

Notice of General Meetings

3pm, Monday, 26 February 2007
Sofitel Wentworth Sydney

NOTICE OF GENERAL MEETINGS

**OF SHAREHOLDERS OF BABCOCK & BROWN WIND PARTNERS LIMITED
(ABN 39 105 051 616) (COMPANY)**

AND

**OF SHAREHOLDERS OF BABCOCK & BROWN WIND PARTNERS (BERMUDA) LIMITED
(ARBN 116 360 715) (FOREIGN COMPANY)**

AND

**OF UNITHOLDERS OF BABCOCK & BROWN WIND PARTNERS TRUST
(ARSN 116 244 118) (TRUST)**

**ISSUED BY THE COMPANY, THE FOREIGN COMPANY AND BABCOCK & BROWN
WIND PARTNERS SERVICES LIMITED (ABN 61 113 813 997; AFSL 290 710)
(RESPONSIBLE ENTITY) AS RESPONSIBLE ENTITY OF THE TRUST
(TOGETHER, **BBW**)**

Notice is given that General Meetings of the shareholders of the Company and the Foreign Company will be held concurrently with a Meeting of unitholders of the Trust as follows:

Date: Monday, 26 February 2007

Place: Brisbane Room, Sofitel Wentworth, 61-101 Phillip Street, Sydney, NSW, Australia

Time: 3pm (AEDT)

BUSINESS

To approve related party transactions under the Portfolio Purchase Agreement - Company, Foreign Company and Trust

To consider and, if thought fit, to pass the following as an ordinary resolution:

*That approval is given for the purposes of Listing Rule 10.1 and all other purposes to BBW acquiring the US06 Portfolio of wind farms from Babcock & Brown Limited and its associates ("**BNB**"), and, if required, to BBW disposing of Allegheny Ridge Phase I to BNB, on the terms of the Portfolio Purchase, Sale and Contribution Agreement.*

VOTING EXCLUSION STATEMENT

The Company, the Foreign Company and the Responsible Entity will disregard any votes cast on this resolution by Babcock & Brown Limited, the Responsible Entity and any of their associates.

However, the Company, the Foreign Company and the Responsible Entity need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

By order of the Boards

Dated: 19 January 2007



David Richardson
Company Secretary
Babcock & Brown Wind Partners Group

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NOTES

1. On a show of hands, every person present and qualified to vote has one vote and if one proxy has been appointed, that proxy will have one vote on a show of hands. Under the Corporations Act, if a shareholder or unitholder appoints more than one proxy, neither proxy may vote on a show of hands, but both proxies will be entitled to vote on a poll.
2. On a poll:
 - in the case of a resolution of the Company or the Foreign Company, each shareholder 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; and
 - in the case of a resolution of the Trust, each unitholder 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.
3. A shareholder or unitholder entitled to attend and vote is entitled to appoint not more than two proxies. If it is desired to appoint two proxies, then an additional proxy form can be obtained from BBW's security registry by telephoning +61 2 8280 7180.
4. Where more than one proxy is appointed, each proxy may be appointed to represent a specified proportion or number of the shareholder's or unitholder's voting rights.
5. A proxy need not be a shareholder of the Company or the Foreign Company or a unitholder in the Trust and may be an individual or body corporate.
6. Proxy forms (and if the appointment is signed by the appointor's attorney, the original authority under which the appointment was signed or a certified copy of the authority) must be received by the BBW's security registry Link Market Services:
 - by mail to Locked Bag A14, Sydney South NSW 1235; or
 - by hand to Level 12, 680 George Street, Sydney NSW 2000; or
 - by fax to +61 2 9287 0309.

Alternatively, if a proxy is not appointed under a power of attorney, proxy forms may also be lodged online at BBW's website www.bbwindpartners.com in accordance with the instructions provided on the website. You will need your Holder Identification number (HIN) or Security Reference Number (SRN), and your postcode, as shown on your proxy form. You will be taken to have signed the proxy form if you lodge it in accordance with the instructions provided on the website.

All proxies must be received prior to 3pm (AEDT) on Saturday, 24 February 2007.

7. The Board of the Company, the Board of the Foreign Company and the Board of the Responsible Entity of the Trust have determined that, for the purposes of the meeting, shares and units will be taken to be held by the persons who are registered as shareholders and unitholders as at 7pm (AEDT) on Saturday, 24 February 2007. Accordingly, share transfers and transfers of units registered after that time will be disregarded in determining entitlement to attend and vote at the meetings.

NOTICE OF GENERAL MEETINGS EXPLANATORY NOTES

EXPLANATORY NOTES

These Explanatory Notes are intended to provide shareholders of the Company and the Foreign Company and unitholders of the Trust (**Security Holders**) with information to assess the merits of the resolution contained in the accompanying Notice of Meetings.

The Directors recommend that Security Holders read these Explanatory Notes in full before making any decision on how to vote on the resolution.

In preparing these Explanatory Notes, US\$1 is assumed to equal A\$1.28¹ and all amounts expressed in whole millions have been rounded to the nearest million.

RELATED PARTY TRANSACTION UNDER THE PORTFOLIO PURCHASE, SALE AND CONTRIBUTION AGREEMENT (THE "PORTFOLIO PURCHASE AGREEMENT")

The resolution has been proposed so that Security Holders may consider, and if thought fit, approve for the purpose of ASX Listing Rule 10.1 and all other purposes, the acquisition by BBW of a portfolio of 6 wind farms (the **US06 Portfolio**) from Babcock & Brown Limited and its associates (**BNB**), and the potential disposal of Allegheny Ridge Phase I back to BNB, under the Portfolio Purchase Agreement (**Acquisition**), the terms of which are summarised in these Explanatory Notes.

INDEPENDENT DIRECTORS' RECOMMENDATION

After considering the Acquisition, its advantages, disadvantages and the Independent Expert Report prepared by KPMG which concludes that the Acquisition is fair and reasonable to Security Holders (excluding BNB), the Independent Directors of the Company, the Foreign Company and the Responsible Entity of the Trust unanimously recommend that Security Holders vote in favour of the resolution.

1 LISTING RULE 10.1

Listing Rule 10.1 provides that an entity must not acquire a substantial asset from, or dispose of a substantial asset to, a related party, unless the acquisition or disposal is approved by holders of ordinary securities. For the purpose of this rule, BNB is considered to be a related party of BBW because Babcock & Brown Wind Partners Services Limited, the responsible entity of the Trust, is a subsidiary of BNB.

An asset is "substantial" if its value, or the value of the consideration paid for the asset, is more than 5% of the equity interests of the listed entity, as set out in its latest financial accounts. On the basis of BBW's financial accounts for 30 June 2006, BBW would not be able to acquire an asset from a related party such as BNB with a value of more than A\$32.8 million², without first obtaining Security Holder approval. The price expected to be paid for the US06 Portfolio is approximately US\$387 million (approximately A\$497 million)³. Accordingly, the US06 Portfolio is a substantial asset of BBW for the purposes of Listing Rule 10.1.

Listing Rule 10.10 requires the notice of meeting for such a transaction to include an independent expert's report on the fairness and reasonableness of the transaction to Security Holders (excluding BNB and its associates).

KPMG has prepared an independent expert report in relation to the Acquisition, which is included in the Appendix to these Explanatory Notes. KPMG has concluded in its report that the Acquisition is fair and reasonable from the perspective of Security Holders (excluding BNB and its associates).

2 THE ACQUISITION

2.1 US06 PORTFOLIO

In selecting the wind farms to be acquired from BNB under the Portfolio Purchase Agreement (a summary of which is contained in Schedule 3), BBW has sought to identify high quality wind farms in geographically differentiated locations in line with BBW's stated investment strategy which is to own and operate a large, geographically diversified portfolio of wind farms.

1. Rounded.

2. Rounded to one decimal place.

3. This figure does not include: (i) transaction costs which will be incurred associated with the Acquisition (estimated at approximately US\$2 million); and (ii) fees to be paid to BNB for financial advisory services in connection with the Acquisition (estimated at approximately US\$5 million) as described in Section 2.4.

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The wind farms comprising the US06 Portfolio are:

Name of Wind Farm	Location	MW	Commercial Operation Date ⁴
Buena Vista	California	38MW	December 2006
Aragonne	New Mexico	90MW ⁵	December 2006
GSG	Illinois	80MW	March 2007 (Expected)
Mendota	Illinois	52MW	November 2003
Allegheny Ridge Phase I	Pennsylvania	80MW	March 2007 (Expected)
Allegheny Ridge Phase II	Pennsylvania	70MW	December 2007 (Expected)
TOTAL		410MW	

2.2 TRANSACTION STRUCTURE

(a) Overview of structure

Establishment of Holding Company

BNB, through its subsidiary B&B Wind Portfolio 1 LLC (**Class B Investor**), has established Babcock & Brown Wind Portfolio Holdings 1 LLC (**Holding Company**) to acquire 100% of the membership interests (**Target Shares**) of each project entity (**Project Entity**) that owns a wind farm comprising the US06 Portfolio.⁶

Equity Capital Contribution Agreement

Class B Investor has entered into an equity capital contribution agreement (**ECCA**) with US institutional investors (**Class A Investors**) that sets out the terms on which Class B Investor and the Class A Investors will each provide capital contributions to Holding Company to fund the acquisition of Target Shares from Babcock & Brown Renewable Holdings Inc. (**BNB Seller**). When capital contributions are made under the ECCA, the Class A Investors will be issued class A membership interests in Holding Company and Class B Investors will be issued class B membership interests in Holding Company.

A summary of the ECCA is contained in Schedule 3.

The first closing under the ECCA occurred in late December 2006 while Class B Investor was owned by BNB. At this first closing, Holding Company acquired Target Shares with respect to the initial group of wind farms, being Buena Vista and Aragonne, purchased from BNB Seller, and Mendota, transferred at the direction of BNB Seller from a third party developer to Holding Company.

Funds to acquire these Target Shares were provided as equity contributions by the Class A Investors and by Class B Investor. Class B Investor funded its capital contributions in part through the contribution of equity made available by BNB and in part by borrowing (**Loan**) from third party commercial lenders (**Lenders**) to whom Class B Investor pledged its class B membership interests in Holding Company.

Portfolio Purchase Agreement

Subsequent to the first closing under the ECCA, BBW's US subsidiary, Babcock & Brown Wind Partners - US LLC (**BBW Purchaser**), has entered into the Portfolio Purchase Agreement with BNB Seller and a BNB affiliate (**BBPOP Wind Equity LLC**) under which BBW Purchaser has agreed to acquire, for a price payable in cash, 100% of the membership interests in Class B Investor from BNB. Completion of the Acquisition under the Portfolio Purchase Agreement is subject to approval of Security Holders.

As a result of its acquisition of Class B Investor, BBW Purchaser will become the indirect owner of Class B membership interests in Holding Company (with economic effect from 1 January 2007) and will acquire the rights and assume the obligations of Class B Investor under the ECCA to fund Holding Company at Subsequent Closings of wind farms in the US06 Portfolio. The Loan owed by Class B Investor to the Lenders is expected to remain in place following the purchase by BBW Purchaser of Class B Investor.

A summary of the Portfolio Purchase Agreement is contained in Schedule 3.

4. Further details regarding the expected timing of commencement of operations of the wind farms in the US06 Portfolio are set out in Section 2.2(c).

5. Holding Company only acquired 95% of Aragonne, with BNB Seller retaining the remaining 5%.

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Subsequent Closing

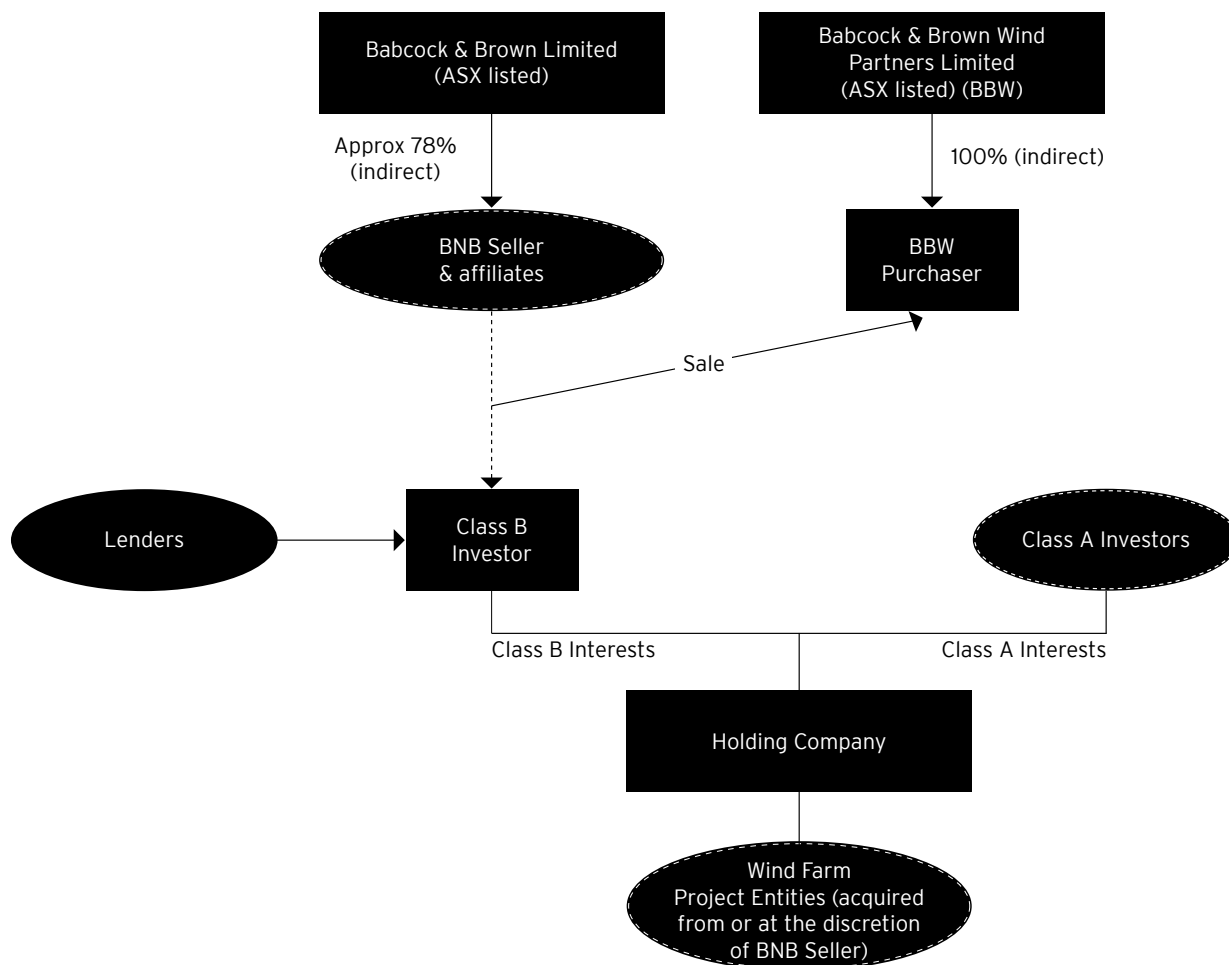
At each subsequent purchase (**Subsequent Closings**) by Holding Company of Target Shares with respect to additional wind farms (expected to consist of GSG and Allegheny Ridge Phase I and Phase II and to occur in stages during 2007), BBW Purchaser will make a cash payment determined in accordance with the pricing mechanism contained in the Portfolio Purchase Agreement (as described in more detail in Section 3.3(b)).

Ownership of US06 Portfolio

These arrangements will result in BBW holding its interest in the US06 Portfolio in a manner consistent with the structure by which BBW currently holds its interests in other US wind farms.

The key characteristics of each wind farm comprising the US06 Portfolio are set out in the table attached at Schedule 1. Details of BBW's existing portfolio and the subsequent addition to the portfolio which would result from the proposed Acquisition is summarised in the table attached at Schedule 2.

A diagram of the Acquisition is set out below:



(b) Class A Investors and Class B Investor

Security Holders will be familiar with the concept of class A and class B membership interests from BBW's existing investments in US wind farms. The nature of these class A and class B membership interests is discussed at page 110 of BBW's 2006 Annual Report.

The Limited Liability Company Agreement of Holding Company provides that Class B Investor will act as the managing member of Holding Company. Class B Investor, as the managing member, has control over and manages the affairs of Holding Company, but the consent of the Class A Investors will be required for certain material actions to be taken by Holding Company.

A summary of the Limited Liability Company Agreement of Holding Company is contained in Schedule 3.

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(c) Expected timing

Subject to approval of the resolution by Security Holders, under the terms of the Portfolio Purchase Agreement the investments in the 6 wind farms in the US06 Portfolio would take place in stages as described below.

BBW will acquire interests in three of the wind farms at the Initial Closing of the Portfolio Purchase Agreement shortly after this General Meeting when BBW Purchaser acquires the Class B Investor. Two further wind farms (GSG and Allegheny Ridge Phase I) are expected to be acquired in the first half of the 2007 calendar year, and the final wind farm (Allegheny Ridge Phase II) is expected to be acquired prior to the end of the 2007 calendar year.

The current expected schedule for the closing of the separate investment tranches by BBW Purchaser is:

- initial closing by BBW Purchaser under the Portfolio Purchase Agreement is expected to occur in early March 2007 (**Initial Closing**) at which time Aragonne, Buena Vista and Mendota will have achieved completion of construction and commencement of commercial operation (COD) and be owned by Holding Company;⁷
- Allegheny Ridge Phase I and GSG are expected to achieve COD by the end of March 2007 and therefore be wind farms acquired by Holding Company in a Subsequent Closing around this time; and
- Allegheny Ridge Phase II is expected to achieve COD by December 2007 and therefore be acquired by Holding Company in a Subsequent Closing around that time.

Security Holders should note that the precise timing of when BBW will acquire interests in the wind farms will depend on the timing of satisfaction or waiver of conditions precedent in the Portfolio Purchase Agreement.⁸ Accordingly, it is possible that the number of separate closings may decrease to as few as two or increase to as many as four.

The purchase price payable by BBW Purchaser for each wind farm will be adjusted to reflect the actual date of closing of that wind farm in accordance with the pricing and valuation methodology described in Section 3.3(c) and Schedule 3 to ensure that the agreed modelled internal rate of return for the US06 Portfolio is preserved.

(d) Gamesa projects

BNB Seller has acquired rights to own the entities developing Mendota and Allegheny Ridge Phase I and Phase II under Membership Interest Purchase and Sale Agreements with Gamesa Energía, S.A.U., and Gamesa Energy USA, LLC, respectively (together referred to as **Gamesa**). BNB Seller exercised its rights to acquire ownership of the entity developing Mendota by procuring Gamesa transfer this project entity to Holding Company. In relation to Allegheny Ridge Phase I and Phase II, BNB Seller will sell the interests in such entities to Holding Company under the Portfolio Purchase Agreement.

2.3 FUNDING

BBW expects to fund the purchase price for the US06 Portfolio from a mixture of corporate funds and debt borrowed by Class B Investor from the Lenders as described in the table below.

Sources	US\$m		Uses	US\$m	
	US\$m	A\$m		US\$m	A\$m
Cash sourced from corporate level	209	269	Acquisition payments	387	497
Cash sourced from Loan to Class B Investor	185	237	Transaction Costs		
			BNB Advisory fees	5	6
			Other Acquisition costs	2	3
Total	394	506	Total	394	506

On a total consolidated basis, the US06 Portfolio will be funded utilising available debt facilities and cash on hand.⁹ BBW is currently undertaking a capital management review as a result of its publicly stated desire to make more efficient use of its balance sheet and funding options. As a result of this review, the debt facilities, or a portion thereof, may be refinanced in the 2007 calendar year.

7. Holding Company owns 95% of Aragonne, with BNB Seller retaining the remaining 5%.

8. The conditions precedent to closing are described in Schedule 3.

9. The current expected split between debt facilities and cash at hand is: debt facilities - US dollar equivalent of A\$428 million and cash on hand - US dollar equivalent of A\$78 million.

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2.4 TRANSACTION COSTS

If the resolution is approved by Security Holders and the Acquisition proceeds, BBW will pay to BNB a financial advisory fee of approximately US\$5 million (approximately A\$6 million) in accordance with the Exclusive Financial Services Advisory Agreement (described in section 12.1.3 of the Prospectus and Product Disclosure Statement dated 26 September 2005).

BBW expects to incur an additional US\$2 million (approximately A\$3 million) of transaction costs in relation to the Acquisition including United States and Australian legal adviser fees, the fees of the Independent Expert and the costs of the Security Holder meetings.

3 ASSESSMENT OF ACQUISITION

3.1 ADVANTAGES OF APPROVING THE RESOLUTION

(a) Financial benefits

- Each acquisition of a wind farm within the US06 Portfolio is expected to be immediately accretive to Net Operating Cash Flow¹⁰ upon the wind farms becoming fully operational. The Directors reconfirm their intention to make distributions out of Net Operating Cash Flow after taking into account other investment capital flows such as debt amortisation, Distribution Reinvestment Plan (DRP) participation and future funding requirements or investment opportunities of the business. The Boards will consider the impact of the Acquisition upon distributions to Security Holders on an ongoing basis.
- The forecasted internal rate of return of the US06 Portfolio over the life of the assets exceeds BBW's current assessed long term cost of capital.
- The cash flow profile from the Acquisition complements BBW's existing portfolio. As a class B investor, BBW receives all of the cash flow from the wind farms until its initial capital investment is repaid. This provides strong cash flows to complement investments in the existing BBW portfolio currently under construction as well as existing US investments during the period after class B capital has been repaid on those existing investments.

(b) Diversification

- As a portfolio of six wind farms, in general terms the Acquisition will provide BBW with benefits of diverse revenue mix, geography, wind resource, off-take arrangements, equipment, service providers and customers.
- The revenues generated by the US06 Portfolio consist of contracted and market revenues. The two wind farms based in Illinois (Mendota 52MW and GSG 80MW, representing approximately 30% of the US06 Portfolio total forecast generation in GWh) intend to sell electricity into the Pennsylvania Jersey Maryland ("PJM") grid in the North East of the United States which is considered an efficient and liquid market. The remaining four wind farms (representing approximately 70% of the US06 Portfolio total forecast generation in GWh) would be supported by long term power contracts (Aragonne (20 years) Buena Vista (10 years) and each of Allegheny Ridge Phase I and Phase II (23 years)).
- There is diversity in the regulatory regime, with all four US States in which the wind farms are located demonstrating high demand for renewable power with state based renewable energy targets.
- The turbines used in the wind farms in the US06 Portfolio have been manufactured by two large reputable turbine manufacturers, namely Mitsubishi (Aragonne, Buena Vista) and Gamesa, (Allegheny Ridge Phase I and Phase II, Mendota and GSG).

(c) Scale

- In addition to the diversity from the wind farms within the US06 Portfolio, the Acquisition would further diversify BBW's existing portfolio with respect to geography and scale. If acquired, the US06 Portfolio would represent an increase of over 39% in BBW's generating capacity.
- The wind farms are large. Three of the wind farms are scheduled to have installed capacity of 80MW or more which makes for efficient management and operation. All of the wind farms will be managed by BNB's specialist Operations and Maintenance team which reports directly to BBW.
- BBW proposes to acquire the class B membership interests in the wind farms as a portfolio. This is an efficient use of management time and managing acquisition costs, such as costs for due diligence and legal advice.

Further information about these advantages can be found in the Independent Expert Report contained in Appendix A

10. Net Operating Cash Flow: EBITDA plus US Distributions Less Corporate Costs, Interest paid, Tax paid, changes in working capital; before investment related CAPEX, acquisitions and debt principal repayments.

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3.2 DISADVANTAGES OF APPROVING THE RESOLUTION

(a) Increased financial risk

(i) *Additional Debt*

As previously announced, BBW's balance sheet is conservatively geared with a net debt to enterprise value ratio of 30.9% as at 30 June 2006. By acquiring the US06 Portfolio, the additional debt incurred by way of the Loan assumed and further drawn by BBW will increase BBW's net debt to enterprise value ratio to 56% on a pro forma basis (as described in Section 4 under the heading "Balance Sheet and Gearing") immediately after the Acquisition is completed. However, the additional debt is being utilised to acquire operational projects and BBW intends to mitigate the interest rate risk associated with this additional debt through an active interest rate hedging policy. BBW's hedging policy requires the majority of interest rate risk arising from any increase in borrowings is hedged for the life of the loan.

(ii) *Refinancing risk*

As the purchase price will be funded in part by the Loan borrowed by Class B Investor, there is a risk that the refinancing of the Loan upon its maturity may be difficult or more costly as a result of changes in market conditions.

(b) Merchant power risk

Both Mendota and GSG do not have long term fixed price power purchase contracts. They both operate under Qualifying Facility tariff agreements that guarantee that the off-taker will pay them for any electricity generated. The price received will be the market price at the time of production. If the actual market prices received by these wind farms are below forecast prices then the returns from those projects to BBW will be lower than anticipated.

(c) Acquisition of US06 Portfolio through several transactions

As described in more detail in Section 2.2(c), after BBW Purchaser has acquired Class B Investor at the Initial Closing, it will have an obligation, via Class B Investor, to fund the acquisition of all of the remaining wind farms comprising the US06 Portfolio provided that the conditions precedent under the Portfolio Purchase Agreement are satisfied with respect to a wind farm.

(d) Acquisition of US06 Portfolio may not include all wind farms

Even if the Acquisition is approved by Security Holders, there is a risk that BBW Purchaser will not acquire all of the wind farms comprising the US06 Portfolio.

If BBW Purchaser is not able to acquire all of the wind farms comprising the US06 Portfolio for the reasons described below, BBW may not be able to fully realise certain benefits of the Acquisition, including the full contribution to net operating cash flow described in Section 4, or all of the improved diversification and increased scale that the acquisition of all of the US06 Portfolio would provide for BBW's overall wind farm portfolio.

(i) *Conditions precedent*

At the Initial Closing and at each Subsequent Closing, certain conditions precedent must be satisfied or waived under the Portfolio Purchase Agreement and ECCA in order for BBW Purchaser to fund Holding Company to acquire the Target Shares for a particular Project Entity. If these conditions precedent are not satisfied or waived, BBW Purchaser will not acquire an interest in the applicable wind farms that would otherwise have comprised the US06 Portfolio.

(ii) *Allegheny Ridge Phase I and Allegheny Ridge Phase II*

Allegheny Ridge Phase I and Allegheny Ridge Phase II are expected to be acquired by Holding Company as Subsequent Closings, with Allegheny Ridge Phase I to be acquired before Allegheny Ridge Phase 2. Allegheny Ridge Phase I and Allegheny Ridge Phase II are integrated facilities that cannot be easily separated from an ownership and operational perspective as they share land, facilities and interconnection to the electrical transmission grid.

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Accordingly, BBW and BNB have agreed that if Allegheny Ridge Phase I is acquired by Holding Company and the conditions precedent to the Subsequent Closing for Allegheny Ridge Phase II are not satisfied or waived by the Class A Investors and Class B Investor, BNB Seller would then have the right (but not the obligation) to re-acquire Allegheny Ridge Phase I from Holding Company. If Class B Investor chooses not to waive those conditions precedent which are not satisfied, but the Class A Investors decide to waive them, then BNB Seller has the right to establish a new holding company with Class A Investors to acquire Allegheny Ridge Phase I from Holding Company and Allegheny Ridge Phase II from BNB Seller.

Any such disposal of Allegheny Ridge Phase I by Holding Company would be for a purchase price payment that restores BBW Purchaser to what it would have paid for the US06 Portfolio without Allegheny Ridge Phase I.

In approving the resolution, Security Holders are also approving this potential sale of Allegheny Ridge Phase I back to BNB in the circumstances described in this paragraph.

3.3 OTHER IMPORTANT CONSIDERATIONS

(a) Parent guarantees

Babcock & Brown Wind Partners Limited will provide:

- (i) a guarantee for the benefit of BNB Seller of the obligations of BBW Purchaser as required under the Portfolio Purchase Agreement;
- (ii) a back-to-back guarantee in favour of Babcock & Brown International Pty Ltd (ACN 108 617 483) ("BBIPL") to support a guarantee given by BBIPL in favour of the Class A Investors to support the obligations of Class B Investor as managing member; and
- (iii) a guarantee to the Lenders in respect of 6 months' debt service under the Loan.

The guarantees under (i) and (ii) are consistent with BBW's prior acquisitions of wind farms in the US from BNB. BNB will also provide a corresponding guarantee to (i) for the benefit of BBW Purchaser guaranteeing the obligations of BNB Seller under the Portfolio Purchase Agreement.

(b) US06 Portfolio purchase price and exchange rate

(i) Purchase price

The overall purchase price for the US06 Portfolio is determined based on an agreed internal rate of return (see Schedule 3, Item 1(c)). Notwithstanding an internal rate of return based price mechanism, the payments under the terms of the Portfolio Purchase Agreement to be made at each closing are such that the aggregate projected purchase price for the US06 Portfolio (including financial advisory fees), is set within a range of plus or minus 10% of a fixed amount, agreed between BBW Purchaser and BNB Seller.

This range acts as both a ceiling and a floor on the payments to be made in relation to the Portfolio Purchase Agreement such that the actual price payable by BBW for the US06 Portfolio (including financial advisory fees) would be between approximately US\$349 million and US\$427 million (i.e., between approximately A\$447 million and A\$547 million). Adjustments to the total price will arise because (i) at the time of executing the Portfolio Purchase Agreement the US06 Portfolio has yet to be fully constructed and (ii) the model is re-run at each closing thereby taking into account changes in relation to the wind farm projects to be acquired at that closing. Changes to a wind farm project that would give rise to a price adjustment might, for example, take the form of changed turbine configurations or a change to the absolute number of turbines resulting from site conditions which give rise to new costs and changed forecast energy production.

Adjustments that would result in the model determining a purchase price which fell outside of the range are considered highly unlikely. However, even if the model determined a purchase price outside the range, the purchase price actually paid by BBW will be no higher than the cap and no lower than the floor of the range. If the purchase price paid is capped, the forecast internal rate of return upon which the US06 Portfolio is acquired would be greater than would otherwise be the case. Should the floor operate then the forecast internal rate of return would be less than would otherwise be the case.

(ii) Exchange rate

The Portfolio Purchase Agreement provides for payment in US dollars and therefore BBW bears the foreign exchange risk of the Australia dollar/US dollar exchange rate changing. If the Australian dollar appreciates as against the US dollar, the equivalent Australian dollar purchase price will decrease. If the Australian dollar depreciates as against the US dollar, the equivalent Australian dollar purchase price will increase. As described in Section 2.3 above, BBW expects the purchase price for the US06 Portfolio to be funded from

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a mixture of corporate funds and debt denominated in US dollars thereby mitigating the exchange rate risk associated with funding the purchase price in US dollars. BBW intends to hedge the future US dollar distributions received from the Project Entities within the US06 Portfolio in line with BBW's hedging policy.

(c) **Asset management**

The US06 Portfolio will be integrated into BBW's existing asset management framework. This is expected to be a manageable integration process given that the Acquisition is spread across a period of time and BBW already has existing asset management arrangements in the US, this being the third set of wind farm projects in the US which BBW has acquired from BNB.

Each Project Entity is expected to appoint a subsidiary of BNB ("BBPOP"):

- under a project administration agreement ("PAA"), to act as the project administrator; and
- under a balance of plant operations and maintenance agreement, to be responsible for operational aspects of the wind farm site other than the turbines (which are the subject of a separate agreement - see Schedule 1).

(d) **Sale of Renewable Credits**

For those wind farm Project Entities with unsold renewable credits ("RECs") the PAA requires BNB to market and trade the RECs under an incentive scheme. Under this scheme, gains over the forecast price are shared equally between the wind farm Project Entity and BBPOP (subject to a cap).

(e) **Mendota's historical performance**

Notwithstanding that the Mendota wind farm has been operational since November 2003, Mendota underwent a significant upgrade in US summer 2006 and therefore any historical information is not considered to be representative of the Mendota wind farm project acquired by a Holding Company.

(f) **Aragonne**

Shortly after Aragonne reached COD, a problem with the electrical collection system caused the project to be put out of service for approximately 20 days. As at the date of this Notice of Meeting, Aragonne is back in service. An adjustment mechanism to the purchase price has been agreed under the Portfolio Purchase Agreement to compensate BBW Purchaser for the estimated loss of revenue which would have been earned had Aragonne been in service during January 2007. After this time BBW Purchaser would seek to rely on remedies typical in these types of circumstances such as insurance or manufacturer warranty claims if there were further problems with the electrical collection system.

4 FINANCIAL INFORMATION

The Directors believe that it is helpful to provide an indication of the future performance of the Acquisition and other businesses within BBW's portfolio. BBW's future performance could be materially affected, positively or adversely, relative to these indications. The anticipated impact of the acquisition of the US06 Portfolio upon BBW's financial position is set out below.

DISTRIBUTION POLICY AND GUIDANCE

It is the intention of the Directors to make distributions out of Net Operating Cash Flow¹¹ after taking into account other investment capital flows such as debt amortisation, Distribution Reinvestment Plan (DRP) participation and future funding requirements or investment opportunities of the business.

At the time of the annual results for the 2006 financial year (FY06), the Directors provided updated distribution guidance based on the accretive acquisitions made during the year. The Directors increased the distribution guidance for the 2007 financial year (FY07) to 12.5 cents per security¹², up from 11.2 cents per security (or an 11.6% increase) from the FY07 distribution contemplated at the time of the IPO. This represents a 22.5% increase on the FY06 distribution and is forecasted to be fully tax deferred.

BBW's existing portfolio has significant scale and geographic diversity. This Acquisition should further assist in ensuring a more diverse profile of earnings and increased Net Operating Cash Flow over the longer term. To assist Security Holders in assessing the merits of the Acquisition, the Directors provide guidance for distributions to Security Holders for the 2008 financial year (FY08) of 14.0 cents per security¹³, up from 12.5 cents per security (or a 12% increase) from the FY07 distribution guidance referred to above. This FY08 distribution guidance takes into consideration BBW's stated distribution policy, assets under construction, working capital requirements and further investment opportunities and assumes:

11. Net Operating Cash Flow: EBITDA plus US Distributions Less Corporate Costs, Interest paid, Tax paid, changes in working capital; before investment related CAPEX, acquisitions and debt principal repayments.

12. As announced on 7 September 2006, the Directors' FY07 distribution guidance assumed P50 production (being the level of electricity output which has a 50% probability of exceedance), no performance fee and no material reduction in Spanish tariff.

13. Assumes P50 production, no performance fee and Spanish tariff no less than as indicated in the Spanish Government draft decree announced on 29 November 2006.

NOTICE OF GENERAL MEETINGS

EXPLANATORY NOTES

- the factors taken into account in providing the 2007 distribution guidance and that the Acquisition is approved by Security Holders;
- successful implementation of plans to refinance BBW's debt facilities during the current financial year; and
- the US06 Portfolio is acquired in line with the timing set out at Section 2.2(c).

Your Boards remain committed to offering Security Holders an attractive and growing cash yield, fully tax deferred for FY07. Beyond FY08, the Directors intend to retain their distribution growth rate target of at least 3.5% per annum in the medium term.

BALANCE SHEET AND GEARING

BBW will initially record its investment in the US06 Portfolio at cost and subsequently adjust for its proportionate interest in post-acquisition changes to the net assets of the US06 Portfolio. BBW will fully consolidate the US06 Portfolio from the Reallocation Date¹⁴ when BBW will own approximately 95% of the US06 Portfolio.

A pro-forma gearing impact of the US06 Portfolio is illustrated below¹⁵:

Total debt at 30 June 2006	671
Cash allocated to committed projects as at 30 June 2006 ¹⁶	(79)
Cash available for investment as at 30 June 2006	(232)
Net debt at 30 June 2006	360
Equity at 30 June 2006 ¹⁷	805
Ratio of Net Debt to Enterprise Value¹⁸	31%
Cash used to fund acquisitions made since 30 June 2006 ¹⁹	131
FY06 final distribution to Security Holders (net of DRP) ²⁰	23
Cash available to fund the acquisition of the US06 Portfolio	78
Additional debt utilised to fund the acquisition of the US06 Portfolio	428
Total pro-forma Net Debt	1,020
Pro-forma ratio of Net Debt to Enterprise Value²¹	56%

NET OPERATING CASH FLOW²²

The Directors' Forecast of Net Operating Cash Flow for FY07 based on BBW's anticipated portfolio at the time of the IPO was A\$68.5m (11.7 cents per security²³) (IPO NOCF).

The anticipated impact on Net Operating Cash Flows of the previously announced acquisitions²⁴ is summarised below:

- As previously announced on 10 May 2006, an increase in the IPO NOCF of approximately A\$22 million in FY07 from BBW's acquisitions of the Crescent Ridge wind farm, the Eifel wind farm, the remaining 20% of certain Class B membership interests in the US03/04 Framework Assets and certain Class B membership interests in the US05 Framework Assets.
- In addition, it was announced at that time that the acquisitions of Lake Bonney 2 and Fruges I are expected to further increase contribution to Net Operating Cash Flow to approximately A\$43 million (7.1 cents per security²⁵) once fully operational. The Lake Bonney 2 and Fruges I projects are expected to make a full year contribution in the 2009 financial year (FY09) and thereafter.

14. Reallocation Date is the date from which tax benefits and cash distributions are shared proportionately between the Class A Investors and the Class B Investor in accordance with their proportional interests (expected to be 1 May 2017).

15. Assumes operating cash flow since 30 June 2006 retained for FY07 distribution.

16. Relates to Lake Bonney 2 and Fruges I contracted payments under EPC contracts; Alinta wind farm debt service reserves.

17. 575m securities @ A\$1.40 per security. (Note: at 30 June 2006 = A\$1.51 per security)

18. Enterprise Value = Equity + Net Debt

19. Sweetwater 3 and Kumeyaay: A\$96m (US\$72m); Bear Creek & Jersey Atlantic A\$21m (US\$16m); Fruges II A\$14m (€8m) being first construction payment in total acquisition cost of A\$94m (€56 million). Excludes acquisition of the Kaarst wind farm announced on 15 January 2007.

20. Distribution Reinvestment Plan.

21. Enterprise value = Equity + Net Debt.

22. Net Operating Cash Flow: EBITDA plus US Distributions Less Corporate Costs, Interest paid, Tax paid, changes in working capital; before investment related CAPEX, acquisitions and debt principal repayments. Estimates assume P50 production being the level of electricity output which has a 50% probability of exceedance.

23. Assumes number of securities = 585m as at 30 June 2007.

24. Excludes acquisition of the Kaarst wind farm announced on 15 January 2007.

25. Assumes number of securities = 608m as at 30 June 2009.

NOTICE OF GENERAL MEETINGS

EXPLANATORY NOTES

- As announced on 11 December 2006, Fruges II is expected to be positive to Net Operating Cash Flow when fully operational (expected to occur by FY09). The contribution to Net Operating Cash Flow from Fruges II, once fully operational, is expected to be approximately A\$3 million (0.5 cents per security²⁶). The Fruges II project is expected to make a full year contribution in FY09 and thereafter. This acquisition is neutral to Net Operating Cash Flow in FY07 and FY08.

The impact of the Acquisition of the US06 Portfolio is summarised below:

- The US06 Portfolio is expected to contribute approximately A\$60 million to Net Operating Cash Flow (excluding interest expense of debt funding associated with the Acquisition) when the whole of the US06 Portfolio has been acquired. A portion of the US06 Portfolio is expected to be acquired by March 2007, and the remainder of the US06 Portfolio is expected to be acquired by December 2007.²⁷ Therefore, it is expected that the US06 Portfolio will make a full year contribution in FY09 and thereafter.
- The acquisition of the US06 Portfolio will be funded utilising available debt facilities and cash on hand. A portion of the facilities is expected to be drawn in March 2007, and the remainder drawn upon completion of the Acquisition by December 2007 in line with the expected acquisition timing referred to above. The net interest expense is expected to be approximately A\$32 million per annum when the whole of the US06 Portfolio has been acquired. Therefore, it is expected that the full interest cost will be incurred in FY09 and thereafter.
- Consequently, on a post interest basis, the US06 Portfolio is expected to contribute approximately A\$28 million (4.6 cents per security²⁸) to Net Operating Cash Flow in FY09 when it will make a full year contribution.
- Distributions received from the wind farms to be acquired at the Initial Closing of the US06 Portfolio by BBW are expected to commence in April 2007. The impact of the Acquisition is not expected to be material to Net Operating Cash Flows in FY07.

The aggregate impact of other events (and potential events) since the IPO including the potential event that the tariff in Spain is reduced in line with the Spanish Government's draft Royal Decree announced on 29 November 2006, and also taking into account increased base fees and management expenses associated with managing a larger asset base, is estimated to result in increased costs of approximately A\$12 million per annum (2.0 cents per security²⁹) in FY09.

ACCOUNTING FOR EARNINGS OF US06 PORTFOLIO

As for the existing US assets within the BBW portfolio of wind farms, the proposed investment in the US06 Portfolio will not represent a controlling interest. It would therefore qualify as an associate and would be accounted for using the equity method. Equity accounted earnings from the US06 Portfolio would be determined by reference to period on period changes in the legal entitlement to the net assets of the US06 Portfolio, adjusted for distributions received. Distributions from the US06 Portfolio in the period within which capital is repaid to BBW Purchaser would necessarily reduce the net assets of the US06 Portfolio. Therefore, in this initial period when capital is repaid, distributions would be greater than equity accounted earnings.

As stated above, US06 Portfolio earnings will be fully consolidated by BBW after the Reallocation Date is reached.³⁰ The impact of the Acquisition on Profit After Tax using the equity method is not expected to be material in FY07.

5 INDEPENDENT DIRECTORS' RECOMMENDATION

After considering the Acquisition, its advantages, disadvantages and the Independent Expert Report prepared by KPMG which concludes that the Acquisition is fair and reasonable to Security Holders (excluding BNB), the Independent Directors of the Company, the Foreign Company and the Responsible Entity of the Trust unanimously recommend that Security Holders vote in favour of the resolution.

26. Assumes number of securities = 608m as at 30 June 2009.

27. See Section 2.2(c) for further details regarding the expected timing of the Acquisitions.

28. Assumes number of securities = 608m as at 30 June 2009.

29. Assumes number of securities = 608m as at 30 June 2009.

30. Reallocation Date is the date from which tax benefits and cash distributions are shared proportionately between the Class A Investors and the Class B Investor in accordance with their proportional interests (expected to be 1 May 2017).

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SCHEDULE 1 - US06 PORTFOLIO

Project Information	Aragonne	Buena Vista	Allegheny Ridge Phase I	Mendota	GSG	Allegheny Ridge Phase II
Location	New Mexico	California	Pennsylvania	Illinois	Illinois	Pennsylvania
Status	Operational from 12/06	Operational from 12/06	Expected to be operational from 03/07	Operational from 11/03	Expected to be operational from 03/07	Expected to be operational from 12/07
BBW Equity Interest ³¹	100% ³²	100%	100%	100%	100%	100%
Capacity & Generation						
Installed Capacity	90 MW	38 MW	80 MW	52 MW	80 MW	70 MW
Number of turbines	90	38	40	63	40	35
Turbine Manufacturer	Mitsubishi	Mitsubishi	Gamesa	Gamesa	Gamesa	Gamesa
Turbine rating	1MW	1MW	2MW	850kw	2MW	2MW
Net long term mean energy production	270.6 GWh	108.3 GWh	238.7 GWh	111 GWh	231 GWh	208.9 GWh
Capacity Factor/ GWh per year	34.99%	32.53%	34.06%	24.4%	32.89%	34.06%
Revenue						
Revenue Assurance	Fixed 20 year PPA ³³	Fixed 10 year PPA	Fixed 23 year PPA	Rider ³⁴ POG - LMP	Rider POG - LMP	Fixed 23 year PPA
Regulatory regime	USA PTC ³⁵	USA PTC	USA PTC	USA PTC	USA PTC	USA PTC
Customers	APS	PG&E	First Energy	ComEd	ComEd	First Energy
Operational						
Turbine Operations & Maintenance	Mitsubishi	Mitsubishi	Gamesa	Gamesa	Gamesa	Gamesa
Key Contracts						
Turbine installation	JV between TIC and Power Engineers	Blattner	Gamesa Energy	N/A	White/Michaels	Gamesa Energy
Land	30 years	30 years	30 years	40 years	50 years	50 years

31. Percentage ownership of Class B Membership interests in the Holding Company of the project entity company.

32. Holding Company only acquired 95% of Aragonne, with BNB Seller retaining the remaining 5%.

33. "PPA" means Power Purchase Agreement, a contract by which the wind farm sells its energy output.

34. "Rider POG - LMP" refers to a contractual arrangement whereby the wind farms sells its output to Commonwealth Edison at the relevant local market price which will vary in accordance with market conditions.

35. Production Tax Credits.

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SCHEDULE 2 - BBW'S PORTFOLIO AS AT 9 JANUARY 2007³⁶



PORTFOLIO SUMMARY

9 January 2007

Wind Farm	Location	BBWP's Equity Interest (%) ¹	Commercial Operation Date (Acquisition Date)	Installed Capacity (MW)			Turbines		Long Term Mean Energy Production (GWh pa) ³		Energy Sale
				Total	Ownership ²	Number	Type	Rating	Total	Ownership ²	
AUSTRALIA											
Alinta Wind Farm	Western Australia	100%	Jan 2006 (Aug 2004)	89.1	89.1	54	NEG Micon NM82	1.65 MW	366.5	366.5	PPA ³
Lake Bonney Stage 1	South Australia	100%	Mar 2005 (Jun 2003)	80.5	80.5	46	Vestas V66	1.75 MW	213.4	213.4	PPA
Lake Bonney Stage 2	South Australia	100%	Under-construction ⁴ (Sep 2005)	159.0	159.0	53.0	Vestas V90	3 MW	477.9	477.9	PPA & Market
SPAIN											
Sierra del Trigo	Andalucia	100%	Jan 2002 (Dec 2004)	15.2	15.2	23	Gamesa G47	660 kw	32.3	32.3	Market Option
La Muela norte	Aragon	100%	Aug 2003 (Dec 2004)	29.8	29.8	35	Gamesa G58	850 kw	70.6	70.6	Market Option
El Redondal	Castille & Leon	100%	Jan 2005 (Oct 2005)	30.6	30.6	36	Gamesa G58/52	850 kw	66.5	66.5	Market Option
Serra de Loba	Galicia	100%	Oct 2005 (Mar 2006)	36.0	36.0	18	Gamesa G83	2 MW	99.9	99.9	Market Option
La Plata	Castille La Mancha	100%	Jun 2005 (Jun 2005)	21.3	21.3	25	Gamesa G58	850 kw	45.6	45.6	Market Option
El Sardon	Andalucia	100%	Mar 2006 (May 2006)	25.5	25.5	30	Gamesa G58	850 kw	47.9	47.9	Market Option
GERMANY											
Wachtendonk	Northrhine-Westphalia	99%	Dec 2005 (Mar 2005)	12.0	11.9	8	Nordex S77	1.5 MW	23.7	23.5	Fixed Tariff
Bocholt Liedern	Northrhine-Westphalia	99%	Oct 2005 (Mar 2005)	7.5	7.4	5	Nordex S70	1.5 MW	13.3	13.2	Fixed Tariff
Eifel											
Stage I & II	Rhineland-Palatinate	100%	Jun 2005 & Feb 2006 (Feb 2006)	27.0	27.0	18	Nordex S70/77	1.5 MW	53.0	53.0	Fixed Tariff
Stage III	Rhineland-Palatinate	100%	Dec 2006 (Feb 2006)	8.0	8.0	4	Enercon E70/E4	2 MW	17.0	17.0	Fixed Tariff
Stage IV	Rhineland-Palatinate	100%	Under Construction ⁴	1.5	1.5	1	Nordex S77	1.5 MW	3.6	3.6	Fixed Tariff
FRANCE											
Fruges I	Pas de Calais	100%	Under construction ⁴ (Mar 2006)	22.0	22.0	11.0	Enercon E70 E4	2 MW	49.7	49.7	Fixed Tariff
Fruges II	Pas de Calais	100%	Under construction ⁴ (Dec 2006)	30.0	30.0	15.0	Enercon E70 E4	2 MW	68.1	68.1	Fixed Tariff
USA											
Sweetwater 1	Texas	50%	Dec 2003 (Dec 2005 & Jun 2006)	37.5	18.8	25	GE 1.5 S	1.5 MW	141.7	70.9	PPA
Sweetwater 2	Texas	50%	Feb 2005 (Dec 2005 & Jun 2006)	91.5	45.8	61	GE 1.5 SLE	1.5 MW	361.8	180.9	PPA
Caprock	New Mexico	80%	Dec 2004 & Apr 2005 (Dec 2005 & Jun 2006)	80.0	64.0	80	Mitsubishi MWT 1,000A	1 MW	316.6	253.3	PPA
Blue Canyon	Oklahoma	50%	Dec 2003 (Dec 2005 & Jun 2006)	74.3	37.1	45	NEG Micon NM72	1.65 MW	264.1	132.1	PPA
Combine Hills	Oregon	50%	Dec 2003 (Dec 2005 & Jun 2006)	41.0	20.5	41	Mitsubishi MWT 1,000A	1MW	119.6	59.8	PPA
Sweetwater 3	Texas	50%	Dec 2005 (Jul 2006)	135.0	67.5	90	GE 1.5 SLE	1.5 MW	508.5	254.3	PPA
Kumeyasay	California	100%	Dec 2005 (Jul 2006)	50.0	50.0	25	Gamesa G87	2 MW	164.6	164.6	PPA
Jersey Atlantic	New Jersey	59%	Mar 2006 (Dec 2006)	7.5	4.4	5	GE 1.5 SLE	1.5MW	19.3	11.4	PPA & Market
Bear Creek	Pennsylvania	59%	Mar 2006 (Dec 2006)	24.0	14.2	12	Gamesa G87	2 MW	73.4	43.5	PPA
Crescent Ridge	Illinois	75%	Nov 2005 (Jul 2006)	54.5	40.8	33	Vestas V82	1.65 MW	171.9	128.9	Market Pool
TOTAL - Operational				977.6	745.3	719.0			3,191.2	2,349.0	
TOTAL - Under Construction				212.5	212.5	80.0			600.3	600.3	
TOTAL				1,190.1	957.8	799.0			3,791.5	2,949.3	

¹ Percentages for US wind farms constitute percentage ownership of Class B Member Units

² Ownership is shown on the basis of percentage of B Class member interest

³ PPA - Power Purchase Agreement

⁴ Lake Bonney 2 is expected to be complete by mid 2008; Fruges I is expected to be complete by second half of 2007; Fruges II is expected to be complete by first half 2008; The Eifel Nordex expansion is expected to be complete by mid 2007.

If the resolution is approved, and all conditions precedent to the initial and subsequent capital contributions (as described in Schedule 3 below) are satisfied or waived, BBW's portfolio will be expanded by the addition of the following assets:



PORTFOLIO SUMMARY - US06 PORTFOLIO ASSETS

Wind Farm	Location	BBWP's Equity Interest (%)	Status (Acquisition Date)	Installed Capacity - Operational (MW)			Turbines		Long Term Mean Energy Production (GWh pa) ³		Energy Sale
				Total	Ownership ²	No. of Turbines	Type	Rating	Total	Equity Interest	
US 06											
Aragonne	New Mexico	100%	Proposed	90.0	85.5 ³	90	MWT 1000A	1 MW	270.6	257.07	PPA
Buena Vista	California	100%	Proposed	38.0	38.0	38	MWT 1000A	1 MW	108.3	108.3	PPA
Alleghany Ridge (Phase I)	Pennsylvania	100%	Proposed	80.0	80.0	40	G87	2 MW	238.7	238.7	PPA
Alleghany Ridge (Phase II)	Pennsylvania	100%	Proposed	70.0	70.0	35	G87	2MW	208.9	208.9	PPA
Mendota	Illinois	100%	Proposed	52.0	52.0	63	G52	850 kw	111	111	Market
GSG	Illinois	100%	Proposed	80.0	80.0	40	G87	2 MW	231	231	Market
TOTAL				410.00	320.00	304			1,168.50	1,154.97	

¹ Percentages for US wind farms constitute percentage ownership of Class B Member Units of Holding Company of the project entity company

² Ownership is shown on the basis of percentage of B Class member interest

³ BBW will own 100% of B class member units of a 95% interest in Aragonne

NOTICE OF GENERAL MEETINGS

SCHEDULE 3 - MATERIAL CONTRACTS OVERVIEW

1. PORTFOLIO PURCHASE, SALE AND CONTRIBUTION AGREEMENT 2007 (PORTFOLIO PURCHASE AGREEMENT)

The key terms of the Portfolio Purchase Agreement are set out below:

(a) Conditions Precedent to Initial Closing

BBW Purchaser's obligation to acquire Class B Investor is subject to the satisfaction or waiver of certain conditions. These conditions include:

- obtaining BBW Security Holder approval to acquire Class B Investor from BNB;
- obtaining all necessary regulatory approvals to the Acquisition (both in Australia and the United States);
- the wind farms to be acquired at the Initial Closing having achieved COD and a certificate to such effect having been provided (except in the case of the Mendota wind farm which achieved COD in 2003);
- completion of due diligence on the material contracts of Class B Investor and Holding Company;
- Holding Company shall have acquired 100% (or in the case of Aragonne, 95%) of the Target Shares in two or more Project Entities;
- no material adverse change in the wind farms as part of the Initial Closing; and
- delivery of counsels' opinions, certificates, reports and other documents (which are fairly typical of a transaction of this kind) relating to the Project Entities and the wind farm projects involved in the Initial Closing.

(b) Conditions Precedent to Subsequent Closings

BBW Purchaser's obligation to make payments under the agreement in respect of the acquisition of subsequent interests in Project Entities by Holding Company is subject to satisfaction or waiver of similar conditions precedent. In addition, each wind farm project must be of a similar overall profile to wind farms included in the Initial Closing or not otherwise unusual for wind farm transactions of this kind in a way which would be materially adverse to Holding Company.

(c) Pricing and valuation mechanism

The Portfolio Purchase Agreement includes a pricing and valuation mechanism.

(i) Financial Model Derived Price

Subject to paragraph (ii) below, the value of the indirect Class B membership interest in each Project Entity acquired through Holding Company is determined using (A) a financial model that is also the class A closing model (i.e., the model upon which all financial closings and payments by Holding Company will be calculated) and (B) a methodology for amending the model to account for updated advice from the independent engineer or to correct inaccurate model assumptions.

Key inputs to the wind farm project model are:

- P50 energy production;
- actual contract prices, including for non-merchant facilities the contract prices for the sale of energy;
- forecasts of forward energy prices applicable to merchant facilities;
- forecasts of other assumed expense and revenue items,

and the key output is the project's after tax cash flows.

The price for the combined Class B membership interests in the three wind farms at the Initial Closing is the price which generates an agreed internal rate of return. At each Subsequent Closing, the model is re-run adding in the new projects to be acquired at that Subsequent Closing. The total price payable at that Subsequent Closing for the combined Class B membership interests in the subsequent wind farms is the price which continues to generate the agreed return to BBW Purchaser taking into account the addition of the further interests in wind farms at that Subsequent Closing.

(ii) Limitation on Model Adjustments to Price

The overall purchase price for the US06 Portfolio is determined based on an agreed internal rate of return (see Schedule 3, Item 1(c)). Notwithstanding an internal rate of return based price mechanism, the payments under the terms of the Portfolio Purchase Agreement to be made at each closing are such that the aggregate projected purchase price for the US06 Portfolio (including financial advisory fees), is set within a range of plus or minus 10% of a fixed amount, agreed between BBW Purchaser and BNB Seller.

This range acts as both a ceiling and a floor on the payments to be made in relation to the Portfolio Purchase Agreement such that the actual price payable by BBW for the US06 Portfolio (including financial advisory fees) would be between approximately US\$349 million and US\$427 million (i.e. between approximately A\$447 million and A\$547 million). Adjustments to the total price are likely to arise because (i) at the time of executing the Portfolio Purchase Agreement the US06 Portfolio has yet to be fully constructed and (ii) the model is re run at each Subsequent Closing thereby taking into account changes in

NOTICE OF GENERAL MEETINGS

SCHEDULE 3 - MATERIAL CONTRACTS OVERVIEW

relation to the wind farm projects to be acquired at that closing. Changes to a wind farm project that would give rise to a price adjustment might, for example, take the form of changed turbine configurations or a change to the absolute number of turbines resulting from site conditions which give rise to new costs and changed forecast energy production.

Adjustments that would result in the model determining a purchase price which fell outside of the range are considered highly unlikely. However, even if the model determined a purchase price outside the range, the purchase price actually paid by BBW will be no higher than the cap and no lower than the floor of the range. If the purchase price paid is capped, the forecast internal rate of return upon which the US06 Portfolio is acquired would be greater than would otherwise be the case. Should the floor operate then the forecast internal rate of return would be less than would otherwise be the case.

(d) **Term and Termination**

The Portfolio Purchase Agreement may be terminated by either party:

- if the conditions precedent to the Initial Closing are not satisfied or waived by an agreed date;
- prior to the Initial Closing, if FERC³⁷ approval is not obtained or if the HSR³⁸ waiting period fails to expire due to the Federal Trade Commission or Department of Justice (US) prohibiting the Acquisition; or
- if a court issues an order prohibiting a closing prior to the Initial Closing or any Subsequent Closing.

The Portfolio Purchase Agreement may be terminated by BBW Purchaser:

- prior to the Initial Closing, upon an uncured breach by BNB Seller of any material representation, warranty or covenant or a material adverse change occurring which remains unremedied in relation to the Project Entities to be included in the Initial Closing;
- after the Initial Closing but prior to a Subsequent Closing, upon an uncured breach by BNB Seller of any material representation, warranty or covenant which has prevented satisfaction of any conditions to proceed with a Subsequent Closing; or
- with respect to a particular designated Project Entity only, upon BBW Purchaser's inability to verify that the Project Entity (and its wind farm) is of a similar overall profile to wind farms included in the Initial Closing and not otherwise unusual for wind farm transactions of this kind which would be materially adverse to Holding Company and which cannot be addressed using commercially reasonable efforts.³⁹

The Portfolio Purchase Agreement may be terminated by BNB Seller:

- at any time upon an uncured breach of a representation, warranty or covenant by BBW Purchaser which has prevented satisfaction of a condition to closing; or
- with respect to a particular Project, if such project will not satisfy a closing condition in the Portfolio Purchase Agreement or the ECCA.

The Portfolio Purchase Agreement includes representations and warranties in relation to Aragonne, Buena Vista and GSG⁴⁰, covenants and indemnities for breach, all of which are broadly similar to the terms on which BBW has acquired interests in wind farm projects from BNB previously (and which were summarised in section 12.3.7 of the Prospectus and Product Disclosure Statement dated 26 September 2005).

2. **EQUITY CAPITAL CONTRIBUTION AGREEMENT (ECCA)**

Upon conditions being satisfied in respect of the proposed acquisition by Holding Company of a Project Entity, the Class B Investor must fund a capital contribution to Holding Company. Class B Investor will receive class B units in exchange for such capital fundings. Similar provisions apply to the Class A Investors under the ECCA, who will receive class A units in exchange for their capital fundings. Various conditions need to be satisfied or waived including those which relate to the Project Entity, the wind farm project, compliance with covenants and accuracy of representations and warranties (including those of Class B Investor).

The funds are applied towards payments to be made upon COD and towards the acquisition costs of Holding Company in acquiring 100% of the membership interests of the Project Entity that owns the relevant wind farm (with the exception of the Project Entity that owns Aragonne, of which the Holding Company has acquired 95% of the membership interests with BNB Seller retaining the remaining 5%).

37. US Federal Energy Regulatory Commission.

38. Hart-Scott Rodino.

39. Certain events will be disregarded for the purposes of the definition of "Material Adverse Change" in respect of a Subsequent Closing, including any change in general economic conditions and any change in law.

40. In respect of the Gamesa wind farm projects to be acquired, under the Portfolio Purchase Agreement, BNB Seller assigns to Holding Company the representations, warranties and indemnities provided to it by Gamesa for the wind farm.

NOTICE OF GENERAL MEETINGS

SCHEDULE 3 - MATERIAL CONTRACTS OVERVIEW

3. LIMITED LIABILITY COMPANY AGREEMENT (LLCA)

The limited liability company agreement of Holding Company governs the relationship between Class A Investors and Class B Investor, as members of Holding Company, during the life of their investment in Holding Company. It provides for:

- treatment of funds made by members to Holding Company, and distributions by Holding Company to members;
- restrictions on transfer of membership interests by members; and
- appointment of the managing member who has day-to-day management of Holding Company subject to certain actions requiring consent of all members.

INDEPENDENT EXPERT REPORT
BABCOCK & BROWN WIND PARTNERS SECURITY HOLDERS
AND FINANCIAL SERVICES GUIDE



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The Boards of Directors
Babcock & Brown Wind Partners Services Limited
as Responsible Entity of the Babcock & Brown Wind
Partners Trust
Babcock & Brown Wind Partners Limited
Babcock & Brown Wind Partners (Bermuda) Limited
Level 23 The Chifley Tower
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Sydney NSW 2000

19 January 2007

Dear Sirs

Independent expert report for Babcock & Brown Wind Partners security holders and Financial Services Guide

1 Introduction

Babcock & Brown Wind Partners Services Limited (as Responsible Entity for the Babcock & Brown Wind Partners Trust), Babcock & Brown Wind Partners Limited, and Babcock & Brown Wind Partners (Bermuda) Limited (together, BBW) are considering the purchase of B&B Wind Portfolio 1 LLC, which it is intended will hold 100 percent of the Class B membership interests in a wind farm portfolio (the 06 US Wind Portfolio) consisting of six wind farms (the wind farms) (the Proposed Transaction). The wind farms, which are located in the United States of America (US), are listed below:

- Aragonne, a 90 MW wind powered generating facility located in New Mexico, which commenced commercial operations in December 2006. It is proposed that BBW will acquire 100 percent of the Class B membership interests in a 95 percent holding of Aragonne (the remaining 5 percent holding in Aragonne was retained by the project developer).
- Buena Vista, a 38 MW wind powered generating facility located in California, which commenced commercial operations in December 2006.
- GSG, an 80 MW wind powered generating facility located in Illinois, which is expected to commence commercial operations in March 2007.
- Allegheny Ridge Phase I (Allegheny I), an 80 MW wind powered generating facility located in Pennsylvania, which is expected to commence commercial operations in March 2007.

- Allegheny Ridge Phase II (Allegheny II), a 70 MW wind powered generating facility located in Pennsylvania, which is expected to commence commercial operations in December 2007.
- Mendota Hills (Mendota), a 52 MW wind powered generating facility located in Illinois, which commenced commercial operations in November 2003.

The wind farms were or are currently owned or controlled by Babcock & Brown Renewable Holdings Inc. (BBRH) and affiliates, related parties to Babcock and Brown Limited (BNB). The acquisition would be pursuant to the Portfolio Purchase, Sale and Contribution Agreement (Portfolio Purchase Agreement).

The Boards of Directors of BBW have requested KPMG Corporate Finance (Aust) Pty Ltd (KPMG) to prepare an independent expert report (IER) addressed to the security holders of BBW in relation to the Proposed Transaction. This report indicates whether, in our opinion, the Proposed Transaction is fair and reasonable to BBW security holders.

BBW is an Australian company listed on the Australian Stock Exchange Ltd (ASX). Its principal activities are the ownership, management and operation of a portfolio of wind farms. As at 12 January 2007, BBW had a market capitalisation of approximately A\$954.3 million.

This report forms part of the Notice of General Meetings and Explanatory Notes (NOM) to be dated on or about 19 January 2007 (for a meeting on 26 February 2007) prepared by BBW. Details of the Proposed Transaction are summarised in Section 3 of this report and set out more fully in the NOM.

This report has been prepared solely for the purpose of assisting the security holders of BBW at the date of this report in considering the Proposed Transaction. We do not assume any responsibility or liability to any party as a result of reliance on this report for any other purpose. Nothing in this report should be taken as a recommendation as to whether or not to invest in BBW.

2

Summary of opinion

In our opinion, having considered the overall implications of the Proposed Transaction, the Proposed Transaction is fair and reasonable to the security holders of BBW (excluding BNB and its associates).

In forming our opinion, we have considered a variety of issues which will have implications for the future operations of BBW, the advantages and disadvantages likely to result from approval of the Proposed Transaction, as well as the consequences to the security holders of not approving the Proposed Transaction. We note that in reviewing a related party transaction of this nature, there are a number of key issues which we consider may most influence a security holder's decision to approve the Proposed Transaction, and our analysis has focused on these issues.

2.1 *The pricing of the the Portfolio is at a fair price*

The proposed purchase price falls within our assessed valuation range

The proposed purchase price for the 06 US Wind Portfolio is US\$387.0 million, to be paid by BBW in various stages between March 2007 and December 2007 as set out in Section 3. The present value of these payments using BBW's agreed upon internal rate of return is US\$378.1 million.

As set out in Section 8, our assessed valuation range for the Class B membership interests in the 06 US Wind Portfolio is US\$369.3 million to US\$394.4 million. Both the proposed purchase price of US\$387.0 million (nominal) and the present value of the purchase price payments of US\$378.1 million fall within our assessed valuation range, and on this basis we consider the purchase price to be fair.

In addition, we note that the proposed purchase price is based on BBW achieving an agreed internal rate of return, which exceeds its current assessed long-term cost of capital. In our experience of valuing assets of a similar nature, and having regard to similar listed investments, the agreed internal rate of return does not appear unreasonable (discussed in further detail in Section 8.6).

As discussed in Section 3, a range of plus or minus 10.0 percent has been set around the purchase price, effectively setting a floor and a ceiling. This range allows for BBW to adjust the purchase price to maintain the agreed internal rate of return based on updated forecast cash flows of the Portfolio as each wind farm reaches commercial operation. In the event that forecast cash flows drop to a point whereby a price below the floor would need to be paid to maintain the internal rate of return, a lower than expected internal rate of return would arise. Equally, if forecast cash flows rise to a point whereby a price above the ceiling would need to be paid to maintain the internal rate of return, a higher than expected internal rate of return would arise. Management has advised that they regard the possibility of either of these cases occurring as unlikely. In our view, the inclusion of this adjustment mechanism in the Proposed Transaction terms is reasonable from the perspective of BBW security holders in that it increases the probability of achieving the agreed internal rate of return.

2.2 *Financial impact of the Proposed Transaction*

The acquisition is expected to be immediately accretive to BBW's net operating cash flow

BBW management has advised that its intention is to make distributions to security holders from net operating cash flow (NOCF, defined as EBITDA plus US distributions less interest paid, corporate costs, tax paid, and changes in working capital, before investment related capital expenditure, acquisitions and debt principal repayments) after taking into account other investment capital flows such as debt amortisation, Distribution Reinvestment Plan participation and future funding requirements or investment opportunities of the business. Management's internal calculations suggest that the acquisition of each wind farm in the 06 US Wind Portfolio is expected to have an immediate positive impact on NOCF of BBW. While the impact in 2007

is expected to be immaterial due to only a part year contribution from the Portfolio (the six wind farms are expected to be progressively acquired between March 2007 and December 2007 – see Section 3 for more detail), the impact on NOCF in 2008 and 2009 (the first full year of contribution from the Portfolio) is expected to be materially accretive (approximately A\$28.0 million or 4.6 Australian cents per security full year contribution in 2009).

The acquisition is expected to support BBW's stated dividend forecasts

Based on the accretive impact of the acquisition on NOCF, BBW has advised that it remains committed to its reported dividend forecast for 2007 of 12.5 Australian cents per security. In addition, BBW expects distributions to security holders in 2008 of 14.0 Australian cents per security (a 12 percent increase from 2007 forecast). This 2008 distribution guidance assumes the same factors taken into account in providing the 2007 distribution guidance, the Proposed Transaction is approved by security holders, plans to refinance BBW's debt facilities during 2007 (see below) are successfully implemented, and the 06 US Wind Portfolio is acquired in line with the timing set out in the NOM.

Further, BBW has advised that it is committed to retaining its distribution growth rate target of at least 3.5 percent per annum in the medium term.

The acquisition is expected to be approximately earnings neutral in 2007 and accretive by 2008

Based on a review of management's calculations of the expected impact of the acquisition on net profit after tax, we note that the impact on BBW's earnings in 2007 is expected to be immaterial. However in 2008 and 2009 (the first full year of contribution from the Portfolio) it is expected to be materially accretive.

In relation to the expected earnings impact of the acquisition, we note that the investment in the 06 US Wind Portfolio will not be consolidated (for accounting purposes) by BBW until the Reallocation Date (see Section 7.3 for details), expected to be 1 May 2017, at which time BBW obtains a controlling interest for accounting purposes. While BBW is not required to recognise any intangible assets (or related amortisation charges) in its accounts in relation to the Proposed Transaction until a controlling interest is obtained, such amortisation charges (and their negative impact on BBW's earnings) are likely to be incurred upon consolidation of the Portfolio at the Reallocation Date.

The acquisition will result in an increased level of gearing

As a result of the acquisition BBW will incur additional debt which will increase BBW's financial risk profile. BBW's net debt to enterprise value as at 30 June 2006 was approximately 31.0 percent. At the completion of the Proposed Transaction, management expects this to rise to approximately 56.0 percent on a pro-forma basis. This increased risk is mitigated to a certain extent through an active interest rate hedging policy. Whilst this level of gearing would be higher than the range observed in our selected comparable companies of 6.6 percent to 42.6 percent, and generally consistent with a broader set of energy utility and infrastructure

companies, we also note that BBW is currently undertaking a capital management review and as a result, its debt facilities may be refinanced during 2007.

2.3 *Strategic considerations for BBW regarding the Proposed Transaction*

The Portfolio will increase BBW's geographic diversification

The 06 US Wind Portfolio includes wind farms located in New Mexico, California, Pennsylvania, and Illinois. In 2006, the American Wind Energy Association (AWEA) listed the top twenty states in the US for wind energy potential, as measured by annual energy potential in billions of kWhs, taking into consideration environmental and land use exclusions. The table below details the wind farms in the 06 US Wind Portfolio, and the AWEA rankings for the respective states.

Table 1: AWEA wind energy potential rankings for the 06 US Wind Portfolio

Wind Farm	Location	AWEA State Ranking
Aragonne	New Mexico	12
Buena Vista	California	17
Allegheny Ridge Phase I	Pennsylvania	n/a
Mendota	Illinois	16
GSG	Illinois	16
Allegheny Ridge Phase II	Pennsylvania	n/a

Source: BBW

As detailed in Section 6, BBW already owns operational wind farms in each of the US states listed above, as well as Oklahoma, Oregon, Texas and New Jersey. However, approximately 70 percent of BBW's existing portfolio is located in the southern US states of Texas, New Mexico, and Oklahoma. As shown in the table below, the acquisition of the 06 US Wind Portfolio will increase BBW's installed capacity in both the north east and west regions of the US, reducing the reliance upon favourable wind conditions in the southern states.

Table 2: BBW wind farm regions

Region	Existing Installed Capacity (MW)	%	06 US Wind Farm Capacities (MW)	Installed Capacity Post 06 US Wind Portfolio Acquisition (MW)	%
US South	418.3	70	90	508.3	51
US North East	31.5	5	150	181.5	18
US West	91.0	15	38	129.0	13
US Mid West	54.5	10	132	186.5	19
Total	595.3	100	410	1,005.3	100

Source: BBW

The portfolio provides diversification across turbine manufacturers

The turbines for the 06 US Wind Portfolio are manufactured by Mitsubishi and Gamesa. Since 2003, both Mitsubishi and Gamesa have been consistently ranked amongst the five largest turbine manufacturers worldwide. Both companies manufacture turbines using technology which has been successfully implemented in US and European wind farms, and therefore the technology risk is considered low. In addition, other turbines used by BBW globally are sourced from various other manufacturers.

Increased scale provides greater purchasing power

The increase in scale that would result from acquiring the 06 US Wind Portfolio (increase of over 39 percent in BBW's total generating capacity (operational and under construction projects), and almost 90 percent of generating capacity in the US) is expected to provide BBW with greater flexibility and negotiating power in any potential wind farm acquisitions in the future.

Although availability of wind turbines is currently a significant constraint in the US market as demand for turbines currently exceeds supply, BBW management has advised the scale of the 06 US Wind Portfolio, along with BBW's existing portfolio, would also provide BBW with increased purchasing and negotiating power for future wind turbine procurement.

Acquisition of the 06 US Wind Portfolio may not include all wind farms

There is a risk that BBW may not acquire all of the six wind farms comprising the 06 US Wind Portfolio even if the Proposed Transaction is approved by BBW security holders. At each stage of the acquisition as each wind farm reaches commercial operation, certain conditions precedent relating to each wind farm (detailed in the NOM of which this report forms a part) must be satisfied in order for it to be acquired into the Portfolio. Where these conditions are not satisfied, BBW will not acquire the relevant wind farm, but also will not be obliged to pay the relevant proportion of the purchase price attributable to that wind farm.

We note that Allegheny I and Allegheny II are integrated operations that share land, facilities and interconnection to the electrical transmission grid. Accordingly, if Allegheny I is acquired into the Portfolio but Allegheny II is not (due to not satisfying the conditions precedent), then the vendor of Allegheny I has the right (but not the obligation) to reacquire Allegheny I from BBW at a price which restores BBW to the purchase price it would have paid for the 06 US Wind Portfolio excluding Allegheny I (taking into consideration any distributions already made by Allegheny I).

If BBW does not acquire all of the six wind farms comprising the 06 US Wind Portfolio, BBW will not fully realise the diversification and scale benefits described above.

BBW's view of future regulatory changes is positive

In February 2006, US President George W. Bush announced a target for the wind energy industry of 20 percent contribution to the nation's electricity supply by 2010. At a state level, 21 US states currently have created 'Renewable Portfolio Standards' (RPS) which ensure that a minimum amount of renewable energy is included in their portfolio of electricity resources.

The state of California, (where BBW already owns 50MW of installed capacity, and is proposing to acquire another 38MW in Buena Vista) boasts ambitious initiatives including rebates and tax credits to promote renewable energy production. It has mirrored President Bush's target of generating 20 percent of its power from renewable sources by 2010.

AWEA believes President Bush's target is achievable, but argues a stable national policy, including a long-term extension of the Production Tax Credit (PTC) program beyond 2008 must be implemented to provide investor certainty. In 1999, 2001, and 2003 the PTC program was allowed to expire, resulting in dramatic reductions in the level of new installations of wind generation capacity during the respective subsequent years. Consequently, AWEA is campaigning strongly for the PTC program to be extended for a further ten years.

Increased awareness of global warming and environmental issues through high profile advocates such as former US Vice President Al Gore and economic reports that quantify the effects of environmental policy such as the Stern Report (released 30 October 2006) are likely to provide further drivers for positive regulatory change.

BBW management anticipates that future regulatory changes will continue to be positive for wind farm and alternative energy providers, reducing any risks of becoming uncompetitive or redundant.

Future cash flows are supported by the existence of long-term off-take agreements with investment grade counterparties

Each of the wind farms in the 06 US Wind Portfolio have secured long-term off-take agreements for 100 percent of their output, and thereby have created relative certainty over the majority of their revenue streams during their respective lives of operations. The Power Purchase Agreements (PPA) terms for Aragonne, Buena Vista, Allegheny I and Allegheny II range from 10 to 23 years, whereas the Qualifying Facility (QF) agreements for Mendota and GSG have no specified expiry date but continue whilst the wind farms qualify under the Illinois Commerce Commission Code, or at the election of the wind farm to discontinue. To reduce counter party risk, the off-take agreements in the Portfolio have been signed with four different counterparties (see Section 7.2).

The purchase price is denominated in US dollars

The proposed purchase price has been agreed in US dollars and accordingly BBW bears the risk of any adverse movement in the exchange rate. Equally, BBW will benefit from any positive change in the exchange rate.

BBW will hedge the US dollar distributions from the 06 US Wind Portfolio into Australian dollars in line with its hedging policy.

Implications of the Proposed Transaction not being approved

Should the Proposed Transaction not be approved by BBW security holders:

- The benefits of the Proposed Transaction outlined above would not be achieved.
- Management has advised that the cash that would otherwise have been spent on the acquisition would be available to pursue other investment options.
- Transaction costs of approximately US\$2.0 million would have been incurred.

2.4 ***General advice***

In forming our opinion, we have considered the interests of BBW security holders as a whole (excluding BNB and its associates). This advice therefore does not consider the financial situation, objectives or needs of individual security holders. It is not practical or possible to assess the implications of the Proposed Transaction on individual security holders as their financial circumstances are not known.

The decision of the security holders as to whether or not to accept the Proposed Transaction is a matter for individuals based on, amongst other things, their risk profile, liquidity preference, investment strategy and tax position. Individuals should therefore consider the appropriateness of our opinion before acting on it. As an individual's decision to vote for or against the proposed resolution may be influenced by his or her particular circumstances, we recommend that individual security holders consult their financial adviser.

2.5 Other

Our opinion is based solely on the information available at the date of this report as set out in Appendix 2. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report.


All currency amounts in this report are denominated in Australian dollars (A\$) or United States dollars (US\$) unless otherwise stated.

The above opinion should be considered in conjunction with and not independently of the information set out in the remainder of this report, including the appendices.

Yours faithfully



Gary Wingrove
Executive Director



Andrew Hilson
Director

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FINANCIAL SERVICES GUIDE

Dated 19 January 2007

KPMG Corporate Finance (Aust) Pty Ltd ABN 43 007 363 215 (KPMG or we or us or our as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

Financial Services Guide

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide (FSG). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- who we are and how we can be contacted
- the services we are authorised to provide under our **Australian Financial Services Licence, Licence No: 246901**
- remuneration that we and/or our staff and any associates receive in connection with the general financial product advice
- any relevant associations or relationships we have
- our complaints handling procedures and how you may access them.

Financial services we are licensed to provide

We hold an Australian Financial Services Licence which authorises us to provide financial product advice in relation to:

- interests in managed investments schemes (excluding investor directed portfolio services)
- securities (such as shares and debentures).

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

General Financial Product Advice

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

Benefits that we may receive

We charge fees for providing reports. These fees will be agreed with, and paid by, the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis. Except for the fees referred to above, neither KPMG, nor any of its executive directors, directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Remuneration or other benefits received by our employees

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Associations and relationships

Through a variety of corporate and trust structures KPMG is controlled by and operates as part of KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). Our executive directors may be partners in the KPMG Partnership. From time to time KPMG, the KPMG Partnership and/or entities related to the KPMG Partnership may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

Complaints resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Industry Complaints Service Limited (**FICS**). FICS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FICS are available at the FICS website www.fics.asn.au or by contacting them directly at: Financial Industry Complaints Service Limited, PO Box 579, Collins Street West, Melbourne VIC 8007 or toll free: 1300 78 08 08 or by facsimile: (03) 9621 2291.

Contact details

You may contact us at using the details set out at the top of the letterhead on page 1 of this report.

3 Summary of the Proposed Transaction

3.1 General

The Proposed Transaction will result in BBW, through a single holding company, acquiring the Class B membership interests (discussed in Section 7.3 below) in six wind farms (the 06 US Wind Portfolio) based on the following terms:

- Payment of the purchase price taking place in several stages upon the individual wind farms completing construction and achieving commercial operation. The current schedule of the stages is:
 - early March 2007: Aragonne, Buena Vista and Mendota will have achieved commercial operation
 - end of March 2007: Allegheny I and GSG will have achieved commercial operation
 - December 2007: Allegheny II will have achieved commercial operation.
- A total purchase price of US\$387.0 million based on an agreed internal rate of return to BBW.
- Financial advisory fees of US\$5.0 million payable to BNB in relation to the Proposed Transaction, plus approximately US\$2.0 million in transaction costs.

We note that the precise timing of when BBW will acquire interests in the wind farms will depend on the timing of satisfaction or waiver of conditions precedent in the Portfolio Purchase Agreement. The purchase price payable by BBW for each wind farm will be adjusted to reflect the actual date of closing of that wind farm in accordance with the pricing and valuation methodology described in the NOM to ensure that BBW achieves the agreed internal rate of return for the 06 US Wind Portfolio. Under the terms of the Portfolio Purchase Agreement, a range of plus or minus 10.0 percent of a fixed amount, agreed between BNB and BBW, acts as a ceiling and a floor on the total purchase price to allow for changes such as changed turbine configurations or a change to the absolute number of turbines resulting from site conditions which give rise to new costs and changed forecast energy production. This translates into an allowed range of approximately US\$349.0 million to US\$427.0 million.

In addition, as part of the Proposed Transaction, BNB will market and trade any unsold renewable credits (RECs) on behalf of each wind farm under an incentive scheme. Under this scheme, gains over the forecast price are shared equally between the wind farm and BNB, capped at a maximum of US\$10.0 million.

3.2 *Conditions of the Proposed Transaction*

The Proposed Transaction is subject to certain conditions which are set out in detail in the NOM of which this report forms a part.

3.3 *Reasons for the Proposed Transaction*

Management expects the Proposed Transaction to be advantageous for various reasons including:

- Various financial benefits including being immediately accretive to net operating cash flows and providing a forecast internal rate of return that exceeds BBW's long-term cost of capital.
- Diversification benefits with regard to geography, wind resource, off-take agreements, equipment, service providers, regulatory regime and customers.
- Benefits of scale as the wind farms are relatively large and are proposed to be purchased as a portfolio, resulting in an efficient use of management's time and lowering acquisition costs.

A more detailed discussion of the advantages and disadvantages of the Proposed Transaction is set out in Section 9 of this report.

4 Basis of assessment

4.1 General

This IER has been prepared by KPMG for inclusion in the NOM in relation to the general meeting of BBW to be held on 26 February 2007 in accordance with Rule 10.1 of the ASX Listing Rules. The purpose of the meeting is to seek security holder approval regarding the resolution relating to the Proposed Transaction.

4.2 Technical requirements

We understand that BBW requires an IER pursuant to the requirements of ASX listing rules 10.1 and 10.10.2. Under these rules, a report is required from an independent expert if an entity is acquiring a substantial asset from, inter alia, a related party, or a person whose relationship with the entity is such that, in the ASX's opinion, the transaction should be approved by security holders. We understand that the ASX has taken the view that BNB should be treated as if it were a related party to BBW in accordance with ASX listing rule 10.1.5. Under Rule 10.10.2, the independent expert is required to provide security holders with an opinion as to whether the Proposed Transaction is "fair and reasonable" and to state the reasons supporting this opinion.

In this regard, Policy Statement 74 issued by the Australian Securities Commission, the antecedent body of the Australian Securities and Investment Commission (ASIC), is generally used as the basis for determining the principles and matters required to be considered in such an IER. Paragraph 21 of Policy Statement 74 states that:

"what is fair and reasonable for non-associated security holders should be judged in all the circumstances of the proposal. The report must compare the likely advantages and disadvantages for the non-associated security holders if the proposal is agreed to, with the advantages and disadvantages to those security holders if it is not. Comparing the value of the shares to be acquired under the proposal and the value of the consideration to be paid is only one element of this assessment".

In the present circumstances, we have treated the concepts of fairness and reasonableness as a single opinion, that is, the Proposed Transaction either *is* or *is not* fair and reasonable. Accordingly, in our opinion, the fairness and reasonableness of the Proposed Transaction should be determined against the background of the specific and general implications of the Proposed Transaction on BBW (using ASIC Policy Statement 74 as a guideline).

The Proposed Transaction will be fair and reasonable if BBW security holders are generally at a greater advantage if the Proposed Transaction is executed, than if it is not. They will receive an advantage if the expected benefits to BBW security holders outweigh any disadvantages that might result from the Proposed Transaction.

4.3 *Factors considered in determining our opinion*

We have considered, inter alia, the following main factors in determining whether the Proposed Transaction is fair and reasonable to the security holders of BBW:

- The underlying value of the 06 US Wind Portfolio compared to the proposed purchase price by BBW.
- Financial implications for BBW of undertaking the Proposed Transaction.
- Other advantages and disadvantages to BBW security holders of undertaking the Proposed Transaction.

4.4 *Disclosure of information*

In preparing this IER, KPMG has had access to all financial information considered necessary in order to provide the opinion requested. In this report we have limited the disclosure of information to that which is placed into the public domain by BBW. This approach has been adopted following a request by BBW and the commercially sensitive and confidential nature of certain operational and financial information supplied to us.

4.5 *Sources of information*

In preparing this report and arriving at our opinion, we have considered a number of sources of information as detailed in Appendix 2 to this report.

The statements and opinions expressed in this report are made in good faith and have been based on information believed to be reliable and accurate. We have relied upon the information set out in Appendix 2 and have no reason to believe that any material factors have been withheld from us. The preparation of this report does not imply that KPMG or any of its affiliates have carried out any form of audit on the accounting or other records of any entity within the BBW group of companies, their investments or associates.

The opinion of KPMG is based on prevailing market, economic and other conditions at the date of this report. It should be noted that conditions can change over a relatively short period of time and that our findings should be considered in light of any such changes. Any subsequent changes in these conditions could impact upon our assessment, either positively or negatively.

5 Review of the wind and renewable energy industry

5.1 Renewable energy

Stationary energy generation and use is the main source of greenhouse emissions around the world – in Australia alone, stationary energy causes approximately 70 percent of national greenhouse emissions. With the increasing global focus on issues such as global warming and security of supply, the development of viable renewable sources of energy production has become a priority of policy makers worldwide.

Renewable energy sources include wind, water, solar, biomass and geothermal technologies. Such sources have very low levels of greenhouse emissions, and reduce the dependence on and depletion of fossil fuels.

The renewable energy industry is generally characterised by:

- high capital costs and barriers to entry
- long-term power purchase agreements for the sale of energy and increasing acceptance of merchant risk
- low or zero fuel costs
- government/regulatory support through price support mechanisms, tax incentives and programs such as the development of a carbon/emissions trading market.

5.2 Global trends in wind energy

Market growth in 2005

New installations of wind farms around the world in 2005 totalled 11,407 MW, bringing the total installed capacity of wind power globally to 59,264 MW. This was an increase in cumulative installations of approximately 24 percent over 2004. As at the end of 2005, global wind power capacity consists of approximately 82,400 wind turbines in more than 65 countries. On average, this capacity generates annual output of nearly 120.5 billion kWh.

The new installations in 2005 represented an increase of 40 percent compared to the number of installations in 2004. This large increase was due to the recovery of the US market (as discussed below), as well as continued strong growth in wind energy installations in Asia and the rest of the Americas.

Other key characteristics of the global development of new wind power capacity in 2005 were:

- Europe remained the largest wind energy continent, with 56 percent of all new installation in 2005 (6,372 MW).
- The Americas accounted for over 23 percent (2,671 MW) of the world's new installations in 2005, up from 516 MW in 2004. The main reason for this recovery was the reintroduction and extension of the Production Tax Credit (PTC) program in the US until the end of 2008, after it was cancelled at the end of 2003. Canada also experienced strong growth, with accumulated installations increasing by 239 MW to 683 MW.
- Asia experienced strong growth in new installations (1,836 MW) with a 70 percent increase compared to 2004 (1,077 MW), although its share of new installations decreased due to the US recovery. India was the highest growth country, representing 1,253 MW of new capacity, which took its accumulated capacity to over 4,000 MW, the fourth highest total worldwide. China accounted for almost 500 MW of new installations, which increased its accumulated capacity by 64 percent.
- Germany, which had been the world's largest market for a decade, recorded its third consecutive year of declining growth, installing 1,808 MW, but this still made it the largest market for new capacity in Europe. Spain had assumed the number one position in the world in terms of new capacity in 2004, but recorded a large decline in growth to 1,764 MW from 2,064 MW in 2004. France, Portugal and the UK also showed rapid growth during 2005. In contrast, development is on hold in Denmark, where the penetration level of wind electricity has reached around 20 percent. The Danish market installed only 22 MW during 2005, and accumulated capacity only increased by 4 MW, to 3,087 MW. The declines in growth rates in the previously dominant German and Danish markets are considered by the Global Wind Energy Council to be temporary, with repowering and offshore projects expected to increase demand again within the next five years.
- Wind power accounted for approximately 0.69 percent of the world's electricity supply by the end of 2005.

Outlook beyond 2006

Industry commentators' forecasts for the period 2006 to 2010 indicate an overall expansion, with an average growth rate of 16.4 percent per annum for new installations. A more conservative growth rate is predicted for the subsequent period 2011 to 2015.

Other key figures from the industry commentators forecasts include:

- By 2010, cumulative global installations will have reached 148,794 MW, of which 87,694 MW (59 percent) will be in the world's largest market, Europe. Many developing markets in the region will experience rapid growth, including Italy, Portugal, Norway, France, and the

UK, German and Danish markets will commence repowering their older wind farms which were built with smaller turbines. By the end of 2014, cumulative global installations are anticipated to reach 298,291 MW, with electricity generated from wind power representing approximately 2.9 percent of the world's supply.

- Cumulative installation in the US is expected to more than double to 22,381 MW (from 9,181 MW) by 2010, driven primarily by higher growth in 2006 and 2007. On this basis, the US will surpass Spain (19,127 MW), and become the second largest wind energy producing nation behind Germany (26,495 MW).
- Australia and Japan will lead steady growth in the OECD Pacific. Their installed capacities are forecast to be 2,717 MW and 3,109 MW respectively by 2010.
- Offshore installed wind power capacity is predicted to represent approximately 6 percent of global wind energy demand by 2010.

5.3 *Wind turbine supply*

There are approximately 20 manufacturers of wind turbines around the world. The major suppliers include Vestas (with 28 percent market share), GE Wind (17.7 percent), Enercon GmbH (13.2 percent), and Gamesa Eólica (12.9 percent). These four largest manufacturers accounted for approximately 7 percent of total recorded installations in 2005.

The average size of commercial wind turbines installed continued to increase during 2005. The average turbine size delivered in the market during 2005 was 1,282 kW, up from 1,248 kW in 2004. The Asian market tends to install smaller turbines, with an average size of 781 kW installed in India in 2005, while the Europeans prefer larger size turbines (average size installed in the UK grew to 2,172 kW).

5.4 *US wind energy industry*

Wind power in the US has expanded steadily over the last decade to have a presence in 30 of the 50 states. Total capacity of US wind farms increased by more than 300 percent between 1998 and 2004. After achieving an annual wind energy installation record in 2005, the US installed wind energy capacity at December 2005 totalled 9,181 MW, making it the third largest wind energy market in the world. The AWEA predicts that nearly 25 billion kWh of electricity will be generated by wind energy in the US in 2006, enough for the equivalent of 2.3 million average American households.

Production Tax Credits

The absence of a stable national policy on wind power is still a major constraint on the US industry. The federal PTC program was introduced in 1992 to help "level the playing field" with other energy sources. The US federal government currently pays renewable energy generators a

PTC of 1.9 cents per kWh (indexed to inflation) for the first ten years of production, which can be used by energy producers to reduce the amount of tax payable.

The PTC legislation was allowed to expire at the end of 2003, resulting in significant disruptions to new and existing projects and a major decline in the market during 2004. The legislation has been allowed to expire three times over the last six years. The program was extended again in September 2004 to the end of 2005, which was the third time in four years, and the eligibility requirements were broadened to include solar, geothermal, and biomass electricity generation as well as the existing wind power. Under existing legislation, PTCs are available to projects that achieve commercial operation before the end of 2008.

Various state-based renewable energy targets and incentive schemes also exist across the US to assist in supporting the wind energy industry, including local renewable equipment purchase and other tax credits, production payments, property tax relief/abatements, and sales tax exemptions.

Additionally, high gas prices during 2005 and the enhanced risk of energy supply problems highlighted by tropical storms in the south of the country have raised awareness regarding the importance of alternative domestic energy sources.

Other characteristics

Industry commentators have predicted a boom in construction activity in the US in 2006 and 2007, with over 3,000 MW of new capacity installed each year, following the extension of the PTC program to 2008. The AWEA further believes that if installed wind power capacity were to consistently expand at a steady rate, then at least 6 percent of America's electricity could be generated by wind power by 2020.

The major players in the American wind energy market include Florida Power and Light, PacifiCorp, Babcock & Brown, and AES.

Availability of wind turbines is currently a significant barrier to entry, particularly in the US market. Turbine manufacturers are stretched to capacity in an attempt to meet worldwide demand. Access to mature projects is also difficult in the current US environment. There is no shortage of high quality sites for wind farms in the US, however transmission (the capacity to get the electricity from a wind farm site to the areas of consumption need) is a challenging factor. These restrictions are contributing to the increasing competition for wind farms in the US.

6 Profile of BBW

6.1 General overview

Global Wind Partners was established in June 2003 as a single asset private investment vehicle. The company was converted from a private company into a listed public company to form part of the stapled entity ‘Babcock and Brown Wind Partners’ (BBW) which was listed on the ASX on 28 October 2005 as a fund with a portfolio of wind energy assets. At the time of the Initial Public Offer (IPO), BBW’s portfolio consisted of four wind farms with an installed capacity of 147 MW. By July 2006, the portfolio had increased to 19 operational wind farms, with an installed capacity of 468 MW. The table below provides a timeline of BBW’s history of operations.

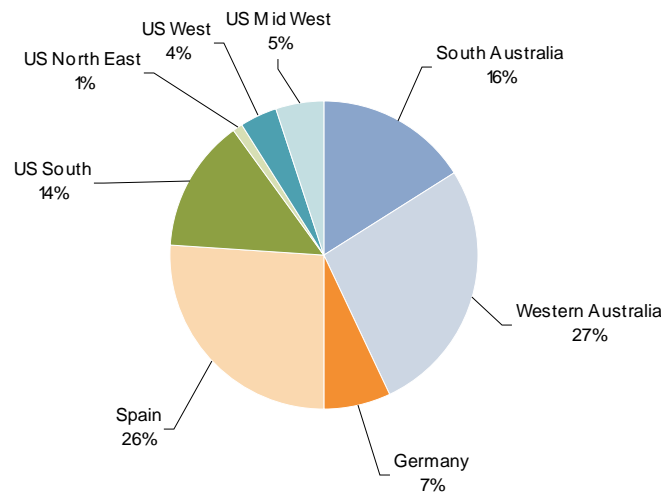
Table 3: History of BBW’s operations

Date	Event
Jun-03	Company established as Global Wind Partners
Oct-05	Listed on the ASX, with an application price of A\$1.40 per Stapled Security, and an initial market capitalisation of approximately A\$692 million
Dec-05	Completed the acquisition of economic interests in Sweetwater 1 and 2, Caprock, Blue Canyon and Combine Hills wind farms in the US. Aggregate installed capacity of 324.5 MW
Feb-06	Completed the acquisition of Eifel wind farm in Germany, which consisted of four sites and total expected capacity of 35 MW and long-term capacity of 69.7 GWh per year
Mar-06	Announced the acquisition of three wind farms near Fruges in northern France, with a combined capacity of 22 MW
Mar-06	Entered into a Framework Agreement in Germany with Plambeck Neue Energien AG, to purchase a portfolio of wind farms with an estimated capacity of 300 MW, due to be installed between 2006 and 2009
May-06	Completed a global capital raising of A\$118.6m, at a price of A\$1.60 per Stapled Security, to fund certain Class B membership interests in a number of US wind farms
Jun-06	Finalised agreement to commence construction of the Lake Bonney 2 wind farm, a 159 MW project located in South Australia, beside BBW’s Lake Bonney 1 wind farm. Expected to be completed by mid 2008
Jun-06	Acquired 100% of Class B membership interests in Crescent Ridge wind farm in the US for US\$50.0 million, with total installed capacity of 54.4 MW. Crescent Ridge sells its electricity directly into the PJM grid which services 13 states
Jul-06	Acquired Class B membership interests in Kumeyaay wind farm (100%), and Sweetwater 3 (50%) in the US for US\$72.0 million, these wind farms have an installed capacity of 50 MW and 135 MW respectively
Dec-06	Acquired Bear Creek and Jersey Atlantic wind farms in the US for US\$17.0 million, with total installed capacity of 26 MW and 7.5 MW respectively.
Dec 06	Announced the acquisition of the Fruges II wind farms in France, with a combined capacity of 30 MW.
Jan 07	Announced the acquisition of the Kaarst wind farm in Germany, with a combined capacity of 10 MW.

Source: BBW

BBW's portfolio of wind farms is diversified by geography, currency, equipment, supplier, customer, and regulatory regime. BBW's wind farms are located across three continents, four countries, and eight wind regions. The figure below shows the forecast proportionate interest energy generation for each of the geographic locations of BBW wind farms.

Figure 1: BBW's wind farm locations as at 30 June 2006



Source: BBW

In addition to the existing operational wind farms, BBW also has approximately 181 MW under construction in Australia and France, and has secured over 800 MW under Framework Agreements throughout the US, Spain and Germany, which are a key component of BBW's medium term growth strategy.

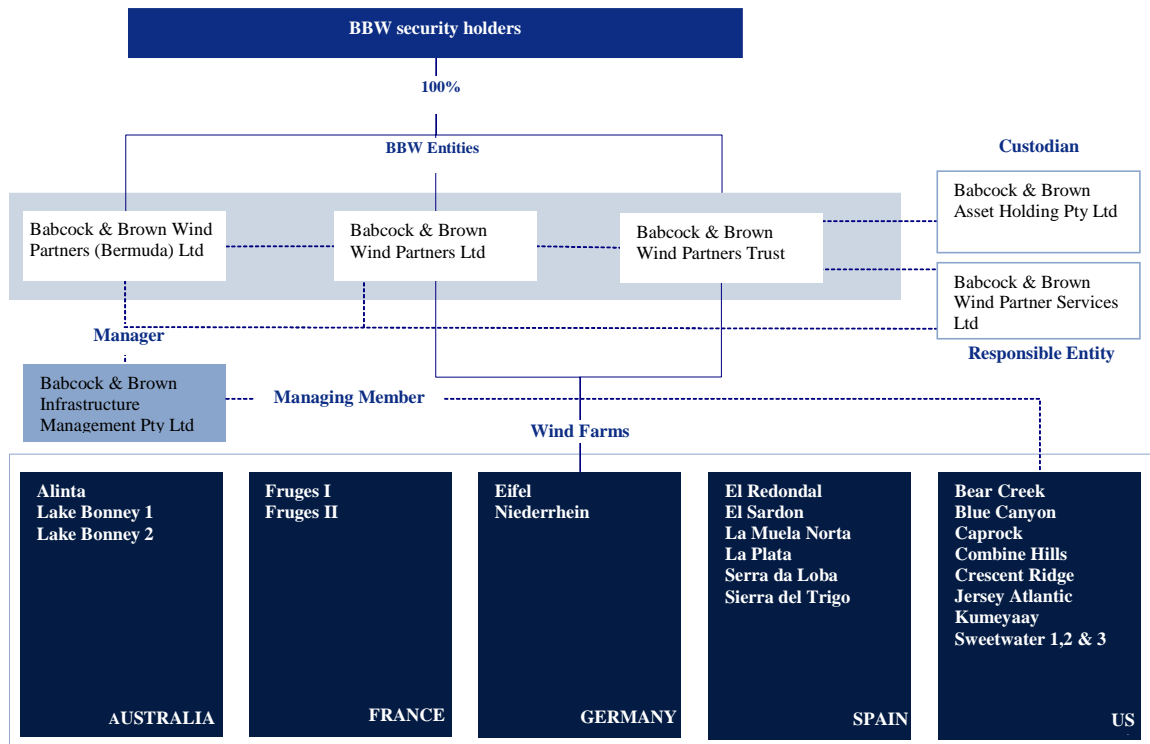
6.2 Structure of BBW

BBW is a stapled security listed on the ASX. Each stapled security comprises:

- one share of Babcock & Brown Wind Partners Limited (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), a subsidiary of BNB
- one share of Babcock & Brown Wind Partners (Bermuda) Limited (BBWPB).

BBW's organisational structure is summarised in the figure below:

Figure 2: BBW's organisational structure as at 31 December 2006



Source: BBW

Note: The figure above excludes the Kaarst wind farm in Germany which BBW announced it had agreed to purchase on 15 January 2007.

6.3 Profile of BBW's existing wind farm portfolio

BBW owns and operates wind farms in US, Germany, Spain, and Australia. BBW also has a 100 percent interest in wind farms under construction in Australia and France. Provided below is a brief description of BBW's wind energy assets in each of these five countries.

Australia

BBW's operational wind farm portfolio in Australia consists of Lake Bonney 1 wind farm in South Australia, and the Alinta wind farm in Western Australia, which have installed capacities of 80.5 MW and 89.1 MW respectively. BBW has commenced construction of a third wind farm named 'Lake Bonney 2' adjacent to Lake Bonney 1. Lake Bonney 2 is expected to have an installed capacity of approximately 159 MW. BBW has long-term Power Purchase Agreements

(PPA) in place for electricity generated by the operational wind farms. BBW's wind farm assets in Australia are summarised in the table below:

Table 4: BBW's Australian wind farms

Wind Farm	Location	Status (Acquisition Date)	Installed Operational Capacity (MW)	No. of Turbines
Alinta	Western Australia	Operational (Aug 2004)	89.1	54
Lake Bonney 1	South Australia	Operational (Jun 2003)	80.5	46
Lake Bonney 2	South Australia	Under construction (Sep 2005)	n/a ¹	n/a
Total			160.6	100

Source: BBW

Note: 1. Lake Bonney 2 will have a capacity of 159.0 MW once completed.

Energy production from the Australian wind farm portfolio for the year ended 30 June 2006 exceeded the original IPO forecasts by 3.7 percent, even though the Alinta wind farm continued to operate in the pre-commissioning phase. Revenue for the period totalled A\$35.9 million, and the contribution to EBITDA totalled A\$30.0 million, which represented 48.6 percent of BBW's total EBITDA.

The Australian wind energy industry is still in the early stages of development in comparison to European and US markets. At the end of 2005, Australia had an installed wind energy capacity of just 717 MW, produced by 41 operational wind farms. Although the wind energy resource in Australia is regarded as very good, the industry has received limited support from legislation encouraging renewable energy production. Unlike Germany and Spain, Australia's Federal Government has not ratified the Kyoto Protocol. In 2001, the Australian Federal Government set the Mandatory Renewable Energy Target (MRET) to increase by 9,500 GWh per annum by 2010, then to maintain that level of renewable energy until 2020. The goal of the MRET was to encourage large energy users and wholesalers to purchase a portion of their energy requirements from renewable sources. The scheme is now fully subscribed. Industry commentators warn that without an extension of the target, the future development of wind energy in Australia is uncertain.

Recently, a number of state governments have introduced renewable energy targets. The New South Wales (NSW) state government has introduced a renewable energy target of 10 percent of NSW end user consumption by 2010 and 15 percent by 2020. The scheme will continue to operate until 2030 to ensure an appropriate pay back period. Currently 6.1 percent of NSW electricity is from renewable generation.

In September 2006, the Victoria Government introduced a legislated 10 percent renewable energy target by 2016, up from the current level of around 4 per cent. In the three weeks that followed the introduction of Victoria's legislation over A\$1 billion worth of new renewable energy projects were announced.

The South Australian (SA) government currently has draft legislation which is looking to have 20 percent of the state's based electricity from renewable energy by 2014, though the mechanism is unclear. SA already generates 11 percent of electricity from wind power.

Given that the existing federal MRET scheme is largely subscribed, the introduction of state based schemes to increase the use of renewables is important. The proposed alignment of the NSW state based scheme and the Victorian scheme is believed to be a precursor to a potential national state based renewable energy target.

US

BBW currently has interests in eight wind farms in the US located in four different wind regions, with a total installed capacity of 595.3 MW. The wind farms are located in Texas, Oklahoma, New Mexico, California, Oregon, Illinois, Pennsylvania, and New Jersey. The Sweetwater group of wind farms in Texas is one of the largest combined wind farms in the world. All the US wind farms are located in favourable locations in terms of wind energy, proximity to energy networks, and regulatory support. BBW's existing wind farm assets in the US are summarised in the table below:

Table 5: BBW's US wind farms

Wind Farm	Location	BBW's % ownership of Class B Member units	Status (Acquisition Date)	Installed Operational Capacity (MW)	No. of Turbines
US 03/04					
Sweetwater 1	Texas	50%	Operational (Dec 2005 and Jun 2006)	37.5	25
Sweetwater 2	Texas	50%	Operational (Dec 2005 and Jun 2006)	91.5	61
Caprock	New Mexico	80%	Operational (Dec 2005 and Jun 2006)	80.0	80
Blue Canyon	Oklahoma	50%	Operational (Dec 2005 and Jun 2006)	74.3	45
Combine Hills	Oregon	50%	Operational (Dec 2005 and Jun 2006)	41.0	41
Crescent Ridge	Illinois	75%	Operational (Jun 2006)	54.5	33
US 05					
Sweetwater 3	Texas	50%	Operational (Jul 2006)	135.0	90
Kumeyaay	California	100%	Operational (Jul 2006)	50.0	25
Bear Creek	Pennsylvania	59%	Operational (Mar 2006 and Dec 2006)	24.0	12
Jersey Atlantic	New Jersey	59%	Operational (Mar 2006 and Dec 2006)	7.5	5
Total				595.3	417

Source: BBW

During the 2005/06 financial year, the US portfolio generated a total cash distribution of A\$7.1 million, which represented 3.4 percent of BBW's EBITDA. This result was below the IPO forecast of 4.4 percent of EBITDA contribution, primarily due to delays in the acquisition of the US 03/04 portfolio.

Germany

BBW's wind energy assets in Germany are represented by the Niederrhein and Eifel wind farms. The Niederrhein wind farms include two groups of turbines located approximately 50km apart, and have an installed capacity of approximately 19.5 MW. The Eifel wind farm includes four groups of turbines with a current capacity of 27 MW. BBW is currently expanding the capacity of Eifel by a further 8 MW. BBW's existing wind farm assets in Germany are summarised in the table below:

Table 6: BBW's German wind farms

Wind Farm	Location	Status (Acquisition Date)	Installed Operational Capacity (MW)	No. of Turbines
Niederrhein				
Wachtendonk	North Rhine-Westphalia	Operational (Mar 2005)	12.0	8
Bocholt Liedern	North Rhine-Westphalia	Operational (Mar 2005)	7.5	5
Eifel	Rhineland Palatinate	Operational (Feb 2005)	27.0	18
Total			46.5	31

Source: BBW

We note that BBW announced the acquisition of the Kaarst wind farm in Germany on 15 January 2007, which has an installed capacity of 10 MW.

BBW also entered into a Framework Agreement with Plambeck Neue Energien AG during the year ended 30 June 2006 to acquire up to approximately 300 MW of wind farms in Germany over the next three years.

The German wind farm portfolio generated A\$4.7 million in revenue for the year ended 30 June 2006, and contributed A\$3.8 million or 6.1 percent of EBITDA. Although delays were experienced with the completion of the Niederrhein wind farms, the German portfolio's contribution in the year ended 30 June 2006 exceeded the IPO forecast due to the contribution from Eifel, which was not included in the original IPO forecasts.

The wind energy market in Germany is highly developed and mature. At the end of December 2005, Germany's wind generated electricity capacity totalled 18,445 MW, which represented 31 percent of the global capacity and 45 percent of the European Union's cumulative capacity, making it by far the world's largest wind energy market.

Germany's wind production constitutes more than 7 percent of national electricity consumption. The wind energy market receives regulatory support on various levels, including long-term federal legislation, commitment to the Kyoto Protocol, and an attractive Government lending program. An amendment to the Renewable Energy Sources Act (EEG) was passed in 2004 which ensured wind farms will be paid a fixed tariff for electricity produced for a period of 20 years (plus the year of commissioning).

Spain

In December 2004, BBW acquired a portfolio of six separate wind farms from Gamesa, one of the world's largest manufacturers and suppliers of wind turbines. The wind farms, collectively known as the 'Olivo Portfolio', are located in five different provinces across Spain. All six wind farms are operational and have a total installed capacity of 158.4 MW. BBW's existing wind farm assets in Spain are summarised in the table below:

Table 7: BBW's Spanish wind farms

Wind Farm	Location	Status (Acquisition Date)	Installed Operational Capacity (MW)	No. of Turbines
Olivo Portfolio				
Sierra del Trigo	Andalucia	Operational (Dec 2004)	15.2	23
La Muela Norte	Aragon	Operational (Dec 2004)	29.8	35
El Redondal	Castille & Leon	Operational (Oct 2005)	30.6	36
Serra de Loba	Galicia	Operational (Mar 2006)	36.0	18
La Plata	Castille-La Mancha	Operational (Jun 2005)	21.3	25
El Sardon	Andalucia	Operational (May 2006)	25.5	30
Total			158.4	167

Source: BBW

The Spanish wind farm portfolio generated A\$32.4 million in revenue and contributed 41.9 percent to BBW's EBITDA during the year ended 30 June 2006, making it the second largest portfolio in terms of EBITDA contribution behind Australia. This result was significantly less than the original IPO forecast of 50.6 percent EBITDA contribution, primarily due to delays in the acquisition of three Olivo wind farms and low wind speeds for May and June 2006.

By the end of 2005, Spain had an installed wind energy capacity of 10,027 MW, making it the second largest wind energy market in the world. An extensive collection of suitable sites for wind farms, a favourable regulatory environment, and increasing domestic demand for energy have been major factors supporting the development of Spain's wind energy market, making it the leading source of renewable power in Spain. Although the market has been constrained by access to grid connections and slow administrative procedures, corrective action has been taken to remove these obstacles.

The wind energy industry is supported by a well developed legal framework which encourages investment in renewable energies. The Spanish regulatory regime allows wind generators to choose each year between a regulated fixed tariff which is benchmarked to between 80 to 90 percent of the average reference price for end users of electricity in Spain, or a market option which is set at a legislated premium plus bonus to the (variable) electricity pool price. Presently, draft changes to the legislation are being reviewed by the National Energy Commission. The Energy Secretary has indicated changes should be finalised by late January or early February 2007.

France

BBW purchased a 100 percent interest in three wind farms near Fruges in France (Fruges I) during 2006. The wind farms are still under construction, and not expected to be operational until the second half of 2007. On completion, the wind farms will consist of 11 turbines with a total installed capacity of 22 MW.

On 11 December 2006, BBW announced its acquisition of Fruges II which consists of additional wind farms in the region that are also currently under construction. Fruges II is expected to be fully operational in the first half of 2008. On completion, Fruges II will consist of 15 turbines with a total installed capacity of 30MW.

France's installed wind energy capacity was 775 MW at December 2005, marginally higher than Australia's. The wind energy industry in France developed strongly in 2005, partially in response to the removal of the upper limit restriction of 12 MW for each project constructed, and the increase of the national target from 5,000 MW to 10,000 MW by 2010. Furthermore, France is committed to the EU Renewables Directive which is a major driver for development of renewable technologies. Unfortunately, development is currently being constrained by administrative processes and access to the grid in some areas.

6.4 *Financial overview*

Income statement

BBW's audited consolidated income statement for the years ended 30 June 2005 and 2006 are summarised below.

Table 8: BBW's historical consolidated income statement

Year ended 30 June A\$'000	Notes	2005 Actual Audited AIFRS	2006 Actual Audited AIFRS
Revenue			
Sale of energy and products		16,607	67,750
Other income	1	1,197	9,711
Total revenue		17,804	77,461
Expenses			
Operating expenses		(5,760)	(16,264)
Management expenses	2	-	(44,379)
EBITDA	3	12,044	16,818
Depreciation and amortisation	4	(5,970)	(20,061)
EBIT	5	6,074	(3,243)
Net interest	6	(2,064)	(11,233)
Other expenses	7	(216)	(3,882)
Share of net profits from investments accounted for using the equity method		-	2,074
Profit before tax		3,794	(16,284)
Income tax benefit/(expense)		(1,120)	49
Net profit/(loss) after tax		2,674	(16,235)
<i>Revenue from operations growth %</i>			308.0
<i>Gross margin %</i>		65.3	76.0
<i>Gross margin growth %</i>			16.4
<i>EBITDA margin %</i>		67.7	21.7
<i>EBITDA growth %</i>			39.6
<i>EBIT margin %</i>		34.1	(4.2%)

Source: BBW's audited financial statements for the two years ended 30 June 2006

Notes:

- 1. Includes compensation for loss of revenue, fair value gains on financial instruments, and foreign exchange gains*
- 2. Includes base fees and incentive fees*
- 3. Earnings before interest, taxation, depreciation and amortisation*
- 4. Includes depreciation of property plant and equipment, amortisation of intangible assets*
- 5. Earnings before interest and taxation*
- 6. Includes interest revenue and finance costs*
- 7. Includes fair value losses on financial instruments, and other finance charges*

In relation to the historic income statement for the year ended 30 June 2006 outlined above, we note that:

- During the financial year the company added 15 wind farms to its existing portfolio of four. This enabled BBW to increase sales revenue by approximately 308 percent.
- Management fees during the year ended 30 June 2006 totalled A\$44.4 million. The management fee included base fees of A\$11.2 million and an incentive fee of A\$33.2 million. The incentive fee was calculated as 20 percent of the amount of the excess percentage return of BBW's stapled securities over the S&P/ASX 200 Accumulation Index for the half year ending 31 December 2005.
- The management fees constrained EBITDA growth to approximately 40 percent, and EBITDA margin reduced to approximately 22 percent. This was a large factor in the company's loss for the year of approximately A\$16.3 million.

We note that at management's request, we have not disclosed any forecast financial information in relation to BBW in this report due to the commercially sensitive and confidential nature of such information.

Balance sheet

BBW's audited consolidated balance sheet as at 30 June 2005 and 30 June 2006 are summarised below:

Table 9: BBW's historical consolidated balance sheet

Year ended 30 June A\$'000	Notes	2005 Audited AIFRS	2006 Audited AIFRS
Assets			
Cash and cash equivalents		110,114	311,195
Receivables			
trade		18,864	14,709
other	1	100	5,646
Prepayments		31,622	28,017
Investments accounted for using the equity method		-	176,049
Other financial assets	2	-	13,039
Property, plant and equipment		378,201	664,882
Deferred tax asset		4,292	10,631
Intangibles	3	25,549	162,656
Other assets	4	12,409	26,211
Total assets		581,151	1,413,035
Liabilities			
Payables		28,996	56,897
Borrowings		374,104	671,367
Tax liabilities		6,895	15,124
Derivative financial instruments		-	3,628
Total liabilities		409,995	747,016
Net assets		171,156	666,019
Equity			
Contributed equity		164,888	706,134
Reserves		(4,553)	(35,503)
Retained earnings		2,316	(13,919)
Other minority interests		8,505	9,307
Total equity		171,156	666,019
Number of shares on issue at year end		n/a	575,302
Net asset backing per security (A\$)		n/a	1.16

Source: BBW's audited financial statements for the two years ended 30 June 2006

Notes:

1. Includes compensation for loss of revenue, interest receivable, and other receivables
2. Includes derivative financial instruments
3. Includes goodwill and intangible assets related to acquisitions
4. Includes goods and services tax and other tax receivables, and other assets

In relation to the historic balance sheet as at 30 June 2006 outlined above, we note that:

- Cash increased from 30 June 2005 to 30 June 2006 largely due to the initial public offer in October 2005 and a further capital raising of approximately A\$118.6 million in May 2006.
- Property, plant and equipment increased 76 percent, and borrowings increased 79 percent primarily due to the acquisition of an additional 15 wind farms during the year.
- Derivative financial instruments includes interest rate swaps and foreign currency forward contracts.
- Intangibles includes A\$16.5 million of goodwill, and A\$146.2 million of other intangible assets (framework agreements and project-related agreements and licences).
- Net assets increased substantially during the year to 30 June 2006 largely as a result of numerous acquisitions which are summarised in Table 3.

6.5 *Capital structure*

Issued capital

As at 31 December 2006, BBW had approximately 580.1 million fully paid ordinary securities outstanding.

Registered security holders

BBW's top ten security holders as at 31 December 2006 are set out below:

Table 10: BBW top 10 security holders as at 31 December 2006

Investor	Securities owned	% Issued capital owned
ANZ Nominees Limited	122,413,099	21.1
HSBC Custody Nominees (Australia) Limited GSCO ECA	57,804,600	10.0
Westpac Custodian Nominees Limited	45,540,631	7.9
Citicorp Nominees Pty Limited	41,431,077	7.1
National Nominees Limited	34,824,252	6.0
UBS Wealth Management Australia Nominees Pty Ltd	30,301,270	5.2
JP Morgan Nominees Australia Limited	20,285,499	3.5
Brispot Nominees Pty Ltd (House Head Nominee No. 1 A/C)	11,298,679	2.0
BT (Queensland) Pty Limited c/o Margin Lending	6,016,125	1.0
NPP Projects II LLC	5,706,427	1.0
Total for top 10 security holders	375,621,659	64.8
Other security holders	204,474,475	35.2
Total	580,096,134	100.0

Source: BBW

The concentration of securities held in BBW as at 31 December 2006 is set out in the table below:

Table 11: Concentration of security holdings in BBW as at 31 December 2006

Securities held	Number of security holders	Number of securities held
1-1000	359	229,558
1,001-5,000	1,442	4,668,050
5,001-10,000	1,062	8,345,052
10,001-100,000	1,172	31,353,559
100,001-and over	215	535,499,915
Total	4,250	580,096,134

Source: BBW

Substantial security holders

We list below those substantial security holders who have notified BBW in accordance with section 671B of the Corporations Act 2001:

Table 12: BBW substantial security holders as at 31 December 2006

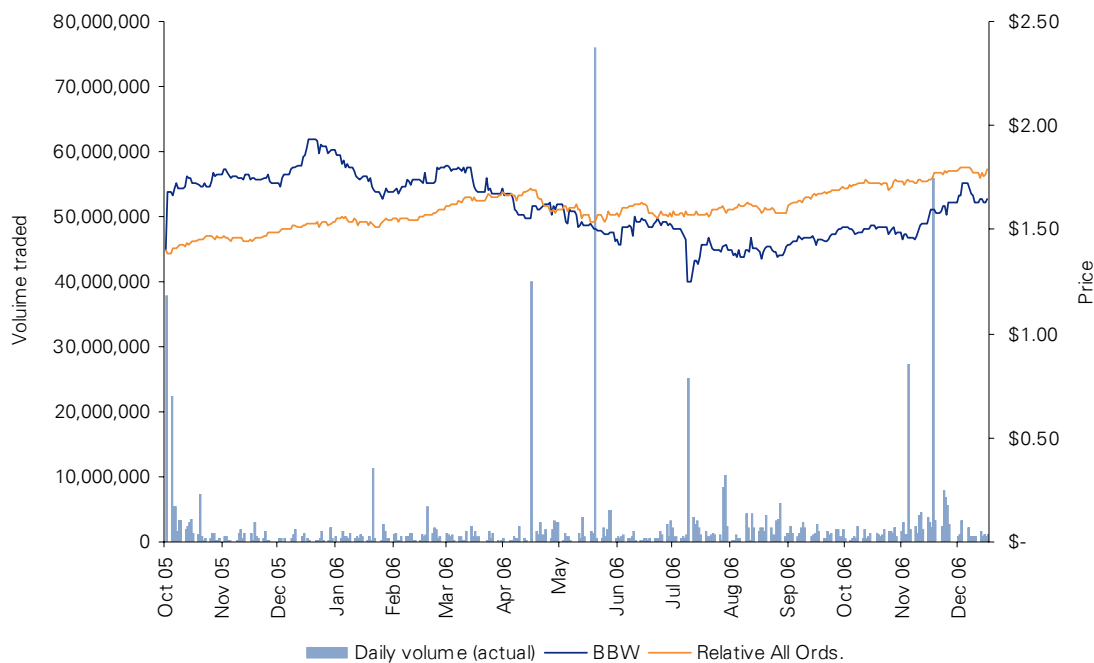
Security holder	BBW stapled securities held (number)	BBW stapled securities held (%)
Babcock & Brown Group	81,161,803	14.0
National Power Partners Group	35,408,759	6.2
Gandhara Master Fund Limited and Associates	33,068,800	5.7
Total	149,639,362	25.9

Source: BBW

6.6 Security price analysis

The figure below depicts BBW's daily closing security price on the ASX since the stock was listed on 28 October 2005, along with the daily volume of securities traded. We have also shown BBW's relative security price performance against the All Ordinaries Index for the same period.

Figure 3: BBW security price



Source: Bloomberg

In relation to the figure above we note:

- BBW's security price surged 20 percent in their trading debut on the ASX on 28 October 2005 after the company raised A\$396 million in an initial public offering to fund expansion. After listing at A\$1.40, the securities rose to A\$1.70 before closing on the first day of trading at A\$1.68, with 37.9 million securities having traded.
- The maximum security price reached over the period of analysis occurred from 12 to 17 January 2006 at a price of A\$1.93. The peak reached on 12 January appears to coincide with the company announcement on 11 January 2006 of the BBW incentive fee for the period to 31 December 2005. The incentive fee is calculated half yearly as 20 percent of the amount, if any, of the excess return of BBW stapled securities over the S&P/ASX 200 Accumulation

Index. An incentive fee of A\$33.2 million was paid to Babcock & Brown Investment Management (BBIM) for the period to 31 December 2005.

- Daily trading volume for the period 28 October 2005 to 12 January 2007 reached a peak on 15 June 2006 as a result of BBW issuing 74.1 million stapled securities at a price of A\$1.60 per stapled security to raise approximately A\$118.6 million.
- The lowest security price during the period of analysis occurred on 4 August 2006 at a price of A\$1.20, 14 percent below BBW's debut price of A\$1.40 on October 28 2005. The low price appeared to coincide with the announcement on 3 August 2006 that BBW would miss its profit forecast made in its initial public offering by approximately A\$10.7 million, or 17 percent. The company said poor wind conditions in May and June, and delayed acquisitions of three wind farms resulted in lower than anticipated revenues.
- BBW's total security holder return, defined as a combination of distributions and security price appreciation over its first 12 months of listing, was 14.6 percent.
- BBW outperformed the All Ordinaries Index consistently up until late April 2006. However, since late April, BBW's performance has been consistently lower than the All Ordinaries Index.
- BBW's closing price on 12 January 2007 was A\$1.65.

Volume Weighted Average Price (VWAP) and liquidity analysis

An analysis of the trading volume in BBW securities for the 12 month period to 12 January 2007 is set out below.

Table 13: BBW's VWAP and liquidity analysis

Period	Closing Price (high) A\$	Closing Price (low) A\$	VWAP	Cumulative volume of securities traded during period	As a % of average number of issued securities
1 week	\$1.65	\$1.63	\$1.64	5,080,861	0.9%
1 month	\$1.72	\$1.58	\$1.61	99,036,358	17.1%
3 months	\$1.72	\$1.45	\$1.55	192,503,612	33.2%
6 months	\$1.72	\$1.25	\$1.48	344,325,540	59.6%
12 months	\$1.93	\$1.25	\$1.53	594,778,581	109.6%

Source: ASX Announcements and Bloomberg as at 12 January 2007.

The above analysis indicates that the market for BBW's securities has been highly liquid over the 12 months prior to 12 January 2007, with turnover of approximately 109.6 percent of BBW's average issued capital.

7 Profile of the 06 US Wind Portfolio

7.1 General

The 06 US Wind Portfolio comprises the following six wind farms:

- Aragonne
- Buena Vista
- Allegheny Ridge Phase I
- Mendota
- GSG
- Allegheny Ridge Phase II.

The wind farms have a mix of geographic locations, a range of off-take agreements with different contract terms and multiple turbine vendors. We set out below the key characteristics of each of the wind farm projects.

Table 14: Key characteristics

Characteristic	Aragonne	Buena Vista	Allegheny I	Mendota	GSG	Allegheny II
Location	New Mexico	California	Pennsylvania	Illinois	Illinois	Pennsylvania
Size	90 MW	38 MW	80 MW	52 MW	80 MW	70 MW
Turbine capacity	1 MW	1 MW	2 MW	850 kW	2 MW	2 MW
Turbine manufacturer	Mitsubishi	Mitsubishi	Gamesa	Gamesa	Gamesa	Gamesa
Turbine warranty	5 years	5 years	2 years	3 years	2 years	2 years

Source: BBW

The wind resource for each site was evaluated by independent engineers (Garrad Hassan in respect of Buena Vista and R. Simon-Windots in respect of each of the other five wind farm projects) based on wind data collected on the sites together with long-term reference data and other resources available. The wind farms use turbine technology which has been successfully used in US and European wind farms, and therefore the technology risk is considered to be minimal.

Shortly after Aragonne commenced commercial operation, a problem with the electrical collection system caused the project to be put out of service temporarily. As at the date of this report, the wind farm is in service and an adjustment to the purchase price has been agreed under the Portfolio Purchase Agreement to compensate BBW for estimated loss of revenue which would have been earned had the project been in service continually.

7.2 **Key agreements**

Long-term off-take agreements

An off-take agreement is a contract between an energy producer (in this case, the respective wind farms) and a buyer of the energy output. Energy producers commonly have long-term off-take agreements in place to guarantee a buyer for all or a portion of their energy produced.

Each of the US wind farms has secured long-term off-take agreements for the sale of their energy output. We set out below the nature and key terms of these contracts in relation to each wind farm.

Table 15: Key terms – off-take agreements

Characteristic	Aragonne	Buena Vista	Allegheny I	Mendota	GSG	Allegheny II
Type of agreement	Power Purchase Agreement	Power Purchase Agreement	Power Purchase Agreement	Qualifying Facility	Qualifying Facility	Power Purchase Agreement
Counterparty	Arizona Public Service Co.	Pacific Gas and Electric Co.	First Energy	ComEd	ComEd	First Energy
Contract term	20 years	10 years	23 years	Ongoing	Ongoing	23 years
% of output contracted under agreement	100%	100%	100%	100%	100%	100%

Source: BBW

A PPA is the most common form of off-take agreement, and usually covers such items as the sale/purchase of contracted capacity and energy (including a specified energy price) over a fixed (usually long-term) period, a guaranteed purchaser (counterparty), operation of the wind farm, financing of the wind farm, guarantees of performance, penalties, and other terms and conditions. The PPAs for Aragonne, Buena Vista, Allegheny I and Allegheny II guarantee the sale of all energy produced at a fixed (but indexed) price, and therefore provide a relatively high level of certainty in relation to the forecast revenues of the wind farms.

The Qualifying Facility (QF) agreements in place at Mendota and GSG operate in a similar way to a traditional PPA by guarantying a purchaser for the output from the wind farms. However, the price at which the energy is sold to the respective counterparties is pursuant to a Rider contract (effective from January 2007), which dictates that ComEd pay the wind farms the same price per MWh as the nearest nodal market price for power (i.e. the closest point on the Pennsylvania Jersey Maryland (PJM) grid in the north east of the US. This arrangement creates similar liquidity for Mendota and GSG that other PJM generating assets enjoy. In addition, the QFs have no specified expiry date, but continue in place as long as the wind farms qualify under the Illinois Commerce Commission (ICC) code, or at the election of the wind farms to discontinue. As with the PPAs, the QFs provide a high level of certainty in relation to selling the forecast production of the wind farms but provide no certainty in relation to the price achieved for that production.

By securing the off-take agreements outlined above, the US wind farms have created relative certainty over the majority of their revenue streams, thereby minimising revenue risk over the majority of their respective lives of operations.

Operating and maintenance agreements

We set out below the counterparties to the operating and maintenance agreements for each of the US wind farms.

Table 16: Key terms – turbine operating and maintenance agreements

Characteristic	Aragonne	Buena Vista	Allegheny I	Mendota	GSG	Allegheny II
Counterparty	Mitsubishi Power Systems Inc	Mitsubishi Power Systems Inc	Gamesa Wind USA LLC	Gamesa Wind USA LLC	Gamesa Wind USA LLC	Gamesa Wind USA LLC
Term	5 years	5 years	2 years	3 years	2 years	2 years
Guaranteed turbine availability	95%	95%	97% after year 1	95%	95.25% in year 1	97% after year 1
Power Curve Guarantee	At least 95% of a specified energy yield	At least 95% of a specified energy yield	At least 95% of a specified energy yield	At least 95% of a specified energy yield	At least 95% of a specified energy yield	At least 95% of a specified energy yield

Source: BBW

Leases of freehold land

We set out below details of the freehold land lease agreements for each of the US wind farms.

Table 17: Key terms - lease agreements

Characteristic	Aragonne	Buena Vista	Allegheny I	Mendota	GSG	Allegheny II
Lease term (with options)	30 years	30 years	30 years	40 years	50 years	50 years

Source: BBW

7.3 *Capital structure*

The 06 US Wind Portfolio assets will be owned by a combination of Class A members (institutional investors) and Class B members. The Proposed Transaction relates to the acquisition of Class B membership interests by BBW. In relation to the capital structure of the Portfolio, we note that:

- Class A members achieve their returns primarily through the allocation of tax benefits and from cash distributions.
- Class B members achieve their returns primarily through cash distributions.

The distribution profile of each of the Class A and B members is quite distinct, and can be divided into three time periods as follows:

Time period 1 (T1)

- The Class B members receive 100 percent of the cash distributions from the Portfolio until they receive the full amount of their initial capital investment.
- The Class A members will not receive any cash distributions during this period.
- The Class A members receive 100 percent of the tax benefits and tax detriments from the Portfolio. The Class B members will not receive any tax benefits or tax detriments during this period
- T1 runs until 31 December 2013.

Time period 2 (T2(A))

- The Class A members receive 100 percent of the cash distributions, tax benefits and tax detriments until the Reallocation Date has occurred. The Reallocation Date is defined as the date from which tax benefits and cash distributions are shared proportionately between Class A members and Class B members in accordance with their proportionate interests, as stipulated in the Limited Liability Company (LLC) Agreement.

- The Class B members receive no cash distributions, tax benefits or tax detriments until the Reallocation Date.
- T2 runs until 30 April 2017.

Time period 2 (T2(B))

- Class A and Class B members are allocated the same share of distributions as in T2(A), however the off-take agreement(s) of a particular wind farm(s) has expired and all of the revenues from the relevant wind farm(s) are earned in the open market.

Time period 3 (T3(A))

- Once the Reallocation Date has occurred, Class A members and Class B members are allocated a share of the total cash distributions, tax benefits and tax detriments as specified in the Limited Liability Company (LLC) Agreement between Class A and Class B members dated 29 December 2006.
- T3 runs until the end of the explicit forecast period on 31 December 2032.

Time period 3 (T3(B))

- Class A and Class B members are allocated the same share of distributions as in T3(A), however the off-take agreement(s) of a particular wind farm(s) has expired and all of the revenues from the relevant wind farm(s) are earned in the open market.

7.4 Financial overview

Historic performance

Five of the wind farms are either yet to or have only recently commenced commercial operations, and accordingly no meaningful historical data is available.

Mendota began operations in March 2003, however significant technological improvements have recently been undertaken. As a result of these enhancements, the wind farm is materially different from that operating previously and the anticipated energy production is greater than historic performance due to an increase in megawatt capacity and increased availability. Due to these significant changes we believe that historic performance for Mendota is not indicative of future performance and have therefore not included the historic financial performance of Mendota in this report.

8 Assessment of value of the 06 US Wind Portfolio

8.1 General

ASIC's Practice Note 43 "Valuation reports and profit forecasts" indicates that it is appropriate for an independent expert to consider the following valuation methods:

- the discounted cash flow method (DCF)
- the capitalisation of future maintainable earnings or cash flows (capitalisation of earnings)
- the amount that would be distributed to security holders on an orderly realisation of assets
- the amount which an alternative acquirer might be prepared to pay
- the most recent quoted price of listed securities.

A summary of each of these approaches is set out in Appendix 5 of this report. We have considered each of these approaches in preparing this report.

Each of the above methodologies is applicable in different circumstances. In selecting the appropriate methodology by which to value the 06 US Wind Portfolio, we have considered which of these methodologies a potential purchaser would most likely adopt as well as the specific circumstances relating to the Proposed Transaction.

8.2 Valuation methodology

We have been provided with a financial model by BBW containing detailed forecast cash flows for the Portfolio over the useful lives of the assets (the Model). Generally, electricity generation assets have finite lives, require capital expenditure which typically varies year to year, and have a range of cash flow inputs that make the forecasting of future cash flows a suitable basis on which to rely for valuation purposes.

In particular, the Portfolio has unique cash flow profiles applicable to Class A and Class B members during different periods.

In our experience, the most appropriate method for determining the value of assets similar to the 06 US Wind Portfolio is the DCF approach.

The DCF methodology has a strong theoretical basis, valuing a business or asset on the net present value (NPV) of its future cash flows. It requires an analysis of future cash flows, the capital structure and costs of capital. This technique is particularly appropriate for start up companies and companies with a limited asset life. Application of this technique generally requires a five-year minimum period of analysis. In addition, a sensitivity analysis for variations in key assumptions adopted should be considered.

In undertaking our assessment of value, we have relied upon the 06 US Wind Portfolio Model, but the following checks have also been undertaken:

- A high level review of the Model to understand the basic data flows and to identify the key data inputs and outputs.
- Project history where applicable, current operations and outlook for the wind farms were discussed with management.
- A model review report prepared by a Big 4 accounting firm, other than KPMG, was reviewed to ensure third party sign off on the mechanical accuracy of the financial models.

We note also that key assumptions (including wind measures, power output and off-take prices) used in the Model have been determined by third parties. We have considered these assumptions and relied upon them in our valuation.

8.3 *Disclosure of information*

As noted earlier, in undertaking our valuation of the 06 US Wind Portfolio, KPMG has had access to all financial information considered necessary. In this report we have limited the disclosure of information to that which is placed into the public domain by BBW. This approach has been adopted following a request by BBW and the commercially sensitive and confidential nature of certain operational and financial information supplied to us.

8.4 *Key parameters of the valuation*

Wind

Forecast electricity generation by each wind farm is based on independent wind studies that have been conducted by Garrad Hassan (in the case of Buena Vista) and R. Simon-Windots (in the case of the five other wind farms). The six wind farms in the Portfolio are spread over three distinct wind areas across the US, providing geographic diversification benefits that can be expected to result in less volatility and a greater chance of achieving forecast wind measures on a portfolio basis.

Electricity sales

All six wind farms have long-term off-take agreements in place in relation to 100 percent of generated electricity. Of these, four have fixed prices under PPAs (Aragonne, Buena Vista, Allegheny I and Allegheny II) while the output of the remaining two wind farms (Mendota and GSG) is based on applicable market rates under QF agreements (see Section 7.2 for further detail).

Operating margins

Five of the six wind farms have no operating history and the sixth, Mendota, has recently received significant technological enhancements which renders its historic operating performance irrelevant for forward-looking comparisons. Accordingly we cannot assess the reasonableness of forecast operating margins of the wind farms against historic performance. However, we note that forecast operating margins are consistent with those observed for other wind farms in the US within the existing BBW portfolio.

Maintenance expenditure

Forecast maintenance expenditure for each wind farm incorporated in the Model is consistent with various independent third party engineer reports, and incorporates life cycle rehabilitation requirements. Maintenance agreements are in place with the respective turbine suppliers which provides a high level of certainty with regard to forecast maintenance spend.

Residual value

Our valuation of the 06 US Wind Portfolio is based on the future cash flows expected to be received by the Class B members over the useful life of each of the wind farms (which may extend beyond the terms of the respective off-take agreements). In this regard, we have assumed that any remaining (residual) value at the end of each wind farm's useful life is offset by any demolition and site remediation costs.

Discount rate

In calculating our assessed valuation range for the Portfolio we have calculated a separate discount rate for each of the six wind farms. These discount rates have been weighted according to each wind farm's contribution to total cash distributions to Class B members in each month, and the blended discount rate has been applied to the Portfolio's Class B equity distributions. A detailed explanation of the discount rates used, and the calculation thereof, is set out in Appendix 6.

8.5 *Summary of assessed value*

In calculating our assessed value of the Class B membership interests in the 06 US Wind Portfolio, we have applied a range of discount rates to result in an assessed valuation range. Set out below is our assessed valuation range for the Class B membership interest in the 06 US Wind Portfolio.

Table 18: Assessed value of the Class B membership interest in the 06 US Wind Portfolio

US\$ millions	Low	High	Mid-point
Class B membership interest	369.3	394.4	381.9

8.6 Valuation cross checks

In assessing the reasonableness of our assessed value of the 06 US Wind Portfolio, we have undertaken a cross check to implied multiples of EBITDA.

Whilst we acknowledge that BBW is not proposing to acquire the 06 US Wind Portfolio in its entirety, a cross check in this regard can provide a level of confidence surrounding the total implied value of the Portfolio as negotiated between two independent arm's length parties (being the Class A and Class B members) in a commercial transaction.

In order to assess the total enterprise value (or business value, as opposed to equity value) of the 06 US Wind Portfolio, we have summed the proposed purchase price to be paid by BBW of US\$387.0 million with the proposed capital contribution to be made by the Class A members. Due to the staged timing of the acquisition, the first full year of EBITDA contribution is 2009. The implied EBITDA multiple for 2009 is approximately 10.0 times (including PTCs). In our opinion, this does not appear unreasonable given the following:

- The implied multiple is slightly below the mean and median of our selected comparable companies of 12.3 times and 11.4 times respectively, but within the observed range of 4.4 times to 22.2 times.
- The comparable companies are typically diversified in terms of owning and/or operating a portfolio of renewable energy assets, including development projects, in a range of geographical locations.

In addition, we note that the proposed purchase price is based on BBW achieving an agreed internal rate of return above its hurdle rate. In our view, the agreed internal rate of return does not appear unreasonable particularly in the context of the following:

- BBW will not bear any development risk in relation to the wind farms
- BBW is a long-term operator of wind farms
- Our experience in valuing assets of a similar nature, and having regard to internal rates of return on similar listed investments.

9 Evaluation of the Proposed Transaction

In our opinion, having considered the overall implications of the Proposed Transaction, the Proposed Transaction is fair and reasonable to the security holders of BBW (excluding BNB and its associates).

In forming our opinion, we have considered a variety of issues which will have implications for the future operations of BBW, the advantages and disadvantages likely to result from approval of the Proposed Transaction, as well as the consequences to the security holders of not approving the Proposed Transaction. We note that in reviewing a related party transaction of this nature, there are a number of key issues which we consider may most influence a security holder's decision to approve the Proposed Transaction, and our analysis has focused on these issues.

9.1 *The pricing of the of the Portfolio is at a fair price*

The proposed purchase price falls within our assessed valuation range

The proposed purchase price for the 06 US Wind Portfolio is US\$387.0 million, to be paid by BBW in various stages between March 2007 and December 2007 as set out in Section 3. The present value of these payments using BBW's agreed upon internal rate of return is US\$378.1 million.

As set out in Section 8, our assessed valuation range for the Class B membership interests in the 06 US Wind Portfolio is US\$369.3 million to US\$394.4 million. Both the proposed purchase price of US\$387.0 million (nominal) and the present value of the purchase price payments of US\$378.1 million fall within our assessed valuation range, and on this basis we consider the purchase price to be fair.

In addition, we note that the proposed purchase price is based on BBW achieving an agreed internal rate of return, which exceeds its current assessed long-term cost of capital. In our experience of valuing assets of a similar nature, and having regard to similar listed investments, the agreed internal rate of return does not appear unreasonable (discussed in further detail in Section 8.6).

As discussed in Section 3, a range of plus or minus 10.0 percent has been set around the purchase price, effectively setting a floor and a ceiling. This range allows for BBW to adjust the purchase price to maintain the agreed internal rate of return based on updated forecast cash flows of the Portfolio as each wind farm reaches commercial operation. In the event that forecast cash flows drop to a point whereby a price below the floor would need to be paid to maintain the internal rate of return, a lower than expected internal rate of return would arise. Equally, if forecast cash flows rise to a point whereby a price above the ceiling would need to be paid to maintain the internal rate of return, a higher than expected internal rate of return would arise. Management has advised that they regard the possibility of either of these cases occurring as unlikely. In our view, the inclusion of this adjustment mechanism in the Proposed

Transaction terms is reasonable from the perspective of BBW security holders in that it increases the probability of achieving the agreed internal rate of return.

9.2 Financial impact of the Proposed Transaction

The acquisition is expected to be immediately accretive to BBW's net operating cash flow

BBW management has advised that its intention is to make distributions to security holders from net operating cash flow (NOCF, defined as EBITDA plus US distributions less interest paid, corporate costs, tax paid, and movement in working capital, prior to growth related capital expenditure, acquisitions and debt principal repayments) after taking into account other investment capital flows such as debt amortisation, Distribution Reinvestment Plan participation and future funding requirements or investment opportunities of the business. Management's internal calculations suggest that the acquisition of each wind farm in the 06 US Wind Portfolio is expected to have an immediate positive impact on NOCF of BBW. While the impact in 2007 is expected to be immaterial due to only a part year contribution from the Portfolio (the six wind farms are expected to be progressively acquired between March 2007 and December 2007 – see Section 3 for more detail), the impact on NOCF in 2008 and 2009 (the first full year of contribution from the Portfolio) is expected to be materially accretive (approximately A\$28.0 million or 4.6 Australian cents per security full year contribution in 2009).

The acquisition is expected to support BBW's stated dividend forecasts

Based on the accretive impact of the acquisition on NOCF, BBW has advised that it remains committed to its reported dividend forecast for 2007 of 12.5 Australian cents per security. In addition, BBW expects distributions to security holders in 2008 of 14.0 Australian cents per security (a 12 percent increase from 2007 forecast). This 2008 distribution guidance assumes the same factors taken into account in providing the 2007 distribution guidance, the Proposed Transaction is approved by security holders, plans to refinance BBW's debt facilities during 2007 (see below) are successfully implemented, and the 06 US Wind Portfolio is acquired in line with the timing set out in the NOM.

Further, BBW has advised that it is committed to retaining its distribution growth rate target of at least 3.5 percent per annum in the medium term.

The acquisition is expected to be approximately earnings neutral in 2007 and accretive by 2008

Based on a review of management's calculations of the expected impact of the acquisition on net profit after tax, we note that the impact on BBW's earnings in 2007 is expected to be immaterial. However in 2008 and 2009 (the first full year of contribution from the Portfolio) it is expected to be materially accretive.

In relation to the expected earnings impact of the acquisition, we note that the investment in the 06 US Wind Portfolio will not be consolidated (for accounting purposes) by BBW until the Reallocation Date (see Section 7.3 for details), expected to be 1 May 2017, at which time BBW

obtains a controlling interest for accounting purposes. While BBW is not required to recognise any intangible assets (or related amortisation charges) in its accounts in relation to the Proposed Transaction until a controlling interest is obtained, such amortisation charges (and their negative impact on BBW's earnings) are likely to be incurred upon consolidation of the Portfolio at the Reallocation Date.

The acquisition will result in an increased level of gearing

As a result of the acquisition BBW will incur additional debt which will increase BBW's financial risk profile. BBW's net debt to enterprise value as at 30 June 2006 was approximately 31.0 percent. At the completion of the Proposed Transaction, management expects this to rise to approximately 56.0 percent on a pro-forma basis. This increased risk is mitigated to a certain extent through an active interest rate hedging policy. Whilst this level of gearing would be higher than the range observed in our selected comparable companies of 6.6 percent to 42.6 percent, and generally consistent with a broader set of energy utility and infrastructure companies, we also note that BBW is currently undertaking a capital management review and as a result, its debt facilities may be refinanced during 2007.

9.3 Strategic considerations for BBW regarding the Proposed Transaction

The Portfolio will increase BBW's geographic diversification

The 06 US Wind Portfolio includes wind farms located in New Mexico, California, Pennsylvania, and Illinois. In 2006, AWEA listed the top twenty states in the US for wind energy potential, as measured by annual energy potential in billions of kWhs, taking into consideration environmental and land use exclusions. The table below details the wind farms in the 06 US Wind Portfolio, and the AWEA rankings for the respective states.

Table 19: AWEA wind energy potential rankings for the 06 US Wind Portfolio

Wind Farm	Location	AWEA State Ranking
Aragonne	New Mexico	12
Buena Vista	California	17
Allegheny Ridge Phase I	Pennsylvania	n/a
Mendota	Illinois	16
GSG	Illinois	16
Allegheny Ridge Phase II	Pennsylvania	n/a

Source: BBW

As detailed in Section 6, BBW already owns operational wind farms in each of the US states listed above, as well as Oklahoma, Oregon, Texas and New Jersey. However, approximately 70 percent of BBW's existing portfolio is located in the southern US states of Texas, New Mexico, and Oklahoma. As shown in the table below, the acquisition of the 06 US Wind Portfolio will increase BBW's installed capacity in both the north east and west regions of the US, reducing the reliance upon favourable wind conditions in the southern states.

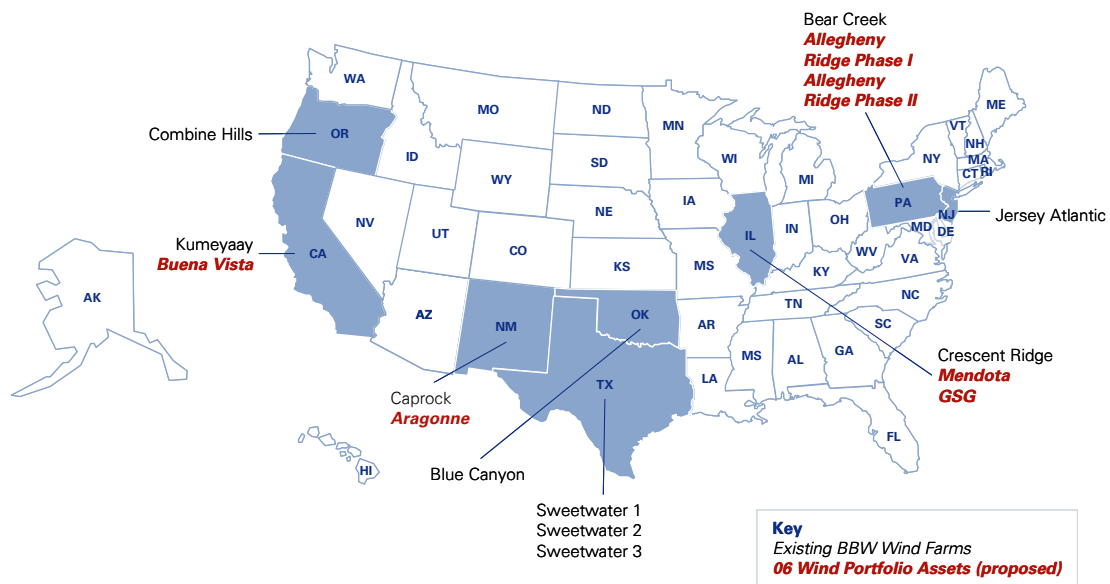
Table 20: BBW wind farm regions

Region	Existing Installed Capacity (MW)	%	06 US Wind Farm Capacities (MW)	Installed Capacity Post 06 US Wind Portfolio Acquisition (MW)	%
US South	418.3	70	90	508.3	51
US North East	31.5	5	150	181.5	18
US West	91.0	15	38	129.0	13
US Mid West	54.5	10	132	186.5	19
Total	595.3	100	410	1,005.3	100

Source: BBW

We set out below a figure highlighting the location of the existing and new wind farms.

Figure 4: BBW existing and new wind farm locations



The portfolio provides diversification across turbine manufacturers

The turbines for the 06 US Wind Portfolio are manufactured by Mitsubishi and Gamesa. Since 2003, both Mitsubishi and Gamesa have been consistently ranked amongst the five largest turbine manufacturers worldwide. Both companies manufacture turbines using technology which has been successfully implemented in US and European wind farms, and therefore the technology risk is considered low. In addition, other turbines used by BBW globally are sourced from various other manufacturers.

Increased scale provides greater purchasing power

The increase in scale that would result from acquiring the 06 US Wind Portfolio (increase of over 39 percent in BBW's total generating capacity (operational and under construction projects), and almost 90 percent of generating capacity in the US) is expected to provide BBW with greater flexibility and negotiating power in any potential wind farm acquisitions in the future.

Although availability of wind turbines is currently a significant constraint in the US market as demand for turbines currently exceeds supply, BBW management has advised the scale of the 06 US Wind Portfolio, along with BBW's existing portfolio, would also provide BBW with increased purchasing and negotiating power for future wind turbine procurement.

Acquisition of the 06 US Wind Portfolio may not include all wind farms

There is a risk that BBW may not acquire all of the six wind farms comprising the 06 US Wind Portfolio even if the Proposed Transaction is approved by BBW security holders. At each stage of the acquisition as each wind farm reaches commercial operation, certain conditions precedent relating to each wind farm (detailed in the NOM of which this report forms a part) must be satisfied in order for it to be acquired into the Portfolio. Where these conditions are not satisfied, BBW will not acquire the relevant wind farm, but also will not be obliged to pay the relevant proportion of the purchase price attributable to that wind farm.

We note that Allegheny I and Allegheny II are integrated operations that share land, facilities and interconnection to the electrical transmission grid. Accordingly, if Allegheny I is acquired into the Portfolio but Allegheny II is not (due to not satisfying the conditions precedent), then the vendor of Allegheny I has the right (but not the obligation) to reacquire Allegheny I from BBW at a price which restores BBW to the purchase price it would have paid for the 06 US Wind Portfolio excluding Allegheny I (taking into consideration any distributions already made by Allegheny I).

If BBW does not acquire all of the six wind farms comprising the 06 US Wind Portfolio, BBW will not fully realise the diversification and scale benefits described above.

BBW's view of future regulatory changes is positive

In February 2006, US President George W. Bush announced a target for the wind energy industry of 20 percent contribution to the nation's electricity supply by 2010. At a state level, 21 US states currently have created 'Renewable Portfolio Standards' (RPS) which ensure that a minimum amount of renewable energy is included in their portfolio of electricity resources.

The state of California, (where BBW already owns 50MW of installed capacity, and is proposing to acquire another 38MW in Buena Vista) boasts ambitious initiatives including

rebates and tax credits to promote renewable energy production. It has mirrored President Bush's target of generating 20 percent of its power from renewable sources by 2010.

AWEA believes President Bush's target is achievable, but argues a stable national policy, including a long-term extension of the Production Tax Credit (PTC) program beyond 2008 must be implemented to provide investor certainty. In 1999, 2001, and 2003 the PTC program was allowed to expire, resulting in dramatic reductions in the level of new installations of wind generation capacity during the respective subsequent years. Consequently, AWEA is campaigning strongly for the PTC program to be extended for a further ten years.

Increased awareness of global warming and environmental issues through high profile advocates such as former US Vice President Al Gore and economic reports that quantify the effects of environmental policy such as the Stern Report (released 30 October 2006) are likely to provide further drivers for positive regulatory change.

BBW management anticipates that future regulatory changes will continue to be positive for wind farm and alternative energy providers, reducing any risks of becoming uncompetitive or redundant.

Future cash flows are supported by the existence of long-term off-take agreements with investment grade counterparties

Each of the wind farms in the 06 US Wind Portfolio have secured long-term off-take agreements for 100 percent of their output, and thereby have created relative certainty over the majority of their revenue streams during their respective lives of operations. The PPA terms for Aragonne, Buena Vista, Allegheny I and Allegheny II range from 10 to 23 years, whereas the QF agreements for Mendota and GSG have no specified expiry date but continue whilst the wind farms qualify under the Illinois Commerce Commission Code, or at the election of the wind farm to discontinue. To reduce counter party risk, the off-take agreements in the Portfolio have been signed with four different counterparties (see Section 7.2).

The purchase price is denominated in US dollars

The proposed purchase price has been agreed in US dollars and accordingly BBW bears the risk of any adverse movement in the exchange rate. Equally, BBW will benefit from any positive change in the exchange rate.

BBW will hedge the US dollar distributions from the 06 US Wind Portfolio into Australian dollars in line with its hedging policy.

Implications of the Proposed Transaction not being approved

Should the Proposed Transaction not be approved by BBW security holders:

- The benefits of the Proposed Transaction outlined above would not be achieved.
- Management has advised that the cash that would otherwise have been spent on the acquisition would be available to pursue other investment options.
- Transaction costs of approximately US\$2.0 million would have been incurred.

9.4 *Conclusion in relation to the Proposed Transaction*

In our opinion, having regard to the matters discussed above, the Proposed Transaction is fair and reasonable to BBW security holders (excluding BNB and its associates).

Appendix 1 – Qualifications and declarations

Qualifications

KPMG is the holder of an Australian Financial Services Licence, No. 246901, under the Corporations Act 2001 and is controlled by the partners of KPMG, Chartered Accountants (the KPMG Partnership).

The KPMG Partnership is a long established firm of chartered accountants which provides a full range of professional services, including advising on valuations, acquisitions, take overs, restructuring proposals, reorganisations and related matters. The following persons, whose qualifications and experience are stated below, have been responsible for preparation of this report.

Gary Wingrove is a partner in the KPMG Partnership and is an Executive Director of KPMG. He holds a Bachelor of Commerce, is an Associate of the Institute of Chartered Accountants in Australia, and is a Fellow of the Financial Services Institute of Australasia. Gary is the national head of KPMG's valuation practice in Australia and he has 15 years experience in the preparation of valuations and expert reports on the valuation of shares and businesses and the provision of merger and acquisition advice.

Ian Jedlin is a partner in the KPMG Partnership and is an Executive Director of KPMG. He is an Associate of the Institute of Chartered Accountants in Australia, holds a Master of Commerce from the University of New South Wales, and is a Fellow of the Financial Services Institute of Australasia. Ian has had over 15 years experience in the preparation of independent reports on the valuation of shares and businesses. He is the head of KPMG's valuation team in Sydney.

Andrew Hilson is a Director of KPMG. He holds a Bachelor of Accounting and is a Member of the Institute of Chartered Accountants in Australia. Andrew has considerable experience in the preparation of valuations across a diverse range of industries, and in the preparation of expert reports.

Messrs Wingrove, Jedlin, and Hilson were assisted by other qualified staff from KPMG.

Declarations

The statements contained in this report are given in good faith and have been derived from information believed to be reliable and accurate. We have examined this information and have no reason to believe that any material factors have been withheld from us.

During the course of this engagement, KPMG provided draft copies of this report to BBW management for comment as to factual accuracy, as opposed to opinions, which are the responsibility of KPMG alone. Changes made to this report as a result of these reviews have not changed the opinions reached by KPMG.

Interests

KPMG is entitled to receive a fee in the order of A\$125,000 excluding GST, for the preparation of this report. Except for this fee, KPMG has not received and will not receive any pecuniary or other benefit whether direct or indirect for or in connection with the preparation of this report.

Employees of KPMG may hold securities in BBW, however, no individual involved in the preparation of this report, or review thereof, holds a direct interest in BBW.

Consent

KPMG consents to the issue of this report by BBW in the Explanatory Memorandum. Other than this report, neither KPMG nor the KPMG Partnership have been involved in the preparation of the Explanatory Memorandum. Accordingly, we take no responsibility for the content of the Explanatory Memorandum as a whole.

Except as noted above, neither the whole nor any part of this report nor any reference thereto may be included in or with or attached to any other document, circular, resolution, letter or statement without the prior written consent of KPMG as to the form and context in which it appears.

Responsibility

KPMG has prepared this report on the basis of information available as at the date of this report. Nothing in this report should be taken to imply that KPMG has verified any information supplied to us, or has in any way carried out an audit of the books of account or other records of BBW for the purposes of this report. We have considered and relied upon information provided by certain directors and senior management of BBW, which after due enquiry, we believe to be reliable, complete and not misleading. We have no reason to believe that any material facts have been withheld from us but do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this report are given in good faith, and in the belief that such statements and opinions are not false or misleading.

We note that any forecasts and projections as supplied to us are based upon assumptions about events and circumstances that have not yet transpired. Accordingly, KPMG cannot provide any assurance that the estimates will be representative of the results which will actually be achieved during the forecast period.

The opinion of KPMG is based on prevailing market, economic and other conditions at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon value either positively or negatively.



Indemnity

BBW has indemnified KPMG and its affiliated companies and their respective officers and employees, who may be involved in or in any way associated with this report, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services by KPMG and occasioned by reliance by KPMG on information provided by BBW or its representatives which is subsequently found to be false or misleading or not complete. Complete information is deemed to be information which at the time of completing this report should have been available to KPMG and would have reasonably been expected to have been made available to KPMG to enable us to form our opinion.

Appendix 2 – Sources of information

In preparing this report, we have considered the following main sources of information:

Company and transaction information

- BBW's Notice of General Meetings and Explanatory Notes to security holders dated 19 January 2007 in relation to the acquisition of the 06 US Wind Portfolio
- portfolio and individual wind farm financial models
- BBW management's internal model regarding financial impact of the proposed acquisition
- summary of Portfolio Purchase Agreement dated 18 January 2007, Equity Capital Contribution Agreement dated 29 December 2006 and Limited Liability Company Agreement dated 29 December 2006
- BBW 2005 and 2006 Annual Reports
- various analyst reports and internal management reports on BBW, as well as analyst presentations prepared by BBW
- Ernst & Young report – Model review dated 11 January 2007
- various due diligence reports undertaken on behalf of BBW
- financial information from Bloomberg and DatAnalysis
- BBW website and various press and media articles relating to BBW.

Industry information

- 'Global Wind Energy Outlook 2006', Global Wind Energy Council
- 'International Wind Energy Development', BTM Consult ApS, 2005
- financial and comparable company and transaction information from Bloomberg and Thomson SDC
- various analyst and broker reports on the international wind energy industry
- various reports from the AWEA website on the American wind industry.

In addition, we have held discussions with senior executives and management of BBW.

Appendix 3 – Comparable companies

Table 21: Comparable companies

Comparable Companies	Country	Market Capitalisation	EBITDA Margin	Historic EBITDA Multiple	Forecast EBITDA Multiple	Historic EBIT Multiple	Forecast EBIT Multiple	NOA Multiple	Net Debt to Enterprise Value	Gearred Equity Beta	Ungeared Asset Beta
		(1) AUD\$m	(2) %	(3) times	(4) times	(5) times	(6) times	(7) times	(8) %	(9)	(10)
NOVERA ENERGY LTD *	AU	79.4	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.61	0.61
ENERGY DEVELOPMENTS LIMITED	AU	687.5	53.8%	11.0	8.6	18.4	13.6	1.7	24.8%	1.10	0.89
BORALEX POWER INCOME-UNIT	CA	640.6	57.3%	11.1	10.4	17.2	15.9	1.2	14.2%	0.63	0.57
CAN HYDRO DEVELOPERS INC	CA	764.9	53.5%	48.4	22.2	83.1	36.9	2.0	6.3%	0.86	0.82
ALGONQUIN POWER INC FUND-UTS	CA	733.5	37.2%	13.6	10.5	27.5	n/a	1.3	25.7%	0.61	0.50
NORTHLAND POWER INCOME TR UT	CA	911.9	40.8%	18.6	12.2	28.5	20.0	1.9	14.2%	0.64	0.58
GREAT LAKES HYDRO INCOME FND	CA	1,003.3	69.6%	13.7	11.4	18.4	14.9	1.6	38.5%	0.59	0.42
EPCOR POWER LP	CA	1,484.1	55.5%	10.7	n/a	18.3	n/a	1.5	22.9%	0.46	0.39
ENERGIEKONTOR AG	GE	56.1	3.5%	37.6	4.4	n/a	10.9	0.6	18.0%	1.06	0.93
SOLARPARC AG	GE	66.5	59.8%	9.9	n/a	17.1	n/a	1.3	34.8%	0.52	0.39
PLAMBECK NEUE ENERGIEN-REG	GE	136.4	8.2%	26.1	12.5	39.4	14.9	2.4	43.5%	0.98	0.66
CONERGY AG *	GE	2,201.8	9.5%	26.5	18.5	28.1	19.9	8.8	n/a	n/a	n/a
VATTENFALL EUROPE AG	GE	16,863.6	20.2%	5.4	n/a	10.1	n/a	1.6	10.2%	0.38	0.35
Total Mean			39.1%	19.4	12.3	27.8	18.4	2.2	23.0%	0.70	0.59
Total Median			47.1%	13.6	11.4	18.4	15.4	1.6	22.9%	0.62	0.57
Total Mean (excluding outliers)			39.1%	14.7	12.3	22.3	15.7	1.6	23.0%	0.70	0.59
Total Median (excluding outliers)			47.1%	12.3	11.4	18.4	14.9	1.6	22.9%	0.62	0.57

Notes:

- 1) Represents share price as at 12 January 2007 multiplied by the number of shares outstanding (denominated in millions of Australian dollars).
- 2) Represents historic EBITDA as a percentage of historic revenue.
- 3) Represents enterprise value divided by historic EBITDA.
- 4) Represents enterprise value divided by forecast EBITDA (broker consensus).
- 5) Represents enterprise value divided by historic EBIT.
- 6) Represents enterprise value divided by forecast EBIT (broker consensus).
- 7) Represents enterprise value divided by net assets.
- 8) Represents net debt as a percentage of enterprise value.
- 9) Represents adjusted monthly beta sourced from Bloomberg over the trailing five years.
- 10) Represents ungeared asset beta, calculated as geared equity beta divided by $(1+D/E)/(1-t)$, where t is the corporate tax rate of the relevant country.

Outliers have been shaded and excluded from the calculation of mean and median where specified.
 n/a data not available / not applicable
 * Ungeared asset beta could not be calculated due to negative net debt or net debt to equity not being able to be determined; geared equity beta used in lieu
 Source: Bloomberg, as at 15 January 2007

Descriptions of comparable companies

Novera Energy Limited owns and develops renewable energy assets in the United Kingdom and Europe, with power generated from landfill gas, wind, hydro, and industrial operations. Assets are owned jointly with Macquarie Bank Limited while the asset development arm is wholly owned by Novera.

Energy Developments Limited provides renewable energy and low greenhouse gas emission energy. The company provides services to landfill gas power generation, coal mine methane power generation, and remote area power generation. Energy Developments has operations in Australia, the United States, Europe, and Asia.

Boralex Power Income Fund is an unincorporated open-ended trust that indirectly owns and operates several power generating stations located in Quebec, Canada. The company's stations produce energy from different sources, including wood-residue or natural gas-fired thermal and co-generating facilities, as well as hydroelectric power stations.

Canadian Hydro Developers, Inc. develops hydroelectric power generating facilities. The company operates hydroelectric generating plants in Alberta, British Columbia, and Ontario, Canada.

Algonquin Power Income Fund is an unincorporated open ended trust. The Fund has been created to acquire a direct or indirect equity interest in hydroelectric generating facilities located in Ontario and Quebec, Canada and New York and New Hampshire, United States.

Northland Power Income Fund is an open-ended trust that was established to acquire the Iroquois Falls Cogeneration Facility and all related and ancillary assets, contracts, and rights. The facility generates electricity and sells it exclusively to Ontario Hydro.

Great Lakes Hydro Income Fund produces electricity exclusively from environmentally friendly hydroelectric resources. The Fund owns, operates and manages five integrated hydroelectric generation systems located in Quebec, Ontario, British Columbia, Maine and New Hampshire. Brascan Power owns 50 percent of the Funds outstanding units.

EPCOR Power L.P is a limited partnership that owns a portfolio of power generation assets in Canada and the United States, with a total generating capacity of 744 megawatts. The generation plants include natural gas, small-scale hydro and bio-mass facilities.

Energiekontor AG develops and operates ecologically sensitive electricity generating projects. The company builds and operates electricity generating windmill parks.

Solarparc AG operates in the field of alternate energy sources. The company plans, develops, builds, and operates wind power plants. The Company also offers consulting services to builders and operators of solar energy plants. Solarparc operates mainly in Germany.

Plambeck Neue Energien AG plans, develops, and manages windmill parks used to generate electricity. The company also develops biomass power stations fuelled by wood wastes, and holds an interest in a solar energy company. Plambeck distributes the electricity over existing utility networks.

Conergy AG provides solutions and systems for producing power from alternate energy sources. The company focuses on developing and marketing systems and equipment for generating solar power, solar thermal and photovoltaic. Conergy AG also develops and offers rainwater usage systems.

Appendix 4 – Comparable transactions

Target Name	Target Description	Country	Acquirer Name	Date Announced	% Acquired/ floated	Transaction Value ¹ SAUD m	Historical EBITDA Multiple (times)
Iberdrola SA	Iberdrola S.A. generates, distributes, trades, and markets electricity in Spain, Portugal, and Latin America. The Company operates nuclear, hydroelectric, oil-fueled, coal-burning, and combined cycle natural gas plants.	Spain	ACS	Sep-06	6.3%	2,671	17.2
Meta SpA	Meta S.p.A. distributes energy and offers environmental services. The Company distributes electricity, water, natural gas, and heat, provides public lighting and road sign services, and collects and disposes of solid waste.	Italy	Holding Energia & Risorse	Nov-05	71.0%	420	10.0
Meta SpA	Meta S.p.A. distributes energy and offers environmental services. The Company distributes electricity, water, natural gas, and heat, provides public lighting and road sign services, and collects and disposes of solid waste.	Italy	Holding Energia & Risorse	Nov-05	29.0%	170	9.9
Yunnan Wenshan Elec Power Co	Yunnan Wenshan Electric Power Co., Ltd. generates hydroelectric power in Wenshan Zhou, Yunnan province.	China	Yunnan Guangju Mingyuan Invest	Nov-05	37.4%	10	6.4
Babcock & Brown Wind Partners	Babcock & Brown Wind Partners is an investment fund that owns interests in wind farm assets.	Australia	IPO	Oct-05		299	12.8
Southern Hydro Ltd	Southern Hydro is an Australian hydropower company.	Australia	Australia Gas Light Co.	Oct-05	100.0%	1,054	34.0
Pacific Hydro Limited	Pacific Hydro Limited owns, builds and operates renewable energy power stations in Australia and internationally.	Australia	Industry Funds Management (Nominees) Pty Ltd	Jul-05	68.4%	874	14.0
Energy Developments Ltd	Energy Developments Limited provides renewable energy and low greenhouse gas emission energy. The Company provides services to landfill gas power generation, coal mine methane power generation, and remote area power generation.	Australia	Infratil Ltd	Mar-05	6.3%	28	10.6
TXU Corp	TXU Corp. is a energy company with operations in North America. TXU also owns interests in wind-generated energy assets in Texas and North America.	United States	TXU Corp	Nov-04	17.7%	3,390	41.8
Shenyang Jinshan	Shenyang Jinshan Thermolectric Co., Ltd. generates and sells electric power. The Company also produces heat power and steam power.	China	Dandong Dongchen Econ & Trade	Nov-04	24.0%	21	10.9
Enel SpA	Enel S.p.A. generates, transmits, distributes, and trades electricity. The Company operates hydroelectric, geothermal, and other generating plants.	Italy	Investors	Oct-04	20.0%	10,274	7.5
Electric Power Dvlp Co Ltd	Electric Power Development Co.,Ltd. generates, transmits, distributes, and sells electric power using hydroelectric, coal-fired and other thermal power stations throughout Japan.	Japan	Investors(Non-US)	Oct-04	83.1%	2,798	7.6
Contact Energy Ltd	Contact Energy Limited is a diversified and integrated energy company which focuses on the generation of electricity and the sale of electricity and gas in New Zealand.	New Zealand	Origin Energy Ltd	Oct-04	100.0%	1,480	10.0
ENEL SpA	Enel S.p.A. generates, transmits, distributes, and trades electricity. The Company operates hydroelectric, geothermal, and other generating plants.	Italy	Investors	Sep-04		10,274	7.5
Contact Energy Ltd	Contact Energy Limited is a diversified and integrated energy company which focuses on the generation of electricity and the sale of electricity and gas in NZ.	New Zealand	Origin Energy Ltd	Jul-04	51.4%	4,061	12.1
Aare-Tessin fuer Elektrizitaet	Aare-Tessin AG fuer Elektrizitaet Olten, known as the Ael-Group, generates, transmits, and distributes electricity in Switzerland and neighboring countries. Ael owns and operates hydroelectric and nuclear generating plants.	Switzerland	UBS AG	Apr-04	40.3%	0	7.9
Leshan Electric Power Co Ltd	Leshan Electric Power Co., Ltd. generates and distributes hydroelectric power. The Company also operates in water supply and gas distribution.	China	Chengdu Yanyu Real Estate Dvlp	Jan-04	8.2%	5	17.6
Southern Hydro Ltd	Southern Hydro is an Australian hydropower company.	Australia	Meridian Energy Ltd	Mar-03	100.0%	600	7.2
Average							13.6
Median							10.3
Average (exc. outliers)							10.6
Median (exc. outliers)							10.0

Notes:
¹ Implied approximate value as if 100% of the company or business had been acquired/floated.
n/a: data not available

Sources: Thomson SDC, Bloomberg, and various company prospectuses, reports, and broker reports

Appendix 5 – Overview of the valuation methodologies

Discounted cash flow methodology

Value is future oriented and accordingly the theoretically correct manner to assess value is to consider future earnings potential of a business. Under a DCF approach, forecast cash flows are discounted back to the valuation date, generating a net present value for the cash flow stream of the business. A terminal value at the end of the explicit forecast period is then determined and that value is also discounted back to the valuation date and added to the net present value of the cash flow stream to give an overall value for the business.

In a DCF valuation, the forecast period should be of such a length to enable the business to achieve a stabilised level of earnings, or to be reflective of an entire operation cycle for more cyclical industries. Typically, a forecast period of at least five years is required, although this can vary by industry and by sector within a given industry.

Discount rate

The rate at which the future cash flows are discounted (the discount rate) should reflect not only the time value of money, but also the risk associated with the business' future operations. This means that in order for a DCF to produce a sensible valuation figure, the quality of the underlying cash flow forecasts is fundamental.

The discount rate typically employed is the weighted average cost of capital of the business, reflecting an optimal (as opposed to actual) financing structure, which is applied to unleveraged cash flows and results in an enterprise value for the business. Alternatively, in certain circumstances, it is more appropriate to apply an equity approach, which takes the business' cost of equity and applies it to leveraged cash flows to determine an equity value for the business.

Terminal value

In calculating the terminal value, regard must be had to the business' potential for further growth beyond the explicit forecast period. The 'constant growth model', which applies an expected constant level of growth to the cash flow forecast in the last year of the forecast period and assumes such growth is achieved in perpetuity, is a common method. The terminal value calculation should be cross-checked for reasonableness against implied exit multiples.

Capitalisation of earnings methodology

An earnings based approach estimates a sustainable level of future earnings for a business (assessed earnings) and applies an appropriate multiple to those earnings, capitalising them into a value for the business. The earnings bases to which a multiple is commonly applied include earnings before interest, taxation, depreciation and amortisation (EBITDA), earnings before interest, taxation, and amortisation (EBITA), earnings before interest and taxation (EBIT) and net profit after taxation (NPAT).

In assessing the earnings of the business being valued, factors to be taken into account include whether the historical performance of the business reflects the expected level of future operating performance, particularly in cases of continued development or when significant changes occur in the operating environment and when the underlying business is cyclical.

With regard to the multiples applied in an earnings based valuation, they are generally based on data from listed companies and recent transactions in a comparable sector, with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued.

The multiples derived for comparable quoted companies are generally based on share prices reflective of the trades of small parcels of shares. As such, they generally reflect multiples reflective of the prices at which portfolio interests change hands. That is there is no premium for control incorporated within such pricing. They may also be impacted by the level of liquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (i.e. 100 percent) it is appropriate to also reference the multiples achieved in recent transactions, where a control premium and breadth of purchaser interest are more fully reflected.

An earnings approach is effectively a proxy for the DCF valuation approach. It may be used as a primary valuation approach where the business subject to valuation is a stable business operating in a relatively mature or developed industry, or to provide a market cross-check to the conclusions reached under a theoretical DCF approach. An earnings approach is also commonly adopted when sufficiently reliable forecast information to undertake a DCF is not available.

Net assets or cost based methodology

Under a net assets or cost based approach, total value is based on the sum of the net asset value or the costs incurred in developing a business to date, plus, if appropriate, a premium to reflect the value of intangible assets not recorded on the balance sheet.

Net asset value is determined by marking every asset and liability on (and off) the company's balance sheet to current market values.

A premium is added, if appropriate, to the marked-to-market net asset value, reflecting the profitability, market position and the overall attractiveness of the business. The net asset value, including any premium, can be matched to the 'book' net asset value, to give a price to net assets, which can then be compared to that of similar transactions or quoted companies.

A net asset or cost based methodology is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business (e.g. real estate holding companies). A net asset approach is also useful as a cross-check to assess the relative riskiness of the business (e.g. through measures such as levels of tangible asset backing).

Alternative acquirer

This valuation methodology considers the premium price that an alternative acquirer is prepared to pay for a business as a result of potential economies of scale, reduction in competition and synergies with existing operations or other factors.

Quoted price of listed securities

This valuation methodology considers the price of the securities of a business and the number of securities on issue to arrive at an equity value.

Industry specific methodology

Depending on the industry in which the business operates, an industry specific approach may be appropriate in assessing value. Industry specific methodologies typically involve the application of a 'rule of thumb', which is accepted within the industry as an appropriate basis for benchmarking value.

Industry specific methodologies typically involve the application of a multiplier to an operating metric such as revenue, customer numbers or funds under management.

The multiplier applied is determined with reference to common perception in the market, which is supported through empirical evidence from recently completed transactions.

An industry specific methodology is most appropriate as a cross-check of the value determined by applying one of the above methodologies as a primary methodology.

Enterprise or equity value

Depending on the valuation approach selected and the treatment of the business' existing debt position, the valuation range calculated will result in either an enterprise value or an equity value being determined.

An enterprise value reflects the value of the whole of the business (i.e. the total assets of the business including fixed assets, working capital and goodwill/intangibles) that accrues to the providers of both debt and equity. An enterprise value will be calculated if a multiple is applied to unleveraged earnings (i.e. revenue, EBITDA, EBITA or EBIT) or unleveraged free cash flow.

An equity value reflects the value that accrues to the equity holders. To compare an enterprise value to an equity value, the level of net debt must be deducted from the enterprise value. An equity value will be calculated if a multiple is applied to leveraged earnings (i.e. NPAT) or free cash flow, post debt servicing.

Appendix 6 – Discount rates

We have used a US dollar denominated weighted average cost of capital (WACC) to discount the 06 US Wind Portfolio cash flows during periods T1 and T3 as during these periods, while the cash distributions to the equity holders are based on ungeared project cash flows (there is no debt at the individual wind farm project level), the investors are able to gain additional value from their investments by borrowing against the asset and claiming a tax deduction for the borrowing costs incurred. Accordingly, at an optimal gearing level, the project distributions for the Class B members during T1 and T3 generate a tax shield for investors from their ability to optimise their investment financing structure.

During T2, Class A members rank in priority before the Class B members in their right to receive 100 percent of the cash and tax benefits distributed by the Portfolio (until the Reallocation Date), and therefore the remaining value of the Class B member’s investment during T2 (represented by future T3 cash flows) carries this additional ‘subordinated’ risk. The priority rights over the cash flows held by Class A investors are similar in nature to those of a debt provider who is entitled to a priority return before remaining equity holders receive their return. Consequently, we consider it appropriate to apply a US dollar denominated cost of equity during T2 to reflect the higher risk borne by the Class B members as they rank behind the Class A members and are entitled to no cash or tax distributions from the project.

Set out below are the discount rates and the timing for each of the wind farms that make up the 06 US Wind Portfolio. We note that in assessing our valuation of the Portfolio based on discounting total Class B cash flows from the Portfolio, we have used a blended discount rate incorporating the below rates weighted in accordance with each of the wind farm’s forecast contribution to total Class B distributions.

Table 22: Discount rates – Aragonne

Period		Discount rate	
		Low value (%)	High value (%)
T1 – 1 January 2007 to 31 December 2013	WACC	7.2	6.4
T2(A) – 1 January 2014 to 30 April 2017	Cost of equity	13.4	11.4
T3(A) – 1 May 2017 to 31 December 2026	WACC	8.9	8.0
T3(B) – 1 January 2027 to 31 December 2032	WACC	11.0	10.1

Table 23: Discount rates – Buena Vista

Period		Discount rate	
		Low value (%)	High value (%)
T1 – 1 January 2007 to 31 December 2013	WACC	7.2	6.4
T2(A) – 1 January 2014 to 31 December 2016	Cost of equity	13.4	11.4
T2(B) – 1 January 2017 to 30 April 2017	Cost of equity	16.4	14.4
T3(B)– 1 May 2017 to 31 December 2032	WACC	11.0	10.1

Table 24: Discount rates – Mendota

Period		Discount rate	
		Low value (%)	High value (%)
T1 – 1 January 2007 to 31 December 2013	WACC	8.0	7.2
T2(A) – 1 January 2014 to 30 April 2017	Cost of equity	15.4	13.4
T3(A)– 1 May 2017 to 31 December 2032	WACC	10.3	9.4

Table 25: Discount rates – Allegheny I

Period		Discount rate	
		Low value (%)	High value (%)
T1 – 1 March 2007 to 31 December 2013	WACC	7.2	6.4
T2(A) – 1 January 2014 to 30 April 2017	Cost of equity	13.4	11.4
T3(A) – 1 May 2017 to 31 March 2030	WACC	8.9	8.0
T3(B) – 1 April 2030 to 31 December 2032	WACC	11.0	10.1

Table 26: Discount rates – GSG

Period		Discount rate	
		Low value (%)	High value (%)
T1 – 1 March 2007 to 31 December 2013	WACC	8.0	7.2
T2(A) – 1 January 2014 to 30 April 2017	Cost of equity	15.4	13.4
T3(A)– 1 May 2017 to 31 December 2032	WACC	10.3	9.4

Table 27: Discount rates – Allegheny II

Period		Discount rate	
		Low value (%)	High value (%)
T1 – 1 December 2007 to 31 December 2013	WACC	7.2	6.4
T2(A) – 1 January 2014 to 30 April 2017	Cost of equity	13.4	11.4
T3(A) – 1 May 2017 to 30 November 2030	WACC	8.9	8.0
T3(B) – 1 December 2030 to 31 December 2032	WACC	11.0	10.1

The discount rates have been selected by applying subjective judgement based on discussions with BBW to determine the relative riskiness associated with the forecast cash flows of the Portfolio.

In this regard, we recognise the subjective risks attaching to the cash flow projections for each asset and the Capital Asset Pricing Model (CAPM) and WACC theoretical models, which are outlined below. In forming our conclusions, we have not simply mechanically applied theoretical models but have also considered the unique risks inherent in the cash flows. The cash flow projections for the Portfolio are expressed in nominal (inflation adjusted) dollars and therefore nominal discount rates have been calculated. We consider the rates adopted to be appropriate and reasonable, reflecting the riskiness of the cash flows relative to market conditions at the Valuation Date.

Introduction to WACC and CAPM concepts

The WACC of a business is the expected cost of the various classes of its capital (that is, equity and debt), weighted by the proportion of each class of capital to the total capital of the business. This concept is illustrated by the following formula (which calculates an after tax nominal rate):

$$\text{WACC} = K_d(1-t) \cdot (D/D+E) + K_e \cdot (E/D+E)$$

where the key inputs are defined as follows:

- K_d the pre-tax cost of debt, which is the rate of return required by the providers of debt finance
- K_e the after-tax cost of equity, which is the rate of return required by the providers of equity capital
- t the applicable corporate tax rate
- D the market value of debt

- E the market value of equity
- D/D+E the proportion of debt in the capital mix of the relevant business operation
- E/D+E the proportion of equity in the capital mix of the relevant business operation.

Given that the capital of the business is used to finance the assets of the business, WACC can be viewed as the cost of capital for the assets of the business. It is an opportunity cost of capital in the sense that it reflects the returns that would have been earned in the market with the relevant capital if it was employed in the next best investment of equivalent risk profile. It represents the minimum weighted-average rate of return that is required or expected by the providers of capital as compensation for bearing the risks associated with the relevant investment or business operation.

Each component of the WACC formula is discussed further below.

Cost of equity (Ke)

The WACC approach represents a merger of CAPM theory with capital structure theory. In the WACC formula discussed above, the CAPM provides the means for estimating the cost of equity.

The CAPM provides a theoretical basis for determining a discount rate that reflects the risk of a particular investment or business operation. In simple terms, the CAPM states that the returns expected by an equity investor reflect the risk of the underlying equity investment. The risk can be determined by the risk-free rate of return plus a risk premium that reflects the relative risk (as measured by the beta factor) required to be borne by the investor. Therefore, the required rate of return for equity holders is determined as set out below:

$$K_e = R_f + \beta (\text{MRP}) + \alpha$$

where the key inputs are defined as follows:

- R_f risk free rate of return
- MRP equity market risk premium
- β beta factor of the investment or business operation
- α company specific risk factor (alpha).

A large degree of subjectivity is involved in estimating the inputs to the formula. These limitations mean that any estimate of the cost of equity must necessarily be regarded as indicative rather than as a firm and precise measure. Furthermore, because the cost of equity is a market determined measure, changes in market conditions over time will affect its calculation.

Risk-free rate (R_f)

The relevant risk-free rate of return is the return on a risk-free security, typically for a long-term period. The yield to maturity of long dated government bonds at the Valuation Date is generally accepted as a proxy for the risk-free rate.

Market risk premium (MRP)

The MRP represents the additional return that investors expect from an investment in a well-diversified portfolio of assets (such as a market index). This is an 'ex-ante' concept. It is the expected premium, and as expectations are not observable, a historical risk premium is typically used as a proxy.

While there is no precise measure of the MRP, it is necessary to subjectively determine a point value for the purposes of determining a base cost of equity. There is evidence to suggest the MRP has declined over time.

Beta factor (β)

The beta factor is a measure of the relative risk of an investment or business operation, relative to a well-diversified portfolio of investments. In theory, the only risks that are captured by beta are those risks that cannot be eliminated by the investor through diversification. Such risks are referred to as systematic, undiversifiable or uninsurable risk. The concept of beta is central to the CAPM given that beta risk is the only risk that is priced into investor required rates of return.

The beta for equity securities can be statistically measured by regressing the returns on an equity market index, such as the All Ordinaries (Accumulation) Index, against the share price returns of the relevant stock. The market portfolio has an equity beta of 1.0. A beta greater than 1.0 implies that the returns on a stock are, on average, more volatile, and hence the stock is more risky than the market, whilst a beta of less than 1.0 implies the reverse.

Betas derived from share market observations represent equity betas, which reflect the degree of financial gearing of the company. Consequently, it is not possible to compare the equity betas of different companies without having regard to their gearing levels. In theory, a more valid analysis of betas can be obtained by ungearing or unlevering the equity beta, by applying the following formula:

$$\beta_a = \beta_e / [1 + (D/E * (1-t))]$$

where 'D/E' is the debt and equity values of the relevant equity security and 't' is the corporate tax rate. The adjustment involves stripping out the impact of financial gearing from the equity beta (denoted by β_e) to obtain an asset beta (denoted by β_a). The asset beta is subsequently regressed to a specified optimal level of gearing to determine the equivalent equity beta.

Alpha factor (α)

There are a number of issues specific to a company that result in a company specific premium (alpha factor) being added to the cost of equity calculation. These include, inter alia, the following:

- size issues
- profitability issues
- operational issues
- structural (industry specific) issues.

The application of the alpha factor is generally subjective, but is usually based on professional judgement taking into consideration the above factors.

Cost of debt (Kd)

The cost of borrowing is the expected future borrowing cost of the relevant project and/or business. The conventional practice for estimating Kd is to estimate an appropriate risk premium (over the benchmark risk free rate) for debt based on prevailing yields on debt securities of comparable risk and maturity.

The required premium for a particular company would take into account, inter alia:

- the credit rating of the company
- the annualised origination costs payable to raise fixed rate finance.

Corporate tax rate (t)

We applied a corporate tax rate of 38 percent for the 06 US Wind Portfolio, which includes federal, state and other corporate taxes.

Debt/equity mix

The selection of an appropriate capital structure is a subjective exercise. The tax deductibility of the cost of debt means that the higher the proportion of debt, the lower the WACC for a given cost of equity. However, at significantly higher levels of debt, the marginal cost of borrowing would increase due to the greater risk which debt holders are exposed to. In addition, the cost of equity would also be likely to increase due to equity investors requiring a higher return given the higher degree of financial risk that they have to bear (reflected in the regearing of beta).

Ultimately for each company there is likely to be a level of debt/equity mix that represents the optimal capital structure for that company. In estimating the WACC, the debt/equity mix assumption should reflect what would be the optimal or target capital structure for the relevant asset.

Optimal (as opposed to actual) capital structures are not readily observable. Accordingly, any estimate of optimal capital structure is necessarily subjective. In practice, the existing capital structures of comparable businesses can be used as a guide to the likely capital structure for a firm, taking into consideration the specific financial circumstances of that firm. In drawing any conclusions from the comparable company information, it is important to note that the observed gearing levels usually represent current gearing levels, which may or may not be representative of optimal, long-term gearing levels. Furthermore, the gearing level of a company at a given point in time can reflect recent new issues of debt or equity.

Calculation of the discount rates

The inputs used in calculating appropriate discount rates for valuing the 06 US Wind Portfolio, and the basis for their selection, are set out below.

The cash flows attributable to the Class B members of the 06 US Wind Portfolio can be divided into three distinct periods, as discussed in Section 7.3 of this report.

During the periods T1, T2(A) and T3(A), the wind farms sell 100 percent of their output under long-term off-take agreements. During T2(B) and T3(B), the wind farms sell 100 percent of their output as market participants into the regional power pool (after expiry of the respective off-take agreements). On this basis, we have derived a range of discount rates for each wind farm in the Portfolio for each period to take into account the different cash flow risk profiles of each period.

Risk-free rate (R_f)

We have applied a risk free rate proxy of the ten-year and thirty-year US generic Government bonds in the order of 4.6 percent per annum at the Valuation Date.

Market risk premium (MRP)

Based on market risk premiums adopted in the US market and accepted industry practice, we have adopted a MRP for the US market of 5.0 percent per annum.

Beta factor (β)

In order to determine the appropriate beta factor for the wind farms, consideration has been given to:

- the asset betas of comparable quoted companies in the renewable energy sector, which range from 0.38 to 0.93, with an average and median (excluding outliers) of 0.49 and 0.58 respectively. Further information on comparable company beta factors is set out in Appendix 3
- asset betas in the order of 0.40 used by regulators in price determinations for regulated assets in Australia and the UK.

We note that betas reflect the riskiness of an asset relative to the market in which it operates, and are therefore comparable across countries. Country specific risk is reflected in the risk free rate and market risk premium adopted for that country.

In determining an appropriate asset beta for the wind farms in the Portfolio, we have considered, in general:

- The majority of the output of the wind farms are subject to long-term off-take agreements (as discussed in Section 7).
- The counterparties to the off-take agreements are generally investment grade corporations, and therefore the risk of counterparty failure is considered to be low.
- The wind farms use turbine technology which has been successfully used in US and European wind farms, and therefore the technology risk is considered to be low.
- The wind farms are subject to fuel supply risk, as the output generated is dependent upon the wind resources at each project site, which is unpredictable. We note that this risk is mitigated by the wind data analysis undertaken in respect of each of the six wind farms
- The 06 US Wind Portfolio comprises six wind farms in different locations across the US, and therefore offers portfolio diversification benefits.
- The wind farms operate in a relatively mature and developed industry.

- Many of the selected comparable companies pursue development opportunities, which by their nature are subject to more risk than an operating asset.
- Many of the selected comparable companies are diversified in terms of holding a portfolio of assets, and operate in various geographic regions.

We therefore consider that, on balance, an asset beta in the range of 0.5 to 0.7 is appropriate for valuing the 06 US Wind Portfolio.

Alpha factor (α)

We have considered issues specific to the US wind farms which result in a company specific premium being added to the discount rates. In this regard we note that:

- At the Valuation Date, five of the six wind farms were either yet to or had only recently commenced operations, and the sixth (Mendota) had recently received significant technological improvements such that its historic performance is not a meaningful reflection of its expected future performance. We applied a company specific premium of 1.0 percent to the discount rates applicable to all periods (T1 to T3) for all wind farms. This reflects the uncertainty of the projects relating to their ability to achieve their forecast cash flows in the absence of a sufficient period of proven historical operating results.
- We applied an alpha factor of 1.0 percent to each project during T2 to reflect the priority of the Class A members over the Class B members to all project distributions (cash and tax) until the Reallocation Date, and the related subordinated position of Class B members (relative to Class A members) in their ability to access future (T3) cash flows.
- We applied an alpha factor of 1.0 percent to each project during T3 to reflect the uncertainty relating to the timing and quantum of cash flows in T3, due to the commencement of T3 being dependent on the timing of the Reallocation Date.
- All of the wind farms except for Mendota and GSG have long-term off-take agreements that expire within the explicit forecast period. Based on our professional judgement, we applied an additional company specific premium of 3.0 percent to the discount rates applicable to the relevant periods for the Aragonne, Buena Vista, Allegheny I and II wind farms to reflect the increased risk and volatility of operating in the market.
- Whilst the QFs for Mendota and GSG provide certainty around the purchase of all electricity generated and do not expire within the explicit forecast period, the forecast cash flows are subject to price volatility based on prevailing market prices at the time of sale. Accordingly, we applied an additional company specific premium of 2.0 percent to the discount rates applicable to all periods (T1 to T3) for Mendota and GSG to reflect the increased risk and volatility surrounding forecast market prices under the QF agreements.

Debt/equity mix

We have calculated the regearred equity beta to be used in calculating the cost of equity and WACC using the following gearing levels (which reflect an assumed optimal gearing structure during the respective periods):

- For periods T1 and T2, we have adopted a gearing level of 150.0 percent debt to equity (60.0 percent debt to enterprise value), reflecting our view of the optimal gearing level of an investor in the 06 Wind Portfolio during these stages. We note that, given the distribution profile of the Portfolio during T2, it is unlikely that a Class B investor could fund their investment via debt (as there are no Class B distributions during T2). However, we have likened the subordinated position of Class B members relative to Class A members during T2 to that of equity holders who rank behind debt providers in their right to distributions, and have therefore assumed a gearing level of 150 percent debt to equity to reflect this structure.
- For period T3, we have adopted a gearing level of 42.9 percent debt to equity (30.0 percent debt to enterprise value), reflecting an average gearing level in T3 as debt would be repaid over the life of the assets. It is our view that as cash flows during T3 are shared between the Class A and B members, debt providers would be willing to lend a lower proportion of value during this stage of the project life.

Based on the specific characteristics of the wind farms, we have therefore assumed the following:

- a regearred beta of 0.97 to 1.35 for periods T1 and T2
- a regearred beta of 0.63 to 0.89 for period T3.

Cost of debt (Kd)

We consider an interest margin of 150 basis points (i.e. 1.5 percent) above the risk free rate to be appropriate, based on our experience with other similar infrastructure assets. We have applied this margin to the risk free rate as at the Valuation Date.

Accordingly, after applying a US taxation rate of 38.0 percent, we have adopted a post-tax cost of debt in the order of 3.8 percent for the Portfolio.

