

**BABCOCK & BROWN
WIND PARTNERS**

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

29 September 2006

BABCOCK & BROWN WIND PARTNERS TRUST - ANNUAL FINANCIAL REPORT

Babcock & Brown Wind Partners (ASX: BBW) advises that the attached Annual Financial Report for the year ended 30 June 2006 of the Babcock & Brown Wind Partners Trust has been despatched to unitholders today.

ENDS

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About Babcock & Brown Wind Partners

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

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

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

BBW is managed by Babcock & Brown Infrastructure Management Pty Limited, a wholly owned subsidiary of Babcock & Brown Limited (ASX: BNB), a global investment and advisory firm with longstanding capabilities in structured finance and the creation, syndication and management of asset and cash flow-based investments. Babcock & Brown has a long history of experience in the renewable energy field and extensive experience in the wind energy sector, having arranged financing for over 3,000MW of wind energy projects and companies for nearly 20 years, with an estimated value over US\$3 billion. Babcock & Brown's roles have included acting as an adviser/arranger of limited recourse project financing, arranging equity placements, lease adviser, project developer, principal equity investor and fund manager for wind energy projects situated in Europe, North America and Australia. Babcock & Brown has developed specialist local expertise and experience in the wind energy sector in each of these regions which it brings to its management and financial advisory roles of BBW.

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

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

Babcock & Brown Wind Partners Trust

Annual Financial Report

for the year ended 30 June 2006

CONTENTS

Directors' Report	1
Auditor's Independence Declaration	12
Independent Audit Report	13
Directors' Declaration	15
Income Statement for the Year Ended 30 June 2006	16
Balance Sheet as at 30 June 2006	17
Statement of Changes in Equity for the Year Ended 30 June 2006	18
Cash Flow Statement for the Year Ended 30 June 2006	19
Notes to the Financial Statements for the Year Ended 30 June 2006	20

DIRECTORS' REPORT

CORPORATE STRUCTURE

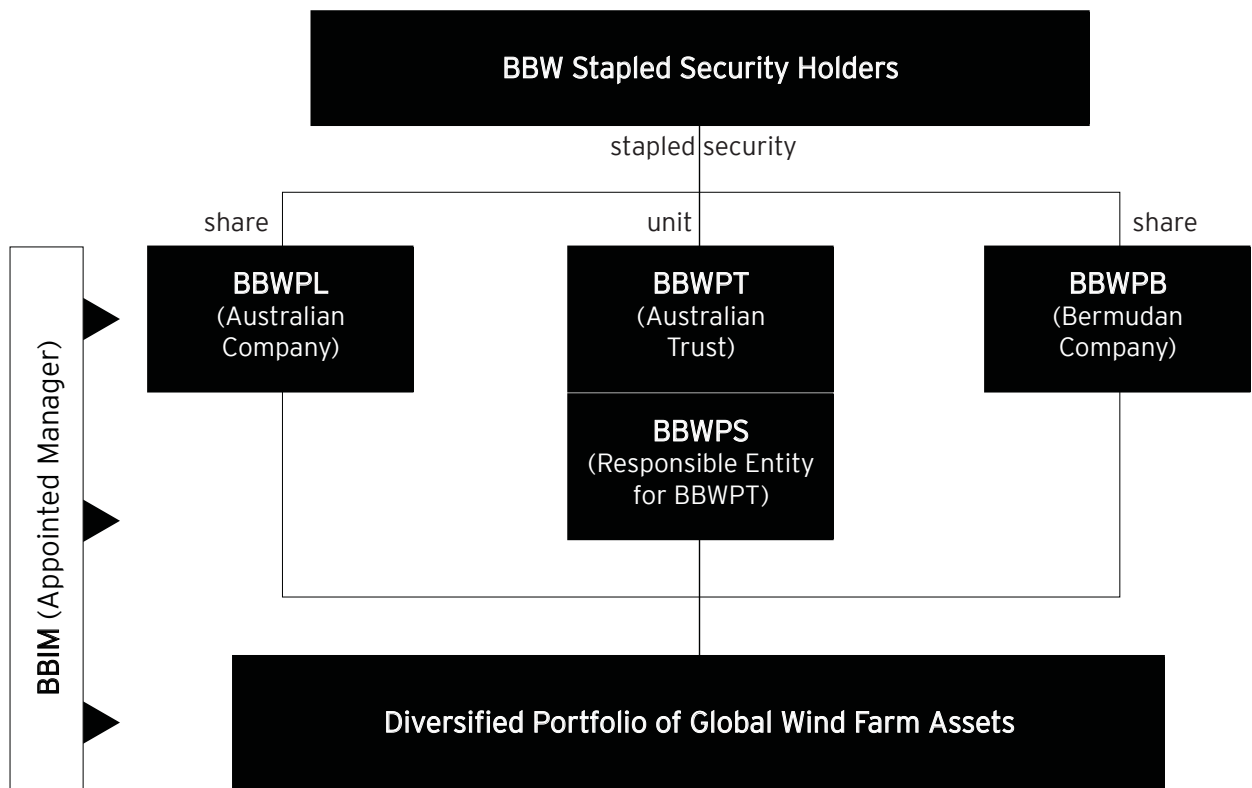
The Babcock & Brown Wind Partners Group (**BBW**) consists of the following entities:

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

One share in each of BBWPL and BBWPB and one unit in BBWPT have been stapled together to form a single BBW Stapled Security. These BBW Stapled Securities are tradable on the Australian Stock Exchange.

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

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



DIRECTORS' REPORT

REPORT OF THE DIRECTORS OF THE RESPONSIBLE ENTITY

The Directors of BBWPS, the Responsible Entity of the Trust, submit the following report on the financial results of the Trust and its controlled entities for the year ended 30 June 2006.

DIRECTORS

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

Name	Particulars
Peter Hofbauer (Babcock & Brown executive) Chairman Appointed 14 April 2005	<p>Peter is the Global Head of Babcock & Brown's Infrastructure & Project Finance business unit and co-ordinates the group's infrastructure and project finance activities worldwide. Peter joined Babcock & Brown in 1989 and has worked in both the Sydney and London offices.</p> <p>Prior to joining Babcock & Brown, Peter worked with Price Waterhouse and Partnership Pacific Limited/Westpac Bank. He is also a Director of Babcock & Brown Infrastructure Limited and of the Responsible Entity of Babcock & Brown Infrastructure Trust. Peter is also a former Director of Babcock & Brown Environmental Investments Limited.</p> <p>Peter holds a Bachelor of Business degree and is a member of the Institute of Chartered Accountants and the Taxation Institute of Australia.</p>
Anthony Battle Lead Independent Director Appointed 9 September 2005	<p>Anthony (Tony) Battle has held various senior management positions in the finance industry for over 30 years, and at various stages has been involved in the evaluation and funding of major structured and corporate financings across a number of industry sectors. On a number of different occasions during his career, Tony has been a member of Boards of Directors, executive management committees and credit committees. His most recent role was in a senior position in the Corporate & Institutional division with Calyon Australia (following the merging of the international business operations of Credit Agricole Indosuez and Credit Lyonnais) and prior to that with Credit Lyonnais, Commonwealth Bank and Partnership Pacific.</p> <p>Tony holds a Bachelor of Commerce. Tony is a Fellow of the Australian Institute of Company Directors and an Associate of Chartered Secretaries Australia.</p>
Douglas Clemson Independent Director Appointed 9 September 2005	<p>Doug Clemson is the former Finance Director of Asea Brown Boveri (ABB) where, from 1988 until his retirement in 1999, he was responsible for the corporate and project finance needs of the ABB group in Australia and New Zealand. Doug was instrumental in the establishment of the activities of ABB Financial Services and its participation in the co-development, construction and funding of a number of important power generation, transportation and infrastructure projects in this region.</p> <p>Prior to joining ABB, Doug held senior line management and finance executive positions with manufacturing groups, ACI and Smiths Industries. He is the recent Chairman of Redbank Power and his previous directorships include General and Cologne Reinsurance, Electric Power Transmission Group, ABB Australia, ABB New Zealand, and Smiths Industries. Prior to joining the BBWPS Board he was an Independent Director of Babcock & Brown Infrastructure Limited (formerly Prime Infrastructure).</p> <p>Doug is a qualified accountant and a Fellow of the Institute of Chartered Accountants in Australia and the Australian Institute of Company Directors.</p>

DIRECTORS' REPORT

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

DIRECTORS' REPORT

Name	Particulars
Phillip Green (Babcock & Brown executive) Former Director Appointed 14 April 2005 Resigned 9 September 2005	Phillip Green joined Babcock & Brown in 1984 and is Managing Director and Chief Executive Officer of Babcock & Brown Limited. Prior to joining Babcock & Brown, Phillip worked as a Senior Manager with Arthur Anderson where he specialised in taxation. Phillip is a Director of a number of companies including Chairman of Babcock & Brown Infrastructure Limited, Chairman of Babcock & Brown Environmental Investments Limited, Babcock & Brown Capital Limited, Everest Babcock & Brown Alternative Investments, Thakral Holdings Limited, and a Director of the trustees of Babcock & Brown Japan Property Trust and MTM Entertainment Trust. Phillip is also a Trustee of the SCG Trust. Phillip holds Bachelor of Commerce and Bachelor of Law degrees from the University of New South Wales. Phillip qualified as a Chartered Accountant in 1981 and was admitted as a Solicitor in NSW in 1978.
Miles George (Babcock & Brown executive) Former Director Appointed 14 April 2005 Resigned 9 September 2005	Miles George joined Babcock & Brown in 1997, specialising in the area of new project development and investment in the infrastructure, resources and manufacturing sectors. Prior to joining Babcock & Brown, Miles was Director of Project Finance with AIDC Limited. Miles holds degrees of Bachelor of Engineering and Master of Business Administration (Distinction) from the University of Melbourne.

COMPANY SECRETARIES

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

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

DIRECTORS' REPORT

PRINCIPAL ACTIVITIES

BBWPT holds interests in financial investments and non-controlling interests in wind energy generation assets.

REVIEW OF OPERATIONS

A review of the operations of the BBW Group for the year ended 30 June 2006, which includes BBWPT, is detailed within the BBW 2006 Annual Report.

The profit attributable to unitholders for the year amounted to \$4,114,000 compared to a loss of \$46,000 for the prior year. The change in profit is predominantly due to interest income on loans receivable and equity accounted profits from an investment in an associate, offset by higher management fees. Further specific information relating to the operations of BBWPT for the year ended 30 June 2006 is included in the attached Annual Financial Statements and accompanying Notes.

CHANGES IN STATE OF AFFAIRS

During the financial year there was no significant change in the state of affairs of BBWPT other than that referred to in the attached Annual Financial Statements and accompanying Notes.

SUBSEQUENT EVENTS

There has not been any matter or circumstance, other than that referred to in the Financial Statements or Notes, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of BBWPT, the results of those operations, or the state of affairs of BBWPT in future financial years.

FUTURE DEVELOPMENTS

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

ENVIRONMENTAL REGULATIONS

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

DISTRIBUTIONS

An interim distribution of 5.1 cents per BBW Stapled Security for the half year to 31 December 2005 was paid by BBWPT on 23 March 2006.

BBWPT will also pay a final distribution of 5.1 cents per Stapled Security for the half year to 30 June 2006 on or about 29 September 2006.

REMUNERATION REPORT

SPECIALISED FUND PLATFORM

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

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

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

The Babcock & Brown remuneration philosophy seeks to focus on:

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

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

DIRECTORS' REPORT

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

Directors

Peter Hofbauer ¹	Non-Executive Chairman
Nils Andersen	Independent Non-Executive Director
Anthony Battle	Lead Independent Non-Executive Director
Douglas Clemson	Independent Non-Executive Director
Warren Murphy ¹	Non-Executive Director

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

Executives¹

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

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

ROLE OF THE BABCOCK & BROWN REMUNERATION COMMITTEE

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

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

MEMBERSHIP OF THE B&B REMUNERATION COMMITTEE

The B&B Remuneration Committee consists of five Babcock & Brown Directors, of which three are independent Non-Executive Directors. Its members throughout 2005/06 were:

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

EXECUTIVES - REMUNERATION POLICY

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

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

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

REMUNERATION FRAMEWORK AND PHILOSOPHY

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

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

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

FIXED REMUNERATION

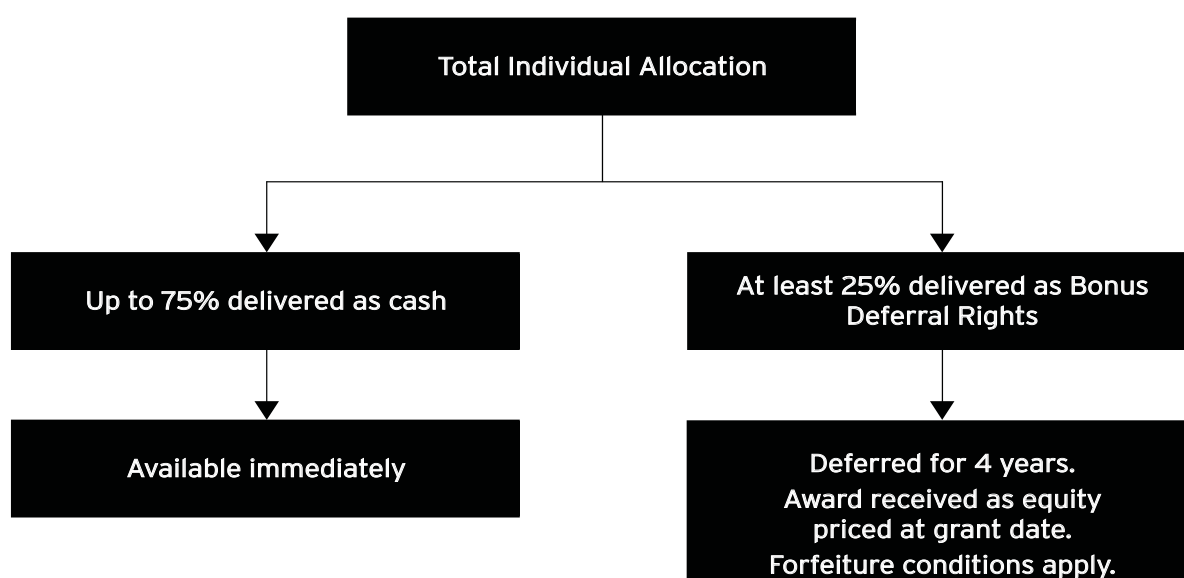
The Babcock & Brown Board has set fixed remuneration for BBW Executives at or lower than the median for comparable executives in companies with comparable businesses to that of BBW. This complements the strategy of weighting the variable amount of Executive pay to encourage superior performance consistent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

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

SHORT TERM INCENTIVE PLAN (STIP) - DELIVERED AS CASH AND DEFERRED EQUITY (BONUS DEFERRAL RIGHTS)

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

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



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

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

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

DIRECTORS' REPORT

LONG TERM INCENTIVE PLAN (LTIP)

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

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

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

REMUNERATION OF THE DIRECTORS AND EXECUTIVES FOR THE YEAR ENDED 30 JUNE 2006

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

	Short-term		Post Employment	Share-based Payments	Other	Total	
	Salary, Fees & Commissions A\$	Cash Bonus A\$	Non-cash Benefits A\$	Super-annuation A\$	Options ⁴ A\$	A\$	
Current Directors							
P Hofbauer ¹	-	-	-	-	-	-	
W Murphy ¹	-	-	-	-	-	-	
N Andersen	27,711	-	-	2,494	-	30,205	
A Battle	31,652	-	-	2,849	-	34,501	
D Clemson	30,667	-	-	2,760	-	33,427	
Former Directors							
M George ¹	-	-	-	-	-	-	
P Green ¹	-	-	-	-	-	-	
Total	90,030	-	-	8,103	-	98,133	
Executives²							
P O'Connell	357,500	455,667	-	14,162	18,644	4,055	850,028
G Dutailis	215,312	138,750	-	9,104	6,992	-	370,158
D Richardson ³	45,657	8,800	-	3,642	-	-	58,099
Total	618,469	603,217	-	26,908	25,636	4,055	1,278,285

¹ These Non-Executive Directors are not remunerated by BBW.

² These are the Executives that received the highest emoluments in 2005/06. Executive fees paid for their services are part of the Babcock & Brown Infrastructure Management Pty Limited management agreement. The remuneration presented represents the amount paid to each Executive for their services to BBW, as opposed to BBWPS, since the remuneration for the services provided to BBWPS cannot be determined due to their commitments to BBWPL and BBWPB.

³ The remuneration for the services provided to BBW by D Richardson cannot be determined due to his other commitments within the B&B Group. However, the remuneration included above has been based on an assessment by management of the services performed directly for BBW. An allocation to BBWPS cannot be determined.

⁴ BBW does not operate an options scheme in relation to BBW Stapled Securities. The options held by P O'Connell and G Dutailis relate to options that each holds over shares in Babcock & Brown Limited.

DIRECTORS' REPORT

EXECUTIVE EMPLOYMENT CONTRACTS

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

Length of contract	• Open-ended
Frequency of base remuneration review	• Annual
Benefits	• Executives are entitled to participate in B&B Group benefit plans that are made available.
STIP Participation	• Executives are eligible for an award of STI remuneration from the STIP pool available (if any).
Termination of employment	<ul style="list-style-type: none"> • Employment of P Hofbauer and P O'Connell is able to be terminated by either party on three month's written notice and the B&B Group may elect to pay the Executive three months' salary in lieu of notice. • Employment of G Dutailis and D Richardson is able to be terminated by either party on one month's written notice and the B&B Group may elect to pay the executive one months' salary in lieu of notice.
Non-compete clauses	<ul style="list-style-type: none"> • If P Hofbauer leaves the B&B Group within three years of the IPO of Babcock & Brown Limited, he will (other than in limited circumstances) be prohibited from competing with the B&B Group for 12 months from the date of such departure. • Breach of the non competition restraint will entitle the group to claim a pre-agreed amount of US\$1.5m or US\$4m from the Executive in breach.

SECURITY HOLDINGS

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

	Balance 1.07.05	Purchased	Sale of Securities	Balance 30.06.06
Current Directors				
P Hofbauer	959,577	1,571,000	-	2,530,577
W Murphy	959,577	1,000,000	-	1,959,577
N Andersen	-	10,700	-	10,700
A Battle	-	30,000	-	30,000
D Clemson	-	140,000	-	140,000
Former Directors ¹				
M George	-	-	-	-
P Green	-	-	-	-
Total	1,919,154	2,751,700	-	4,670,854
Executives				
P O'Connell ²	-	714,000	(357,000)	357,000
G Dutailis	-	535,000	-	535,000
D Richardson	-	-	-	-
Total	-	1,251,000	(357,000)	892,000

¹ All former Directors resigned prior to the BBW Initial Public Offer in October 2005 and therefore details of their BBW Security Holdings, if any, have not been disclosed.

² During the year, P O'Connell purchased 714,000 BBW Securities (not 716,000 Securities as previously disclosed in the Appendix 4E). He sold 357,000 Securities in March 2006 and a further 357,000 Securities in July 2006.

DIRECTORS' REPORT

INDEPENDENT NON-EXECUTIVE DIRECTORS - REMUNERATION POLICY AND STRUCTURE

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

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

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

Board / Committee	Role	Fee (p.a.)
Board	Independent Director	\$37,500
	Lead Independent Director	\$3,333 ¹
Audit, Risk & Compliance Committee	Independent Chairman	\$4,000
	Independent Member	\$2,000

¹ The Lead Independent Director receives a total amount of \$10,000 for acting in this position for the BBWPS, BBWPL and BBWPB Boards.

DIRECTORS' MEETINGS - 1 JULY 2005 TO 30 JUNE 2006

The following table sets out the number of Directors' meetings held during the year to 30 June 2006 and the number of meetings attended by each Director (while they were a Director).

	BBWPS Board Meetings	
	Held	Attended
Current Directors		
P Hofbauer	16	13
N Andersen	16	11
A Battle	16	14
D Clemson	16	15
W Murphy	16	15
Former Directors		
M George	1	1
P Green	1	0

COMMITTEE MEETINGS - 1 JULY 2005 TO 30 JUNE 2006

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

Committee Members	Committee Meetings	
	Held	Attended
D Clemson	3	3
A Battle	3	3
P Hofbauer	3	3

DIRECTORS' REPORT

INDEMNIFICATION OF OFFICERS

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

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

PROCEEDINGS ON BEHALF OF THE TRUST

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

FORMER PARTNERS OF THE AUDIT FIRM

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

NON-AUDIT SERVICES

The Directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 3 to the financial statements.

AUDITOR'S INDEPENDENCE DECLARATION

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

ROUNDING

Pursuant to ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order, amounts in the Directors' Report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

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

On behalf of the Directors of BBWPS:



Peter Hofbauer
Chairman
Sydney, 22 September 2006



PricewaterhouseCoopers
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Auditor's Independence Declaration

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

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

This declaration is in respect of Babcock and Brown Wind Partners Trust and the entities it controlled during the year.

A handwritten signature in black ink, appearing to be 'AJ Wilson', with a long horizontal stroke extending to the right.

AJ Wilson
Partner
PricewaterhouseCoopers

Sydney
25 September 2006



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Independent audit report to the unitholders of Babcock and Brown Wind Partners Trust

Audit opinion

In our opinion the financial report of Babcock and Brown Wind Partners Trust:

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

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

Scope

The financial report, remunerations disclosures and directors' responsibility

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

The directors of Babcock and Brown Wind Partners Services Limited are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Audit approach

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

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Accounting Standards, the Trust Constitution and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of Babcock and Brown Wind Partner Trust's and the consolidated entity's



financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows.

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

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

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

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

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

Independence

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

A stylized, handwritten signature of PricewaterhouseCoopers.

PricewaterhouseCoopers

A handwritten signature of AJ Wilson.

AJ Wilson
Partner

Sydney
25 September 2006

DIRECTORS' DECLARATION

In the opinion of the Directors of Babcock & Brown Wind Partners Services Limited (BBWPS), the consolidated financial statements for Babcock & Brown Wind Partners Trust (BBWPT or the Trust) (as defined in Note 1) as set out on pages 16 to 41:

- comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- give a true and fair view of the consolidated financial position of BBWPT as at 30 June 2006 and of its performance, as represented by the results of its operations and cash flows, for the year ended on that date.

In the Directors' opinion:

- the financial statements and notes are in accordance with the Corporations Act 2001; and
- there are reasonable grounds to believe that the Trust will be able to pay their respective debts as and when they become due and payable.

This declaration is made in accordance with a signed resolution of Directors pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors of BBWPS,

A handwritten signature in black ink, appearing to read 'P. Hofbauer', written in a cursive style.

Peter Hofbauer
Director

Sydney, 22 September 2006

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Note	Consolidated		Parent	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Interest income	2	4,168	10	4,168	10
Share of net profit of associates accounted for using the equity method	8	1,691	-	-	-
Operating expenses	2	(473)	-	(473)	-
Finance costs	2	(1)	(56)	(1)	(56)
Management charges	2	(730)	-	(730)	-
Profit/(loss) from operating activities		4,655	(46)	2,964	(46)
Finance costs - net profit attributable to the minority interest *	8	(541)	-	-	-
Net profit/(loss)		4,114	(46)	2,964	(46)
Net profit/(loss) attributable to the unit holders		4,114	(46)	2,964	(46)
Net profit/(loss) attributable to the minority interest		-	-	-	-
		4,114	(46)	2,964	(46)
Basic and diluted earnings per unit (cents)	12	1.1	-	0.8	-

* The finance cost includes the net profit attributable to the minority interest relating to a subsidiary trust of BBWPT. The trust deed of the subsidiary trust contains a finite life clause. Consequently, the units of the subsidiary trust are classified as debt for accounting purposes and the minority interest represented above is classified as finance costs.

The above Income Statement should be read in conjunction with the accompanying Notes on pages 20 to 41.

BALANCE SHEET AS AT 30 JUNE 2006

	Note	Consolidated		Parent	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current assets					
Cash and cash equivalents	17	919	103	919	103
Receivables	5	3,813	-	3,813	-
Other current assets	6	175	-	175	-
Total current assets		4,907	103	4,907	103
Non-current assets					
Receivables	5	675,943	163,037	674,727	163,037
Investments accounted for using the equity method	8	51,398	-	-	-
Shares in controlled entities		-	-	21,639	-
Total non-current assets		727,341	163,037	696,366	163,037
Total assets		732,248	163,140	701,273	163,140
Current liabilities					
Payables	9	478	-	478	-
Total current liabilities		478	-	478	-
Non-current liabilities					
Payables	9	494	-	-	-
Share of net assets attributable to minority interests*		28,623	-	-	-
Total non-current liabilities		29,117	-	478	-
Total liabilities		29,595	-	478	-
Net assets		702,653	163,140	700,795	163,140
Equity					
Contributed equity	10	697,831	163,140	697,831	163,140
Retained profits	11	4,114	-	2,964	-
Reserves	11	708	-	-	-
Total equity and net assets attributable to the unit holders		702,653	163,140	700,795	163,140

* This represents the share of net assets attributable to the minority interest relating to a subsidiary trust of BBWPT. The trust deed of the subsidiary trust contains a finite life clause. Consequently, the units of the subsidiary trust are classified as debt for accounting purposes and the minority interest represented above is classified as a non current liability.

The above Balance Sheet should be read in conjunction with the accompanying Notes on pages 20 to 41.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2006

	Note	Consolidated		Parent	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Total equity at the beginning of the year		163,140	63,524	163,140	63,524
Adjustment to equity on adoption of AASB 132 and AASB 139:					
-Transfer of net assets attributable to security holders from equity to liability*		(163,140)	-	(163,140)	-
Restated total equity at the beginning of the financial year		-	63,524	-	63,524
Share of movement in associate's hedge reserve		708	-	-	-
Net income recognised directly in equity		708	-	-	-
Net profit/ (loss) for the year		4,114	(46)	2,964	(46)
Total recognised income and expense		4,822	(46)	2,964	(46)
Transactions with equity holders in their capacity as equity holders:					
Transfer of net assets attributable to security holders from liability to equity*	10	161,512	-	161,512	-
Contributions of equity, net of transaction costs paid	10	481,303	111,672	481,303	111,672
Securities issued as consideration for purchase of interest in subsidiaries	10	67,320	-	67,320	-
Securities issued as consideration for management fees	10	12,898	-	12,898	-
Distributions paid*	10	(25,202)	(12,010)	(25,202)	(12,010)
Total equity at the end of the year		702,653	163,140	700,795	163,140

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

BBWPT paid a distribution of \$1,628,000 in August 2005, prior to the change in the constitution, which has been recognised as a reduction in this debt.

The above Statement of Changes in Equity should be read in conjunction with the accompanying Notes on pages 20 to 41.

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Note	Consolidated		Parent	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Cash flows from operating activities					
Interest received		355	76	355	76
Payments to suppliers		(900)	-	(900)	-
Distributions received		-	-	-	-
Interest and other costs of finance paid		(1)	(56)	(1)	(56)
Net cash provided by/(used in) operating activities	17	(546)	20	(546)	20
Cash flows from investing activities					
Payment for investments in associates and controlled entities		(749)	-	(749)	-
Net cash used in investing activities		(749)	-	(749)	-
Cash flows from financing activities					
Proceeds from issues of units, net of costs	10	481,303	111,672	481,303	111,672
Proceeds from borrowings		-	-	-	-
Repayment of borrowings		50,215	-	50,215	-
Proceeds from related parties		-	-	-	-
Distributions paid to security holders*		(26,830)	(12,010)	(26,830)	(12,010)
Payments to related parties		(502,577)	(99,580)	(502,577)	(99,580)
Net cash provided by financing activities		2,111	82	2,111	82
Net increase in cash and cash equivalents		816	102	816	102
Cash and cash equivalents at the beginning of the financial year		103	1	103	1
Cash and cash equivalents at the end of the financial year	17	919	103	919	103

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

The above Cash Flow Statement should be read in conjunction with the accompanying Notes on pages 20 to 41.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

Note	Contents
1	Summary of accounting policies
2	Profit from operations
3	Remuneration of auditors
4	Key management personnel remuneration
5	Receivables
6	Other current assets
7	Changes in the composition of the consolidated entity
8	Investments accounted for using the equity method
9	Payables
10	Contributed equity
11	Retained earnings and reserves
12	Earnings per unit
13	Distributions and finance costs paid
14	Segment information
15	Related party disclosures
16	Subsidiaries
17	Notes to the cash flow statement
18	Financial instruments
19	Impacts of the adoption of Australian equivalents to International Financial Reporting Standards

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

1. SUMMARY OF ACCOUNTING POLICIES

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

(a) Basis of preparation

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

Compliance with IFRS

Accounting Standards include A-IFRS. Compliance with A-IFRS ensures that the consolidated financial statements and notes of BBWPT comply with International Financial Reporting Standards ("IFRS").

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

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

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

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

Reconciliations and descriptions of the effect of transition from previous AGAAP to A-IFRS on BBWPT's equity and its net profit/ loss are given in Note 19.

Historical cost convention

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

Stapled Security

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

This financial report consists of the consolidated financial statements of BBWPT, and its controlled entities.

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of the entities controlled by BBWPT at 30 June 2006, and the results of those controlled entities for the period then ended. The effects of all transactions between entities in the consolidated group are eliminated in full. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

1. SUMMARY OF ACCOUNTING POLICIES (CONT'D)

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost.

Refer to Note 8 for a further explanation of equity accounting of associates.

(c) Trust Formation

BBWPT was established in Australia on 16 June 2003. On 26 September 2005, the Trust became a registered scheme. On 26 September 2005 Babcock & Brown Wind Partners Services Limited became the responsible entity of the Trust.

(d) Payables

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

(e) Goods and services tax

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

- (i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- (ii) for receivables and payables which are recognised inclusive of GST;

the net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

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

(f) Financial instruments issued by the Company

Debt and equity instruments

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

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

Transaction costs on the issue of equity instruments

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

(g) Income tax

Under current legislation, BBWPT is not subject to income tax as unit holders are presently entitled to the income of the Trust.

(h) Revenue recognition

Interest income is recognised using the effective interest method.

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

(i) Cash and cash equivalents

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

(j) Loans and receivables

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

(k) Contributed equity

Units are classified as equity. Incremental costs directly attributable to the issue of new units or options are shown in equity as a deduction, net of tax, from the proceeds.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

1. SUMMARY OF ACCOUNTING POLICIES (CONT'D)

(l) Earnings per unit

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

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

(m) Fair value estimation

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

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

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

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

(n) Segment reporting

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

(o) Rounding of amounts

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

(p) New accounting standards and UIG interpretations

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

1. SUMMARY OF ACCOUNTING POLICIES (CONT'D)

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

(q) Critical accounting estimates and judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The Trust makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

Estimated useful economic life of property, plant and equipment

The Trust's associate depreciates property, plant and equipment over 25 years. This period of depreciation is utilised for assets that have useful economic lives in excess of 25 years as the life of the project is 25 years and no determination to extend the life of the project has been made at this stage.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

2. PROFIT FROM OPERATIONS

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Revenue from continuing activities				
Interest revenue	4,168	10	4,168	10
	4,168	10	4,168	10
Profit/(loss) before income tax has been arrived at after charging the following expenses:				
Operating expenses:				
Administration, consulting and legal fees	473	-	473	-
	473	-	473	-
Finance costs:				
Interest expense	-	56	-	56
Other finance charges	1	-	1	-
	1	56	1	56
Management charges:				
Base fees	730	-	730	-
	730	-	730	-

3. REMUNERATION OF AUDITORS

	Consolidated		Parent	
	2006 \$	2005 \$	2006 \$	2005 \$
Assurance services				
PricewaterhouseCoopers (2005: Ernst & Young)				
Audit services				
Audit and review of the financial report	23,221	5,000	15,000	5,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

4. KEY MANAGEMENT PERSONNEL REMUNERATION

(a) Names and positions held by BBWPS Directors and Executives in office at any time during the financial year

Current Directors

Mr P Hofbauer ¹	Non-Executive Chairman
Mr W Murphy ¹	Non-Executive Director
Mr N Andersen	Independent Non-Executive Director, appointed 9 September 2005
Mr A Battle ²	Independent Non-Executive Director, appointed 9 September 2005
Mr D Clemson	Independent Non-Executive Director, appointed 9 September 2005

Former Directors

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

Executives

Mr P O'Connell ¹	Chief Executive Officer, appointed 1 September 2005
Mr G Dutailis ¹	Chief Operating Officer, appointed 1 October 2005

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

² Mr Battle is the Lead Independent Director of BBWPS.

(b) BBWPS Directors' and Executives' Remuneration

30 June 2006	Short-term			Post Employment	Share-based Payment	Other	Total
	Salary, Fees & Commissions	Cash Bonus	Non-cash Benefits	Superannuation	Options		
	\$	\$	\$	\$	\$	\$	\$
Current Directors							
P Hofbauer ¹	-	-	-	-	-	-	-
W Murphy ¹	-	-	-	-	-	-	-
N Andersen	27,711	-	-	2,494	-	-	30,205
A Battle	31,652	-	-	2,849	-	-	34,501
D Clemson	30,667	-	-	2,760	-	-	33,427
Former Directors							
M George ¹	-	-	-	-	-	-	-
P Green ¹	-	-	-	-	-	-	-
Total	90,030	-	-	8,103	-	-	98,133
Executives							
P O'Connell	357,500	455,667	-	14,162	18,644	4,055	850,028
G Dutailis	215,312	138,750	-	9,104	6,992	-	370,158
Total	572,812	594,417	-	23,266	25,636	4,055	1,220,186

¹ Messrs Hofbauer, Murphy, George and Green are, or were, Non-Executive Directors of BBWPS and were not remunerated by BBWPS. None has received a fee for the services that they have provided to BBW. Furthermore, the remuneration for their service to BBWPS cannot be determined due to their other commitments within the Babcock & Brown Group (B&B Group).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

4. KEY MANAGEMENT PERSONNEL REMUNERATION (CONT'D)

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

(c) Options and Rights Holdings

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

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

(d) Security Holdings

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

	Balance 01.07.05	Purchased	Sale of Securities	Balance 30.06.06
Current Directors				
P Hofbauer	959,577	1,571,000	-	2,530,577
W Murphy	959,577	1,000,000	-	1,959,577
N Andersen	-	10,700	-	10,700
A Battle	-	30,000	-	30,000
D Clemson	-	140,000	-	140,000
Former Directors				
M George ¹	-	-	-	-
P Green ¹	-	-	-	-
Total	1,919,154	2,751,700	-	4,670,854
Executives				
P O'Connell ²	-	714,000	(357,000)	357,000
G Dutailis	-	535,000	-	535,000
Total	-	1,249,000	(357,000)	892,000

¹ The security holdings of Messrs George and Green, if any, have not been disclosed as they were directors prior to BBW's listing on the Australian Stock Exchange.

² During the year, P O'Connell purchased 714,000 BBW Securities (not 716,000 Securities as previously disclosed in the Appendix 4E). He sold 357,000 Securities in March 2006 and a further 357,000 Securities in July 2006.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

4. KEY MANAGEMENT PERSONNEL REMUNERATION (CONT'D)

Number of Securities Held by Staped Entity Directors as at 30 June 2005. No Securities were held by Messrs O'Connell and Dutailis prior to their appointment as Executives of BBW.

	Balance 01.07.04	Purchased	Sale of Securities	Balance 30.06.05
Current Directors				
P Hofbauer	360,392	599,185	-	959,577
W Murphy	360,392	599,185	-	959,577
N Andersen	-	-	-	-
A Battle	-	-	-	-
D Clemson	-	-	-	-
Former Directors				
M George ¹	-	-	-	-
P Green ¹	-	-	-	-
Total	720,784	1,198,370	-	1,919,154

¹ The security holdings of Messrs George and Green, if any, have not been disclosed as they were Directors prior to BBW's listing on the Australian Stock Exchange.

(e) Remuneration Practices

Specialised Fund Platform

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

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

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

The Babcock & Brown remuneration philosophy seeks to focus on:

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

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

Role of the Babcock & Brown Remuneration Committee

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

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

4. KEY MANAGEMENT PERSONNEL REMUNERATION (CONT'D)

Membership of the B&B Remuneration Committee

The B&B Remuneration Committee consists of five Directors, of which three are Independent Non-Executive Directors. Its members throughout 2005/06 were:

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

Executives - Remuneration Policy

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

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

Babcock & Brown Executives who are Directors of BBWPS have significant Security Holdings in BBW.

Remuneration Framework and Philosophy

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

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

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

Fixed Remuneration

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

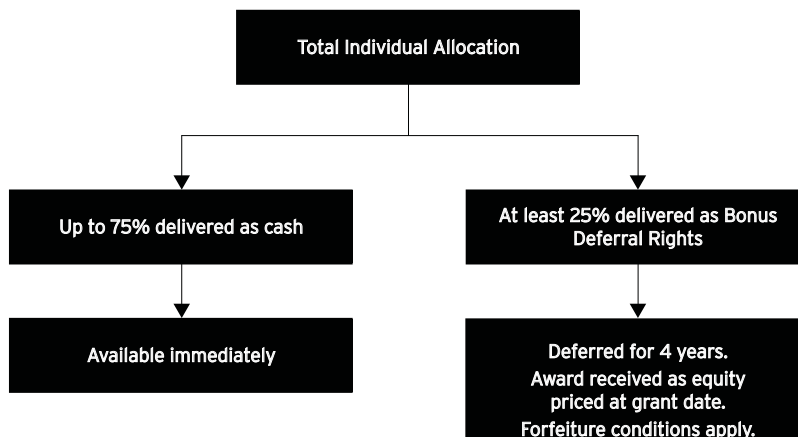
The fixed remuneration component for the Executives generally includes cash salary as well as non-cash benefits, primarily superannuation and ancillary benefits.

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

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

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

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



4. KEY MANAGEMENT PERSONNEL REMUNERATION (CONT'D)

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

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

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

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

Long-Term Incentive Plan (LTIP)

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

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

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

Independent Non-Executive Directors - Remuneration Policy and Structure

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

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

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

Board / Committee	Role	Fee
Board	Chair	\$ Nil
	Member	\$37,500
	Lead Independent Director	\$3,333 ¹
Audit, Risk & Compliance Committee	Chair	\$4,000
	Member	\$2,000

¹ The Lead Independent Director receives a total amount of \$10,000 for acting in this position for the BBWPS, BBWPL and BBWPB Boards.

(f) Director-Related Transactions

There are no Director-related transactions.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

5. RECEIVABLES

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current				
Interest receivable	3,813	-	3,813	-
	3,813	-	3,813	-
Non-current				
Loans to related parties	674,727	163,037	674,727	163,037
Loans to associates	1,216	-	-	-
	675,943	163,037	675,943	163,037

6. OTHER CURRENT ASSETS

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
GST and other tax receivables	175	-	175	-
	175	-	175	-

7. CHANGES IN THE COMPOSITION OF THE CONSOLIDATED ENTITY

Acquisition of Businesses

Name of Business acquired	Notes	Principal Activity	Date of Acquisition	Ownership Interest of Shares/Units %
CS Walkaway Trust	(i)	Wind energy generation	September 2005	100
B&B Walkaway Trust	(i)	Wind energy generation	September 2005	100

(i) Please see Note 10 for an explanation as to the method by which the cost of acquisition was satisfied.

Together these entities control approximately 68% of the voting rights of Renewable Power Ventures Investment Trust (RPVIT). RPVIT has significant influence over the financial and operating decisions of Walkaway Wind Power Pty Limited (WWP) and equity accounts WWP. BBWPT consolidates RPVIT and records a minority interest relating to the portion of RPVIT it does not control. BBWPL owns the remaining interest in RPVIT.

Details of the fair values of the assets and liabilities acquired are as follows:

	\$'000
Purchase consideration:	
Securities issued	20,890
Direct costs relating to the acquisition	749
Total purchase consideration	21,639
Fair value of net identifiable assets acquired	(21,639)
Goodwill on acquisition	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

7. CHANGES IN THE COMPOSITION OF THE CONSOLIDATED ENTITY (CONT'D)

The assets and liabilities acquired are as follows:

	Carrying value \$'000	Fair value \$'000
Investment in Walkaway Wind Power	8,505	49,000
Loans receivable	2,234	1,216
Loans payable	(10,734)	(495)
Net assets	5	49,721
Minority interests*		(28,082)
Net identifiable assets acquired		21,639

The acquired entities contributed a share of net profit from associates, net of minority interests, of \$1,150,000 to BBWPT for the period from 14 September 2005 to 30 June 2006. Consolidated revenue and net profit would have been no different had this acquisition taken place at 1 July 2005.

* The minority interest represents BBWPL's interest in RPVIT. Due to the finite life clause contained within the RPVIT trust deed, units in RPVIT have been treated as debt for accounting purposes.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

8. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2006 \$'000	2005 \$'000
Investment in associate - carrying value	51,398	-

Name of entity	Principal activity	Country of incorporation	Ownership interest
Walkaway Wind Power Pty Limited	Wind farm	Australia	17%*

	2006 \$'000
Summarised financial information of associate*	
Current assets	19,196
Non-current assets	57,698
	76,894
Current liabilities	6,317
Non-current liabilities	58,552
	64,869
Net assets	12,025
Revenue	7,209
Net profit	1,150

Share of associate's profit*:	
Share of profit/(loss) before income tax	2,416
Income tax expense	(725)
Share of associate's profit/(loss)	1,691
Less: minority interest	(541)
	1,150

* The ownership interest of 17% is based on voting rights. The voting rights are not consistent with the economic returns which vary over the life of the investment.

As at the balance sheet date, BBWPT's share of the economic returns from WWP was estimated at 32%.

Dividends received from associates

During the year, the Trust received no dividends (2005: N/A) from its associate.

Contingent liabilities and capital commitments

The Trust's share of the contingent liabilities of the associate was \$2,584,000. This represented a letter of credit. There were no capital commitments or other expenditure commitments of associates.

9. PAYABLES

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current				
Accrued liabilities	20	-	20	-
Related parties	458	-	458	-
	478	-	478	-
Non-current				
Loans from related parties	494	-	-	-
	494	-	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

10. CONTRIBUTED EQUITY

	2006		2005	
	No. '000	\$'000	No. '000	\$'000
Fully paid units				
Balance at beginning of financial year	162,756	163,140	62,116	61,495
Transfer of net assets attributable to security holders from equity to liability (i)	-	(163,140)	-	-
Transfer of net assets attributable to security holders from liability to equity (i)	-	161,512	-	-
Lake Bonney 2 (ii)	14,286	19,800	-	-
Alinta Wind Farm (iii)	34,286	47,520	-	-
Incentive fee (iv)	7,037	12,898	-	-
Capital raisings, net of issue costs (v)	356,937	481,303	100,640	111,672
Transfer to retained earnings	-	-	-	(10,027)
Capital distributions	-	(25,202)	-	-
Balance at end of financial year	575,302	697,831	162,756	163,140

Units entitle the holder to participate in distributions from BBWPT. The holder is entitled to participate in the proceeds on winding up of the Trust in proportion to the number of and amounts paid on the units held.

(i) Change in Constitution

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

BBWPT paid a distribution of \$ 1,628,000 in August 2005, prior to the change in the constitution, which has been recognised as a reduction in this debt.

(ii) Lake Bonney Stage 2

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

BBWPL is the investing entity under the LB2 Agreement; BBWPS is only a party to the LB2 Agreement by virtue of the fact that BBWPS, as responsible entity of BBWPT, has issued units pursuant to the agreement as follows.

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

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

(iii) Alinta Wind Farm

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

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

Of the total purchase consideration, BBWPT's portion amounted to \$21,639,000 and represents an approximate interest of 17% in Walkaway Wind Power Pty Limited (WWP).

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

10. CONTRIBUTED EQUITY (CONT'D)

(iv) Incentive Fee

The Management Agreement entered into between BBWPL and Babcock & Brown Infrastructure Management Pty Limited includes provisions for an incentive fee. BBWPL settled the incentive fee, in part, through the issue of stapled securities. The issuance of stapled securities by BBWPL requires the issue of units by BBWPT and hence a loan of \$12,898,000 from BBWPT to BBWPL.

(v) Capital raisings

During the year ended 30 June 2006, BBWPT issued 282,837,000 units pursuant to its initial public offering. Total proceeds, net of costs, amounted to \$365,902,000.

In June 2006, BBW issued 74,100,000 units pursuant to a private placement. Total proceeds, net of costs, amounted to \$115,401,000.

During the year ended 30 June 2005, BBWPT issued 100,640,000 units. Total proceeds amounted to \$111,672,000.

11. RETAINED EARNINGS AND RESERVES

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Balance at beginning of financial year	-	2,029	-	2,029
Net profit/(loss) attributable to unit holders	4,114	(46)	2,964	(46)
Distributions provided for or paid (Note 13)	-	(12,010)	-	(12,010)
Transfer from equity	-	10,027	-	10,027
Balance at end of financial year	4,114	-	2,964	-

Reserves of \$708,000 represent BBWPT's share of WWP's hedging reserve. The associate's hedging reserve records gains or losses on a financial instrument that are recognised directly in equity. Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

12. EARNINGS/(LOSS) PER UNIT

	Consolidated		Parent	
	2006 Cents per unit	2005 Cents per unit	2006 Cents per unit	2005 Cents per unit
Basic and diluted earnings per unit (cents)	1.1	-	0.8	-
Earnings/(loss) used in calculation of basic and diluted earnings/(loss) per unit to unit holders (\$'000)	4,114	(46)	2,964	(46)
Weighted average number of units on issue used in calculation of earnings/(loss) per unit ('000)	386,137	114,096	386,137	114,096

13. DISTRIBUTIONS AND FINANCE COSTS PAID

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

13. DISTRIBUTIONS AND FINANCE COSTS PAID (CONT'D)

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

14. SEGMENT INFORMATION

The principal activities of the consolidated entity during the period were to lend and manage funds to entities carrying on wind farm businesses. During the period, the Trust also acquired a non-controlling interest in entities that carry on wind farm businesses. These activities were based in Australia.

15. RELATED PARTY DISCLOSURES

(a) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage ownership held in subsidiaries are disclosed in Note 16 to the financial statements.

Equity interests in associates

Details of interests in associates are disclosed in Note 8 to the financial statements.

(b) Key management personnel disclosures

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

(c) Other related party transactions

Transactions involving other related parties

Receivables from related parties are disclosed in Note 5. Payables to related parties are disclosed in Note 9. Transactions were made on normal commercial terms and conditions and under normal market rates.

Custodian, Responsible Entity and Manager fees and costs

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

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

Under the management agreement between Babcock & Brown Infrastructure Management Pty Limited (BBIM or the Manager), which is a subsidiary of Babcock & Brown Limited, and BBWPS (as responsible entity of BBWPT), a base fee of 0.2% per annum of the net investment value of BBW at the end of each quarter is payable. During the year ended 30 June 2006, BBWPT incurred base fees of \$730,000.

Transactions with associates

Ownership interests in, and distributions received from, associates are set out in Note 8.

Related party transactions associated with the IPO

BBW entered into an IPO Financial Advisory Agreement with BBA. Under this Agreement, BBW paid BBA an IPO advisory fee of \$9,580,000, of which BBWPT's share was \$9,382,000.

Additionally, as part of the IPO Financial Advisory Agreement, BBWPT paid BBA financial advisory fees amounting to \$749,000 in relation to the acquisition detailed in Note 7.

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

With regards to transactions associated with Lake Bonney Stage 2, refer to Note 10.

Other related party transactions following the IPO

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

During the year ended 30 June 2006, BBWPT charged interest of \$3,813,000 on certain loans receivable from BBWPL. The interest rate was 5.25%.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

15. RELATED PARTY DISCLOSURES (CONT'D)

Related party balances

At the year end the consolidated entity owed the following amounts to various subsidiaries of the Babcock & Brown Group and of Babcock & Brown Wind Partners Limited:

Babcock & Brown Group	
Babcock & Brown Infrastructure Management Pty Limited	\$298,000
Babcock & Brown Wind Partners Services Limited	\$138,000
Babcock & Brown Asset Holdings Pty Limited	\$19,000
Babcock & Brown Australia Pty Limited	\$3,000
BBWPL	
CS Walkaway Pty Limited	\$178,000
NPP Projects V LLC	\$158,000
B&B Walkaway Pty Limited	\$158,000

At the year end the consolidated entity was owed the following amounts by the entities below:

Babcock & Brown Wind Partners Limited	\$673,600,000
Babcock & Brown Wind Partners (Bermuda) Limited	\$1,127,000
Walkaway Wind Power Pty Limited	\$1,216,000

(d) Parent entities

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

16. SUBSIDIARIES

	Country of Incorporation	Ownership Interest	
		2006 %	2005 %
Parent entity			
Babcock & Brown Wind Partners Trust	Australia		
Subsidiaries of BBWPT			
B&B Walkaway Trust	Australia	100%	-
CS Walkaway Trust	Australia	100%	-
Renewable Power Ventures Investment Trust	Australia	68%	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

17. NOTES TO THE CASH FLOW STATEMENT

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
(a) Reconciliation of cash and cash equivalents				
For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:				
Cash and cash equivalents	919	103	919	103
	919	103	919	103
(b) Businesses acquired				
During the financial year, 2 businesses were acquired. Details of the acquisition are as follows (Note 7):				
Consideration				
Cash and cash equivalents	749	-	-	-
Stapled securities	20,890	-	-	-
	21,639	-	-	-
Fair value of net assets acquired				
Non-current assets:				
Investment in Walkaway Wind Power	49,000	-	-	-
Loans receivable	1,215	-	-	-
Non-current liabilities:				
Loans payable	(494)	-	-	-
Net assets	49,721	-	-	-
Minority interests*	(28,082)	-	-	-
Net identifiable assets acquired	21,639	-	-	-
Goodwill on acquisition	-	-	-	-
Net cash outflow on acquisition				
Cash and cash equivalents consideration	749	-	-	-
Less cash and cash equivalent balances acquired	-	-	-	-
	749	-	-	-

* The minority interest represents BBWPL's interest in RPVIT. Due to the finite life clause contained within the RPVIT trust deed, units in RPVIT have been treated as debt for accounting purposes.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

17. NOTES TO THE CASH FLOW STATEMENT (CONT'D)

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
(c) Reconciliation of profit for the period to net cash flows from operating activities				
Profit/(loss) for the period	4,114	(46)	2,964	(46)
Share of associates' profit (less dividends), net of related finance costs	(1,150)	-	-	-
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses				
(Increase)/decrease in assets				
Current receivables	(3,813)	66	(3,813)	66
Other current assets	(175)	-	(175)	-
Increase/(decrease) in liabilities	-	-	-	-
Current payables	478	-	478	-
Net cash from operating activities	(546)	20	(546)	20

18. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives

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

(b) Significant accounting policies

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

(c) Interest rate risk

BBWPT receives interest on certain loans made to BBWPL, as noted in Note 15 and is not exposed to interest rate risk in relation to liabilities outstanding.

(d) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Trust.

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

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

(e) Fair value of financial instruments

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

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

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

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

(f) Liquidity risk management

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

19. IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

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

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

There is no effect of A-IFRS on the income statement for the year ended 30 June 2005. Note that BBWPT has taken advantage of the election available to it under AASB 132 and AASB 139.

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

	Consolidated			Parent		
	30 June 2005* \$'000	Adjustment ^(a) \$'000	1 July 2005 \$'000	30 June 2005* \$'000	Adjustment ^(a) \$'000	1 July 2005 \$'000
Current assets						
Cash & cash equivalents	103	-	103	103	-	103
Total current assets	103	-	103	103	-	103
Non-current assets						
Related party loans receivable	163,037	-	163,037	163,037	-	163,037
Total non-current assets	163,037	-	163,037	163,037	-	163,037
Total assets	163,140	-	163,140	163,140	-	163,140
Current liabilities						
Unit holder liabilities	-	163,140	163,140	-	163,140	163,140
Total current liabilities	-	163,140	163,140	-	163,140	163,140
Total liabilities	-	(163,140)	163,140	-	(163,140)	163,140
Net assets	163,140	(163,140)	-	163,140	(163,140)	-
Equity						
Contributed equity	163,140	(163,140)	-	163,140	(163,140)	-

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

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

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

Notes to the reconciliations of income and equity

For the purposes of presenting the 1 July 2005 balance sheet under A-IFRS, the following adjustments were made to the AGAAP presentation:

(a) Transfer of Equity to Debt

Due to the finite life clause contained within the BBWPT Trust Constitution, upon adoption of AASB 132 on 1 July 2005, the units in BBWPT, \$163,140,000, were classified as debt for accounting purposes. The Trust Constitution was amended on 12 September 2005 such that the finite life clauses were removed. Accordingly, the units in BBWPT were reclassified as equity for accounting purposes at 12 September 2005.