scheme by early 2009.

The Government's intended policy framework for the emissions reduction strategy is the introduction of the Carbon Pollution Reduction Scheme in 2010. This follows a commitment by the Government to a long-term emissions reduction target of 60% (compared with year 2000 levels) by 2050.

BBW is Australia's leading wind farm owner and operator. BBW's Australian portfolio consists of four wind farms with a total capacity of approximately 461MW. Construction of the Lake Bonney 2 wind farm was completed in 2008 and is now the largest operational wind farm in Australia with an installed capacity of 159MW. BBW's leading position in Australia was strengthened during the year with the acquisition of the Capital wind farm which is currently under construction. The Capital wind farm has been under development since 2002 and is the first large, utility scale wind farm to be located in New South Wales. Capital wind farm is expected to be operational by mid-2009 and will have an installed capacity of 132MW.

Generation at BBW's three operational wind farms, including pre-completion generation from Lake Bonney 2, for the twelve months ended 30 June 2008 reached 768GWh, up 42% on the prior corresponding period. The Australian wind farms achieved a capacity factor of 36%. The result was 89% of forecast due to a lower than expected contribution from Lake Bonney 2 during its commissioning phase. This lower generation at Lake Bonney 2 was more than offset by a higher than forecast average market price per MWh. With all assets running well and improved site and turbine availability, an EBITDA margin of 85% was achieved, up from 82.4% during the prior corresponding period. The Australian wind farms account for 20% of BBW's total portfolio on an expected energy generation basis.

# 2008

TOTAL CAPACITY (MW)<sup>1</sup>

# 460.9

LONG-TERM  
MEAN ENERGY  
PRODUCTION (GWh pa)<sup>1</sup>

# 1,473

CAPACITY FACTOR

# 36%

NUMBER OF  
WIND FARMS

# 4

NUMBER OF  
TURBINES

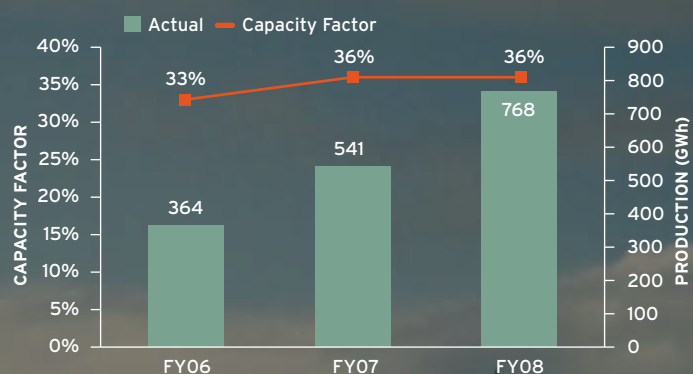
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<sup>1</sup> On an equity ownership basis.

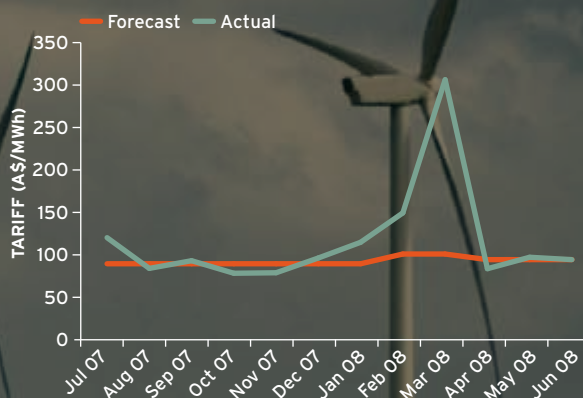
Statistics provided by Global Wind Energy Council (2007)



### AUSTRALIAN CAPACITY FACTOR AND PRODUCTION



### FY08 ELECTRICITY & REC PRICES: LAKE BONNEY 2



Key Financials	FY07	FY08
Revenue <sup>1</sup>	\$44.9m	\$69.7m
EBITDA	\$37.0m	\$59.5m
Contribution to EBITDA <sup>2</sup>	29.3%	17.8%
EBITDA Margin	82.4%	85.3%

1 Includes pre-commissioning and revenue compensation.  
 2 EBITDA before corporate costs.

# France

France installed 888MW of new capacity in 2007, taking its total installed capacity to 2,454MW. This placed France in the top 10 wind energy markets in 2007 by annual megawatts installed, for the second year in a row. The ongoing expansion of the French wind energy industry is underpinned by the government's commitment to the EU Renewables Directive and stable support mechanisms. Furthermore, in late 2007 the French Syndicat des Energies Renouvelables suggested a wind energy generation target of 25GW by 2020, including 6GW offshore, and there are indications that this target will be adopted.

The feed-in tariff system, introduced in 2001 and 2002, provides a long-term renewable energy incentive for 15 years. On-shore wind farms earn a fixed tariff of 82 €/MWh for the first 10 years and a fixed tariff of between 28 €/MWh to 82 €/MWh for the next five years depending on the energy generated from the site in years one to 10. In addition, the Ministerial Order of July 2006 stipulates that Electricite de France is obliged to buy electricity from privately owned and operated renewable energy sources. French Law also guarantees access to the public transmission and distribution grid.

BBW's presence in France is represented by six wind farms with a total capacity of approximately 52MW. The construction of Le Marquay, Fond du Moulin and Mont Felix (**Fruges I**) Chemin Vert and Sôle de Bellevue (**Fruges II**) was completed during FY08, with all five wind farms entering commercial operations on or before June 2008. The construction of Les Trentes wind farm which is part of Fruges II remains on schedule to reach final completion in October 2008.

Generation at BBW's five operational wind farms for the twelve months ended 30 June 2008 reached 49GWh. The wind farms achieved a capacity factor of 25% during the period, with low wind conditions continuing across much of France. The overall result was 92% of forecast. Overall, France achieved an EBITDA margin of 90%. The wind farms account for 2% of BBW's total portfolio on an expected energy generation basis as at 30 June 2008.

# 2008

TOTAL CAPACITY (MW)<sup>1</sup>

52

LONG-TERM  
MEAN ENERGY  
PRODUCTION (GWh pa)<sup>1</sup>

118.8

CAPACITY FACTOR

26%

NUMBER OF  
WIND FARMS

6

NUMBER OF  
TURBINES

26

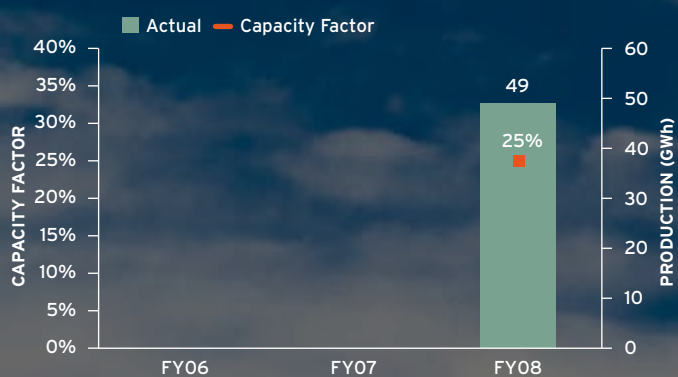
<sup>1</sup> On an equity ownership basis.

Statistics provided by Global Wind Energy Council (2007)





### FRENCH CAPACITY FACTOR AND PRODUCTION



Key Financials	FY07	FY08
Revenue <sup>1</sup>	N/A	\$5.5m
EBITDA	N/A	\$5.0m
Contribution to EBITDA <sup>2</sup>	N/A	1.5%
EBITDA Margin	N/A	90.1%

1 Includes pre-commissioning and revenue compensation.

2 EBITDA before corporate costs.



# Germany

Germany represents the world's largest wind energy market with a total installed capacity of 22,247MW at the end of 2007, or 23.7% of global installed capacity, with wind energy providing 7% of Germany's total energy consumption. New installations were 1,667MW in 2007, which represents a reduction of 25% on the previous year. The German wind energy market is a mature market and it has long been anticipated that growth rates would ease as the availability of on-shore sites decreased. Notwithstanding slowing rates of growth, the German wind energy market is underpinned by a very supportive and stable regulatory regime and remains an attractive market for BBW.

The German Government has long been an advocate for action to combat climate change and its proactive approach to renewable energy continues to drive the growth and development of wind energy. In its recent energy and climate package, the German Government increased its renewable energy target for 2020 to 25-30%, up from the previous target of 20%.

Under the Renewable Energy Sources Act (**EEG**), introduced in 2000, electricity produced from renewable energy sources is given priority connection to the grid and wind farms are paid a fixed tariff for electricity produced for a period of 20 years. To ensure that growth in capacity continues the German Government announced that from 2009, newly installed capacity will receive a higher feed-in tariff of 92.0 €/MWh (previously 80.3 €/MWh). This tariff will be decreased every year for new installations by 1% (previously 2%). The amended Act is expected to create new incentives for investment, innovation and growth of the German market through previously unviable sites.

BBW's presence in Germany is represented by 11 wind farms with a total capacity of 120.5MW. During FY08 BBW acquired seven wind farms - namely the Calau, Coswig, Eschweiler, Hiddestorf, Langwedel, Leddin, and Sonnenberg wind farms which added 52MW to the portfolio. Generation at BBW's eight operational wind farms for the twelve months ended 30 June 2008 reached 115GWh, up 13% on the prior corresponding period. The wind farms achieved a capacity factor of 19% during the period. The overall result was 85% of forecast due to a combination of actual wind speeds below the long-term mean and blade problems affecting several turbines. Overall, Germany achieved an EBITDA margin of 77.5%. The wind farms account for 3% of BBW's total portfolio on an expected energy generation basis.

During FY08, the scope of the Gamesa framework agreement was extended to include 10 German wind farms totaling approximately 90MW. In addition, BBW has the opportunity to acquire additional wind farms in Germany under the Plambeck framework agreement. Further information in relation to the framework agreements can be found on page 152 of this annual report.

# 2008

TOTAL CAPACITY (MW)<sup>1</sup>

120.5

LONG-TERM  
MEAN ENERGY  
PRODUCTION (GWh pa)<sup>1</sup>

259.5

CAPACITY FACTOR

25%

NUMBER OF  
WIND FARMS

11

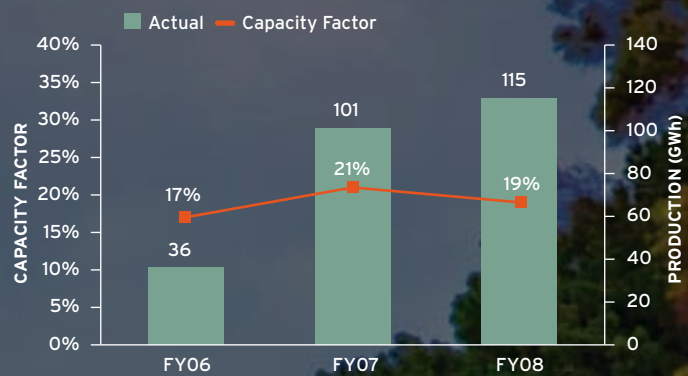
NUMBER OF  
TURBINES

74

<sup>1</sup> On an equity ownership basis.

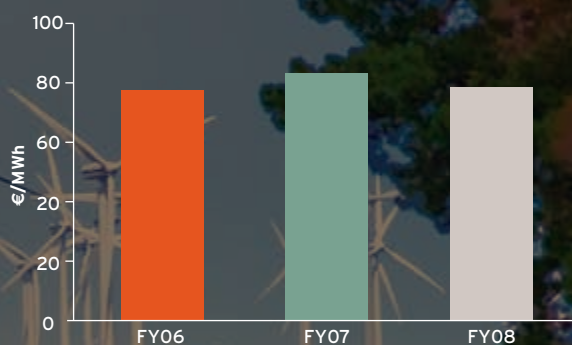
Statistics provided by Global Wind Energy Council (2007)

### GERMAN CAPACITY FACTOR AND PRODUCTION



FY08 includes Compensated Production.

### GERMAN AVERAGE TARIFF



Key Financials	FY07	FY08
Revenue <sup>1</sup>	\$14.2m	\$14.6m
EBITDA	\$11.4m	\$11.3m
Contribution to EBITDA <sup>2</sup>	9.0%	3.4%
EBITDA Margin	80.3%	77.5%

<sup>1</sup> Includes pre-commissioning and revenue compensation.

<sup>2</sup> EBITDA before corporate costs.



# Portugal

The Portuguese wind energy industry has experienced rapid growth in recent years and was ranked as a “top ten” wind energy market. In 2007, 434MW of new capacity was installed, taking Portugal's total installed capacity to 2,150MW. In recent years, the Portuguese Government has encouraged the development of renewable energy sources such as wind energy through the establishment of a number of renewable energy targets and the introduction of a tariff regime supporting renewable energy production.

In January 2007, the Portuguese Government announced new renewable energy targets of 45% of total consumption by 2010. This was an increase from 39% projected previously, with the actual share of renewable energy contributing 22% of national energy consumption in 2005. The Government's push for these renewable energy targets is to reduce the country's dependency on energy imports. It is projected that between 2007 and 2012, the Government will spend a total of €8.1 billion on new renewable energy projects. Wind energy is expected to receive the largest share of the total investment at approximately €5.1 billion. In November 2001, Portugal and Spain signed an agreement to integrate their electricity sectors into an Iberian Market of Electric Energy (MIBEL). The MIBEL promotes transparency and liquidity in electricity markets and is made up of the set of organised and non-organised markets for electricity transactions including derivatives trading. It has approximately 29 million customers.

The stable growth of the Portuguese wind energy sector is attributed to several supporting policies to promote the national renewable energy production. In 2001, the Portuguese Government established fixed price tariffs to be paid to wind energy generators, which vary depending on energy output and are escalated annually at CPI. In February 2005, these tariffs were reduced by approximately 15% under a new Decree of Law, DL 33 A/2005. However, all BBW Portuguese wind farm assets operate under the old tariff regime.

BBW's Portuguese portfolio consists of 33 wind farms, collectively known as the Enersis wind farm portfolio which is the leading wind energy portfolio in Portugal. BBW's interest in the Enersis wind farm portfolio has a total operating capacity of 257.3MW. BBW's interest in assets under construction amounts to 78.1MW. BBW currently owns a 50% interest in the Enersis wind farm portfolio, with the remaining 50% interest owned by Babcock & Brown.

Generation at BBW's 29 operational wind farms for the twelve months ended 30 June 2008 reached 584GWh. The wind farms achieved a capacity factor of 26%, for the twelve months ended 30 June 2008. The result was 92% of forecast due to low wind speeds which affected much of Europe and retrofit programs under way at two of the larger wind farms within the portfolio. Turbine and site availability across the remainder of the Portuguese portfolio remains good. Overall, Portugal achieved a solid EBITDA margin of 86%. The Portuguese portfolio accounts for 11% of BBW's total portfolio on an expected energy generation basis.

## 2008

TOTAL CAPACITY (MW)<sup>1</sup>

335.3

LONG-TERM  
MEAN ENERGY  
PRODUCTION (GWh pa)<sup>1</sup>

832

CAPACITY FACTOR

28%

NUMBER OF  
WIND FARMS

33

NUMBER OF  
TURBINES

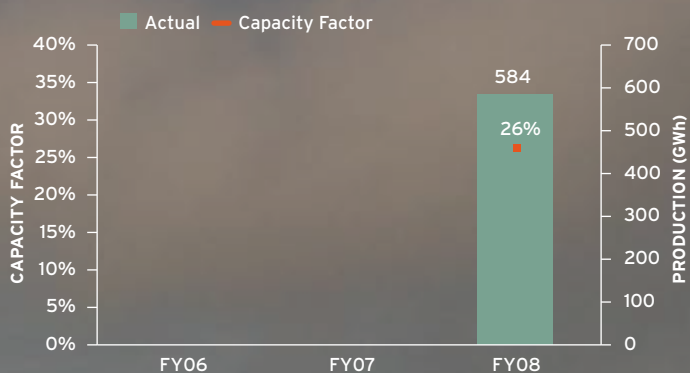
331

<sup>1</sup> On an equity ownership basis.

Statistics provided by Global Wind Energy Council (2007)

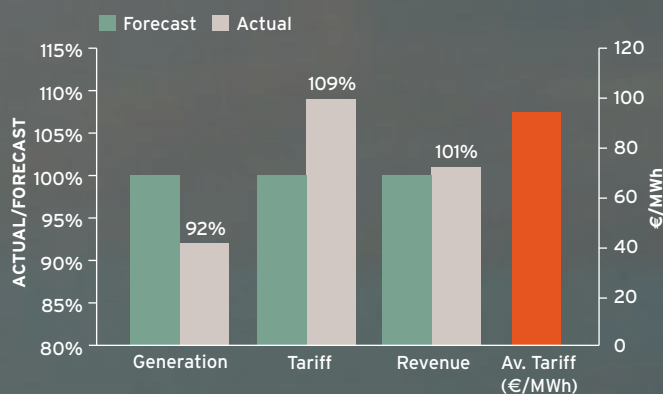


## PORTUGUESE CAPACITY FACTOR AND PRODUCTION



FY08 includes Compensated Production.

## PORTUGAL TARIFF



Key Financials	FY07	FY08
Revenue <sup>1</sup>	N/A	\$91.7m
EBITDA	N/A	\$78.7m
Contribution to EBITDA <sup>2</sup>	N/A	23.6%
EBITDA Margin	N/A	85.8%

1 Includes pre-commissioning and revenue compensation.  
 2 EBITDA before corporate costs.

# Spain

Spain represents the third largest wind energy market in the world with a total installed capacity of 15,145MW or 16.1% of global installed capacity. New installations in 2007 of 3,522MW were the highest level of any European country to date and second only to the US. The Spanish wind energy market is supported by favourable wind resource, a longstanding supportive regulatory regime and new legislation which provides transitional agreements for wind farms that entered commercial operations prior to December 2007.

Wind energy supplied 10% of total energy demand in Spain during 2007. The official government target for wind energy is 20,000MW by 2010 and the Government is considering a plan for reaching a 2020 wind target of 45,000MW which would represent 30% of Spain's electricity demand.

The general framework supporting renewable energy is set out by the Electricity Act 54/1997, which is still in force. A Royal Decree 661/2007 was passed in March 2007, as part of a scheduled review of the Act. The revised legislation maintained support of wind energy and the two key remuneration options, being fixed and variable tariffs. In addition, the legislation provided for a concessional transition period of five years through to 2012 for all wind farms that entered commercial operations before 1 January 2008. Wind farm operators that elect to sell electricity at the market price plus a premium will receive the premiums and incentives established in the Royal Decree 436/2004 until 31 December 2012 and will then be transferred to the new regime. All of BBW's operational wind farms were covered by the transitional arrangements in FY08 and received the market tariff option.

BBW's Spanish portfolio consists of 14 wind farms with a total capacity of 420.7MW. During FY08 BBW acquired the remaining 30% interest in the Conjuero wind farm and a 96.5% interest in the Valdeconejos wind farm. The Carrascal I & II and Cerradilla I & II wind farms were also acquired during FY08 and will be subject to the revised tariff legislation as outlined above.

Generation during FY08 at BBW's 10 operational wind farms, including pre-completion generation from the Carrascal and Cerradilla wind farms, for the twelve months ended 30 June 2008 reached 564GWh, up 82% on the prior corresponding period. The wind farms achieved a capacity factor of 22% during the period. The overall result was 90% of forecast due to actual wind speeds below the long-term mean. Overall, Spain achieved a solid EBITDA margin of 81%.

On 21 August 2008, BBW announced that it agreed to sell its portfolio of 14 operating Spanish wind farms to Formento de Construcciones y Contratas, S.A. BBW retains access to the Spanish wind energy market via opportunities to acquire wind farms yet to be delivered under the Gamesa Framework Agreement which remains in place. Further information in relation to this framework agreement can be found on page 152 of this annual report. Based on the key terms of the Royal Decree 661/2007 and current estimates of market prices for assets under the Gamesa Framework Agreement Spain remains an attractive market for BBW.

## 2008

TOTAL CAPACITY (MW)<sup>1</sup>

420.7

LONG-TERM  
MEAN ENERGY  
PRODUCTION (GWh pa)<sup>1</sup>

993.6

CAPACITY FACTOR

27%

NUMBER OF  
WIND FARMS

14

NUMBER OF  
TURBINES

397

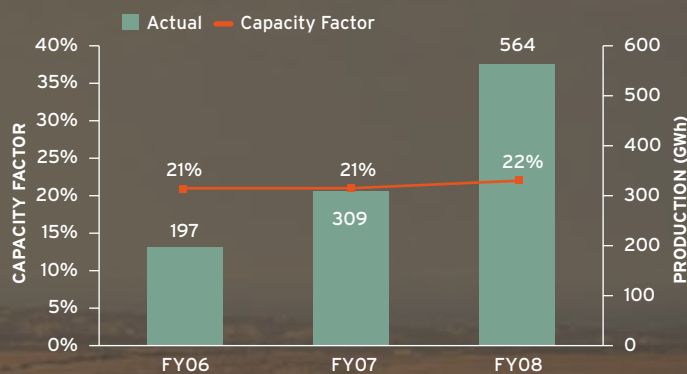
<sup>1</sup> On an equity ownership basis.

Statistics provided by Global Wind Energy Council (2007)



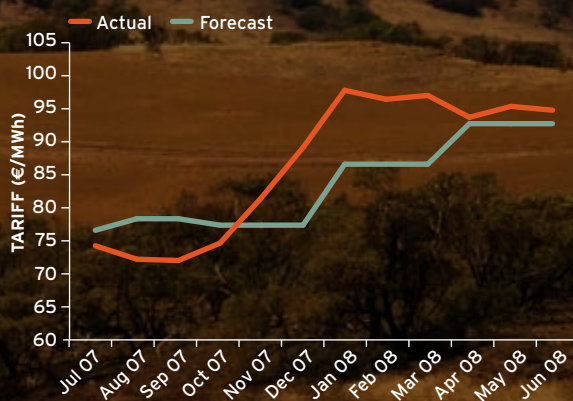


### SPANISH CAPACITY FACTOR AND PRODUCTION



- 1 FY08 includes Pre-completion Production from Carrascal I&II and Cerradilla I&II; the related income is not recognised as Revenue but is capitalised.
- 2 FY08 includes Compensated Production.

### SPAIN - AVERAGE TARIFF



Key Financials	FY07	FY08
Revenue <sup>1</sup>	\$44.6m	\$76.6m
EBITDA	\$36.6m	\$62.1m
Contribution to EBITDA <sup>2</sup>	28.9%	18.6%
EBITDA Margin	82.1%	81.0%

- 1 Includes pre-commissioning and revenue compensation.
- 2 EBITDA before corporate costs.



# United States

The US represents the second largest wind energy market in the world with a total installed capacity of 16,818MW accounting for 17.9% of global installed capacity. The US experienced unprecedented growth in 2007, with new installations increasing by 45% or 5,244MW. This represents the third consecutive year of record-setting growth primarily driven by strong demand, favourable economics, and incentives such as the federal production tax credit (PTC). Notwithstanding the fact that wind energy represents just over 1% of the US electricity supply, wind energy accounted for over a third of new power production capacity additions in the past two years.

The PTC is the primary fiscal incentive in the US and provides a US2 cent-per-kilowatt-hour (kWh) tax credit for electricity generated with wind energy for the first ten years of a qualifying project's operations. The PTC scheme, was recently given a one year extension as part of the Emergency Economic Stabilization Act of 2008. The one year extension allows wind farms which enter into service prior to 31 December 2009 to qualify for the PTC scheme. While this does not impact BBW's existing pre-qualified portfolio, this is undoubtedly positive news for the future growth of the US wind industry.

Despite the absence of a national renewable electricity target, the Renewable Portfolio Standard (RPS) Policy has been adopted by the majority of US states. The RPS places an obligation on electricity supply companies to produce a percentage of their electricity from renewable energy sources, with percentages typically increasing over time.

The US Department of Energy, along with the National Renewable Energy Laboratory and other industry participants, recently evaluated the prospect of wind energy supplying 20% of the nation's electricity by 2030. Whilst no policy framework has been recommended or approved following this evaluation, there remains bipartisan support for a significant commitment to renewable energy and emission reduction (including an ETS scheme). The US is expected to become the dominant player in the global wind energy industry; a position currently occupied by Germany, and will remain a key growth market for BBW.

BBW's US portfolio consists of 19 wind farms with a total capacity of approximately 1,139MW. The US portfolio increased significantly in FY08 with the acquisition of the US07 Portfolio totalling 621.8MW of installed capacity (BBW's equity interest in installed capacity terms was 371MW), which included the Cedar Creek and Sweetwater 4 & 5 wind farms.

Generation at BBW's 18 operational wind farms for the twelve months ended 30 June 2008 reached 3,065GWh, up 123% on the prior corresponding period. The US wind farms achieved a capacity factor of 36% for the twelve months ended 30 June 2008, up 2% from prior year. The result was 104% of forecast due to a combination of higher wind speeds and improved site and turbine availability. These improved conditions have resulted in an EBITDA margin of 71.3%, up from 60.9% during the prior corresponding period. The US portfolio accounts for 49% of BBW's total portfolio on an expected energy generation basis.

## 2008

TOTAL CAPACITY (MW)<sup>1</sup>

1,138.9

LONG TERM  
MEAN ENERGY  
PRODUCTION (GWh pa)<sup>1</sup>

3,647

CAPACITY FACTOR

37%

NUMBER OF  
WIND FARMS

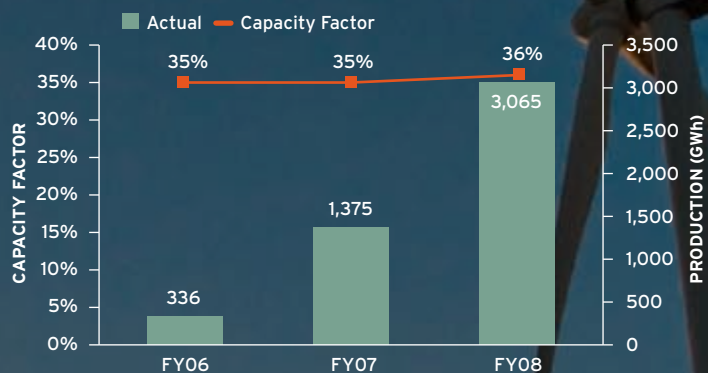
19

NUMBER OF  
TURBINES

1,213

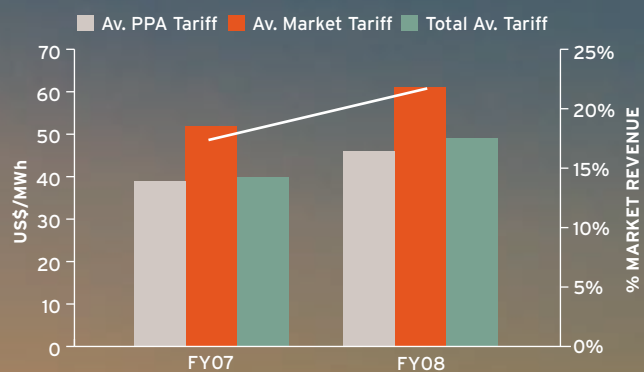
<sup>1</sup> On the basis of active ownership as represented by the percentage ownership of Class B Member interest. Includes Allegheny Ridge 2 (70MW) which is yet to be acquired. Statistics provided by Global Wind Energy Council (2007)

## UNITED STATES CAPACITY FACTOR AND PRODUCTION



FY08 includes Compensated Production.

## US - AVERAGE PPA AND MARKET PRICES



Key Financials	FY07	FY08
Revenue <sup>1</sup>	\$68.2m	\$164.4m
EBITDA	\$41.5m	\$117.2m
Contribution to EBITDA <sup>2</sup>	32.8%	35.1%
EBITDA Margin	60.9%	71.3%

<sup>1</sup> Excludes PTC Revenue.

<sup>2</sup> EBITDA before corporate costs.



# Commitment to Sustainability

## BBW'S APPROACH

Babcock & Brown Wind Partners is focused on the creation of long-term sustainable value for our securityholders. Our approach to sustainability is to both manage risks and leverage opportunities in a rapidly evolving social, environmental and competitive context.

We recognise that our business activities have environmental, social and economic effects and we are committed to managing those effects responsibly.

Babcock & Brown Wind Partners is committed to:

- Providing safe and healthy work environments for all employees, contractors, visitors and other people at our sites.
- A vision of minimising impact on the environment, with the protection of all aspects of our environment as a priority.
- Continual improvement and excellence in the environmental performance and community participation of all our activities.

Appropriate consideration will to be given to the broader benefits of wind energy through harnessing commercially driven opportunities, whilst at the same time, putting in place appropriate standards to protect environmental values and recognise local community issues.

## PRIORITIES

While it is our long-term goal to “mainstream” sustainability into all our initiatives, our immediate priorities are to:

- Put the health, safety and welfare of people first
- Continue to ensure that employees and contractors operate in accordance with our sustainability policies and management systems
- Ensure that the operating wind farms focus on leadership and culture as a key enabler for safe working and manage the operations against measurable objectives, targets and safety performance indicators
- Efficiently use natural resources, including fuels and water and reduce, reuse and recycle wastes
- Improve the ecological footprint throughout the full life cycle analysis of each turbine, wind farm and the overall portfolio
- Continue to support the communities we operate within and respect their diverse cultures, views and needs and
- Continue to comply with all relevant legislation, codes of practice, jurisdictional standards, industry standards, guidelines and other relevant statutory obligations.

## OCCUPATIONAL HEALTH AND SAFETY

BBW continues to demonstrate a strong commitment to occupational health and safety through both its governance and reporting structure and operationally at a country and asset level. The wind asset management team has a goal of zero incidents and injury.

A safety performance reporting framework has been implemented to provide the Wind Safety Executive Committee with visibility on the safety performance of the assets in each country. Performance statistics are recorded to allow trend analysis and benchmarking against industry safety standards. Asset managers are held accountable for safety performance.

## ENVIRONMENT

As a pure wind energy business, BBW is ideally placed to maximize the opportunities presented by climate change. Wind energy is the most competitive, scalable and accessible renewable energy technology on a cost of energy basis. Wind's scalability and declining costs over the past decades have improved its positioning versus conventional generation technologies as well.

BBW's activities are focused on maximising the opportunities that wind energy presents. BBW seeks to grow its earnings by efficiently operating a portfolio of wind farms and acquiring new wind farms on attractive terms.

BBW has the ability to maximise the opportunities identified above through its:

- Global reach, including established operations in three continents
- Strategic relationship with Babcock & Brown
- Framework agreements in relation to future opportunities
- Long experience in the industry
- Growing scale and diversification and
- Strong supplier relationships.

The main risks relating to climate change for BBW are mainly regulatory and physical in nature.

## ENTERPRISE RISK MANAGEMENT

BBW's Enterprise Risk Management framework underpins the management of risk in all its activities. The framework covers strategic, operational and financial risks including investment risk<sup>1</sup> and is underpinned by a risk management policy which is communicated to all BBW staff. The BBW risk profile and the adequacy of the mitigating actions are periodically reviewed and approved by the BBW Risk Management Committee.

<sup>1</sup> This component of the framework includes a rigorous and disciplined investment assessment process designed to qualify and quantify the risks and rewards of prospective wind farm investments and assess the future financial effects on BBW. This process is central to BBW's capital allocation decision-making and operates in accordance with predefined financial and technical assessment criteria.



Operational risk profiles are carried out at an asset level and consolidated at a country and corporate level. This is periodically discussed with the relevant senior executives and reviewed by the Audit, Risk & Compliance Committee on a quarterly basis. In line with best practice, ownership of risks remains with the business.

The risk management process is ongoing and requires the continuous identification, assessment, monitoring and management of risks.

### **REGULATORY RISK**

Governments have increasingly shown a willingness to put into place legislation that aims to address climate change. BBW is a beneficiary of such legislation and expects its existing investments to continue to benefit from existing and proposed legislation.

Over the longer term BBW expects incentive schemes - fixed tariff and renewable energy targets - to be eventually phased out as effective emissions trading schemes are established. Emissions trading schemes will have the effect of placing a price on carbon emissions and internalising this cost into energy prices. The price of emissions will be determined based on emissions caps that are deemed appropriate to reduce total emission levels for countries to sustainable levels.

Whilst the details of such schemes are under development, BBW expects that the electricity prices that result will be at least as favourable as the total tariff received by wind energy generators under current direct tariff, quota and tax incentive systems. BBW believes the significant reduction in emissions that is required to avoid or even slow climate change will guide the establishment of effective emissions caps.

BBW considers that incentives for renewable energy are only likely to be reduced as the rising cost of electricity generated from traditional fuels converges on the reducing unit cost of electricity produced from renewable sources.

### **PHYSICAL RISK**

BBW is exposed to a number of physical risks from climate change. Over the long term, and depending on the severity of climate change, these risks may include property damage (including damage to critical third party infrastructure), business interruption, adverse conditions affecting longevity, efficiency and maintenance costs of wind turbines and electrical infrastructure and climatic variation affecting average wind speeds.

In response to physical risks BBW has developed a comprehensive crisis management framework incorporating disaster recovery plans and business continuity plans. BBW has placed relevant insurance policies which are adequate and appropriate given the relative risk of loss, cost of coverage and industry practice, including Property Damage and Business Interruption covers.



# BBW Boards

## DIRECTORS

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

### **PETER HOFBAUER** **(Babcock & Brown executive)**

#### **Chairman & Non-executive Director**

Appointed on 14 April 2005

Peter Hofbauer joined Babcock & Brown in 1989 and has worked in both the Sydney and London offices. He is currently based in London.

Peter is the Chief Investment Officer of the Babcock & Brown Group, and is also a director of Babcock & Brown Infrastructure Limited.

Prior to joining Babcock & Brown, Peter worked with Price Waterhouse and Westpac Project and Advisory Services Limited. Peter worked in the Sydney office of Babcock & Brown until early 1996 covering a range of business areas including large-scale asset, property and tax based structured financing transactions. From 1996 until 2000 Peter worked in the London office of Babcock & Brown where he was responsible for establishing Babcock & Brown's European property and infrastructure principal finance group. This involved, amongst other things, the establishment and ongoing management of a wholesale investment fund for Babcock & Brown and its clients.

Peter has a Bachelor of Business from the Swinburne University. He is a member of the Institute of Chartered Accountants in Australia, the Taxation Institute of Australia and the Financial Services Institute of Australasia.

### **ANTHONY BATTLE**

#### **Lead Independent Director**

Appointed on 9 September 2005

Anthony (Tony) Battle gained extensive experience in the banking and finance industry over a period of more than 30 years. During this time he held various executive management, credit committee and director roles with major international and domestic financial institutions. His experience includes the evaluation and funding of numerous major projects, structured and corporate financings across a wide range of industry sectors.

Tony holds a Bachelor of Commerce degree, is a Fellow of the Australian Institute of Company Directors and an Associate of Chartered Secretaries Australia. Tony is based in Melbourne.

### **DOUGLAS CLEMSON**

#### **Independent Director**

Appointed on 9 September 2005

Doug Clemson is the former Finance Director and CFO of Asea Brown Boveri (ABB) where 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 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 director of Powerco NZ. His previous directorships include General and Cologne Reinsurance, Electric Power Transmission Group, ABB Australia and New Zealand, and Smiths Industries.

Doug is a qualified accountant and a Fellow of the Institute of Chartered Accountants in Australia and the Australian Institute of Company Directors. Doug is based in Sydney.

### **NILS ANDERSEN**

#### **Independent Director**

Appointed on 9 September 2005

Nils Andersen worked at Vestas, the Danish wind turbine manufacturer, for over 20 years. Nils was managing director of Vestas-Australia throughout 2003 and 2004, and in this role Nils was also 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. Nils also held a number of Board positions within the Vestas group of companies, and 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. Prior to joining Vestas, Nils worked for FL Smidth (a leading manufacturer in cement plants based in Denmark) in Brazil, South Africa and Denmark.

Nils holds a Bachelor of Engineering degree and is a mechanical engineer by training. Nils is based in Denmark.

**WARREN MURPHY**  
**(Babcock & Brown executive)**  
**Non-executive Director**

Appointed on 14 April 2005

Warren Murphy is Head of Australian Energy in the Infrastructure 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. He is also a director of the ASX listed Sydney Gas Limited.

Warren has led the development of Redbank, Oakey, NewGen Kwinana, Braemar and Uranquinty power stations, and the co-development of a number of renewable energy projects, including the Alinta, Lake Bonney and Capital wind farms. Warren joined Babcock & Brown in 1997. Prior to joining Babcock & Brown, 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 and Warren Murphy**

Appointed on 8 May 2007

Michael Garland manages the US Infrastructure 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 certain design, construction, financing and operations relating to the California State energy facilities.

Michael is a graduate of the University of California at Berkeley. Michael is based in San Francisco.

**ANTONINO LO BIANCO**  
**(Babcock & Brown executive)**

**Alternate Director for Warren Murphy and Peter Hofbauer**

Appointed on 8 May 2007

Antonino Lo Bianco manages the European Infrastructure 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.

Antonino is a graduate in Business Administration from Bocconi University in Milan. Antonino is based in Milan.





# BBW Management Team

## **MILES GEORGE**

### **Chief Executive Officer**

Miles joined the Infrastructure Group of Babcock & Brown in 1997 and over the past 11 years has concentrated on principal investments in the infrastructure and energy sectors, and in particular renewable energy investments.

Since 2000 Miles has been involved in the development and financing of wind energy projects in Australia and overseas, including a key role in the development of the Lake Bonney Stage 1 and Stage 2 projects in South Australia.

In 2005, Miles jointly led the Babcock & Brown advisory team which structured and implemented the Initial Public Offer and listing of Babcock & Brown Wind Partners on the ASX and also acted as an adviser to BBW on wind farm acquisitions in Australia and overseas.

Miles was Acting Chief Executive Officer of BBW from January 2007 and in April 2007 was appointed permanent CEO.

Prior to joining Babcock & Brown, Miles was a Director of the Project Finance division of AIDC Limited.

Miles holds degrees of Bachelor of Engineering and Master of Business Administration (Distinction) from the University of Melbourne.

## **GEOFF DUTAILLIS**

### **Chief Operating Officer**

As Chief Operating Officer, Geoff has responsibility for the global asset management and operational activities of BBW.

Geoff joined Babcock & Brown in early 2005 to further his career in infrastructure development and specifically to focus on the expanding field of

environmental infrastructure. Prior to being appointed as the COO for BBW, Geoff worked on new investment opportunities for Babcock & Brown Infrastructure including being a key member of the team preparing BBW for its IPO.

Prior to joining Babcock & Brown, Geoff worked at Lend Lease for almost 19 years, including seven years based in London with their European development business. Geoff has extensive experience in the development and project management of major projects, having had leadership roles on a number of landmark developments, including Bluewater in the United Kingdom and as Project Director for the Rouse Hill Regional Centre, a 100 hectare mixed-use community in north-west Sydney.

Geoff holds a Bachelor of Engineering (Civil) (Hons) from the University of NSW with additional qualifications in management (AGSM), property and finance.

## **GERARD DOVER**

### **Chief Financial Officer**

Gerard joined Babcock & Brown in September 2006. Between 1990 and 1996, Gerard worked with Price Waterhouse in the UK and Sydney. He then joined AstraZeneca in the UK holding a number of finance roles before working on the spin off and IPO of Syngenta AG. As Capital Markets Manager, he worked in Syngenta's Head Office in Switzerland on the arrangement of syndicated bank facilities and refinancing of these facilities through a series of capital markets transactions. He also had responsibility for credit ratings and worked in Investor Relations.

More recently, Gerard was CFO and Head of IT of Syngenta Crop Protection in Australasia. In this role he managed a number of change projects including Sarbanes Oxley Act compliance, business reporting and balanced score card process as well as the implementation of SAP.

Gerard has been a member of the Institute of Chartered Accountants in England and Wales since 1993 and a Member of Corporate Treasurers since 2003. He holds a Bachelors degree in Banking and Finance.



From left: Gerard Dover,  
Geoff Dutailis, Miles George

### **CATHERINE GUNNING**

#### **General Counsel**

Catherine joined Babcock & Brown in December 2005. Prior to joining Babcock & Brown, Catherine was a Senior Associate in the Corporate & Commercial Department at Allens Arthur Robinson. Catherine also worked in London for leading private equity house NatWest Equity Partners (now Bridgepoint Capital Limited). Catherine has a Bachelor of Economics and a Bachelor of Laws, a Graduate Diploma in Applied Finance and Investment and is admitted as a legal practitioner of the Supreme Court of New South Wales.

### **DAVID RICHARDSON**

#### **Company Secretary**

David joined Babcock & Brown in 2005 as Company Secretary for a number of the Specialised Funds and is now principally responsible for the company secretarial function and corporate governance requirements of Babcock & Brown Wind Partners. Prior to joining Babcock & Brown, David was a Company Secretary within the AMP Group including 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.

### **ROSALIE DUFF**

#### **Investor Relations Manager**

Rosalie joined Babcock & Brown in June 2006 to manage the media and investor relations functions for Babcock & Brown Wind Partners. Prior to joining Babcock & Brown, Rosalie was an Institutional Investor Relations Manager at AMP specialising in strategic financial communications. Rosalie is also a senior investment professional with extensive experience in the funds management industry, having had research responsibility for Australian equities and international equity markets with Westpac Investment Management. She holds a Bachelor of Economics and Master of Economics from Macquarie University.

### **DAVID SILCOCK**

#### **Group Financial Controller**

David joined Babcock & Brown in August 2005 as group financial controller of BBW. Prior to joining Babcock & Brown, David worked with Ernst & Young in the UK. David relocated with Ernst & Young to Silicon Valley in California for three years and then to the firm's Sydney office. David left public practice to join Woolworths Limited in a corporate finance role in October 2002. David is a chartered accountant and has been a member of the Institute of Chartered Accountants in England and Wales since 1996. He holds a Masters degree in Economics.

### **HILARY GEORGE**

#### **Treasurer**

Hilary joined BBW in 2007 as Treasurer. Hilary has held Treasury roles in domestic and international companies in the energy and infrastructure sectors,

most recently as Treasurer of AGL Energy. She has extensive experience in corporate finance, financial risk management and capital markets. Hilary holds a Bachelor of Economics.

### **BRAD HOPWOOD**

#### **Tax Director**

Brad joined Babcock & Brown in April 2006 to establish and lead the tax function for Babcock & Brown's Specialised Funds platform. Following the successful recruitment of additional tax managers, Brad has retained responsibility for a small number of funds, with a strong focus on BBW. Prior to joining Babcock & Brown, Brad worked with KPMG in Sydney and London. Brad holds Bachelor degrees in Economics and Law and a Graduate Diploma of Legal Practice. Brad is also admitted in New South Wales as a (non-practising) Solicitor.

### **PERRY WRIGHT**

#### **Australian Asset Manager**

Perry joined Babcock & Brown in December 2006 as BBW's Australian Asset Manager. Together with a dedicated team, Perry manages the operational requirements for the Australian wind assets. Prior to joining Babcock & Brown, Perry worked with wind turbine manufacturer Vestas as Asia-Pacific Australian QSE Manager. He has an extensive background in asset management and engineering derived from the petrochemical, mining and energy industries.

### **MARÍA GARCÍA**

#### **Spanish Asset Manager**

María joined Babcock & Brown's Madrid office in 2005 to work as an Asset Manager in the Infrastructure Department. As part of a team of five, María manages the wind assets of Spain. She graduated from Gijón Engineering School with a Mechanical Engineering specialisation and MBA by Instituto de Empresa of Madrid. Prior to joining Babcock & Brown she was the Asset Manager of Iberia Business of the Danish utility DONG (formerly Energi E2), with an experience of more than 12 years managing wind farms and other renewable energy assets. María is vice president of the Spanish wind association.

### **DAVID BARNES**

#### **US Asset Manager**

David joined Babcock & Brown in 2005 and currently leads Babcock & Brown's operations and asset management activities in North America. With over 25 years experience in infrastructure, David has worked at various companies including Garrad Hassan, Terranova Energy and SeaWest Services as well as with several wind turbine manufacturers. He is an experienced manufacturer representative, an independent engineer, project developer and operations manager. He has developed qualified operations teams in the US and Spain and designed leading SCADA systems. David is based in Dallas.

# Corporate Structure

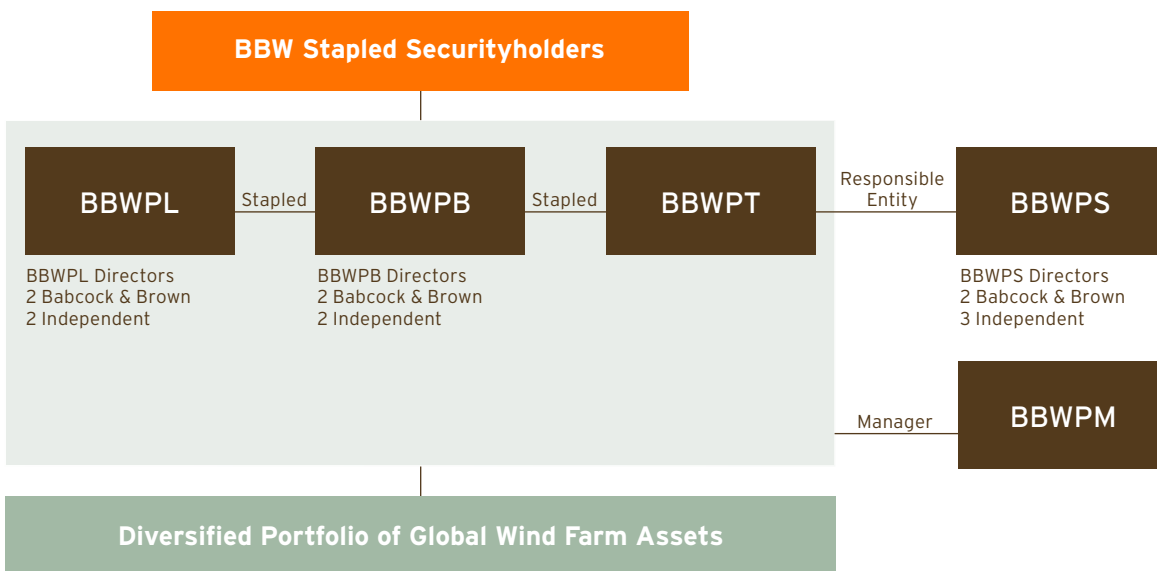
The Babcock & Brown Wind Partners Group (BBW) consists of the following entities:

- Babcock & Brown Wind Partners Limited (BBWPL), a public company incorporated in Australia;
- Babcock & Brown Wind Partners Trust (BBWPT), a managed investment scheme registered in Australia;
- Babcock & Brown Wind Partners (Bermuda) Limited (BBWPB), a company incorporated in Bermuda; 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 Securities Exchange.

Babcock & Brown Wind Partners Management Pty Ltd (BBWPM) is the Manager of BBW. Babcock & Brown Wind Partners Services Limited (BBWPS) is the Responsible Entity of BBWPT. BBWPM and BBWPS are wholly owned subsidiary entities of Babcock & Brown Limited (Babcock & Brown).

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





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- 45** ASX Principle 2: Structure the Board to add value
- 48** ASX Principle 3: Promote ethical and responsible decision-making
- 50** ASX Principle 4: Safeguard integrity in financial reporting
- 53** ASX Principle 5: Make timely and balanced disclosure
- 54** ASX Principle 6: Respect the rights of shareholders
- 55** ASX Principle 7: Recognise and manage risk
- 56** ASX Principle 8: Remunerate fairly and responsibly



# Corporate Governance Statement

## INTRODUCTION

This statement reflects Babcock & Brown Wind Partners' (BBW) corporate governance framework as at 31 August 2008. A copy of this statement and other documents (or summaries thereof) can be accessed and downloaded from the Corporate Governance section on our website at [www.bbwindpartners.com](http://www.bbwindpartners.com)

BBW comprises:

- Babcock & Brown Wind Partners Limited (BBWPL), ACN 105 051 616, an Australian public company;
- Babcock & Brown Wind Partners (Bermuda) Limited (BBWPB), ARBN 116 360 715, a company established in Bermuda and registered in Australia;
- Babcock & Brown Wind Partners Trust (BBWPT), ARSN 116 244 118, an Australian trust of which Babcock & Brown Wind Partners Services Limited (BBWPS), ACN 113 813 997, AFSL 290710, is the responsible entity; and
- the respective subsidiary entities of BBWPL and BBWPT.

Any reference contained in this statement to BBWPS is a reference to BBWPS in its capacity as responsible entity of BBWPT, unless otherwise indicated.

Shares issued by BBWPL and BBWPB, as well as units issued by BBWPT are stapled together to form BBW stapled securities. These BBW stapled securities have been quoted on the Australian Securities Exchange (ASX) under the market code "BBW" since BBW's listing on 28 October 2005.

The Boards of BBWPL, BBWPB and BBWPS (the **BBW Boards**), are responsible for overseeing the rights and interests of all investors and are accountable to them for the overall governance and management of BBW. The BBWPL Board, in consultation and agreement with the BBWPB and BBWPS Boards, formulates and approves the strategic direction, investment objectives and goals of BBW.

The establishment of a sound framework of corporate governance and the implementation of the corresponding governance culture and processes throughout BBW is one of the primary responsibilities of the BBW Boards. The BBW Boards recognise that they are accountable to securityholders for the performance of BBW and, to that end, are responsible for instituting and ensuring BBW maintains a system of corporate governance that operates in the best interests of securityholders whilst also addressing the interests of other key stakeholders. A comprehensive corporate governance framework and good governance policies and procedures can add to the performance of BBW, the creation of securityholder value and engender the confidence of the investment community.

The ASX Limited's Corporate Governance Council issued in August 2007 a revised set of guidelines entitled *Corporate Governance Principles and Recommendations*. These guidelines articulate eight core principles (**ASX Principles**) that the Council believes underlie good corporate governance, together with 27 recommendations (**ASX Recommendations**) for implementing effective corporate governance.

The ASX Listing Rules require listed entities such as BBW to include a statement in their annual report disclosing the extent to which they have followed the eight ASX Principles and 27 ASX Recommendations during the reporting period, identifying any ASX Recommendations that have not been followed and giving reasons for that variance. BBW's Corporate Governance Statement is structured with reference to the ASX Recommendations. Areas not fully complied with are disclosed under the relevant principle. All of the corporate governance practices referred to herein were in place for the entire year ended 30 June 2008 unless otherwise indicated.

In addition, the Babcock & Brown Group, of which the Manager of BBW is a member, recognises that effective and transparent governance practices within the funds which it manages is essential to the preservation of securityholders' and stakeholders' interests and the continued success of those funds. To this end, Babcock & Brown Limited has established a robust corporate governance framework for the management of the Babcock & Brown specialised funds. This framework includes a number of key principles for the governance of those funds with a view to protecting the interests of each fund's securityholders and other stakeholders. A summary of the corporate governance framework adopted by Babcock & Brown can be found on pages 109 to 111 of the Babcock & Brown Limited 2007 Annual Report. The Manager of BBW has had close regard to this framework in assisting the BBW Boards to formulate their respective corporate governance practices.

### **INTERACTION BETWEEN THE ROLES OF BBWPL, BBWPB AND BBWPS**

Although in practice BBWPL was primarily responsible for conducting the day-to-day operations of BBW during the 2008 financial year, it did and will continue to consult and exchange information with and seek the agreement of BBWPB and BBWPS when making decisions in relation to BBW in accordance with the terms of the Stapling Deed (**Stapling Deed**).

The Stapling Deed sets out the terms and conditions of the relationship between BBWPL, BBWPB and BBWPS in respect of BBW, for so long as the units in BBWPT and the shares in BBWPL and BBWPB remain stapled. In summary, the Stapling Deed provides that each of BBWPL, BBWPB and BBWPS must:

- co-operate in respect of all matters relating to BBW and consult with each other prior to causing any act to be done or omission to be made which may materially affect the value of BBW stapled securities (including the announcement or payment of a dividend or trust distribution);
- make available to each other all information in their possession necessary or desirable to fulfil their respective obligations under the Stapling Deed (ie. making available to each other all information and providing all assistance in relation to the preparation of financial accounts);
- co-operate with each other to ensure that each complies with its obligations under the ASX Listing Rules (including disclosure obligations), co-ordinate disclosure to the ASX and investors, and liaise with the ASX in relation to ASX Listing Rule matters;
- perform their obligations under the Stapling Deed and their respective Constitutions with a view to enhancing the market value of BBW stapled securities;
- notify each other of an intention to acquire or sell assets where the value of those assets is greater than 5% of each entity's net tangible assets;
- act consistently with the investment strategy of BBW as agreed between them and consult with each other on implementation of this strategy and any changes to its implementation;
- not borrow or raise any money unless the other entities agree;
- co-operate to ensure that BBWPL and BBWPB shareholder and BBWPT unitholder meetings are held concurrently or, where necessary, consecutively;
- consult with each other in relation to any reorganisation or restructure of capital or any changes to stapling arrangements;
- co-operate on the terms and timing of all new issues, bonus and rights issues, placements, redemptions, buy-backs and any dividend or distribution reinvestment plans; and
- co-operate with each other to ensure that the Boards of BBWPL, BBWPB and BBWPS have a common subgroup of Directors.

Therefore, as indicated, it is by operation of the Stapling Deed that the Boards of BBWPL, BBWPB and BBWPS (as responsible entity of BBWPT) are together responsible for overseeing the rights and interests of securityholders in BBW and accountable to securityholders for the overall corporate governance and management of BBW.

### **COMPLIANCE WITH THE ASX RECOMMENDATIONS**

As at the date of this Corporate Governance Statement, each of the Boards of BBW advise that their corporate governance practices are in compliance with the Recommendations, except where specifically noted in this Corporate Governance Statement.

Importantly, the BBW Boards have elected to "adopt early" the ASX's revised *Corporate Governance Principles and Recommendations* which took effect from 1 January 2008 (notwithstanding that these need not be adopted until the 2009 financial year for BBW).



# Corporate Governance Statement

## **ASX PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT**

**Companies should establish and disclose the respective roles and responsibilities of Board and management.**

### **ROLE OF THE BBW BOARDS AND MANAGEMENT**

**ASX Recommendation 1.1: Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.**

Each of the BBW Boards is assisted in its management of the affairs of BBW by the Manager, Babcock & Brown Wind Partners Management Pty Ltd (**BBWPM** or the **Manager**). In accordance with the respective Management Agreements with each of BBWPL, BBWPB and BBWPS, the Manager provides comprehensive management services to each of the two entities comprising BBW. These services include identifying and recommending investment opportunities for BBW, managing BBW's investments and advising in respect of any exit from those investments. In addition to these more strategic services, the Manager has specific operational management duties and carries out management services for BBW on a day-to-day basis. The Manager's appointment by each of BBWPL, BBWPB and BBWPS is exclusive and is for a term of 25 years from its appointment in 2005. This arrangement is commonly referred to as an "externally managed" fund.

Under the Management Agreements, BBWPM as the Manager has established a dedicated management team comprising individuals performing the following functions: chief executive officer; chief financial officer and other accounting, tax and treasury personnel; chief operating officer and other operations management personnel; corporate counsel and company secretary; investor relations; and risk and compliance personnel. The chief executive officer leads the management team which reports to the Board of BBWPM. As an externally managed entity, the management team also effectively acts in the same capacity for BBW as in their appointed functional role for BBWPM as Manager.

The Management Agreements contain provisions which require the Manager, as a primary obligation, to give priority to the interests of BBW and, consequently, the BBW securityholders. In accordance with the terms of the Management Agreements, the BBW Boards must consider any recommendations put to them by the Manager and determine whether the recommended action is in the best interests of BBW securityholders.

The BBW Boards have each adopted a formal Board Charter which details the functions and responsibilities of the relevant Board and distinguishes such functions and responsibilities from those which have been delegated to the Manager. A summary of the Board Charters is available in the Corporate Governance section on BBW's website at [www.bbwindpartners.com](http://www.bbwindpartners.com)

As outlined in the respective Board Charters, the BBW Boards are together responsible for the management of the affairs of BBW. In acquitting their functions, the Boards, amongst other things:

- contribute to and approve BBW's corporate strategy;
- evaluate and approve capital expenditure, acquisitions, divestitures and other corporate transactions of BBW above the delegated levels set out in the Management Agreements;
- determine BBW's distribution policy and the amount and timing of all distributions paid to BBW's securityholders;
- approve major BBW policies, including BBW's Code of Conduct, Securities Trading Policy, Continuous Disclosure Policy and other compliance-related policies;
- approve all accounting policies, financial reports and material reporting by or on behalf of BBW;
- monitor the performance of the Manager;
- in consultation with the Manager, approve the appointment or removal of BBWPM's Chief Executive Officer (CEO);
- in consultation with the Manager, develop a succession plan for the CEO, and approve succession plans for other senior management positions in the BBWPM management team;
- in consultation with the Manager, monitor the performance of the CEO and the other key management personnel in the BBWPM management team;
- in consultation with the Manager, note the remuneration strategy and policies and the total level of remuneration for the CEO and other key management personnel in the BBWPM management team;
- consider recommendations of Board Committees (eg. Audit, Risk & Compliance Committees and the BBWPL Nomination & Remuneration Committee);
- approve the appointment and terms of appointment of the external auditor;
- consider, approve and monitor the effectiveness of BBW's overall risk management and control framework, through, among other steps, regular reports to the Board through the Audit, Risk & Compliance Committees from the Risk Manager and regular updates (as required) from management on significant risk issues;

- review the performance and effectiveness of BBW's corporate governance policies and procedures and consider any amendments to those policies and procedures;
- monitor BBW's compliance with ASX continuous disclosure requirements;
- subject to the constituent document of the relevant BBW entity, approve the appointment of Directors to the relevant Board and to Committees established by the Board; and
- at least annually, review and evaluate the performance and effectiveness of the Boards, each Board Committee and each individual Director against the relevant charters, corporate governance policies and agreed goals and objectives of BBW.

The Board has delegated a number of these responsibilities to its Committees. The responsibilities of these Committees are detailed in Principle 2 below.

The Board Charters also sets out the specific powers and responsibilities of the Chairman and the CEO (see Principle 2 below).

Each of the three BBW Boards acts separately and independently of each other and where there is a joint responsibility between BBWPL, BBWPB and BBWPS over aspects of BBW's operations, the BBW Boards will only have responsibility to the extent of their own specific involvement in those operations. However, the BBW Boards will co-operate to the extent required under the Stapling Deed in meeting those joint responsibilities to ensure that the interests of BBW securityholders are met.

The Board Charters also include a summary of the responsibilities of each Director. To assist Directors to understand BBW's expectations of them, all Independent Non-Executive Directors have entered into formal letters of appointment and been provided with copies of relevant Board Charters and policies. Non-Independent Directors have formal letters governing their employment through the Babcock & Brown Group.

**ASX Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives.**

The Nomination & Remuneration Committee of the BBWPL Board has responsibilities relating to the review and monitoring of the performance of the BBW Boards, the Chairman and other individual members of the BBW Boards, and for establishing key performance indicators against which the performance of the CEO and other key management personnel in the BBWPM management team are evaluated.

During the 2008 financial year, the CEO and other key management personnel in the BBWPM management team agreed with the BBW Boards, individual key performance indicators against which their performance will be evaluated. The review of the performance of these key executives is undertaken by the Manager. In respect of the most senior executives, the outcome of such review is also discussed with the Nomination & Remuneration Committee.

The Remuneration Report contains details of Babcock & Brown's remuneration philosophy and policies including other key performance conditions that are assessed in determining the total remuneration of the CEO and other key management personnel in the BBWPM management team.

A performance evaluation for the CEO and other key management personnel in the BBWPM management team was undertaken in relation to the year ended 30 June 2008 and details of their total remuneration including bonuses are set out in the Remuneration Report.

**ASX PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE**

**Companies should have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.**

**STRUCTURE OF THE BOARD**

**ASX Recommendation 2.1: A majority of the board should be Independent Directors.**

The size and composition of each of the BBW Boards is determined in accordance with the Constitution of the relevant entity and the governance framework applied by Babcock & Brown to its specialised fund activities, as in force from time to time. It is intended that each of the BBW Boards will comprise Directors with a broad range of skills, expertise and experience from a diverse range of backgrounds, and will comprise either a majority of Independent Directors or, at a minimum, an equal number of Independent and Non-Independent Directors.

Overall, the BBW Boards are comprised of Directors with a broad range of skills, expertise and experience from a diverse range of backgrounds. The BBW Boards consider that collectively, the Directors have the range of skills, experience and expertise necessary to appropriately govern BBW.

# Corporate Governance Statement

The Directors appointed to the respective BBW Boards, along with their appointment dates, are set out below:

Name	Position	Board Appointment Dates		
		BBWPL	BBWPB	BBWPS
P Hofbauer	Non-Executive Chairman	11/06/03	14/09/05	14/04/05
A Battle	Lead Independent Non-Executive Director	9/09/05	14/09/05	9/09/05
D Clemson	Independent Non-Executive Director	9/09/05	14/09/05	9/09/05
N Andersen	Independent Non-Executive Director	N/A	N/A	9/09/05
W Murphy	Non-Executive Director	24/11/03	14/09/05	14/04/05

Details of the Directors' skills, experience and expertise relevant to their position and their term in office and details of their attendance at Board and/or Committee meetings are set out in the BBW Boards section of the 2008 Annual Report.

The continued tenure of each individual Director is subject to re-election from time to time in accordance with the ASX Listing Rules and the respective Constitutions of the BBW entities.

The BBW Boards have each determined the independent status of each Director utilising the criteria set out in Recommendation 2.1. As shown in the table above, the Boards of BBWPL and BBWPB had equal numbers of Independent Directors and Non-Independent Directors, respectively, during the 2008 financial year. This differs from ASX Recommendation 2.1, which recommends that the Board comprise a majority of Independent Directors. The BBWPS Board has a majority of Independent Directors and did so for the entirety of the 2008 financial year.

The BBW Boards recognise the importance of Independent Directors, particularly the external perspective and advice that these Directors can provide. The BBWPL and BBWPB Boards consider the current composition of their Boards, and in particular the equality of Independent and Non-Independent Directors, appropriate given the management arrangements with Babcock & Brown and in view of:

- the fact that the composition of the BBW Boards was fully disclosed to securityholders in the Prospectus and Product Disclosure Statement issued in relation to the listing of BBW; and
- the fact that the Stapling Deed requires co-operation and consultation on all material matters between BBWPL, BBWPB and BBWPS. This means that, in aggregate, a majority of Independent Directors will generally be considering all material matters, given that seven out of the thirteen aggregate Board seats (ie. a majority) are occupied by Independent Directors.

## BOARD COMMITTEES AND MEMBERSHIP

The BBW Boards have established Committees to support an effective governance framework and to advise and support the BBW Boards in carrying out their respective duties. The Chairman of each Committee reports on any matters of substance at the next full Board meeting. The Committees in existence at the date of this report are as follows:

- BBWPL, BBWPB and BBWPS Audit, Risk & Compliance Committees; and
- BBWPL Nomination & Remuneration Committee.

Each Committee has its own Charter setting out the authority under which each Committee operates and the responsibilities as delegated by the BBW Boards. Charters are reviewed annually and membership criteria are based on a Director's skills and experience as well as their ability to add value to the Committee. The CEO attends all Committee meetings by invitation and Directors may attend any meeting of a Committee.

The Board Committees and their membership as at 31 August 2008 are set out in the following table:

Committee Member	Audit, Risk & Compliance Committees	Nomination & Remuneration Committee
P Hofbauer	✓	✓
A Battle	✓	Chair
D Clemson	Chair	✓
N Andersen	-	✓
W Murphy	-	✓



**ASX Recommendation 2.2: The chairperson should be an independent Director.**

The Chairman of the BBW Boards, Mr Peter Hofbauer, is not an Independent Director, and this differs from ASX Recommendation 2.2, which recommends that the Chairman should be an Independent Director.

However, on 26 August 2008, Mr Peter Hofbauer, Chairman of the BBWPL, BBWPB and BBWPS Boards, advised each of those Boards of his intention to step down as a Director upon a new independent Chairman being appointed to these Boards. As at the date of this statement, the new independent Chairman has not yet been appointed.

The Directors of each of the BBW Boards had considered it appropriate under the management arrangements for the Chairman of the BBW Boards to be an executive from Babcock & Brown. Mr Hofbauer is not an executive of BBW or BBWPM, rather he is a senior executive of Babcock & Brown, and therefore performed the role of Chairman of each of the BBW Boards as a Non-Executive Director. Each BBW Board had appointed a Lead Independent Director, Tony Battle, as contemplated by the ASX Principles. The Lead Independent Director:

- had authority to call Board meetings or meetings of Independent Directors, as appropriate;
- chaired any meetings of the Independent Directors;
- was the primary spokesman for the Independent Directors at any General Meeting of BBW securityholders;
- represented the views of the Independent Directors to the BBW Boards, the CEO and the Manager; and
- was the primary channel of communication and point of contact between Independent Directors and the BBW Boards, the CEO and the Manager.

To ensure that there is an appropriate balance in the manner in which the Directors discharge their responsibilities and an independent review of the performance of management, the BBW Boards have:

- established Audit, Risk & Compliance Committees comprising a majority of Independent Directors and a Nomination & Remuneration Committee comprising a majority of Independent Directors;
- established protocols for dealing with conflicts of interest. In particular, the BBW Boards have put in place a range of internal policies designed to ensure that the interests of securityholders are at all times preferred to those of Directors and that any actual or potential conflicts of interest are promptly disclosed and dealt with by the Directors. These include the Board Charter, the Code of Conduct and the Securities Trading Policy;
- ensured that significant matters affecting BBW are reserved for consideration by the full Board, for example, major strategic decisions, capital expenditure above specified thresholds and expenditure outside the ordinary course of business; and
- any Director is entitled to seek independent professional advice (including, but not limited to, legal, accounting and financial advice) at BBW's expense on any matter connected with the discharge of his or her responsibilities, in accordance with the procedures set out in the Board Charter. No Director availed himself of this right during the 2008 financial year.

**ASX Recommendation 2.3: The roles of chair and chief executive officer should not be exercised by the same individual.**

The roles of Chairman and CEO are not exercised by the same individual for BBW. The Board Charters provide that the roles of the Chairman and CEO must not be exercised by the same person. The respective roles and responsibilities of the Chairman and the CEO are described in the Board Charters.

**ASX Recommendation 2.4: The Board should establish a nomination committee.**

The BBWPL Board has established a Nomination & Remuneration Committee which is responsible for advising the BBW Boards on the composition of the Boards and their Committees, and reviewing the performance of the Boards, their Committees and individual Directors. In making recommendations to the BBW Boards regarding the appointment of Directors, the Nomination & Remuneration Committee periodically assesses the appropriate mix of skills, experience and expertise required on the relevant Board and assesses the extent to which those skills and experience are represented. As BBW develops its existing asset base and continues to seek further investment opportunities, the Nomination & Remuneration Committee will review the composition of the BBW Boards to ensure they remain appropriate.

The Nomination & Remuneration Committee was established in February 2007 and the Committee comprises five members, a majority of whom are Independent Directors. The Committee is chaired by an Independent Director and met five times throughout the 2008 financial year. The attendance of the Committee members at Committee Meetings is disclosed in the Directors' Report.

# Corporate Governance Statement

The Nomination & Remuneration Committee has adopted a Charter, a summary of which is available on BBW's website. The responsibilities of the Committee pursuant to its Charter include:

- monitoring and reviewing the performance of BBWPM under the Management Agreements;
- consulting with BBWPM in respect of the Key Performance Indicators for each of BBWPM's key management personnel, and providing input and advice about their remuneration;
- approving BBW's remuneration disclosures;
- making recommendations to the BBW Boards in relation to the level of remuneration to be paid to Independent Directors;
- periodically assessing the skills required to competently discharge the BBW Boards' duties and obligations, and making recommendations to the Chairman about how those skill levels could be enhanced;
- reviewing potential candidates for appointment to the BBW Boards and making recommendations in respect of them;
- having oversight of the BBW Boards' annual performance evaluation process; and
- providing confirmation of the Directors to retire annually by rotation in accordance with the provisions of the Constitution of BBWPL.

## **ASX Recommendation 2.5: Companies should disclose the process for evaluating the performance of the Board, its Committees and individual Directors.**

The Nomination & Remuneration Committee informs the BBW Boards of the names of Directors who are retiring in accordance with the ASX Listing Rules and the Constitutions of each of the BBW entities, and makes recommendations to the BBW Boards as to whether it should support the re-nomination of such retiring Directors. In order to make such recommendations, the Committee reviews the retiring Director's performance during the period in which the Director has been a member of the BBW Boards.

The Nomination & Remuneration Committee also reviews the membership and performance of the various Committees established by the Board and makes recommendations to the BBW Boards in that regard. A member of the Committee will not participate in the review of their own performance and must not be present for discussions at a Committee meeting on, or vote on a matter regarding, his or her election, re-election or removal.

The Nomination & Remuneration Committee undertook a performance evaluation of the Board as a whole, its Committees and individual members during the 2008 financial year. Each Director completed a detailed questionnaire that was consolidated by the Company Secretary and the Nomination & Remuneration Committee as a whole (ie. comprising all members of the BBW Boards) reviewed the findings. The Nomination & Remuneration Committee was satisfied with regard to the individual and collective performance of the Directors.

The Nomination & Remuneration Committee is also responsible for establishing and facilitating an induction program for new Directors and making available to them sufficient information and advice to allow them to participate fully and actively in Board decision-making at the earliest opportunity.

The BBW Boards and their Committees may seek advice from independent experts whenever it is considered appropriate. As noted above, individual Directors may seek independent professional advice on any matter connected with the discharge of their responsibilities, at BBW's expense.

A Board Performance Review was completed during the 2008 financial year.

## **ASX PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING**

**Companies should actively promote ethical and responsible decision-making.**

### **CODE OF CONDUCT**

**ASX Recommendation 3.1: Companies should establish a code of conduct and disclose the code or a summary of the code.**

The BBW Boards are committed to delivering strong returns and securityholder value whilst also promoting securityholder and general market confidence in BBW and to fostering an ethical and transparent culture within BBW.

To this end, each BBW Board has adopted a formal Code of Conduct which is designed to ensure that:

- high standards of corporate and individual behaviour are observed by all Directors and Babcock & Brown employees seconded to the Manager in the context of their employment and in relation to all of BBW's activities; and
- Babcock & Brown employees seconded to the Manager are aware of their responsibilities to BBW under their contract of employment with Babcock & Brown and always act in an ethical and professional manner and in the best interests of BBW securityholders.

The Code of Conduct requires Directors and Babcock & Brown employees seconded to the Manager, among other things, to:

- avoid conflicts of interest between their personal interests and those of BBW and its securityholders;
- not take advantage of opportunities arising from their position for personal gain or in competition with BBW; and
- comply with BBW's Securities Trading Policy and other policies.

The Code of Conduct requires Directors, the Manager and Babcock & Brown employees seconded to the Manager, to report any actual or potential breach of the law, the Code of Conduct or other BBW policies. In accordance with Babcock & Brown's Whistleblowing Policy, BBW promotes and encourages ethical behaviour and provides protection for those who report violations. A summary of the Code of Conduct is available on BBW's website.

In addition to the Code of Conduct, the Board Charters require that all Directors conduct their duties with the highest level of honesty and integrity, observe the rule and spirit of the law, comply with any relevant ethical and technical standards, not make improper use of any confidential information, and set a high standard of fairness, diligence and competency in their position as a Director.

BBW recognises that it has a number of legal and other obligations to its non-securityholder stakeholders, including employees, financiers, suppliers and the wider community.

As outlined above, BBW has established a Code of Conduct requiring Directors and employees seconded to the Manager to observe high standards of corporate and individual behaviour. The objectives of the Code include ensuring that employees seconded to the Manager, securityholders, competitors and other stakeholders can be assured that BBW will conduct its affairs in accordance with ethical values and practices. Employees seconded to the Manager are required to comply with both the spirit as well as the letter of the ASX Listing Rules and all laws which govern the operations of BBW. The Code of Conduct specifically requires all employees seconded to the Manager to always deal with securityholders, customers, suppliers, competitors and other employees in a manner that is lawful, diligent, fair and with honesty, integrity and respect.

In accordance with its Code of Conduct, Babcock & Brown aims to provide a work environment in which all employees (including those seconded to the Manager entities of each of its managed funds) can excel regardless of race, religion, age, disability, gender, sexual preference or marital status. In this regard, Babcock & Brown maintains various policies relating to the workplace, including in respect of non-discrimination and occupational health and safety issues.

These principles of fairness, honesty and propriety are essential elements of the various policies which have been adopted by BBW.

### **SECURITIES TRADING POLICY**

**ASX Recommendation 3.2: Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.**

BBW has implemented formal Securities Trading Policies which regulate the manner in which Directors and employees seconded to the Manager can buy or sell BBW securities, and require that they conduct their personal investment activities in a manner that is lawful and avoids conflicts between their own interests and those of BBW.

These policies are specifically designed to raise awareness and minimise any potential for breach of regulations relating to insider trading contained in the Corporations Act. The policies are also designed to minimise the chance that misunderstandings or suspicions arise regarding employees seconded to the Manager trading while in possession of non-public price-sensitive information.

During the 2008 financial year, the BBW Boards undertook a detailed review of their respective Securities Trading Policies and revised policies were adopted by the BBW Boards in February 2008.

The policies specify trading windows as the periods during which trading in BBW stapled securities can occur. These trading windows will generally be:

- eight week periods following the release of BBW's full-year or half-year results;
- a period commencing on the second trading day following lodgement of BBW's Annual Report with the ASX and continuing for up to one month after the holding of BBW's Annual General Meeting; and
- the offer period under any prospectus or similar offer document.

Trading is prohibited despite a window being open if the relevant person is in possession of non-public price-sensitive information regarding BBW. The BBW Boards may authorise the opening of trading windows at other times. The CEO and other key management personnel of the Manager are required to notify the Company Secretary (who in turn notifies the Chairman) of any proposed trading by them in securities issued by BBW and the details of any completed trades.



# Corporate Governance Statement

Further, Babcock & Brown also has a policy which regulates the manner in which its Directors and employees may buy or sell shares in other companies, which may be affected by the activities of Babcock & Brown (including BBW). This policy is called the Employee Investment Policy.

A summary of BBW's Securities Trading Policies is available on BBW's website.

## **ASX PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING**

**Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.**

### **AUDIT, RISK & COMPLIANCE COMMITTEES**

**ASX Recommendation 4.1: The board should establish an audit committee**

The BBW Boards are committed to the basic principle that BBW's financial reports are true and fair and comply with the relevant accounting standards. To assist the BBW Boards with this commitment, they have each established an Audit, Risk & Compliance Committee which are responsible for advising the BBW Boards on internal controls and appropriate standards for the financial management of BBW. It is the BBW Boards' responsibility to ensure that an effective internal control system is in place across BBW. This includes internal controls to deal with both the effectiveness and the efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information. The BBW Boards have delegated the responsibility for overseeing the establishment and maintenance of BBW's system of internal control to the Audit, Risk & Compliance Committees.

Each Committee oversees the financial reporting process, the systems of internal control and risk management, the audit process and BBW's processes for monitoring compliance with laws and regulations.

The Audit, Risk & Compliance Committees provide advice to the BBW Boards and report on the status of the business risks to BBW through its risk management processes aimed at ensuring risks are identified, assessed and properly managed.

Each Committee works on behalf of the BBW Boards with the external auditor and reviews any non-audit services provided by the external auditor to confirm that they are consistent with maintaining external audit independence.

**ASX Recommendation 4.2: The audit committee should be structured so that it:**

- consists only of non-executive directors;
- consists of a majority of independent directors;
- is chaired by an independent chair, who is not the chair of the board; and
- has at least three members

The Audit, Risk & Compliance Committees are comprised of a majority of Independent Non-Executive Directors. The attendance of the Committee members at Committee Meetings is disclosed in the Directors' Report.

For the entire 2008 financial year, the Audit, Risk & Compliance Committees comprised Doug Clemson (Independent Non-Executive Committee Chairman), Tony Battle (Independent Non-Executive Committee Member) and Peter Hofbauer (Non-Executive Committee Member). All members possess the requisite financial expertise.

The structure of each Audit, Risk & Compliance Committee accords with ASX Recommendation 4.2 in that the Committees comprise a majority of Independent Directors, have an Independent Chairman who is not the Chairman of the BBW Boards and have at least three members.

The Audit, Risk & Compliance Committees generally meet as required but normally meet not less than four times per year. The Audit, Risk & Compliance Committees report to the full BBW Boards following each Committee meeting, including making any recommendations that require Board approval or action.

### **ASX Recommendation 4.3: The audit committee should have a formal charter.**

The Audit, Risk & Compliance Committees have each adopted a Charter. The responsibilities of the Committees pursuant to their Charters include:

#### **Financial reports for the half year and full year**

- review and consider the financial reports for the half year and full year;
- consider in connection with the half year and full year financial reports the CEO and CFO letters of representation to the BBW Boards;
- review the financial sections of the annual report and related regulatory filings before release;
- review with management and the external auditors the results of the financial audit;

#### **Internal control**

- review the effectiveness of BBW's internal controls regarding all matters affecting BBW's financial performance and financial reporting, including information technology security and control;
- review the scope of internal and external auditors' review of internal control, review reports on significant findings and recommendations, together with management's responses, and recommend changes from time to time as appropriate;

#### **Internal audit**

- review with the Manager and the internal auditor, the Charter, plans and activities of the internal audit function;
- meet with the internal auditor to review reports and monitor management response;
- meet separately with the internal auditors, when necessary, to discuss any matters that the Committees or internal audit believes should be discussed privately;
- review the effectiveness of the internal audit function;
- ensure there are no unjustified restrictions or limitations on the internal auditor, and review and concur in the appointment, replacement or dismissal of the internal auditor;

#### **External audit**

- review the external auditors' proposed audit scope and approach;
- meet with the external auditors to review reports, and meet separately, at least once a year, to discuss any matters that the Committees or auditors believe should be discussed privately;
- establish policies as appropriate regarding independence of the external auditors;
- review and confirm the independence of the external auditors;
- review the performance of the external auditors, and consider the re-appointment and proposed fees of the external auditor and, if appropriate, conduct a tender of the audit. Any subsequent recommendation following the tender for the appointment of an external auditor will be put to the BBW Boards;

#### **Compliance**

- obtain regular updates from the Compliance Manager and management regarding compliance matters;
- review the effectiveness of the system for monitoring compliance with laws and regulations affecting BBW and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance;
- monitor the extent to which BBW complies with its Compliance Plan;
- review the findings of any examinations by regulatory agencies;

#### **Risk management**

- oversee the development of risk management policies and review BBW's overall risk management framework and its effectiveness in meeting sound corporate governance principles and keep the BBW Boards informed of all significant business risks;
- review with the Manager the system for identifying, managing and monitoring the key risks of BBW;
- review with management the operation of business continuity and disaster recovery plans;
- obtain reports from management on the status of any key risk exposures or incidents;
- review the scope, status and cost of the insurance coverage for BBW;

# Corporate Governance Statement

## **Reporting responsibilities**

- regularly report to the BBW Boards about Committee activities, issues and related recommendations;
- provide an open avenue of communication between internal audit, the external auditors and the BBW Boards. For the purpose of supporting the independence of their function, the external auditors and the internal auditor have a direct line of reporting access to the Committees;
- report annually to the securityholders on matters relating to Committee responsibilities as required by law or the ASX Listing Rules;
- review any other reports BBW issues that relate to Committee responsibilities.

The Committees meet at least four times a year and report to the full BBW Boards following each meeting, including in respect of recommendations of the Committees that require BBW Board approval or action.

## **Internal audit**

The BBW Boards have overall responsibility for BBW's systems of internal control, supported by the Audit, Risk & Compliance Committees and the Manager. The BBW Boards are assisted in discharging this responsibility by BBW's internal audit function which operates under a written Charter approved by the Audit, Risk & Compliance Committees. The BBW Boards have outsourced the internal audit function to KPMG which acts as the BBW internal auditor.

The BBW internal auditor reports jointly to the Chairman of the Audit, Risk & Compliance Committees and the Chief Financial Officer. The BBW internal auditor discusses significant issues from Internal Audit Reports at meetings of the Audit, Risk & Compliance Committees and distributes Internal Audit Reports to Committee members and senior management of BBW. During the year, the internal audit programme reviewed a number of BBW's internal controls with a view to ensuring that they are operating effectively and efficiently in accordance with financial reporting requirements, good operational and governance practices and in compliance with regulations, to assist BBW in achieving business objectives.

Under the oversight of the BBW Risk Manager, BBW continued to enhance the BBW risk management framework during the year with the various underlying businesses of BBW further developing risk management plans so as to further strengthen the control framework (refer Principle 7 below).

To assist the BBW Boards and the Audit, Risk & Compliance Committees discharge their respective responsibilities, the CEO and the Chief Financial Officer are required to provide the BBW Boards with a letter of representation in connection with the half-year and full-year financial statements of BBW. Such letter of representation confirms to the BBW Boards that BBW's financial reports present a true and fair view, in all material respects, of BBW's financial condition and operational results and are in accordance with relevant accounting standards. The letter describes the process and evidence that the CEO and Chief Financial Officer have adopted to satisfy themselves on these matters.

In respect of the 12 months ended 30 June 2008, the CEO and Chief Financial Officer provided such a letter to the Board.

## **Audit Governance**

BBW's external auditor is PricewaterhouseCoopers which was appointed by securityholders at the 2006 Annual General Meeting in accordance with the provisions of the Corporations Act 2001. The BBW Boards have a policy whereby the responsibilities of each of the lead audit engagement partner and review audit partner cannot be performed by the same people for a period in excess of five consecutive years. The present PricewaterhouseCoopers lead audit engagement partner is Andrew Wilson and the current audit review partner is Pat Murray.

The external auditor is invited to attend all Committee meetings. The Committees meet with the external auditor without management being present and also meet with management without the external auditor being present. Committee members are able to contact the external auditor directly at any time.

## **Certification and discussions with the external auditor on independence**

The Audit, Risk & Compliance Committees require that the external auditor confirm every six months that they have maintained their independence and have complied with applicable independence standards promulgated by regulators and professional bodies. The Audit, Risk & Compliance Committees annually review the independence of the external auditor and have confirmed this assessment with the BBW Boards. The Audit, Risk & Compliance Committees also periodically meet with the external auditor without management present. A copy of the external auditor's annual certification of independence is set out in the 2008 Annual Report.



### **Restrictions on non-audit services by the external auditor**

To avoid possible independence or conflict issues, the external auditor is not permitted to carry out certain types of non-audit services for BBW, including:

- bookkeeping or other services relating to the accounting records or financial statements;
- appraisal or valuation services;
- secondments to management positions;
- internal audit of financial controls;
- internal control design or implementation;
- implementation or design of financial information systems or other information technology systems;
- legal or litigation support services; and
- strategic or structural tax planning.

Further, PricewaterhouseCoopers will not provide unsolicited tax “products” or tax “solutions” for implementation in respect of the BBW corporate group. If any taxation advisory services are to be provided by PricewaterhouseCoopers, those services will generally be limited to providing independent taxation advice regarding transactions proposed by BBW. During the 2008 financial year, PricewaterhouseCoopers did not provide any taxation services in respect of the BBW corporate group.

For all other non-audit services, use of the external audit firm must be assessed in accordance with our pre-approval policy, which requires that all non-audit services be pre-approved by the Audit, Risk & Compliance Committees, or by delegated authority to a sub-committee consisting of one or more members where appropriate.

The breakdown of the aggregate fees billed by the external auditor in respect of each of the two most recent financial years for audit, audit-related, tax and other services is provided in the Notes accompanying the Financial Statements in the 2008 Annual Report.

A summary of the Audit, Risk & Compliance Committee Charters is available in the Corporate Governance section on BBW’s website.

### **ASX PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE**

**Companies should promote timely and balanced disclosure of all material matters concerning the company.**

#### **CONTINUOUS DISCLOSURE POLICY**

**ASX Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.**

BBW is committed to complying with its continuous disclosure obligations pursuant to the Corporations Act and the ASX Listing Rules. BBW’s Continuous Disclosure Policy is designed to ensure that all investors have equal and timely access to material information concerning BBW.

The policy is designed to ensure that material price sensitive information arising from any part of BBW is immediately notified to the ASX in a complete, balanced and timely manner, unless it falls within the scope of the limited exemptions contained in Listing Rule 3.1A.

A Disclosure Committee comprised of various Directors and senior executives operates pursuant to the Continuous Disclosure Policy. In addition, the BBW Boards are actively and regularly involved in discussing disclosure obligations in respect of all major matters that come before it.

The Company Secretary is primarily responsible for communications with the ASX and for overseeing and maintaining the Continuous Disclosure Policy. The Policy sets out the respective responsibilities for reviewing information which is or may be material, making disclosures to the ASX and issuing media releases and other written public statements on behalf of BBW. As evidence of BBW’s efforts to ensure the market is continually updated, BBW released approximately 117 announcements during the 2008 financial year.

A summary of the Continuous Disclosure Policy is available in the Corporate Governance section on BBW’s website.

# Corporate Governance Statement

## CONTINUOUS DISCLOSURE PROCESSES

The specific processes adopted by BBW in relation to its continuous disclosure responsibilities are as follows:

- **website:** information released to the ASX is posted on the Investor Information section of BBW's website as soon as practicable;
- **authorised spokespersons:** communication with the media, share analysts and the market generally in relation to BBW activities will normally be undertaken only by the Chairman, the CEO, the Chief Financial Officer, the Chief Operations Officer or Investor Relations Manager;
- **media releases:** no media release of a material nature is to be issued unless it has first been sent to the ASX;
- **trading halts:** on occasions, it may be necessary for BBW to request a trading halt from the ASX. The Disclosure Committee makes decisions in relation to a trading halt;
- **close periods:** BBW observes a number of "close" periods during the year to protect against the inadvertent disclosure of price sensitive information. During these close periods, BBW will not make any comment on:
  - analysts' earnings estimates, other than to acknowledge the range and average estimates in the market; and
  - the financial performance of BBW unless the information has already been released to the market.

The close periods operate in the periods 45 days before the preliminary announcement of BBW's half year and full year results; and

- **analyst and investor briefings:** BBW recognises the importance of the relationship between BBW, investors and analysts. From time to time BBW conducts analyst and investor briefings and in these situations the following protocols apply:
  - no price sensitive information will be disclosed at these briefings unless it has been previously, or is simultaneously, released to the market;
  - questions at these briefings that relate to price sensitive information not previously disclosed will not be answered; and
  - if any price sensitive information is inadvertently disclosed, it will immediately be released to the ASX and placed on BBW's website.

## ASX PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

**Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.**

### COMMUNICATIONS WITH SHAREHOLDERS

**ASX Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.**

Consistent with our Continuous Disclosure Policy, BBW is committed to communicating with its securityholders in an effective and timely manner to provide them with ready access to information relating to BBW. In this regard, BBW maintains a website ([www.bbwindpartners.com](http://www.bbwindpartners.com)) which provides access to the following information of interest to BBW securityholders:

- detailed information regarding the Board, executive management and the business groups and activities of BBW;
- BBW announcements and media releases, which are posted to the website promptly following release;
- copies of full-year and half-year financial reports;
- summaries of Board and Committee Charters and relevant corporate governance policies;
- copies of BBW's Annual Reports;
- copies of disclosure documents relating to BBW's capital raisings; and
- a link to the website of BBW's security registry, Link Market Services Limited.

BBW encourages securityholders to utilise its website as their primary tool to access securityholder information and disclosures. In addition, the Annual Report facilitates the provision to securityholders by BBW on a yearly basis of detailed information in respect of the major achievements, financial results and strategic direction of BBW.

BBW has a practice that information to be given by BBW at analyst briefings is first released to the ASX to ensure that the market operates on a fully informed and equal basis.

Securityholders are strongly encouraged to attend and participate in general meetings of BBW, especially the Annual General Meeting. BBW provides securityholders with details of any proposed meetings well in advance of the relevant dates.

BBW's external auditor is always requested to attend the Annual General Meeting and be available to answer securityholder questions about the conduct of the audit and the preparation and content of the auditor's report. This allows securityholders an opportunity to ask questions of the auditor and reinforces the auditor's accountability to securityholders.

## **ASX PRINCIPLE 7: RECOGNISE AND MANAGE RISK**

**Companies should establish a sound system of risk oversight and management and internal control.**

### **RISK MANAGEMENT POLICY**

**ASX Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.**

Management of risk, particularly the preservation of capital, continues to be a primary objective of BBW in all its business activities. BBW is committed to ensuring that its system of risk oversight, management and internal control complies with the ASX Principles and that its culture, processes and structures facilitate realisation of BBW's business objectives, including potential opportunities, while managing adverse effects and preserving capital.

The BBW Boards are ultimately responsible for overseeing and managing the material risks of BBW. The Audit, Risk & Compliance Committees assist them in this role. In accordance with their Charters, the role of the Audit, Risk & Compliance Committees include reviewing and managing the system for identifying, managing and monitoring the key risks of BBW and obtaining reports from the Manager on the status of any key risk exposures or incidents. In undertaking these responsibilities, the Committees principally rely on the resources and expertise of the Manager to implement and report upon the risk management systems and procedures implemented, such that the Committees are able to keep the BBW Boards informed of all material business risks.

BBW undertakes regular reviews of its risk management framework and has adopted a Risk Management Policy consistent with Australia/New Zealand Standard 4360, which clearly defines responsibilities for managing risk under BBW's risk management process. The material risks of BBW's business, including operational, financial, market and regulatory compliance risks have been identified and are required to be regularly managed, monitored and reported. Methods for treating and mitigating risks include transferring, reducing, accepting or passing on risk following assessment using a variety of methods. A summary of the Risk Management Policy is available on BBW's website.

The Audit, Risk & Compliance Committees include amongst their responsibilities:

- consideration of the overall risk management framework of BBW and the review of its effectiveness in meeting sound corporate governance principles;
- keeping the BBW Boards informed of all significant business risks;
- reviewing in conjunction with the Manager the system for identifying, managing and monitoring the key risks of BBW; and
- obtaining reports from the Manager on the status of any key risk exposures or incidents.

The role of the Manager also plays an important part in the management of risk. In accordance with the Management Agreements, the Manager first reviews, evaluates and recommends substantial investments before they are considered by the BBW Boards.

One of the cornerstones of BBW's risk management approach is a well defined system of delegated authorities with respect to the commitment of capital and an investment approval process which brings rigour to the selection, assessment and approval of investment risks assumed under BBW's principal investment activities. Matters such as legal, accounting, tax and general risk assessment issues are considered in each case. In addition to requiring a recommendation from the Manager for all investment decisions, the Manager's most senior executives are involved in major investment decisions, and all capital investments above specified thresholds require approval of the BBW Boards.

The Audit, Risk & Compliance Committees have also implemented a robust ongoing internal audit program. The internal auditor reports directly to the Audit, Risk & Compliance Committees at each meeting of the Committees.

**ASX Recommendation 7.2: The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.**

BBW's risk function plays a key role in developing and building an approach to assist BBW and its Boards in identifying, monitoring and treating risk and in reporting material risks to the Audit, Risk & Compliance Committees. Under the direction of BBW's Risk Manager, BBW has continued to enhance its risk management framework which articulates the standards and responsibilities for risk management across and at all levels of the BBW business. The standards include the requirement for all business units, businesses, projects, regions and assets to report risks quarterly as an input to the BBW Risk Manager's consolidated quarterly reporting to the Audit, Risk & Compliance Committees, and to maintain risk registers and risk treatment plans for all identified "top risks".

BBW's Compliance function promotes a compliance conscious culture while ensuring BBW complies with regulatory requirements across its businesses, functions and group entities.



# Corporate Governance Statement

To facilitate monitoring and evaluation of the effectiveness of internal controls, BBW has established accounting policies, reporting, risk management and compliance systems to keep the Audit, Risk & Compliance Committees informed of strategic, reputational, financial and operational risks facing the BBW corporate group. Quarterly management reporting confirms that appropriate internal controls are in place and that the BBW Risk Management Policy and other key guidelines and procedures are being observed.

BBW's internal audit function, operating under a written Charter from the Audit, Risk & Compliance Committees, provides independent reporting to the Audit, Risk & Compliance Committees with respect to the management of risk and also provides comment on the effectiveness of the design and operation of controls across the BBW corporate group.

**ASX Recommendation 7.3: The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.**

As outlined above, and in accordance with Recommendation 7.3, the CEO and Chief Financial Officer have stated to the BBW Boards in writing that internal compliance and control systems applicable to the BBW corporate group's business lines and functional groups were operating efficiently and effectively in all material respects during the period to 30 June 2008.

## **ASX PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY**

**Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.**

### **REMUNERATION POLICY**

The remuneration policies of BBW have been structured to be competitive in the industry and global marketplace and to ensure that BBW can attract and retain the talent needed to achieve both short and long-term success, while maintaining a strong focus on team work, individual performance and the interests of securityholders.

The Non-Independent Directors of BBWPL, BBWPB and BBWPS, Peter Hofbauer and Warren Murphy, are employees of the Babcock & Brown Group. Similarly, employees who are secondees to the Manager are also employees of the Babcock & Brown Group. As such, all of these people are remunerated not by BBWPL, BBWPB or BBWPS, but rather by the Babcock & Brown Group.

The policies and principles which are applied to determine the nature and amount of remuneration paid to the Directors and key management personnel of BBW are set out in detail in the Remuneration Report.

Total remuneration of Non-Independent Directors and Manager secondees by the Babcock & Brown Group is delivered through a combination of base salary, an annual performance bonus and, for some executives, through an equity incentive plan of Babcock & Brown Limited. Babcock & Brown continually reviews the remuneration philosophy and framework as it applies to BBW to ensure alignment of the interests of the Manager with those of BBW securityholders.

The BBW Boards acknowledge that the remuneration of the Non-Independent Directors by the Babcock & Brown Group is also partly determined by reference to the performance of that group and their individual performance in connection with that group. In this regard, the Boards recognise that there is scope for potential conflicts of interest to arise, both in terms of the Babcock & Brown Group's dealings with BBW and in terms of the dual roles of the Non-Independent Directors and certain staff. For instance, the Babcock & Brown Group is expected to earn fees and other income from its management of and other dealings with BBW, and the remuneration of the Non-Independent Directors by the Babcock & Brown Group may be partly determined by reference to the level of such fees and income.

In such cases, the BBW Boards implement steps to ensure that such conflicts of interest are declared, managed and, where practicable, removed. Such steps include ensuring that Non-Independent Directors declare an interest in circumstances where there are dealings between the Babcock & Brown Group and BBW and that, in those cases, Non-Independent Directors abstain from voting on all such matters. Other steps may include seeking independent third party advice in some cases or having matters considered by a Committee of the Board comprising solely the Independent Directors. These measures are designed to ensure that, in the event of a conflict of interest, the interests of securityholders are given priority over the interests of the Babcock & Brown Group and the Non-Independent Directors.

## **REMUNERATION COMMITTEE**

**ASX Recommendation 8.1: The Board should establish a remuneration committee.**

As noted above in relation to ASX Recommendation 2.4, in order to assist the BBW Boards in achieving fairness and transparency in relation to remuneration issues and overseeing the remuneration and human resources policies and practices of BBW, the BBWPL Board has established a Nomination & Remuneration Committee.

The BBWPL Nomination & Remuneration Committee has adopted a Charter, a summary of which is available on BBW's website. The responsibilities of the Committee pursuant to the Charter in relation to remuneration include:

- making recommendations to the relevant Board for determining the level of remuneration to be applied to Non-Executive Directors of BBW. The Committee may engage external advisors to provide information to the Boards to be considered in their deliberations for the purpose of recommending an appropriate level of remuneration for Non-Executive Directors. All fees paid to Non-Executive Directors are disclosed in BBW's annual financial statements to the extent required by law; and
- in order to discharge its duties and responsibilities to securityholders in respect of matters relevant to remuneration of key management personnel of the Manager, the Committee will, taking into account the fact that the Manager bears ultimate responsibility for meeting its obligations under the Management Agreement and that the key management personnel's remuneration is set by the Manager under Babcock & Brown Group's remuneration principles and practices:
  - consult with the Manager in respect of the key performance indicators for each of the Manager's key management personnel as determined by the Manager and provide feedback to the Manager about their respective performance against such key performance indicators;
  - provide input and advice to the Manager about remuneration of key management personnel or other individuals, as requested by the Manager, based on the Babcock & Brown Group's remuneration principles and practices;
  - approve the Remuneration Report to be disclosed in the Directors' Report;
  - monitor any amendments to the Babcock & Brown Group's remuneration principles and practices to the extent that they affect BBW and report such amendments to the BBW Boards as appropriate;
  - consider for approval the formulation of any long-term incentive plans (**LTI Plans**) recommended by the Manager involving the issue of BBW stapled securities; and
  - monitor and review any LTI Plans for compliance with changes to legislation, regulation and market expectations or practices.

The BBWPL Nomination & Remuneration Committee consists of five members, a majority of whom are independent Directors of BBW. The members of the Committee as at the date of this statement are Peter Hofbauer (Chairman), Tony Battle, Doug Clemson, Nils Andersen and Warren Murphy.

## **NON-EXECUTIVE DIRECTOR REMUNERATION**

**ASX Recommendation 8.2: Companies should clearly distinguish the structure of Non-Executive Directors' remuneration from that of executives.**

The total remuneration paid to the Independent Non-Executive Directors to 30 June 2008 is set out in the Remuneration Report. Independent Non-Executive Directors are paid an annual fee according to which Boards and Committees they sit on. Non-Executive Directors' fees for BBWPL and BBWPB are determined within a Non-Executive Director's aggregate fee pool limit which has been approved by securityholders. The maximum aggregate sum for BBWPL and BBWPB has been set at \$1,000,000 per annum.

Non-Executive Directors are not provided with retirement benefits other than statutory superannuation and do not receive options or other equity incentives, or bonus payments.

Payment of Non-Independent Directors' fees is paid to the Manager and not to Peter Hofbauer or Warren Murphy. These form part of the base management fees payable to the Manager (and also count against the aggregate fee pool limit referred to above). Peter Hofbauer and Warren Murphy are employees of Babcock & Brown and are separately remunerated by Babcock & Brown.

# Directors' Report

In respect of the year ended 30 June 2008, the Directors submit the following report for Babcock & Brown Wind Partners Group (BBW).

## DIRECTORS

The names and appointment dates of the current Directors and Alternate Directors of BBW during or since the end of the financial year are set out in the table below. Further particulars in relation to the background and experience of the Directors are provided in the BBW Boards section of the Annual Report.

	BBWPL Board		BBWPB Board		BBWPS Board	
	Appointed	Resigned	Appointed	Resigned	Appointed	Resigned
<b>DIRECTORS</b>						
P Hofbauer	11/06/03	-	14/09/05	-	14/04/05	-
N Andersen	N/A	N/A	N/A	N/A	9/09/05	-
A Battle	9/09/05	-	14/09/05	-	9/09/05	-
D Clemson	9/09/05	-	14/09/05	-	9/09/05	-
W Murphy	24/11/03	-	14/09/05	-	14/04/05	-
<b>ALTERNATE DIRECTORS<sup>1</sup></b>						
M Garland	8/05/07	-	8/05/07	-	8/05/07	-
A Lo Bianco	8/05/07	-	8/05/07	-	8/05/07	-

<sup>1</sup> Messrs Garland and Lo Bianco were appointed Alternate Directors for each of Messrs Hofbauer and Murphy on the above BBW Boards.

## COMPANY SECRETARIES

The names and appointment dates of the Company Secretaries of BBW during or since the end of the financial year are set out in the table below. Further particulars in relation to the background and experience of the Company Secretary is provided in the BBW Management Team section of the Annual Report.

	BBWPL Board		BBWPB Board		BBWPS Board	
	Appointed	Resigned	Appointed	Resigned	Appointed	Resigned
<b>COMPANY SECRETARIES</b>						
D Richardson	26/10/05	-	26/10/05	-	26/10/05	-
J Remedios	28/06/07	-	28/06/07	-	28/06/07	-

## FORMER PARTNERS OF THE AUDIT FIRM

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

## PRINCIPAL ACTIVITIES

BBW's principal activities include:

- managing its current portfolio of wind energy generation assets; and
- identifying acquisition or divestment opportunities for wind energy generation assets to grow securityholder wealth.

To participate in acquisition and divestment opportunities, BBW utilises its relationship with Babcock & Brown and develops other strategic alliances with wind energy 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 2008 is included in the attached Financial Statements and accompanying Notes.

## 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 and accompanying Notes.



## SUBSEQUENT EVENTS

### SALE OF SPANISH ASSETS

On 21 August 2008, BBW agreed to sell its portfolio of operating Spanish wind energy assets with an installed capacity of 420.7MW to Formento de Construcciones y Contratas, S.A. The sale is subject to local authority consents in Spain, which are expected to take approximately three months, with financial close occurring thereafter.

### PROPOSED NEW CHAIRMAN

On 26 August 2008, Mr Peter Hofbauer, Chairman of the BBWPL, BBWPB and BBWPS Boards, advised each of these Boards of his intention to step down as a Director upon a new independent Chairman being appointed to these Boards. Each of the Boards confirmed that it is their intention to replace Mr Hofbauer with a Babcock & Brown executive once the new independent Chairman is appointed. As at the date of this report, the new independent Chairman has not been appointed.

### PROPOSED BUY-BACK OF STAPLED SECURITIES

On 16 September 2008, BBW announced that it would be undertaking an on-market buy-back of up to 10% of its securities over a period of 12 months.

### 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 7.25 cents per stapled security for the half year to 31 December 2007 was paid on 18 March 2008. BBW will also pay a final distribution of 7.25 cents per stapled security for the full year to 30 June 2008 on or about 18 September 2008. Further details regarding the distributions paid by BBW are set out in Note 23 to the Financial Statements.

### INDEMNIFICATION AND INSURANCE OF OFFICERS

BBW has agreed to indemnify all Directors and Officers against losses incurred in their role as Director, Alternate 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 2001* 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, Alternate Directors, Secretaries and Executive Officers of 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.

### DIRECTORS' SECURITY HOLDINGS

Below are the Directors' and Alternate Directors' relevant interests in BBW stapled securities throughout the financial year.

	Balance 1 July 2007	Acquired during the year	Sold during the year	Balance 30 June 2008
P Hofbauer	3,421,874	147,379	0	3,569,253
A Battle	32,316	5,318	0	37,634
D Clemson	140,000	0	0	140,000
N Andersen	11,109	585	0	11,694
W Murphy	2,033,708	372,533	0	2,406,241
M Garland <sup>1</sup>	2,142,000	0	0	2,142,000
A Lo Bianco <sup>1</sup>	2,142,000	0	0	2,142,000

<sup>1</sup> Alternate Directors.

# Directors' Report

## REMUNERATION REPORT SPECIALISED FUND PLATFORM

Babcock & Brown through a wholly owned subsidiary manages Babcock & Brown Wind Partners (BBW) under a long-term Management Agreement in return for a management fee. Under the terms of the BBW Management Agreement, Babcock & Brown Wind Partners Management Pty Ltd (the **Manager**) provides management services and a management team which comprises Babcock & Brown employees who are seconded by Babcock & Brown to the Manager on either a full or part-time basis in relation to the management of BBW (the **Management Executives**). These employees 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**).

The following matters should be noted in understanding the Management Agreement arrangements:

- Babcock & Brown meets the costs of employment (including bonuses) of the Management Executives as these remuneration costs are a category of expenses under the Management Agreements that are **not** separately recoverable from BBW.
- The recovery of expenses by the Manager (including the remuneration of the Management Executives) is capped in accordance with the Management Agreements, and is subject to periodic review by the Independent Directors.

The following matters should be noted in understanding how the Management Executives dedicated to BBW are remunerated and the alignment of their remuneration to the performance of BBW and Babcock & Brown:

- As employees of Babcock & Brown, the Management Executives are remunerated on a calendar year basis with annual incentive remuneration payments made in March/April each year following the previous 31 December financial year end of Babcock & Brown.
- The remuneration of Management Executives consists of three components:
  - fixed remuneration: a cash salary and statutory entitlements including superannuation;
  - Short-term Incentives (STI): a cash bonus, Bonus Deferral Rights, and Share Awards (refer below for further details); and
  - Long-term Incentives (LTI): performance-based Options which are subject to various hurdle requirements as described below.
- Where a Management Executive is directly and solely involved in the management of BBW, 50% of any Bonus Deferral Right allocation will be invested in Babcock & Brown Bonus Deferral Rights and the remaining 50% in BBW Bonus Deferral Rights.
- Subject to vesting arrangements and no disqualifying events, Bonus Deferral Rights vesting commences at year four after allocation.
- Total remuneration of Management Executives includes LTI of between 20% and 50% which is aligned to the security price of both BBW and Babcock & Brown.
- Accordingly, the LTI component of the total remuneration disclosed in this Remuneration Report:
  - is the remuneration paid for the performance of the Management Executive during the 12 months ending 31 December 2007 (due to the Babcock & Brown remuneration policy having a calendar year basis); and
  - includes deferred equity components issued at prevailing prices as at their respective grant date in April 2008 (ie. TSR Hurdled Options were issued at a strike price of \$12.95 per security).
- The ultimate value of the LTI components of the Management Executives' total remuneration is linked to the share price of Babcock & Brown. There has been significant volatility in share markets globally and Babcock & Brown has not been immune to this volatility with the closing share price on 22 August 2008 being \$2.48. The reduction in the value of awards allocated to the Management Executives has reduced the effective compensation paid to the executives. Also, as noted above, the LTI components of the Management Executives' remuneration do not vest for four years.

- The financial impact of the change in share and security prices (leading to a decrease in value of total remuneration for 2008) for each Management Executive that were key management personnel during the financial year (**BBW Executives**) is highlighted in the table below:

BBW Executive <sup>1</sup>	Year	Short-term employee benefits			Total of short-term employee benefits \$	Post employment benefits Super-annuation \$	Other long-term employee benefits Long service leave \$	Share based payments <sup>2</sup>		Total \$
		Salary \$	STI Plan relating to current period \$	Non-monetary benefits \$				Equity settled \$	Cash settled \$	
M George	2008 <sup>3</sup>	316,250	446,600	-	762,850	13,129	5,271	1,010,026	28,470	1,819,746
	2008 <sup>4</sup>	316,250	446,600	-	762,850	13,129	5,271	216,959	21,482	1,019,691
G Dutailis	2008 <sup>3</sup>	311,000	350,000	-	661,000	13,129	5,183	245,755	5,869	930,936
	2008 <sup>4</sup>	311,000	350,000	-	661,000	13,129	5,183	27,075	4,429	710,816
G Dover	2008 <sup>3</sup>	311,000	350,000	-	661,000	13,129	5,183	174,839	5,869	860,020
	2008 <sup>4</sup>	311,000	350,000	-	661,000	13,129	5,183	26,952	4,429	710,693
D Richardson	2008 <sup>3</sup>	170,600	157,800	-	328,400	13,129	2,843	15,529	0	359,901
	2008 <sup>4</sup>	170,600	157,800	-	328,400	13,129	2,843	0	0	344,372
Total	2008 <sup>3</sup>	1,108,850	1,304,400	-	2,413,250	52,516	18,480	1,446,149	40,208	3,970,603
Total	2008 <sup>4</sup>	1,108,850	1,304,400	-	2,413,250	52,516	18,480	270,986	30,340	2,785,572
<b>Remuneration Value Decrease<sup>5</sup></b>		<b>0</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,175,163</b>	<b>9,868</b>	<b>1,185,031</b>

1 These are the BBW Executives who received the highest emoluments in the year ended 30 June 2008.

2 Share-based payments includes LTI Plan options and Bonus Deferral Rights.

3 These amounts are based on the allocation prices of each component of deferred compensation as at Grant Date on 21 April 2008.

4 These amounts are based on the closing price of Babcock & Brown shares as at 22 August 2008.

5 Decrease in value of remuneration components from Grant Date on 21 April 2008 to 22 August 2008.

## CHANGES IN 2007/8

The Babcock & Brown Board (**B&B Board**) decided to include the value of long-term Incentive (LTI) grants as a formal part of total annual remuneration for qualifying employees. In previous years, allocations were generally made to new hires and not widely awarded as a number of the more long-standing employees had received Babcock & Brown pre-IPO Options which vest in August 2008. With those vesting in August 2008, the B&B Board decided to introduce the allocation on a formal and more systematic basis.

The B&B Board also restructured the composition of incentive remuneration for 2007/8. As part of its commitment to the ongoing development of the remuneration structure it made some more permanent changes and refinements as well as introducing some one-time components for 2007/8. The one-time components were designed to take account of the current volatility in capital markets which, particularly since 31 December 2007, have significantly impacted the share price of Babcock & Brown and the security prices of the Babcock & Brown Listed Managed Funds. The restructure aimed to balance the further alignment between employees and securityholders with the ongoing motivation and retention of employees.

A one-time change for 2007/8 includes providing a **significant portion of what otherwise would have been immediate short-term Incentive (STI) cash bonus delivered as fully vested Share Awards<sup>6</sup> in Babcock & Brown.** This is to further align the interests of certain BBW Executives with those of securityholders in the more volatile capital markets.

6 A fully vested Share Award entitles a participant to a share in Babcock & Brown at no cost.



# Directors' Report

The more permanent changes introduced during the year included:

- **the further refinement of the Executive Key Performance Indicator (KPI) framework:** This provides a robust link between Executives' total annual remuneration and the achievement of BBW's strategic objectives;
- **the inclusion of the LTI<sup>1</sup> plan as a formal part of total annual remuneration** for Executives. The LTI takes the form of performance-based options which represent 10% of a qualifying employee's total annual remuneration; and
- **the introduction of Fund Bonus Deferral Rights (Fund BDRs)<sup>2</sup>** for eligible employees who contribute to the performance of BBW. These are in addition to Babcock & Brown Bonus Deferral Rights (**B&B BDRs**) which have been awarded since Babcock & Brown's IPO in October 2004.

As a consequence of the above changes the structure of total annual remuneration for 2007/8 results in a **greater percentage of Executive total incentive remuneration being deferred**. The B&B Board believes that the increase in the deferred component of BBW Executives total incentive remuneration, and the greater alignment with the interests of the securityholders of BBW, further strengthens the executive remuneration framework.

Further information on the above, including details on the remuneration components, is set out in this report.

## REMUNERATION COMMITTEES

### Role of the Babcock & Brown Remuneration Committee

The Babcock & Brown Remuneration Committee (**B&B Remuneration Committee**) assists the B&B 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 endeavours to ensure that the B&B Group's remuneration outcomes strike an appropriate balance between the interests of BBW's securityholders and rewarding and motivating the BBW Executives and employees. The B&B Remuneration Committee consists of five Directors, of which three are independent Non-executive Directors. Its members throughout 2007/8 were: Ian Martin (Chair); James Babcock; Phillip Green; Elizabeth Nosworthy; and Michael Sharpe.

### Role of the BBW Nomination & Remuneration Committee

On behalf of the BBW Group, the BBWPL Board established a Nomination & Remuneration Committee (**BBW Remuneration Committee**) to assist the BBW Boards review and monitor the composition of the BBW Boards, the level of remuneration of the Directors, and periodically review the performance of the Directors and the key management personnel of the Manager. In relation to remuneration issues, the BBW Remuneration Committee also provided input to Babcock & Brown regarding the performance measures of the BBW Executives and the overall performance of those executives to assist in determining their annual remuneration. The members of the BBW Remuneration Committee are P Hofbauer, A Battle, D Clemson, N Andersen and W Murphy.

## EXECUTIVES

The following people were BBW Executives<sup>3</sup> during the financial year:

M George	Chief Executive Officer
G Dutailis	Chief Operating Officer
G Dover	Chief Financial Officer
D Richardson	Company Secretary

## REMUNERATION POLICY AND STRUCTURE

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 Babcock & Brown Wind Partners in the best interests of the securityholders of BBW.

The B&B Board determined that remuneration would be assessed under a total annual remuneration model consisting of fixed remuneration and incentive remuneration (**STI and LTI**). The amount of incentive remuneration is determined after Babcock & Brown's year-end (December) and is calculated as total annual remuneration approved by the B&B Board less fixed remuneration. Incentive remuneration is then allocated between the STI and LTI components in accordance with the criteria set out in further detail in this report.

1 The LTI plan comprises performance-based Options whereby each Option entitles the participant to one share in Babcock & Brown upon vesting subject to achieving a performance hurdle and the payment of an exercise option.

2 Fund BDRs entitle the participant to a cash payment linked to the performance of Babcock & Brown Wind Partners at the end of a four year vesting period.

3 These people are employed by Babcock & Brown Australia Pty Limited.

## **OPERATION OF TOTAL ANNUAL REMUNERATION**

The process for determining the 2007/8 total annual remuneration allocation for BBW Executives is outlined below.

### **Step 1: Early in the 2007/8 financial year, the BBW Remuneration Committee agreed KPIs for the BBW Executives to establish criteria for assessing performance in determining their final total annual remuneration amount in early 2008.**

KPIs for the BBW Executives were refined during 2007/8 to further align their interests and behaviours with those of BBW's securityholders. On a calendar year basis, each individual's performance is assessed against their KPIs to establish their final total annual remuneration.

There are three sets of KPIs. The first set focuses BBW Executives on outstanding role modelling of the B&B Group's and BBW's core values through:

- working together to maximise the short and long-term performance of the entire B&B Group for shareholders, investors in managed funds, clients and employees;
- attracting, developing, motivating and retaining the best people to build, lead and sustain Babcock & Brown's and BBW's businesses; and
- enhancing and protecting Babcock & Brown's and BBW's unique assets and source of competitive advantage - people, relationships, capital and reputation.

The second set focuses BBW Executives contribution to the generation of short and long term profitability of BBW.

The third set focuses on the generation of long-term profitability of BBW. Longer term measures include each individual's direct contribution to the performance of BBW.

The approach adopted for determining total incentive remuneration in 2007/8 has evolved from the historical approach used when Babcock & Brown operated as a private global partnership prior to its IPO in 2004. Annual bonuses were previously determined predominantly by the individual's contribution to the financial performance of their relevant business unit during the year. The B&B Board believe that Babcock & Brown's refined KPI framework builds on the already strong emphasis on the link between employee, Babcock & Brown and Fund performance by also linking reward to non-financial capabilities such as the attraction, development and retention of talent. This is because these capabilities also contribute to the performance of the B&B Group and the Funds, as well as the ongoing sustainable value of Babcock & Brown and the Funds.

### **Step 2: Independent Directors who are members of the BBW Remuneration Committee provided input to Babcock & Brown on the performance of the BBW Executives to assist in determining the preliminary total annual remuneration allocation amount.**

The recommendations for the BBW Executives were determined based upon their relative performance assessed in accordance with the KPIs outlined above in Step 1.

### **Step 3: The B&B Corporate Management Committee established individual allocations from the total incentive remuneration allocation amount and made recommendations to the B&B Remuneration Committee.**

The preliminary B&B Group 2007 year-end results and the preliminary Return on Net Equity (ROE), EPS growth and Profit Before Bonus & Tax (PBBT) for the year were established. Subject to final results, a preliminary total annual remuneration amount was determined by reference to the target measures and with regard taken for the total annual remuneration as a proportion of net revenue guidelines.

Allocations to individuals were determined by the B&B Corporate Management Committee, and then recommended to the B&B Remuneration Committee.

The recommendations for the BBW Executive were determined based upon their relative performance assessed in accordance with the KPIs outlined above in Step 1. The objective of the KPI approach is not only to provide incentive to the BBW Executives to achieve their own KPIs which are aligned to BBW's objectives, but also to provide a basis for a rigorous discussion around their performance and relative ranking. A 360 degree performance review feedback process was also introduced for senior B&B Executives for the purposes of personal development and to assess performance against the KPIs relating to the role modelling of the core values of Babcock & Brown. It is the intention to expand this to a broader group of senior executives during 2008 including BBW Executives.

# Directors' Report

## **Step 4: Independent members of the B&B Remuneration committee established recommendations to the B&B Board for the total annual remuneration allocation amount and total annual remuneration recommendations for BBW Executives.**

The independent members of the B&B Remuneration Committee recommended to the B&B Board the total annual remuneration amount after the B&B Group 2007 year end results were finalised and the ROE, EPS growth and PBBT for the year were established. The recommendations for BBW Executives were established after reviewing their performance against their KPIs as set out in Step 1 and taking into account the views of the BBW Remuneration Committee and the B&B Corporate Management Committee.

### **SUMMARY OF INCENTIVE PLANS**

#### **SHORT-TERM INCENTIVE (STI) PLAN**

All employees are eligible to participate in the STI plan. The B&B Board's policy is to allocate at least 25% of an employee's STI award above a threshold level to a grant of Bonus Deferral Rights (**BDRs**) with the balance paid in cash. In 2007/8, the B&B Board allocated 30% of an employee's STI award above A\$350,000 to a grant of BDRs. BDRs take the form of B&B BDRs and Fund BDRs (each further described below). The threshold level and allocation percentage are subject to annual review.

All short-term incentives below the threshold level are generally delivered entirely as cash. However, to encourage increased employee share ownership levels and a greater alignment of interests between employees, B&B shareholders and BBW securityholders, certain employees can voluntarily sacrifice up to 100% of their discretionary STI into Voluntary Bonus Deferral Rights (**Voluntary BDRs**). Only employees in locations where the tax regime allows deferral are eligible to participate in the Voluntary BDR Plan.

Given the significant impact, particularly since 31 December 2007, of the volatile equity markets on the market price of Babcock & Brown shares and a number of B&B Listed Managed Funds securities, the B&B Board considered that increased alignment and incentives would give shareholders in Babcock & Brown and securityholders in the Babcock & Brown Listed Managed Funds added comfort that BBW Executives would be focused and rewarded for achieving improved B&B share and BBW security price performance. Therefore, the B&B Board introduced some one-time components into the 2007/8 STI structure for these employees. A significant portion of what would have been an immediate STI cash payment was allocated into forms of remuneration designed to further increase alignment. One of these new components for 2007/8 related to the issuing of fully vested Share Awards instead of a proportion of STI cash payments. These Share Awards entitle the participant to a share in Babcock & Brown when exercised. The grant of Share Awards occurred in April 2008, with half of the Share Awards exercisable from August 2008 and the remaining half exercisable from February 2009.

The following tables provide further information on the various equity and equity-based components of STI in 2007/8.

#### **SHARE AWARDS**

The nature, eligibility and general terms of the Share Awards are outlined in the table below.

<b>Nature</b>	Each fully vested Share Award entitles the participant to one share in Babcock & Brown at no cost. Fifty percent of the Share Awards are exercisable from August 2008 and the remaining 50% from February 2009.
<b>Eligibility</b>	All employees who have total short-term incentive remuneration of more than \$200,000.
<b>Quantum of Share Awards to be allocated</b>	The number of Share Awards granted is determined by dividing the amount of the Share Award allocation by the market value of Babcock & Brown shares at the time the Share Awards are granted. The grant of Share Awards occurred in April 2008.
<b>Entitlement and treatment of dividends</b>	<p>Each Share Award is backed by a Babcock &amp; Brown share either issued to or acquired by the Babcock &amp; Brown Australian Incentive Trust or the Babcock &amp; Brown Executive Achievement Share Trust, as applicable. Dividends received on these shares, less trust expenses and taxes as determined by the Trustee, will be applied towards acquiring additional Babcock &amp; Brown shares (Dividend Reinvestment Plan (<b>DRP</b>) Shares). Any DRP Shares will also hold entitlements to future dividends, which will be treated in the same way.</p> <p>The DRP Shares will be held by the Trust until the time the Share Awards are exercised. Once the Share Awards have been exercised, the employee is entitled to receive dividends on their shares, similar to any other Babcock &amp; Brown shareholder.</p>



### **BABCOCK & BROWN BONUS DEFERRAL RIGHTS (B&B BDRs)**

B&B BDRs are designed to further align the interests of employees, B&B shareholders and BBW securityholders and act as a retention mechanism. The nature and general terms of the B&B BDRs are outlined in the table below.

<b>Nature</b>	Each B&B BDR entitles the participant to one share in Babcock & Brown at no cost after a four year vesting period.
<b>Eligibility</b>	If the participant only contributes to Babcock & Brown, and receives an STI award above the threshold level, they will receive all of their BDR allocation in B&B BDRs. If the participant makes a contribution to both Babcock & Brown and as an Executive of a Babcock & Brown Listed Managed Fund(s), and receives an STI award above the threshold level, they may receive 50% of their BDR allocation as B&B BDRs and the remaining 50% in Fund BDRs (see below).
<b>Quantum of B&amp;B BDRs to be allocated</b>	The number of B&B BDRs granted is determined by dividing the amount of the B&B BDR allocation by the market value of Babcock & Brown shares at the time the B&B BDRs are granted. The B&B BDRs were granted to BBW Executives during April 2008.
<b>Entitlement and treatment of dividends</b>	A dividend/distribution equivalent (less any applicable deductions and withholdings) based on the Funds in the notional investment will be paid periodically to participants.
<b>Forfeiture conditions of the B&amp;B BDRs and DRP Shares</b>	Any participant leaving the B&B Group may forfeit their B&B BDRs and DRP Shares if they terminate employment within the four year vesting period, unless the B&B Board exercises its discretion in certain circumstances, such as redundancy or retirement. The B&B Board also reserves the right to allow vesting in other circumstances which would include a participant leaving Babcock & Brown to pursue other interests which the B&B Board is satisfied will not compete with the B&B Group.

### **FUND BONUS DEFERRAL RIGHTS (FUND BDRS)**

The B&B Board believes that the B&B Managed Funds are central to B&B's long-term strategy and business model. During 2007/8, the B&B Board introduced Fund BDRs to further align eligible employees' interests with those of BBW's securityholders. The nature, eligibility and general terms of the Fund BDRs are outlined in the table below.

<b>Nature</b>	Each Fund BDR entitles the participant to a cash payment, linked to the performance of the applicable B&B Listed Managed Fund (reflected by the market price movement plus income reinvestment of the relevant Babcock & Brown Listed Managed Fund's securities, less any applicable withholdings) at the end of the four year vesting period. If the employee contributed to more than one Fund, the amount to be delivered in Fund BDRs will be allocated equally between the various Babcock & Brown Listed Managed Funds to which they make a contribution.
<b>Eligibility</b>	If the employee only contributes to Babcock & Brown they are not eligible to receive Fund BDRs. If the employee makes a contribution to both Babcock & Brown and a Babcock & Brown Listed Managed Fund(s), and receives an STI award above the threshold level, they may receive 50% of their BDR allocation in B&B BDRs and the remaining 50% in Fund BDRs.
<b>Quantum of Fund BDRs to be allocated</b>	Similar to the B&B BDRs, the number of Fund BDRs granted is determined by dividing the amount of the Fund BDR allocation by the market value of the applicable Babcock & Brown Listed Managed Fund's securities at the time the Fund BDRs are granted. The Fund BDRs were granted to BBW Executives during April 2008.
<b>Entitlement to dividends/distributions</b>	Any dividends/distributions paid during the vesting period are included in the calculation to determine the cash payment that will be paid to the participant at the end of the vesting period. No actual dividends/distributions are received by the participant as the Fund BDRs are not backed by equity in the applicable Fund.
<b>Forfeiture Conditions</b>	Any participant leaving the B&B Group may forfeit their Fund BDRs and DRP Shares if they terminate employment within the four year vesting period, unless the B&B Board exercises its discretion in certain circumstances, such as redundancy or retirement. The B&B Board also reserves the right to allow vesting in other circumstances which would include a participant leaving Babcock & Brown to pursue other interests which the B&B Board is satisfied will not compete with the B&B Group.

# Directors' Report

As short-term incentive allocations are determined after the end of B&B's financial year and are directly dependent on the B&B Group's financial performance, employees are not able to be advised of a target STI amount. Accordingly, Babcock & Brown cannot specify the percentage of the BBW Executives' target STI that was paid and forfeited during the financial year.

## LONG-TERM INCENTIVE (LTI) PLAN

Prior to 2007, the LTI plan was not used as a formal part of employee total annual remuneration due to the B&B equity that was issued subject to escrow and the B&B pre-IPO options that were granted. Given that all remaining B&B equity subject to escrow was released from escrow in February 2008 and the B&B pre-IPO options vest in August 2008, the B&B Board introduced the LTI plan as a formal component of total annual remuneration for BBW Executives.

This change was introduced to maintain the long-term alignment with Babcock & Brown shareholders and the securityholders in the Babcock & Brown Listed Managed Funds and provide a mechanism for these individuals to share in the growth of Babcock & Brown. While LTI existed in previous years, it was allocated to a more limited number of BBW Executives and employees. Typically 10% of total annual remuneration were delivered as LTI awards to eligible employees in 2007. LTI awards will generally take the form of performance-based Options.

The nature, eligibility and general terms of performance-based Options are outlined in the table below.

<b>Nature</b>	Each performance-based Option entitles the participant to one share in Babcock & Brown upon vesting subject to the payment of an exercise price. The exercise price of each Option will generally be based on the market value of shares at the time of grant.								
<b>Eligibility</b>	All employees who have total annual remuneration which is more than double fixed remuneration and have total annual remuneration which is in excess of \$250,000.								
<b>Quantum of performance-based Options to be granted</b>	The number of performance-based Options to be granted is determined by dividing the amount of the LTI allocation by the value of the performance-based Option at the time they are granted. The performance-based Options were granted to BBW Executives and other employees during April 2008.								
<b>Vesting and performance period</b>	The B&B Board's policy on the terms of vesting of LTI awards will typically include vesting at least three years after grant subject to the achievement of a performance hurdle. Performance-based Options to be granted for 2007 will have a three-and-a-half-year vesting period, subject to achievement of a relative Total Shareholder Return (TSR) hurdle.								
<b>Performance Hurdle</b>	<p>The relative TSR hurdle set by the Board measures Babcock &amp; Brown's TSR performance against all other ASX 100 index companies as at the date of grant measured over the three-and-a-half year vesting period. The B&amp;B Board has chosen Relative TSR ranking as the performance hurdle for the LTI awards because this hurdle ensures the greatest alignment between executive reward and the creation of shareholder value. By using ASX 100 index companies as the peer group, Babcock &amp; Brown ensures that BBW Executives and other senior executives will only be rewarded when Babcock &amp; Brown's TSR has exceeded the median of the broader Australian market. LTI awards will vest in accordance with the following:</p> <table border="1"> <thead> <tr> <th>Percentile</th> <th>Percentage of options which vest</th> </tr> </thead> <tbody> <tr> <td>Below 51st percentile</td> <td>Nil</td> </tr> <tr> <td>51st to 74th percentile</td> <td>Progressive vesting on a straight line basis from 50 to 99%</td> </tr> <tr> <td>At or above 75th percentile</td> <td>100%</td> </tr> </tbody> </table>	Percentile	Percentage of options which vest	Below 51st percentile	Nil	51st to 74th percentile	Progressive vesting on a straight line basis from 50 to 99%	At or above 75th percentile	100%
Percentile	Percentage of options which vest								
Below 51st percentile	Nil								
51st to 74th percentile	Progressive vesting on a straight line basis from 50 to 99%								
At or above 75th percentile	100%								
	<p>The B&amp;B Remuneration Committee has determined that it is appropriate to retest performance 12 months after the initial test date (i.e. after 4.5 years) for the 2008 grants if they are not fully vested at the initial test date (i.e. after 3.5 years).</p> <p>The B&amp;B Remuneration Committee understands that some stakeholder and shareholder bodies are against more than one test date and conducted a review of the testing mechanism during 2006. After this review, and also because of the recent market volatility, the Remuneration Committee determined that it was appropriate to keep two test dates in place.</p>								

<b>Performance Hurdle (continued)</b>	<p>The reasons for this included that the impacts of long-term decision making may not be reflected over the first 3.5 years and that stock market volatility means that Babcock &amp; Brown's share price on the first test date may not reflect its fundamental value on that day. In addition, Babcock &amp; Brown believes that having two test dates still aligns BBW Executives and other senior executives interests with those of shareholders and securityholders because performance is tested over the entire 4.5 year period and therefore relative performance in the year following the first test date would need to be strong to make up for any underperformance over the first 3.5 years. BBW Executives and other senior executives are therefore only rewarded when shareholders are similarly rewarded.</p> <p>To measure performance against the TSR performance hurdle Babcock &amp; Brown's external remuneration advisor will obtain, for each company in the ASX 100 as at the grant date, the TSR over the performance period and then rank these companies by their TSR performance. Babcock &amp; Brown's TSR will then be compared to the TSR of the companies in this peer group to determine its percentile ranking and the level of vesting that will occur. This analysis will then be presented to the B&amp;B Remuneration Committee for approval. This method of assessment was chosen because it ensures independence when determining vesting levels.</p>
<b>Forfeiture Conditions</b>	<p>Any participant leaving the B&amp;B Group may forfeit their Options if they terminate employment within the 3.5 year vesting period, unless the B&amp;B Board exercises its discretion in certain circumstances, such as redundancy or retirement. The B&amp;B Board also reserves the right to allow vesting in other circumstances which would include a participant leaving Babcock &amp; Brown to pursue other interests which the Board is satisfied will not compete with the B&amp;B Group.</p>

The 2007/8 performance year was the first time that Options were used as a formal part of the executive remuneration framework. Accordingly, no information can be provided as yet on the percentage of Executive Option allocations that were vested or forfeited during the financial year.

#### LINK BETWEEN REMUNERATION POLICY AND THE PERFORMANCE OF BBW

Since listing in October 2005, BBW has:

- generated total returns in excess of 39.1%, compared with the ASX 200 Accumulation Index of 31.4% over the same period<sup>1</sup>;
- achieved an annualised return for all securityholders of 13.1%;
- paid a total of 37.2 cents per security in distributions; and
- grown total assets under management from \$1.15 billion following listing<sup>2</sup> to \$6.58 billion at 30 June 2008.

Other relevant metrics for the financial year periods since listing are included in the table below.

	30 June 2006	30 June 2007	30 June 2008
Closing security price	\$1.51	\$1.95	\$1.645
Revenue	\$85.6m	\$171.9m	\$422.7m
EBITDA (from operations)	\$64.6m	\$126.5m	\$333.7m
Net Operating Cash Flow	\$34.2m	\$87.8m	\$188.8m
Distribution per fully paid security (cents per security)	10.2	12.5	14.5
Net assets per security	\$1.16	\$1.10	\$1.12

<sup>1</sup> Source: Bloomberg, period 28 October 2005 to 30 June 2008.

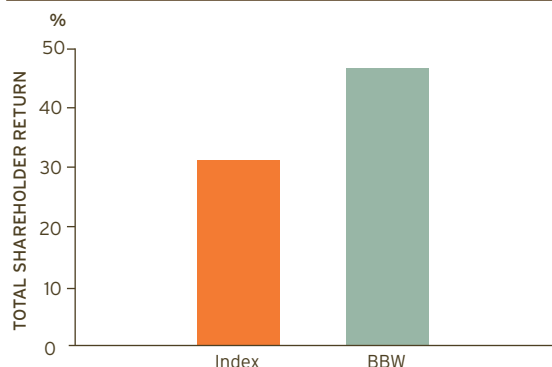
<sup>2</sup> Source: Pro Forma Balance Sheet as at 30 June 2005 adjusted following listing as stated on page 102 of the IPO Prospectus and Product Disclosure Statement, dated 26 September 2005.



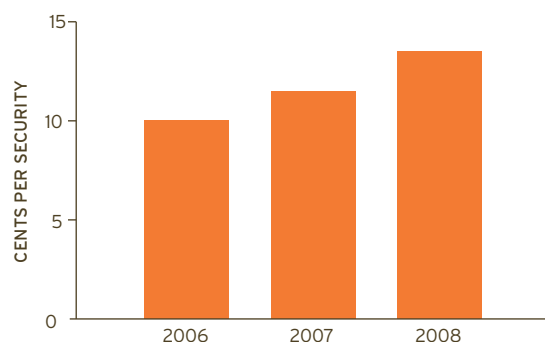
# Directors' Report

The graphs below display BBW's TSR performance compared to the ASX 200 Accumulation Index and also the growth in distributions since listing to 30 June 2008.

## TSR PERFORMANCE AGAINST S&P/ASX 200 ACCUMULATION INDEX



## DISTRIBUTION GROWTH



Source: Bloomberg, period 28 October 2005 to 30 June 2008.

## TABLE 1: REMUNERATION OF THE BBW EXECUTIVES FOR THE YEARS ENDED 30 JUNE 2007 AND 2008

Details of the nature and amount of each element of the emoluments of each BBW Executive of BBW for the years ended 30 June 2007 and 2008 are set out in the table below.

Year	Short-term employee benefits			Post employment benefits	Other long-term employee benefits	Share based payments <sup>2</sup>		Total \$		
	Salary \$	STI Plan relating to current period \$	Non-monetary benefits \$	Total of short-term employee benefits \$	Super-annuation \$	Long service leave \$	Equity settled \$		Cash settled \$	
<b>BBW EXECUTIVE<sup>1</sup></b>										
M George	2008	316,250	446,600	-	762,850	13,129	5,271	1,010,026	28,470	1,819,746
	2007 <sup>3</sup>	131,250	829,250	-	960,500	6,343	-	194,089	-	1,160,932
G Dutailis	2008	311,000	350,000	-	661,000	13,129	5,183	245,755	5,869	930,936
	2007	277,250	368,750	-	646,000	12,686	-	49,971	-	708,657
G Dover	2008	311,000	350,000	-	661,000	13,129	5,183	174,839	5,869	860,020
	2007 <sup>4</sup>	252,793	121,000	-	373,793	12,686	-	4,189	-	390,668
D Richardson	2008	170,600	157,800	-	328,400	13,129	2,843	15,529	0	359,901
	2007 <sup>5</sup>	121,934	106,960	-	228,894	12,686	-	2,234	-	243,814
<b>Total remuneration for Executives</b>	2008	<b>1,108,850</b>	<b>1,304,400</b>	<b>-</b>	<b>2,413,250</b>	<b>52,516</b>	<b>18,480</b>	<b>1,446,149</b>	<b>40,208</b>	<b>3,970,603</b>
	2007	<b>783,227</b>	<b>1,425,960</b>	<b>-</b>	<b>2,209,187</b>	<b>44,401</b>	<b>-</b>	<b>250,483</b>	<b>-</b>	<b>2,504,071</b>

1 These are the Executives who received the highest emoluments in the year ended 30 June 2008.

2 Share-based payments includes LTI Plan options, B&B Bonus Deferral Rights, Fund Bonus Deferral Rights and Share Awards.

3 Remuneration in FY07 for M George reflects the remuneration received since being appointed Chief Executive Officer on 1 January 2007.

4 Remuneration in FY07 for G Dover reflects the remuneration received since being appointed Chief Financial Officer on 21 August 2006.

5 Remuneration in FY07 for D Richardson is the remuneration received based on an assessment of the services performed directly for BBW.

**TABLE 2: REMUNERATION COMPONENTS AS A PROPORTION OF TOTAL REMUNERATION**

The below remuneration mix is based upon the above remuneration table which includes the amortisation of prior year unvested equity awards and the current year's amortisation for grants made in 2007/8.

	Performance-based remuneration						Total %
	Fixed remuneration <sup>1</sup> %	Cash %	Share Awards %	Fund Appreciation Rights %	Bonus deferral rights <sup>2</sup> %	Options %	
<b>BBW EXECUTIVE</b>							
M George	18.4	24.5	30.3	0	9.2	17.6	100
G Dutailis	35.4	37.6	14.3	0	1.4	11.3	100
G Dover	38.3	40.7	15.5	0	1.4	4.1	100
D Richardson	51.8	43.9	0	0	0	4.3	100

1 Fixed Remuneration consists of salary, non-monetary benefits, superannuation and long service leave.

2 Bonus Deferral Rights refers to both B&B BDRs and Fund BDRs.

The above reward mix clearly illustrates Babcock & Brown's remuneration strategy of maintaining low base salaries and rewarding superior performance in achieving financial performance objectives as well as providing ongoing incentives to continue to achieve a high ROE, growing profits and strong security price performance.

**TABLE 3: VALUE OF REMUNERATION THAT VESTS IN FUTURE YEARS**

	Remuneration subject to vesting <sup>1</sup>				
	2008 \$	2009 \$	2010 \$	2011 \$	2012 \$
<b>BBW EXECUTIVE</b>					
M George	1,038,496	281,954	190,061	130,926	84,709
G Dutailis	251,624	117,993	90,027	85,404	35,279
G Dover	180,708	47,077	47,077	47,077	28,996
D Richardson	15,529	15,529	15,529	15,529	7,001

1 Remuneration amounts disclosed in the above table refer to the maximum value of Options, B&B BDRs and Share Awards, where relevant.

These amounts have been determined at grant date by using an appropriate pricing model and amortised in accordance with AASB 2 "Share Based Payment". The minimum value that may vest is \$nil and no remuneration currently granted vests after 31 December 2012.

**Outstanding Babcock & Brown Share Awards**

Share Awards were granted to certain BBW Executives during April 2008 with the number to be granted based on the market price of Babcock & Brown's shares as at the grant date. The value per Share Award may be determined at the date of grant.

Upon exercise, the Share Awards entitle the holder to subscribe for one fully paid ordinary share in Babcock & Brown together with their related Dividend Reinvestment Shares and do not entitle the holder to participate in share issues made by Babcock & Brown. No exercise price is payable in relation to the Share Awards and no amounts will be paid, or payable by the recipient for the granting of these Share Awards. These Share Awards will be issued fully vested at the date of grant.

# Directors' Report

## TABLE 4: TERMS AND CONDITIONS OF OUTSTANDING SHARE AWARDS

The table below provides the terms and conditions of outstanding Share Awards. Included in this table is an amount for Share Awards granted during April 2008 and valued as at the grant date.

	Total Value \$	Exercisable from	
		August 2008 <sup>1</sup> %	February 2009 <sup>2</sup> %
<b>BBW EXECUTIVE</b>			
M George	551,595	50	50
G Dutailis	133,631	50	50
G Dover	133,631	50	50

1 The Share Awards are exercisable from the date immediately following the results release to the ASX for Babcock & Brown for the half year ending 30 June 2008. These results were released to the ASX on 21 August 2008. The Share Awards expire 6 years from the date of grant.

2 The Share Awards are exercisable from the date immediately following results release to the ASX for the B&B Group for the full year ending 31 December 2008 anticipated to be late February 2009. The Share Awards expire 6 years from the date of grant.

### Outstanding Babcock & Brown Bonus Deferral Rights (B&B BDRs)

Upon vesting, the B&B BDRs entitle the holder to subscribe for one fully paid ordinary share in Babcock & Brown together with their related Dividend Reinvestment Shares and do not entitle the holder to participate in share issues made by Babcock & Brown. No exercise price is payable in relation to the B&B BDRs and no amounts have been paid, or are payable by the recipient for the granting of these B&B BDRs. In relation to the BBW Executives in Table 5 below, no B&B BDRs vested, were exercised or lapsed during the year and all B&B BDRs held at 30 June 2008 are unvested and unexercisable. Unless indicated otherwise all B&B BDRs do not have an expiry date as they are automatically converted to Babcock & Brown shares upon vesting.

## TABLE 5: TERMS AND CONDITIONS OF OUTSTANDING B&B BONUS DEFERRAL RIGHTS

The table below provides the terms and conditions of outstanding B&B BDRs. Included in this table is an amount for B&B BDRs granted during April 2008 and valued at the respective grant dates.

	Granted Number	Grant Date <sup>1</sup>	Value per B&B BDR	Total Value \$	Vesting Date <sup>2</sup>
<b>BBW EXECUTIVE</b>					
M George	13,768	16/03/06	16.66	229,375	26/02/10
	12,728	9/03/07	25.30	322,018	24/02/11
	10,832	21/04/08	13.02	141,033	23/02/12
G Dutailis	248	9/03/07	25.30	6,274	24/02/11
	2,233	21/04/08	13.02	29,074	23/02/12
G Dover	2,233	21/04/08	13.02	29,074	23/02/12

1 These B&B BDRs have an expiry date. B&B BDRs granted in 2008 expire 6 years from the grant date. B&B BDRs granted in 2007 expire on 9 March 2013. B&B BDRs granted in 2006 expire on 16 March 2012.

2 B&B BDRs granted in 2008 will vest following the release to the ASX of Babcock & Brown's full year results for the 2011 year, anticipated to be in late February 2012. B&B BDRs granted in 2007 will vest following the release to the ASX of Babcock & Brown's full year results for the 2010 year, anticipated to be in late February 2011. B&B BDRs granted in 2006 will vest following the release to the ASX of Babcock & Brown's full year results for the 2009 year, anticipated to be in late February 2010.

### Outstanding Fund Bonus Deferral Rights

The Fund BDRs represent 50% of the relevant BBW Executive's total BDR allocation. Upon vesting, the Fund BDRs entitle the holder to a cash payment linked to the performance of the applicable fund over the period from grant date to vesting date. No Fund BDRs vested, were payable or lapsed during the year and all Fund BDRs held at 30 June 2008 are unvested and unexercisable. No exercise price is payable in relation to the Fund BDRs.



**TABLE 6: TERMS AND CONDITIONS OF OUTSTANDING FUND BONUS DEFERRAL RIGHTS**

The grant date for these Fund BDRs was 10 April 2008 with the number granted based on the five-day volume weighted average price of the Fund's securities prior to the grant date. The Fund BDRs vest following the release to the ASX of Babcock & Brown's full year results for the 2011 year, anticipated to be in late February 2012. The Fund BDRs are valued as at the grant date.

	Total value of Fund BDRs \$
<b>BBW EXECUTIVE</b>	
M George	142,350
G Dutailis	29,347
G Dover	29,347

**Outstanding Options**

The table below outlines the terms and conditions of all Options that are currently held by BBW Executives. These Options were issued at no cost and no amounts have been paid, or are payable, by the recipient for the granting of these Options. Each Option entitles the holder to subscribe for one fully-paid ordinary share in Babcock & Brown. The Options do not entitle the Option holder to participate in share issues made by Babcock & Brown. In relation to the BBW Executives in Table 7 below, no Options vested, were exercised or lapsed during the year and all Options held at 30 June 2008 are unvested and unexercisable.

**TABLE 7: TERMS AND CONDITIONS OF OUTSTANDING OPTIONS**

The table below provides the terms and conditions of outstanding Options. Included in this table is an amount for Options granted during April 2008. The Options are valued as at the respective grant dates.

	Granted Number	Grant Date	Value per Option \$	Total Value of Options granted \$	Exercise Price per Option \$	Estimated Vesting Date	Expiry Date
<b>BBW EXECUTIVE</b>							
M George	200,000	5/10/04	1.267	253,400	5.00	22/08/08 <sup>2</sup>	5/10/10
	141,844	5/10/04	4.86	689,362	0	22/08/08 <sup>2</sup>	5/10/10
	20,000	16/03/06	5.46	109,200	17.25	24/08/09 <sup>3</sup>	16/03/12
	52,607	21/04/08 <sup>1</sup>	3.73	196,224	12.95	18/08/11 <sup>4</sup>	21/04/14
G Dutailis	20,000	16/03/06	5.46	109,200	17.25	24/08/09 <sup>3</sup>	16/03/12
	30,000	9/03/07	7.54	226,200	25.54	18/08/11 <sup>4</sup>	9/03/13
	28,558	21/04/08 <sup>1</sup>	3.73	106,521	12.95	18/08/11 <sup>4</sup>	21/04/14
G Dover	7,500	9/03/07	7.54	56,550	25.54	18/08/11 <sup>4</sup>	9/03/13
	28,558	21/04/08 <sup>1</sup>	3.73	106,521	12.95	18/08/11 <sup>4</sup>	21/04/14
D Richardson	4,000	9/03/07	7.54	30,160	25.54	18/08/11 <sup>4</sup>	9/03/13
	11,043	21/04/08 <sup>1</sup>	3.73	41,190	12.95	18/08/11 <sup>4</sup>	21/04/14

- 1 The grant date for the 2008 performance-based Options was April 2008 with the number of Options granted based on the value per Option at the date of grant. The exercise price is based on the 5-day volume weighted average price of Babcock & Brown's shares prior to the grant date to BBW Executives.
- 2 The first exercise date for Options exercisable in 2008 is the date immediately following the results release to the ASX for Babcock & Brown for the half-year ending 30 June 2008, anticipated to be in late August 2008.
- 3 The first exercise date for Options exercisable in 2009 is the date immediately following the results release to the ASX for Babcock & Brown for the half year ending 30 June 2009, anticipated to be in late August 2009, subject to the performance hurdles for these awards being achieved.
- 4 The first exercise date for Options exercisable in 2011 is the date immediately following the results release to the ASX for Babcock & Brown for the half year ending 30 June 2011, anticipated to be in late August 2011, subject to the performance hurdle for these awards being achieved.

# Directors' Report

## EXECUTIVE EMPLOYMENT CONTRACTS

The base salaries for BBW Executives as at 30 June 2008, in accordance with their employment contract, are shown below:

	Base Remuneration per service agreement \$
<b>BBW EXECUTIVE</b>	
M George	365,000
G Dutailis	325,000
G Dover	325,000
D Richardson	175,000

The employment contracts relating to the above BBW Executives contain the conditions below.

<b>Length of contract</b>	<ul style="list-style-type: none"><li>• Open-ended</li></ul>
<b>Frequency of base remuneration review</b>	<ul style="list-style-type: none"><li>• Annual</li></ul>
<b>Benefits</b>	<ul style="list-style-type: none"><li>• BBW Executives are entitled to participate in Babcock &amp; Brown benefit plans that are made available.</li></ul>
<b>Incentive Remuneration</b>	<ul style="list-style-type: none"><li>• BBW Executives are eligible for an award of incentive remuneration (if any).</li></ul>
<b>Termination of employment</b>	<ul style="list-style-type: none"><li>• For M George, G Dutailis and D Richardson, their employment is able to be terminated by either party on one month's written notice. Babcock &amp; Brown may also elect to pay one month's salary in lieu of notice. For G Dover, his employment is able to be terminated by either party on three months' written notice. Babcock &amp; Brown may also elect to pay three months' salary in lieu of notice.</li></ul>

## DIRECTORS

The following persons were Directors of BBW during the financial year:

Name	Role	Relevant BBW Entity <sup>1</sup>
P Hofbauer	Chairman and Non-Executive Director	BBWPL, BBWPB and BBWPS
A Battle	Independent Non-Executive Director	BBWPL, BBWPB and BBWPS
D Clemson	Independent Non-Executive Director	BBWPL, BBWPB and BBWPS
N Andersen	Independent Non-Executive Director	BBWPS
W Murphy	Non-Executive Director	BBWPL, BBWPB and BBWPS

<sup>1</sup> Babcock & Brown Wind Partners Limited (BBWPL); Babcock & Brown Wind Partners (Bermuda) Limited (BBWPB); Babcock & Brown Wind Partners Services Limited (BBWPS) as responsible entity of the Babcock & Brown Wind Partners Trust.

## REMUNERATION POLICY AND STRUCTURE

Independent Directors' individual fees, including committee fees, are determined by the BBW Boards within the aggregate amount approved by securityholders. The current maximum aggregate amount which may be paid to all Non-Executive Directors is \$500,000 per annum for BBWPL and \$500,000 per annum for BBWPB. BBWPS is a subsidiary entity of the B&B Group and no maximum aggregate amount of fees for Non-Executive Directors has been set. Babcock & Brown senior executives who are Non-Executive Directors of BBW are allocated an equivalent amount of remuneration as the Independent Directors of BBW, however these senior executives do not directly receive any remuneration for their role as Director as these amounts are included as part of the fee paid to the Manager.

Independent Directors receive a cash fee for service. They do not receive any performance-based remuneration (such as Bonus Deferral Rights or Options) or any retirement benefits, other than receiving statutory superannuation.

Fees payable to Independent Directors during the year ended 30 June 2008 are set out below.

Board/Committee	Role	Fee \$
BBWPL Board	Independent Director	50,000
BBWPB Board	Independent Director	15,000
BBWPS Board	Independent Director	50,000
BBWPL/BBWPB/BBWPS Boards	Lead Independent Director	10,000
BBWPL Audit, Risk & Compliance Committee	Independent Chairman	4,333
	Independent Member	2,167
BBWPB Audit, Risk & Compliance Committee	Independent Chairman	4,333
	Independent Member	2,167
BBWPS Audit, Risk & Compliance Committee	Independent Chairman	4,333
	Independent Member	2,167
BBWPL Nomination & Remuneration Committee	Independent Chairman	4,000
	Independent Member	2,000

### DIRECTORS' MEETINGS

The number of meetings of Directors held during the year ended 30 June 2008, and the number of meetings attended by each Director, are set out below.

	Board Meetings <sup>1</sup>			Committee Meetings	
	BBWPL	BBWPB	BBWPS	Audit, Risk & Compliance	Nomination & Remuneration
Number of meetings held:	10	10	10	5	3
Number of meetings attended:					
Peter Hofbauer	10	10	10	5	3
Anthony Battle	10	10	10	5	3
Douglas Clemson	10	10	10	5	3
Nils Andersen	N/A	N/A	10	N/A	3
Warren Murphy	10	10	10	N/A	3

<sup>1</sup> Additional meetings of committees of Directors were held during the year that are not included in the above, for example where the Boards delegated authority to a committee of Directors to approve specific matters or documentation on behalf of the Boards.

Independent Non-Executive Directors also attend general business and transaction specific updates to maintain an understanding of business progress and activities. Furthermore, due to the global span of BBW's operations, and the fact that BBW's Directors are domiciled in different time zones, many of the Board and Committee meetings were held outside normal business hours.

# Directors' Report

## REMUNERATION OF DIRECTORS FOR THE YEARS ENDED 30 JUNE 2007 AND 2008

Details of the nature and amount of each element of the emoluments of each Director of BBW for the years ended 30 June 2007 and 2008 are set out in the table below.

	Year	Short-term	Post-employment	Total
		benefits	benefits	
		Fees	Superannuation	
		\$	\$	\$
<b>DIRECTOR</b>				
Peter Hofbauer <sup>1</sup>	2008	123,500	-	123,500
	2007	91,667	-	91,667
Anthony Battle	2008	124,313	11,188	135,501
	2007	93,885	8,449	102,334
Douglas Clemson	2008	119,268	10,732	130,000
	2007	89,604	8,063	97,667
Nils Andersen	2008	107,341	9,659	117,000
	2007	35,016	3,151	38,167
Warren Murphy <sup>1</sup>	2008	117,000	-	117,000
	2007	85,667	-	85,667
Total remuneration for Directors	2008	591,422	31,579	623,001
	2007	395,839	19,663	415,502

<sup>1</sup> The Non-Independent Directors do not directly receive any remuneration from BBW for undertaking the role of Director of BBW; however part of the management fee payable by BBW is designated as consideration for these services.



#### **PROCEEDINGS ON BEHALF OF BBW**

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 are outlined in Note 5 to the Financial Statements.

#### **AUDITOR'S INDEPENDENCE DECLARATION**

BBW's Auditor has provided a written declaration under section 307C of the *Corporations Act 2001* that to the best of their knowledge and belief, there have been no contraventions of:

- the Auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- the applicable Australian code of professional conduct in relation to the audit.

The auditor's independence declaration is attached to this Directors' 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



WARREN MURPHY  
Director

Sydney, 24 September 2008

# Auditor's Independence Declaration



**PricewaterhouseCoopers**  
**ABN 52 780 433 757**

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## **Auditor's Independence Declaration**

As lead auditor for the audit of Babcock & Brown Wind Partners Limited for the year ended 30 June 2008, 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.

A handwritten signature in black ink, appearing to read 'AJ Wilson'.

AJ Wilson  
Partner  
PricewaterhouseCoopers

Sydney  
24 September 2008

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# INCOME STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated		Parent Entity	
		2008 \$'000	2007 \$'000 (Restated) <sup>1</sup>	2008 \$'000	2007 \$'000
Revenue	2	414,481	125,399	18,763	13,597
Net gain on revaluation of financial assets	9	24,246	12,853	-	-
Other income	2	73,343	30,803	23,811	9,654
Gains on financial instruments from refinancing debt facilities		-	23,895	-	5,723
Operating expenses	2	(95,958)	(34,097)	(11,081)	(8,927)
Management charges	2	(29,212)	(21,093)	(23,513)	(17,078)
Depreciation and amortisation expense	2	(134,275)	(46,009)	(1,367)	(1,638)
Finance costs	2	(196,881)	(84,658)	(9,537)	(19,655)
<b>Net profit/(loss) before income tax expense</b>		<b>55,744</b>	<b>7,093</b>	<b>(2,924)</b>	<b>(18,324)</b>
Income tax benefit/(expense)	3	(15,916)	(769)	(3,487)	5,006
<b>Net profit/(loss) for the year</b>		<b>39,828</b>	<b>6,324</b>	<b>(6,411)</b>	<b>(13,318)</b>
<b>Attributable to stapled securityholders as:</b>					
Equity holders of the parent		26,525	(162)	(6,411)	(13,318)
Equity holders of the other stapled entities (minority interests)		699	5,754	-	-
		<b>27,224</b>	<b>5,592</b>	<b>(6,411)</b>	<b>(13,318)</b>
Other minority interests		12,604	732	-	-
		<b>39,828</b>	<b>6,324</b>	<b>(6,411)</b>	<b>(13,318)</b>
<b>Earnings per share of the parent based on earnings attributable to the equity holders of the parent:</b>					
Basic (cents per security)	22	3.2	0.0		
Diluted (cents per security)	22	3.2	0.0		

<sup>1</sup> Refer to Note 1(A) for further information regarding the restatement.

The above income statements should be read in conjunction with the accompanying Notes to the Financial Statements.



# BALANCE SHEETS

## AS AT 30 JUNE 2008

	Note	Consolidated		Parent Entity	
		2008 \$'000	2007 \$'000 (Restated) <sup>1</sup>	2008 \$'000	2007 \$'000
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	32	208,505	442,969	47,294	23,265
Trade and other receivables	6	194,213	43,995	38,573	49,078
Prepayments	7	29,792	7,008	1,458	1,040
Other current assets	8	927	72	-	-
Derivative financial instruments	10	33,372	5,986	6,650	3,570
<b>Total current assets</b>		<b>466,809</b>	<b>500,030</b>	<b>93,975</b>	<b>76,953</b>
<b>NON-CURRENT ASSETS</b>					
Receivables	6	38,651	-	1,012,434	799,805
Prepayments	7	15,158	23,228	4,404	9,119
Investments in financial assets	9	-	488,292	-	-
Investment in associates		271	-	-	-
Shares in controlled entities		-	-	41,474	42,860
Derivative financial instruments	10	92,068	33,983	3,177	4,646
Property, plant and equipment	11	4,887,995	1,197,296	-	-
Deferred tax assets	3	72,272	44,424	23,261	21,945
Goodwill	12	752,681	80,522	-	-
Intangible assets	13	249,525	250,703	281	1,648
<b>Total non-current assets</b>		<b>6,108,621</b>	<b>2,118,448</b>	<b>1,085,031</b>	<b>880,023</b>
<b>Total assets</b>		<b>6,575,430</b>	<b>2,618,478</b>	<b>1,179,006</b>	<b>956,976</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	14	296,392	261,345	19,630	12,726
Borrowings	15	177,921	39,241	-	2,580
Derivative financial instruments	16	9,074	264	78	-
Current tax payables	3	6,346	4,999	-	-
<b>Total current liabilities</b>		<b>489,733</b>	<b>305,849</b>	<b>19,708</b>	<b>15,306</b>
<b>NON-CURRENT LIABILITIES</b>					
Payables	14	17,196	-	-	-
Borrowings	15	3,342,304	1,301,242	1,177,253	955,534
Derivative financial instruments	16	15,293	-	75	-
Deferred tax liabilities	3	269,078	58,802	-	-
<b>Total non-current liabilities</b>		<b>3,643,871</b>	<b>1,360,044</b>	<b>1,177,328</b>	<b>955,534</b>
Institutional equity partnerships classified as liabilities	17	1,306,604	205,529	-	-
<b>Total liabilities</b>		<b>5,440,208</b>	<b>1,871,422</b>	<b>1,197,036</b>	<b>970,840</b>
<b>Net assets/(liabilities)</b>		<b>1,135,222</b>	<b>747,056</b>	<b>(18,030)</b>	<b>(13,864)</b>
<b>EQUITY HOLDERS OF THE PARENT</b>					
Contributed equity	19	4,501	4,470	4,501	4,470
Reserves	20	(42,794)	(41,420)	5,919	3,705
Retained earnings	21	8,238	(18,287)	(28,450)	(22,039)
		<b>(30,055)</b>	<b>(55,237)</b>	<b>(18,030)</b>	<b>(13,864)</b>
<b>EQUITY HOLDERS OF THE OTHER STAPLED ENTITIES (MINORITY INTERESTS)</b>					
Contributed equity	19	1,009,909	805,855	-	-
Reserves	20	(21,635)	(21,635)	-	-
Retained earnings	21	10,660	9,961	-	-
		<b>998,934</b>	<b>794,181</b>	<b>-</b>	<b>-</b>
<b>Other minority interests</b>		<b>166,343</b>	<b>8,112</b>	<b>-</b>	<b>-</b>
<b>Total equity</b>		<b>1,135,222</b>	<b>747,056</b>	<b>(18,030)</b>	<b>(13,864)</b>

<sup>1</sup> Refer to Note 1(A) for further information regarding the restatement.

The above balance sheets should be read in conjunction with the accompanying Notes to the Financial Statements.

# STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated		Parent Entity	
		2008 \$'000	2007 \$'000 (Restated) <sup>1</sup>	2008 \$'000	2007 \$'000
<b>Total equity at the beginning of the year</b>		<b>747,056</b>	<b>666,019</b>	<b>(13,864)</b>	<b>(5,624)</b>
Movement in fair value of cash flow hedge, net of tax	20	16,129	3,845	2,214	5,062
Exchange differences on translation of foreign operations and movement in fair value of net investment hedges	20	(17,503)	(31,303)	-	-
<b>Net income/(expense) recognised directly in equity</b>		<b>(1,374)</b>	<b>(27,458)</b>	<b>2,214</b>	<b>5,062</b>
Net profit/(loss) for the year		39,828	6,324	(6,411)	(13,318)
<b>Total recognised income and expense for the year</b>		<b>38,454</b>	<b>(21,134)</b>	<b>(4,197)</b>	<b>(8,256)</b>
<b>Transactions with equity holders in their capacity as equity holders:</b>					
Contributions of equity, net of transaction costs	19	283,157	168,675	31	16
Minority interest on acquisition of subsidiary		146,636	135	-	-
Securities issued as consideration for purchase of subsidiaries	19	24,480	-	-	-
Securities issued as consideration in relation to services	19	-	1,112	-	-
Distributions paid	23	(103,552)	(65,596)	-	-
Distribution to minority interest		(1,009)	(2,155)	-	-
<b>Total equity at the end of the year</b>		<b>1,135,222</b>	<b>747,056</b>	<b>(18,030)</b>	<b>(13,864)</b>
Total recognised income and expenses for the year is attributable to:					
Equity holders of the parent		25,151	(27,620)	(4,197)	(8,256)
Equity holders of the other stapled entities		699	5,754	-	-
Other minority interests		12,604	732	-	-
		<b>38,454</b>	<b>(21,134)</b>	<b>(4,197)</b>	<b>(8,256)</b>

<sup>1</sup> Refer to Note 1(A) for further information regarding the restatement.

The above statements of changes in equity should be read in conjunction with the accompanying Notes to the Financial Statements.

# CASH FLOW STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated		Parent Entity	
		2008 \$'000	2007 \$'000 (Restated) <sup>1</sup>	2008 \$'000	2007 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Profit/(loss) for the period		39,828	6,324	(6,411)	(13,318)
Adjustments for:					
Distributions paid to minority interests		(11,647)	-	-	-
Interests in institutional equity partnerships		9,051	30	-	-
(Gain)/loss on revaluation for fair value through profit or loss financial assets - financial instruments		(2,728)	(15,088)	2,417	(4,257)
Gain on revaluation for fair value through profit or loss financial assets - financial asset investments		(24,246)	(12,853)	-	-
Distributions received from financial asset investments		17,706	27,420	-	-
Depreciation and amortisation of non-current assets		134,275	46,009	1,367	1,638
Foreign exchange (gain)/loss		(2,196)	-	(6,037)	1,558
Amortisation of borrowing costs capitalised		5,817	21,570	-	6,978
Increase/(decrease) in current tax liability		(1,393)	1,367	-	-
(Increase)/decrease in deferred tax balances		15,343	(4,528)	3,487	(5,004)
Changes in operating assets and liabilities, net of effects from acquisition and disposal of businesses:					
(Increase)/decrease in assets:					
Current receivables and other current assets		(54,740)	16,899	14,320	(12,282)
Increase/(decrease) in liabilities:					
Current payables		61,743	(1,615)	2,934	3,252
<b>Net cash from operating activities</b>		<b>186,813</b>	<b>85,535</b>	<b>12,077</b>	<b>(21,435)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Payment for property, plant and equipment		(250,377)	(268,871)	-	-
Payment for intangible assets		(535)	-	-	-
Payment for investments in controlled and jointly controlled entities	32(B)	(352,967)	(74,545)	(486)	(957)
Prepaid investment		-	(899)	-	-
Payment for investments in associates		(253)	-	-	-
Payment for investments in financial assets		(540,929)	(296,533)	-	-
Proceeds from sale of investment in financial assets		-	13,764	-	-
Refund of investment prepayment		4,672	-	4,672	-
Loans advanced		(38,090)	-	-	-
Loans to related parties		(776,000)	(150,000)	(1,370,216)	(357,463)
Repayment of loans by related parties		776,000	150,000	1,150,967	67,087
<b>Net cash used in investing activities</b>		<b>(1,178,479)</b>	<b>(627,084)</b>	<b>(215,063)</b>	<b>(291,333)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from issues of equity securities, net of costs	19	253,969	153,593	28	16
Proceeds from borrowings		1,099,242	1,656,689	-	135,626
Repayment of borrowings		(483,973)	(1,086,325)	-	(143,691)
Loans from related parties		17,407	-	233,243	567,080
Repayment of borrowings to related parties		(57,095)	-	(7,471)	(286,147)
Distributions paid to securityholders		(74,490)	(50,513)	-	-
<b>Net cash provided by financing activities</b>		<b>755,060</b>	<b>673,444</b>	<b>225,800</b>	<b>272,884</b>
<b>Net increase in cash and cash equivalents</b>		<b>(236,606)</b>	<b>131,895</b>	<b>22,814</b>	<b>(39,884)</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>		<b>442,969</b>	<b>315,984</b>	<b>23,265</b>	<b>64,166</b>
Effects of exchange rate changes on the balance of cash held in foreign currencies		2,142	(4,910)	1,215	(1,017)
<b>Cash and cash equivalents at the end of the financial year</b>	32(A)	<b>208,505</b>	<b>442,969</b>	<b>47,294</b>	<b>23,265</b>

<sup>1</sup> Refer to Note 1(A) for further information regarding the restatement.

The above cash flow statements should be read in conjunction with the accompanying Notes to the Financial Statements.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 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. The financial report includes separate financial statements for Babcock & Brown Wind Partners Limited as an individual entity and the Group consisting of Babcock & Brown Wind Partners Limited and its subsidiaries.

### 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 (**BBW** 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 BBW.

### (A) BASIS OF PREPARATION

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

### Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (**AIFRS**). Compliance with AIFRS ensures that the consolidated and parent entity financial report of BBWPL complies with International Financial Reporting Standards (**IFRS**).

### Historical cost convention

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

### Correction of accounting treatment in relation to jointly controlled assets

The directors have reassessed the accounting treatment in relation to certain jointly controlled US wind farms. The wind farms include Sweetwater 1, Sweetwater 2, Sweetwater 3, Blue Canyon and Combine Hills. The wind farms had previously been recognised as investments in associates and designated as fair value through the profit and loss under AASB 139: Financial Instruments: Recognition and Measurement and AASB 128: Investments in Associates.

The directors have now determined that BBW had joint control of these interests from 30 June 2006. Joint control arises given that the strategic and operating decisions of the wind farms require unanimous consent amongst the B Class investors. As a result the directors have elected to proportionately consolidate BBW's interests in accordance with AASB 131 Interests in Joint Ventures.

The effect of the change in accounting treatment of the jointly controlled entities has been applied retrospectively and comparative information in relation to the 2007 financial year has been restated accordingly.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

The following adjustments were made as at 30 June 2007:

	30 June 2007 \$000	Accounting treatment change \$000	30 June 2007 \$000 (Restated) <sup>1</sup>
Revenue	103,716	21,683	125,399
Revaluation of financial assets	18,569	(5,716)	12,853
Other income	14,674	16,129	30,803
Gains on financial instruments from refinancing debt facilities	23,895	-	23,895
Operating expenses	(22,330)	(11,767)	(34,097)
Management charges	(21,093)	-	(21,093)
Depreciation and amortisation expense	(33,965)	(12,044)	(46,009)
Finance costs	(68,844)	(15,814)	(84,658)
<b>Net profit/(loss) before income tax expense</b>	<b>14,622</b>	<b>(7,529)</b>	<b>7,093</b>
Income tax benefit/(expense)	(769)	-	(769)
<b>Net profit/(loss) for the year</b>	<b>13,853</b>	<b>(7,529)</b>	<b>6,324</b>
<b>Attributable to stapled securityholders as:</b>			
Equity holders of the parent	7,367	(7,529)	(162)
Equity holders of the other stapled entities (minority interests)	5,754	-	5,754
	<b>13,121</b>	<b>(7,529)</b>	<b>5,592</b>
Other minority interests	732	-	732
	<b>13,853</b>	<b>(7,529)</b>	<b>6,324</b>
<b>Earnings per share of the parent based on earnings attributable to the equity holders of the parent:</b>			
Basic (cents per security)	1.2		0.0
Diluted (cents per security)	1.2		0.0

<sup>1</sup> The 2007 amounts include the effects of purchase price allocations relating to 30 June 2007.

There was no effect on the parent entity's financial statements.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

	Consolidated			
	30 June 2007 \$'000	Purchase Price Allocation \$000	Accounting treatment change \$'000	30 June 2007 \$'000 (Restated)
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	441,625	-	1,344	442,969
Trade and other receivables	40,797	-	3,198	43,995
Prepayments	6,090	-	918	7,008
Other current assets	72	-	-	72
Derivative financial instruments	5,986	-	-	5,986
<b>Total current assets</b>	<b>494,570</b>	<b>-</b>	<b>5,460</b>	<b>500,030</b>
<b>NON-CURRENT ASSETS</b>				
Receivables	-	-	-	-
Prepayments	23,228	-	-	23,228
Investments in financial assets	581,033	-	(92,741)	488,292
Derivative financial instruments	33,983	-	-	33,983
Property, plant and equipment	937,659	7,312	252,325	1,197,296
Deferred tax assets	44,424	-	-	44,424
Goodwill	115,739	(74,629)	39,412	80,522
Intangible assets	156,839	93,864	-	250,703
<b>Total non-current assets</b>	<b>1,892,905</b>	<b>26,547</b>	<b>198,996</b>	<b>2,118,448</b>
<b>Total assets</b>	<b>2,387,475</b>	<b>26,547</b>	<b>204,456</b>	<b>2,618,478</b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables	257,049	-	4,296	261,345
Borrowings	39,241	-	-	39,241
Derivative financial instruments	264	-	-	264
Current tax payables	4,999	-	-	4,999
<b>Total current liabilities</b>	<b>301,553</b>	<b>-</b>	<b>4,296</b>	<b>305,849</b>
<b>NON-CURRENT LIABILITIES</b>				
Borrowings	1,299,644	-	1,598	1,301,242
Derivative financial instruments	-	-	-	-
Deferred tax liabilities	32,255	26,547	-	58,802
<b>Total non-current liabilities</b>	<b>1,331,899</b>	<b>26,547</b>	<b>1,598</b>	<b>1,360,044</b>
Institutional equity partnerships classified as liabilities	-	-	205,529	205,529
<b>Total liabilities</b>	<b>1,633,452</b>	<b>26,547</b>	<b>211,423</b>	<b>1,871,422</b>
<b>Net assets/(liabilities)</b>	<b>754,023</b>	<b>-</b>	<b>(6,967)</b>	<b>747,056</b>
<b>EQUITY HOLDERS OF THE PARENT</b>				
Contributed equity	4,470	-	-	4,470
Reserves	(41,982)	-	562	(41,420)
Retained earnings	(10,758)	-	(7,529)	(18,287)
	<b>(48,270)</b>	<b>-</b>	<b>(6,967)</b>	<b>(55,237)</b>
<b>EQUITY HOLDERS OF THE OTHER STAPLED ENTITIES (MINORITY INTERESTS)</b>				
Contributed equity	805,855	-	-	805,855
Reserves	(21,635)	-	-	(21,635)
Retained earnings	9,961	-	-	9,961
	<b>794,181</b>	<b>-</b>	<b>-</b>	<b>794,181</b>
<b>Other minority interests</b>	<b>8,112</b>	<b>-</b>	<b>-</b>	<b>8,112</b>
<b>Total equity</b>	<b>754,023</b>	<b>-</b>	<b>(6,967)</b>	<b>747,056</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

### (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, BBWPT and its controlled entities and BBWPB.

In accordance with UIG 1013, consolidated financial statements have been prepared by BBWPL as the identified parent of BBW. The financial statements of BBW should be read in conjunction with the separate financial statements of BBWPT for the period ended 30 June 2008.

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 BBW has entered into stapling arrangements both pre and post transition to AIFRS, the interests of the equity holders in all stapled securities (regardless of whether the stapling occurred pre or post transition to AIFRS) 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 all subsidiaries of BBWPL as at 30 June 2008 and the results of all subsidiaries for the year then ended. BBWPL and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer Note 1(F)).

The Group applies a policy of treating transactions with minority interests as transactions with a shareholder. Purchases from minority interests result in an acquisition reserve being the difference between any consideration paid and the relevant share acquired of the carrying value of identifiable net assets of the subsidiary.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheets respectively.

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

#### (ii) Jointly controlled entities

Jointly controlled entities, consolidated under the proportionate consolidation method, are entities over whose activities the Group has joint control, under a contractual agreement, together with the other owners of the entity. The consolidated financial statements include the Group's proportionate share of the joint venture's assets and liabilities, revenues and expenses, from the date the joint control begins until it ceases.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## **1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)**

### **(D) INVESTMENT IN FINANCIAL ASSETS**

Financial assets comprise institutional equity partnerships where the Group does not have the power to govern the financial and operating policies of the entity. Financial assets are recognised at fair value each reporting period through profit and loss.

Revaluations of financial assets are determined using a discounted cash flow analysis. The methodology applied continues to be a generally accepted methodology for valuing wind farms and a basis in which market participants price new acquisitions.

### **(E) TRADE AND OTHER PAYABLES**

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

### **(F) 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 Group's share of the identifiable net assets acquired is recorded as goodwill (refer Note 1(P)). If the cost of acquisition 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.

### **(G) BORROWINGS**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down on the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

### (H) BORROWING COSTS

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

### (I) 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.

### (J) PROPERTY, PLANT AND EQUIPMENT

Plant and equipment, including equipment under finance lease, are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the item. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. 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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is recognised. All other repairs and maintenance are charged to the income statement during the reporting period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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
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### (K) DERIVATIVE FINANCIAL INSTRUMENTS

The 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 Group designates certain derivatives as either hedges of the cashflows of highly probable forecast transactions (cash flow hedges) or hedges of net investments in foreign operations (net investment hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

#### (i) Cash flow hedge

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

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within "finance costs". The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in the income statement within "sales". However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, fixed assets) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as depreciation in the case of fixed assets.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## **1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)**

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.

### **(ii) Net investment hedge**

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 partially disposed of or sold.

### **(iii) 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.

## **(L) GOODS AND SERVICES TAX (GST)**

Revenues, expenses and assets are recognised net of the amount of associated GST unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST component of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

## **(M) 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.

## **(N) FOREIGN CURRENCY TRANSLATION**

### **(i) 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.

### **(ii) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when they are deferred in equity as qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Translation differences on non-monetary financial assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

### (iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

### (O) INCOME TAX

#### (i) 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 the 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).

#### (ii) 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 realised 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 realised. However, deferred tax assets and liabilities are not realised 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 realised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are realised for taxable temporary differences arising on investments in subsidiaries and associates except where the Group 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 realised to the extent that it is probable that there will be sufficient taxable profits against which to realise 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 the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group 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/Group intends to settle its current tax assets and liabilities on a net basis.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

### (iii) 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.

Current and deferred tax is determined in reference to the tax jurisdiction in which the relevant entity resides.

### (iv) 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.

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 recognises 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 recognised 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.

## (P) INTANGIBLE ASSETS

### (i) Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities acquired at the date of acquisition. Goodwill on acquisition is separately disclosed in the balance sheet. Goodwill acquired in business combinations is not amortised, but tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is amortised immediately in the income statement and is not subsequently reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operation by each primary reporting segment.

### (ii) 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 amortised. To the extent that an agreement relates to a specific asset(s), the related costs are amortised as an ancillary cost of acquisition. Where an agreement does not relate to a specific asset, the costs are amortised over the period of the agreements, which vary from 15 months to three years.

### (iii) Licences

Licences are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives, which are based on the lease term of the related wind farm.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

### (Q) 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.

#### (i) Group 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.

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 recognised in accordance with the Group's general policy on borrowing costs.

Finance leased assets are amortised on a straight line basis over the shorter of the lease term and 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.

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.

#### (ii) Group as lessor

Refer to Note 1(V) for the accounting policy in respect of lease income from operating leases.

### (R) 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 Group 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 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.

### (S) CASH AND CASH EQUIVALENTS

For cash flow statement presentation purposes, cash and cash equivalents comprise cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

### (T) PROVISIONS

Provisions are recognised when the consolidated group has a present legal or constructive obligation as a result of past events, 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 the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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.

### (U) DISTRIBUTIONS AND DIVIDENDS

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

### (V) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

#### (i) Electricity 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.

#### (ii) Lease income

In accordance with *UIG 4 Determining whether an Asset Contains a Lease*, revenue generated under certain power purchase agreements are classified as lease income.

Lease income from operating leases is recognised in income on an accruals basis. Lease income 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.

#### (iii) Production Tax Credits (PTCs)

PTCs are recognised as revenue when generated by the underlying wind farm assets and utilised to settle the obligation to Class A institutional investors.

#### (iv) Accelerated tax depreciation credits and operating tax gains/(losses)

The accelerated tax depreciation credits on wind farm assets are utilised to settle the obligation to Class A institutional investors when received. The associated revenue is recognised over the 25-year life of the wind farm to which they relate.

#### (v) Revaluation of financial assets

Income from investments in financial assets at fair value through profit or loss constitutes changes in the fair value of investments in unlisted securities. Income relating to these investments is brought to account as described in Note 1(D).

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

### (vi) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

### (vii) Other income

Interest income is recognised using the effective interest method.

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

Revenue from rendering of services is recognised when services are provided.

### (W) LOANS AND RECEIVABLES

Trade receivables, loans and other receivables are recorded at amortised cost less impairment. Trade receivables are generally due for settlement within 30 days.

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 impairment loss is recognised in the income statement within other expenses. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

### (X) 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, for example, 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.

### (Y) 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 that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## **1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)**

### **(Z) FAIR VALUE ESTIMATION**

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

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 asking 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 carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. 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.

### **(AA) INSTITUTIONAL EQUITY PARTNERSHIPS CLASSIFIED AS LIABILITIES**

#### **(i) Class A members**

Initial contributions by Class A members into US partnerships are recognised at cost using the effective interest method. Class A carrying amounts are adjusted when actual cash flow differs from estimated cash flow. The adjustment is calculated by computing the present value of the actual difference using the original effective interest rate. The adjustment is recognised through income or expense in profit or loss.

This difference represents the change in residual interest due to the Class A institutional investors.

#### **(ii) Class B members**

On consolidation of the US partnerships the Group's Class B membership interest and associated finance charge for the year is eliminated and any external Class B member balances remaining represents net assets of US partnerships attributable to minority interests. Refer 1(C) for further details of the Group's accounting policy for consolidation.

### **(AB) ROUNDING OF AMOUNTS**

The Group 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.

### **(AC) NEW ACCOUNTING STANDARDS AND UIG INTERPRETATIONS**

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

#### **(i) AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8**

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a "management approach" to reporting on the financial performance. The information being reported will be based on what the key decision-makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group has not yet decided when to adopt AASB 8. Application of AASB 8 may result in different segments, segment results and different type of information being reported in the segment note of the financial report. However, it will not affect any of the amounts recognised in the financial statements.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

### **(ii) Revised AASB 123 *Borrowing Costs* and AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 and 12]***

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and - when adopted - will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Group, as the Group already capitalises borrowing costs relating to assets under construction.

### **(iii) Revised AASB 101 *Presentation of Financial Statements* and AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101***

The revised AASB 101 that was issued in September 2007 is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or a reclassification of items in the financial statements, it will also need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Group intends to apply the revised standard from 1 July 2009.

### **(iv) Revised AASB 3 *Business Combinations*, AASB 127 *Consolidated and Separate Financial Statements* and AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127***

Revised accounting standards for business combinations and consolidated financial statements were issued in March 2008 and are operative for annual reporting periods beginning on or after 1 July 2009, but may be applied earlier. The Group has not yet decided when it will apply the revised standards. However, the new rules generally apply only prospectively to transactions that occur after the application date of the standard. Their impact will therefore depend on whether the Group will enter into any business combinations or other transactions that affect the level of ownership held in the controlled entities in the year of initial application. For example, under the new rules:

- all payments (including contingent consideration) to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments subsequently remeasured at fair value through income
- all transaction cost will be expensed
- the Group will need to decide whether to continue calculating goodwill based only on the parent's share of net assets or whether to recognise goodwill also in relation to the non-controlling (minority) interest, and
- when control is lost, any continuing ownership interest in the entity will be remeasured to fair value and a gain or loss recognised in profit or loss.

### **(v) AASB 2008-7 *Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate***

In July 2008, the AASB approved amendments to AASB 1 *First-time Adoption of International Financial Reporting Standards* and AASB 127 *Consolidated and Separate Financial Statements*. The new rules will apply to financial reporting periods commencing on or after 1 January 2009. The Group will apply the revised rules prospectively from 1 July 2009. After that date, all dividends received from investments in subsidiaries, jointly controlled entities or associates will be recognised as revenue, even if they are paid out of pre-acquisition profits, but the investments may need to be tested for impairment as a result of the dividend payment. Furthermore, when a new intermediate parent entity is created in internal reorganisations it will measure its investment in subsidiaries at the carrying amounts of the net assets of the subsidiary rather than the subsidiary's fair value.

### **(vi) AASB Interpretation 16 *Hedges of a Net Investment in a Foreign Operation***

AASB-I 16 was issued in August 2008 and applies to reporting periods commencing on or after 1 October 2008. The interpretation clarifies which foreign currency risks qualify as hedged risk in the hedge of a net investment in a foreign operation and that hedging instruments may be held by any entity or entities within the group. It also provides guidance on how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item. The Group will apply the interpretation prospectively from 1 July 2009.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## **1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)**

### **(AD) 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(J) 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) Estimated impairment of goodwill**

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 1(R). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to Note 12 for details of these assumptions and the potential impact of changes to the assumptions.

#### **(iii) 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.

#### **(iv) Forecast cash flows and discount rates**

As disclosed in Note 1(D), financial assets comprise institutional equity partnerships where the Group does not have the power to govern the financial and operating policies of the entity. Financial assets are recognised at fair value each reporting period through profit and loss using a discounted cash flow methodology.

This methodology requires assumptions to be made in respect of forecast cash flows and discount rates. These assumptions are subject to variation from period to period.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 2. PROFIT FROM OPERATIONS

	Consolidated		Parent Entity	
	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000
<b>REVENUE</b>				
Revenue from the sale of energy and products	270,566	77,566	-	-
Revenue from lease of plant and equipment <sup>1</sup>	137,964	44,656	-	-
Compensation for revenues lost as a result of O&M providers not meeting contracted turbine availability targets	5,951	3,177	-	-
Revenue from the rendering of services	-	-	18,763	13,597
	<b>414,481</b>	<b>125,399</b>	<b>18,763</b>	<b>13,597</b>
<b>OTHER INCOME</b>				
Interest income	16,128	10,398	8,141	3,531
Foreign exchange gains	10,173	2,826	14,837	4,669
Fair value gains on financial instruments	5,787	1,970	-	1,454
Value of benefits provided - production tax credits (Class A) <sup>2</sup>	52,824	16,013	-	-
Value of benefits provided - tax losses (Class A) <sup>2</sup>	75,571	16,596	-	-
Benefits deferred during the period <sup>2</sup>	(88,228)	(17,349)	-	-
Other income	1,088	349	833	-
	<b>73,343</b>	<b>30,803</b>	<b>23,811</b>	<b>9,654</b>
<b>Profit/(loss) before income tax has been arrived at after charging the following expenses:</b>				
Administration, consulting and legal fees	13,133	3,595	11,081	8,927
Wind farm operations and maintenance costs	82,825	30,502	-	-
	<b>95,958</b>	<b>34,097</b>	<b>11,081</b>	<b>8,927</b>
Depreciation of property, plant and equipment	124,975	40,993	-	-
Amortisation of intangible assets	9,300	5,016	1,367	1,638
	<b>134,275</b>	<b>46,009</b>	<b>1,367</b>	<b>1,638</b>
<b>Finance costs:</b>				
Interest expense	135,285	42,447	6,716	10,665
Fair value losses on financial instruments	2,984	2,735	2,417	-
Write-off of capitalised loans costs due to refinancing	-	15,965	-	5,090
Allocation of return on outstanding balance (Class A) <sup>2</sup>	39,522	12,960	-	-
Movement in residual interest (Class A) <sup>2</sup>	5,108	2,330	-	-
Minority interest (Class B) <sup>2</sup>	4,588	-	-	-
Bank fees and loan amortisation costs	9,394	8,221	404	3,900
	<b>196,881</b>	<b>84,658</b>	<b>9,537</b>	<b>19,655</b>
<b>Management charges<sup>3</sup>:</b>				
Base fees	20,487	14,770	14,788	10,755
Incentive fee	-	-	-	-
Management expenses	8,725	6,323	8,725	6,323
	<b>29,212</b>	<b>21,093</b>	<b>23,513</b>	<b>17,078</b>

<sup>1</sup> Under UIG INT 4, certain of BBW's contractual arrangements relating to electricity supply have been classified as leases.

<sup>2</sup> Refer Note 17 for further details.

<sup>3</sup> Refer Note 30 for further details.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 3. INCOME TAXES

	Consolidated		Parent Entity	
	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000
<b>(A) INCOME TAX EXPENSE</b>				
Income tax comprises:				
Current tax	3,586	(7,214)	2,927	(5,234)
Deferred tax	12,330	7,983	560	228
	<b>15,916</b>	<b>769</b>	<b>3,487</b>	<b>(5,006)</b>
Deferred income tax expense included in income tax (revenue)/expense comprises:				
Decrease/(increase) in deferred tax assets	235	17,032	(298)	(71)
(Decrease)/increase in deferred tax liabilities	12,095	(9,049)	858	299
	<b>12,330</b>	<b>7,983</b>	<b>560</b>	<b>228</b>
<b>(B) NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE/(BENEFIT) TO PRIMA FACIE TAX PAYABLE:</b>				
Profit/(loss) from continuing operations before income tax expense	55,744	7,093	(2,924)	(18,324)
Income tax expense calculated at 30% (2007: 30%)	16,723	2,128	(877)	(5,497)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Non-deductible expenses	2,323	770	1,316	-
Non-assessable income	(15,855)	(3,637)	-	-
Non-deductible expenses for trade tax purposes	12	95	-	-
Amortisation of framework agreements	410	491	410	491
Non-deductible interest expense	14,007	-	2,638	-
Management fee	-	1,195	-	-
Unrealised foreign exchange movement	(81)	-	-	-
Sundry items	368	121	-	-
Difference in overseas tax rates	(102)	(394)	-	-
Previously unrecognised tax losses	(1,889)	-	-	-
<b>Income tax expense/(benefit)</b>	<b>15,916</b>	<b>769</b>	<b>3,487</b>	<b>(5,006)</b>



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 3. INCOME TAXES (CONTINUED)

	Consolidated		Parent Entity	
	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000
<b>(C) AMOUNTS RECOGNISED DIRECTLY IN EQUITY</b>				
The following deferred amounts were not recognised in net profit or loss but charged directly to equity during the period:				
Deferred tax asset	(7,601)	(16,761)	-	-
Deferred tax liabilities	3,071	9,825	948	(2,322)
<b>Net deferred tax</b>	<b>(4,530)</b>	<b>(6,936)</b>	<b>948</b>	<b>(2,322)</b>
<b>(D) TAX LOSSES</b>				
Unused tax losses for which no deferred tax asset has been recognised	(35,313)	-	(31,343)	-
<b>Potential tax benefit at 30%</b>	<b>(10,594)</b>	<b>-</b>	<b>(9,403)</b>	<b>-</b>

### (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 27.

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		Parent Entity	
	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000
<b>(F) CURRENT TAX LIABILITIES</b>				
<b>Current tax payables:</b>				
Income tax payable attributable to:				
Australian entities in the group	580	1,079	-	-
Overseas entities in the group	5,766	3,920	-	-
	<b>6,346</b>	<b>4,999</b>	<b>-</b>	<b>-</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 3. INCOME TAXES (CONTINUED)

Taxable and deductible temporary differences arise from the following:

	Consolidated				
	Opening balance \$'000	Charged to income \$'000	Charged to equity \$'000	Acquisitions/ disposals \$'000	Closing balance \$'000
<b>2008</b>					
<b>Gross deferred tax assets:</b>					
Unused revenue tax losses - corporate and trade	25,202	(1,851)	-	9,342	32,693
Deductible goodwill	-	-	-	7,921	7,921
Deductible equity raising costs	80	-	-	-	80
Effect of hedge movements	2,943	(2,138)	7,601	-	8,406
Unrealised foreign exchange loss	15,078	5,700	-	-	20,778
Other	1,121	(1,946)	-	3,219	2,394
	<b>44,424</b>	<b>(235)</b>	<b>7,601</b>	<b>20,482</b>	<b>72,272</b>
<b>Gross deferred tax liabilities:</b>					
Depreciation	(45,351)	(7,665)	-	(188,118)	(241,134)
Effect of hedge movements	(12,363)	2,064	(12,405)	(2,327)	(25,031)
Unrealised foreign exchange gains	-	(6,531)	9,334	-	2,803
Other	(1,088)	37	-	(4,665)	(5,716)
	<b>(58,802)</b>	<b>(12,095)</b>	<b>(3,071)</b>	<b>(195,110)</b>	<b>(269,078)</b>

	Consolidated				
	Opening balance \$'000	Charged to income \$'000	Charged to equity \$'000	Acquisitions/ disposals \$'000	Closing balance \$'000
<b>2007</b>					
<b>Gross deferred tax assets:</b>					
Unused revenue tax losses - corporate	9,222	15,415	-	-	24,637
Unused tax losses for trade tax purposes	64	501	-	-	565
Deductible equity raising costs	119	-	(39)	-	80
Effect of hedge movements	731	-	2,212	-	2,943
Unrealised foreign exchange loss	490	-	14,588	-	15,078
Other	5	1,116	-	-	1,121
	<b>10,631</b>	<b>17,032</b>	<b>16,761</b>	<b>-</b>	<b>44,424</b>
<b>Gross deferred tax liabilities:</b>					
Depreciation	(9,755)	(9,049)	-	(26,547)	(45,351)
Effect of hedge movements	(2,932)	-	(9,431)	-	(12,363)
Other	(694)	-	(394)	-	(1,088)
	<b>(13,381)</b>	<b>(9,049)</b>	<b>(9,825)</b>	<b>(26,547)</b>	<b>(58,802)</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 3. INCOME TAXES (CONTINUED)

	Consolidated		Parent Entity	
	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000
Deferred tax assets to be recovered within 12 months	-	-	-	-
Deferred tax assets to be recovered after more than 12 months	72,272	44,424	23,261	21,945
	<b>72,272</b>	<b>44,424</b>	<b>23,261</b>	<b>21,945</b>
Deferred tax liabilities to be settled within 12 months	-	-	-	-
Deferred tax liabilities to be settled after more than 12 months	269,078	58,802	-	-
	<b>269,078</b>	<b>58,802</b>	<b>-</b>	<b>-</b>

## 4. KEY MANAGEMENT PERSONNEL REMUNERATION

### DETAILS OF KEY MANAGEMENT PERSONNEL

The Key Management Personnel (KMP) of BBW during the year were:

Name	Role
M George	Chief Executive Officer
G Dutailis	Chief Operating Officer
G Dover	Chief Financial Officer
D Richardson	Company Secretary

### KEY MANAGEMENT PERSONNEL REMUNERATION

The aggregate remuneration of KMPs of BBW over FY07 and FY08 is set out below:

Name	2008	2007
Short-term employee benefits	2,413,250	2,391,687
Post-employment benefits (superannuation)	52,516	50,744
Other Long-term benefits/Share-based payments	1,504,837	304,201
<b>Total</b>	<b>3,970,603</b>	<b>2,746,632</b>

### OPTIONS HELD OVER BBW SECURITIES

No options were granted over BBW securities to KMPs during FY07 and FY08. No BBW securities were acquired by KMPs upon the exercise of options during FY07 and FY08.

### SECURITY HOLDINGS IN BBW

No BBW securities were granted as remuneration to KMPs during FY07 and FY08. Security holdings of KMPs, including their personally related parties, in BBW securities over the period 1 July 2007 to 30 June 2008 are set out below.

	Balance 1 July 2007	Acquired during the year	Sold during the year	Balance 30 June 2008
M George	500,000	-	-	500,000
G Dutailis	565,000	42,820	-	607,820
G Dover	10,000	-	-	10,000
D Richardson	5,000	3,530	-	8,530

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 4. KEY MANAGEMENT PERSONNEL REMUNERATION (CONTINUED)

Security holdings of KMPs, including their personally related parties, in BBW securities over the period 1 July 2006 to 30 June 2007 are set out below.

	Balance 1 July 2006	Acquired during the year	Sold during the year	Balance 30 June 2007
M George	250,000	250,000	-	500,000
G Dutailis	535,000	30,000	-	565,000
G Dover	-	10,000	-	10,000
D Richardson	-	5,000	-	5,000
P O'Connell <sup>1</sup>	357,000	-	357,000	-

<sup>1</sup> P O'Connell resigned as Chief Executive Officer of BBW effective 31 December 2006.

## LOANS TO KEY PERSONNEL AND THEIR PERSONALLY RELATED ENTITIES FROM BBW

No loans have been made by BBW to KMPs or their personally related parties during FY07 and FY08.

There are no other transactions with KMPs.

## 5. REMUNERATION OF AUDITORS

	Consolidated		Parent Entity	
	2008 \$	2007 \$	2008 \$	2007 \$
<b>PRICEWATERHOUSECOOPERS: AUDIT SERVICES</b>				
Audit and review of the financial report	1,601,561	862,639	52,631	30,125
<b>Total remuneration for audit services</b>	<b>1,601,561</b>	<b>862,639</b>	<b>52,631</b>	<b>30,125</b>
<b>PRICEWATERHOUSECOOPERS: NON-AUDIT SERVICES</b>				
<b>Audit related services</b>				
Due diligence services	373,400	132,990	-	13
<b>Taxation services</b>				
Review of transfer pricing arrangements	-	9,900	-	9,900
<b>Total remuneration for non-audit services</b>	<b>373,400</b>	<b>142,890</b>	<b>-</b>	<b>9,913</b>

## 6. TRADE AND OTHER RECEIVABLES

	Consolidated		Parent Entity	
	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000
<b>CURRENT</b>				
Trade receivables and accrued income	70,414	20,028	-	-
Interest receivable	63	170	1,221	676
Amounts due from related parties (Note 30)	10,532	-	37,352	47,456
Goods and Services Tax and other tax receivables	78,891	22,739	-	946
Other receivables	34,313	1,058	-	-
	<b>194,213</b>	<b>43,995</b>	<b>38,573</b>	<b>49,078</b>
<b>NON-CURRENT</b>				
Other receivables	38,651	-	-	-
Amounts due from related parties (Note 30)	-	-	1,012,434	799,805
	<b>38,651</b>	<b>-</b>	<b>1,012,434</b>	<b>799,805</b>



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 6. TRADE AND OTHER RECEIVABLES (CONTINUED)

### (A) IMPAIRMENT OF TRADE RECEIVABLES

There were no impaired trade receivables for the Group or the parent entity in 2008 or 2007.

### (B) PAST DUE BUT NOT IMPAIRED

As of 30 June 2008, trade receivables of \$2,337,000 (2007: \$nil) were past due but not impaired. Refer to Note 33 for more information. These relate to a number of independent customers for whom there is no recent history of default.

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due. The Group does not hold any collateral in relation to these receivables, other than \$40,000,000 (EUR 26,430,000) (2007: \$nil) for bank guarantees issued to the constructor of the Plambeck wind farms in Germany.

### (C) OTHER RECEIVABLES

These amounts generally arise from transactions outside the usual operating activities of the Group.

### (D) FOREIGN EXCHANGE AND INTEREST RATE RISK

Information about the Group's and the parent entity exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in Note 33.

### (E) FAIR VALUE AND CREDIT RISK

Due to the nature of these receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to Note 33 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

## 7. PREPAYMENTS

	Consolidated		Parent Entity	
	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000
<b>CURRENT</b>				
Prepaid operations expenses	23,367	5,382	-	-
Other prepayments	6,425	1,626	1,458	1,040
	<b>29,792</b>	<b>7,008</b>	<b>1,458</b>	<b>1,040</b>
<b>NON-CURRENT</b>				
Prepaid operations expenses	10,754	14,109	-	-
Prepaid investment costs	4,404	9,119	4,404	9,119
	<b>15,158</b>	<b>23,228</b>	<b>4,404</b>	<b>9,119</b>

## 8. OTHER CURRENT ASSETS

	Consolidated		Parent Entity	
	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000
Other	927	72	-	-
	<b>927</b>	<b>72</b>	<b>-</b>	<b>-</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 9. FINANCIAL ASSETS

Financial assets comprise institutional equity partnerships in the United States where the Group does not have the power to govern the financial and operating policies of the entity. During the current year the Directors determined that the Group had obtained the power to govern the financial and operating policies of these partnerships and hence controls or jointly controls these partnerships. For further information see Note 1(A). Revaluations of financial assets up until the date of control were determined using a discounted cash flow analysis.

	Consolidated		Parent Entity	
	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000
<b>Balance at 1 July</b>	<b>488,292</b>	<b>107,101</b>	-	-
Additions/disposals	360,261	423,987	-	-
Distributions received from investments <sup>1</sup>	(17,854)	(28,248)	-	-
Net revaluation	24,246	12,853	-	-
Foreign exchange gain/(loss)	(14,244)	(27,401)	-	-
Reclassification upon obtaining control <sup>2</sup>	(642,363)	-	-	-
Reclassification upon obtaining joint control <sup>2</sup>	(198,338)	-	-	-
<b>Balance at 30 June</b>	<b>-</b>	<b>488,292</b>	<b>-</b>	<b>-</b>

1 Includes distributions paid to minority interests.

2 The transfer to cost of acquisition was \$642,363,000 for consolidated entities and \$198,338,000 for jointly controlled entities.

Refer to Note 17 for further information on the accounting treatment and Note 28 for provisional values of net assets/liabilities acquired.

## 10. DERIVATIVE FINANCIAL INSTRUMENTS - ASSETS

	Consolidated		Parent Entity	
	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000
<b>CURRENT</b>				
<b>At fair value:</b>				
Foreign currency forward contracts - cash flow hedges	6,650	3,464	6,650	3,464
Interest rate swaps - cash flow hedges	26,722	2,522	-	106
	<b>33,372</b>	<b>5,986</b>	<b>6,650</b>	<b>3,570</b>
<b>NON-CURRENT</b>				
<b>At fair value:</b>				
Foreign currency forward contracts - cash flow hedges	3,177	2,036	3,177	2,036
Interest rate swaps - cash flow hedges	88,891	31,947	-	2,610
	<b>92,068</b>	<b>33,983</b>	<b>3,177</b>	<b>4,646</b>

Refer to Note 33 for further information.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 11. PROPERTY, PLANT AND EQUIPMENT

	Consolidated		
	Assets under construction \$'000	Plant and Equipment at cost \$'000	Total \$'000
<b>GROSS CARRYING AMOUNT</b>			
<b>Balance at 1 July 2006 (Restated)</b>	<b>40,681</b>	<b>919,684</b>	<b>960,365</b>
Additions	241,569	34,031	275,600
Transfers	(41,950)	41,950	-
Acquisitions through business combinations	-	82,960	82,960
Net foreign currency exchange differences	(1,440)	(66,428)	(67,868)
<b>Balance at 1 July 2007 (Restated)</b>	<b>238,860</b>	<b>1,012,197</b>	<b>1,251,057</b>
Additions	259,441	443,122	702,563
Transfers	(111,341)	111,341	-
Acquisitions through business combinations	173,223	3,139,836	3,313,059
Net foreign currency exchange differences	(879)	(202,672)	(203,551)
<b>Balance at 30 June 2008</b>	<b>559,304</b>	<b>4,503,824</b>	<b>5,063,128</b>
<b>ACCUMULATED DEPRECIATION/AMORTISATION AND IMPAIRMENT</b>			
<b>Balance at 1 July 2006 (Restated)</b>	<b>-</b>	<b>(22,555)</b>	<b>(22,555)</b>
Depreciation expense	-	(40,993)	(40,993)
Adjustments due to purchase price allocation exercise <sup>1</sup>	-	7,312	7,312
Net foreign currency exchange differences	-	2,475	2,475
<b>Balance at 1 July 2007 (Restated)</b>	<b>-</b>	<b>(53,761)</b>	<b>(53,761)</b>
Depreciation expense	-	(124,975)	(124,975)
Net foreign currency exchange differences	-	3,603	3,603
<b>Balance at 30 June 2008</b>	<b>-</b>	<b>(175,133)</b>	<b>(175,133)</b>
<b>NET BOOK VALUE</b>			
<b>As at 30 June 2007</b>	<b>238,860</b>	<b>958,436</b>	<b>1,197,296</b>
<b>As at 30 June 2008</b>	<b>559,304</b>	<b>4,328,691</b>	<b>4,887,995</b>

<sup>1</sup> \$7,312,000 relates to an adjustment to the useful life of Property, Plant and Equipment that resulted from a purchase price allocation exercise that was completed during the year ended 30 June 2008 in relation to the Monte Seixo and Serra do Cando wind farms.

The Group has certain assets valued at \$55,583,000 which are accounted for under finance leases (2007: \$56,036,000). Refer Note 15 and Note 26.

Assets under construction are deemed to be qualifying assets. Borrowing costs that are directly attributable to the construction of a qualifying asset are capitalised as part of the cost of that asset.

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

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 12. GOODWILL

	Consolidated		Parent Entity	
	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000
<b>GROSS CARRYING AMOUNT</b>				
Balance at beginning of financial year	80,522	59,465	-	-
Additional amounts recognised from business combinations occurring during the period (Note 28)	646,980	26,554	-	-
Additional amounts recognised from joint ventures occurring during the period	49,023	-	-	-
Net foreign currency exchange differences	(23,844)	(5,497)	-	-
<b>Balance at end of financial year</b>	<b>752,681</b>	<b>80,522</b>	-	-

### (A) PROVISIONAL ALLOCATION OF GOODWILL TO CASH-GENERATING UNITS

In accordance with AASB 3 *Business Combinations* an exercise to allocate the purchase price paid for each of the acquisitions of the Valdeconejos, Enersis, Almeria, Capital, Hiddestorf, Apfelbaum and US wind farms 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.

### (B) AMOUNTS RECLASSIFIED FOLLOWING A PURCHASE PRICE REALLOCATION EXERCISE

Goodwill of \$99,224,000 was provisionally recognised in relation to the purchase of the Monte Seixo and Serra do Cando wind farms during the year ended 30 June 2007. Following the allocation of the purchase price, goodwill of \$72,670,000 has been transferred to intangible assets (\$91,905,000), property, plant and equipment (\$7,312,000) and deferred tax liability (\$26,547,000).

Goodwill of \$979,000 was provisionally recognised in relation to the purchase of the Conjuero wind farm during the year ended 30 June 2007. Following the allocation of the purchase price, goodwill of \$979,000 has been transferred to intangible assets.

Goodwill of \$980,000 was provisionally recognised in relation to the purchase of the Kaarst wind farm during the year ended 30 June 2007. Following the allocation of the purchase price, goodwill of \$980,000 has been transferred to intangible assets.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 12. GOODWILL (CONTINUED)

### (C) IMPAIRMENT TESTS FOR GOODWILL

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to country of operation.

A segment-level summary of the goodwill allocation is presented below.

	Consolidated	
	2008 \$'000	2007 \$'000 (Restated)
United States	210,955	39,412
Australia	50,150	-
Germany	17,595	14,556
Spain	185,627	26,554
Portugal	288,354	-
	<b>752,681</b>	<b>80,522</b>

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering the life of the wind farm.

### (D) KEY ASSUMPTIONS FOR VALUE-IN-USE CALCULATIONS

The Group makes assumptions in calculating the value-in-use of its CGUs including assumptions around expected wind speeds. In performing these calculations for each CGU, the Group has applied discount rates in the range of 9% - 10% (2007: 8% - 9%). The discount rates used reflect specific risks relating to the relevant countries in which they operate. In determining future cash flows, the Group has used Long-term Mean Energy Production estimates (P50) to reflect the expected performance of the assets beyond the budget period. The Long-term Mean Energy Production is estimated by independent technical consultants on behalf of the Group for each wind farm. For wind farms with power purchase agreements, future growth rates are based on CPI in the relevant jurisdiction. For wind farms subject to market prices, future growth rates are based on long-term industry price expectations.

Management does not consider a change in any of the key assumptions to be reasonably possible.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 13. INTANGIBLE ASSETS

	Consolidated		
	Framework agreement \$'000	Project-related agreements and licenses \$'000	Total \$'000
<b>GROSS CARRYING AMOUNT</b>			
Balance at 1 July 2006 (Restated)	5,100	170,675	175,775
Transfers	(300)	-	(300)
Adjustments due to purchase price allocation exercise (i)	-	93,864	93,864
Net foreign currency exchange differences	-	(9,721)	(9,721)
Balance at 1 July 2007 (Restated)	4,800	254,818	259,618
Additions	-	535	535
Net foreign currency exchange differences	-	7,778	7,778
Balance at 30 June 2008	4,800	263,131	267,931
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT</b>			
Balance at 1 July 2006 (Restated)	(1,514)	(2,750)	(4,264)
Amortisation expense (ii)	(1,638)	(3,378)	(5,016)
Net foreign currency exchange differences	-	365	365
Balance at 1 July 2007 (Restated)	(3,152)	(5,763)	(8,915)
Amortisation expense (ii)	(1,367)	(7,933)	(9,300)
Net foreign currency exchange differences	-	(191)	(191)
Balance at 30 June 2008	(4,519)	(13,887)	(18,406)
<b>NET BOOK VALUE</b>			
As at 30 June 2007	1,648	249,055	250,703
As at 30 June 2008	281	249,244	249,525

	Parent Entity		
	Framework agreement \$'000	Project-related agreements and licenses \$'000	Total \$'000
<b>GROSS CARRYING AMOUNT</b>			
Balance at 1 July 2006	5,100	-	5,100
Transfers	(300)	-	(300)
Balance at 1 July 2007	4,800	-	4,800
Balance at 30 June 2008	4,800	-	4,800
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT</b>			
Balance at 1 July 2006	(1,514)	-	(1,514)
Amortisation expense (ii)	(1,638)	-	(1,638)
Balance at 1 July 2007	(3,152)	-	(3,152)
Amortisation expense (ii)	(1,367)	-	(1,367)
Balance at 30 June 2008	(4,519)	-	(4,519)
<b>NET BOOK VALUE</b>			
As at 30 June 2007	1,648	-	1,648
As at 30 June 2008	281	-	281

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 13. INTANGIBLE ASSETS (CONTINUED)

- (i) Transfers - project-related agreements and licences.
- (a) \$88,514,000 during the year ended 30 June 2007 results from a purchase price allocation exercise that was completed during the year ended 30 June 2008 in relation to the Monte Seixo and Serra do Cando wind farms.
- (b) \$3,489,000 during the year ended 30 June 2007 results from a purchase price allocation exercise that was completed during the year ended 30 June 2008 in relation to the Conjuro wind farm.
- (c) \$1,861,000 during the year ended 30 June 2007 results from a purchase price allocation exercise that was completed during the year ended 30 June 2008 in relation to the Kaarst wind farm.
- (ii) Amortisation expense is included in the line item Depreciation and Amortisation in the income statement.

## 14. TRADE AND OTHER PAYABLES

	Consolidated		Parent Entity	
	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000
<b>CURRENT</b>				
Trade payables	246,078	48,980	15,883	1,676
Amounts due to related parties (Note 30)	34,965	203,269	-	5,907
Interest payable	3,356	292	1,193	5,143
Goods and services tax payable	2,006	5,764	2,083	-
Other	9,987	3,040	471	-
	<b>296,392</b>	<b>261,345</b>	<b>19,630</b>	<b>12,726</b>
<b>NON-CURRENT</b>				
Amounts due to related parties (Note 30)	17,196	-	-	-
	<b>17,196</b>	<b>-</b>	<b>-</b>	<b>-</b>

### Risk Exposure

Information about the Group's and the parent entity's exposure to foreign exchange risk is provided in Note 33.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 15. BORROWINGS

	Consolidated		Parent Entity	
	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000
<b>CURRENT</b>				
<b>Unsecured</b>				
<b>At amortised cost:</b>				
Loans from related parties <sup>1</sup>	-	-	-	2,580
	-	-	-	<b>2,580</b>
<b>Secured</b>				
<b>At amortised cost:</b>				
Global Facility (i)	114,576	36,902	-	-
Portugal Enersis Facility	60,772	-	-	-
	<b>175,348</b>	<b>36,902</b>	-	-
Finance lease liabilities (ii)	2,573	2,339	-	-
	<b>177,921</b>	<b>39,241</b>	-	<b>2,580</b>
<b>NON-CURRENT</b>				
<b>Unsecured</b>				
<b>At amortised cost:</b>				
Loans from related parties	-	-	1,177,253	955,534
	-	-	<b>1,177,253</b>	<b>955,534</b>
<b>Secured</b>				
<b>At amortised cost:</b>				
Global Facility (i)	2,173,472	1,280,572	-	-
Portugal Enersis Facility	1,150,808	-	-	-
Capitalised loan costs	(30,147)	(28,339)	-	-
	<b>3,294,133</b>	<b>1,252,233</b>	-	-
Finance lease liabilities (ii)	48,171	49,009	-	-
	<b>3,342,304</b>	<b>1,301,242</b>	<b>1,177,253</b>	<b>955,534</b>

<sup>1</sup> Further information relating to loans from related parties is set out in Note 30.

### (i) Debt facilities at 30 June 2008

The Group completed a refinancing and re-leveraging of its global wind farm portfolio in May 2007, aggregating project, asset and corporate level debt across various jurisdictions into a single facility (**Global Facility**). The facility size has increased from €1,030,607,000 (\$1,689,104,000) to €1,793,790,000 (\$2,939,916,000) during the year to 30 June 2008.

There is no asset level security, however each borrower under the Global Facility is a guarantor of the facilities. In addition, lenders have first ranking security over the issued share capital of, or other ownership interest in:

- the borrowers other than BBWPL, and
- the direct subsidiaries of the borrowers, which are holding entities of each wind farm in BBW's portfolio.

Drawings under the Global 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 Global Facility. The base currency of the Global Facility is the Euro.

The Global Facility has a 15-year term and has been provided by Banco Espírito Santo de Investimento, S.A. (Espírito Santo Investment), Millennium investment banking (Banco Millennium BCP Investimento, S.A.), Bank of Scotland (HBOS), Dexia Credit Local, KFW IPEX Bank GmbH, The Governor and Company of the Bank of Ireland, Cooperative Centrale Raiffeisen Boerenleenbank B.A. (RABO Bank), DEPFA Bank PLC, KBC Bank N.V., Natixis Bank, The Royal Bank of Scotland, Commonwealth Bank of Australia, IKB Deutsche Industriebank AG, Westpac Banking Corporation, Societe Generale Bank, Banco Santander S.A., Hypovereinsbank Unicredit Group.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 15. BORROWINGS (CONTINUED)

BBW purchased a controlling stake in the Portuguese Enersis group of wind farms in December 2007. The Enersis wind farms have a €739,246,000 debt facility. This debt facility is secured over the Portuguese Enersis wind farms and has no recourse over any other assets within the Group. The facility matures in 2025.

Facilities at 30 June 2008	Original Commitment €'000	Undrawn Available balance €'000
BBW Global Facility	1,793,790	273,199
Portugal Enersis Facility	739,246	-
	<b>2,533,036</b>	<b>273,199</b>

The total funds drawn down by currency and exchanged at the year end rate are presented in the following table:

	Current Balance (Local currency '000)	Current Balance (A\$'000)
<b>Australian Dollars</b>	568,823	568,823
<b>Euro</b>	1,428,809	2,341,734
<b>US Dollars</b>	567,334	589,071
		<b>3,499,628</b>

The Group pays interest under both facilities each six months based on Euribor (Euro drawings), BBSY (Australian Dollar) or LIBOR (other currencies), plus a margin. The current average margin the Group pays on its borrowings is 87 basis points. It is the Group's policy to use financial instruments to fix the interest rate for a portion of the loan. Repayments under the facilities are due each six months until the end of the term.

### (ii) Finance lease liabilities

Refer to Note 26 for further information.

## 16. DERIVATIVE FINANCIAL INSTRUMENTS - LIABILITIES

	Consolidated		Parent Entity	
	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000
<b>CURRENT</b>				
<b>At fair value:</b>				
Foreign currency forward contracts - cash flow hedges	78	-	78	-
Interest rate swaps - cash flow hedges	8,996	264	-	-
	<b>9,074</b>	<b>264</b>	<b>78</b>	<b>-</b>
<b>NON-CURRENT</b>				
<b>At fair value:</b>				
Foreign currency forward contracts - cash flow hedges	75	-	75	-
Interest rate swaps - cash flow hedges	15,218	-	-	-
	<b>15,293</b>	<b>-</b>	<b>75</b>	<b>-</b>

Refer to Note 33 for further information.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 17. INSTITUTIONAL EQUITY PARTNERSHIPS CLASSIFIED AS LIABILITIES

### Nature of institutional equity partnerships

The Group's relationship with the non-managing members and managing members (Class A and Class B institutional investors respectively) is established through a limited liability company operating agreement that apportions the cash flows generated by the wind farms between the Class B institutional investors (the Group's ownership of these varies from 50%-100%) and allocates the tax benefits, which include Production Tax Credits (PTC) and accelerated depreciation, largely to the Class A institutional investors.

The Class A institutional investors purchase their partnership interests for an upfront cash payment. This payment is fixed so that the investors, as of the date that they purchase their interest, anticipate earning an agreed targeted internal rate of return by the end of the ten-year period over which PTCs are generated. This anticipated return is computed based on the total anticipated benefit that the institutional investors will receive and includes the value of PTCs, allocated taxable income or loss and cash distributions received.

Under these structures, all operating cash flow is allocated to the Class B institutional investor until the earlier of a fixed date, or when the Class B institutional investors recover the amount of invested capital. This is expected to occur between five to ten years from the initial closing date. Thereafter, all operating cash flow is allocated to the Class A institutional investors until they receive the targeted internal rate of return (the **Reallocation Date**).

Prior to the Reallocation Date, a significant part of the tax income and benefits generated by the partnerships are allocated to the Class A institutional investor, with any remaining benefits allocated to the Class B institutional investors.

After the Reallocation Date, the Class A institutional investor retains a small minority interest for the duration of its membership in the structure. The Group also has an option to purchase the Class A institutional investor's residual interests at fair market value on the Reallocation Date.

Investments in these partnership structures are classified as liabilities as the partnerships have limited lives and the allocation of income earned is governed by contractual agreements over the life of the investment. Whilst classified as liabilities it is important to note:

- Should future operational revenues from the US wind farm investments be insufficient, there is no contractual obligation on the Group to repay the liabilities.
- Institutional balances outstanding (Class A and Class B minority interests) do not impact the Group's lending covenants or interest cover ratios.
- There is no exit mechanism for institutional investors consequently there is no re-financing risk.

### Date of control

For certain jointly controlled wind farms where control has been determined at an earlier date the Group has corrected the prior year comparatives and proportionately consolidated from the deemed acquisition date. Refer to Note 1(A) for more details.

As of 1 January 2008, the Group has determined that it has the ability to control or, with other Class B institutional investors (**Other Class B Members**), jointly control the wind farm entities. For these situations, the Group has consolidated or proportionately consolidated from 1 January 2008 onwards. For more details of consolidated US wind farm entities, see Note 27. For more details of jointly controlled wind farm entities, see Note 34.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	Class A members		Class B members		Total	
	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000
<b>CLASS A AND CLASS B LIABILITIES:</b>						
<b>At 1 July</b>	<b>149,901</b>	<b>189,912</b>	<b>-</b>	<b>-</b>	<b>149,901</b>	<b>189,912</b>
Institutional liabilities acquired on consolidation of US wind farm investments	1,003,486	-	84,351	-	1,087,837	-
Distributions (Class B)	-	-	(10,032)	-	(10,032)	-
Value of benefits provided - production tax credits (Class A)	(52,824)	(16,013)	-	-	(52,824)	(16,013)
Value of benefits provided - tax losses (Class A) <sup>1</sup>	(75,571)	(16,596)	-	-	(75,571)	(16,596)
Allocation of return on outstanding balance (Class A)	39,522	12,960	-	-	39,522	12,960
Movement in residual interest (Class A)	5,108	2,330	-	-	5,108	2,330
Minority interest (Class B)	-	-	4,588	-	4,588	-
Foreign exchange gain/(loss)	(100,220)	(22,692)	(7,467)	-	(107,687)	(22,692)
<b>At 30 June</b>	<b>969,402</b>	<b>149,901</b>	<b>71,440</b>	<b>-</b>	<b>1,040,842</b>	<b>149,901</b>
<b>DEFERRED REVENUE:</b>						
<b>At 1 July</b>					<b>55,628</b>	<b>45,295</b>
Resulting from business combinations during the period					147,565	-
Benefits deferred during the period					88,228	17,349
Foreign exchange gain/(loss)					(25,659)	(7,016)
<b>At 30 June</b>					<b>265,762</b>	<b>55,628</b>
					<b>1,306,604</b>	<b>205,529</b>

<sup>1</sup> This comprises the following:

	2008 \$'000	2007 \$'000 (Restated)
Total taxable income/loss before accelerated tax depreciation	29,496	4,992
Accelerated tax depreciation	(105,067)	(21,588)
<b>Tax loss</b>	<b>(75,571)</b>	<b>(16,596)</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 18. CAPITALISED BORROWING COSTS

	Consolidated		Parent Entity	
	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000
Borrowing costs capitalised during the financial year	22,844	10,500	-	-
Weighted average capitalisation rate on funds borrowed generally	7.1%	6.3%	-	-

Where borrowing costs are directly attributable to the construction of a qualifying asset, they are capitalised as part of the cost of that asset.

## 19. CONTRIBUTED EQUITY

	Consolidated		Parent Entity	
	No '000	\$'000	No '000	\$'000
<b>FULLY PAID STAPLED SECURITIES/SHARES</b>				
Balance as at 1 July 2006	575,302	706,134	575,302	4,454
Capital distribution	-	(65,596)	-	-
Distribution reinvestment plan (i)	10,044	15,082	10,044	-
Lake Bonney Stage 2 (ii)	625	1,112	625	-
Institutional placement (iii)	87,100	156,780	87,100	16
Transaction costs arising on security/share issue	-	(3,187)	-	-
<b>Balance as at 30 June 2007</b>	<b>673,071</b>	<b>810,325</b>	<b>673,071</b>	<b>4,470</b>
<b>ATTRIBUTABLE TO:</b>				
Equity holders of the parent		4,470		4,470
Equity holders of the other stapled securities (minority interests)		805,855		-
		<b>810,325</b>		<b>4,470</b>
Balance as at 1 July 2007	673,071	810,325	673,071	4,470
Capital distribution	-	(103,552)	-	-
Distribution reinvestment plan (i)	20,042	29,062	20,042	3
Alinta scheme of arrangement (iv)	130,148	211,057	130,148	21
Security purchase plan (v)	26,935	46,281	26,935	5
Institutional placement (iii)	4,350	7,830	4,350	1
Capital Wind Farm acquisition (vi)	14,055	24,480	14,055	2
Transaction costs arising on security/share issue	-	(11,073)	-	(1)
<b>Balance as at 30 June 2008</b>	<b>868,601</b>	<b>1,014,410</b>	<b>868,601</b>	<b>4,501</b>
<b>ATTRIBUTABLE TO:</b>				
Equity holders of the parent		4,501		4,501
Equity holders of the other stapled securities (minority interests)		1,009,909		-
		<b>1,014,410</b>		<b>4,501</b>

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.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 19. CONTRIBUTED EQUITY (CONTINUED)

### (i) Distribution reinvestment plan

BBW has established a distribution reinvestment plan under which holders of stapled securities may elect to have all or part of their distribution entitlements satisfied by the issue of new stapled securities rather than by being paid in cash. To date, securities have been issued under the plan at a 2.5% discount to the weighted average price of BBW securities on the ASX over the 10 trading days ending on the trading day which is three trading days before the date the stapled securities are due to be allotted.

On 14 September 2007, BBW issued 6,267,665 stapled securities at a price of \$1.6151 per security in relation to the payment of the final distribution for the year ended 30 June 2007.

On 18 March 2008, BBW issued 13,774,279 stapled securities at a price of \$1.3748 per security in relation to the payment of the interim distribution for the year ended 30 June 2008.

### (ii) Lake Bonney stage 2

Under an arrangement to provide certain management services to the Lake Bonney stage 2 wind farm, 625,287 fully paid stapled securities were issued to NPP Projects II LLC on 10 April 2007 at a price of \$1.778 per stapled security.

### (iii) Institutional placement

On 4 May 2007, BBW issued 87,100,000 stapled securities pursuant to an institutional placement. Each stapled security was priced at \$1.80 and total proceeds amounted to \$156,780,000 before costs of \$3,187,000.

In addition to the institutional placement, Babcock & Brown Limited (**B&B**) agreed that it would subscribe for 4,350,000 stapled securities at the same price as the institutional placement conditional upon the approval of BBW securityholders at the Annual General Meeting held on 9 November 2007.

Securityholders approved the issue and on 14 November 2007 BBW issued 4,350,000 stapled securities to B&B at a price of \$1.80 per stapled security.

### (iv) Alinta scheme of arrangement

On 30 March 2007, BBW announced that it was a member of the consortium bidding for the whole of the issued capital of Alinta Limited via a scheme of arrangement.

On 31 August 2007, under the scheme of arrangement, BBW issued 128,754,789 stapled securities at a price of \$1.6214 net of transaction costs of \$9.5 million to Alinta shareholders.

On 4 September 2007 a further 1,392,852 stapled securities were issued at a price of \$1.65 per security to fund BBW's share of payments to option holders in Alinta Limited as foreshadowed in the Scheme Booklet resulting in a total of \$211 million gross proceeds from both stapled security issuances during the year.

### (v) Security purchase plan

On 18 September 2007, BBW announced a Security Purchase Plan enabling existing shareholders to acquire up to \$5,000 in value of additional BBW securities at a discount to the market price. Pursuant to this plan, BBW issued 26,935,224 stapled securities on 24 October 2007 at a price of \$1.7188 per security.

### (vi) Capital Wind Farm acquisition

On 20 December 2007, BBW issued 7,294,836 stapled securities at a price of \$1.7766 per security as part consideration for the acquisition of the Capital wind farm. Pursuant to the Sale and Purchase Agreement a further 6,760,167 stapled securities were issued on 3 January 2008 at a price of \$1.7041 per security.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 20. RESERVES

	Consolidated		Parent Entity	
	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000
Foreign currency translation	(43,512)	(26,009)	-	-
Hedging	28,525	12,396	5,919	3,705
Acquisition	(49,442)	(49,442)	-	-
	<b>(64,429)</b>	<b>(63,055)</b>	<b>5,919</b>	<b>3,705</b>
<b>ATTRIBUTABLE TO:</b>				
Equity holders of the parent	(42,794)	(41,420)	5,919	3,705
Equity holders of the other stapled securities (minority interests)	(21,635)	(21,635)	-	-
	<b>(64,429)</b>	<b>(63,055)</b>	<b>5,919</b>	<b>3,705</b>
<b>FOREIGN CURRENCY TRANSLATION RESERVE</b>				
Balance at beginning of financial year	(26,009)	5,388	-	-
Translation of foreign operations	(29,997)	(51,273)	-	-
Forward exchange contracts	3,160	7,398	-	-
Deferred tax arising from translation	9,334	12,478	-	-
<b>Balance at end of financial year</b>	<b>(43,512)</b>	<b>(26,009)</b>	<b>-</b>	<b>-</b>

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

	Consolidated		Parent Entity	
	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000
<b>HEDGING RESERVE</b>				
Balance at beginning of financial year	12,396	8,551	3,705	(1,357)
<b>Movement increasing/(decreasing) recognised:</b>				
Forward exchange contracts	1,106	(2,006)	4,902	7,398
Interest rate swaps	22,154	7,500	-	(13)
Deferred tax arising on hedges	(7,131)	(1,649)	(2,688)	(2,323)
<b>Balance at end of financial year</b>	<b>28,525</b>	<b>12,396</b>	<b>5,919</b>	<b>3,705</b>

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

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 20. RESERVES (CONTINUED)

	Consolidated		Parent Entity	
	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000
<b>ACQUISITION RESERVE</b>				
Balance at beginning of financial year	(49,442)	(49,442)	-	-
<b>Balance at end of financial year</b>	<b>(49,442)</b>	<b>(49,442)</b>	-	-

Prior to the acquisition of the remaining 25% of Walkaway Wind Power Pty Limited (WWP), BBWPL owned 75% of the share capital of WWP and consolidated accordingly. Therefore, the acquisition of the remaining 25% did not result in a change of control but was an acquisition of the minority shareholders' interests.

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.

## 21. RETAINED EARNINGS

	Consolidated		Parent Entity	
	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000
Balance at beginning of financial year	(8,326)	(13,918)	(22,039)	(8,721)
Net profit/(loss) attributable to stapled securityholders	27,224	5,592	(6,411)	(13,318)
<b>Balance at end of financial year</b>	<b>18,898</b>	<b>(8,326)</b>	<b>(28,450)</b>	<b>(22,039)</b>
<b>Attributable to:</b>				
Equity holders of the parent	8,238	(18,287)	(28,450)	(22,039)
Equity holders of the other stapled securities (minority interests)	10,660	9,961	-	-
	<b>18,898</b>	<b>(8,326)</b>	<b>(28,450)</b>	<b>(22,039)</b>

## 22. EARNINGS PER SECURITY/SHARE

	Consolidated	
	2008 Cents per security	2007 Cents per security (Restated)
<b>BASIC AND DILUTED EARNINGS PER STAPLED SECURITY/PARENT ENTITY SHARE:</b>		
Parent entity share	<b>3.2</b>	<b>0.0</b>
Stapled security	<b>3.3</b>	<b>0.9</b>

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

	2008 \$'000	2007 \$'000 (Restated)
	Earnings attributable to the parent entity share holders	26,525
Earnings attributable to the stapled securityholders	27,224	5,592
	2008 No.'000	2007 No.'000 (Restated)
Weighted average number of securities/shares for the purposes of basic and diluted earnings per security/share	818,301	594,227

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 23. DISTRIBUTIONS PAID

	2008		2007	
	Cents per security	Total \$'000	Cents per security	Total \$'000
<b>RECOGNISED AMOUNTS</b>				
<b>Ordinary securities</b>				
Final distribution in respect of 2007 year of 6.25 cents per stapled security (2006: 5.1 cents) paid in September 2007 (2006: September 2006), 100% tax deferred (2006: 100% tax deferred)	6.25	42,067	5.10	29,340
Interim distribution in respect of 2008 year of 7.25 cents (2007: 6.25 cents) per stapled security paid in March 2008 (2007: March 2007), 100% tax deferred (2007: 100% tax deferred)	7.25	61,485	6.25	36,256
		<b>103,552</b>		<b>65,596</b>
Distributions paid in cash or satisfied by the issue of new stapled securities under the Distribution Reinvestment Plan during the year ended 30 June 2008 and the year ended 30 June 2007 were as follows:				
Paid in cash		74,490		50,513
Satisfied by the issue of stapled securities		29,062		15,083
		<b>103,552</b>		<b>65,596</b>

On 28 August 2008, the Directors of BBW declared a final distribution in respect of the year ended 30 June 2008 of 7.25 cents per stapled security (2007: 6.25 cents), 100% tax deferred. The amount that will be paid on 18 September 2008 (2007: 14 September 2007) will be \$62,974,000 (2007: \$42,067,000). As the distribution was declared subsequent to 30 June 2008 no provision has been included as at 30 June 2008.

No franking credits have been generated by the parent entity.

## 24. COMMITMENTS FOR EXPENDITURE

	Consolidated		Parent Entity	
	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000
<b>(A) CAPITAL EXPENDITURE COMMITMENTS</b>				
Not later than 1 year	509,186	158,421	-	-
Later than 1 year and not later than 5 years	8,400	1,900	-	-
	<b>517,586</b>	<b>160,321</b>	-	-

## **(B) LEASE COMMITMENTS**

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



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 24. COMMITMENTS FOR EXPENDITURE (CONTINUED)

	Consolidated		Parent Entity	
	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000
<b>(C) OTHER EXPENDITURE COMMITMENTS</b>				
<b>Other</b>				
Not later than 1 year	3,816	3,666	-	-
Later than 1 year and not later than 5 years	15,290	15,078	-	-
Later than 5 years	51,311	52,695	-	-
	<b>70,417</b>	<b>71,439</b>	<b>-</b>	<b>-</b>

Includes commitments relating to operations and maintenance arrangements and connection agreements.

## 25. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

	Consolidated		Parent Entity	
	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000
<b>CONTINGENT LIABILITIES</b>				
Letters of credit	45,140	9,663	-	-
Guarantees	84,505	89,753	-	78,587
	<b>129,645</b>	<b>99,416</b>	<b>-</b>	<b>78,587</b>

Guarantees generally relate to wind farm construction, operations and decommissioning. No liability was recognised by the parent entity of the Group in relation to these guarantees, as their combined fair value is immaterial.

### Framework agreements

The Group has entered into framework agreements which provide it with access to a potential portfolio of wind farms of up to approximately 600MW of installed capacity in Spain and Germany in the period through to the end of 2009.

Wind farms supplied under these framework agreements must satisfy certain contractual conditions before the Group is obliged to acquire them under the terms of the agreement. A number of the potential projects are still in the development phase and consequently these conditions precedent may take longer than expected or in fact may never become satisfied. The Group was not obliged to purchase any wind farms under these framework agreements as at 30 June 2008. Since 30 June 2008 through to the date of this report the Group has acquired an interest in a German wind farm (8MW) under these framework agreements.

### Gamesa Framework Agreement

BBWPL has entered into a Framework Agreement with Babcock & Brown (UK) Holdings Limited under which BBWPL has secured rights and assumed obligations corresponding to rights and obligations under an agreement between Babcock & Brown (UK) Holdings Limited and Gamesa Energia S.A. (**Gamesa**) to acquire wind farms in Spain and Germany with a total installed capacity of up to approximately 350MW in 2008 and 2009 subject to certain conditions being satisfied. Gamesa is a Spanish listed company with a global network of offices that is one of the world's largest manufacturers and suppliers of technologically advanced products and services in the renewable energy sector.

### Plambeck Framework Agreement

BBWPL has entered into a Framework Agreement with Plambeck Neue Energien AG (**Plambeck**) to acquire a portfolio of wind farms comprising potentially up to approximately 250MW through FY08 and FY09.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 26. LEASES

### Finance leases

#### Leasing arrangements

Finance leases relate to wind turbine generators at the Eifel wind farm and have a term of 14 years with an option to purchase at the end of the term.

#### Finance lease liabilities

	Minimum future lease payments			
	Consolidated		Parent Entity	
	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000
<b>COMMITMENTS IN RELATION TO FINANCE LEASES ARE PAYABLE AS FOLLOWS:</b>				
Not later than 1 year	5,549	5,079	-	-
Later than 1 year and not later than 5 years	22,198	20,314	-	-
Later than five years	32,028	46,789	-	-
<b>Minimum future lease payments<sup>1</sup></b>	<b>59,775</b>	<b>72,182</b>	-	-
Less future finance charges	(9,031)	(20,834)	-	-
<b>Present value of minimum lease payments</b>	<b>50,744</b>	<b>51,348</b>	-	-
Included in the financial statements as:				
Current borrowings (Note 15)	2,573	2,339	-	-
Non-current borrowings (Note 15)	48,171	49,009	-	-
	<b>50,744</b>	<b>51,348</b>	-	-

<sup>1</sup> Minimum future lease payments include the aggregate of all lease payments and any guaranteed residual.

### Operating leases

The Group leases land for its wind farms under non-cancellable operating leases expiring within 20 to 55 years. The leases have varying terms, escalation clauses and renewal rights.

	Consolidated		Parent Entity	
	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000
	<b>COMMITMENTS FOR MINIMUM LEASE PAYMENTS IN RELATION TO NON-CANCELLABLE OPERATING LEASES ARE PAYABLE AS FOLLOWS:</b>			
Not later than 1 year	9,024	3,829	-	-
Later than 1 year and not later than 5 years	40,038	15,682	-	-
Later than 5 years	260,028	76,981	-	-
	<b>309,090</b>	<b>96,492</b>	-	-

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 27. SUBSIDIARIES

Name of entity	Country of incorporation	Ownership interest <sup>2</sup>	
		2008 %	2007 %
<b>PARENT ENTITY</b>			
Babcock & Brown Wind Partners Limited <sup>1</sup>	Australia		
<b>OTHER STAPLED ENTITIES</b>			
Babcock & Brown Wind Partners (Bermuda) Limited	Bermuda		
Babcock & Brown Wind Partners Trust	Australia		
<b>SUBSIDIARIES OF BBW</b>			
B&B Blue Canyon LLC	USA	100	100
B&B Caprock LLC	USA	80	100
B&B Combine Hills LLC	USA	100	100
B&B Eifel UK Ltd	UK	100	100
B&B Kumeyaay LLC	USA	100	100
B&B LB2 Pty Limited <sup>1</sup>	Australia	100	100
B&B Sweetwater 1 LLC	USA	100	100
B&B Sweetwater 2 LLC	USA	100	100
B&B Sweetwater 3 LLC	USA	100	100
B&B Walkaway Pty Limited <sup>1</sup>	Australia	100	100
B&B Walkaway Trust	Australia	100	100
B&B Wind Park Jersey LLC	USA	100	100
B&B Wind Pty Limited <sup>1</sup>	Australia	100	100
BBWP CWF Pty Limited <sup>1</sup>	Australia	100	-
BBWP Europe Pty Limited <sup>1</sup>	Australia	100	100
BBWP Europe 2 Pty Limited <sup>1</sup>	Australia	100	100
BBWP Europe 3 Pty Limited <sup>1</sup>	Australia	100	100
BBWP Europe 4 Pty Limited <sup>1</sup>	Australia	100	100
BBWP Europe 5 Pty Limited <sup>1</sup>	Australia	100	-
BBWP Europe Holdings Malta I Limited	Malta	100	100
BBWP Europe Holdings Malta II Limited	Malta	100	100
BBWP Europe Holdings Lux SARL	Luxembourg	100	100
BBWP Europe Holdings 2 SARL	Luxembourg	100	-
BBWP Europe KG Holdings II Lux SARL	Luxembourg	100	100
BBWP Spain Holdings Lux SARL	Luxembourg	100	100
BBWP Finance (Aust) Pty Limited <sup>1</sup>	Australia	100	100
BBWP Finance (Germany) Pty Limited <sup>1</sup>	Australia	100	100
BBWP Finance Lux SARL	Luxembourg	100	100
BBWP Germany Holdings Pty Limited <sup>1</sup>	Australia	100	100
BBWP Germany Holdings 2 Pty Limited <sup>1</sup>	Australia	100	-
BBWP Germany Holdings 3 Pty Limited <sup>1</sup>	Australia	100	-
BBWP Gesa Holding GmbH & Co KG	Germany	100	-
BBWP Holdings (Bermuda) Limited	Bermuda	100	-
BBWP Investments Pty Limited <sup>1</sup>	Australia	100	-
BBWP US Partnership <sup>1</sup>	USA	100	100
BBWP US Corporation	USA	100	100

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 27. SUBSIDIARIES (CONTINUED)

Name of entity	Country of incorporation	Ownership interest <sup>2</sup>	
		2008 %	2007 %
BBWP (US) Pty Limited <sup>1</sup>	Australia	100	100
BBWP (US) 2 Pty Limited <sup>1</sup>	Australia	100	100
Babcock & Brown Riva Holdings SARL	Luxembourg	50	-
Babcock & Brown Renewable Power Investments Trust <sup>1</sup>	Australia	100	-
Babcock & Brown Renewable Power Investments Pty Limited <sup>1</sup>	Australia	100	-
Babcock & Brown Wind Partners France SAS	France	100	100
Babcock & Brown Wind Partners US LLC	USA	100	100
Babcock & Brown Wind Partners (Spain) S.L.	Spain	100	100
Babcock & Brown Wind Portfolio I LLC	USA	100	100
Babcock & Brown Wind Portfolio Holdings I LLC	USA	100 <sup>3</sup>	-
Caprock Wind LLC	USA	100 <sup>3</sup>	-
CCWE Holdings LLC	USA	67 <sup>3</sup>	-
Crescent Ridge Holdings LLC	USA	75 <sup>3</sup>	-
Coswig GmbH	Germany	100	-
CS CWF Trust <sup>1</sup>	Australia	100	-
CS Walkaway Pty Limited <sup>1</sup>	Australia	100	100
CS Walkaway Trust	Australia	100	100
Eschweiler GmbH	Germany	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	- <sup>4</sup>	100
Global Wind Partners UK 4 Ltd	UK	- <sup>5</sup>	100
GWP Europe Pty Limited <sup>1</sup>	Australia	100	100
GWP Europe 2 Pty Limited <sup>1</sup>	Australia	100	100
GWP Walkaway Pty Limited <sup>1</sup>	Australia	100	100
Kumeyaay Holdings LLC	USA	100 <sup>1</sup>	-
Lake Bonney Wind Power Pty Limited <sup>1</sup>	Australia	100	100
Lake Bonney Wind Power 2 Pty Limited <sup>1</sup>	Australia	100	100
Lake Bonney Wind Power 3 Pty Limited <sup>1</sup>	Australia	100	100
NPP LB2 LLC <sup>1</sup>	USA	100	100
NPP Projects I LLC <sup>1</sup>	USA	100	100
NPP Projects V LLC <sup>1</sup>	USA	100	100
NPP Walkaway Pty Limited <sup>1</sup>	Australia	100	100
NPP Walkaway Trust <sup>1</sup>	Australia	100	100
Olivento S.L.	Spain	100	100
Pebble Consultoria e Investimento Sociedade Unipessoal Lda	Portugal	50	-
Renewable Power Ventures Investment Trust	Australia	100	100
Renewable Power Ventures Pty Limited	Australia	100	-
Sistemas Energeticos El Carrascal S.A.	Spain	100	-
Sistemas Energeticos El Chaparral S.A.	Spain	100	-
Sistemas Energeticos El Cerradilla S.A.	Spain	100	-
Sistemas Energeticos Lamata S.A.	Spain	100	-

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 27. SUBSIDIARIES (CONTINUED)

Name of entity	Country of incorporation	Ownership interest <sup>2</sup>	
		2008 %	2007 %
Sistemas Energeticos Montes de Conjuero S.A.U.	Spain	100	70
Sistemas Energeticos Abadia S.A.U.	Spain	100	100
Societe d'Exploitation du Parc Eolien de Fond Du Moulin SARL	France	100	100
Societe d'Exploitation du Parc Eolien de Mont Felix SARL	France	100	100
Societe d'Exploitation du Parc Eolien Le Marquay SARL	France	100	100
Societe d'Exploitation du Parc Eolien Le Chemin Vert SARL	France	100	100
Societe d'Exploitation du Parc Eolien Les Trentes SARL	France	100	100
Societe d'Exploitation du Parc Eolien Sole de Bellevue SARL	France	100	100
Sonnenberg GmbH & Co KG	Germany	100	-
Walkaway Wind Power Pty Limited	Australia	100	100
Windpark Eifel GmbH & Co KG	Germany	100	100
Windpark Hiddestorf GmbH & Co KG	Germany	100	-
Windpark Kaarst GmbH & Co KG <sup>1</sup>	Germany	100	100
Windpark Niederrhein GmbH & Co KG	Germany	99	99

1 Denotes a member of the BBWPL tax consolidated group.

2 The proportion of ownership interest is equal to the proportion of voting power held.

3 Class B Member interest.

4 Dissolved 15 January 2008.

5 Dissolved 5 February 2008.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 28. ACQUISITION OF BUSINESSES

The provisional values of net assets/liabilities acquired through business combinations are provided in the table below.

\$'000	Conjuro (i)	Valde- conejos (ii)	Energis Portfolio (iii)	Almeria Portfolio (iv)	Capital Wind Farm (v)	Hiddestorf (vi)	US Wind Farms (vii)	Apfelbaum Portfolio (viii)	Total
Total cash consideration including associated costs	(142)	58,166	239,155	117,713	21,601	363	-	3,147	440,003
Value of investments in institutional equity partnerships	-	-	-	-	-	-	642,363	-	642,363
Stapled securities issued as consideration	-	-	-	-	24,480	-	-	-	24,480
<b>Total purchase consideration<sup>1</sup></b>	<b>(142)</b>	<b>58,166</b>	<b>239,155</b>	<b>117,713</b>	<b>46,081</b>	<b>363</b>	<b>642,363</b>	<b>3,147</b>	<b>1,106,846</b>
<b>NET ASSETS/ (LIABILITIES) ACQUIRED</b>									
Cash	-	164	39,397	-	737	252	33,936	-	74,486
Receivables	-	3,767	83,576	34,573	3,528	1,279	17,782	437	144,942
Plant and equipment	-	46,858	1,490,989	236,621	42,348	6,031	1,469,507	20,705	3,313,059
Other assets	-	267	18,146	142	-	50	2,776	-	21,381
Payables	-	(2,030)	(74,406)	(106)	-	(611)	(30,101)	(366)	(107,620)
Interest bearing liabilities	-	(34,257)	(1,257,172)	(270,933)	(50,683)	(7,228)	-	(21,748)	(1,642,021)
Institutional equity partnerships classified as liabilities	-	-	-	-	-	-	(991,524)	-	(991,524)
Other liabilities	-	-	(206,201)	-	-	-	-	-	(206,201)
<b>Net assets/ (liabilities)</b>	<b>-</b>	<b>14,769</b>	<b>94,329</b>	<b>297</b>	<b>(4,070)</b>	<b>(227)</b>	<b>502,376</b>	<b>(972)</b>	<b>606,502</b>
Minority interests	(142)	(507)	(145,987)	-	-	-	-	-	(146,636)
<b>Net assets acquired</b>	<b>(142)</b>	<b>14,262</b>	<b>(51,658)</b>	<b>297</b>	<b>(4,070)</b>	<b>(227)</b>	<b>502,376</b>	<b>(972)</b>	<b>459,866</b>
Provisional goodwill	-	43,904	290,813 <sup>2</sup>	117,416	50,151	590	139,987	4,119	646,980

1 Refer to Note 32 for cash paid for investments in controlled entities.

2 Provisional goodwill for Energis portfolio includes acquired goodwill of \$183,512,000.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 28. ACQUISITION OF BUSINESSES (CONTINUED)

### Provisional values

The Group will undertake an exercise to allocate the purchase price paid for each of the acquisitions within a 12 month period from acquisition. This may result in a reallocation of goodwill to amortising or depreciating assets with a subsequent effect on the income statement applied retrospectively from the date of acquisition.

The acquisition balances in the table above are provisional due to the requirement to engage experts to perform the purchase price allocation and the recent timing of the acquisitions.

#### (i) Conjuro

In August 2007, Olivento S.L., a subsidiary of BBWPL, purchased the remaining 30% of the share capital of Montes del Conjuro SA that operates the Conjuro wind farm on the same basis as the initial 70%. Olivento S.L. purchased the initial 70% during the financial year ended 30 June 2007.

The purchase price paid was \$294,000, net of a price adjustment of \$436,000.

#### (ii) Valdeconejos

In August 2007, Olivento S.L., a subsidiary of BBWPL, purchased 97% of the share capital of Sistemas Energeticos Abadia SA that operates the Valdeconejos wind farm.

The purchase price was approximately \$58,166,000, including associated costs.

The provisional values of net assets acquired, \$14,769,000, are provided in the table above.

The acquired business contributed revenues of \$9,199,000 and net profit of \$1,712,000 to the Group for the period from acquisition to 30 June 2008. If the acquisition had occurred on 1 July 2007, revenue of \$9,768,000 and net profit of \$1,970,000 would have been contributed to the Group.

#### (iii) Enersis Portfolio

In December 2007, BBWP Holdings (Bermuda) Limited, a subsidiary of BBWPL, purchased 50% of the share capital of Babcock & Brown Riva Holdings SARL that operates the Enersis wind farm portfolio.

The purchase price was approximately \$239,155,000, including associated costs.

The provisional values of net assets acquired, \$94,329,000, are provided in the table above.

The acquired businesses contributed revenues of \$123,363,000 and net profit of \$22,512,000 to the Group for the period from acquisition to 30 June 2008. If the acquisition had occurred on 1 July 2007, revenue of \$192,940,000 and net profit of \$25,741,000 would have been contributed to the Group.

#### (iv) Almeria Portfolio

In December 2007, Olivento S.L., a subsidiary of BBWPL, purchased 100% of the share capital of the following four entities that comprise the Almeria Portfolio of wind farms:

- Sistemas Energeticos La Cerradilla SA
- Sistemas Energeticos El Carrascal SA
- Sistemas Energeticos La Mata SA
- Sistemas Energeticos El Chaparral SA

The purchase price was approximately \$117,713,000, including associated costs. Of this, approximately \$16,371,000 is payable upon completion of construction of the projects.

The provisional values of net assets acquired, \$297,000 are provided in the table above.

The acquired businesses contributed revenues of \$nil and net loss of \$512,000 to the Group for the period from acquisition to 30 June 2008. If the acquisition had occurred on 1 July 2007, revenue of \$nil and net loss of \$528,000 would have been contributed to the Group.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 28. ACQUISITION OF BUSINESSES (CONTINUED)

### (v) Capital Wind Farm

In December 2007, BBWP CWF Pty Limited, a subsidiary of BBWPL, purchased 100% of CS CWF Trust, Babcock & Brown Renewable Power Investments Trust and RPV Pty Limited, which is constructing the Capital wind farm.

The purchase price was approximately \$46,081,000, including associated costs. The purchase price was partly settled by issuing approximately 14,055,000 stapled securities.

The provisional values of net liabilities acquired, \$4,070,000, are provided in the table above.

The acquired business contributed revenues of \$nil and net loss of \$220,000 to the Group for the period from acquisition to 30 June 2008. If the acquisition had occurred on 1 July 2007, revenue of \$nil and net loss of \$1,851,000 would have been contributed to the Group.

### (vi) Hiddestorf

In December 2007, BBWP Germany Holdings Pty Limited, a subsidiary of BBWPL, purchased 100% of the share capital of Hiddestorf GmbH & Co KG that operates the Hiddestorf wind farm.

The purchase price was approximately \$363,000, including associated costs.

The provisional values of net liabilities acquired, \$227,000, are provided in the table above.

The acquired business contributed revenues of \$397,000 and net loss of \$179,000 to the Group for the period from acquisition to 30 June 2008. If the acquisition had occurred on 1 July 2007, revenue of \$713,000 and net loss of \$379,000 would have been contributed to the Group.

### (vii) US Wind Farms

As of 1 January 2008, the Group has determined that it has the ability to control certain wind farm entities. For these situations, the Group has consolidated or proportionately consolidated from 1 January 2008 onwards. The information provided above relates to the following entities:

- Babcock & Brown Wind Portfolio Holdings I LLC
- Caprock Wind LLC
- CCWE Holdings LLC
- Crescent Ridge Holdings LLC
- Kumeyaay Holdings LLC

Consideration comprises the value of the investments at 1 January 2008, \$642,363,000. The provisional values of net assets acquired, \$502,376,000 are provided in the table above.

The acquired businesses contributed revenues of \$88,829,000 and net profit of \$28,080,000 to the Group for the period from acquisition to 30 June 2008. If the acquisition had occurred on 1 July 2007, revenue of \$133,994,000 and net loss of \$24,015,000 would have been contributed to the Group. Furthermore, EBITDA of \$96,598,000 would have been contributed to the Group had the acquisition taken place on 1 July 2007.

### (viii) Apfelbaum Portfolio

In June 2008, BBWP Gesa Holding GmbH & Co. KG, a subsidiary of BBWPL, purchased 100% of the share capital of the following three entities that comprise the Apfelbaum Portfolio of wind farms:

- Sonnenberg GmbH & Co KG
- Eschweiler GmbH
- Coswig GmbH

The purchase price was approximately \$3,147,000, including associated costs.

The provisional values of net liabilities acquired, \$972,000, are provided in the table above.

The acquired businesses contributed revenues of \$nil and net profit of \$nil to the Group for the period from acquisition to 30 June 2008. If the acquisition had occurred on 1 July 2007, revenue of \$2,422,000 and net profit of \$427,000 would have been contributed to the Group.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 28. ACQUISITION OF BUSINESSES (CONTINUED) 2007

The Group made the following acquisitions during the year ended 30 June 2007:

### (i) Monte Seixo/Serra do Cando

In June 2007, Olivento S.L., a subsidiary of BBWPL, purchased 100% of the share capital of SEC Holdco SA that operates the Monte Seixo and Serra do Cando wind farms.

The purchase price was approximately \$92,094,000, including associated costs.

The fair values of net assets acquired, \$65,540,000, are provided in the table below.

The acquired business contributed revenues of \$2,204,000 and net profit of \$1,340,000 to the Group for the period from acquisition to 30 June 2007. If the acquisition had occurred on 1 July 2006, revenue of \$23,044,000 and net profit of \$2,229,000 would have been contributed to the Group.

	Carrying value \$'000	Fair value \$'000
<b>PURCHASE CONSIDERATION</b>		
Cash, including associated costs		<b>92,094</b>
<b>NET ASSETS/(LIABILITIES) ACQUIRED</b>		
Cash	11,333	11,333
Receivables	3,450	3,450
Plant and equipment	57,090	64,430
Licences	-	88,514
Other assets	1,880	1,880
Payables	(534)	(534)
Interest bearing liabilities	(78,763)	(78,763)
Other liabilities	(2,160)	(24,770)
	<b>(7,704)</b>	<b>65,540</b>
<b>Goodwill</b>		<b>26,554</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 28. ACQUISITION OF BUSINESSES (CONTINUED)

### (ii) Conjuro

In June 2007, Olivento S.L., a subsidiary of BBWPL, purchased 70% of the share capital of Montes del Conjuro SA that operates the Conjuro wind farm.

The purchase price was approximately \$3,204,000, including associated costs.

The values of net assets acquired, \$3,069,000, are provided in the table below.

The acquired business contributed revenues of \$181,000 and net profit of \$10,000 to the Group for the period from acquisition to 30 June 2007. If the acquisition had occurred on 1 July 2006, revenue of \$1,191,000 and net loss of \$327,000 would have been contributed to the Group.

	Carrying value \$'000	Fair value \$'000
<b>PURCHASE CONSIDERATION</b>		
Cash, including associated costs		3,204
<b>NET ASSETS/(LIABILITIES) ACQUIRED</b>		
Cash	5	5
Receivables	257	257
Plant and equipment	25,842	25,842
Licences	-	3,489
Other assets	4,379	4,379
Payables	(856)	(856)
Interest-bearing liabilities	(29,945)	(29,945)
Other liabilities	(133)	(102)
	<b>(451)</b>	<b>3,069</b>
Add: minority interest		135
		<b>3,204</b>
<b>Goodwill</b>		<b>-</b>



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 28. ACQUISITION OF BUSINESSES (CONTINUED)

### (iii) Kaarst

In January 2007, BBWP Germany Holdings Pty Limited, a subsidiary of BBWPL, purchased 100% of the share capital of the Kaarst GmbH & Co KG partnership that operates the Kaarst wind farm.

The purchase price was approximately \$1,861,000, including associated costs and reduction in the prepaid investment costs.

The business was acquired at the point that operations commenced and contributed revenues of \$1,280,000 and a net profit of \$594,000 to the Group for the period from acquisition in January 2007 to 30 June 2007.

	Carrying value \$'000	Fair value \$'000
<b>PURCHASE CONSIDERATION</b>		
Cash, including associated costs	-	1,861
<b>NET ASSETS/(LIABILITIES) ACQUIRED</b>		
Cash	-	-
Receivables	-	-
Plant and equipment	-	-
Licences	-	1,861
Other assets	-	-
Payables	-	-
Interest bearing liabilities	-	-
Other liabilities	-	-
	-	1,861
<b>Goodwill</b>	-	-

## 29. 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, Spain, Germany, Portugal, France and the United States. BBW reports its primary segment information on a geographical basis.

	Revenue from the sale of energy and products		Revenue from lease of plant and equipment		Compensation revenue		Total revenue	
	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000 (Restated)
<b>SEGMENT REVENUES</b>								
Portugal	119,814	-	-	-	3,549	-	123,363	-
Spain	72,374	41,723	-	-	2,383	2,904	74,757	44,627
Australia	24,483	-	45,252	44,656	-	273	69,735	44,929
Germany	14,323	14,160	-	-	19	-	14,342	14,160
US	34,105	21,683	92,712	-	-	-	126,817	21,683
France	5,467	-	-	-	-	-	5,467	-
<b>Total</b>	<b>270,566</b>	<b>77,566</b>	<b>137,964</b>	<b>44,656</b>	<b>5,951</b>	<b>3,177</b>	<b>414,481</b>	<b>125,399</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 29. SEGMENT INFORMATION (CONTINUED)

### SEGMENT RESULTS

	Australia \$'000	US \$'000	Spain \$'000	Portugal \$'000	Germany \$'000	France \$'000	Total \$'000
<b>2008</b>	<b>3,691</b>	<b>5,016</b>	<b>7,775</b>	<b>31,645</b>	<b>698</b>	<b>41</b>	<b>48,866</b>
Revaluation of US wind farm investments							24,246
Unallocated							(17,368)
Profit before income tax expense							55,744
Income tax expense							(15,916)
<b>Profit for the period</b>							<b>39,828</b>

	Australia \$'000	US \$'000	Spain \$'000	Portugal \$'000	Germany \$'000	France \$'000	Total \$'000
<b>2007 (Restated)</b>	<b>1,752</b>	<b>(10,191)</b>	<b>7,300</b>	<b>-</b>	<b>3,915</b>	<b>-</b>	<b>2,776</b>
Revaluation of US wind farm investments							12,853
Unallocated							(8,536)
Profit before income tax expense							7,093
Income tax expense							(769)
<b>Profit for the period</b>							<b>6,324</b>

### SEGMENT ASSETS AND LIABILITIES

	Assets		Liabilities	
	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000 (Restated)
Australia	946,541	672,054	819,148	648,493
Spain	1,097,741	549,048	956,689	421,618
Portugal	1,947,334	-	1,529,277	-
Germany	208,544	124,887	145,065	102,279
France	128,753	50,153	89,600	50,330
USA	2,166,844	1,027,781	1,875,689	719,526
<b>Total of all segments</b>	<b>6,495,757</b>	<b>2,423,923</b>	<b>5,415,468</b>	<b>1,942,246</b>
Unallocated	79,673	212,420	24,740	18,374
Eliminations	-	(17,865)	-	(89,198)
<b>Consolidated</b>	<b>6,575,430</b>	<b>2,618,478</b>	<b>5,440,208</b>	<b>1,871,422</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 29. SEGMENT INFORMATION (CONTINUED)

### OTHER SEGMENT INFORMATION

	Australia 2008 \$'000	Spain 2008 \$'000	Germany 2008 \$'000	France 2008 \$'000	US 2008 \$'000	Portugal 2008 \$'000	Unallocated 2008 \$'000	Consolidated 2008 \$'000
Carrying value of investments in financial assets (US wind farms)	-	-	-	-	-	-	-	-
Revaluation of US wind farm investments	-	-	-	-	24,246	-	-	24,246
<b>Acquisition of segment assets:</b>								
Property, plant and equipment	135,228	42,156	3,709	68,516	391,770	61,184	-	702,563
Depreciation and amortisation of segment assets	(18,804)	(23,583)	(4,698)	(1,634)	(48,330)	(35,859)	(1,367)	(134,275)
	Australia 2007 \$'000 (Restated)	Spain 2007 \$'000 (Restated)	Germany 2007 \$'000 (Restated)	France 2007 \$'000 (Restated)	US 2007 \$'000 (Restated)	Portugal 2007 \$'000 (Restated)	Unallocated 2007 \$'000 (Restated)	Consolidated 2007 \$'000 (Restated)
Carrying value of investments in financial assets (US wind farms)	-	-	-	-	488,292	-	-	488,292
Revaluation of US wind farm investments	-	-	-	-	12,853	-	-	12,853
<b>Financial Assets:</b>								
Acquisition of segment assets:	-	-	-	-	296,533	-	-	296,533
Property, plant and equipment	201,594	2,080	36,159	35,767	-	-	-	275,600
Depreciation and amortisation of segment assets	(13,047)	(15,652)	(3,505)	-	(12,044)	-	(1,761)	(46,009)

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## **30. 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 27 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**

#### **Parent Entity transactions with members of the consolidated group**

During the financial year, various subsidiaries received management services from BBWPL. The total value of the services received was \$18,763,000 (2007: \$13,597,000).

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

BBWPL has receivables from various subsidiaries of \$1,012,434,000 (2007: \$799,805,000). Refer Note 6.

BBWPL has borrowings from various subsidiaries of \$1,177,253,000 (2007: \$958,114,000) Refer Note 15.

BBWPL recorded interest income of \$6,614,000 (2007: \$1,284) on the interest bearing portion of its receivables from subsidiaries.

BBWPL recorded interest expense of \$6,716,000 (2007: \$8,728,000) on the interest bearing portion of its borrowings from subsidiaries.

#### **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 and under normal 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 2008, fees paid or payable to the Custodian by the Group were \$132,000 (2007: \$94,000).

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 previously exercised its right under the constitution to waive the fee referred to above such that it is paid remuneration of \$500,000 per annum, increased by CPI annually. BBWPT incurred an amount of \$542,000 (2007: \$533,000) in the year ended 30 June 2008.

Management agreements were previously entered into with Babcock & Brown Infrastructure Pty Limited (**BBIM**), a subsidiary of Babcock & Brown Limited. During the year ended 30 June 2007, these agreements were novated from BBIM to Babcock & Brown Wind Partners Management Pty Limited (**BBWPM** or the **Manager**), which is also a subsidiary of Babcock & Brown Limited. Under the management agreements between, BBWPM, 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 (**NIV**) of BBW at the end of each quarter is payable. During the year ended 30 June 2007, a change to the base fee calculation was agreed as a consequence of the global refinancing. This change resulted in the corporate level debt component of the base fee formula being capped at 14% of the NIV.

Additionally, an incentive fee is payable half-yearly calculated as 20% of the amount (if any) of the excess percentage return of BBW stapled securities over the S&P/ASX 200 Accumulation Index for each half year, multiplied by BBW's market capitalisation at the end of the half year. Nil incentive fee was paid in 2008 (2007: nil).

Base management fees paid or payable to BBIM or BBWPM were \$20,487,000 (2007: \$14,770,000) during the year. Of this amount, BBWPL incurred \$14,788,000 (2007: \$10,755,000), BBWPT incurred \$2,468,000 (2007: \$1,661,000) and BBWPB incurred \$3,231,000 (2007: \$2,354,000).

Under the management agreement between BBWPL and BBWPM, the Manager is entitled to an amount per annum in respect of expenses. During the year BBWPL incurred \$8,725,000 (2007: \$6,323,000) representing management expenses incurred by the Manager in the performance of its duties for the period to 30 June 2008.

Under a management agreement between Olivento S.L. and each of Babcock & Brown Limited and Babcock & Brown S.L., approximately \$834,000 (2007: \$554,000) was paid or payable during the year ended 30 June 2008 for the management of the Spanish wind farms.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 30. RELATED PARTY DISCLOSURES (CONTINUED)

### Related party operational payments

The BBW Group paid \$507,000 (2007: \$382,000) to Renenco A.G. under Technical Management Agreements during the year ended 30 June 2008 for operational management of the German wind farms

The BBW Group paid \$5,173,000 (2007: \$nil) to Telener S.A. under Technical Management Agreements during the year ended 30 June 2008 in relation to the Portugese windfarms. The BBW Group also paid \$903,000 (2007: \$nil) to Enermais for accounting services during the year ended 30 June 2008.

The BBW Group paid approximately \$2,033,000 (2007: \$nil) to a subsidiary of Babcock & Brown Limited under certain project and fiscal administration agreements during the year ended 30 June 2008 in relation to the BBW Group's US wind farms.

### Transactions with related parties

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. During the year ended 30 June 2008 the group purchased 53 different wind farms in five different jurisdictions with a capacity of 1,141 MW and an enterprise value of \$2,374,992,000. Fees of \$54,202,000 (2007: \$14,016,000), were paid or were payable by the Group to BBA for financial advisory services in relation to these acquisitions. These fees were for transactional services rendered and based on arms length terms and conditions, with the fees approved solely by BBW's independent Directors

During the year ended 30 June 2008, the Group paid BBA \$ 9,044,000 (2007: \$11,871,000) for debt advisory fees associated for securing \$1,250,812,000 of additional global debt facilities. Refer to Note 15. These fees were for transactional services rendered and based on arms length terms and conditions, with the fees approved solely by BBW's independent Directors.

During the year ended 30 June 2008, the Group paid a subsidiary of Babcock & Brown Limited a total of \$77,784,000 in framework incentive fees relating to the Group's investments in European Framework Assets. The amount of the framework incentive fees was determined in accordance with the formula set out in the Framework Agreements by reference to the projected returns for BBW from these investments (refer page 86 of BBW Product Disclosure Statement dated 26 September 2005).

During the year ended 30 June 2008, the Group paid a subsidiary of Babcock & Brown Limited a total of \$11,520,000 in development premiums relating to the development of the Capital wind farm in Australia.

During the year ended 30 June 2008 BBW purchased a 50% share of the 524 MW Enersis portfolio in Portugal from a subsidiary of Babcock & Brown. Please refer to Note 28.

During the year ended 30 June 2008 BBW purchased 375 MW (2007: 582MW) of wind farms in the USA from a subsidiary of Babcock & Brown for a purchase price of \$360,404,000 (2007: \$478,121,000) as approved by securityholders at the Annual General Meeting held on 9 November 2007.

### Loans to related parties

During the year ended 30 June 2008, as part of its treasury management program, a subsidiary of BBW advanced temporary revolving loans to subsidiaries of Babcock & Brown Limited to assist in funding their continued ownership of wind farm assets for BBW, including the Enersis and US07 portfolios, prior to their transfer to BBW. These loans did not exceed \$250,000,000 and were subsequently repaid during the year ended 30 June 2008. Interest on these loans accrued at rates up to 8.4% and amounted to \$6,115,000 during the periods in which the loans were outstanding. Babcock & Brown has subsequently announced a policy of no longer either making or receiving loans from managed funds.

During the year ended 30 June 2007 as part of its treasury management program, BBWPT advanced a loan of \$150,000,000 to Babcock & Brown Limited. Again, the loan was to assist in funding Babcock & Brown Limited's ownership of wind farm assets for BBW. The loan was subsequently repaid during the year ended 30 June 2007. The interest rate on the loan was 8.0% and interest of \$657,000 was derived during the period in which the loan was outstanding.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 30. RELATED PARTY DISCLOSURES (CONTINUED)

### Share holdings of related parties

At 30 June 2008, companies within the Babcock & Brown Limited group held 96,725,347 (2007: 81,162,000) stapled securities in BBW and during the year ended 30 June 2008 received \$11,862,000 (2007: \$9,212,000) as distributions on stapled securities held.

As a result of the placement that was completed during the year ended 30 June 2007 the Group issued 4.35 million stapled securities to a subsidiary of Babcock & Brown Limited for \$1.80 per stapled security.

### Related party balances

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

	\$
B&B MH4 Co. Limited	\$17,196,000
Veryotherco Consultoria, Investimento E Servicos, SA	\$16,319,000
Babcock & Brown Australia Pty Limited	\$8,268,000
Babcock & Brown Wind Partners Management Pty Limited	\$9,222,000
Babcock & Brown UK Ltd	\$986,000
Babcock & Brown Wind Partners Services Limited	\$136,000
Babcock & Brown Asset Holdings Pty Limited	\$34,000

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

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

	\$
Parque Eolico de Anganil, Lda	\$10,401,000
Telener S.A.	\$131,000

### (D) PARENT ENTITIES

The parent entity in the Group is BBWPL.

The ultimate Australian parent entity is BBWPL.

The ultimate parent entity is BBWPL.

## 31. SUBSEQUENT EVENTS

On 21 August 2008, the Group agreed to sell its portfolio of operating Spanish wind energy assets with an installed capacity of 420.7MW to Formento de Construcciones y Contratas, S.A. The sale, which is expected to result in an estimated profit before transaction costs of approximately \$266,000,000, is subject to local authority consents, which are expected to take approximately three months, with financial close occurring thereafter.

In September 2008, the Group announced that it would be undertaking an on-market buy-back of up to 10% of its securities over a period of 12 months.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 32. NOTES TO THE CASH FLOW STATEMENT

	Consolidated		Parent Entity	
	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000
<b>(A) RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>				
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:				
Cash and cash equivalents	208,505	442,969	47,294	23,265
	<b>208,505</b>	<b>442,969</b>	<b>47,294</b>	<b>23,265</b>
<b>(B) BUSINESSES ACQUIRED</b>				
During the financial year, 8 businesses (2007: 4) were acquired, Details of the acquisitions are as follows:				
<b>Consideration</b>				
Cash and cash equivalents paid	421,582	85,883	486	957
Value of investments in institutional equity partnerships	642,363	-	-	-
Consideration settled through the issue of stapled securities	24,480	-	-	-
Cash and cash equivalents deferred until a future period	18,421	11,276	-	-
	<b>1,106,846</b>	<b>97,159</b>	<b>486</b>	<b>957</b>
<b>Fair value of net assets acquired</b>				
Cash	74,486	11,338	-	-
Receivables and other current assets	144,942	3,707	-	-
Property, plant and equipment	3,313,059	90,272	-	-
Other assets	21,381	100,123	-	-
Payables	(107,620)	(1,390)	-	-
Interest-bearing liabilities	(1,642,021)	(108,708)	-	-
Institutional equity partnerships classified as liabilities	(991,524)	-	-	-
Other liabilities	(206,201)	(24,872)	-	-
<b>Net assets/(liabilities) acquired</b>	<b>606,502</b>	<b>70,470</b>	<b>-</b>	<b>-</b>
Minority interest	(146,636)	135	-	-
	<b>459,866</b>	<b>70,605</b>	<b>-</b>	<b>-</b>
<b>Implied goodwill</b>	<b>646,980</b>	<b>26,554</b>	<b>486</b>	<b>957</b>
<b>Net cash outflow on acquisition</b>				
Total consideration	1,106,846	97,159	486	957
Less: value of investments in institutional equity partnerships	(642,363)	-	-	-
Less: cash and cash equivalent balances acquired	(74,486)	(11,338)	-	-
Less: consideration still to be paid	(18,421)	(7,280)	-	-
Less: consideration settled through issue of stapled securities	(24,480)	-	-	-
Less: cash balances received on recognition of joint controlled entities	(8,746)	-	-	-
Add: prior year and future acquisition costs paid	14,617	(3,996)	-	-
<b>Cash paid for investments in controlled entities</b>	<b>352,967</b>	<b>74,545</b>	<b>486</b>	<b>957</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 32. NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

	Consolidated		Parent Entity	
	2008 \$'000	2007 \$'000 (Restated)	2008 \$'000	2007 \$'000
<b>(C) NON-CASH FINANCING AND INVESTING ACTIVITIES</b>				
Distribution reinvestment plan	29,062	15,083	-	-
Lake Bonney Wind Power Pty Limited (Note 19)	-	1,112	-	-
Acquisition of Capital Wind Farm (Note 19)	24,480	-	-	-
Institutional equity partnerships in the US over which control/joint control gained <sup>1</sup>	840,701	-	-	-
	<b>894,243</b>	<b>16,195</b>	-	-

<sup>1</sup> Refer to note 17 for more information relating to institutional equity partnerships.

The acquisition of certain Class B membership interests in the GSG and Allegheny Ridge Phase 1 wind farms took place on 29 June 2007, however the related payment did not settle until 2 July 2007.

### (D) RESTRICTED CASH BALANCES

As at balance date \$13,435,000 (2007: \$14,164,000) of cash held is restricted and includes amounts held under project cost reserves.

## 33. FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial risks: market risk (including currency risk, interest rate risk and electricity price risk), credit risk and liquidity risk.

The principal financial instruments that give rise to this risk comprise cash, receivables, derivative interest rate swaps, derivative forward foreign exchange deals, payables and interest bearing debt.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

The Group's treasury policy provides a framework for managing the financial risks of the Group. The key philosophy of the Group Treasury policy is risk mitigation. The Group Treasury policy specifically does not authorise any form of speculation.

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures. In line with the Group Treasury policy derivatives are exclusively used for hedging purposes, not as trading or other speculative instruments.

The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, and aging analysis for credit risk.

There have been no changes to the type or class of financial risks the Group is exposed to since the prior year.

### (A) MARKET RISKS

#### (i) Interest rate risks

The Group's income and operating cash flows are exposed to interest rate risk as it borrows funds at floating interest rates. The risk is managed by fixing a portion of the floating rate borrowings, by use of interest rate swap contracts. During 2008 and 2007, the Group's borrowings at variable rates were denominated in Australian Dollars, US Dollars and Euros.

A high percentage of the face value of debt in each of the relevant currencies is hedged using interest rate swaps. The table below shows a breakdown of the Group's interest rate debt and swap positions.

In undertaking this strategy the Group is willing to forgo a percentage of the potential economic benefit that would arise in a falling interest rate environment, to protect itself from downside risks of increasing interest rates and secure a greater level of predictability for cash flows.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 33. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Interest rate swap contracts - designated as cash flow hedges

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. 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:

	Average contracted fixed interest rate		Notional principal amount		Fair value	
	2008 %	2007 %	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Outstanding pay fixed Interest rate swaps						
Fixed swap - Australia Dollar	6.70	6.54	557,531	424,575	24,757	9,372
Fixed swap - Euro	4.32	4.14	2,046,392	447,038	90,748	16,050
Fixed swap - US Dollar	5.28	5.26	456,858	347,222	(24,105)	8,783
			<b>3,060,781</b>	<b>1,218,835</b>	<b>91,400</b>	<b>34,205</b>

### Bank debt as at balance date

The table below details the total amount of debt the Group holds as at 30 June 2008.

The debt is denominated in Australian Dollars, US Dollars and Euros.

The debt is repriced every 6 months.

Australian Dollar debt is priced using the 6 month BBSW rate plus the defined facility margin.

Euro debt is priced using the 6 month Euribor rate plus the defined facility margin.

US Dollar debt is priced using the 6 month Libor rate plus the defined facility margin.

The table below shows the total debt and breakdown of fixed and floating debt

The average 6 month fixed and floating rate debt detailed in the table below is not inclusive of the facility margin.

The current average facility margin is 87 points.

	Floating Debt		Debt principal amount	
	2008 %	2007 %	2008 \$'000	2007 \$'000
Floating rate debt				
AUD debt	8.01	7.03	11,292	53,422
EUR debt	5.12	4.92	295,342	136,145
USD debt	3.13	5.21	132,213	96,459
			<b>438,847</b>	<b>286,026</b>

	Fixed Debt		Debt principal amount		% of Debt Hedged	
	2008 %	2007 %	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Fixed rate debt						
AUD debt	6.70	6.54	557,531	424,575	98%	89%
EUR debt	4.32	4.14	2,046,392	446,358	87%	76%
USD debt	5.28	5.26	456,858	158,917	78%	62%
			3,060,781	1,029,850		
<b>Total debt</b>	<b>4.86</b>	<b>5.33</b>	<b>3,499,628</b>	<b>1,315,876</b>	<b>88%</b>	<b>78%</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 33. FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below shows the maturity profile of the interest rate swaps as of 30 June 2008 and 30 June 2007.

	Fair value A\$'000	Undiscounted fair value A\$'000	Up to 12 months A\$'000	1 to 5 years A\$'000	Over 5 years A\$'000
2008					
AUD swaps	24,757	31,036	7,458	18,281	5,297
EUR swaps	90,748	131,366	20,506	45,444	65,416
USD swaps	(24,105)	(29,386)	(9,414)	(16,116)	(3,856)
	<b>91,400</b>	<b>133,016</b>			
2007					
AUD swaps	9,372	12,112	696	6,887	4,529
EUR swaps	16,050	22,623	1,038	7,390	14,195
USD swaps	8,783	13,397	186	2,118	11,093
	<b>34,205</b>	<b>48,132</b>			

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and reclassified into profit and loss when the hedged interest expense is recognised. The ineffective portion is recognised in the income statement immediately. In the year ended 30 June 2008, a net figure of A\$2,802,647 was transferred to profit (2007: A\$23,131,352) and included in finance cost.

### Sensitivity

The sensitivity to interest rate movement of net profit before tax and equity have been determined based on the exposure to interest rates at the reporting date. A sensitivity of 100 basis points has been selected across the three currencies to which the Group is exposed to floating rate debt, Australian Dollars, Euros and US Dollars. The 100 basis points sensitivity is deemed to be flat across the yield curve and is a reasonable estimate of movement based on current long-term and short-term interest rates.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 33. FINANCIAL RISK MANAGEMENT (CONTINUED) CONSOLIDATED

2008 A\$'000		A\$ +100 bps	A\$ -100 bps	€ +100 bps	€ -100 bps	US\$ +100 bps	US\$ -100 bps
<b>Impact on income statement</b>							
Cash	AUD	42,293	423	(423)	-	-	-
	EUR	119,917	-	-	1,199	(1,199)	-
	USD	46,295	-	-	-	-	463
		<b>208,505</b>					
Borrowings	AUD	568,823	(113)	113	-	-	-
	EUR	2,341,734	-	-	(2,953)	2,953	-
	USD	589,071	-	-	-	-	(1,302)
		<b>3,499,628</b>					
Derivatives - interest rate swaps							
	AUD	557,531		4,745	(4,745)	-	-
	EUR	2,046,392	-	-	7,486	(7,486)	-
	USD	456,858	-	-	-	-	-
<b>Total income statement</b>		<b>3,060,781</b>	<b>5,055</b>	<b>(5,055)</b>	<b>5,732</b>	<b>(5,732)</b>	<b>(839)</b>
<b>Impact on hedge reserve</b>							
Derivatives - interest rate swaps							
	AUD	557,531	33,382	(33,382)			
	EUR	2,046,392	-	-	135,825	(135,825)	-
	USD	456,858	-	-	-	-	34,323
<b>Total hedge reserve</b>		<b>3,060,781</b>	<b>33,382</b>	<b>(33,382)</b>	<b>135,825</b>	<b>(135,825)</b>	<b>34,323</b>
<b>Total impact on equity</b>			<b>38,437</b>	<b>(38,437)</b>	<b>141,557</b>	<b>(141,557)</b>	<b>33,484</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 33. FINANCIAL RISK MANAGEMENT (CONTINUED)

2007 A\$'000		A\$ +100 bps	A\$ -100 bps	€ +100 bps	€ -100 bps	US\$ +100 bps	US\$ -100 bps
<b>Impact on income statement</b>							
Cash	AUD	182,348	1,823	(1,823)	-	-	-
	EUR	23,559	-	-	236	(236)	-
	USD	237,062	-	-	-	-	2,371
		<b>442,969</b>					
Financial assets	USD	488,292	-	-	-	-	(37,684)
		<b>488,292</b>					
Borrowings	AUD	497,997	(534)	534	-	-	-
	EUR	562,503	-	-	(1,361)	1,361	-
	USD	255,376	-	-	-	-	(965)
		<b>1,315,876</b>					
<b>Derivatives - interest rate swaps</b>							
	AUD	444,575	5,316	(5,316)	-	-	-
	EUR	426,358	-	-	-	-	-
	USD	158,917	-	-	-	-	8,116
<b>Total income statement</b>		<b>1,029,850</b>	<b>6,605</b>	<b>(6,605)</b>	<b>(1,125)</b>	<b>1,125</b>	<b>(28,162)</b>
<b>Impact on hedge reserve</b>							
<b>Derivatives - interest rate swaps</b>							
	AUD	444,575	22,994	(22,994)			
	EUR	426,358			33,798	(33,798)	
	USD	158,917					18,424
<b>Total hedge reserve</b>		<b>1,029,850</b>	<b>22,994</b>	<b>(22,994)</b>	<b>33,798</b>	<b>(33,798)</b>	<b>18,424</b>
<b>Total impact on equity</b>			<b>29,599</b>	<b>(29,599)</b>	<b>32,673</b>	<b>(32,673)</b>	<b>(9,738)</b>

The impact on net profit is largely due to the Group's exposure to interest rates on its non-hedged variable rate borrowings. The impact on hedge reserve is due to the effective portion of the change in fair value of derivatives that are designated as cash flow hedges.

## PARENT ENTITY

2008 A\$'000		A\$ +100 bps	A\$ -100 bps	€ +100 bps	€ -100 bps	US\$ +100 bps	US\$ -100 bps
<b>Impact on income statement</b>							
Cash	AUD	16,087	161	(161)			
	EUR	15,324			153	(153)	
	USD	15,883					159
							(159)
<b>2007</b>							
A\$'000		A\$ +100 bps	A\$ -100 bps	€ +100 bps	€ -100 bps	US\$ +100 bps	US\$ -100 bps
<b>Impact on income statement</b>							
Cash	AUD	23,265	233	(233)	-	-	-
Derivatives - interest rate swaps	USD	2,716	-	-	-	-	8,116
							(8,116)

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 33. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (ii) Foreign currency risks

The Group has wind farm operations in Australia, USA and Europe.

The Group generates Australian Dollar, US Dollar and Euro revenue from these operations. The Group and the parent entity are exposed to a decline in value of Euros and US Dollars versus the Australian Dollar, decreasing the value of Australian Dollar equivalent revenue from its European and US wind farm operations.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations. The risk is measured using sensitivity analysis and cash flow forecasting.

The Group strives to naturally hedge in all possible situations so the majority of the Group's expenses are denominated in the same currency as the associated revenues. For example, under the Group's Global Facility the matching principle is used so debt is drawn down in the currency of the underlying operation. This leaves only the net income of the operation that is exposed to currency fluctuations.

Consistent with Group's treasury guidelines based on capital preservation, the Group utilises forward foreign exchange contracts to hedge the returns of net investment from its European and US operations.

#### Forward foreign exchange contracts

The Group entered into contracts to hedge its exposures relating to its net investments in overseas entities to reduce the potential for exchange rate movements having an impact on investment returns for periods of up to three years.

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

	Average exchange rate		Foreign currency		Contract value		Fair value	
	2008	2008	2008 FC'000	2007 FC'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Outstanding contracts								
Sell EUR buy AUD	0.5765	0.5787	105,600	15,700	183,172	27,130	3,093	1,711
Sell USD buy AUD	0.8377	0.7737	80,750	38,475	96,396	49,726	6,580	3,789
					<b>279,568</b>	<b>76,856</b>	<b>9,673</b>	<b>5,500</b>

As at the reporting date the aggregate amount of unrealised gains under forward foreign exchange contracts relating to anticipated future transactions is \$9,673,590 (2007: \$5,500,000). All amounts relating to the forward foreign exchange contracts were recognised in the income statement.

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

	Sold €		Average exchange rate	
	2008	2007	2008	2007
Buy A\$				
0-1 year	89,677	17,685	0.5843	0.5822
1-2 years	61,804	9,445	0.5695	0.5721
2-3 years	31,691	-	0.5680	-
	<b>183,172</b>	<b>27,130</b>		
	Sold US\$		Average exchange rate	
	2008	2007	2008	2007
Buy A\$				
0-1 year	43,870	29,406	0.8263	0.7796
1-2 years	36,455	15,377	0.8366	0.7674
2-3 years	16,071	4,943	0.8711	0.7585
	<b>96,396</b>	<b>49,726</b>		

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 33. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group's balance sheet exposure to foreign currency risk at the reporting date was as follows.

The below table represents the Euro and US Dollar assets and liabilities the group holds in Australian Dollar functional currency entities.

### CONSOLIDATED

A\$'000	2008		2007	
	€	US\$	€	US\$
Cash	61,346	15,915	92,134	8,519
Trade receivable	3,729	-	434	4,749
Prepaid Investment	1,391	306	-	-
Net investment in foreign operations	668,967	255,473	175,084	441,528
Trade payables	(4,834)	(8)	(35)	(35)
Bank loans	(265,412)	(60,504)	(123,670)	(68,587)
Forward exchange contracts - sell foreign currency (cash flow hedges)	(173,072)	(83,844)	(24,850)	(32,684)
<b>Total Exposure A\$'000</b>	<b>292,115</b>	<b>127,338</b>	<b>119,097</b>	<b>353,490</b>

### PARENT ENTITY

A\$'000	2008		2007	
	€	US\$	€	US\$
Cash	15,324	15,883	7,740	8,519
Trade receivable	2,407	-	1	2,717
Prepaid Investment	592	(13)	-	-
Net investment in foreign operations	378,656	(82,969)	54,066	78,567
Trade payables	(3,279)	(8)	(1)	-
Bank loans	-	-	-	-
Forward exchange contracts - sell foreign currency (cash flow hedges)	(173,072)	(83,844)	(24,850)	(32,684)
<b>Total Exposure AUD \$'000</b>	<b>220,628</b>	<b>(150,951)</b>	<b>36,956</b>	<b>57,119</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 33. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Sensitivity

The following table details the Groups' sensitivity to a 10% change in the Australian Dollar against the US Dollar and the Euro, with all other variables held constant, as at the reporting date, for its unhedged foreign exchange exposure.

A sensitivity of 10% has been selected as this is considered reasonable given the current level of exchange rates and the volatility observed on an historic basis and market expectations for future movement.

### CONSOLIDATED

A\$	A\$/€ +10%	A\$/€ -10%	A\$/US\$ +10%	A\$/US\$ -10%
<b>2008</b>				
Income statement	20,378	(20,378)	4,429	(4,429)
FCTR (Foreign currency translation reserve)	(49,589)	49,589	(17,163)	17,163
<b>2007</b>				
Income statement	3,113	(3,113)	5,535	(5,535)
FCTR (Foreign currency translation reserve)	(15,023)	15,023	(40,784)	40,784

### PARENT ENTITY

A\$'000	A\$/€ +10%	A\$/€ -10%	A\$/US\$ +10%	A\$/US\$ -10%
<b>2008</b>				
Income statement	(1,504)	1,504	(1,586)	1,586
FCTR (Foreign currency translation reserve)	(20,558)	20,558	16,681	(16,681)
<b>2007</b>				
Income statement	(773)	773	(1,123)	1,123
FCTR (Foreign currency translation reserve)	(2,921)	2,921	(4,588)	4,588

### (iii) Electricity price risks

The Group has wind farm operations in Australia, USA and Europe and sells electricity to utility companies in each of the regions it operates.

The financial risk to the Group is that a decrease in the electricity price reduces revenue earned.

To mitigate the financial risks of electricity prices falling, the Group has entered into producer pricing agreements and fixed tariff agreements to fix the sale price of the electricity it produces. As at 30 June 2008 the Group is exposed to market electricity prices for 247MW of its Spain wind production, 159MW of Australian Lake Bonney 2 wind production, and 173MW of US wind production.

In undertaking this strategy of fixing a percentage of its wind electricity sales, the Group is willing to forgo a percentage of the potential economic benefit that would arise in an increasing electricity price environment, to protect itself from downside risks of decreasing electricity prices and secure a greater level of predictability of cash flows.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 33. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Sensitivity

The following table details the Group's sensitivity to a 10% change in the electricity price, with all other variables held constant as at the reporting date, for its unhedged exposure to the electricity market.

A sensitivity of 10% has been selected as this is considered, reasonable given the current level of electricity prices and the volatility observed on an historic basis and market expectations for future movement.

### CONSOLIDATED

AUD \$'000	Electricity Price +10%	Electricity Price -10%
<b>2008</b>		
Income statement	8,043	(8,043)
<b>2007</b>		
Income statement	1,919	(1,919)

Changes in electricity prices would have no effect on net profit of the parent entity.

### (B) CREDIT RISK

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks, as well as credit exposures to customers. The Group exposure is continuously monitored and the aggregate value of transactions are spread amongst creditworthy counterparties.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. BBW as a wind generator sells electricity to large utility companies that operate in the regions it has wind farms. The utility companies are situated in Australia, France, Germany, Portugal, Spain, and in many different states of USA. No one utility company represents a significant portion of the total accounts receivable balance. BBW does not assess the credit rating of the utility companies it sells electricity to, due to the limited risk each utility company poses to the overall accounts receivable balance.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with credit ratings assigned by international credit-rating agencies as above investment grade.

The carrying amount of financial assets recorded in the financial statements, represents the Group's maximum exposure to credit risk.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 33. FINANCIAL RISK MANAGEMENT (CONTINUED) CONSOLIDATED

	Within credit terms \$'000	Past due but not impaired \$'000	Impaired \$'000	Description
<b>2008</b>				
Bank deposits	208,505	-	-	Banks are investment grade or above
Derivative - Interest rate swap	91,400	-	-	Banks are investment grade or above
Derivative - Forward FX	9,674	-	-	Banks are investment grade or above
Trade receivables	68,077	2,337	-	Spread geographically with large utility companies
Government grant receivable	34,313	-	-	Due from Portugal Govt.
Amounts due from related parties	10,532	-	-	Due from B&B
GST, VAT and other tax receivables	78,891	-	-	National and regional governments

<b>2007</b>				
Bank deposits	442,969	-	-	Banks are investment grade or above
Derivative - Interest rate swap	34,469	-	-	Banks are investment grade or above
Derivative - Forward FX	76,857	-	-	Banks are investment grade or above
Trade receivables	20,045	-	-	Spread geographically with large utility companies
Interest receivable	170	-	-	Banks are investment grade or above
GST, VAT and other tax receivables	22,739	-	-	National and regional governments
Other receivables	1,040	-	-	

### PARENT ENTITY

	Within credit terms \$'000	Past due but not impaired \$'000	Impaired \$'000	Description
<b>2008</b>				
Bank deposits	47,294	-	-	Banks are investment grade or above
Derivative - Forward FX	9,674	-	-	Banks are investment grade or above
Interest receivable	1,221	-	-	Due from members of the consolidated group
Amounts due from related parties	37,351	-	-	Due from members of the consolidated group
<b>2007</b>				
Bank deposits	23,265	-	-	Banks are investment grade or above
Derivative financial instruments - forward foreign exchange contracts	76,857	-	-	Banks are investment grade or above
Interest receivable	676	-	-	Due from members of the consolidated group
Amounts due from related parties	47,456	-	-	Due from members of the consolidated group
GST, VAT and other tax receivables	946	-	-	National and regional governments

### (C) LIQUIDITY RISKS

The Group 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.

The tables below sets out the Group and parent entity's financial liabilities at balance date and places them into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flow. For interest rate swaps, the cash flows have been estimated using forward interest rates applicable at the reporting date.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 33. FINANCIAL RISK MANAGEMENT (CONTINUED) CONSOLIDATED

	Up to 12 months \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total contractual cash flows \$'000
<b>2008</b>				
Gross loan commitments	169,332	925,891	2,404,405	3,499,628
Gross finance lease	5,550	22,197	32,028	59,775
Interest rate swap payable	9,541	16,790	7,606	33,937
Interest rate swap (receivable)	(27,963)	(63,821)	(74,027)	(165,811)
Forward foreign exchange payable	123,519	133,396	-	256,915
Forward foreign exchange (receivable)	(133,547)	(146,021)	-	(279,568)
Current payables	296,392	-	-	296,392
Related party payable	-	17,196	-	17,196

	Up to 12 months \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total contractual cash flows \$'000
<b>2007</b>				
Gross loan commitments	36,903	338,609	940,363	1,315,875
Gross finance lease	5,079	20,314	46,789	72,182
Interest rate swap payable	275	-	-	275
Interest rate swap receivable	(2,196)	(16,394)	(29,816)	(48,406)
Forward foreign exchange payable	43,285	26,857	-	70,142
Forward foreign exchange receivable	(47,091)	(29,766)	-	(76,857)
Current payables	261,345	-	-	261,345

## PARENT ENTITY

	Up to 12 months \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total contractual cash flows \$'000
<b>2008</b>				
Forward foreign exchange payable	123,519	133,396	-	256,915
Forward foreign exchange (receivable)	(133,547)	(146,021)	-	(279,568)
Intercompany loans payable	1,178,446	-	-	1,178,446
Intercompany loans (receivable)	(1,035,849)	-	-	(1,035,849)
Current payables	19,630	-	-	19,630

	Up to 12 months \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total contractual cash flows \$'000
<b>2007</b>				
Forward foreign exchange payable	43,285	26,857	-	70,142
Forward foreign exchange (receivable)	(47,091)	(29,766)	-	(76,857)
Intercompany loans payable	963,257	-	-	963,257
Intercompany loans (receivable)	(816,925)	-	-	(816,925)
Current payables	12,726	-	-	12,726

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 33. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Capital Risk Management

The Group and the parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to securityholders, return capital to securityholders, issue new securities or sell assets to reduce debt.

The capital structure of the Group consists of total corporate facilities as listed in Note 15, and equity, comprising issued capital, reserves and retained earnings as listed in Notes 19, 20 and 21.

The Board of Directors review the capital structure, and as part of this review, consider the cost of capital and the risks and rewards associated with each class of capital.

The Group has to maintain certain ratios in regard to compliance with its banking facility.

These two ratios are:

Leverage Ratio - Debt/EBITDA

Cash Flow Cover Ratio - EBITDA/Scheduled interest and principal repayments.

During the year the ratios have been fully complied with.

### Fair value estimation

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

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 reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

Derivative contracts classified as held for trading are fair valued by comparing the contracted rate to the current market rate for a contract with the same remaining period to maturity.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives and investments in unlisted subsidiaries) 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 reporting date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. 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.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

## 34. INTERESTS IN JOINT VENTURES

Interests in the following institutional equity partnerships in the US are accounted for in the consolidated financial statements as joint venture partnerships and are proportionately consolidated based on BBW's Class B interest.

Institutional equity partnership	Related wind farms	Class B Interest held by BBW %
Sweetwater Wind 1 LLC	Sweetwater 1	50
Sweetwater Wind 2 LLC	Sweetwater 2	50
Sweetwater Wind 3 LLC	Sweetwater 3	50
Blue Canyon Windpower LLC	Blue Canyon	50
Eurus Combine Hills 1 LLC	Combine Hills	50
Sweetwater Wind 4-5 Holdings LLC <sup>1</sup>	Sweetwater 4, Sweetwater 5	53
JB Wind Holdings LLC <sup>1</sup>	Jersey Atlantic, Bear Creek	59

<sup>1</sup> Joint control was gained over these institutional equity partnerships during the year ended 30 June 2008.

Further information relating to these institutional equity partnerships is set out below:

### Share of institutional equity partnerships' assets and liabilities

	2008 \$'000	2007 \$'000
Current assets	15,533	5,459
Non-current assets	562,110	252,326
<b>Total assets</b>	<b>577,643</b>	<b>257,785</b>
Current liabilities	10,324	4,853
Non-current liabilities	404,508	205,529
<b>Total liabilities</b>	<b>414,832</b>	<b>210,382</b>
<b>Net assets</b>	<b>162,811</b>	<b>47,403</b>

### Share of institutional equity partnerships' revenues, expenses and results

	2008 \$'000	2007 \$'000
Revenues	60,765	38,419
Expenses	(60,040)	(39,108)
<b>Profit/(loss) before tax</b>	<b>725</b>	<b>(689)</b>

### Share of institutional equity partnerships' commitments and contingent liabilities

The following information is included within the information contained in notes 24 and 25.

	2008 \$'000	2007 \$'000
Commitments	37,306	42,290
Contingent liabilities	184	208



## 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 78 to 148 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 2008 and of their performance for the financial year ended on that date; and
- (b) 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  
Chairman



WARREN MURPHY  
Director

Sydney, 24 September 2008

# INDEPENDENT AUDIT REPORT



**PricewaterhouseCoopers**  
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## **Independent auditor's report to the members of Babcock & Brown Wind Partners Limited**

### **Report on the financial report**

We have audited the accompanying financial report of Babcock & Brown Wind Partners Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Babcock & Brown Wind Partners Limited (the "Company") and the Babcock & Brown Wind Partners Group (the "Consolidated Entity"). The consolidated entity comprises the Company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

# INDEPENDENT AUDIT REPORT



## Independent auditor's report to the members of Babcock & Brown Wind Partners Limited (continued)

### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

### *Auditor's opinion*

In our opinion:

- (a) the financial report of Babcock & Brown Wind Partners Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

### **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 60 to 74 of the directors' report for the year ended 30 June 2008. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with the Australian Auditing Standards.

### *Auditor's opinion*

In our opinion, the Remuneration Report of Babcock & Brown Wind Partners Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in cursive script that appears to be 'AJ Wilson'.

AJ Wilson  
Partner

Sydney  
24 September 2008

## ADDITIONAL INVESTOR INFORMATION

### **GAMESA FRAMEWORK AGREEMENT**

BBWPL entered into a Framework Agreement, dated 13 September 2005, with Babcock & Brown (UK) Holdings Limited, a UK subsidiary of Babcock & Brown (**B&B UK**), pursuant to which BBWPL acquired certain rights and obligations in relation to the acquisition of wind farms in Spain which correspond to rights and obligations which B&B UK has with Gamesa Energía SAU. As consideration, B&B UK receives a fee from BBWPL each time BBWPL purchases a wind farm pursuant to the Framework Agreement. The wind farms must satisfy certain criteria and be delivered within certain timeframes in order to fall within the scope of the Framework Agreement. The Framework Agreement contemplates that wind farms with installed capacity of up to 330MW potentially could be available under the Framework Agreement in 2008 and 2009. The Framework Agreement is governed by the law of New South Wales, Australia.

### **PLAMBECK FRAMEWORK AGREEMENT**

BBW has entered into a Framework Agreement, dated 29 March 2006, with Plambeck Neue Energien AG (**Plambeck**). Under the Framework Agreement, BBW has secured the rights and obligations to acquire a portfolio of wind farms in Germany. The wind farms must satisfy certain criteria and be delivered within certain timeframes in order to be acquired. The Framework Agreement contemplates that wind farms with installed capacity of up to 182MW potentially could be available under the Framework Agreement in FY09. The Framework Agreement is governed by the laws of the Federal Republic of Germany.

### **IMPORTANT ASPECTS OF THE US ASSETS**

#### **LLC PROJECT AGREEMENTS - CHANGE OF CONTROL PROVISIONS**

The limited liability company agreements (each a **Project LLC Agreement**) of the various Project LLCs for the US Assets provide for two levels of membership interests: Class A and Class B. The Class B Members serve as the managing members of the company.

The managing members have control over and manage the affairs of the Project LLC, but the consent of the Class A Members is required for certain material actions to be taken by the Project LLC (such as the incurrence of debt, sale of material assets, mergers, acquisitions, sale of the Project LLC or other similar actions). Transfers of membership interests are permitted subject to (a) a right of first bid procedure for the benefit of non-transferring members, (b) a prohibition against transfers to certain disqualified transferees (such as competitors of the Project LLC), (c) prior to the Reallocation Date, transfers of Class B interests require consent of a designated super-majority of the Class A interests, and (d) Class A interests may be transferred after ten years if the Reallocation Date has not been reached and distributions have failed to exceed the sum of the Class B Members' capital contributions.

A change of control in a member of a Project LLC must comply with the foregoing transfer restrictions, except that an event causing a change of control of a member's parent company does not constitute a change of control. However, in some Project LLC Agreements, depending upon the facts and circumstances in each case, a change in BBW's manager outside the Babcock & Brown group may constitute a change of control which would require the prior consent of the Class A members in the Project LLC. The relevant Project LLC Agreements provide that a change purported to be made in breach of these provisions is void and that specific performance in respect of those clauses can be sought. In addition, breach of these provisions may give rise to a claim of damages.

## ADDITIONAL INVESTOR INFORMATION

### BACK TO BACK GUARANTEES REGARDING COVENANTS IN THE PROJECT LLC AGREEMENTS

In addition, each of BBWPL and, in certain instances, Babcock & Brown Wind Partners Services Limited in its capacity as Responsible Entity of BBWPT (together, the **Guarantors**) have entered into guarantees (the **Back-to-Back Guarantees**) in favour of Babcock & Brown International Pty Ltd and/or Babcock & Brown LP (the **Beneficiaries**).

The Back-to-Back Guarantees support downstream guarantees which have been given by the Beneficiaries to support the obligations of the Investment LLCs which are Class B Members of Project LLCs (that own and operate wind farm projects in the United States) in favour of the Class A Members of those Project LLCs.

### BERMUDA LAW ISSUES

**Incorporation:** BBWPB is incorporated in Bermuda.

**Takeovers:** Unlike BBWPL and BBWPT, BBWPB is not subject to the sections in Chapter 6 of the *Corporations Act* dealing with the acquisition of shares (including substantial holdings and takeovers). Bermuda company law does not have a takeover code which effectively means that a takeover of BBWPB will be regulated under Australian takeover law. However, Section 103 of the *Bermuda Companies Act* provides that where an offer is made for shares of a company and, within four months of the offer the holders of not less than 90% of the shares which are the subject of such offer accept, the offeror may by notice require the non-tendering shareholders to transfer their shares on the terms of the offer. Dissenting shareholders may apply to the court within one month of the notice, objecting to the transfer. The test is one of fairness to the body of the shareholders and not to individuals, and the burden is on the dissentient shareholder to prove unfairness, not merely that the scheme is open to criticism.

### STAPLED SECURITIES

Each Stapled Security is made up of one BBWPL share, one BBWPT unit and one BBWPB share which, under each of the Constitutions, are stapled together and cannot be traded or dealt with separately. In accordance with its requirements in respect of listed stapled securities, ASX reserves the right to remove any or all of BBWPL, BBWPB and BBWPT from the Official List if, while the stapling arrangements apply, the securities in one of these entities ceases to be stapled to the securities in the other entities or one of these entities issues securities which are not then stapled to the relevant securities in the other entities.

### INCENTIVE FEES

The principal ongoing fees payable by BBW to BBWPM as Manager comprise a base and incentive fee. With respect to the incentive fee, BBWPM may be entitled to receive an incentive fee related to the performance of BBW. This fee is paid half yearly in respect of a financial half year. The incentive fee is payable to BBWPM in cash out of assets; however, subject to the *Corporations Act* and the Listing Rules, BBWPM is prepared to accept up to 60% of its incentive fee in Stapled Securities and will be so paid if the BBWPL Independent Directors request.

No incentive fee was payable in the financial year ended 30 June 2008. See note 30(c) to the Financial Statements.



## ADDITIONAL INVESTOR INFORMATION

### FURTHER INVESTOR INFORMATION

Further information required by the Australian Securities Exchange and not shown elsewhere in this Report is as detailed below. The information is current as at 30 September 2008.

### NUMBER OF STAPLED SECURITIES AND HOLDERS

One share in each of BBWPL and BBWPB, and one unit in BBWPT, have been stapled together to form a single BBW Stapled Security. The total number of BBW Stapled Securities on issue as at 30 September 2008 is 876,998,706 and the number of holders of these Stapled Securities is 67,185.

### SUBSTANTIAL SECURITYHOLDERS

The names of substantial BBW Securityholders who have notified BBW in accordance with section 671B of the Corporations Act 2001 are set out below.

Substantial BBW Securityholder	Date of Notice	BBW stapled securities	
		Number	%
Credit Suisse Holdings (Australia) Limited	30 September 2008	117,608,185	13.41
The Children's Investment Fund (UK) LLP	26 September 2008	96,703,146	11.03
Deutsche Bank AG	22 September 2008	87,931,889	10.03
Kairos Fund Limited	18 September 2008	86,909,606	10.01

### VOTING RIGHTS

It is generally expected that General Meetings of shareholders of BBWPL, shareholders of BBWPB, and unitholders of BBWPT will be held concurrently where proposed resolutions relate to all three BBW entities. At these General Meetings of BBWPL, BBWPB and BBWPT the voting rights outlined below will apply.

Voting rights in relation to General Meetings of BBWPL and BBWPB:

- on a show of hands, each shareholder of BBWPL and BBWPB who is present in person and each other person who is present as a proxy, attorney or duly appointed corporate representative of a shareholder has one vote; and
- on a poll, each shareholder of BBWPL and BBWPB who is present in person has one vote for each share they hold. Also each person present as a proxy, attorney or duly appointed corporate representative of a shareholder, has one vote for each share held by the shareholder that the person represents.

Voting rights in relation to General Meetings of BBWPT:

- on a show of hands, each unitholder who is present in person and each other person who is present as a proxy, attorney or duly appointed corporate representative of a unitholder has one vote; and
- on a poll, each unitholder who is present in person has one vote for each one dollar of the value of the units in the Trust held by the unitholder. Also, each person present as proxy, attorney or duly appointed corporate representative of a unitholder has one vote for each one dollar of the value of the units in the Trust held by the unitholder that the person represents.

### ON-MARKET BUY-BACK

On 16 September 2008, BBW announced that it intended to undertake an on-market buy-back of up to 10% of its securities over the next 12 months.

### STAPLED SECURITIES THAT ARE RESTRICTED OR SUBJECT TO VOLUNTARY ESCROW

There are currently no BBW Stapled Securities which are restricted or subject to voluntary escrow.

### USE OF CASH

Throughout the 2008 financial year, BBW used the cash (and assets in a form readily convertible to cash) that it held at 28 October 2005 (the date BBW listed on the Australian Securities Exchange) in a way consistent with its business objectives, as outlined in the financial statements and Notes.

## ADDITIONAL INVESTOR INFORMATION

### DISTRIBUTION OF BBW STAPLED SECURITIES

Category	Holders	Securities
1 - 1,000	49,815	10,596,490
1,001 - 5,000	12,955	33,354,966
5,001 - 10,000	2,424	17,424,540
10,001 - 100,000	1,848	41,675,832
100,001 - and over	143	773,946,878
<b>Total</b>	<b>67,185</b>	<b>876,998,706</b>

The number of securityholders holding less than a marketable parcel of BBW Stapled Securities is 43,104.

### TWENTY LARGEST SECURITYHOLDERS

As at 30 September 2008, the top 20 largest BBW securityholders are as follows:

BBW Securityholder	BBW Stapled Securities	
	Number	%
1 HSBC Custody Nominees (Australia) Limited	160,995,556	18.36
2 ANZ Nominees Limited <Cash Income A/C>	150,614,576	17.17
3 DNU Nominees Pty Limited	88,280,490	10.07
4 National Nominees Limited	85,066,813	9.70
5 Citicorp Nominees Pty Limited	51,891,987	5.92
6 HSBC Custody Nominees (Australia) Limited - A/C 2	42,337,297	4.83
7 J P Morgan Nominees Australia Limited	35,210,794	4.01
8 HSBC Custody Nominees	25,424,833	2.90
9 NP Wind Investments Pty Ltd	17,667,887	2.01
10 CS Fourth Nominees Pty Ltd <Unpaid A/C>	13,839,670	1.58
11 HSBC Custody Nominees (Australia) Limited - A/C 3	9,819,548	1.12
12 UBS Wealth Management Australia Nominees Pty Ltd	7,444,636	0.85
13 Queensland Investment Corporation	6,828,615	0.78
14 Cogent Nominees Pty Limited <Smp Accounts>	6,567,100	0.75
15 Feta Nominees Pty Limited	4,298,628	0.49
16 NPP Projects Iii Llc	3,550,769	0.40
17 RBC Dexia Investor Services Australia Nominees Pty Limited	3,224,131	0.37
18 Merrill Lynch (Australia) Nominees Pty Limited	2,387,034	0.27
19 ANZ Nominees Limited <Income Reinvest Plan A/C>	2,149,707	0.25
20 Mr Antonino Lo Bianco	2,142,000	0.24
<b>Total</b>	<b>719,742,071</b>	<b>82.07%</b>

## ADDITIONAL INVESTOR INFORMATION

### KEY ASX ANNOUNCEMENTS

#### 2008

##### 28 July

BBW signs supply agreement for Sydney Water Desalination Plant

##### 2 July

CEO presents to the Deutsche Bank Wind Energy Seminar

##### 1 July

BBW Acquires Four German Wind Farms

##### 29 April

CEO presents to London Infrastructure Conference

##### 29 April

BBW Releases Updated Investor Model and Summary Sheet

##### 31 March

BBW and BNB Appoint Joint Sale Advisers

##### 28 February

BBW Announces Process to Unlock Portfolio Value

##### 28 February

BBW Interim Financial Results to 31 Dec 2007

##### 15 January

BBW Releases an updated Investor Model

#### 2007 (DECEMBER TO JULY)

##### 24 December

BBW Achieves closing for the remaining 20 wind turbines at Cedar Creek Wind Farm

##### 21 December

BBW Acquires four Spanish Wind Farms from Gamesa

##### 21 December

BBW Portfolio and Funding Update

##### 19 December

BBW achieves closing for Sweetwater Wind Farms as part of the US07 portfolio acquisition

##### 17 December

BBW Completes Acquisition of three wind farms from Plambeck

##### 7 December

BBW Achieves Closing for Enersis Portfolio (50%)

##### 22 November

BBW achieves closing for Cedar Creek Wind Farm as part of US07 portfolio acquisition

##### 9 November

BBW 2007 Annual General Meeting Presentation and AGM Results

##### 29 October

BBW Through to Second Round - Qld Govt Asset Sale

##### 22 October

BBW Expands Framework Agreement with Gamesa

##### 16 October

BBW Security Purchase Plan Closes

##### 18 September

BBW Security Purchase Plan

##### 17 September

BBW Reaches Agreement for Enersis (50%) US07 and Provides Revised Distribution Guidance Growth Target

##### 13 September

BBW Summary of Final Distribution and DRP Participation

##### 4 September

Successful Completion of Alinta Cash Out Bookbuild

##### 4 September

BBW - Waiver of ASTC Settlement Rule 8.20.1

##### 27 August

BBW Full Year Financial Results Presentation

##### 17 August

Syndication of BBW's €1.03 billion global corporate facility successfully completed

##### 3 August

BBW Acquires the Valdeconejos wind farm in Spain

##### 3 August

BBW Acquires remaining 30% interest in the Conjuero wind farm

##### 3 July

BBW Acquires The Conjuero Wind Farm Under The Gamesa Framework Agreement

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Dates shown are when announcements were made to the Australian Securities Exchange (ASX).

The above list does not include all announcements made to the ASX, such as change in Substantial Shareholders Notices and Change in Director's Interests Notices. A comprehensive list and full details of all publications can be found on the BBW website, <http://www.bbwindpartners.com>

## GLOSSARY

ASX	Australian Securities Exchange Limited (ABN 98 008 624 691)
BBW	Babcock & Brown Wind Partners, comprising BBWPL, BBWPB and BBWPS as Responsible Entity of BBWPT and, where the context permits, includes their subsidiaries from time to time
BBWPB	Babcock & Brown Wind Partners (Bermuda) Limited (ARBN 116 360 715)
BBWPL	Babcock & Brown Wind Partners Limited (ABN 39 105 051 616)
BBWPS	Babcock & Brown Wind Partners Services Limited (ACN 113 813 997) (AFSL 290 710) the responsible entity of BBWPT
BBWPT	Babcock & Brown Wind Partners Trust (ARSN 116 244 118)
B&B	Babcock & Brown Limited
CAPACITY	The maximum power that a wind turbine can safely produce or handle
CAPACITY FACTOR	A measure of the productivity of a wind turbine, calculated by the amount of power that a wind turbine produces over a set time period, divided by the amount of power that would have been produced if the turbine had been running at full capacity during that same time interval
CCGT	Combined Cycle Gas Turbine
CCS	Carbon Capture and Storage
CLASS A MEMBERS	Holders of Class A interests in a Project LLC
CLASS A MEMBERSHIP INTERESTS	The interests held by Class A Members
CLASS B MEMBERS	Holders of Class B interests in a Project LLC
CLASS B MEMBERSHIP INTERESTS	The interests held by Class B Members
CO <sub>2</sub>	Carbon Dioxide
DISTRIBUTIONS	Distributions of cash made by BBW to securityholders in respect of their Stapled Securities
DRP	Distribution Reinvestment Plan
EBITDA	Earnings before interest, taxes, depreciation and amortisation
EEG	German Act of 2004 granting priority to renewable energy resources
EOR	Enhanced Oil Recovery
ETS	Emissions Trading Scheme
EURO OR €	Euro, the currency of the European Monetary Union

## GLOSSARY

FINANCIAL YEAR	A period of 12 months starting on 1 July and ending on 30 June in the next calendar year
FRAMEWORK AGREEMENTS	The Gamesa Framework Agreement and the Plambeck Framework Agreement. Details are included in the Additional Investor Information Section
GAMESA	Gamesa Energía SA, a company based in Spain
GRID	Also termed transmission system, the network of power lines and associated equipment required to deliver electricity from generators to consumers
GW	GigaWatt. One billion Watts of electricity
GWEC	Global Wind Energy Council
GWh	GigaWatt hour
HIN	Holder Identification Number
IGCC	Integrated Gasification Combined Cycle (a type of power plant)
INDEPENDENT AUDITOR	PricewaterhouseCoopers
INSTALLED CAPACITY	The amount of capacity installed at a wind farm
INVESTMENT LLC	Limited liability companies through which BBW invests as the Class B Member in the US Assets.
IPCC	Intergovernmental Panel on Climate Change - established to assess scientific, technical and socio-economic information relevant for the understanding of climate change
IPO	The Initial Public Offer of BBW Stapled Securities
IPO DOCUMENT	The BBW Product Disclosure Statement and Prospectus, dated 26 September 2005. Also referred to as the Prospectus and/or the PDS
IPP	Independent Power Producer
KW	KiloWatt. One thousand Watts of electricity
KWh	KiloWatt hour. A unit of energy of work equal to 1,000 Watt-hours
LONG TERM MEAN ENERGY PRODUCTION	The best estimate of energy production in a year where there is a 50% probability that a given level of energy production will be exceeded in any year. This may also be referred to as P50
MRET	Mandatory Renewable Energy Target established by the Australian Government of Australia
MW	MegaWatt. Equal to 1,000 kiloWatts or one million Watts
MWh	MegaWatt hour
P50	See Long Term Mean Energy Production



## GLOSSARY

PPA	Power Purchase Agreement
PRACTICAL COMPLETION	The date on which construction has been completed in accordance with the respective delivery contract(s), typically including all regulatory requirements
PRE-COMMISSIONING	Operation of the wind farm prior to practical completion, during which all aspects are tested for performance against specified criteria
PROJECT LLC	Limited liability companies which each own a wind farm in the US and in which BBW has acquired indirect Class B Member interests
PROJECT LLC AGREEMENT	A limited liability company agreement between the members of a Project LLC
PROSPECTUS	The BBW Product Disclosure Statement and Prospectus dated 26 September 2005. Also referred to as the IPO Document and/or the PDS
PTC	Production Tax Credit: the result of the US Energy Policy Act of 1992, a tax credit that applies to wholesale electrical generators of wind energy facilities based upon the amount of energy generated in a year
REALLOCATION DATE	The date on which tax benefits and cash distributions are shared between the Class A Member and the Class B Members, being a date which occurs when the Class A Members' target return has been achieved, as further described in a Project LLC Agreement as the flip date
REC	Renewable Energy Certificate
RENERCO	Renerco Renewable Energy Concepts AG, a German company
RPS	Renewables Portfolio Standard: a policy set by federal or state governments that a percentage of the electricity supplied by electricity generators be derived from a renewable source
SECURITYHOLDER	The registered holder of a Stapled Security
STAPLED SECURITY	One unit in BBWPT, one ordinary share in BBWPL and one ordinary share in BBWPB, stapled together such that the unit and those shares cannot be traded or dealt with separately
TARIFF	Rates paid for electricity per kiloWatt hour consumed or generated
UNIT	An ordinary unit in BBWPT
UNITHOLDER	The registered holder of a Unit
US03/04	Refers to a portfolio of US wind farms including Sweetwater 1 & 2, Caprock, Blue Canyon, Combine Hills with a total capacity of approximately 324MW. BBW's Class B Member interest in the portfolio amounts to approximately 186.1MW
US05	Refers to a portfolio of US wind farms including Sweetwater 3, Kumeyaay, Bear Creek, Jersey Atlantic and Crescent Ridge with a total capacity of approximately 271MW. BBW's Class B Member interest in the portfolio amounts to approximately 177.0MW

## GLOSSARY

US06	Refers to a portfolio of US wind farms including Buena Vista, Aragonne Mesa, Mendota, Allegheny Ridge I and GSG with a total capacity of approximately 339.7MW. BBW's Class B Member interest in the portfolio amounts to approximately 335.2MW
US07	Refers to a portfolio of US wind farms including Sweetwater 4 & 5 and Cedar Creek with a total capacity of approximately 621.8MW. BBW's Class B Member interest in the portfolio amounts to approximately 370.6MW
VESTAS	Vestas Wind Systems A/S, a company incorporated in Denmark
VESTAS-AUSTRALIA	Vestas-Australian Wind Technology Pty Ltd (ABN 80 089 653 878), a subsidiary of Vestas
WATT	The base unit of power. A measure of the rate at which work is being done. (746 W = one horsepower)
WATTHOUR (WH)	The electrical energy unit of measure equal to one Watt of power supplied to, or taken from, an electric circuit steadily for one hour
WIND RESOURCE	A reference to the quality of energy potentially available from the wind in a particular place
WTG	Wind turbine generator

## **CORPORATE DIRECTORY**

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Peter Hofbauer (Chairman)  
Warren Murphy  
Nils Andersen  
A.J. (Tony) Battle  
Douglas Clemson

### **CHIEF EXECUTIVE OFFICER**

Miles George

### **COMPANY SECRETARY**

David Richardson

### **RESPONSIBLE ENTITY FOR BABCOCK & BROWN WIND PARTNERS TRUST**

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### **AUDITOR**

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## **ANNUAL GENERAL MEETING**

Babcock & Brown Wind Partners Annual General Meeting will be held in the Brisbane room of the Sofitel Wentworth Sydney, 61 - 101 Phillip Street, Sydney on 26 November 2008.

## **ABOUT BBW AND THIS ANNUAL REPORT**

Each Stapled Security in Babcock & Brown Wind Partners (ASX: BBW) comprises one Share of Babcock & Brown Wind Partners Limited (ACN 105 051 616) (BBWPL), an Australian public company, one Unit of Babcock & Brown Wind Partners Trust (BBWPT), an Australian registered managed investment scheme whose responsible entity is Babcock & Brown Wind Partners Services Limited (BBWPS) which is a subsidiary of Babcock & Brown, and one Share of Babcock & Brown Wind Partners (Bermuda) Limited (BBWPB).

All amounts expressed in dollars (\$) in this Annual Report are Australian dollars, unless otherwise specified.

## **DISCLAIMER**

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