

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

5 October 2007

ANNUAL GENERAL MEETING MATERIALS – ENERSIS (50%) & US07 PORTFOLIO

Babcock & Brown Wind Partners (ASX: BBW) advises that the following documents are to be despatched to BBW Securityholders in relation to the Annual General Meetings to be held on 9 November 2007:

- Notice of Annual General Meetings (including Explanatory Notes)
- Independent Expert Report
- Proxy Form

Key resolutions contained within the Notice of Annual General Meetings include the proposed acquisition of a 50% interest in the Enersis Portfolio of wind farms (“**Enersis Portfolio**”) and 100% of Babcock & Brown’s Class B membership interests in the US07 Portfolio (“**US07 Portfolio**”). If these resolutions are approved by Securityholders BBW will have a first and last right of refusal over the remaining 50% interest in the Enersis Portfolio and Babcock & Brown must offer the remaining interest to BBW by no later than 30 September 2008. At this meeting BBW is also seeking Securityholder approval for the potential acquisition of the remaining 50% interest in the Enersis Portfolio.

As previously announced on 17 September 2007, if approved by Securityholders the acquisition of the initial 50% of the Enersis Portfolio and the US07 Portfolio are expected to be immediately accretive to net operating cash flow. On a pro-forma basis, net operating cash flows¹ are expected to increase by \$57.4 million to \$177.4 million in FY08 and by \$72.1 million to \$213.1 million in FY09.

The BBW Boards have increased the FY08 distribution guidance to 14.5 cents per security² an increase of 16% on FY07, and provided FY09 distribution guidance of 15.5 cents per security³.

¹ Assumes P50 production, no performance fee and the Enersis (50%) & US07 Portfolios are acquired in line with the proposed timing. Notional interest of \$20m pa on cash balances of \$355m would be generated if these funds were not applied to the proposed acquisitions or alternative accretive acquisitions.

² Assumes P50 production, no performance fee and the Enersis (50%) & US07 Portfolios are acquired in line with the proposed timing. Previously issued FY08 distribution tax deferred guidance assumes current portfolio and anticipated pipeline of acquisitions.

³ Assumes P50 production, no performance fee and the Enersis (50%) & US07 Portfolios are acquired in line with the proposed timing. FY09 distribution tax deferred guidance will be provided with the 1H08 financial result.

BABCOCK & BROWN
WIND PARTNERS

In addition, the BBW Boards reconfirmed the medium term distribution growth target of at least 3.5% pa from the current portfolio and set an additional medium term distribution growth target for BBW of at least 5% pa assuming continued accretive acquisitions of a similar level of accretion as achieved by BBW to date.

ASX has granted BBW a waiver from the requirement to seek further Securityholder approval of the acquisition of the remaining 50% interest in the Enersis Portfolio at the time that Babcock & Brown offers the remaining interest to BBW provided that Securityholders approve this acquisition at this meeting and the following conditions are met:

- the BBW Independent Directors approve the terms of the acquisition at the time that the remaining 50% interest is offered to BBW;
- the acquisition occurs no later than 12 months after the meeting;
- an independent expert concludes at the time of the acquisition that the acquisition is fair and reasonable to Securityholders (excluding Babcock & Brown and its associates) and that report is released to the market prior to the acquisition occurring; and
- the acquisition price of the remaining interest represents an enterprise value of the Enersis Portfolio consistent with the price per installed megawatt not exceeding €2.33 million.

The meeting materials include further information in relation to the proposed acquisitions of the initial 50% of the Enersis Portfolio and the US07 Portfolio and their financial impact on BBW, an independent expert report in relation to those acquisitions prepared by KPMG and further information about the potential acquisition of the remaining 50% interest in the Enersis Portfolio.

KPMG has concluded in its independent expert report that the proposed acquisitions of the initial 50% of the Enersis Portfolio and the US07 Portfolio are fair and reasonable from the perspective of Securityholders (excluding Babcock & Brown and its associates).

Following the release of the meeting materials, BBW will be hosting a teleconference for investors and stock broking analysts today at 12pm (contact +61 2 9229 1800 for conference line details).

ENDS

Further Information:

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BABCOCK & BROWN WIND PARTNERS

About Babcock & Brown Wind Partners

Babcock & Brown Wind Partners (ASX: BBW) is a global wind energy business which owns and operates a portfolio of wind farms spanning five countries and three continents. BBW listed on the Australian Securities Exchange on 28 October 2005 and has a market capitalisation of approximately A\$1.4 billion.

BBW 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 interests in 68 wind farms that have a total installed capacity of approximately 2,872MW and are diversified by wind resource, currency, equipment supplier, offtake arrangements and regulatory regime.

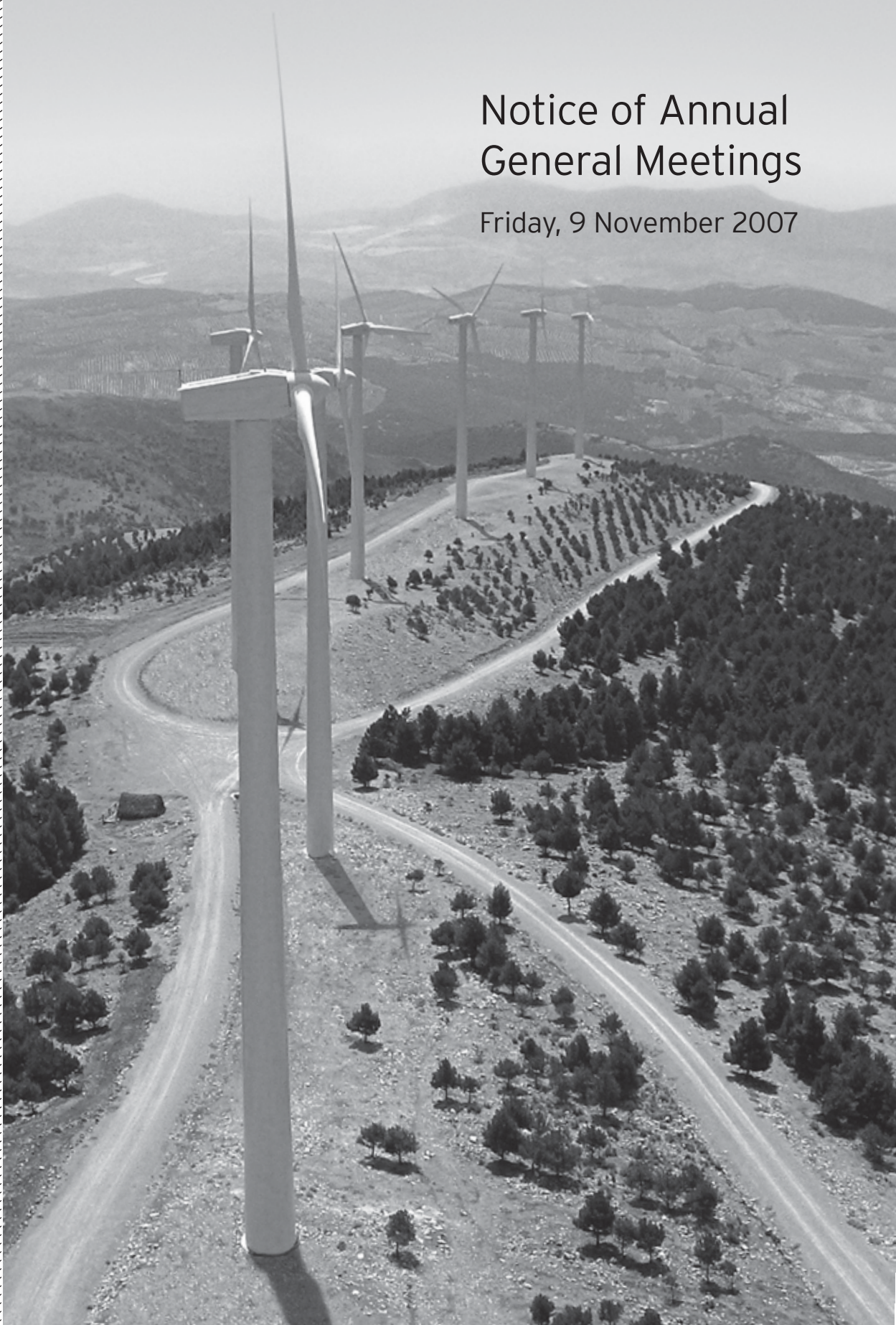
BBW is managed by Babcock & Brown Wind Partners Management Pty Ltd, a wholly owned subsidiary of Babcock & Brown Limited (ASX: BNB), a global investment and advisory firm with longstanding capabilities in structured finance and the creation, syndication and management of asset and cash flow-based investments. Babcock & Brown has a long history of experience in the renewable energy field and extensive experience in the wind energy sector, having arranged financing for over 3000MW of wind energy projects and companies over 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 roles as manager and financial advisor for BBW.

BBW's investment strategy is to grow securityholder wealth through efficient management of the initial portfolio and by selective acquisitions of additional wind energy generation assets.

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

Notice of Annual General Meetings

Friday, 9 November 2007



NOTICE OF

THE ANNUAL GENERAL MEETING OF SHAREHOLDERS OF BABCOCK
& BROWN WIND PARTNERS LIMITED (ABN 39 105 051 616) (COMPANY)

AND

THE ANNUAL GENERAL MEETING OF SHAREHOLDERS OF BABCOCK
& BROWN WIND PARTNERS (BERMUDA) LIMITED (ARBN 116 360 715)
(FOREIGN COMPANY)

AND

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

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

(TOGETHER, THE COMPANY, THE FOREIGN COMPANY AND THE TRUST,
BBW).

Notice is given that the 2007 Annual General Meetings of the Shareholders of the Company and the Foreign Company will be held concurrently with a meeting of Unitholders of the Trust as follows:

Time: 11:00 am (AEDT)

Date: Friday, 9 November 2007

Place: Grand Ballroom, Sofitel Wentworth, 61-101 Phillip Street, Sydney, NSW, Australia

ORDINARY BUSINESS

ITEM 1: FINANCIAL REPORT – COMPANY, FOREIGN COMPANY AND TRUST

TO RECEIVE AND CONSIDER THE COMBINED CONSOLIDATED FINANCIAL REPORT OF BBW AND THE SEPARATE FINANCIAL REPORT OF THE TRUST, AS WELL AS THE RESPECTIVE REPORTS OF THE DIRECTORS AND AUDITOR FOR THE YEAR ENDED 30 JUNE 2007.

There is no vote on this item.

ITEM 2: REMUNERATION REPORT – COMPANY AND FOREIGN COMPANY ONLY

TO ADOPT THE REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2007. THE REMUNERATION REPORT IS SET OUT IN THE DIRECTORS' REPORT INCLUDED WITHIN THE BBW ANNUAL REPORT 2007.

This is a non-binding advisory vote.

ITEM 3: DIRECTOR RE-ELECTION – COMPANY AND FOREIGN COMPANY ONLY

TO CONSIDER, AND IF THOUGHT FIT, TO PASS THE FOLLOWING AS AN ORDINARY RESOLUTION:

That Anthony (Tony) Battle, being a Director of the Company and the Foreign Company, who retires as a Director by rotation in accordance with article 10.3 of the Constitution of the Company and bye-law 12.3 of the Bye-Laws of the Foreign Company, and being eligible offers himself for re-election, is re-elected as a Director of the Company and Foreign Company.

ITEM 4: DIRECTOR RE-ELECTION – COMPANY AND FOREIGN COMPANY ONLY

TO CONSIDER, AND IF THOUGHT FIT, TO PASS THE FOLLOWING AS AN ORDINARY RESOLUTION:

That Warren Murphy, being a Director of the Company and the Foreign Company, who retires as a Director by rotation in accordance with article 10.3 of the Constitution of the Company and bye-law 12.3 of the Bye-Laws of the Foreign Company, and being eligible offers himself for re-election, is re-elected as a Director of the Company and Foreign Company.

ITEM 5: RE-APPOINTMENT OF AUDITOR – FOREIGN COMPANY ONLY

TO CONSIDER, AND IF THOUGHT FIT, TO PASS THE FOLLOWING AS AN ORDINARY RESOLUTION:

That PricewaterhouseCoopers, being the current Auditor of the Foreign Company, be re-appointed as Auditor of the Foreign Company to hold office until the close of the next Annual General Meeting of the Foreign Company at a fee to be determined by the Directors.

ITEM 6: PLACEMENT OF 4.35 MILLION STAPLED SECURITIES TO BABCOCK & BROWN – COMPANY, FOREIGN COMPANY AND TRUST

TO CONSIDER AND, IF THOUGHT FIT, TO PASS THE FOLLOWING AS AN ORDINARY RESOLUTION:

That approval is given for the purposes of ASX Listing Rule 10.11 and all other purposes, for the issue of 4.35 million Stapled Securities at A\$1.80 per Stapled Security to a subsidiary of Babcock & Brown Limited, details of which are set out in the Explanatory Notes attached to this Notice of Meetings.

ITEM 7: APPROVAL OF PAST ISSUE OF STAPLED SECURITIES – COMPANY, FOREIGN COMPANY AND TRUST

TO CONSIDER AND, IF THOUGHT FIT, TO PASS THE FOLLOWING AS AN ORDINARY RESOLUTION:

That approval is given for the purposes of ASX Listing Rule 7.4 and all other purposes, for the past issue of Stapled Securities under the Institutional Placement in April 2007, details of which are set out in the Explanatory Notes attached to this Notice of Meetings.

ITEM 8: RELATED PARTY TRANSACTIONS – ACQUISITION OF THE US07 PORTFOLIO AND 50% OF THE ENERSIS PORTFOLIO – COMPANY, FOREIGN COMPANY AND TRUST

TO CONSIDER AND, IF THOUGHT FIT, TO PASS THE FOLLOWING AS AN ORDINARY RESOLUTION:

That approval is given for the purposes of ASX Listing Rule 10.1 and all other purposes, to BBW acquiring from Babcock & Brown Limited and its associates:

- 50% of the Enersis Portfolio on the terms of the Sale and Purchase Agreement and the Joint Venture Agreement; and
- the US07 Portfolio on the terms of the Purchase, Sale and Contribution Agreement

details of which are set out in the Explanatory Notes attached to this Notice of Meetings.

ITEM 9: ACQUISITION OF REMAINING 50% OF THE ENERSIS PORTFOLIO – COMPANY, FOREIGN COMPANY AND TRUST

TO CONSIDER AND, IF THOUGHT FIT, TO PASS THE FOLLOWING AS AN ORDINARY RESOLUTION:

That approval is given for the purposes of ASX Listing Rule 10.1 and all other purposes, to BBW acquiring the remaining 50% of the Enersis Portfolio from Babcock & Brown Limited and its associates on the terms to be agreed as described in the Explanatory Notes attached to this Notice of Meetings.

SPECIAL BUSINESS

VOTING EXCLUSION STATEMENT

The Company, the Foreign Company and the Responsible Entity will disregard any votes cast:

- (a) on item 6 by Babcock & Brown Limited or its nominee and any of their associates;
- (b) on item 7 by any person who participated in the issues of Stapled Securities being approved, or any associate of any such person. However, BBW has received a waiver from the Australian Securities Exchange (ASX) to enable Securityholders who participated in the Institutional Placement and who act solely in a fiduciary, nominee or custodial capacity on behalf of beneficiaries who did not participate in the Institutional Placement (Nominee Holders) to vote and their vote will be counted where:
 - the beneficiaries provide written confirmation to the Nominee Holders that they did not participate in the Institutional Placement nor are they an associate of a person who participated in Institutional Placement
 - the beneficiaries direct the Nominee Holders to vote for or against the resolution ratifying the issue of Stapled Securities under the Institutional Placement
 - the Nominee Holders do not exercise discretion in casting a vote on behalf of the beneficiaries; and
- (c) on items 8 and 9 by Babcock & Brown Limited and any of its associates.

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

By order of the Boards of BBW

Dated: 5 October 2007



David Richardson
Company Secretary
Babcock & Brown Wind Partners Group

SPECIAL BUSINESS

NOTES

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

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

All proxies must be received prior to 11:00am (AEDT) on Wednesday, 7 November 2007.

- 7 The Board of the Company, the Board of the Foreign Company and the Board of the Responsible Entity of the Trust (collectively, the Boards of BBW) have determined that, for the purposes of the meetings, shares and units will be taken to be held by the persons who are registered as Shareholders and Unitholders as at 7:00pm (AEDT) on Wednesday, 7 November 2007. Accordingly, share transfers and transfers of units registered after that time will be disregarded in determining entitlement to attend and vote at the meetings.

EXPLANATORY NOTES

These Explanatory Notes are intended to provide Shareholders of the Company and the Foreign Company and Unitholders of the Trust (Securityholders) with information to assess the merits of the resolutions contained in the accompanying Notice of Meetings.

The Directors of the Boards of BBW recommend that Securityholders read these Explanatory Notes in full before making any decision on how to vote on the resolutions.

A reference to a Stapled Security is a reference to one share in the Company, one share in the Foreign Company and one unit in the Trust which are stapled together to form a single security and must be traded and otherwise dealt with as a single security.

ORDINARY BUSINESS

ITEM 1: FINANCIAL REPORT – COMPANY, FOREIGN COMPANY AND TRUST

BBW has distributed both the BBW Annual Report 2007 and the Trust Annual Financial Report 2007 (Annual Reports) to Securityholders. The financial reports, as well as the Directors' and Auditor's reports, are included within these Annual Reports. The BBW Annual Report 2007 and the Trust Annual Financial Report 2007 are both available at BBW's website, www.bbwindpartners.com.

Securityholders are not required to vote on the financial reports and the Directors' and Auditor's reports. However, an opportunity for Securityholders to discuss the financial and other reports will be provided at the meetings.

ITEM 2: TO ADOPT THE REMUNERATION REPORT – COMPANY AND FOREIGN COMPANY ONLY

Securityholders are asked to consider and adopt the Remuneration Report of the Company by way of a non-binding resolution. The Remuneration Report is set out in the Directors' Report included within the BBW Annual Report 2007 and is also available from BBW's website, www.bbwindpartners.com.

An opportunity to discuss the Remuneration Report will be provided at the meetings.

The Directors consider that the Remuneration Report discloses that the nature and level of the remuneration paid to Directors and senior executives is fair, reasonable and comparable to other organisations of similar scale. The vote on the Remuneration Report is advisory only, and does not bind the Directors. Notwithstanding that the resolution does not bind the Directors, the Directors will take into account the discussion on this resolution and the outcome of the vote when considering the future remuneration arrangements of the Directors and senior executives.

The Directors of the Boards of the Company and Foreign Company recommend the adoption of the Remuneration Report.

ITEM 3: DIRECTOR RE-ELECTION – COMPANY AND FOREIGN COMPANY ONLY

Anthony (Tony) Battle retires as a Director of the Company and of the Foreign Company and being eligible, offers himself for re-election. Tony was originally appointed to the Board of the Company on 9 September 2005 and the Board of the Foreign Company on 14 September 2005.

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

Tony abstains from recommending this resolution due to his personal interest in the resolution. However, the other Directors of the Company and the Foreign Company unanimously recommend that Shareholders vote in favour of the resolution.

ITEM 4: DIRECTOR RE-ELECTION – COMPANY AND FOREIGN COMPANY ONLY

Warren Murphy retires as a Director of the Company and of the Foreign Company and being eligible, offers himself for re-election. Warren was originally appointed to the Board of the Company on 24 November 2003 and the Board of the Foreign Company on 14 September 2005.

Warren is Co-Head Australian Infrastructure and Head of Australian Energy in the Infrastructure & Project Finance group at Babcock & Brown. Warren has led the development of Babcock & Brown's energy sector capability in Australia and New Zealand, and has specialised in the development of new projects in the infrastructure sector. Warren holds a Bachelor of Engineering (Hons) and a Bachelor of Commerce in Accounting and Economics.

Warren abstains from recommending this resolution due to his personal interest in the resolution. However, the other Directors of the Company and the Foreign Company unanimously recommend that Shareholders vote in favour of the resolution.

EXPLANATORY NOTES

ITEM 5: RE-APPOINTMENT OF AUDITOR – FOREIGN COMPANY ONLY

Section 89 of the Companies Act 1981 (Bermuda) requires that the Auditor of the Foreign Company be appointed as Auditor by the shareholders of the Foreign Company at each Annual General Meeting of the Foreign Company. Upon appointment, the Auditor is to hold office until the close of the next Annual General Meeting. PricewaterhouseCoopers is the current Auditor of the Company, Foreign Company and Trust, and as such, PricewaterhouseCoopers is nominated for re-appointment as Auditor of the Foreign Company up until the close of the next Annual General Meeting.

Section 89 of the Companies Act 1981 (Bermuda) also provides that the Directors of the Foreign Company may approve the remuneration of the Auditor as authorised by the shareholders¹. Directors of the Company and the Responsible Entity of the Trust currently have authority to approve the remuneration of PricewaterhouseCoopers in its capacity as Auditor of both the Company and the Trust. Shareholders are therefore requested to provide the Directors of the Foreign Company with similar authority to approve the remuneration of PricewaterhouseCoopers in its capacity as Auditor of the Foreign Company.

The Directors of the Foreign Company recommend shareholders approve the resolution to re-appoint PricewaterhouseCoopers as Auditor of the Foreign Company.

ITEM 6: PLACEMENT OF 4.35 MILLION STAPLED SECURITIES TO BABCOCK & BROWN

On 27 April 2007, BBW announced the successful completion of an institutional placement of 87.1 million Stapled Securities at \$1.80 per Stapled Security (Institutional Placement). In addition to the Institutional Placement, Babcock & Brown Limited (B&B) agreed that it, or its nominee, would subscribe for 4.35 million Stapled Securities (Conditional Placement) at the same issue price as the Institutional Placement conditional upon the approval of Securityholders.

The proceeds of the Institutional Placement and the Conditional Placement were raised to assist in funding BBW's acquisition of 50% of the Enersis Portfolio, the US07 Portfolio and the Monte Seixo and Serra do Cando wind farms. It was highlighted at the time of the Institutional Placement that the funds raised may also be used to fund other growth opportunities that may become available to BBW, including through the Spanish and Plambeck Framework Agreements and other market opportunities.

Under ASX Listing Rule 10.11, BBW may only issue Stapled Securities to a related party with the approval of its Securityholders. For the purposes of this rule, B&B and its associates are considered to be a related party of BBW. Accordingly, BBW is seeking Securityholder approval to issue 4.35 million Stapled Securities to AGSO Property Pty Ltd, a subsidiary of B&B, as trustee for the B&B Prime Broking Trust. If Securityholders approve the issue of the Stapled Securities under the Conditional Placement for the purpose of ASX Listing Rule 10.11, the issue of Stapled Securities will not use any of BBW's 15% placement capacity or require further approval under ASX Listing Rule 7.1.²

ASX Listing Rule 10.13 requires that Securityholders are provided with the following information:

Date of Issue	Nature of Issue	Number of Securities to be Issued	Issue Price of Securities	Terms of Securities	Allottee	Intended Use of Funds Raised
Anticipated to be 16 November 2007 but in any event not later than 1 month after the meetings	Placement	4.35 million	\$1.80	Fully paid Stapled Securities, ranking equally in all respects with existing Stapled Securities	AGSO Property Pty Ltd as trustee for the B&B Prime Broking Trust	To assist with funding BBW's acquisition of 50% of the Enersis Portfolio, the US07 Portfolio and the Monte Seixo and Serra do Cando wind farms and other growth opportunities including through the Spanish and Plambeck Framework Agreements

The Independent Directors of the Boards of BBW unanimously recommend that Securityholders vote in favour of the issue of Stapled Securities to B&B under the Conditional Placement.

The Stapled Securityholding of the B&B Group is an important and strategic holding as it helps ensure the continued alignment of the interests of the B&B Group with BBW.

¹ The remuneration paid to PricewaterhouseCoopers in their capacity as Auditor of the Company, the Trust and the Foreign Company is shown in note 5 to the Financial Statements in the BBW Annual Report 2007.

² See also Item 7 of the Explanatory Notes to this Notice of Meetings for a discussion of ASX Listing Rule 7.1.

EXPLANATORY NOTES

If approved, the issue of these securities will result in an increase in the holding of the B&B Group in BBW from 11.52% to 11.98%. Further, the approval of the Conditional Placement will raise \$7.83 million which BBW proposes to apply to fund accretive investment opportunities as outlined in these Explanatory Notes.

ITEM 7: APPROVAL OF PAST ISSUE OF STAPLED SECURITIES

Under ASX Listing Rule 7.1, BBW is limited to issuing no more than 15% of its issued capital in any 12 month period without the approval of Securityholders, subject to certain exceptions such as pro-rata issues to all Securityholders.

The issue of Stapled Securities under the Institutional Placement which BBW conducted in April 2007 has resulted in BBW using a substantial part of its placement capacity. Under ASX Listing Rule 7.4, BBW may seek subsequent Securityholder approval for issues of Stapled Securities, and if that approval is granted, such issues cease to count towards the 15% limit.

Since its listing in October 2005, BBW has actively grown its portfolio consistent with its stated investment strategy. BBW has other significant further acquisition opportunities that may become available to it, sourced through its relationship with B&B (including the opportunity to acquire the Enersis Portfolio and the US07 Portfolio outlined in these Explanatory Notes), the Spanish Framework Agreement, the Plambeck Framework Agreement and other market opportunities. These opportunities include an approximately 130MW wind farm project proposed to be located near Bungendore in New South Wales, Australia. This project is currently being developed by a joint venture between B&B, National Power Partners and Carbon Solutions Pty Limited and may be offered to BBW before the end of 2007.

ASX Listing Rule 7.5 requires that where Securityholders are requested to provide subsequent approval to an issue of securities, Securityholders are provided with the following information in relation to those securities:

Date of Issue	Nature of Issue	Number of Securities to be Issued	Issue Price of Securities	Terms of Securities	Allottee/Basis of allottee determination	Use or Intended Use of Funds Raised
4 May 2007	Placement	87.1 million	\$1.80	Fully paid Stapled Securities, ranking equally in all respects with existing Stapled Securities	Persons identified by the lead managers of the Institutional Placement (in consultation with BBW) as persons to whom offers of securities could be made without disclosure under Chapter 6D and Part 7.9 of the Corporations Act 2001	To assist with funding BBW's acquisition of 50% of the Enersis Portfolio, the US07 Portfolio and the Monte Seixo and Serra do Cando wind farms and other growth opportunities including through the Spanish and Plambeck Framework Agreements

BBW is seeking Securityholder approval, pursuant to ASX Listing Rule 7.4 for this issue.

The Boards of BBW believe that it is in the best interests of BBW that the issue of Stapled Securities under the Institutional Placement be approved, to provide BBW with maximum flexibility in its funding options for future attractive investment opportunities whilst also ensuring that an optimal capital structure can be maintained.

The Directors of the Boards of BBW unanimously recommend that Securityholders vote in favour of this resolution.

ITEM 8: RELATED PARTY TRANSACTIONS – ACQUISITION OF US07 PORTFOLIO AND AN INITIAL 50% INTEREST IN ENERSIS PORTFOLIO

(a) Listing Rule requirements – related party transactions

ASX Listing Rule 10.1 provides that BBW must not acquire a substantial asset from, or dispose of a substantial asset to, a related party, unless the acquisition or disposal is approved by Securityholders. For the purpose of this rule, B&B is considered to be a related party of BBW.

In accordance with this ASX Listing Rule, an asset is "substantial" if its value, or the value of the consideration paid for the asset, is more than 5% of the equity interests of the listed entity, as set out in its latest financial accounts.

On the basis of BBW's financial accounts for 30 June 2007, BBW would not be able to acquire an asset from a related party such as B&B with a value of more than approximately A\$37.7 million, without first obtaining Securityholder approval.

EXPLANATORY NOTES

The price to be paid under the Sale and Purchase Agreement for a 50% interest in the entity which owns the Enersis Portfolio of wind farms (the Initial Enersis Acquisition) is approximately €132.6 million (approximately A\$219.4 million)³. Accordingly, the 50% interest in the Enersis Portfolio would be a substantial asset of BBW for the purposes of ASX Listing Rule 10.1.

The price to be paid for B&B's Class B interests in the US07 Portfolio (the US07 Portfolio Acquisition) is approximately US\$308.6 million (approximately A\$374.1 million)⁴. Accordingly, the US07 Portfolio would also be a substantial asset of BBW for the purposes of ASX Listing Rule 10.1.

ASX Listing Rule 10.10 requires the notice of meeting for a related party transaction to include an independent expert's report on the fairness and reasonableness of the transaction to Securityholders (in this case, excluding B&B and its associates).

Opinion of the Independent Expert

KPMG has prepared an independent expert report in relation to the related party transactions to be considered at the meetings (attached as Appendix 1). KPMG has concluded in its report that, when considered together, the Initial Enersis Acquisition and the US07 Portfolio Acquisition (the Related Party Acquisitions) are fair and reasonable from the perspective of Securityholders (excluding B&B and its associates).

(b) Related Party Acquisitions Overview

The Related Party Acquisitions provide a significant opportunity for BBW to achieve step change growth and further diversification of BBW's global wind energy business consistent with its stated investment strategy. The Related Party Acquisitions are expected to be accretive – delivering a substantial increase in net operating cash flow and distributions per security.

Whilst the Initial Enersis Acquisition and the US07 Portfolio Acquisition are each considered to be attractive stand alone acquisition opportunities, BBW considers that the combination of the two transactions provides portfolio style benefits which exceed a "sum of the parts" analysis in terms of the diversification of wind regions, regulatory regimes, offtake arrangements and asset maturities. Accordingly BBW considers that the Related Party Acquisitions as a combined portfolio will maximise the value to BBW of both Related Party Acquisitions.

The following table summarises the anticipated financial impact of the Related Party Acquisitions.

³ This figure does not include: (i) transaction costs which will be incurred associated with the Initial Enersis Acquisition (estimated at approximately €1.3 million (A\$2.2 million)); (ii) fees to be paid to B&B for financial advisory services in connection with the Initial Enersis Acquisition (estimated at approximately €6.8 million (A\$11.3 million)); and (iii) an adjustment to reflect the return on the investment from 1 July 2007 through to the settlement date (approximately €5.1 million (A\$8.4 million)).

⁴ This figure does not include: (i) transaction costs which will be incurred associated with the US07 Portfolio Acquisition (estimated at approximately US\$2 million (A\$2.4 million)); and (ii) fees to be paid to B&B for financial advisory services in connection with the US07 Portfolio Acquisition (estimated at approximately US\$7.0 million (A\$8.5 million)). The actual price payable at each closing is determined in accordance with a pricing and valuation mechanism set out in the PSA which is described in more detail in Schedule 7 to these Explanatory Notes.

EXPLANATORY NOTES

TABLE 1: FINANCIAL IMPACT OF RELATED PARTY ACQUISITIONS

	FY07	FY08 PRO FORMA			FY09 PRO FORMA		
	Actual	Current	Related Party Acquisitions	Pro Forma	Current	Related Party Acquisitions	Pro Forma
Net operating cash flow	79.8	120.0	57.4	177.4	141.0	72.1	213.1
Notional interest on cash balances ⁵	-	20.0	(20.0)	-	20.0	(20.0)	-
Net operating cash flow (including notional interest)	79.8	140.0	37.4	177.4	161.0	52.1	213.1
Notional debt repayment ⁶	(16.4)	(25.4)	(29.2)	(54.6)	(33.2)	(34.5)	(67.7)
Net operating cash flow after notional debt repayment	63.4	114.6	8.2	122.8	127.8	17.6	145.4
Net Operating Cash Flow after notional debt repayment per security ⁷	12.6 ⁸	14.0	1.0	15.0	15.3	2.1	17.4
Distribution per security ⁹	12.5	14.0	0.5	14.5	14.5 ¹⁰	1.0	15.5
Pro forma Net Debt (A\$'m)	1,079 ¹¹	1,213 ¹²	1,291 ^{13,14}	2,504			
Proforma ratio of Net Debt to Enterprise Value ¹⁵	45%	43%	72% ¹⁶	61%			

As a result of the Related Party Acquisitions:

- Net Operating Cash Flow¹⁷ is expected to be increased by A\$57.4 million in FY08 and A\$72.1 million in FY09
- Net Operating Cash Flow after notional debt repayment per security is expected to be increased by 7.1% to 15.0 cents per security in FY08 and by 13.8% to 17.4 cents per security in FY09
- Pro forma Net Debt to Enterprise Value would remain conservative increasing from 43% to 61%.

The Related Party Acquisitions are each described in more detail in the sections which follow.

5 Notional interest of A\$20 million per annum on cash balances of approximately A\$355 million would be generated if these funds were not applied to the Related Party Acquisitions or alternative accretive acquisitions.

6 Notional debt repayment assumes average net debt balance repaid over 25 years on a straightline basis with a 30% residual balance.

7 Net Operating Cash Flow and distribution per security assumes 819m securities in FY08 and 834m securities in FY09. Assumed number of securities in FY08 (819m) based on: securities as at 30 June 2007 (673m) + issued as part of Alinta Scheme (130m) + DRP (12m) + conditional placement to B&B (4m). Assumed number of securities in FY09 (834m) based on: FY08 securities (819m) + DRP (15m).

8 Based on FY07 weighted number of securities of 501.5m: actual weighted number of securities (594.2m) less securities attributable to assets under construction (92.7m) based on assets under construction (\$238m); average gearing in FY07 (36%) and FY07 volume weighted average price (\$1.64).

9 Net Operating Cash Flow and distribution per security assumes 819m securities in FY08 and 834m securities in FY09. Assumed number of securities in FY08 (819m) based on: securities as at 30 June 2007 (673m) + issued as part of Alinta Scheme (130m) + DRP (12m) + conditional placement to B&B (4m). Assumed number of securities in FY09 (834m) based on: FY08 securities (819m) + DRP (15m).

10 Assumes 3.5% growth in line with Directors' growth target guidance over the medium term, excluding acquisitions.

11 After deducting cash of \$182m relating to the 29 June 2007 purchase of Allegheny Ridge Phase I and GSG (paid on 2 July 2007).

12 Includes pro forma adjustments relating to acquisitions of Valdeconejos and the remaining 30% of Conjuero in Spain; net proceeds of A\$199 million relating to BBW's participation in the Alinta Scheme of Arrangement; completed and committed construction costs of Lake Bonney Stage 2 and Fruges I & II wind farms; future commitments relating to remaining wind farm (Allegheny Ridge Phase 2) to be acquired as part of the US06 Portfolio Acquisition and the issuance of 4.35 million stapled securities to B&B at A\$1.80 per stapled security pursuant to BBW's Conditional Placement in April 2007 (subject to Securityholder vote).

13 Riva Holdings group has capital expenditure commitments of approximately A\$90 million and BBW has included a 50% interest, or A\$45 million, in the presentation above. As detailed in Schedule 1(c) BBW will consolidate the balance sheet of Riva Holdings group and therefore reflect 100% of the debt on its balance sheet.

14 Incorporates BBW's proportional interest (50%) of debt of Riva Holdings group. As detailed in Schedule 1(c) of these Explanatory Notes, BBW will consolidate the balance sheet of Riva Holdings group and therefore reflect 100% of the debt on its balance sheet.

15 Enterprise Value = Equity + Net Debt; Equity assumes 819m securities in FY08 @ \$1.95 per security based on the market value of a BBW security at 30 June 2007 (\$1,597 million). Assumed number of securities in FY08 (819m) based on: securities as at 30 June 2007 (673m) + issued as part of Alinta Scheme (130m) + DRP (12m) + conditional placement to B&B (4m).

16 Based on total debt (A\$935 million) as a ratio of total cost (A\$1,291 million) associated with the Related Party Acquisitions.

17 Net Operating Cash Flow: EBITDA plus US Distributions less Corporate Costs, Interest Paid, Tax paid, changes in working capital; before investment related CAPEX, acquisitions and notional debt repayments. Net Operating Cash Flow does not include proceeds from re-gearing, refinancing or restructuring initiatives. Interest Paid includes interest paid, excluding capitalised interest on construction projects, less interest received.

EXPLANATORY NOTES

(c) Enersis Portfolio

(i) Overview

The “Enersis Portfolio” is a portfolio of 30 wind farms located in Portugal. The wind farms have a total capacity of 524.8MW, including 68.6MW under construction. The wind farms in the Enersis Portfolio are set out in the table below.

TABLE 2: ENERSIS PORTFOLIO

Name of wind farm	MW	Commercial operation date
Achada	6.9	May 2005
Arcela**	11.5	August 2005
Bigorne	7.0	May 2002
Borninhos	2.0	May 2004
Cabeço Alto	11.7	September 2002
Candeeiros	111.0	June 2005
Chão Falcão I	34.5	December 2004
Degracias**	20.0	August 2005
Freita I	18.4	July 2002
Igreja Nova	3.3	October 1999
	3.9	December 2002
Jarmeleira	0.9	July 2002
Lagoa Funda	9.0	January 1995
Lomba da Seixa I	13.0	January 2001
Lomba da Seixa II	12.0	May 2004
Lousã I*	35.0	August 2006 (provisional takeover)
Malhadas	9.9	July 2001
Malhadizes	12.0	January 2005
Meroicinha	9.0	October 2003
Na Sra da Vitória	12.0	November 2004
Pampilhosa	114.0	September 2005
Rabaçal**	2.0	August 2005
São Cristóvão	3.3	January 2000
São Cristóvão II*	2.0	December 2007 (expected)
Sao Mamede	6.9	February 2006
Serra de Escusa	2.0	February 2005
S. de Todo o Mundo	10.0	August 2004
Vila Lobos	10.0	March 1998
Chiqueiro*	4.0	December 2007 (expected)
São Macário*	11.5	December 2007 (expected)
Leomil*	16.1	December 2007 (expected)
TOTAL	524.8	

* indicates that the wind farm is under construction

** indicates less than 100% ownership interest in the wind farm

Further details of each of the wind farms in the Enersis Portfolio are set out in the table attached at Schedule 2 to these Explanatory Notes.

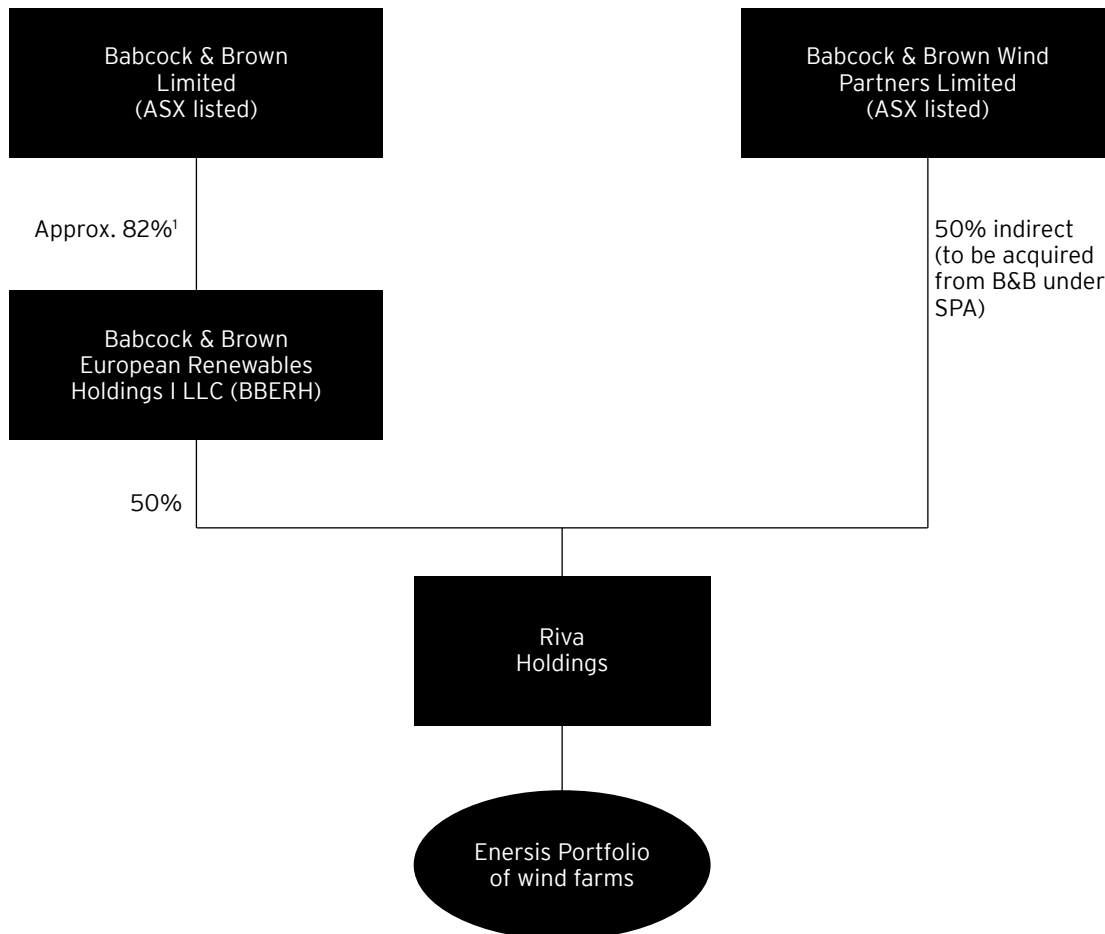
EXPLANATORY NOTES

The Initial Enersis Acquisition would provide significant diversification and increased scale benefits for BBW, which are further described below in paragraph (e)(i) below. In particular, the Initial Enersis Acquisition would expand BBW's portfolio into Portugal which has demonstrated long-term support for renewable energy and provides attractive regulatory incentives for wind energy generation.

(ii) Transaction structure

(A) Overview of transaction

TABLE 3: INITIAL ENERSIS ACQUISITION - TRANSACTION STRUCTURE



¹ B&B US employee stakeholders own approximately 18% of an intermediate holding company

A wholly owned subsidiary of Babcock & Brown Wind Partners Limited (BBW Sub) has entered into a sale and purchase agreement (the Sale and Purchase Agreement) with Babcock & Brown European Renewables Holdings I LLC (BBERH), a subsidiary of B&B, in relation to BBW Sub acquiring 50% of the issued share capital of Babcock & Brown Riva Holdings S.à.r.l (Riva Holdings). Riva Holdings is the holding company for the Enersis Portfolio.

The consideration payable by BBW Sub for the Initial Enersis Acquisition is approximately €132.6 million (A\$219.4 million) in cash, before transaction costs, plus an adjustment to reflect the return on the investment from 1 July 2007 through to the settlement date, estimated to be approximately €5.1 million (A\$8.4 million).

Completion of the Initial Enersis Acquisition under the Sale and Purchase Agreement (Closing) is subject to certain conditions precedent as described in the summary of the Sale and Purchase Agreement contained in Schedule 6 to these Explanatory Notes, including approval of Securityholders as sought in this Item 8 of the Notice of Meetings. BBW expects Closing to occur by 13 November 2007.

(B) Joint Venture Agreement

At Closing, BBW Sub and BBERH will enter into a joint venture agreement (the Joint Venture Agreement). The Joint Venture Agreement will govern the operation of Riva Holdings as a joint venture between BBW Sub and BBERH.¹⁸

¹⁸ B&B has borrowed against the Remaining Shares on a secured basis. All of BBW's rights under the Joint Venture Agreement, including its casting vote in relation to decision making for Riva Holdings, would be subject to the rights of B&B's lenders to exercise security over the Remaining Shares if B&B defaulted on this loan.

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Certain “reserved” matters, being those matters having a material effect on the business of Riva Holdings, will require the collective approval of BBW Sub and BBERH. In the event of a deadlock, the Joint Venture Agreement provides for the parties’ senior management to negotiate in good faith. If the matter is not resolved, BBW Sub will hold a casting vote, except for matters designated as “fundamental”.¹⁹

Under the Joint Venture Agreement, BBW will hold a first and last right of refusal over B&B’s remaining 50% shareholding in Riva Holdings (the Remaining Shares). This mechanism operates as follows:

- B&B must offer the Remaining Shares to BBW by 30 September 2008, at a price being the higher of the price that BBW paid for the Initial Enersis Acquisition and the market value of the Remaining Shares at the time, and on other terms no less favourable to BBW than under the Initial Enersis Acquisition;
- BBW may accept or reject the offer²⁰;
- if BBW accepts the offer, B&B must sell to BBW;
- if BBW rejects the offer, B&B may sell the Remaining Shares to a third party (subject to consent from BBW as to the identity of the third party, acting reasonably) on terms no more favourable than the offer made to BBW;
- if B&B cannot find a third party willing to buy its Riva Holdings stake for at least an equivalent deal (including price) as that offered to BBW, then B&B must offer the Remaining Shares to BBW on the lesser terms that a third party buyer is willing to pay for them;
- BBW may accept or reject the lower offer: if rejected, B&B may sell to the third party (subject to consent from BBW as to the identity of the third party, acting reasonably); if accepted, B&B must sell to BBW.

The Joint Venture Agreement provides that if BBW rejects the offer to buy the Remaining Shares and B&B sells these shares to a third party, BBW Sub will cede its casting vote and would no longer be in a position to control Riva Holdings, but would share decision making power with respect to Riva Holdings jointly with its new co-investor.

If BBW rejects the offer to acquire the Remaining Shares and B&B did not sell these to a third party, then the Joint Venture Agreement would remain on foot, with both parties holding pre-emptive rights in relation to a sale by the other party of their shares in Riva Holdings.

(iii) Funding

BBW intends to equity fund the Initial Enersis Acquisition from cash on hand as described in the table below.

TABLE 4: INITIAL ENERSIS ACQUISITION – FUNDING

Sources	€’m	A\$m	Uses	€’m	A\$m
Cash on hand ²¹	145.8	241.3	Acquisition payments	132.6	219.4
			Transaction costs		
			B&B advisory fees	6.8	11.3
			Other acquisition costs	1.3	2.2
			Cost of carry	5.1	8.4
Total	145.8	241.3		145.8	241.3

(iv) Transaction costs

If BBW completes the Initial Enersis Acquisition, it will pay B&B a financial advisory fee of approximately €6.8 million (A\$11.3 million) in accordance with the Exclusive Financial Advisory Agreement.²²

BBW expects to incur an additional €1.3 million (approximately A\$2.2 million) of third party transaction costs in relation to the Initial Enersis Acquisition whether the transaction is approved or otherwise.

(v) Financial impact of the Initial Enersis Acquisition

Please refer to Schedule 1 of these Explanatory Notes for a more detailed analysis of the anticipated financial impact of both the Initial Enersis Acquisition and the US07 Portfolio Acquisition.

(vi) Other important considerations

(A) Long-term ownership and control

The Initial Enersis Acquisition involves BBERH retaining a (50%) stake in Riva Holdings. While BBERH holds these Remaining Shares, BBW Sub will control Riva Holdings by virtue of a casting vote in relation to certain Shareholder decisions.²³

¹⁹ See Schedule 6 of these Explanatory Notes for further details.

²⁰ The acquisition by BBW Sub of the Remaining Shares in Riva Holdings is subject to the approval of BBW Independent Directors and BBW Securityholders. See Item 9 of these Explanatory Notes for further details.

²¹ Pursuant to the Initial Enersis Acquisition, BBW will assume approximately A\$620 million of project level debt based on its 50% proportionate interest. As described in Schedule 1(d)(i) of these Explanatory Notes, as BBW would have a controlling interest in Riva Holdings, the balance sheet will include the consolidation of 100% of the Riva Holdings group debt.

²² See page 143 of the BBW IPO Prospectus and Product Disclosure Statement dated 26 September 2005 for a description of the Exclusive Financial Advisory Agreement. A copy of this document is available from BBW’s website, www.bbwindpartners.com.

²³ The Joint Venture Agreement will govern the operation of Riva Holdings as a joint venture. A summary of the terms of the Joint Venture Agreement is set out in Schedule 6. BBW’s rights under the Joint Venture Agreement are Subject to rights retained by B&B’s lenders as noted in footnote 18.

EXPLANATORY NOTES

BBERH is obliged to offer to sell the Remaining Shares to BBW Sub prior to 30 September 2008. If BBW Sub acquires these shares, it would then own 100% of Riva Holdings and would therefore be able to exercise complete control over the Enersis Portfolio.²⁴

If BBW Sub does not acquire the Remaining Shares in Riva Holdings, BBERH may sell these shares to a third party. In this circumstance, BBW Sub would cede its casting vote and would therefore no longer be in a position to control Riva Holdings, or the Enersis Portfolio, but would share decision making power with respect to Riva Holdings jointly with its new co-investor. This scenario would provide BBW Sub with less control in managing and refinancing the Enersis Portfolio than if it owned 100%.

(B) Enersis Portfolio development pipeline

Subsidiaries of Riva Holdings have entered into a development agreement with a subsidiary of B&B pursuant to which those subsidiaries of Riva Holdings have committed to fund four additional wind farms that are currently being developed (Development Agreement). These commitments relate to developments of 156.3MW in total, namely: Bornes (60MW), Lousã II (51MW), Chão Falcão II (25.3MW) and Chão Falcão III (20MW).

Under the terms of the Development Agreement, once a wind farm development has reached financial close, the relevant Riva Holdings subsidiary is required to fund the wind farm's construction, pay development and advisory fees to B&B and reimburse B&B for the development costs of the project. This funding obligation is also subject to the following criteria having been met:

- the forecast internal rate of return from such an investment must be equal to BBW's forecast return in relation to the Initial Enersis Acquisition²⁵; and
- the total enterprise value price for the development projects must not exceed €2.33 million per installed megawatt.

BBW Sub would be responsible for providing its proportionate share of the funding necessary for these purposes through Riva Holdings. Based on a 50% shareholding in Riva Holdings, BBW Sub's likely equity investment commitment in relation to these four development projects is approximately €40-50 million (A\$66-83 million). BBW has not specifically identified capital for this purpose, however it would incorporate this prospective requirement in its capital planning over the next two years as the precise amounts and timing of the requirements are confirmed.

It is possible that some of the development projects will have reached the construction phase by Closing (which is expected to occur on or about 13 November 2007). In this circumstance, BBW Sub would fund its investment in that additional wind farm project simultaneously with the Initial Enersis Acquisition. BBW expects that the four wind farm developments will have all reached the construction phase before 30 June 2009.

(C) Asset management

The Enersis Portfolio is managed by a subsidiary of B&B that was acquired when B&B acquired the Enersis business in December 2005. This B&B subsidiary manages the assets under the terms of an existing service agreement covering all wind farms in the Enersis Portfolio. The terms of the asset management services provided by the B&B subsidiary are considered market and include operational management, 24 hour operations centre for monitoring wind farm activities, operational performance reporting, management of third party operations and maintenance providers, regulatory representation, financial reporting and insurance.

²⁴ The acquisition by BBW Sub of the Remaining Shares in Riva Holdings is subject to the approval of BBW Independent Directors and BBW Securityholders. See Item 9 of these Explanatory Notes for further details.

²⁵ Adjusted for changes, such as movements in risk free interest rates, working capital adjustments, and other factors or assumptions as considered relevant and as agreed between the parties, each acting reasonably.

EXPLANATORY NOTES

(d) US07 PORTFOLIO

(i) Overview

This acquisition is a large scale transaction and represents the next phase of BBW's acquisition of US wind farms. The wind farms comprising the US07 Portfolio are set out in the table below.

TABLE 5: US07 PORTFOLIO

Name of wind farm	Location	MW	Commercial operation date
Cedar Creek	Colorado	300.5	First half 2008 (expected)
Sweetwater 4	Texas	240.8	May 2007
Sweetwater 5	Texas	80.5	First half 2008 (expected)
Total		621.8MW	

BBW is proposing to acquire 53% of the Class B interests in each of Sweetwater 4 and 5 and 66.67% of the Class B interest in Cedar Creek. Sweetwater 4 and 5 are two further staged developments of the Sweetwater wind farm in Texas, in which BBW already has an ownership interest.

The acquisition of the US07 Portfolio would provide significant diversification and increased scale benefits for BBW, which are further described in paragraph (e)(i) below. In particular, the US07 Portfolio would expand BBW's presence in the USA which has been the fastest growing market in terms of new installed capacity over the last two years. These wind farms would add significant scale to BBW's asset base in the USA and provide exposure to another wind resource region that is not well correlated with BBW's other wind regions in the USA.

(ii) Transaction structure

Ownership of Class B interests

There are two holding companies for the wind farm projects: Cedar Creek Holding Company and Sweetwater 4-5 Holding Company (Holding Companies). The interests in these holding companies are divided between Class A interests and Class B interests.²⁶ BBW's existing US wind farm interests are held as Class B interests.

A B&B affiliate, BBPOP Wind Equity LLC (BBPOP) holds 66.67% of the Class B interests in the Cedar Creek Holding Company and, currently, 52% of the Class B interests in the Sweetwater 4-5 Holding Company. BBPOP holds these Class B interests through two project specific entities, B&B Cedar Creek LLC and B&B Sweetwater 4-5 LLC (referred to as the "B&B Class B Investors" and together with third party Class B investors as "Class B Investors").

Equity Capital Contribution Agreements

The Class B Investors have entered into equity capital contribution agreements (each an ECCA) with US institutional investors (Class A Investors) that set out the terms on which the Class B Investors and the Class A Investors will each make capital contributions to the Holding Companies to fund the acquisition of the shares in the underlying wind farm project companies from Babcock & Brown Renewable Holdings Inc. (B&B Seller) and another owner. An ECCA has been entered into for each of the Sweetwater 4-5 (Sweetwater 4-5 ECCA) wind project and the Cedar Creek (Cedar Creek ECCA) wind project.

The first closing under the Sweetwater 4-5 ECCA occurred on 24 May 2007 at which time the Sweetwater 4-5 Holding Company acquired the shares of the project company that owns the Sweetwater 4 wind farm from B&B Seller and another owner. At the future closing relating to Sweetwater 5 under the terms of the ECCA BBW would increase its Class B ownership of the Sweetwater 4-5 Holding Company from 52% to 53%.

A summary of the ECCAs is contained in Schedule 7 to these Explanatory Notes.

Purchase, Sale and Contribution Agreement

Subsequent to the first closing under the Sweetwater 4-5 ECCA, BBW's US subsidiary, Babcock & Brown Wind Partners - US LLC (BBW Purchaser), has entered into the Purchase, Sale and Contribution Agreement (PSA) with B&B Seller and BBPOP. Under the PSA, BBW Purchaser has agreed to acquire, for a price payable in cash, 100% of the membership interests in the B&B Class B Investors from BBPOP. Completion of the acquisition under the PSA is subject to approval of Securityholders in accordance with this Item 8 of the Notice of Meetings.

A summary of the PSA is contained in Schedule 7 to these Explanatory Notes.

Closings under the PSA

The PSA provides for separate (but potentially simultaneous) closings in relation to Sweetwater 4, Sweetwater 5, Cedar Creek and additional turbines at Cedar Creek (each a Closing).

The first Closing is expected to occur in respect of Sweetwater 4 in late 2007, at which time BBPOP will sell the B&B Class B Investor in the Sweetwater 4-5 Holding Company to BBW Purchaser.

At the Closing in respect of Cedar Creek, expected to occur in the first half of 2008, BBPOP will sell the B&B Class B Investor in the Cedar Creek Holding Company to BBW Purchaser.

EXPLANATORY NOTES

At the Closings for Sweetwater 5 and the additional 20 turbines at Cedar Creek, expected to occur in the first half of 2008, under the terms of the PSA, BBW Purchaser must cause the required Class B equity capital contributions to be made to the relevant Holding Company under the ECCA.

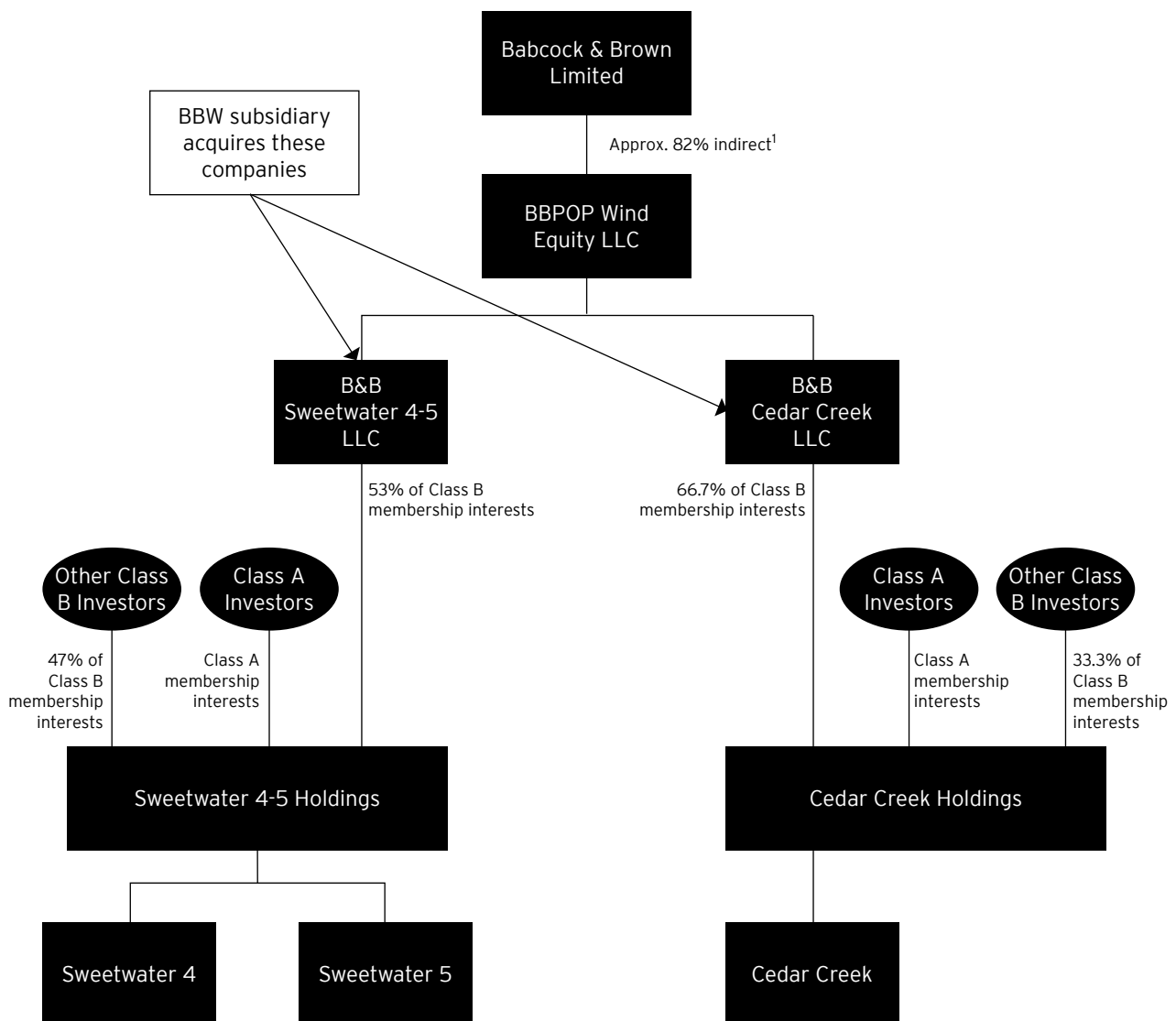
Ownership of US07 Portfolio

These arrangements will result in BBW holding its interest in the US07 Portfolio in a manner consistent with the structure under which BBW currently holds its interests in other US wind farms. BBW will own 53% of the Class B interests in Sweetwater 4 and Sweetwater 5, and 66.67% of the Class B interests in Cedar Creek.

The key characteristics of each wind farm comprising the US07 Portfolio are set out in the table included in Schedule 3 to these Explanatory Notes. Details of BBW's existing portfolio and the subsequent addition to the portfolio which would result from the US07 Portfolio Acquisition is summarised in the table included in Schedule 4 to these Explanatory Notes.

A diagram of the US07 Portfolio Acquisition is set out below:

TABLE 6: US07 PORTFOLIO ACQUISITION - TRANSACTION STRUCTURE



¹ B&B US employee stakeholders own approximately 18% of an intermediate holding company.

EXPLANATORY NOTES

(iii) Funding

BBW intends to fund the US07 Portfolio Acquisition from cash on hand and additional borrowing facilities as described in the table below.

TABLE 7: US07 PORTFOLIO ACQUISITION FUNDING

Sources	USD'm	A\$m	Uses	USD'm	A\$m
Cash on hand	95.3	115.5	Acquisition payments ²⁷	308.6	374.1
Additional facilities drawn under BBW global corporate facility	222.3	269.5	Transaction Costs		
			B&B Advisory fees	7.0	8.5
			Other Acquisition costs	2.0	2.4
Total	317.6	385.0		317.6	385.0

(iv) Transaction costs

If BBW completes the US07 Portfolio Acquisition, it will pay B&B a financial advisory fee of approximately US\$7.0 million (A\$8.5 million) in accordance with the Exclusive Financial Advisory Agreement.²⁸

BBW expects to incur an additional US\$2.0 million (approximately A\$2.4 million) of third party transaction costs in relation to the US07 Portfolio Acquisition whether the transaction is approved or otherwise.

(v) Financial impact of the US07 transaction

Please refer to Schedule 1 of these Explanatory Notes for a more detailed analysis of the anticipated financial impact of both the Initial Enersis Acquisition and the US07 Portfolio Acquisition.

(vi) Other important considerations

(A) **Price adjustment for Hedging of Sweetwater 5.** Sweetwater 5's revenues are presently market based. BBW Purchaser has agreed that if, within 90 days after the Sweetwater 5 Closing, B&B Seller or its affiliates arrange an acceptable long-term revenue hedge with a counterparty with acceptable credit standing then the price to be paid by BBW Purchaser for the Class B interest in Sweetwater 4-5 would be adjusted by changing the following components of the Sweetwater 4-5 financial model:

- replacement of market forecast prices with the long term revenue hedge prices; and
- the adoption of a 0.125% lower discount rate than that applying to the base "unhedged" model to reflect the lower risk.

(B) **Transaction effective from 1 July 2007.** At each Closing BBW will obtain the actual Class B distributions from the later of 1 July 2007 or the commencement of commercial operations, less a discount. The discount is to account for the deferral in settlement.

(C) **Asset management.** The US07 Portfolio will be integrated into BBW's existing asset management framework. This is expected to be a manageable integration process given that BBW already has existing asset management arrangements in the US, this being the fourth portfolio of wind farm assets in the US which BBW has acquired from B&B.

Each wind farm entity has appointed, or is expected to appoint, a subsidiary of B&B, Babcock & Brown Power Operating Partners LLC:

- under a project administration agreement, to act as the project administrator; and
- under a balance of plant operations and maintenance agreement, to be responsible for operational aspects of the wind farm site other than the turbines.

(e) ASSESSMENT OF THE RELATED PARTY ACQUISITIONS

(i) Advantages of approving the Related Party Acquisitions

BBW believes that approval of the Related Party Acquisitions should provide BBW with the following advantages:

(A) Financial benefits

Initial Enersis Acquisition

The Initial Enersis Acquisition is expected to be immediately accretive to BBW's net operating cash flow. The acquisition price is attractive to BBW relative to multiples and valuation parameters witnessed recently in relation to US and European wind portfolios.

²⁷ The actual price payable at each closing is determined in accordance with a pricing and valuation mechanism set out in the PSA which is described in more detail in Schedule 7 to these Explanatory Notes.

²⁸ See page 143 of the BBW IPO Prospectus and Product Disclosure Statement dated 26 September 2005 for a description of the Exclusive Financial Advisory Agreement. A copy of this document is available from BBW's website, www.bbwindpartners.com.

US07 Portfolio Acquisition

Together with the other Class B Investors²⁹, BBW would receive all of the operating cash flow from the wind farms until approximately December 2013.³⁰ This provides strong yield for BBW to support its capacity to make distributions to Securityholders and, as such, the US07 Portfolio Acquisition is expected to be immediately accretive to net operating cash flow upon the wind farms becoming fully operational. The addition of the US07 Portfolio is also complementary to the cash flow profile of BBW's existing US wind farm assets as it will extend the period in which BBW will receive cash distributions for the US assets.

(B) Further diversification

The increased wind resource diversification from the addition of the Enersis Portfolio and US07 Portfolio would enhance the "portfolio effect" of BBW's assets, thereby reducing the impact of the natural wind variability of individual wind farms and individual wind regions on BBW's overall portfolio performance. See Schedule 5 for further analysis of the diversification impact of the Related Party Acquisitions.

Enersis Portfolio Acquisition

The location of the Enersis Portfolio in Portugal, where BBW currently has no assets, and the feed-in tariff regulatory system, will further enhance the overall diversity of the BBW wind farm portfolio in terms of wind resource, currency, equipment supplier, offtake arrangements and regulatory regime.

Portugal has demonstrated strong support for renewable energy sources, such as wind energy, over many years. This stable regulatory environment has led to the strong growth of the wind energy industry in Portugal and fits with one of BBW's key investment criteria to invest in countries that have, and are expected to continue to provide, strong regulatory incentives for renewable and wind energy generation.

The price for the energy that the Enersis Portfolio produces and sells into the market is fixed pursuant to legislation by the Portuguese government for approximately the next 13 years (average across the portfolio). This feature should provide relative stability and certainty in revenues from the Enersis Portfolio and increase the average energy price stability of BBW's portfolio.

The turbines within the Enersis Portfolio are manufactured by a variety of reputable turbine manufacturers including Vestas, Nordex, General Electric (GE), Enercon and Mitsubishi.

US07 Portfolio Acquisition

The wind farms which make up the US07 Portfolio will add to the overall diversity of the BBW wind farm portfolio in terms of currency, equipment supplier, offtake arrangements and regulatory regime.

The revenues generated by the US07 Portfolio will consist of contracted and market revenues. Sweetwater 4 and Cedar Creek are both supported by long term power purchase contracts for terms of 20 years. Sweetwater 5 currently provides BBW with market based exposure, with the potential for a long-term power purchase contract to be negotiated.

The US07 Portfolio Acquisition will also result in the addition of a separate wind region in the US, with Cedar Creek located in Colorado. The US07 Portfolio will also introduce another reputable turbine manufacturer, Siemens, into BBW's portfolio.

(C) Increased scale

The Initial Enersis Acquisition and the US07 Portfolio Acquisition would increase BBW's generation capacity by approximately 42.5% and expected long term mean energy production by 1878.0 GWh.³¹ BBW currently owns 50% of the Class B Membership interests for the Sweetwater 1, 2 & 3 wind farms which are adjacent to Sweetwater 4 & 5. The addition of Sweetwater 4 & 5 to BBW's portfolio will provide further scale and scope for future potential operational synergies within the Sweetwater wind farm complex.

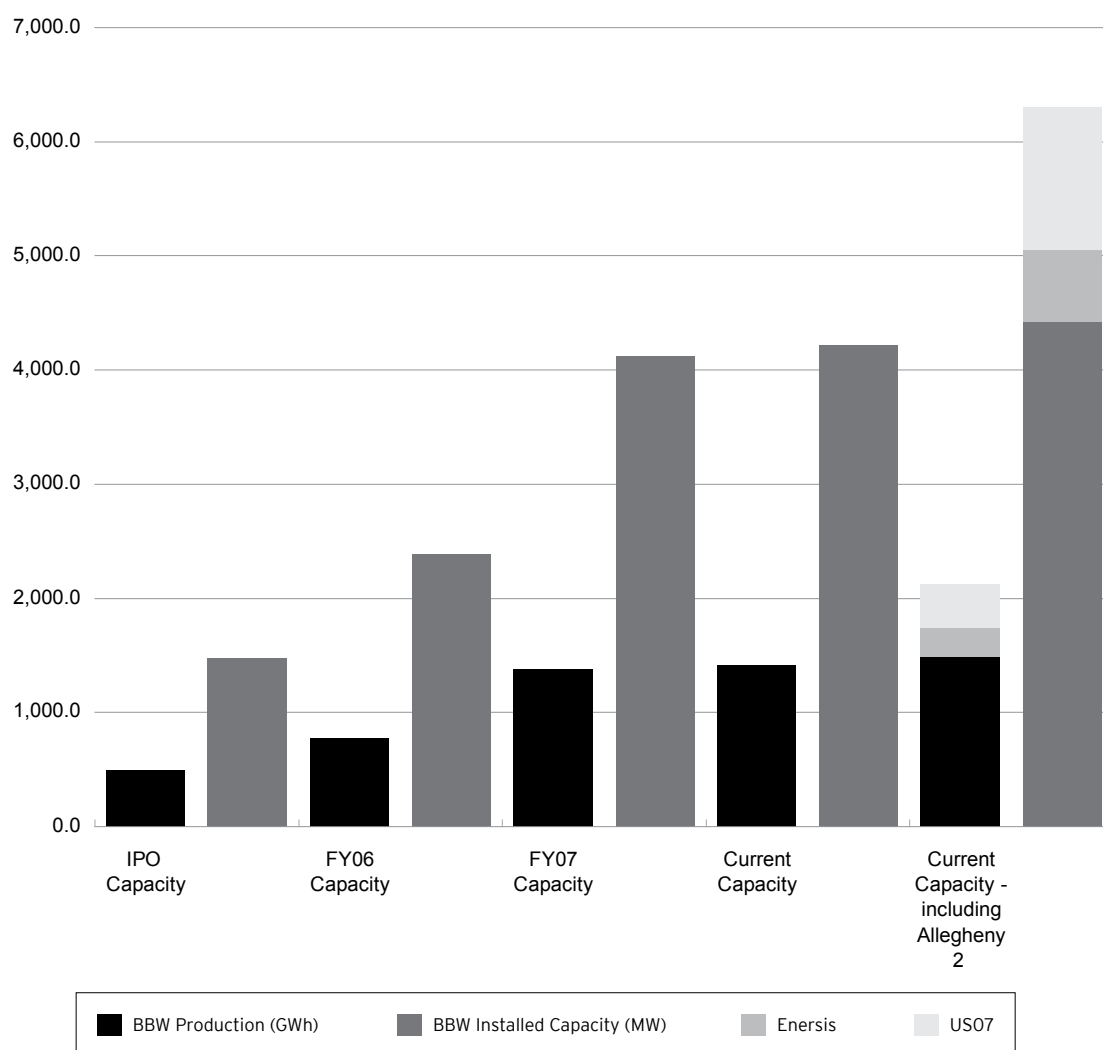
²⁹ Each in their proportionate shares.

³⁰ See Schedule 1(b)(ii) for a discussion of the cash flow profile of BBW's US assets.

³¹ Based on BBW's proposed 50% proportionate interest in the Enersis Portfolio.

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TABLE 8: IMPACT OF RELATED PARTY ACQUISITIONS ON GENERATION CAPACITY



(D) Future growth

The Initial Enersis Acquisition should avail BBW of additional wind farm investment opportunities. This arises from the first and last right of refusal to acquire the remaining 50% interest in Riva Holdings and the possibility of future expansion to the Enersis Portfolio on similarly accretive terms pursuant to the Joint Venture Agreement.

(E) Operating and management history

The Enersis Portfolio has up to 12 years operating history, with an average of over two years across the 30 wind farms which make up the portfolio. This has provided additional certainty to the forecast production from the Enersis Portfolio.

Only four of the 30 wind farms in the Enersis Portfolio are still in construction. The established nature of the Enersis Portfolio should have the effect of limiting the impact of delays and/or ramp-up losses associated with early stages of operation of new wind farms.

(ii) Risks associated with approving the resolution

The following material risks have been identified by BBW as being associated with the Related Party Acquisitions:

(A) Operational uncertainty

The future revenue and net cash flow projections associated with the Related Party Acquisitions are based on assumptions as to the wind resource and operating and maintenance costs. These assumptions are predominantly based on assessments provided by BBW's independent advisors. If the actual results of these variables in the future differ from the assumptions, BBW's returns could differ from that projected. To mitigate the risk of inter-year variability on Net Operating Cash Flow, and the consequential impact on distributions, BBW will hold cash reserves and committed lines of liquidity totalling approximately A\$50 million on an ongoing basis.

Currently, operating and maintenance services to both the US07 Portfolio and the Enersis Portfolio are subcontracted to third parties and so the risk in relation to these costs arises after the expiry of the existing subcontracts. The average length of the operating and maintenance subcontracts for the US07 Portfolio and the Enersis Portfolio is 4.7 years and 4.0 years respectively.

(B) Additional debt

Initial Enersis Acquisition

A subsidiary of Riva Holdings is party to a portfolio financing agreement (the Enersis Portfolio Facility). As at 30 June 2007, the amount of debt outstanding was approximately €750m (A\$1,241m) and it is expected that a further €54m (A\$90m) will be drawn down to fund remaining construction payments. BBW's proportionate interest (50%) of this debt is included within the proforma BBW consolidated balance sheet set out in Schedule 1(c) of these Explanatory Notes. As detailed in Schedule 1(c) of these Explanatory Notes, BBW will consolidate the balance sheet of Riva Holdings group and therefore reflect 100% of the debt on its balance sheet. The additional risk is mitigated by the fact that the facility is financing operational projects and that 100% of the Riva Holdings debt is at fixed rates for the 18 year duration of this facility.

US07 Portfolio Acquisition

BBW intends to seek debt funding for the US07 Portfolio Acquisition via an "Additional Facility" extension of its existing Global Corporate Facility. Variations in the pricing of this facility from BBW's assumptions will result in different investment returns from those projected to occur.

BBW's balance sheet is conservatively geared at 45% as at 30 June 2007 and BBW is confident of obtaining the Additional Facility on market competitive terms. By undertaking the Related Party Acquisitions, BBW's net debt to enterprise value ratio will increase to 61% on a proforma basis. BBW will hedge on a long term basis the majority of the interest rate risk associated with this additional debt. Further, the interest on BBW's existing debt is approximately 75% hedged for the 15 year duration of the Global Corporate Facility.

(C) Refinancing risk

The terms of the Enersis Portfolio Facility include a repayment obligation over the next 18 years. As such the refinancing risk is considered low. BBW expects to refinance its existing Global Corporate Facility within three years. Although not obliged to do so, BBW may include the Enersis Portfolio Facility within these refinancing plans. The rationale for doing this would be to achieve portfolio borrowing benefits, align the repayment profile with that of the existing BBW portfolio and to enhance cash flow available for distributions.

(D) Exchange rate risk

Movements in the AUD/EUR and the AUD/USD exchange rate will affect both the Australian dollar equivalent of the purchase price for the Related Party Acquisitions and the Australian dollar equivalent value of forecast distributions. In mitigation of this risk, the Enersis Portfolio Facility is drawn in Euros, and the debt component of the US07 Portfolio Acquisition will be denominated in US dollars. Further, the purchase price and a proportion of expected equity returns is hedged on a rolling three year basis in accordance with BBW's Treasury Policy.

(E) Uncertain energy prices beyond fixed tariff period

The Enersis Portfolio will receive revenues under Portugal's fixed tariff regime. This regime provides energy price certainty for the first 15 years of each wind farm's operations³² of which, on average across the portfolio, approximately 13 years remain. After that period, assuming no new incentives are introduced, each wind farm will sell energy at a market determined price. BBW's estimates of potential market prices in the future are based on advice from independent experts, however forecasts of market prices 12 years in advance are uncertain. Variations in future market prices from BBW's assumptions would result in different investment returns from those projected to occur.

(F) Merchant power risk

Output from Cedar Creek and Sweetwater 4 is contracted under 20 year power purchase agreements. Sweetwater 5 will sell its output to the market at a market determined price. BBW's estimates of potential market prices in the future are based on advice from independent experts. However the forecasting of market prices is difficult, particularly the further into the future the forecast is made. Variations in future market prices from BBW's assumptions will result in different investment returns from those projected to occur.

(G) Construction risk

Four of the 30 wind farms in the Enersis Portfolio are under construction. Delays associated with the installation and commissioning process would defer the revenue profile of these wind farms and reduce the cash flow available for distribution to BBW.

³² This period may be shortened by approximately 1-2 years in circumstances where the wind farm produces energy above a certain threshold.

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(H) Land title in Portugal

In Portugal a variety of land title arrangements apply to wind farms depending on whether the land is privately, government or communally owned, and whether usage rights are granted via (amongst other mechanisms) leases, assignment of surface rights or special agreements with municipalities. Existing properties and rights attaching to them are in some cases difficult to identify. An ongoing key activity for Riva Holdings is close liaison with local communities and landowners to assert and extend rights, resolve matters between land holders and maintain good relations with these key stakeholders.

(f) INDEPENDENT DIRECTORS' RECOMMENDATIONS

After considering the Related Party Acquisitions, their advantages, associated risks and the Independent Expert Report prepared by KPMG which concludes that the Related Party Acquisitions are fair and reasonable to Securityholders (excluding B&B), the Independent Directors of the Company, the Foreign Company and the Responsible Entity of the Trust have determined that the Related Party Acquisitions represent attractive investment opportunities for BBW that when combined will further enhance the overall diversity of the BBW wind farm portfolio in terms of wind resource, currency, equipment supplier, offtake arrangements and regulatory regime that exceed a "sum of the parts" view of the two acquisitions. Accordingly the Independent Directors of the Company, the Foreign Company and the Responsible Entity of the Trust unanimously recommend that Securityholders vote in favour of the resolution to acquire the Related Party Acquisitions as a package to maximise the value to BBW of both Related Party Acquisitions.

ITEM 9: ACQUISITION OF REMAINING 50% INTEREST IN ENERSIS PORTFOLIO

As noted in relation to Item 8 above, under the Joint Venture Agreement BBW will have a first and last right of refusal over the Remaining Shares in Riva Holdings held by B&B. B&B must offer the Remaining Shares to BBW by no later than 30 September 2008.

BBW is seeking Securityholder approval for the potential acquisition of the Remaining Shares at this time, as it does not know when B&B may decide to offer the Remaining Shares to BBW and BBW wants to be in a position to make a decision in relation to that acquisition without the need to seek Securityholder approval at that time.

Although the price for the Remaining Shares is not currently known, BBW expects that it would be at least equal to the price paid for the Initial Enersis Acquisition, plus an amount to reflect the value of any additional wind farms from the development pipeline then included in the Enersis Portfolio.³³ Accordingly, the Remaining Shares would be a substantial asset of BBW for the purposes of ASX Listing Rule 10.1. ASX has granted BBW a waiver of Listing Rule 10.1 so that BBW will not have to seek further Securityholder approval at the time that the Remaining Shares are offered to BBW, provided that Securityholders approve this resolution and the conditions to the acquisition of the Remaining Shares set out in the next paragraph are met.

As the price and other terms of this potential acquisition will not be known until such time as B&B offers the Remaining Shares to BBW Sub, the Securityholder approval of the acquisition of the Remaining Shares sought under this resolution will be conditional upon:

- the BBW Independent Directors approving the terms of the acquisition at the time that the Remaining Shares are offered to BBW;
- an independent expert concluding at that time that the acquisition is fair and reasonable to Securityholders (excluding B&B and its associates); and
- the acquisition price of the Remaining Shares representing an enterprise value of Riva Holdings consistent with the price per installed megawatt not exceeding €2.33 million.

If any of these conditions are not met, BBW will either not acquire the Remaining Shares or will seek Securityholder approval to acquire the Remaining Shares.

If Securityholders approve this resolution and the conditions referred to above are met, BBW has a number of options for funding the acquisition of the Remaining Shares, including the raising of additional equity through the issue of new securities, subject to prevailing market conditions.

It is expected that the acquisition of the Remaining Shares would, if undertaken:

- be immediately accretive to Net Operating Cash Flow after notional repayment of debt per security; and
- increase the net debt to enterprise value of the BBW group to a level that remains below 70%.

If BBW acquires the Remaining Shares, it would then own 100% of Riva Holdings and would therefore be able to exercise complete control over the Enersis Portfolio.

If BBW Sub does not acquire the Remaining Shares, B&B may sell these shares to a third party. In this circumstance, BBW would cede its casting vote and would therefore no longer be in a position to control Riva Holdings, or the Enersis Portfolio, but would share decision making power with respect to Riva Holdings jointly with its new co-investor. This scenario would provide BBW Sub with less control in managing and refinancing the Enersis Portfolio than if it owned 100%.

The Independent Directors of the Company, the Foreign Company and the Responsible Entity unanimously recommend that Securityholders vote in favour of this resolution.

SCHEDULE 1: FINANCIAL INFORMATION

The Directors believe that it is helpful to provide an indication of the future performance of the Related Party Acquisitions considered in these Explanatory Notes and the other businesses within BBW’s existing portfolio. BBW’s future performance could be materially affected, positively or adversely, relative to these indications. The anticipated impact of the Related Party Acquisitions upon BBW’s financial position is set out below.

This financial information is based on circumstances at the date of this Notice of Meetings and an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions.

Securityholders should be aware that the timing of actual events and the magnitude of their impact may differ from that assumed in preparing the financial information and that this may have a materially positive or negative effect on the actual outcomes because the assumptions are by their very nature subject to uncertainties and contingencies, many of which will be outside the control or influence of the Directors. Accordingly, BBW cannot, and does not, give any assurance that the outcomes in this financial information section will be achieved.

(a) Distribution policy

BBW distributions will be determined by the BBW Boards each half-year ending 31 December and 30 June. It is the intention of the Directors to make distributions out of Net Operating Cash Flow³⁴ after taking into account other investment capital flows, such as debt repayment, the level of participation by Security Holders in BBW’s Distribution Reinvestment Plan (DRP) participation, the US investment cash flow profile and future funding requirements or investment opportunities of the business. In addition, to mitigate the risk of inter-year revenue variability on Net Operating Cash Flow, and the consequential impact on distributions, BBW will hold cash reserves and committed lines of liquidity totalling approximately A\$50 million on an ongoing basis.

BBW distributions are payable half-yearly in respect of the preceding six month periods ending 31 December and 30 June.

BBW has implemented a DRP which currently allows Securityholders to reinvest distributions in additional BBW stapled securities. The BBW board may suspend, terminate or modify the operation of that plan at any time.

(b) Distribution and Net Operating Cash Flow guidance

(i) Distribution guidance

The distribution for the 2007 Financial Year (FY07) was 12.5 cents per security up from 10.2 cents per security (or a 22.5% increase on the FY06 distribution) and was fully tax deferred.

At the time of the release of the results for FY07, the Directors confirmed distribution guidance for 2008 Financial Year (FY08) of 14.0 cents per security based on the accretive acquisitions made during the year and which is expected to be fully tax deferred.³⁵

BBW’s existing portfolio has significant scale and wind resource diversity. The Related Party Acquisitions should further assist in ensuring a more diverse profile of earnings and increased Net Operating Cash Flow over the longer term. To assist Securityholders in assessing the merits of the Related Party Acquisitions, the Directors provide updated guidance for distributions to Securityholders for FY08 of 14.5 cents per security³⁶ and for 2009 Financial Year (FY09) of 15.5 cents per security.³⁷

Table 9 shows the effect on the FY09 distribution guidance if the Related Party Acquisitions are undertaken:

TABLE 9: IMPACT OF RELATED PARTY ACQUISITIONS ON DISTRIBUTION GUIDANCE

	FY08	FY09
	Cents per stapled security	Cents per stapled security
Existing Portfolio ³⁸	14.0	14.5 ³⁹
Existing portfolio plus Related Party Acquisitions ⁴⁰	14.5	15.5

The BBW Boards remain committed to offering Securityholders an attractive and growing cash yield. Beyond FY09, the Directors believe that, subject to further accretive acquisition opportunities being realised from the BBW pipeline, a distribution growth rate target of 5% pa can be achieved over the medium term.

34 Net Operating Cash Flow: EBITDA plus US Distributions Less Corporate Costs, Interest paid, Tax paid, changes in working capital; before investment related CAPEX, acquisitions and notional debt repayments. Net Operating Cash Flow does not include proceeds from re-gearing, refinancing or restructuring initiatives. Interest paid includes interest paid, excluding capitalised interest on construction projects, less interest received.

35 FY08 distribution tax deferred assumes: current portfolio and anticipated pipeline of acquisitions.

36 Assumes P50 production (being the level of electricity output which has a 50% probability of exceedance), no performance fee and the Enersis and US07 Portfolios are acquired in line with the timing set out in these Explanatory Notes.

37 Assumes P50 production (being the level of electricity output which has a 50% probability of exceedance), no performance fee and the Enersis and US07 Portfolios are acquired in line with the timing set out in these Explanatory Notes.

38 Assumes P50 production (being the level of electricity output which has a 50% probability of exceedance) and no performance fee.

39 Assumes 3.5% growth in line with the Directors’ growth target guidance over the medium term, excluding acquisitions.

40 Assumes P50 production (being the level of electricity output which has a 50% probability of exceedance), no performance fee and the Enersis and US07 Portfolios are acquired in line with the timing set out in these Explanatory Notes.

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The return profile of BBW's US investments, including the US07 Portfolio Acquisition, is described in paragraph (ii)(D) below. The result is that the cash yield received by BBW is initially higher than the average cash yield of these investments through their economic life. Recognising this, and in accordance with the distribution policy set out above, the Directors have taken into account the need to retain a proportion of Net Operating Cash Flow as set out in the guidance below in order to fund distributions out of current or carried forward Net Operating Cash Flow beyond the guidance period. The estimated Net Operating Cash Flow carried forward in FY08 and FY09 is shown below.

(ii) Net Operating Cash Flow guidance

The Net Operating Cash Flow guidance that is provided below is based on the following key assumptions:

- P50 production, being the level of electricity output that has a 50% probability of exceedance.
- No performance fee.

Additionally, the following assumptions are made in respect of the existing portfolio and the Related Party Acquisitions.

Existing Portfolio

The net operating cash flow guidance for the existing portfolio is unchanged and is as per the guidance provided in the Alinta Scheme Booklet, however the following individual components have been taken into account:

- Valdeconejos and Conjuero wind farms.
These wind farms were recently acquired and have now been included within the guidance from the date of acquisition being July 2007.
- Delay in acquisition of US06 (Phase 3).
The current guidance assumes a second half 2008 acquisition date.
- Lake Bonney stage 2 commissioning.
BBW recognises revenues and costs when a Take Over Certificate has been issued by the manufacturer once testing procedures have been satisfied. On this basis, a portion of commissioning revenues and costs have been included within the guidance in line with expected construction and testing. Revenues are determined based on the forecast market price and the expected output generated.
- P50 adjustment to certain Spanish wind farms.
Following an extensive independent review of wind farms in Spain, P50 levels at these wind farms have been revised downwards by an amount that is not material.
- Availability ramp-up.
For certain US wind farms, availability is expected to vary during the guidance period between 85% and 95% in line with operational plans.
- Foreign exchange rates.
Foreign exchange rates of AUD:EUR 0.6021 and AUD:EUR 0.5868 and AUD:USD 0.8224 and AUD:USD 0.8035 used in FY08 and FY09, respectively.

Related Party Acquisitions

- **Initial Enersis Acquisition.**
Subject to Securityholder approval, BBW will acquire the Initial Enersis Acquisition in November 2007, however BBW receives economic interest from 1 July 2007.
The guidance provided is based on the inclusion of net operating cash flows from 1 July 2007 as this is the date that BBW obtains economic entitlement. It should be noted that in the financial results of BBW, cashflows will only be consolidated from the date that BBW obtains control. Additionally, 50% of the net operating cash flows are presented, representing BBW's proportional interest. As detailed in paragraph (d)(i) below, BBW would hold a controlling interest in Riva Holdings and therefore would consolidate 100% of the cash flows of Riva Holdings in the financial statements with a corresponding payment of distributions to the minority shareholders.
- **US07 Portfolio.**
Sweetwater 4 commenced commercial operations in May 2007 and BBW will purchase it in November 2007, subject to Securityholder approval. BBW receives economic interest from 1 July 2007 and the guidance is based on net operating cash flows from this date. It should be noted that in the financial results of BBW, cashflows will only be consolidated from the date that BBW obtains control.
Sweetwater 5 and Cedar Creek remain in construction at the date of this Notice of Meetings. Subject to Securityholder approval, BBW will acquire each when commercial operations commence. The guidance assumes that net operating cash flows commence at the expected date of commercial operations in the first half of 2008.
Availability ramp-up. For certain US wind farms, availability varies during the guidance period between 85% and 95% in line with operational plans.

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Table 10 depicts components of Net Operating Cash Flows guidance for FY08 and FY09 on the basis of P50 production.

TABLE 10: IMPACT OF THE RELATED PARTY ACQUISITIONS ON NET OPERATING CASH FLOW AFTER NOTIONAL DEBT REPAYMENT

\$ in millions	YEAR ENDING FY08 PRO FORMA				YEAR ENDING FY09 PRO FORMA			
	Existing Portfolio	Initial Enersis Acquisition	US07 Portfolio Acquisition	Pro forma	Existing Portfolio	Initial Enersis Acquisition	US07 Portfolio Acquisition	Pro forma
EBITDA from operations	161.3	76.0	-	237.3	180.4	80.8	-	261.2
US distributions	77.6	-	27.0	104.6	96.5	-	46.5	143.0
Corporate overheads and management fees	(34.3)	(3.8)	(1.8)	(39.9)	(41.1)	(3.8)	(1.8)	(46.7)
Movement in working capital and non-cash items	5.6	(0.9)	-	4.7	-	(0.2)	-	(0.2)
Finance costs	(65.8)	(43.0)	(16.1)	(124.9)	(69.2)	(44.6)	(24.8)	(138.6)
Taxes paid	(5.9)	-	-	(5.9)	(5.8)	-	-	(5.8)
Gains/ (losses) on foreign exchange contracts	1.5	-	-	1.5	0.2	-	-	0.2
Net operating cash flow	140.0	28.3	9.1	177.4	161.0	32.2	19.9	213.1
Notional debt repayment ⁴¹	(25.4)	(22.3)	(6.9)	(54.6)	(33.2)	(22.8)	(11.7)	(67.7)
Net operating cash flow after notional debt repayment	114.6	6.0	2.2	122.8	127.8	9.4	8.2	145.4
Net Distribution				(90.1)				(98.1)
Net operating cash flow brought forward				11.7 ⁴²				44.4
Net operating cash flow carried forward⁴³				44.4				91.7
Per security (cents)⁴⁴								
Net operating cash flow	17.1	3.4	1.1	21.6	19.3	3.8	2.4	25.5
Notional debt repayment	(3.1)	(2.7)	(0.8)	(6.6)	(4.0)	(2.7)	(1.4)	(8.1)
Net operating cash flow after notional debt repayment	14.0	0.7	0.3	15.0	15.3	1.1	1.0	17.4

41 Notional debt repayment assumes average net debt balance repaid over 25 years on a straightline basis with a 30% residual balance.

42 FY07 NOCF (A\$79.8million) less notional debt repayment (A\$16.4 million) less distributions net of DRP (A\$59.7million) add gains on close out of interest rate swaps pursuant to the global refinance (A\$8.0 million)

43 See paragraph (b)(ii)(C) for an explanation of Net Operating Cash Flow Carried Forward.

44 Net Operating Cash Flow and distribution per security assumes 819m securities in FY08 and 834m securities in FY09. Assumed number of securities in FY08 (819m) based on: securities as at 30 June 2007 (673m) + issued as part of Alinta Scheme (130m) + DRP (12m) + conditional placement to B&B (4m). Assumed number of securities in FY09 (834m) based on: FY08 securities (819m) + DRP (15m).

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(A) Initial Enersis Acquisition

As noted above, the guidance presents a 50% interest in expected Net Operating Cash Flows, as this represents BBW's proportional interest. Furthermore, this 50% interest is from 1 July 2007 as this is the point from which BBW derives an economic interest under the Sale and Purchase Agreement.

After a notional repayment of debt,⁴⁵ it is expected that the Initial Enersis Acquisition will contribute approximately 0.7 cents and 1.1 cents in FY08 and FY09, respectively, to Net Operating Cash Flow per security.

(B) US07 Portfolio Acquisition

After a notional repayment of debt,⁴⁶ it is expected that the US07 Portfolio Acquisition will contribute approximately 0.3 cents and 1.0 cents in FY08 and FY09, respectively, to Net Operating Cash Flow per security.

(C) Net Operating Cash Flow Carried Forward

As noted within paragraph (b)(i) above, the return profile of BBW's US investments (refer to US Cash Flow Profile below), results in a cash yield received by BBW being initially higher than the average cash yield of these investments through their economic life.

Consequently, and in accordance with the distribution policy presented within section (a), the Directors have taken into account the need to retain a proportion of Net Operating Cash Flow in order to fund distributions out of current or carried forward Net Operating Cash Flow beyond the guidance period. The estimated Net Operating Cash Flow carried forward in FY08 and FY09 is provided in table 10 above.

(D) US Cash Flow Profile

The capital structure of the US wind farms in which BBW currently holds interests is divided into Class A membership interests and Class B membership interests. Each Project LLC is funded on a stand-alone, non recourse basis through long-term equity financing, which is contributed by the Class A members and the Class B members in proportions which vary from project to project but typically in the range of 75:25 to 50:50. The US07 Portfolio Acquisition would result in BBW acquiring Class B membership interests in US wind farms, consistent with BBW's existing investments in the US which are also held as Class B membership interests.

The economic interests consist of two categories as follows:

- allocation of tax benefits
- cash distributions.

The typical return profile of the US assets is summarised as:

- Class A members receive a significant proportion of their investment return from the allocation of production tax credits and depreciation allowances
- the Class A members receive all tax benefits until Class B capital is repaid
- after the Class B capital is repaid, the Class A members receive all cash distributions and all tax benefits until a target after tax return is achieved (typically in the range of 5.5% to 8.5% per annum)
- once this target return is achieved, the "Reallocation Date", the allocation of tax and cash benefits to Class A members is reduced to a proportion which ranges between 5% to 25%, with the remainder allocated to the Class B members
- the Class B members receive 100% of the cash distributions up to the earlier of the point where all of their initial equity capital has been repaid and an agreed date. After this point, and up until the Reallocation Date, the Class B members do not receive any cash distributions
- the Class B Member may have an option to acquire the Class A interests after the Reallocation Date has been reached or after 10 years.

This return profile can be summarised in the table below:

MEMBER	UNTIL CLASS B CAPITAL REPAID	AFTER CLASS B CAPITAL REPAID & UNTIL ALLOCATION DATE	POST REALLOCATION DATE
Class A	All tax benefits	All tax benefits and all cash distributions	Approx 5-25% of tax benefits and cash distributions
Class B	All cash distributions	Nil	Approx 75-95% of tax benefits and cash distributions

⁴⁵ Notional debt repayment assumes average net debt balance repaid over 25 years on a straightline basis with a 30% residual balance.

⁴⁶ Notional debt repayment assumes average net debt balance repaid over 25 years on a straightline basis with a 30% residual balance.

EXPLANATORY NOTES

(c) Pro forma balance sheet and gearing

(i) Pro forma balance sheet

The following table presents the BBW pro forma balance sheet as at 30 June 2007. Please refer to the notes that follow the table for a detailed explanation of the pro forma adjustments.

TABLE 11: PRO FORMA BALANCE SHEET

A\$ in millions 30 June 2007	Actual - Audited ⁽¹⁾	Pro forma adjustments ⁽²⁾	Initial Enersis Acquisition ^(3a)	US07 Portfolio Acquisition ^(3b)	Pro forma ⁽⁴⁾	Future commitments ⁽⁵⁾	Pro forma after future commitments ⁽¹⁾
Current assets	494.6	1.2	(213.4)	(115.5)	166.9	7.8	174.7
Non-current assets	1,892.9	98.2	833.6	385.0	3,209.7	280.6	3,490.3
Total assets	2,387.5	99.4	620.2	269.5	3,376.6	288.4	3,665.0
Current liabilities	301.6	(179.9)	-	-	121.7	-	121.7
Interest bearing liabilities	1,299.6	79.9	620.2	269.5	2,269.2	280.6	2,549.8
Other non- current liabilities	32.3	-	-	-	32.3	-	32.3
Total non- current liabilities	1,331.9	79.9	620.2	269.5	2,301.5	280.6	2,582.1
Total liabilities	1,633.5	(100.0)	620.2	269.5	2,423.2	280.6	2,703.8
Net assets	754.0	199.4	-	-	953.4	7.8	961.2
Equity	754.0	199.4	-	-	953.4	7.8	961.2

Notes to Table 11 and Table 12:

- Audited actual BBW. BBW's audited historical balance sheet as presented in its financial report for the year ended 30 June 2007.
- Pro forma adjustments. Significant transactions that have actually occurred between 30 June 2007 and the date of this Notice of Meetings. These adjustments do not include the payment of the final FY07 distribution to Securityholders on 14 September 2007 of A\$42 million (A\$32 million in cash, A\$10 million through the DRP).
The pro forma adjustments include the following:
 - On 2 July 2007, BBW paid approximately \$182 million in respect of the 29 June 2007 acquisition of certain Class B interests in GSG and Allegheny Ridge Phase I in the US. This reduced the current liability that existed at 30 June 2007.
 - Acquisitions of Valdeconejos and the remaining 30% of Conjuero in Spain. These July acquisitions have resulted in BBW increasing non-current assets by approximately A\$75 million. These acquisitions have been funded with a combination of debt and cash on hand.
 - On 31 August 2007, BBW received proceeds of A\$211 million and paid costs of approximately A\$12 million in relation to its participation in the Alinta Scheme of Arrangement.
 - Construction of Lake Bonney Stage 2 and Fruges I & II wind farms. Continued construction costs incurred on these projects amounted to approximately A\$23 million from 30 June 2007 to the date of this Notice of Meetings and has been funded by available cash and debt facilities. Completion of construction is included within future commitments.
- Related Party Acquisitions: if Securityholders vote in favour of the Related Party Acquisitions, the following balance sheet impacts are expected to take place:
 - Initial Enersis Acquisition. The foreign exchange rate is assumed to be AUD:EUR 0.6043 for the purposes of the pro forma balance sheet. This represents a proportional consolidation of 50% of Riva Holdings' balance sheet. Refer to note (d) "Accounting Matters" below for further details on the accounting impact of the Initial Enersis Acquisition.
 - US07 Portfolio Acquisition. The purchase is expected to result in an increase in non-current assets by approximately A\$385 million. The purchase is expected to be funded in an equity/debt ratio of approximately 30%/ 70%. The foreign exchange rate is assumed to be AUD:USD 0.8250 for the purposes of the pro forma balance sheet.
- Pro forma. This represents the pro forma historical balance sheet. This column represents the estimated pro forma historical balance sheet at the date of this Notice of Meetings.
This pro forma includes a proportional consolidation of 50% of Riva Holdings group balance sheet as noted in (3a) above, rather than recording a full consolidation and 50% minority interest, which BBW will be required to do under A-IFRS (Australian equivalents to International Financial Reporting Standards) as it would hold a controlling interest.

EXPLANATORY NOTES

5. Future commitments. This represents the expected value of acquisitions and construction to which BBW is committed in periods that are from the date of this Notice of Meetings. It also includes the issuance of 4.35 million stapled securities to B&B at A\$1.80 per Stapled Security pursuant to BBW's Conditional Placement in April 2007 which is subject to Securityholder vote as described in Item 6 of these Explanatory Notes. Future commitments represent committed expenditure on the remaining wind farm relating to the US06 Portfolio Acquisition and construction of Lake Bonney 2 and Fruges. The cost involved in acquiring the remaining US06 Portfolio wind farm is approximately A\$91 million and will be funded by existing debt facilities. BBW expects to complete construction of Lake Bonney 2 and Fruges I and Fruges II wind farms after the date of this Notice of Meetings. The expected cost to complete is A\$145 million and will be funded by existing debt facilities. Additionally, the Riva Holdings group has capital expenditure commitments of approximately A\$90 million and BBW has included a 50% interest, or A\$45 million, in the presentation above, funded from debt facilities.
6. Pro forma after future commitments. This represents the aggregate of the pro forma historical balance sheet in (4) after future commitments.

(ii) Pro forma gearing

TABLE 11: PRO FORMA BALANCE SHEET

A\$ in millions 30 June 2007	Actual - Audited ⁽¹⁾	Pro forma adjustments ⁽²⁾	Initial Enersis Acquisition ^(3a)	US07 Portfolio Acquisition ^(3b)	Future commitments ⁽⁵⁾	Pro forma after future commitments ⁽¹⁾
Net debt	1,079 ⁴⁷	(55)	906 ⁴⁸	385	228	2,543
Pro forma ratio of Net Debt to Enterprise Value (%)	45%	-	-	-	-	61% ⁴⁹

(d) Accounting Matters

(i) Enersis Consolidation

As noted above, the net operating cash flow guidance and pro forma balance sheet assume a 50% proportional interest in Riva Holdings.

Based on AASB 127, Consolidated and Separate Financial Statements, BBW would control Riva Holdings and would be required to consolidate 100% of Riva Holdings and record a minority interest of 50% following the Initial Enersis Acquisition.

The Directors believe that the proportional consolidation presentation that has been provided is more appropriate for the reader of this Notice of Meeting than the presentation of a full consolidation as required under Australian equivalents to International Financial Reporting Standards.

(ii) Class B investments in US wind farms: Accounting Treatment within Income Statement

The US cash flow profile described above is the basis of the Net Operating Cash Flow guidance provided in Table 10. Within its Income Statement and Balance Sheet, BBW records its Class B interests as financial instruments at fair value through profit or loss.

Investments in financial assets at fair value are re-valued at each reporting date, or when there is a change in the nature of the investment, to their fair values in accordance with AASB 139: Financial Instruments: Recognition and Measurement.

Interests in unlisted Class B membership shares are valued using a discounted cash flow analysis. The methodology applied is a generally accepted methodology for valuing wind farms and a basis in which market participants price new acquisitions. Interest, dividends and other distributions received from investments brought to account at fair value are credited against the investments when received.

47 Includes \$182m relating to the 29 June 2007 purchase of Allegheny Ridge Phase I and GSG paid on 2 July 2007

48 Represents BBW's proportional interest (50%) of Riva Holdings group debt (\$665m, including future commitment of \$45m) plus cost of Initial Enersis Acquisition (\$241m).

49 Enterprise Value = Equity + Net Debt; Equity assumes 819m securities in FY08 @ \$1.95 per security based on the market value of a BBW security at 30 June 2007 (\$1,597 million). Assumed number of securities in FY08 (819m) based on: securities as at 30 June 2007 (673m) + issued as part of Alinta Scheme (130m) + DRP (12m) + conditional placement to B&B (4m).

EXPLANATORY NOTES

SCHEDULE 2: DESCRIPTION OF ENERSIS PORTFOLIO ASSETS

Name	Supplier	# WTGs	WTG kW	Installed MW	Annual P50 GWh
Achada	Nordex	3	2,300	6.9	21.3
Arcela**	Nordex	5	2,300	11.5	26.6
Bigorne	Vestas	4	1,750	7	15.4
Borninhos	Enercon	1	2,000	2	5.1
Cabeço Alto	Nordex	9	1,300	11.7	25.9
Candeeiros	Vestas	37	3,000	111	312.9
Chão Falcão I	Nordex	15	2,300	34.5	74.6
Degracias**	Vestas	10	2,000	20	47.2
Freita I	Nordex	8	2,300	18.4	39.8
Igreja Nova	Vestas	2	1,650	3.3	
	Nordex	3	1,300	3.9	15.5
Jarmeleira	Vestas	1	850	0.9	1.9
Lagoa Funda	Mitsubishi	18	500	9	13.1
Lomba da Seixa I	Nordex	10	1,300	13	23.5
Lomba da Seixa II	GEWE	8	1,500	12	24.9
Lousã I*	GEWE	14	2,500	35	100.4
Malhadas	Vestas	15	660	9.9	25.1
Malhadizes	Enercon	6	2,000	12	25.9
Meroicinha	Vestas	3	2,000	6	
	Vestas	1	3,000	3	21.4
Na Sra da Vitória	GEWE	8	1,500	12	22.6
Pampilhosa	Vestas	38	3,000	114	291.0
Rabaçal**	Vestas	1	2,000	2	5.5
São Cristóvão	Vestas	2	1,650	3.3	7.2
São Cristóvão II*	Vestas	1	2,000	2	4.5
Sao Mamede	Nordex	3	2,300	6.9	12.0
Serra de Escusa	WinWind	2	1,000	2	3.9
S. de Todo o Mundo	Vestas	5	2,000	10	24.8
Vila Lobos	Enercon	20	500	10	27.8
Chiqueiro*	Vestas	2	2,000	4	8.9
São Macário*	Nordex	5	2,300	11.5	26.2
Leomil*	Nordex	7	2,300	16.1	40.2
Total				524.8	1295.1

* indicates that the wind farm is under construction

** indicates less than 100% ownership interest in the wind farm

EXPLANATORY NOTES

SCHEDULE 3: DESCRIPTION OF US07 PORTFOLIO ASSETS

	Sweetwater 4	Sweetwater 5	Cedar Creek
Project Size (MW)	240.8	80.5	300.5
Location	Texas	Texas	Colorado
Site Lease (w/options)	30 yrs	30 yrs	35 yrs
Estimated/Actual Commercial Operation Date	May 2007	First half of 2008	First half of 2008
Capacity Factor P50 (GWh/annum)	39.62% 835.7 GWh	39.12% 275.9 GWh	36.44% 959.2 GWh
Turbines	135 Mitsubishi MWT 1000A's 46 Siemens SWT 2.3's	35 Siemens SWT 2.3's	221 (Mitsubishi) MWT 1000A 53 GE 1.5sle
Turbine Warranty	MWT - 5 years Siemens - 2 years	2 years	MHI - 5 years GE - 2 years (parts only)
Power w/option Contract term	20 years	Market	20 yrs

EXPLANATORY NOTES

SCHEDULE 4: DESCRIPTION OF BBW PORTFOLIO ASSETS

PORTFOLIO SUMMARY

September 2007

EXPLANATORY NOTES – BABCOCK & BROWN WIND PARTNERS NOTICE OF ANNUAL GENERAL MEETINGS

Wind Farm	Country / Region	BBW's Equity Interest (%) ¹	Commercial Operation Date	Acquisition Date	Installed Capacity (MW)		Turbines			Long Term Mean Energy Production (GWh pa)		Energy Sale ²
					Total	Ownership ¹	Type	No.	Rating (MW)	Total	Ownership ¹	
AUSTRALIA												
Alinta Wind Farm	Western Australia	100%	Jan 2006	Aug 2004	89.1	89.1	NEG Micon NM82	54	1.65	366.5	366.5	PPA
Lake Bonney 1	South Australia	100%	Mar 2005	Jun 2003	80.5	80.5	Vestas V66	46	1.75	213.4	213.4	PPA
Lake Bonney 2	South Australia	100%	Expected mid 2008	Sep 2005	159.0	159.0	Vestas V90	53	3	477.9	477.9	PPA & Market
Sub Total - Australia					328.6	328.6		153		1,057.8	1,057.8	
SPAIN												
Sierra del Trigo	Andalucia	100%	Jan 2002	Dec 2004	15.2	15.2	Gamesa G47	23	0.66	32.3	32.3	Market Option
La Muela Norte	Aragon	100%	Aug 2003	Dec 2004	29.8	29.8	Gamesa G58	35	0.85	70.6	70.6	Market Option
EI Redondal	Castille & Leon	100%	Jan 2005	Oct 2005	30.6	30.6	Gamesa G58/52	36	0.85	66.5	66.5	Market Option
Serra da Loba	Galicia	100%	Oct 2005	Mar 2006	36.0	36.0	Gamesa G83	18	2	99.9	99.9	Market Option
La Plata	Castille La Mancha	100%	Jun 2005	Jun 2005	21.3	21.3	Gamesa G58	25	0.85	45.6	45.6	Market Option
EI Sardón	Andalucia	100%	Mar 2006	May 2006	25.5	25.5	Gamesa G58	30	0.85	47.9	47.9	Market Option
Monte Seixo	Galicia	100%	Oct 1999	May 2007	35.0	35.0	Gamesa G47	53	0.66	104.1	104.1	Fixed Tariff
Sierra do Cando	Galicia	100%	Oct 1999	May 2007	29.2	29.2	Gamesa G47/G52	44	0.66 / 0.85	81.9	81.9	Market Option
Conjuro	Andalucia	100%	Nov 2006	Jun 2007	17.0	17.0	Gamesa G58	20	0.85	31.4	31.4	Market Option
Valdeconejos	Aragon	97%	Nov 2006	Aug 2007	32.3	31.2	Gamesa G58	38	0.85	83.7	80.8	Market Option
Sub Total - Spain					271.8	270.7		322		663.9	661.0	
GERMANY												
Wachtendonk	Northrhine-Westphalia	99%	Dec 2005	Mar 2005	12.0	11.9	Nordex S77	8	1.5	23.7	23.5	Fixed Tariff
Bocholt Liedern	Northrhine-Westphalia	99%	Oct 2005	Mar 2005	7.5	7.4	Nordex S70	5	1.5	13.3	13.2	Fixed Tariff
Eifel	Rhineland-Palatinate	100%	Jun 2005 - Dec 2006	Feb 2006	36.5	36.5	Nordex S70/77 & Enercon E70/E4	23	1.5 / 2	73.6	73.6	Fixed Tariff
Kaars Stage I	Northrhine-Westphalia	100%	Dec 2006	Jan 2007	10.0	10.0	Vestas v80	5	2	19.3	19.3	Fixed Tariff
Kaars Stage II	Northrhine-Westphalia	100%	Expected end 2007	Jan 2007	2.0	2.0	Vestas v80	1	2	3.6	3.6	Fixed Tariff
Sub Total - Germany					68.0	67.8		42		133.6	133.2	
FRANCE												
Fruges 1	Pas de Calais	100%	Expected 2nd half 2007	Mar 2006	22.0	22.0	Enercon E70 E4	11	2	49.7	49.7	Fixed Tariff
Fruges 2	Pas de Calais	100%	Expected 1st half 2008	Dec 2006	30.0	30.0	Enercon E70 E4	15	2	69.1	69.1	Fixed Tariff
Sub Total - France					52.0	52.0		26		118.8	118.8	
USA												
Sweetwater 1	South - Texas	50%	Dec 2003	Dec 2005 & Jun 2006	37.5	18.8	GE 1.5 S	25	1.5	141.7	70.9	PPA
Sweetwater 2	South - Texas	50%	Feb 2005	Dec 2005 & Jun 2006	91.5	45.8	GE 1.5 SLE	61	1.5	361.8	180.9	PPA
Caprock	South - New Mexico	80%	Dec 2004 & Apr 2005	Dec 2005 & Jun 2006	80.0	64.0	MHI MWT 1,000A	80	1	316.6	253.3	PPA
Blue Canyon	South - Oklahoma	50%	Dec 2003	Dec 2005 & Jun 2006	74.3	37.1	NEG Micon NM72	45	1.65	264.1	132.1	PPA
Combine Hills	North West - Oregon	50%	Dec 2003	Dec 2005 & Jun 2006	41.0	20.5	MHI MWT 1,000A	41	1	119.6	59.8	PPA
Sweetwater 3	South - Texas	50%	Dec 2005	Jul 2006	135.0	67.5	GE 1.5 SLE	90	1.5	508.5	254.3	PPA
Kumeyaay	South West - California	100%	Dec 2005	Jul 2006	50.0	50.0	Gamesa G87	25	2	164.6	164.6	PPA
Jersey Atlantic	North East - New Jersey	59%	Mar 2006	Dec 2006	7.5	4.4	GE 1.5 SLE	5	1.5	19.3	11.4	PPA & Market
Gear Creek	North East - Pennsylvania	59%	Mar 2006	Dec 2006	24.0	14.2	Gamesa G87	12	2	73.4	43.5	PPA
Crescent Ridge	Mid West - Illinois	75%	Nov 2005	Jul 2006	54.5	40.8	Vestas V82	33	1.65	171.9	128.9	Market
Aragonne Mesa	South - New Mexico	100%	Dec 2006	Mar 2007	90.0	85.5	MHI MWT 1,000A	90	1	269.2	255.8	PPA
Buena Vista	South West - California	100%	Dec 2006	Mar 2007	38.0	38.0	MHI MWT 1,000A	38	1	108.3	108.3	PPA
Mendota	Mid West - Illinois	100%	Nov 2003	Mar 2007	51.7	51.7	Gamesa G52	63	0.82	111.0	111.0	Market
Allegheny Ridge I	North East - Pennsylvania	100%	Jun 2007	Jun 2007	80.0	80.0	Gamesa G87	40	2	236.2	236.2	PPA
CSG	Mid West - Illinois	100%	Jun 2007	Jun 2007	80.0	80.0	Gamesa G87	40	2	230.5	230.5	Market
Sub Total - USA					934.9	688.3		688		3,098.7	2,243.4	
Sub Total - Operational					1,442.3	1,204.4		1,128		4,472.4	3,613.9	
Sub Total - Under Construction					213.0	213.0		103		600.3	600.3	
Sub Total					1,655.3	1,417.4		1,231		5,072.8	4,214.2	
US 06 (Remaining to be acquired)												
Allegheny Ridge II	North East - Pennsylvania	100%	Expected early 2008	Expected early 2008	70.0	70.0	Gamesa G87	35	2	208.6	208.6	PPA
Sub Total					70.0	70.0		35		208.6	208.6	
TOTAL					1,725.3	1,487.4		1,266		5,281.4	4,422.8	
Proposed Acquisitions³												
Achada		50%	May 2005		6.9	3.5	Nordex N90	3	2.3	21.3	10.6	Fixed Tariff
Arzela		38%	Aug 2005		11.5	4.3	Nordex N90	5	2.3	26.6	10.0	Fixed Tariff
Bigorne		50%	May 2002		7.0	3.5	Vestas V66	4	1.75	15.4	7.7	Fixed Tariff
Bominhos		50%	May 2004		2.0	1.0	Enercon E66	1	2	5.1	2.5	Fixed Tariff
Cabeço Alto		50%	Sep 2002		11.7	5.9	Nordex N60	9	1.3	25.9	13.0	Fixed Tariff
Candeeiros		50%	Jun 2005		111.0	55.5	Vestas V90	37	3	312.9	156.4	Fixed Tariff
Chão Falcão I		50%	Dec 2004		34.5	17.3	Nordex N90	15	2.3	74.6	37.3	Fixed Tariff
Degracias		33%	Aug 2005		20.0	6.7	Vestas V80	10	2	47.2	15.7	Fixed Tariff
Freita I		50%	Jul 2002		18.4	9.2	Nordex N60	8	2.3	39.8	19.9	Fixed Tariff
Igreja Nova		50%	Oct 1999		7.2	3.6	Vestas V66 & Nordex N60	5	1.65 / 1.3	15.5	7.8	Fixed Tariff
Jarmeleira		50%	Jul 2002		0.9	0.5	Vestas V52	1	0.9	1.9	1.0	Fixed Tariff
Lagoa Funda		50%	Jan 1995		9.0	4.5	MHI M500	18	0.5	13.1	6.6	Fixed Tariff
Lomba da Seixa I		50%	Jan 2001		13.0	6.5	Nordex N60	10	1.3	23.5	11.8	Fixed Tariff
Lomba da Seixa II		50%	May 2004		12.0	6.0	GE 1.5SE	8	1.5	24.9	12.5	Fixed Tariff
Lousã I		50%	Aug 2006		35.0	17.5	GE 2.5	14	2.5	100.4	50.2	Fixed Tariff
Malhadas		50%	Jul 2001		9.9	5.0	Vestas V47	15	0.66	25.1	12.5	Fixed Tariff
Malhadizes		50%	Jan 2005		12.0	6.0	Enercon E66	6	2	25.9	12.9	Fixed Tariff
Meroicinha I		50%	Oct 2003		9.0	4.5	Vestas V80 & V90	4	2 / 3	21.4	10.7	Fixed Tariff
N.º 5.ª da Vitória		50%	Nov 2004		12.0	6.0	GE 1.5SE	8	1.5	22.6	11.3	Fixed Tariff
Pampilhosa		50%	Sep 2005		114.0	57.0	Vestas V90	38	3	291.0	145.5	Fixed Tariff
Rabaçal		33%	Aug 2005		2.0	0.7	Vestas V80	1	2	5.5	1.8	Fixed Tariff
São Cristóvão		50%	Jan 2000		3.3	1.7	Vestas V66	2	1.65	7.2	3.6	Fixed Tariff
São Cristóvão II		50%	Expected Dec 2007		2.0	1.0	Vestas V80	1	2.3	4.5	2.3	Fixed Tariff
S. Mamede		50%	Feb 2006		6.9	3.5	Nordex N90	3	2.3	12.0	6.0	Fixed Tariff
Serra de Escusa		50%	Feb 2005		2.0	1.0	WinWind WWID1	2	1	3.9	2.0	Fixed Tariff
Serra de Todo o Mundo		50%	Aug 2004		10.0	5.0	Vestas V80	5	2	24.8	12.4	Fixed Tariff
Vila Lobos		50%	Mar 1998		10.0	5.0	Enercon E40	20	0.5	27.8	13.9	Fixed Tariff
Chiqueiro		50%	Expected Dec 2007		4.0	2.0	Vestas V80	2	2	8.9	4.4	Fixed Tariff
São Macário I		50%	Expected Dec 2007		11.5	5.8	Nordex N90	5	2.3	26.2	13.1	Fixed Tariff
Leomil		50%	Expected Dec 2007		16.1	8.1	Nordex N90	7	2.3	40.2	20.1	Fixed Tariff
Sub Total - Enersis Portugal					524.8	257.3		267		1,295.1	635.4	
Sweetwater 4	South - Texas	53%	May 2007		240.8	127.6	MHI MWT 1,000A & Siemens SWT 2.3	181	1 / 2.3	835.7	442.9	PPA
Sweetwater 5	South - Texas	53%	Expected 1st half 2008		80.5	42.7	Siemens SWT 2.3	35	2.3	275.9	146.2	Market
Cedar Creek	Central - Colorado	67%	Expected 1st half 2008		300.5	200.3	MHI MWT 1,000A & GE 1.5SLE	274	1 / 1.5	959.2	639.5	PPA
Sub Total - US 07					621.8	370.6		490		2,070.8	1,228.6	
TOTAL - With Proposed Acquisitions					2,871.9	2,115.3		2,023		8,647.3	6,286.9	

¹ Percentages for USA wind farms constitute percentage ownership of Class B Member Units of project entity (note BBW owns 100% of B Class Member Units of a 95% interest in Aragonne). Ownership is shown on the basis of active ownership as represented by the percentage of B Class member interest.

² "PPA": Power Purchase Agreement.

³ "Proposed Acquisitions" are subject to Security Holder approval as related party transactions.

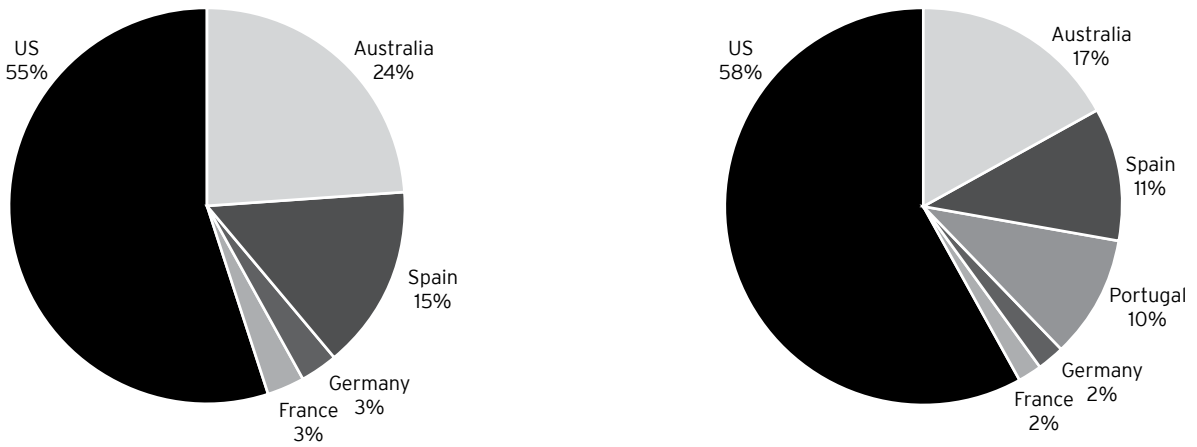
EXPLANATORY NOTES

SCHEDULE 5: IMPACT OF RELATED PARTY ACQUISITIONS

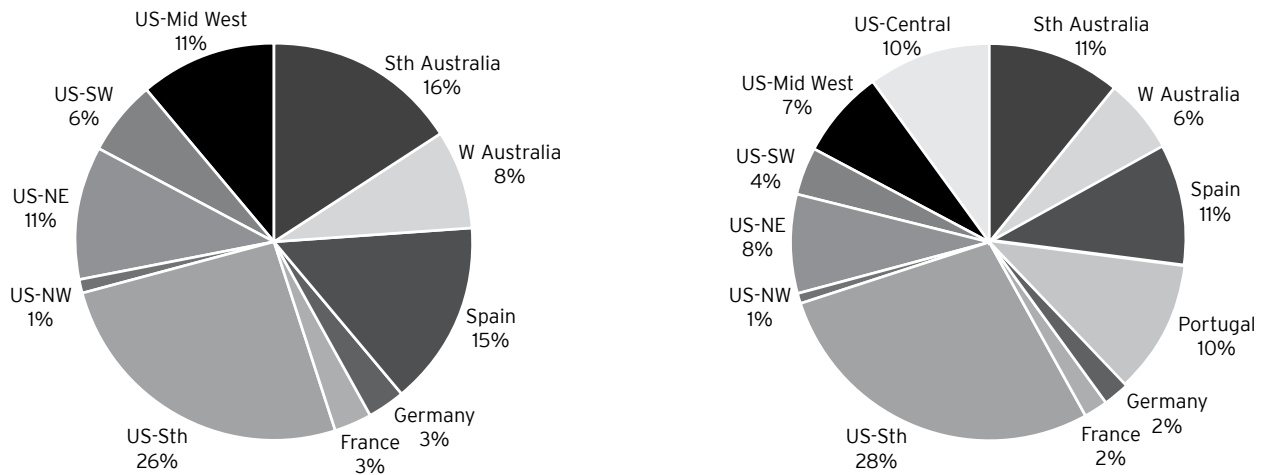
BBW DIVERSIFICATION FACTORS (BY GWH PA)



REGULATORY REGIME



WIND RESOURCE



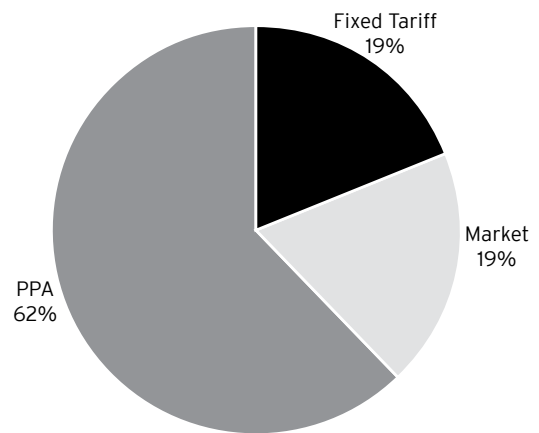
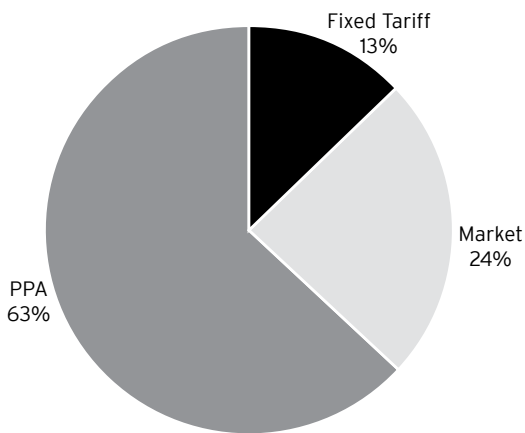
EXPLANATORY NOTES

SCHEDULE 5: IMPACT OF RELATED PARTY ACQUISITIONS (CONTINUED)

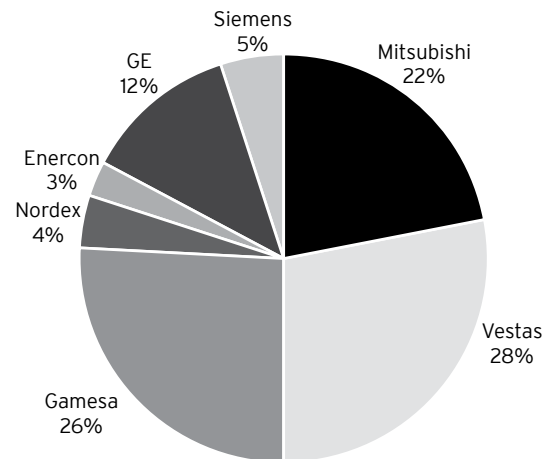
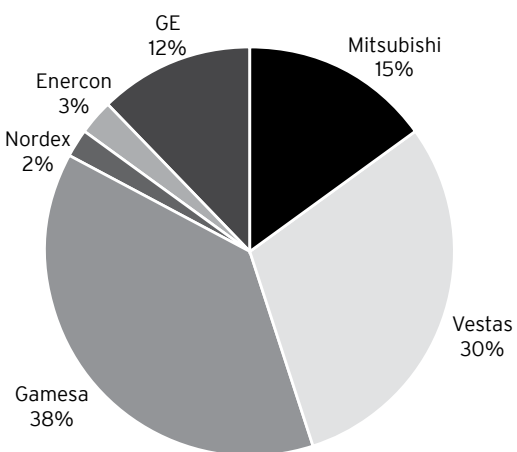
BBW DIVERSIFICATION FACTORS (BY GWH PA)

PRE ENERSIS (50%) & US07 ACQUISITION	POST ENERSIS (50%) & US07 ACQUISITION
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REVENUE ASSURANCE



TURBINE SUPPLIER



SCHEDULE 6: INITIAL ENERSIS ACQUISITION - MATERIAL CONTRACT SUMMARIES

1 SALE AND PURCHASE AGREEMENT

BBERH and BBW Sub are party to a sale and purchase agreement (the Sale and Purchase Agreement). Under the Sale and Purchase Agreement, BBW Sub has agreed to purchase 50% of the issued share capital of Riva Holdings from BBERH. The obligations of BBERH under the Sale and Purchase Agreement are guaranteed by Babcock & Brown International Pty Limited and the obligations of BBW Sub under the Sale and Purchase Agreement are guaranteed by the Company.

(a) Conditions Precedent to Closing

BBW Sub's obligation to make the Initial Enersis Acquisition is subject to the satisfaction or waiver of certain conditions. These conditions include:

- BBW obtaining Securityholder approval of the Initial Enersis Acquisition;
- B&B obtaining an ASX waiver of the requirements of ASX Listing Rule 10.1 or B&B obtaining Securityholder approval; and
- written confirmation from the engineer acting for the Riva Holdings group financiers that the take over for the Lousã I wind farm has been achieved.

(b) Consideration

The consideration for the Initial Enersis Acquisition is an initial €132.6 million (the Base Price) plus an appropriate amount of interest for the period from 1 July 2007 subject to certain adjustments.

(c) Term and Covenants

It is currently anticipated that, if all of the conditions precedent referred to at paragraph 1(a) above are satisfied according to expected timescales, completion will occur by 13 November 2007. If completion has not occurred by 31 December 2007, the Initial Enersis Acquisition will lapse.

The Sale and Purchase Agreement contains a number of covenants relating to the conduct of the business of Riva Holdings together with representations and warranties customary for a transaction of this nature.

2 JOINT VENTURE AGREEMENT

B&B, through its subsidiary BBERH, has established Riva Holdings to acquire, hold and operate the Enersis Portfolio. Consequent upon the transfer of the shares under the Sale and Purchase Agreement, BBERH's interest in Riva Holdings will be 50 percent and BBW Sub's interest in Riva Holdings will be 50 percent. The capital will be contributed in proportionate shares by the Shareholders by way of equity and/or loans.

At Closing, BBERH and BBW Sub will enter into the Joint Venture Agreement to regulate the management of Riva Holdings and the business of Riva Holdings group. The principal terms of the Joint Venture Agreement are outlined below.

(a) Directors and management

The Joint Venture Agreement requires that certain "Reserved Matters" require the approval of at least one director appointed by each of BBW Sub and BBERH. Reserved Matters include:

- altering the articles or other constitutional documents of Riva Holdings or any Riva Holdings group company
- changing the authorised or issued share capital of Riva Holdings or any Riva Holdings group company
- materially changing the nature or scope of the Riva Holdings group's business as operated prior to Initial Closing
- distributions and management fees
- borrowing, capital expenditure, acquisitions or disposals, material contracts or litigation with a value exceeding €500,000
- transactions with either Shareholder or their associated entities
- any proposal to wind up any Riva Holdings group member or other voluntary proceeding seeking liquidation, administration or reorganization.

All other board decisions of Riva Holdings are passed by a simple majority. If there is a deadlock of the board then the directors appointed by BBW Sub will have a casting vote other than in respect of certain fundamental matters. These fundamental matters include changing the nature of the business, winding up the business, acting to breach material contracts, creation of new commercial entities, changes in share capital and constitutional documents, matters related to liquidated damages and government grants and any other matter agreed between the parties. The board of Riva Holdings will be made up of four directors, two appointed by BBW Sub and two appointed by BBERH.

(b) Transfer provisions

Under the Joint Venture Agreement, either BBW Sub or BBERH may transfer any of their shares in Riva Holdings without the consent of the other Shareholder, other than transfers to a related entity. BBW Sub has a right of first refusal and a right of last refusal if BBERH wishes to transfer its shares in Riva Holdings to a third party. BBERH must also make an offer to sell all of its shares in Riva Holdings to BBW Sub on or before 30 September 2008 (the Compulsory Offer). The price offered by BBERH under the Compulsory Offer will be equal to the greater of the price paid by BBW Sub under the Sale and Purchase Agreement and the market price for those shares. The other terms of the Compulsory Offer will be no worse than the terms of the Sale and Purchase Agreement.

(c) Development pipeline provisions

Each of BBERH and BBW Sub will be required to provide additional funding to Riva Holdings in the event that further development proposals are made to Riva Holdings (Martel III Proposals). BBW Sub will only be required to fund Martel III Proposals where:

- that proposal shows a forecast return on equity equal to BBW's forecast return⁵⁰ in relation to the Initial Enersis Acquisition
- each Martel III Proposal must on average (taking into account all previous Martel III Proposals) not exceed €2,330,000 per installed MW of additional capacity.

3 Change of control provisions

Both the Sale and Purchase Agreement and the Joint Venture Agreement include change of control provisions. In the event there was to occur a change of control of BBW prior to completion of the transaction then in accordance with the Sale and Purchase Agreement the seller may elect to terminate the sale. If there was a change of control of BBW once the sale has been completed then, in accordance with the Joint Venture Agreement, the seller would have the right to acquire this equity under arrangements specified in the agreement.

⁵⁰ Adjusted for changes, such as movements in risk free interest rates, working capital adjustments, and other factors or assumption as considered relevant and as agreed between the parties, each acting reasonably.

SCHEDULE 7: US07 PORTFOLIO ACQUISITION - MATERIAL CONTRACT SUMMARIES

1. PURCHASE, SALE AND CONTRIBUTION AGREEMENT

The key terms of the Purchase, Sale and Contribution Agreement (PSA) are set out below:

(a) Conditions precedent to the Sweetwater 4, Sweetwater 5 and Cedar Creek Closings

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

- BBW obtaining Securityholder approval to acquire the Class B Investors from B&B;
- obtaining all necessary regulatory approvals to the acquisition (both in Australia and the United States);
- the wind farms to be acquired at each Closing having achieved commercial operations and a certificate to such effect having been provided;
- completion of due diligence on the material contracts of the Class B Investors, the Holding Companies and each respective wind project;
- no material adverse change in the wind farms as part of the Initial Closing; and
- delivery of counsels' opinions, certificates, reports and other documents (which are fairly typical of a transaction of this kind) relating to the project entities and the wind farm projects involved in the applicable Closing. If a Closing occurs on the same day as funding under the ECCA for such project, then BBW Purchaser shall have received a certification from B&B Seller that there were no waivers of conditions precedent to such funding under the ECCA.

(b) Conditions Precedent to the Additional Turbines Closing

BBW Purchaser's obligation to make payments under the agreement in respect of the acquisition of the Additional Turbines by Cedar Creek Holding Company is subject to satisfaction or waiver of similar conditions precedent. However, certain conditions precedent inapplicable to the Additional Turbines (such as conditions relating solely to the project entity or to title to real property leases) are excluded. In addition, each wind farm project must be of a similar overall profile to wind farms included in the US06 portfolio of wind farms or not otherwise unusual for wind farm transactions of this kind in a way which would be materially adverse to either of the Holding Companies.

(c) Pricing and valuation mechanism

The PSA includes a pricing and valuation mechanism.

(i) Financial Model Derived Price

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

Key inputs to the wind farm project model are:

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

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

The price for the interests acquired at each Closing is the price which generates an agreed internal rate of return. As there are two separate holding companies (Sweetwater 4-5 Holding Company and Cedar Creek Holding Company), there are two separate models used to determine the prices for the Class B membership interests in (i) the Sweetwater 4 and Sweetwater 5 closings; and (ii) the Cedar Creek and Cedar Creek Additional Turbines Closings. At each Closing, the model (being either the Sweetwater 4-5 or Cedar Creek model as applicable) is re-run to account for possible new factual information such as that contained in the updated engineering report for the project(s) to be acquired at that Closing.

(ii) Effective from 1 July 2007

At each closing the applicable model is applied as if the Closing date occurred on the "Cash Flow Commencement Date" being the later of 1 July 2007 or the commencement of Commercial Operations. In addition to the B Class equity, BBW will receive at each Closing a cash amount equal to the actual cash flows of such wind project between the Cash Flow Commencement Date and the Closing date less a discount to account for the deferred settlement calculated at the agreed internal rate of return referred to in paragraph (i) above.

(iii) Limitation on Model Adjustments to Price

The overall purchase price for the US07 Portfolio is an aggregate of the prices determined under the two separate models and is based on agreed internal rates of return applicable to those models. Notwithstanding this internal rate of return based price mechanism, the payments under the terms of the PSA to be made at each Closing are such that the projected purchase price derived from the two models (including financial advisory fees), is set within a range of plus or minus 15% of a fixed amount, agreed between BBW Purchaser and B&B Seller.

This range acts as both a ceiling and a floor on the payments to be made in relation to the PSA such that the actual aggregate price payable by BBW for the US07 Portfolio (including financial advisory fees) would be between approximately US\$268.3 million and US\$362.9 million (i.e. between approximately A\$325.21 million and A\$439.87 million). Adjustments to the total price are likely to arise because (i) at the time of executing the PSA the wind farms comprising the US07 Portfolio have yet to be fully constructed and (ii) the models are updated based on factual information provided in the updated engineering report for each Closing. Changes to a wind farm project that would give rise to a price adjustment might, for example, take the form of changed turbine configurations or a change to the absolute number of turbines resulting from site conditions which give rise to new costs and changed forecast energy production.

Adjustments that would result in a model determining a purchase price which fell outside of the range are considered highly unlikely. However, even if a model determined a purchase price outside the range, the purchase price actually paid by BBW will be no higher than the cap and no lower than the floor of the range. If the purchase price paid is capped, the forecast internal rate of return upon which the US07 Portfolio is acquired would be greater than would otherwise be the case. Should the floor operate then the forecast internal rate of return would be less than would otherwise be the case.

(d) Term and Termination

The PSA may be terminated by either party:

- if the conditions precedent to the first Closing are not satisfied or waived by an agreed date
- prior to the first Closing, if the HSR⁵¹ waiting period fails to expire due to the Federal Trade Commission or Department of Justice (US) prohibiting the acquisition
- in the case of the Cedar Creek closing only, if FERC⁵² approval is not obtained; or
- if a court issues an order prohibiting a closing prior to any Closing.

The PSA may be terminated by BBW Purchaser:

- prior to the first Closing, upon an uncured breach by B&B Seller or BBPOP of any material representation, warranty or covenant or a material adverse change occurring which remains unremedied by the later of 10 business days after delivery of written notice regarding such breach and satisfaction of all other conditions to such Closing
- after the first Closing but prior to any subsequent Closing, upon an uncured breach by B&B Seller of any material representation, warranty or covenant which has prevented satisfaction of any conditions to proceed with such subsequent Closing; or
- with respect to a particular designated project entity only, upon BBW Purchaser's inability to verify that the project entity (and its wind farm) is of a similar overall profile to wind farms included in the US06 Portfolio acquired by BBW Purchaser and not otherwise unusual for wind farm transactions of this kind which would be materially adverse to either Holding Company and which cannot be addressed using commercially reasonable efforts.⁵³

The PSA may be terminated by B&B Seller:

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

The PSA includes representations and warranties in relation to Sweetwater 4, Sweetwater 5, Cedar Creek and the Additional Turbines, covenants and indemnities for breach, all of which are broadly similar to the terms on which BBW has acquired interests in wind farm projects from B&B previously (and which were summarised in section 12.3.7 of BBW's IPO Prospectus and Product Disclosure Statement dated 26 September 2005).

2. EQUITY CAPITAL CONTRIBUTION AGREEMENTS (ECCAS)

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

⁵¹ Hart-Scott Rodino.

⁵² US Federal Energy Regulatory Commission.

⁵³ Certain events will be disregarded for the purposes of the definition of "Material Adverse Change" in respect of a Closing, including any change in general economic conditions and any change in law.

EXPLANATORY NOTES

The funds are applied towards payments to be made upon the commencement of Commercial Operations and towards the acquisition costs of the Holding Companies in acquiring 100% of the membership interests of the project entity that owns the relevant wind farm.

3. LIMITED LIABILITY COMPANY AGREEMENTS (LLCAS)

The limited liability company agreement of the Holding Companies governs the relationship between Class A Investors and Class B Investors, as members of each Holding Company, during the life of their investment in Holding Company. The LLCA's provide for:

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

APPENDIX 1 INDEPENDENT EXPERT REPORT



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

24 September 2007

Dear Sirs

Independent expert report and Financial services guide

1 Introduction

Babcock & Brown Wind Partners Services Limited (as Responsible Entity for the Babcock & Brown Wind Partners Trust), Babcock & Brown Wind Partners Limited, and Babcock & Brown Wind Partners (Bermuda) Limited (together, BBW) are considering the purchase of two separate wind farm portfolios located in Portugal and the United States of America (US) respectively. The proposed acquisitions are as follows:

- a 50 percent interest in Babcock & Brown Limited's (B&B) Enersis group of wind farm businesses (Enersis Portfolio or the Portuguese wind farms), consisting of 30 operational and under construction wind farms (Enersis Transaction). The 30 wind farms, totalling approximately 524.8 Megawatts (MW) including 68.6MW under construction, are located in Portugal
- a 53 percent interest in the Class B membership interests in Sweetwater 4 and Sweetwater 5 and a 66.7 percent interest in the Class B membership interests in Cedar Creek (US07 Portfolio or the US wind farms) (together the US07 Transaction). These wind farms are all located in the US.

Under the Enersis Transaction, BBW will also acquire an option over the remaining 50 percent of the Enersis Portfolio, subject to certain conditions.

The Boards of Directors of BBW have requested KPMG Corporate Finance (Aust) Pty Ltd (KPMG) to prepare an independent expert report (IER) addressed to the Security Holders of BBW in relation to the Enersis Transaction and the US07 Transaction (together the Proposed

Transactions). This report indicates whether, in our opinion, the Proposed Transactions are fair and reasonable to BBW Security Holders (excluding B&B and its associates), when considered together.

BBW is an Australian company listed on the ASX Ltd (ASX). Its principal activities are the ownership, management and operation of a global portfolio of wind farms. As at 21 September 2007, BBW had a market capitalisation of approximately A\$1.4 billion.

This report forms part of the Notice of Annual General Meetings and Explanatory Notes (NOM) to be dated on or about 24 September 2007 (for a meeting on 9 November 2007) prepared by BBW. Details of the Proposed Transactions are summarised in Section 3 of this report and set out more fully in the NOM.

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

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

2 Summary of opinion

In our opinion, having regard to the overall implications of Proposed Transactions, the Proposed Transactions are fair and reasonable to the Security Holders of BBW (excluding B&B and its associates) when considered together.

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

In forming our opinion, we have separately evaluated each of the Proposed Transactions on a stand alone basis, and then considered their implications together. We set out in this section our consideration of each of the Proposed Transactions, and our summary opinion.

2.1 Enersis Transaction

The pricing of the Enersis Portfolio is at a fair price

The proposed purchase price falls within our assessed valuation range

The proposed purchase price expected to be paid under the Sale and Purchase Agreement for a 50 percent interest in the Enersis Portfolio is €132.6 million as set out in Section 3.1. The consideration payable by BBW will also include a further €5.1 million as an adjustment to reflect a cost of carry since 1 July 2007 through to the expected settlement date. This adjustment is required to be made as BBW is proposing to acquire an economic interest in the Enersis Portfolio which will include all returns between 1 July 2007 and the settlement date. We note that the adjustment reflects a return on investment over this period which approximates the expected internal rate of return implied by the purchase price of the Enersis Portfolio.

As set out in Section 9, our assessed valuation range for a 50 percent interest in the Enersis Portfolio is €125.1 million to €139.4 million, excluding any payment for cost of carry after 1 July 2007. The proposed purchase price falls within our assessed valuation range, and on this basis we consider the purchase price to be fair.

In addition to the purchase price of €132.6 million, BBW will pay advisory fees in the order of €6.8 million to B&B in accordance with the Exclusive Financial Advisory Agreement between the two parties. Third party transaction costs of approximately €1.3 million are also expected to be incurred in relation to the Enersis Transaction.

Financial impact of the Enersis Transaction

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

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

The impact on NOCF less debt amortisation in 2008 is expected to be accretive at approximately A\$6.0 million or 0.74 Australian cents per Security, compared to 14.0 Australian cents per Security expected to be generated by BBW's existing portfolio in 2008. Similarly, the impact on NOCF less debt amortisation in 2009 is expected to be accretive at approximately A\$9.4 million or 1.12 Australian cents per Security, compared to 15.3 Australian cents per Security forecast to be generated by BBW's existing portfolio in 2009.

The acquisition is expected to support BBW's stated distribution guidance

Based on the accretive impact of the acquisition on NOCF less debt amortisation, BBW has advised that it has increased its distribution guidance for 2008 to 14.5 Australian cents per Security from 14.0 Australian cents per Security. In addition, BBW expects distributions to Security Holders in 2009 of 15.5 Australian cents per Security (a 6.9 percent increase from 2008 forecast). This 2009 distribution guidance assumes the same factors taken into account in providing the 2008 distribution guidance. That is, the Enersis Transaction is approved by Security Holders, the Enersis Portfolio is acquired in line with the timing set out in the NOM, the Portuguese wind farms' performance meets the expectations of independent forecasts, no performance fees are payable to B&B, and the US07 Transaction is approved and proceeds as outlined in the NOM.

Further, BBW has advised that it is committed to retaining its distribution growth rate target of at least 5 percent per annum in the medium term, assuming BBW continues to make accretive acquisitions, including certain opportunities which have already been identified.

The acquisition is expected to be earnings accretive

Based on a review of BBW management's calculation of the expected impact of the acquisition of the Enersis Portfolio on net profit after tax, the impact on BBW's earnings in 2008 and 2009 is expected to be accretive.

The acquisition will result in an increased level of gearing

As a result of the acquisition BBW will incur additional debt which will increase BBW's financial risk profile. BBW will acquire its 50 percent interest in the Enersis Portfolio through an entity which has a subsidiary which has approximately €708 million of external debt (plus approximately €54 million which is expected to be drawn down to fund remaining construction payments) on a stand-alone portfolio basis. BBW's net debt to enterprise value was approximately 45.1 percent as at 30 June 2007. At the completion of the Enersis Transaction, management expects this to increase to approximately 58.4 percent on a pro-forma basis (based on the number of BBW securities on issue and closing share price as at 19 September 2007). This increased gearing risk is mitigated to a certain extent through an active interest rate hedging policy. This level of gearing would be towards the upper end of the range observed in selected comparable companies of 5.8 percent to 68.1 percent, and generally consistent with a broader set of energy utility and infrastructure companies.

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

Each of the wind farms in the Enersis Portfolio have secured long-term off-take agreements for 100 percent of their output, thereby creating relative certainty over the majority of their revenue streams during their respective lives of operations. The average remaining life of the Power Purchase Agreements (PPAs) within the Enersis Portfolio is for 13 years, after which green certificates may be issued as wind energy supply enters normal market conditions. Additional

certainty exists in that the tariffs will be extended for another five years if such market conditions do not evolve.

To reduce counter party risk, the PPAs in the Enersis Portfolio have been signed with either the Portuguese national electric transmission company, Redes Energeticas Nacionais (REN), or Energias de Portugal (EDP), the dominant national electric company.

Strategic considerations for BBW regarding the Enersis Transaction

The portfolio has an operating history and an experienced management team

The Enersis Portfolio has up to 12 years and an average of over two years of operating history across 25 of the 30 wind farms. The average age of the Enersis Portfolio should have the effect of limiting the delays and ramp-up losses associated with establishing new wind farms. Only five of the 30 wind farms are still in construction. In addition, the 456.2MW operational proportion of the portfolio has the benefit of a strong operating history with significant capacity additions in recent years.

The management team responsible for the Enersis Portfolio is experienced and, in BBW's view, has demonstrated competence in managing the assets. For the past 15 years, Lisbon-based Telener – Servicios de Telecomunicacoes S.A. (Telener) has coordinated the operations and maintenance services for the wind farm portfolio in Portugal. The company is one of the more experienced, independent providers of supervision, operations and maintenance services to the renewable energy sector. Telener, now a fully owned subsidiary of B&B, will continue to provide technical management services to the wind assets, reducing operating risk.

The Enersis Portfolio will increase BBW's geographic diversification

The location of Enersis' Portfolio in Portugal, where BBW currently has no existing assets, combined with the European style feed-in tariff regulatory system will further enhance the diversification of BBW's portfolio. In addition, the geographic locations of Enersis' wind farms offers the BBW portfolio exposure to the two main prevailing winds on the Portuguese peninsula, specifically those from the west (Atlantic) and the south (Mediterranean).

In January 2007, the Portuguese government announced new renewable energy targets of 45 percent of total consumption by 2010 as part of a government strategy to reduce the country's dependency on energy imports. Further, it is projected that between 2007 and 2012, the government will spend a total of €8.1 billion on new renewable energy projects with wind energy being expected to receive the largest share of the total investment at approximately €5.1 billion. In an overall sense, the stable growth of the Portuguese wind energy sector is attributed to several supporting policies to promote renewable energy production including favourable legislation associated with new grid connection permits, resulting for example in applicable tariffs reducing by approximately 15 percent.

The portfolio provides diversification across turbine manufacturers

The turbines for the Enersis Portfolio are manufactured by Vestas, Nordex, General Electric (GE), Enercon, Mitsubishi and WinWind, with Vestas supplying the majority of the turbines. Vestas is one of the largest turbine manufacturers worldwide and manufactures turbines using technology which has been successfully implemented in US and European wind farms, and therefore the technology risk is considered low.

Increased scale provides greater purchasing power

The increase in scale that would result from acquiring the Enersis Portfolio (an increase of over 17 percent in BBW's total generating capacity based on BBW's proposed proportionate interest of 50 percent) for operational and projects under construction, is expected to provide BBW with greater flexibility and negotiating power in any potential wind farm acquisitions in the future.

BBW's view of future regulatory changes is positive

The price of the energy that the Enersis Portfolio produces and sells into the market is fixed pursuant to decrees by the Portuguese government. This feature should provide relative stability in revenues from the Enersis Portfolio and reduce the average energy price variability of BBW's portfolio. Further, Portugal and Spain are joint signatories to an agreement to integrate their electricity sectors into an Iberian electricity market with 29 million customers and 300 terawatt hours (TWh) of consumption.

In March 2007, the European Council endorsed a binding target for the European Community to source 20 percent of energy consumption from renewable sources by 2020. This is likely to be the beginning of a wave of new legislation which is expected to deliver significant results in reaching renewable energy targets within the EU. In addition, the European Council also endorsed a commitment to a "single Europe-wide internal energy market", allowing for integration of wind energy amongst the 27 EU member states. The realisation of a single market for wind energy would assist in maximising the wind energy potential of each country, facilitating a competitive wind energy market within the EU.

The purchase price is denominated in Euros

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

BBW will hedge the initial investment and a proportion of the expected Euro-denominated distributions from the Enersis Portfolio over the following three years into Australian dollars in line with its hedging policy.

BBW has an option over the remaining 50 percent of the Enersis Portfolio and its future development pipeline

Acquisition of the Enersis Portfolio will provide BBW with additional wind farm investment opportunities in the future, specifically in respect of the option to acquire the remaining 50 percent interest in the Enersis Portfolio which is not being acquired as part of the Proposed Transaction. Under the Joint Venture Agreement (Enersis JVA) between BBW and B&B, BBW will hold a first and last right of refusal over B&B's remaining 50 percent shareholding in the Enersis Portfolio. Under the Enersis JVA, B&B must offer their remaining shares to BBW by 30 September 2008. BBW Security Holder approval of the acquisition of the remaining shares is being sought at the Annual General Meeting on 9 November 2007, subject to an assessment of the terms of the transaction (including price) at the time of the acquisition by an Independent Expert. Further details of the Enersis JVA are set out in the NOM of which this report forms a part.

In terms of future expansion to the Enersis Portfolio, five of the 30 wind farms are under construction. However, we note that any delays associated with the commissioning process of these projects would defer any future revenue profile and reduce the cash flow available for distribution to BBW.

Implications of the Proposed Transactions not being approved

Should the Proposed Transactions not be approved by BBW Security Holders:

- the benefits of the Enersis Transaction outlined above would not be achieved
- management has advised that the cash that would otherwise have been spent on the acquisition will be available to pursue other investment options
- transaction costs of approximately €1.3 million would have been incurred.

2.2 *US07 Transaction*

The pricing of the US07 Portfolio is at a fair price

The proposed purchase price falls within our assessed valuation range

The proposed purchase price for the US07 Portfolio is US\$308.6 million (US07 purchase price), to be paid by BBW in various stages between November 2007 and December 2007 as set out in Section 3.2.

As set out in Section 10, our assessed valuation range for the Class B membership interests in the US07 Portfolio is US\$303.8 million to US\$325.4 million. The proposed purchase price of US\$308.6 million falls within our assessed valuation range, and on this basis we consider the purchase price to be fair.

In addition, we note that the proposed purchase price is based on BBW achieving an agreed internal rate of return, which exceeds its current assessed long-term cost of capital. In our experience of valuing assets of a similar nature, and having regard to similar listed investments, the agreed internal rate of return does not appear unreasonable (this is discussed in further detail in Section 10.6).

As discussed in Section 3.2, a range of plus or minus 15 percent has been set around the purchase price, effectively setting a floor and a ceiling. This range allows for BBW to adjust the purchase price to maintain the agreed internal rate of return based on updated forecast cash flows of the US07 Portfolio as each of the US wind farms reaches commercial operation. In the event that forecast cash flows drop to a point whereby a price below the floor would need to be paid to maintain the internal rate of return, a lower than expected internal rate of return would arise. Equally, if forecast cash flows rise to a point whereby a price above the ceiling would need to be paid to maintain the internal rate of return, a higher than expected internal rate of return would arise. Management has advised that they regard the possibility of either of these cases occurring as unlikely. In our view, the inclusion of this adjustment mechanism in the US07 Transaction terms is reasonable from the perspective of BBW Security Holders in that it increases the probability of achieving the agreed internal rate of return.

In addition to the purchase price of US\$308.6 million, BBW will pay advisory fees in the order of US\$7.0 million to B&B. Third party transaction costs of approximately US\$2.0 million are also expected to be incurred in relation to the US07 Transaction.

Financial impact of the US07 Transaction

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

BBW management's internal calculations suggest that the acquisition of each wind farm in the US07 Portfolio is expected to have an immediate positive impact on BBW's NOCF less a forecast notional debt amortisation charge.

The impact on NOCF less debt amortisation in 2008 is expected to be accretive at approximately A\$2.1 million or 0.26 Australian cents per Security, compared to 14.0 Australian cents per Security expected to be generated by BBW's existing portfolio in 2008. Similarly, the impact on NOCF less debt amortisation in 2009 is expected to be accretive at approximately A\$8.3 million or 0.99 Australian cents per Security, compared to 15.3 Australian cents per Security forecast to be generated by BBW's existing portfolio in 2009.

Whilst the impact on NOCF in 2008 is expected to be impacted due to a partial year's contribution from Sweetwater 5 (of approximately six months) and Cedar Creek (of approximately six months), the impact on NOCF in 2009, being the first full year's contribution from the US07 Portfolio is expected to be almost four times that of 2008, as described above.

The acquisition is expected to support BBW's stated distribution guidance

Based on the accretive impact of the acquisition on NOCF less debt amortisation, BBW has advised that it has increased its distribution guidance for 2008 to 14.5 Australian cents per

Security from 14.0 Australian cents per Security. In addition, BBW expects distributions to Security Holders in 2009 of 15.5 Australian cents per Security (a 6.9 percent increase from 2008 forecast). This 2009 distribution guidance assumes the same factors taken into account in providing the 2008 distribution guidance. That is, the US07 Transaction is approved by Security Holders, the US07 Portfolio is acquired in line with the timing set out in the NOM, the US wind farms' performance meets the expectations of independent forecasts, no performance fees are payable to B&B, and the Enersis Transaction is approved and proceeds as outlined in the NOM.

Further, BBW has advised that it is committed to retaining its distribution growth rate target of at least 5 percent per annum in the medium term, assuming BBW continues to make accretive acquisitions, including certain opportunities which have already been identified.

The acquisition is expected to be earnings accretive

Based on a review of BBW management's calculation of the expected impact of the acquisition of the US07 Portfolio on net profit after tax, impact on BBW's earnings in 2008 and 2009 is expected to be accretive.

In relation to the expected earnings impact of the acquisition, we note that the investment in the US07 Portfolio will not be consolidated (for accounting purposes) by BBW until the Reallocation Date (see Section 8.3 for details), expected to be during July 2017 for Sweetwater 4 and 5 and during October 2017 for Cedar Creek, at which time BBW obtains a controlling interest for accounting purposes. While BBW is not required to recognise any intangible assets (or related amortisation charges) in its accounts in relation to the US07 Transaction until a controlling interest is obtained, such amortisation charges (and their negative impact on BBW's earnings) are likely to be incurred upon consolidation of the US07 Portfolio at the Reallocation Date.

The acquisition will result in an increased level of gearing

As a result of the acquisition BBW will incur additional debt which will increase BBW's financial risk profile. BBW's net debt to enterprise value was approximately 45.1 percent as at 30 June 2007. At the completion of the US07 Transaction, management expects this to increase to approximately 50.7 percent on a pro-forma basis (based on the number of BBW securities on issue and closing share price as at 19 September 2007). This increased risk is mitigated to a certain extent through an active interest rate hedging policy. This level of gearing would be towards the upper end of the range observed in selected comparable companies of 5.8 percent to 68.1 percent, and generally consistent with a broader set of energy utility and infrastructure companies.

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

Each of the US wind farms have secured long-term off-take agreements for 100 percent of their output, thereby creating relative certainty over the majority of their revenue streams during their respective lives of operations. The PPAs for Sweetwater 4 and Cedar Creek provide price

certainty and are for a term of 20 years, whereas the Qualifying Facility Agreement (QF Agreement) for Sweetwater 5 has no specified expiry date but continues whilst the wind farm qualifies under Section 210 of the Public Utilities Regulatory Policies Act (PURPA), and provides the prevailing market price for the facility’s output. To reduce counter party risk, the PPAs in the US07 Portfolio have been signed with two different counterparties (see Section 8.2).

Strategic considerations for BBW regarding the US07 Transaction

The portfolio will increase BBW’s geographic diversification

As detailed in Section 6, BBW already owns operational wind farms in California, Illinois, New Jersey, New Mexico, Oklahoma, Oregon, Pennsylvania and Texas.

The US07 Portfolio includes wind farms located in Texas and Colorado. Although BBW already has exposure in the state of Texas with Sweetwater 1, 2 and 3, it has no exposure in the state of Colorado. Accordingly, the acquisition of the US wind farms should increase the diversity of BBW’s wind energy generation assets and reduce revenue volatility. In 2006, the American Wind Energy Association (AWEA) listed the top twenty states in the US for wind energy potential, as measured by annual energy potential in billions of kilowatt hours (kWhs), taking into consideration environmental and land use exclusions. The table below details the wind farms in the US07 Portfolio, and the AWEA rankings for the respective states.

Table 1: AWEA wind energy potential rankings for the US07 Portfolio

Wind Farm	Location	AWEA State Ranking
Sweetwater 4	Texas	2
Sweetwater 5	Texas	2
Cedar Creek	Colorado	11

Source: AWEA

The portfolio provides diversification across turbine manufacturers

The turbines for the US07 Portfolio are manufactured by GE, Mitsubishi and Siemens, with Mitsubishi supplying the majority of the turbines. Mitsubishi is one of the largest turbine manufacturers worldwide and manufactures turbines using technology which has been successfully implemented in US and European wind farms, and therefore the technology risk is considered low. In addition, other turbines used by BBW globally are sourced from various other manufacturers.

Increased scale provides greater purchasing power

The increase in scale that would result from acquiring the US07 Portfolio (increase of approximately 25 percent in BBW’s total generating capacity (operational and under construction projects), and approximately 48 percent of generating capacity in the US) is expected to provide BBW with greater flexibility and negotiating power in any potential wind farm acquisitions in the future.

BBW's view of future regulatory changes is positive

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

The current law in Texas (where Sweetwater 4 and 5 are located) requires 5,880MW of new renewable energy generation facilities be built in the state by 2015, consistent with President George W. Bush's target of generating 20 percent of the nation's energy from renewable sources by 2010. Increased awareness of global warming and environmental issues through high profile advocates and economic reports that quantify the effects of environmental policies are likely to provide further drivers for positive regulatory change.

On 27 March 2007, the Governor of Colorado (where Cedar Creek is located), Mr Bill Ritter signed the House Bill 1281, which required large investor-owned utilities to produce 20 percent of their energy from renewable resources by 2024.

The purchase price is denominated in US dollars

The US07 purchase price has been agreed in US dollars and accordingly BBW bears the risk of any adverse movement in the exchange rate. Equally, BBW will benefit from any positive change in the exchange rate.

BBW will hedge the US dollar distributions from the US07 Portfolio into Australian dollars in line with its hedging policy.

Acquisition of the US07 Portfolio may not include all US wind farms

There is a risk that BBW may not acquire all of the US wind farms comprising the US07 Portfolio even if the US07 Transaction is approved by BBW Security Holders. At each stage of the acquisition as each wind farm reaches commercial operation, certain conditions precedent relating to each wind farm (detailed in the NOM of which this report forms a part) must be satisfied in order for it to be acquired into the portfolio. Where these conditions are not satisfied, BBW will not acquire the relevant wind farm, but also will not be obliged to pay the relevant proportion of the purchase price attributable to that wind farm.

If BBW does not acquire all of the wind farms comprising the US07 Portfolio, BBW will not fully realise the diversification and scale benefits described above.

Implications of the Proposed Transactions not being approved

Should the Proposed Transactions not be approved by BBW Security Holders:

- the benefits of the US07 Transaction outlined above would not be achieved
- management has advised that the cash that would otherwise have been spent on the acquisition will be available to pursue other investment options
- transaction costs of approximately US\$2.0 million would have been incurred.

2.3 *The Proposed Transactions*

The pricing of the Proposed Transactions are at a fair price

The combined proposed purchase price falls within our assessed valuation range.

As set out in Section 2.1 and Section 2.2, the pricing of the Enersis and US07 Transactions, when considered on a stand-alone basis are each within our respective assessed value ranges. Accordingly, the pricing of the Enersis and US07 Transactions, when considered on a combined basis, is also necessarily within our assessed value range. On this basis, we consider the combined purchase price to be fair.

Financial impact of the Proposed Transactions

When considered together, the Proposed Transactions are expected to be immediately accretive to BBW's net operating cash flow

BBW management's internal calculations suggest that collectively the acquisitions are expected to have an immediate positive impact on NOCF less notional debt amortisation of BBW. The impact on NOCF less debt amortisation in 2008 and 2009 is expected to be accretive by approximately A\$8.1 million or 0.99 Australian cents per Security, and A\$17.7 million or 2.12 Australian cents per Security in 2008 and 2009 respectively. These increases in NOCF less debt amortisation compare to base NOCF less debt amortisation amounts of 14.0 Australian cents and 15.3 Australian cents per Security forecast to be generated by BBW's existing portfolio in 2008 and 2009 respectively.

The Proposed Transactions are expected to support BBW's stated distribution guidance

Based on the accretive impact of the acquisitions on NOCF, BBW has advised that it has increased its distribution guidance for 2008 to 14.5 Australian cents per Security from 14.0 Australian cents per Security. In addition, BBW expects distributions to Security Holders in 2009 of 15.5 Australian cents per Security (a 6.9 percent increase from 2008 forecast).

Collectively, the Proposed Transactions are expected to be earnings accretive

Based on a review of BBW management's calculation of the expected impact of the acquisitions on net profit after tax, the impact on BBW's earnings in 2008 and 2009 is expected to be accretive.

The Proposed Transactions will result in an increased level of gearing

As a result of the acquisition BBW will incur additional debt which will increase BBW's financial risk profile. BBW's net debt to enterprise value was approximately 45.1 percent as at 30 June 2007. At the completion of the Proposed Transactions, management expects this to increase to approximately 62.8 percent on a pro-forma basis (based on the number of BBW securities on issue and closing share price as at 19 September 2007). This increased risk is mitigated to a certain extent through an active interest rate hedging policy. This level of gearing would be towards the upper end of the range observed in selected comparable companies of 5.8 percent to 68.1 percent, and generally consistent with a broader set of energy utility and infrastructure companies.

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

Each of the wind farms in the Enersis and US07 Portfolios have secured long-term off-take agreements for 100 percent of their output for varying periods, thereby creating relative certainty over the majority of their revenue streams during the terms of the various PPAs. To reduce counter party risk, the PPAs in the Enersis and US07 Portfolios have been signed with different counterparties.

Strategic considerations for BBW regarding the Proposed Transactions

Various other factors exist that, overall, support BBW undertaking the Proposed Transactions. The strategic considerations for BBW collectively undertaking the Proposed Transactions are that:

- the operating history and management team in the case of the Enersis Transaction provides a solid basis for forecast performance
- BBW will have a greater level of geographic diversification associated with its portfolio
- the portfolio will provide diversification across turbine manufacturers post the Proposed Transactions
- the increased scale of the portfolio provides greater purchasing power
- future regulatory changes, particularly in Portugal, appear positive
- BBW retains an option over the remaining 50 percent of the Enersis Portfolio and has access to its development pipeline

- acquisition of the US07 Portfolio may not include all US wind farms.

Conclusion in relation to the Proposed Transactions

In our opinion, having regard to the matters discussed above, the Proposed Transactions, when considered together, are fair and reasonable to BBW Security Holders (excluding B&B and its associates).

2.4 *General advice*

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

The decisions of the Security Holders as to whether or not to vote in favour of the Proposed Transactions are matters for individuals based on, amongst other things, their risk profile, liquidity preference, investment strategy and tax position. Individuals should therefore consider the appropriateness of our opinion before acting on it. As an individual's decision to vote for or against any of the proposed resolutions may be influenced by his or her particular circumstances, we recommend that individual Security Holders consult their financial adviser.

2.5 *Other*

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

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

Yours faithfully



Gary Wingrove
Executive Director



Jonathan van Rooyen
Executive Director



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FINANCIAL SERVICES GUIDE

Dated 24 September 2007

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

Financial Services Guide

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

This FSG includes information about:

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

Financial services we are licensed to provide

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

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

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

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

General Financial Product Advice

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

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

Benefits that we may receive

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

Remuneration or other benefits received by our employees

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

Referrals

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

Associations and relationships

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

Complaints resolution

Internal complaints resolution process

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

Referral to External Dispute Resolution Scheme

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

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

Contact details

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

3 Summary of the Proposed Transactions

3.1 Summary of the Enersis Transaction

General

The Enersis Transaction will result in BBW, through a single holding company, acquiring 50 percent of the Enersis Portfolio (discussed in Section 7) from B&B. B&B owns the Enersis group through a Luxembourg company called Babcock & Brown Riva Holdings SARL (Riva). The Portuguese wind farms have a total capacity of approximately 524.8MW including 68.6MW under construction.

The Enersis Transaction has the following main terms:

- the acquisition will result in B&B retaining a 50 percent shareholding in the Enersis Portfolio, which B&B will be committed to offer for sale to BBW before 30 September 2008 and over which BBW will retain first and last rights of refusal
- for as long as B&B retains its 50 percent shareholding in the Enersis Portfolio, BBW will control Riva by virtue of a casting vote
- in the event that BBW does not acquire the remaining 50 percent of the Enersis Portfolio, two scenarios can arise:
 - B&B may continue to participate as a co-investor in Riva
 - subject to BBW's first and last rights of refusal, B&B may sell its shareholding to a third party. In this circumstance, BBW would cede its casting vote in relation to the decisions of the Riva board and accordingly BBW and the third party investor would participate equally in the decision making of the Riva board. BBW would be able to consent as to the identity of the third party investor, acting reasonably.
- a total purchase price of €132.6 million
- a cost of carry expected to be approximately €5.1 million
- financial advisory fees of approximately €6.8 million relating to the Enersis Transaction payable to B&B plus approximately €1.3 million in third party transaction costs

The Enersis Transaction is based on two documents, being a Sale and Purchase Agreement (Enersis SPA) in relation to 50 percent of the Riva shares and the Enersis JVA concerning the arrangements for so long as BBW and B&B are co-investors in Riva.

In relation to the Enersis SPA, BBW would complete the Enersis Transaction in November 2007 (subject to satisfaction of certain conditions precedent, including Security Holder approval). In addition to the purchase price, BBW would also pay an adjustment for cost of carry since 1 July 2007. The cost of carry would reflect the target equity internal rate of return (IRR) for the Enersis Transaction. Therefore, BBW would bear the operational risk and participate in the returns of the Enersis wind portfolio from 1 July 2007.

The Enersis JVA provides that B&B must offer to sell its 50 percent of Riva shares before 30 September 2008, and that BBW holds first right of refusal over the shares. In the event that BBW does not exercise this first right of refusal, B&B may sell the shares to third party on terms no more favourable to those offered to BBW.

Four of Riva's subsidiaries have entered into a Development Agreement with a subsidiary of B&B under which they have committed to acquire additional wind farms from the B&B developer upon those wind farms being certified as ready for construction and meeting certain economic return criteria. The Enersis SPA and Enersis JVA include obligations on BBW to fund the Riva subsidiaries in relation to these investment obligations. The developments are tied to existing wind farms in the Enersis Portfolio.

Conditions of the Enersis Transaction

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

Reasons for the Enersis Transaction

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

- various financial benefits including being immediately accretive to NOCF
- diversification benefits with regard to wind resource, off-take agreements, equipment and service providers, regulatory regime and customers
- benefits of scale as the wind farms are relatively large and are proposed to be purchased as a portfolio, resulting in an efficient use of management's time and lowering acquisition costs.

A more detailed discussion of KPMG's views of the advantages and disadvantages of the Enersis Transaction is set out in Section 11 of this report.

3.2 Summary of the US07 Transaction

General

The US07 Transaction will result in BBW, through a single holding company, acquiring B&B's Class B membership interests (discussed in Section 8.3) in the US07 Portfolio based on the following main terms:

- payment of the purchase price taking place in several stages upon the individual wind farms completing construction and achieving commercial operation. The current schedule of the stages is:
 - November 2007: Sweetwater 4 expected to have achieved commercial operations
 - first half 2008: Sweetwater 5 and Cedar Creek expected to have achieved commercial operations
- a total purchase price of US\$308.6 million based on an agreed IRR to BBW
- financial advisory fees of US\$7.0 million payable to B&B in relation to the US07 Transaction, plus approximately US\$2.0 million in other transaction costs.

The precise timing of when BBW will acquire interests in the US wind farms will depend on the timing of satisfaction or waiver of conditions precedent in the Purchase, Sale and Contribution Agreement (PSA). The purchase price payable by BBW for each wind farm will be adjusted to reflect the actual date of closing of that wind farm in accordance with the pricing and valuation methodology described in the NOM to ensure that BBW achieves the agreed IRR for the US07 Portfolio. Under the terms of the PSA, a range of plus or minus 15 percent of a fixed amount, agreed between B&B and BBW, acts as a ceiling and a floor on the total purchase price to allow for changes such as changed turbine configurations or a change to the absolute number of turbines resulting from site conditions which give rise to new costs and changed forecast energy production. This translates into an allowed range of approximately US\$268.3 million to US\$362.9 million (inclusive of the B&B advisory fee).

Conditions of the US07 Transaction

The US07 Transaction is subject to certain conditions which are set out in detail in the NOM of which this report forms a part.

Reasons for the US07 Transaction

Management expects the US07 Transaction to be advantageous for various reasons including:

- various financial benefits including being immediately accretive to NOCF and providing a forecast IRR that exceeds BBW's long-term cost of capital

- diversification benefits with regard to geography, wind resource, off-take agreements, equipment, service providers, regulatory regime and customers
- benefits of scale as the wind farms are relatively large and are proposed to be purchased as a portfolio, resulting in an efficient use of management's time and lowering acquisition costs.

A more detailed discussion of KPMG's views of the advantages and disadvantages of the US07 Transaction is set out in Section 12 of this report.

4 Basis of assessment

4.1 General

This IER has been prepared by KPMG for inclusion in the NOM in relation to the general meeting of BBW to be held on or about 9 November 2007 in accordance with Rule 10.1 of the ASX Listing Rules. The purpose of the meeting is to seek Security Holder approval regarding a separate resolution relating to the Proposed Transactions.

4.2 Technical requirements

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

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

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

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

The Proposed Transactions will be fair and reasonable if BBW Security Holders are generally at a greater advantage if the Proposed Transactions are executed, than if they are not. Security Holders will receive an advantage if the expected benefits to BBW Security Holders outweigh any disadvantages that might result from the Proposed Transactions.

4.3 *Factors considered in determining our opinion*

We have considered, inter alia, the following main factors in determining whether the Proposed Transactions are fair and reasonable to the Security Holders of BBW:

- the underlying value of the assets to be acquired by BBW under each of the Proposed Transactions compared to the proposed purchase prices
- financial implications for BBW of undertaking the Proposed Transactions
- other advantages and disadvantages to BBW Security Holders of undertaking the Proposed Transactions.

4.4 *Disclosure of information*

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

4.5 *Sources of information*

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

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

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

5 Review of the wind and renewable energy industry

5.1 Renewable energy

Energy production and use is the main source of greenhouse emissions around the world. With the increasing global focus on issues such as global warming and greenhouse gas emissions, the development of viable renewable sources of energy production has become a priority of policy makers worldwide.

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

The renewable energy industry is generally characterised by:

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

5.2 Global trends in wind energy

Consistent and rapid growth in the wind energy industry over the past decade has been driven by three key factors:

- an increased focus on the environmental impact of traditional energy generation, particularly on the volumes of greenhouse gas emissions they generate and their subsequent effect on climate change
- an effort to reduce dependence on non-renewable energy resources as growing energy needs accelerate their depletion
- a desire by a number of nations to reduce the risks associated with over-dependence on a small number of traditional (non-renewable) energy sources by encouraging a larger market share for renewable energy suppliers.

In an effort to address the above concerns, many countries have established targets for renewable energy, and implemented a variety of measures designed to provide incentives to power generators to use renewable energy sources.

Renewable energy targets are set as either a proportion of a nation's energy consumption, or as a specific level of renewable energy capacity to be installed. On a global scale, the Kyoto Protocol (which has been ratified by over 160 countries) is an agreement aimed at preventing climate change by reducing greenhouse gas emissions to a specific target level for each country. Implementation of strategies to reach emissions targets and the development of emissions trading markets are likely to increase the demand for cleaner energy sources such as wind energy.

The European Union's Renewables Directive (2001) provides a legal framework which aims to have renewable energy sources providing 21 percent of energy by 2010. Under the Directive, each member country has been set an indicative renewable energy target, which sets out the proportion of electricity which must be produced from renewable sources. These vary from 6 percent in Belgium to 78 percent in Austria.

Governments can utilise two different systems in designing renewable energy incentives for power generators:

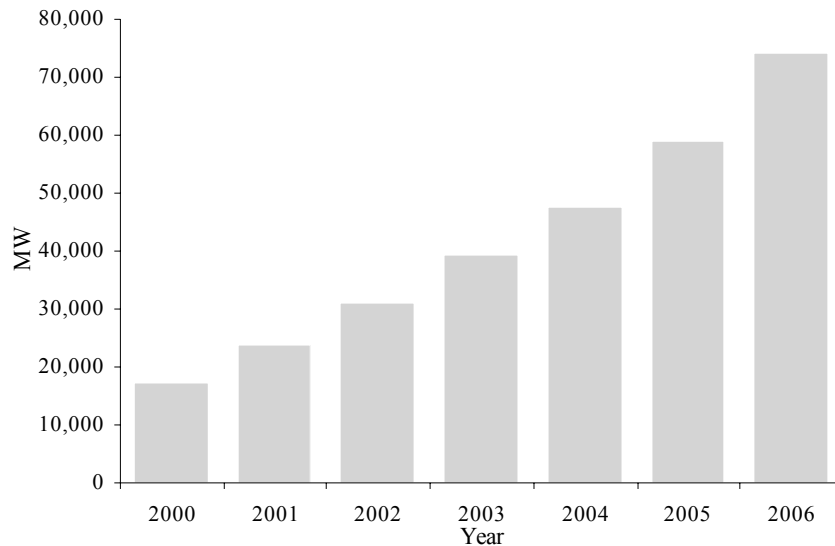
- fixed price systems where energy prices received by producers are influenced by governments, and the market determines the level of quantity traded. In these systems, an appropriate price must be set to encourage the desired level of renewable energy. Pricing incentives can be in the form of fixed prices, tariffs, investment subsidies, premiums, and tax credits
- fixed quantity systems where governments set the level of renewable energy to be produced, and the market determines the price of the energy. Tendering and certificate systems have been used to encourage wind energy generation in some markets.

As well as offering a solution to the environmental concerns surrounding traditional energy generation, wind energy has become an increasingly efficient power source as improved technologies have decreased generation costs by 50 percent over the past 15 years, making it a more competitive option for new power installations.

5.3 Industry performance

New installations of wind farms around the world in 2006 totalled 15,197MW, bringing the total installed capacity of wind energy globally to 74,223MW, up from 59,091MW in 2005. This was an increase in cumulative installations of approximately 26 percent over 2005 and was driven by the recovery of the US market (as discussed below), as well as continued strong growth in wind energy installations in Asia and the rest of the Americas. Over the five years to 2006, global wind energy capacity has more than tripled, as illustrated below.

Figure 1: Global cumulative installed wind energy capacity



Source: Global Wind Energy Council

Other key characteristics of the global development of new wind energy capacity in 2006 were:

- wind turbines sold globally amounted to a value of approximately €8 billion. European turnover in turbine manufacturing was around €9 billion in 2006
- the Americas accounted for 16 percent (2,454MW) of the world's new installations due mainly to the reintroduction and extension of the Production Tax Credit (PTC) program in the US until the end of 2008, after it was cancelled at the end of 2003. Canada also experienced strong growth, with accumulated installations increasing by 776MW
- Europe remained the largest wind energy continent, with 51 percent of all new installations in 2006 (7,708MW)
- Germany installed 2,233MW, a 23 percent increase compared to 2005 and remains the largest market for new capacity in Europe. Spain was the second largest market for wind energy in 2006, with 1,587MW. France, Portugal and the United Kingdom (UK) also displayed rapid growth during 2006
- a second wave of European countries investing in wind energy. UK increased its capacity by 47 percent in 2006, taking the total installed capacity to 2,000MW. Italy increased its capacity by 417MW. Ireland set new grounds with an increase of more than 50 percent of total capacity with an installation of 250MW

- Asia experienced strong growth in new installations of 3,679MW in 2006, up from 1,836MW in 2005, representing an increase of 53 percent. India was the highest growth country, representing 1,840MW of new capacity, which took its accumulated capacity to over 6,270MW, earning the country the fourth spot in the global wind installation rankings. China increased its accumulated capacity by 70 percent with 1,347MW of new installations.

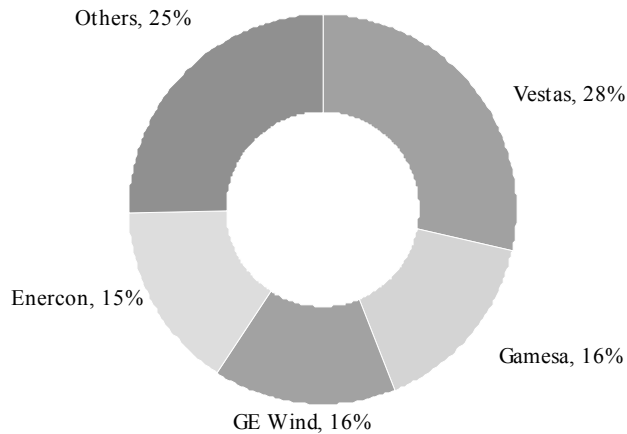
5.4 *Wind turbine supply*

Wind energy is the fastest growing energy source, having grown at an annual global rate of 28 percent for the last decade. This growth challenges the supply of wind turbines in sustaining global wind energy output. Statistics indicate that the annual market for wind grew by 41 percent in 2005 and 32 percent in 2006, hence creating a large demand for wind turbines.

Availability of wind turbines is currently a significant barrier to entry globally, and particularly in the US market. Turbine manufacturers are stretched to capacity in an attempt to meet worldwide demand.

The top 10 wind turbine manufacturers in the world maintain their dominance of the market supply of wind turbine generators (WTG), accounting for 95 percent of the total installations in 2006. Vestas demonstrated its leading position by increasing its overall market share to 28 percent, as illustrated below.

Figure 2: Market breakdown of world wind turbine suppliers



Source: BTM Consult ApS

5.5 Industry outlook

Renewable energy is likely to receive continued governmental support in the future as greenhouse emissions targets, environmental concerns and the depletion of non-renewable resources continue to influence policymakers and energy markets worldwide.

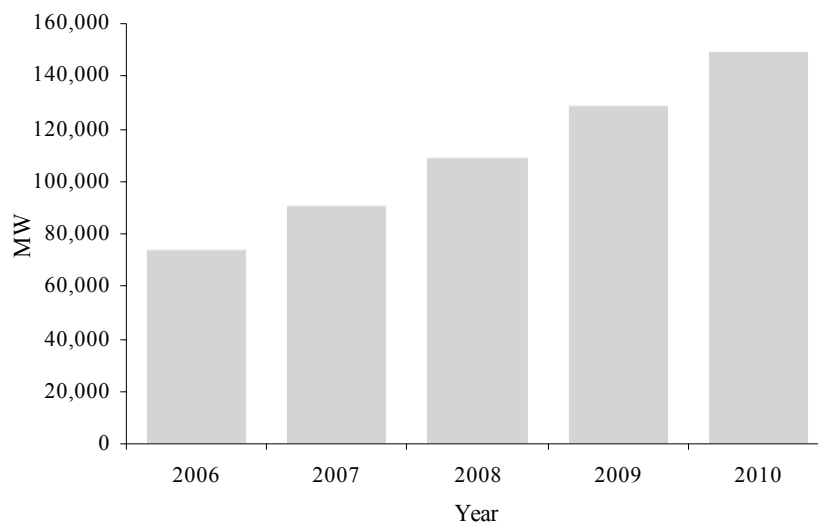
Technology advances are expected to result in larger WTGs and an increased ability to build offshore wind farm facilities, which are currently relatively expensive to build. Offshore sites generally provide more predictable, higher wind speeds and are often nearly invisible from shorelines. Both features are desirable qualities of wind farm locations.

Key figures from industry commentator's forecasts include:

- by 2010, cumulative global installations will have reached 149.5 GW, of which 82 GW (55 percent) will be in Europe. The global capacity is expected to reach approximately 230 GW, 364 GW and 577 GW by 2020, 2030 and 2050, respectively. This forecast predicts an annual installation rate of 34 GW
- Europe will continue to dominate the world wind energy market, however is expected to represent a smaller share in the future as wind energy becomes a global mainstream source of energy. Europe represented 72 percent of the annual global wind energy market in 2004, 55 percent in 2005 and 51 percent in 2006. This trend is expected to continue despite an increased focus on offshore wind capacity installations
- the North American market is expected to maintain its second place in the global wind energy market and is estimated to grow at an average annual rate of 25 percent, reaching an installed capacity of 31.6 GW by 2010
- cumulative installation in the US is expected to more than double to 31.6 GW (from 9.8 GW in 2006) by 2010, driven primarily by higher growth in 2006 and 2007. On this basis, the US will replace Germany and become the most important wind energy market in the world
- offshore installation of wind energy will benefit coastal nations with less shallow seas such as Ireland, Spain, Italy, and Portugal, China and the US. Offshore installation capacity is predicted to represent approximately 6 percent of global wind energy demand by 2010
- China is expected to drive the growth of the Asian market which is estimated to expand at an annual rate of 28 percent, reaching total installed capacity of 29 GW at the end of 2010.

The chart below summarises the forecast global cumulative installed wind energy capacity to 2010.

Figure 3: Global cumulative installed wind energy capacity forecast 2006-2010



Source: Global Wind Energy Council

5.6 Portuguese wind energy industry

General

The Portuguese energy industry has traditionally relied heavily on imported fuels. In recent years, the Portuguese government has encouraged the development of renewable energy sources such as wind energy through the establishment of a number of renewable energy targets and the introduction of tariffs for renewable energy production. The legal provisions applicable to the production of power from renewable resources were established by the Decrees of Law (DL) DL189/88, as amended by DL 168/99, DL312/2001, and 339-C/2001. These legal guidelines provide the framework for the Portuguese government to aim for wind energy targets of 3,750MW and 5,100MW of installed capacity by 2010 and 2013 respectively.

Such initiatives have encouraged strong growth in the Portuguese wind energy industry, with a total installed capacity increase of 694MW to 716MW in 2006. New capacity saw Portugal record the fourth highest number of installations in 2006 which entailed more than 260 wind turbines being installed in Portugal in 2006. The installation represented a turbine range of 0.6MW to 3.0MW with a mean nominal power of 2.4MW. The corresponding electrical energy generated via wind contributed approximately 6 percent of the total national electric demand in Portugal in 2006.

Regulatory Regime

Government regulation plays a major role in the promotion of wind energy reflecting recognition of the environmental benefits of this “zero-carbon, fuel-free and indigenous” energy source. Governments provide incentives to bring about market competitiveness of wind energy in the energy market, since the initial stage of development of wind technology is marginally more expensive when compared to traditional energy sources such as coal and gas.

In January 2007, the Portuguese government announced new renewable energy targets of 45 percent of total consumption by 2010. This was an increase from 39 percent projected previously, with the actual share of renewable energy contributing 22 percent of national energy consumption in 2005. The government’s push for these renewable energy targets is to reduce the country’s dependency on energy imports. It is projected that between 2007 and 2012, the government will spend a total of €8.1 billion on new renewable energy projects. Wind energy is expected to receive the largest share of the total investment at approximately €5.1 billion.

In order to develop and operate a wind farm in Portugal, an establishment licence must be issued by the State’s Energy Department (DGGE), or by the energy minister if the capacity of the wind farm is to exceed 1.0MW. A construction licence must be received by the municipality, and if the wind farm is built according to the design approved for the establishment licence, an operating licence will be issued by the Regional Economy Department (DRME). This certifies that the wind farm fulfils all regulatory requirements. Once the wind farm is constructed, a permit for use is issued by the municipality and energy generation can commence.

In 2001, the government established fixed price tariffs to be paid to wind energy generators, which vary depending on energy output and will be escalated annually at CPI. In February 2005, these tariffs were reduced by approximately 15 percent from an average of 87 €/MWh to 74 €/MWh. Wind farms which held their operating licence prior to 17 February 2005 were guaranteed to receive tariffs calculated under the previous regime for 15 years from this date. Those which held an establishment licence but had not received an operating licence were guaranteed the “old tariffs” for 15 years from the issue of their operating licence.

The operating licence also entitles the holder to sell to the national grid all energy produced by the wind farm under a PPA. Under the legal framework in place, wind farm operators must make a payment to the municipality in which the farm is located equal to 2.5 percent of the monthly income attributable to the sale of energy into the national grid.

In November 2001, Portugal and Spain signed an agreement to integrate their electricity sectors into an Iberian Market of Electric Energy (MIBEL). The MIBEL is made up of the set of organised and non-organised markets in which transactions of electricity contracts are carried out and in which financial instruments are negotiated taking electricity as their reference. It is a market with 29 million customers and 300TWh of consumption. An international agreement for the constitution of the Iberian electricity market between Spain and Portugal was signed in

October 2004 in Santiago de Compostela. The international agreement establishes that the supervisory bodies of the MIBEL will be in Spain, the National Energy Commission (CNE) and the National Commission of the Securities Market (CNMV) and in Portugal, the Energy Services Regulatory Body (ERSE) and the Securities Market Commission (CMVM). With the start up of the forward market on 3 July 2006, a significant step was taken in the development of the MIBEL. The percentage of energy that the Spanish and Portuguese distributors acquired in the forward market in the second half of 2006 amounted to 5 percent of the energy on the regulated tariff. This percentage rose to 10 percent in 2007 in line with the agreements adopted in the last Portuguese-Spanish Summit which took place in Badajoz on 24 and 25 January 2007.

The stable growth of the Portuguese wind energy sector is attributed to several supporting policies to promote the national renewable energy production. In 2005, the DL 33-A was published and applicable for all new grid connection permits issued after the publication date. This had a material impact on new wind projects as it reduced any applicable tariffs by approximately 15 percent at the date of publication. In the same year, an official call for wind farm grid connection was also established by the Portuguese Directorate General of Geology and Energy (DGGE).

Power Purchase Agreements

PPAs are entered into between wind farm operators holding an operating license, and either the Portuguese national electric transmission company (REN), or a relevant distribution company, such as EDP, the dominant national electric company. Under the PPA, the holder of a wind farm operating license is entitled to sell to the national grid all energy produced by the wind farm.

The PPAs are effective for the duration over which the operating license remains in force, and are conditional only on the supply of energy to the grid. The tariffs paid for the sale of energy under the PPA are defined in legislation, and calculated using a formula which includes:

- a fixed remuneration component, part of which reflects the monthly unit costs of new investments in new production resources which are avoided by the construction and operation of the wind farm. The wind farm operator must guarantee the same level of energy production that could be produced by those alternate production resources
- a variable remuneration component, part of which reflects the operations and maintenance (O&M) costs that would be required to run any new production resource which are avoided by the construction of the wind farm
- an environmental remuneration component, part of which reflects the value of the environmental benefits of using renewable resources
- a factor which accounts for the electrical energy produced during specific hours of the day
- a variable factor related to the renewable energy source used to produce the energy output.

The PPAs all run for 15 years, after which green certificates will be issued as wind energy supply enters normal market conditions. The tariffs will be extended for another five years if such market conditions do not evolve.

Looking ahead

In March 2007, the European Council endorsed a binding target for the European community to source 20 percent of energy consumption from renewable sources by 2020. This is regarded by many as the beginning of a wave of new legislation which is likely to deliver significant results in reaching renewable energy targets within the EU. In addition, the European Council also endorsed a commitment to a “single Europe-wide internal energy market”, allowing for integration of wind energy amongst the 27 EU member countries. The realisation of a single market for wind energy would maximise the wind energy potential of each country, allowing a competitive wind market within the EU.

A push for the development of wind energy will see the increase of offshore grid wind stations. Offshore wind stations are able to significantly contribute to the EU energy market and help to meet the EU wind objectives and any international targets such as those set out under the Kyoto Protocol.

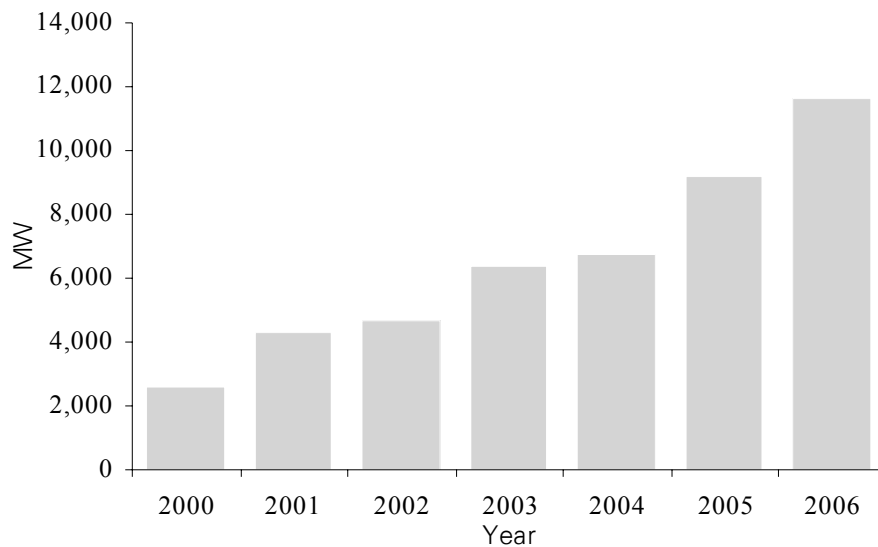
The potential for offshore wind grids has long been noted by the EU. Agendas for a uniformed offshore wind policy date back to 2004 when it was first put forward to the European Commission. In 2005, the Copenhagen Strategy called for an action plan for offshore wind energy deployment. Once again in 2006, offshore wind energy was mentioned in the European Commission Green Paper on Maritime Policy. The European Wind Energy Association (EWEA), which is the main wind energy association, has set up an Industry Advisory Group on offshore wind. All these initiatives aim to bring wind energy into the mainstream energy supply.

5.7 *US wind energy industry*

General

In 2006 the US wind energy installation reached another record year of growth, up 27 percent from 2005, bringing the total capacity to 11,603MW by 31 December 2006, just falling short of second place in the world accumulated capacity. Wind energy in the US has expanded steadily over the last decade to have a presence in 30 of the nation’s 50 states. Over this period total capacity of US wind farms has more than quadrupled from 2000 to 2006. The American Wind Energy Association (AWEA) predicts that nearly 31 billion kWh of electricity will be generated by wind energy in the US in 2007, enough for the equivalent of 2.9 million average American households.

Figure 4: US cumulative installed wind energy capacity



Source: Global Wind Energy Council 2006 report

Regulatory regime

The absence of a stable national policy on wind energy is still a major constraint on the US industry. The federal Production Tax Credit (PTC) program was introduced in 1992 to help “level the playing field” with other energy sources. The US federal government currently pays renewable energy generators a PTC of 1.9 US cents per kWh (indexed to inflation) for the first ten years of production, which can be utilised by energy producers to reduce the amount of tax payable.

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

Besides the PTC, at the federal level there is limited legislation promoting the use of wind energy. The Renewable Energy Production Incentive (REPI) which provides financial incentive payments for electricity produced via renewable energy generation facilities expired in September 2003. Thus far, provisions for new appropriations have not been made. The PURPA, once thought to be a key incentive for renewable energy is now less helpful with the lowering of fossil energy prices.

At a state level, renewable energy targets and incentive schemes also exist across the US to assist in promoting the wind energy industry. The Renewable Electricity Standards (RES) also known as the Renewable Energy Portfolio Standards (RPS) use market mechanisms to ensure the share of renewable energy, such as wind energy in the contribution to total energy production within each state. The RES is based on the concept of achieving renewable energy credits, calculated on a percentage basis of the total energy produced by each electricity generator. This push for renewable energy consumption has been adopted by 24 states as well as the District of Columbia.

In addition to the RES, 14 states also make available clean energy funds to promote renewable energy and clean energy technologies. Furthermore, there are also sales tax exemptions for wind energy equipment and property tax incentives for development of wind farms at the state level.

Taken together, these policies aim to promote the increased utilisation of renewable energy including wind energy.

Market characteristics

Access to mature projects is difficult in the current US environment. There is no shortage of high quality sites for wind farms in the US, however transmission (the capacity to get the electricity from a wind farm site to the areas of consumption) is a challenging factor. These restrictions are contributing to the increasing competition for wind farms in the US.

Currently, wind energy contributes less than 1 percent of the energy supply to the overall US energy consumption. A combination of US based wind energy organisations, such as the AWEA, US Department of Energy and the National Renewable Energy Laboratory are aiming to provide 20 percent of the nation's energy through wind technology. This target is regarded as feasible given the abundance of wind resource, the availability of manufacturing capacity and growing public demand. The 2007 federal budget included US\$44.0 million for wind energy

research, an increase of US\$5.0 million from the 2006 budget. The available funding will aid in the expansion of wind energy adoption in the US.

Looking ahead

In February 2006, US President George W. Bush announced a target for the wind energy industry of 20 percent contribution to the nation's electricity supply by 2010. At a state level, 29 US states currently have created Renewable Portfolio Standards (RPS) which ensure that a minimum amount of renewable energy is included in their portfolio of electricity resources.

AWEA believes President George W. Bush's target is achievable, but argues a stable national policy, including a long-term extension of the PTC program beyond 2008 must be implemented to provide investor certainty. In 1999, 2001, and 2003 the PTC program was allowed to expire, resulting in dramatic reductions in the level of new installations of wind generation capacity during the respective subsequent years. Consequently, AWEA is campaigning strongly for the PTC program to be extended for a further 10 years.

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

6 Profile of BBW

6.1 General overview

Global Wind Partners was established in June 2003 as a single asset private investment vehicle. The company was converted from a private company into a listed public company to form part of the stapled entity ‘Babcock and Brown Wind Partners’ (BBW) which was listed on the ASX on 28 October 2005 as a fund with a portfolio of wind energy assets. At the time of the Initial Public Offer (IPO), BBW’s portfolio consisted of four wind farms with an installed capacity of 147MW. By 30 June 2007, following a series of acquisitions, BBW’s portfolio comprised of an interest in or agreement to buy 33 wind farms in 9 wind regions in five countries and three continents, with a total installed capacity of approximately 1,439MW at 26 June 2007. The table below provides a timeline of BBW’s history of operations.

Table 2: History of BBW’s operations

Date	Event
Jun-03	Company established as Global Wind Partners
Oct-05	Listed on the ASX, with an application price of A\$1.40 per Stapled Security, and an initial market capitalisation of approximately A\$692.0 million
Dec-05	Completed the acquisition of economic interests in Sweetwater 1 and 2, Caprock, Blue Canyon and Combine Hills wind farms in the US. Aggregate installed capacity of 324.5MW
Feb-06	Completed the acquisition of Eifel wind farm in Germany, which consisted of four sites and total capacity of 35MW and long-term capacity of 69.7GWh per year
Mar-06	Announced the acquisition of three wind farms near Fruges in northern France, with a combined capacity of 22MW
Mar-06	Entered into a Framework Agreement in Germany with Plambeck Neue Energien AG, to purchase a portfolio of wind farms with an estimated capacity of 300MW, due to be installed between 2006 and 2009
May-06	Completed a global capital raising of A\$118.6 million, at a price of A\$1.60 per Stapled Security, to fund certain Class B membership interests in a number of US wind farms
Jun-06	Finalised agreement to commence construction of the Lake Bonney 2 wind farm, a 159MW project located in South Australia, beside BBW’s Lake Bonney 1 wind farm. Expected to be completed by mid 2008
Jun-06	Acquired 100 percent of Class B membership interests in Crescent Ridge wind farm in the US for US\$50.0 million, with total installed capacity of 54.4MW. Crescent Ridge sells its electricity directly into the PJM grid which services 13 states

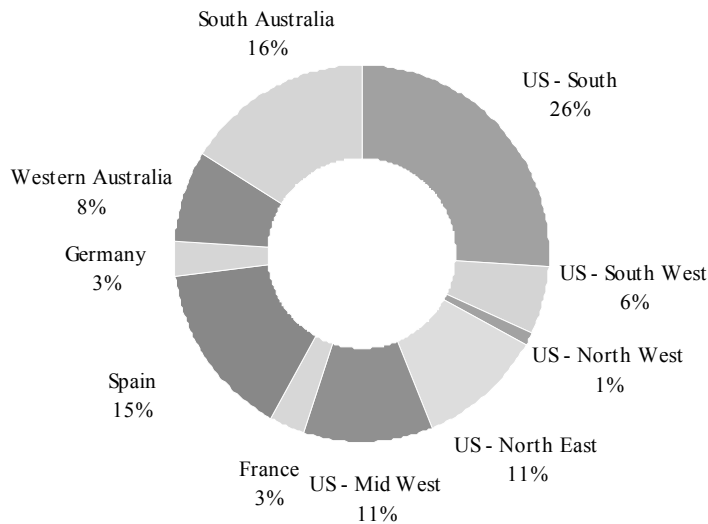
Date	Event
Jul-06	Acquired Class B membership interests in Kumeyaay wind farm (100 percent), and Sweetwater 3 (50 percent) in the US for US\$72.0 million. These wind farms have an installed capacity of 50MW and 135MW respectively
Dec-06	Acquired Bear Creek and Jersey Atlantic wind farms in the US for US\$17.0 million, with total installed capacity of 24MW and 7.5MW respectively
Dec-06	Announced the acquisition of the Fruges II wind farms in France, with a combined capacity of 30MW
Jan-07	Announced the acquisition of the Kaarst wind farm in Germany, with a combined capacity of 10MW
Jan-07	Signed a conditional Portfolio Purchase, Sale and Contribution Agreement with the Babcock & Brown Group for the acquisition of a portfolio of six US wind farms (US06 Portfolio) totalling US\$387.0 million
Mar-07	Acquired the initial three wind farms of US06 Portfolio (Buena Vista, Aragonne and Mendota) in accordance with the terms of the portfolio purchase agreement
Apr-07	BBW exercises option to direct Alinta Limited to sell Wattle Point wind farm. Under the terms of the Scheme Implementation Agreement with Alinta Limited, the Wattle Point wind farm was sold by Alinta Limited to a wholly owned subsidiary of ANZ's Energy Infrastructure Trust for A\$225.0 million
Apr-07	Announced the completion of a bookbuild for a A\$157 million placement to fund identified acquisition opportunities
May-07	Agreed to acquire Monte Seixo and Serra do Cando operating wind farms located in Spain from Electric Power Development Co., Limited and Marubei Corporation for an enterprise value of approximately A\$180.0 million
May-07	Announced that it completed a €\$1.03 billion refinancing and releveraging of its global wind farm portfolio, aggregating project, asset and corporate level debt across various jurisdictions into a single corporate facility provided by four international banks
Jul-07	Announced that it acquired a 70 percent interest in the Conjuero wind farm located in Spain for approximately A\$30.0 million
Jul-07	Announced closing of the second stage of US06 Portfolio (Allegheny Ridge Phase I and GSG). Under the terms of the US06 Portfolio acquisition, BBW had agreed to complete the acquisition of each wind farm when final completion was achieved. BBW has completed the acquisition given the projects' warranty protection, the blade manufacturer's programme to repair or replace the remaining non-conforming blades, and the current operational capability of the wind farms
Aug-07	Acquired the remaining 30 percent interest in the Conjuero wind farm

Date	Event
Aug-07	Acquired a 96 percent interest in the Valdeconejos wind farm located in Spain for approximately A\$79.0 million. The Valdeconejos wind farm has a total installed capacity of 32.3MW
Aug-07	BBW and Singapore Power International Pty Ltd consortium which are acquiring Alinta Limited announced that the federal court approved the Consortium's acquisition of Alinta Limited via a scheme of arrangement
Aug-07	Advised that it had issued approximately 128.8 million BBW stapled securities as part of the implementation of the scheme of arrangement between Alinta Limited and its Security Holders. The total number of BBW stapled securities on issue following this is approximately 801.8 million
Sep-07	Announced the completion of the book build for approximately 7.4 million BBW stapled securities as part of the implementation of the scheme of arrangement between Alinta and its Security Holders

Source: BBW

The figure below shows the proportion of energy generated (by GWh) for by each geographic region in which BBW's wind farms are located, as at 20 August 2007.

Figure 5: BBW's wind farm locations



Source: BBW

In addition to existing operational wind farms, BBW is also considering purchasing additional wind farm portfolios in the US and Portugal, which are a key component of BBW's medium term growth strategy. These acquisitions are the subject of the report.

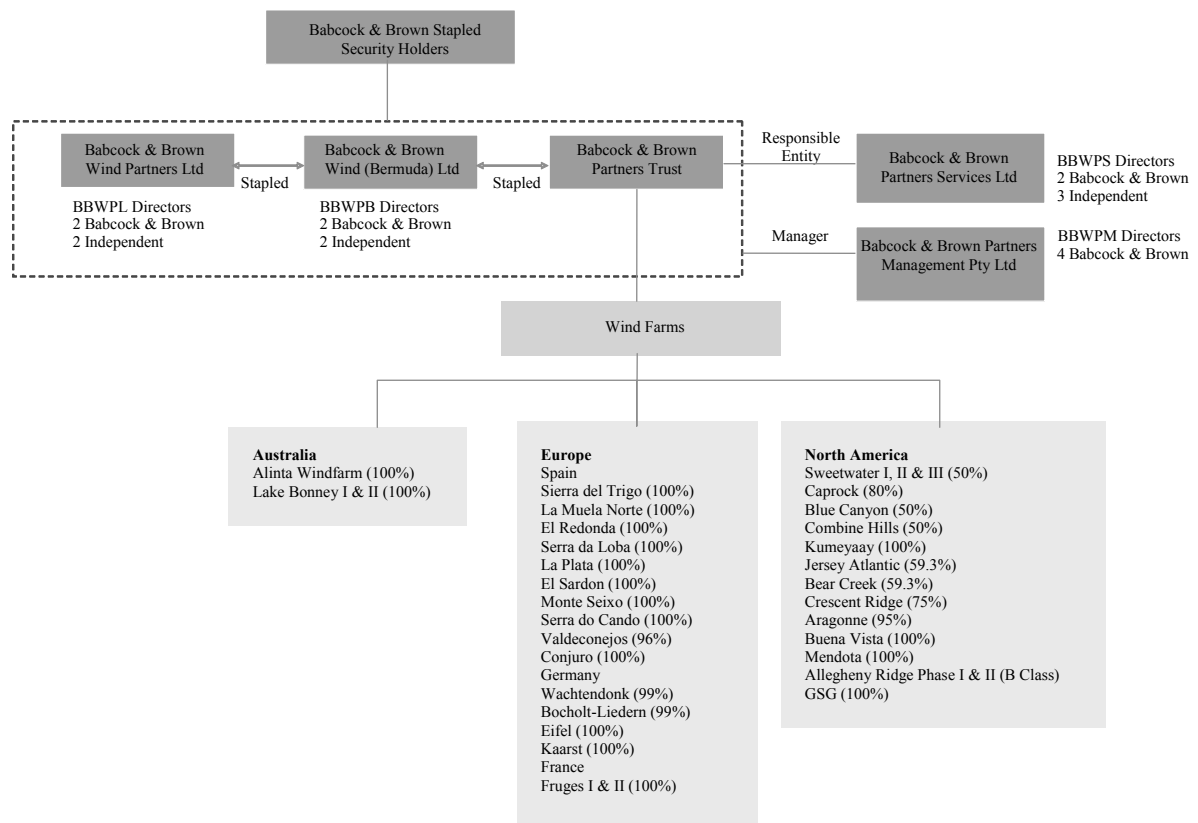
6.2 Structure of BBW

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

- one share of Babcock & Brown Wind Partners Limited (BBWPL), an Australian public company
- one unit of Babcock & Brown Wind Partners Trust (BBWPT), an Australian registered managed investment scheme whose responsible entity is Babcock & Brown Wind Partners Services Limited (BBWPS), a subsidiary of B&B
- one share of Babcock & Brown Wind Partners (Bermuda) Limited (BBWPB).

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

Figure 6: BBW's organisational structure



Source: BBW

6.3 *Profile of BBW's existing wind farm portfolio*

BBW is among the world's top five wind farm owners and operators, with 1,417MW of installed capacity in its current portfolio, inclusive of construction projects and class B interests in US wind farms.

BBW owns and operates wind farms in the US, Germany, Spain, and Australia. BBW also has a 100 percent interest in wind farms under construction in Australia and France. BBW's wind farm portfolio is diversified by wind resource, currency, equipment supplier, customers and regulatory regime. Operating cash flows are underpinned by long-term contracts and legislated tariff regimes across multiple jurisdictions. Provided below is a brief description of BBW's wind energy assets in each of these five countries.

Australia

BBW's operational wind farm portfolio in Australia consists of the Lake Bonney 1 wind farm in South Australia, and the Alinta wind farm in Western Australia, which have installed capacities of 80.5MW and 89.1MW respectively. BBW has commenced construction of a third wind farm named 'Lake Bonney 2' adjacent to Lake Bonney 1. This second project is expected to have an installed capacity of approximately 159MW. BBW has long-term PPAs in place for electricity generated by the operational wind farms. BBW's wind farm assets in Australia are summarised in the table below.

Table 3: BBW's Australian wind farms

Wind Farm	Location	Status (Acquisition Date)	Installed Operational Capacity (MW)	No. of Turbines
Alinta	Western Australia	Operational (Aug 2004)	89.1	54
Lake Bonney 1	South Australia	Operational (Jun 2003)	80.5	46
Lake Bonney 2	South Australia	Under construction (Sep 2005)	159.0	n/a
Total			328.6	100

Source: BBW

Revenue for the Australian wind farm portfolio for the year ended 30 June 2007 totalled \$44.9 million while EBITDA was \$37.0 million (implying an 82.4 percent EBITDA margin), which represented 29.7 percent of BBW's total EBITDA (including US distributions before corporate costs).

The Australian wind energy industry is still in the early stages of development in comparison to European and US markets. By the end of 2006, Australia had an installed wind energy capacity of just 817MW. Although the wind energy resource in Australia is regarded as very good, the industry has received limited support from legislation encouraging renewable energy production. Unlike Germany and Spain, Australia's federal government has not ratified the Kyoto Protocol.

In 2001, the Australian federal government established the Mandatory Renewable Energy Target (MRET) to increase by renewable energy production to 9,500 GWh per annum by 2010, then to maintain that level of renewable energy until 2020. The goal of the MRET was to encourage large energy users and wholesalers to purchase a portion of their energy requirements from renewable sources. The scheme is now fully subscribed. Industry commentators warn that without an extension of the target, the future development of wind energy in Australia is uncertain.

In response to the decision not to extend the MRET, three state governments in Australia made some positive initiatives in the second half of 2006. Under the Victorian Renewable Energy Target (VRET) scheme, Victoria introduced a legislated 10 percent renewable energy target by 2016, requiring 3,274 GWh of renewable energy by that date. In the three weeks that followed the introduction of Victoria's legislation over \$1.0 billion worth of new renewable energy projects were announced.

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

In New South Wales (NSW), the state government introduced a renewable energy target, in the form of the NSW Renewable Energy Target (NRET), of 10 percent of NSW end user consumption by 2010 and 15 percent by 2020. The scheme will continue to operate until 2030 to ensure an appropriate pay back period. Currently 6.1 percent of NSW electricity is from renewable generation.

The introduction of state based schemes to increase the use of renewables has been imperative in the country's efforts to increase the use of renewable energy. As a result of these new schemes, new capacity is currently under construction and several new facilities have either received planning approval or have been given the final approval to proceed.

US

BBW currently has interests in 16 wind farms in the US located in five different wind regions, with a total installed capacity of 1,000.5MW. The wind farms are located in Texas, Oklahoma, New Mexico, California, Oregon, Illinois, Pennsylvania, and New Jersey. The Sweetwater group of wind farms in Texas is one of the largest wind farms in the world.

The US is a rapidly growing and highly developed wind market with a total installed capacity of 11,603MW which accounts for approximately 15.6 percent of the global market. Approximately 2,454MW of new capacity was installed in 2006, marking a 26.8 percent annual growth rate from 2005. The high level of growth in the US market is mostly due to the extension of the PTC system to 2008. The PTC system provides tax credits to wind farm owners for the first 10 years of operations. In addition to the federal government's incentives, 23 states and one district have introduced renewable energy usage targets.

The capital structure of the US wind farms is divided into Class A membership interests and Class B membership interests. Class A members and Class B members enter into a Project LLC agreement which controls the relationship between them and management of the business of the Project LLC.

All the US wind farms are located in favourable locations in terms of wind energy, proximity to energy networks, and regulatory support. BBW's purchase of the Crescent Ridge wind farm in Illinois was of strategic importance to BBW resulting in ownership of an asset which serves the Midwest Pennsylvania-New Jersey-Maryland (PJM) interconnection and adjacent service territories. The Crescent Ridge wind farm provides BBW with two sources of revenue, namely the energy generated by the wind farm which will be sold into the PJM wholesale pool, and the RECs. BBW's recent acquisitions of the Jersey Atlantic, Mendota and GSG wind farms have also provided BBW with exposure to the PJM market.

BBW's existing wind farm assets in the US are summarised in the table below.

Table 4: BBW's US wind farms

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

Wind Farm	Location	BBW's percent ownership of Class B Member Units	Status (Acquisition Date)	Installed Operational Capacity (MW)	No. of Turbines
US 06					
Aragonne Mesa	New Mexico	100% ¹	Operational (Mar 2007)	90.0	90
Buena Vista	California	100%	Operational (Mar 2007)	38.0	38
Mendota	Illinois	100%	Operational (Mar 2007)	51.7	63
Allegheny – Ridge Phase I	Pennsylvania	100%	See Note 1	80.0	40
Allegheny – Ridge Phase II	Pennsylvania	100%	Commercial operation date expected in December 2007	70.0	35
GSG	Pennsylvania	100%	See Note 2	80.0	40
Total				1,005.0	723

Source: BBW

Notes: 1. BBW owns 100 percent of the Class B Member Units of a 95% interest in the wind farm.

2. Under the terms of the US06 Portfolio acquisition, BBW had agreed to complete the acquisition of each wind farm when final completion was achieved. BBW completed the acquisition, on 30 June 2006, given the projects' warranty protection, the blade manufacturer's programme to repair or replace the remaining non-conforming blades, and the current operational capability of the wind farms.

The distributions from the U.S. wind farm portfolio for the year ended 30 June 2007 totalled A\$39.4 million and the contribution to total EBITDA (including US distributions less corporate costs) was 31.7 percent.

Germany

BBW's wind energy assets in Germany are represented by the Eifel, Bocholt-Liedern, Wachtendonk and Kaarst wind farms. The Eifel wind farm is located in the South-Western region of the Rhineland-Palatinate. The Bocholt-Liedern, Wachtendonk and Kaarst wind farms are located in the Northrhine-Westphalia region of Germany.

For the Bocholt-Liedern, Wachtendonk, Eifel and Kaarst wind farms, revenue assurance is based on a regulated fixed tariff for 20 years under the German Renewable Energy Sources Act (2004). The Bocholt-Liedern and Wachtendonk wind farms have a 10 year operations and maintenance contract with Nordex Energy GmbH while the Eifel wind farm has a 14 year operations and maintenance contract. These three wind farms all have 10 year administration and technical management agreements with Renerco Renewable Energy Concepts AG. The Kaarst wind farm has an operations and maintenance contract for a two year term with Vestas.

Table 5: BBW's German wind farms

Wind Farm	Location	Status (Acquisition Date)	Installed Operational Capacity (MW)	No. of Turbines
Wachtendonk	Northrhine-Westphalia	Operational (Mar 2005)	12.0	8
Bocholt Liedern	Northrhine-Westphalia	Operational (Mar 2005)	7.5	5
Kaarst - Stage 1	Northrhine-Westphalia	Operational (Dec 2006)	10.0	5
Kaarst - Stage 2	Northrhine-Westphalia	Under construction	2.0	1
Eifel	Rhineland-Palatinate	Operational (Feb 2006)	36.5	23
Total			68.0	42

Source: BBW

Revenue for the German wind farm portfolio for the year ended 30 June 2007 totalled A\$14.2 million while EBITDA was A\$11.4 million (implying an 80.3 percent EBITDA margin), which represented 9.2 percent of BBW's total EBITDA (including US distributions less corporate costs).

BBW entered into a Framework Agreement with Plambeck Neue Energien AG during 2006 to acquire up to approximately 300MW of wind farms in Germany over the following three years. The acquisition of the Kaarst wind farm in January 2007 was in accordance with the Framework Agreement.

The wind energy market in Germany is highly developed and mature. At the end of December 2006, Germany's wind generated electricity capacity totalled 20,662MW, which represented 27.8 percent of the global capacity, making it one of the world's largest wind energy markets.

Germany's wind energy market receives regulatory support on various levels, including long-term federal legislation, commitment to the Kyoto Protocol, and an attractive government funding program. An amendment to the Renewable Energy Sources Act (EEG) was passed in 2004 which ensured wind farms will be paid a fixed tariff for electricity produced for a period of 20 years (plus the year of commissioning). Due to the maturing offshore market as well as an expected decrease in the amount of wind sites commissioned, the German market is expected to be dominated by re-powering initiatives over the medium term. Furthermore, the development of the German offshore market is expected to provide growth in the long-term.

Spain

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

In May 2007, BBW completed the acquisition of the Monte Seixo and Serra de Cando wind farms located in Galicia, Spain. Both wind farms are fully operational.

BBW acquired a 70 percent interest in the Conjuro wind farm in July 2007. It then acquired the remaining interest in August 2007.

In August 2007, BBW acquired a 96 percent interest in the Valdeconejos wind farm located in the Aragon region of Spain. The Valdeconejos and Conjuro wind farms were acquired under the Spanish Framework Agreement with a B&B entity which corresponds to a framework agreement between that B&B entity and Gamesa.

BBW's existing wind farm assets in Spain are summarised in the table below.

Table 6: BBW's Spanish wind farms

Wind Farm	Location	Status (Acquisition Date)	Installed Operational Capacity (MW)	No. of Turbines
Olivo Portfolio				
Sierra del Trigo	Andalucia	Operational (Dec 2004)	15.2	23
La Muela Norte	Aragon	Operational (Dec 2004)	29.8	35
El Redondal	Castille & Leon	Operational (Oct 2005)	30.6	36
Serra de Loba	Galicia	Operational (Mar 2006)	36.0	18
La Plata	Castille-La Mancha	Operational (Jun 2005)	21.3	25
El Sardon	Andalucia	Operational (May 2006)	25.5	30
Monte Seixo	Galicia	Operational (May 2007)	35.0	53
Serro de Cando	Galicia	Operational (May 2007)	29.2	44
Conjuro	Andalucia	Operational (Jun 2007)	17.0	20
Valdeconejos	Aragon	Operational (Aug 2007)	32.3	38
Total			271.9	322

Source: BBW

Revenue for the Spanish wind farm portfolio for the year ended 30 June 2007 totalled A\$44.6 million while EBITDA was A\$36.6 million, marking an 82.1 percent EBITDA margin, which represented 29.4 percent of BBW's total EBITDA (including US distributions less corporate costs).

By the end of 2006, Spain had an installed wind energy capacity of 11,615MW, representing 15.6 percent of cumulative global capacity, making it the second largest wind energy market in the world. An extensive collection of suitable sites for wind farms, a favourable regulatory environment, and increasing domestic demand for energy have been major factors supporting the development of Spain's wind energy market, making it the leading source of renewable power in Spain. Although the market has been constrained by access to grid connections and slow administrative procedures, some positive action has been taken to remove these obstacles.

The wind energy industry is supported by a well developed legal framework which encourages investment in renewable energies. The Spanish regulatory regime allows wind generators to

choose each year between a regulated fixed tariff, and a market option which is set at a legislated premium to the (variable) electricity pool price.

The market option allows generators to sell electricity to the pool and receive a legislated premium to the market price.

In mid 2007, the Spanish government published Royal Decree 661/2007 which established a revised tariff scheme for renewable energy and cogeneration projects. A main feature of the revised legislation is that fixed tariff and market tariff options remain and that a concessional transition period of five years applies to operating wind farms.

France

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

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

BBW's existing wind farm assets in France are summarised in the table below.

Table 7: BBW's French wind farms

Wind Farm	Location	Status (Acquisition Date)	Installed Operational Capacity (MW)	No. of Turbines
Fruges 1	Pas de Calais	Under construction (Mar 2006)	22.0	11
Fruges 2	Pas de Calais	Under construction (Dec 2006)	30.0	15
Total			52.0	26

Source: BBW

France's installed wind energy capacity was 1,567MW at the beginning of 2007. The wind energy industry in France developed strongly in 2006, partially in response to the removal of the upper limit restriction of 12MW for each project constructed, and the increase of the national target from 5,000MW to 10,000MW by 2010. Furthermore, France is committed to the EU Renewables Directive which is a major driver for development of renewable technologies. Unfortunately, development is currently being constrained by administrative processes and access to the grid in some areas.

6.4 *Financial overview*

Income statement

BBW's audited consolidated income statements for the years ended 30 June 2005, 30 June 2006 and 30 June 2007 are summarised below.

Table 8: BBW's historical consolidated income statement

Year ended 30 June AS'000	Notes	2005 Actual Audited AIFRS	2006 Actual Audited AIFRS	2007 Actual Audited AIFRS
Revenue				
Sale of energy and products	1	16,607	73,000	103,716
Other income	2	1,197	4,461	4,280
Total revenue		17,804	77,461	107,996
Expenses				
Operating expenses		(5,760)	(16,264)	(22,330)
Management expenses	3	-	(44,379)	(21,093)
EBITDA	4	12,044	16,818	64,573
Depreciation and amortisation	5	(5,970)	(20,061)	(33,965)
EBIT	6	6,074	(3,243)	30,608
Net interest	7	(2,064)	(11,233)	(32,053)
Other expenses	8	(216)	(3,882)	(2,502)
Revaluation of financial assets		-	2,074	18,569
Profit before tax		3,794	(16,284)	14,622
Income tax benefit/(expense)		(1,120)	49	(769)
Net profit/(loss) after tax		2,674	(16,235)	13,853
<i>Revenue from operations growth %</i>			339.6	42.1
<i>Gross margin %</i>		65.3	77.7	78.5
<i>Gross margin growth %</i>			19.0	1.0
<i>EBITDA margin %</i>		67.7	21.7	59.8
<i>EBITDA growth %</i>			39.6	284.0
<i>EBIT margin %</i>		34.1	(4.2)	28.4

Source: BBW's audited financial statements for the years ended 30 June 2005, 2006 and 2007

Notes: 1. Includes compensation for loss of revenue

2. Includes fair value gains on financial instruments, and foreign exchange gains

3. Includes base fee, incentive fees and management expenses

4. Earnings before interest, taxation, depreciation and amortisation

5. Includes depreciation of property plant and equipment, amortisation of intangible assets

6. Earnings before interest and taxation

7. Includes interest revenue and interest expenses

8. Includes fair value losses on financial instrument, other finance charges and write-off of capitalised loans due to refinancing and gain on financial instruments from refinancing debt facilities



In relation to the historic income statement for the year ended 30 June 2007 outlined above, we note that:

- Sales revenue increased from A\$73.0 million (30 June 2006) to A\$103.7 million for the year ended 30 June 2007 due to the acquisition of new wind farms as well as having a full year's contribution from existing wind farms purchased in the prior year
- management fees, comprising base fees of \$14.8 million and management expenses of A\$6.3 million, totalled A\$21.1 million for the year ended 30 June 2007. There was no performance fee incurred during the year ended 30 June 2007 (compared to performance fees of \$33.2 million paid during the year ended 20 June 2006)
- revenue growth of 42.1 percent coupled with a significant reduction in management fees by 52.5 percent, largely contributed to an EBITDA growth of 284 percent for the year ended 30 June 2007
- the low level of tax paid relative to NPAT for the year ended 30 June 2007 arises mainly from the fact that no tax is paid in the US due to the Class A & B investor structure (where Class A investors receive the benefit and detriments of the tax position). Further, the remaining assets have a deferred tax position due to significant upfront construction costs. The majority of tax paid relates to the Alinta wind farm in Australia, and the Olivo project in Spain.

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

Balance sheet

BBW's audited consolidated balance sheets as at 30 June 2005, 30 June 2006 and 30 June 2007 are summarised below.

Table 9: BBW's historical consolidated balance sheet

As at 30 June		2005	2006	2007
A\$'000	Notes	Actual	Actual	Actual
		Audited	Audited	Audited
		AIFRS	AIFRS	AIFRS
Assets				
Cash and cash equivalents		110,114	311,195	441,625
Receivables				
trade		8,130	14,709	16,848
other	1	10,834	5,646	1,210
Prepayments		31,622	28,017	29,318
Investments in financial assets		-	176,049	581,033
Derivative financial instruments		-	13,039	39,969
Property, plant and equipment		378,201	664,882	937,659
Deferred tax asset		4,292	10,631	44,424
Intangibles	2	25,549	162,656	272,578
Other assets	3	12,409	26,211	22,811
Total assets		581,151	1,413,035	2,387,475
Liabilities				
Payables		28,996	56,897	257,049
Borrowings		374,104	671,367	1,338,885
Tax liabilities		6,895	15,124	37,254
Derivative financial instruments		-	3,628	264
Total liabilities		409,995	747,016	1,633,452
Net assets		171,156	666,019	754,023
Equity				
Contributed equity		164,888	706,134	810,325
Reserves		(4,553)	(35,503)	(63,616)
Retained earnings		2,316	(13,919)	(798)
Other minority interests		8,505	9,307	8,112
Total equity		171,156	666,019	754,023
Number of shares on issue at year end		n/a	575,302	673,071
Net asset backing per Security (A\$)		n/a	1.16	1.12

Source: BBW's audited financial statements for the years ended 30 June 2005, 2006 and 2007

Notes: 1. Includes compensation for loss of revenue, interest receivable, and other receivables

2. Includes goodwill and intangible assets related to acquisitions

3. Includes goods and services tax, other tax receivables and other assets

In relation to the historic balance sheet as at 30 June 2007 outlined above, we note that:

- cash increased from 30 June 2006 to 30 June 2007 largely due to a capital raising of approximately A\$157 million via an institutional placement in April 2007
- property, plant and equipment increased 41 percent following the acquisition of an additional 4 wind farms during the year and continuation of construction at Lake Bonney and Fruges
- borrowings increased by 99.4 percent following the refinancing and releveraging of BBW's global wind farm portfolio and aggregation project. Under this project, asset and corporate debt across various jurisdictions into a single facility
- derivative financial instruments relate to interest rate swaps and net investment hedges
- intangibles include \$115.7 million of goodwill and \$156.8 million of other intangible assets (comprising framework agreements and project-related agreements and licences).

Cash flow statement

BBW's audited consolidated cash flow statements for the periods ending 30 June 2005, 30 June 2006 and 30 June 2007 are summarised below.

Table 10: BBW's historical consolidated cash flow statements

As at 30 June	Consolidated		
A\$'000	2005	2006	2007
Cash flows from operating activities			
(Loss)/profit for the period	2,674	(16,235)	13,853
(Gain)/loss on fair value of financial instruments	-	852	(15,088)
(Gain)/loss on fair value of financial assets (less distributions)	-	4,951	20,851
Depreciation and amortisation of non-current assets	5,970	20,061	33,965
Amortisation of borrowing costs capitalised	-	1,232	21,570
Non-cash incentive fee payment	-	13,028	-
Increase/(decrease) in current tax liability	1,094	652	1,367
(Increase)/decrease in deferred tax balances	468	(2,491)	(4,528)
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:			
(Increase)/decrease in assets:			
Current receivables and other current assets	(25,728)	(9,594)	15,665
Increase/(decrease) in liabilities:			
Current payables	22,279	1,702	(1,615)
Net cash from operating activities	6,757	14,158	86,040
Cash flows from investing activities			
Payment for property, plant and equipment	(213,757)	(76,632)	(265,931)
Payment for intangible assets	-	(18,271)	-
Payment for investments in controlled entities	(35,708)	(98,971)	(74,545)
Prepaid investment	-	(10,181)	(899)
Payment for investments in financial assets	-	(146,838)	(296,533)
Proceeds from sale of investment in financial assets	-	-	13,764
Loans to related parties	-	-	(150,000)
Repayment of loans by related parties	-	-	150,000
Net cash used in investing activities	(249,465)	(350,893)	(624,144)
Cash flows from financing activities			
Proceeds from issues of equity securities, net of costs	121,305	487,048	153,593
Proceeds from borrowings	167,466	404,761	1,656,689
Repayment of borrowings	(12,043)	(312,038)	(1,086,325)
Loans from related parties	8,661	-	-
Repayment of borrowings to related parties	-	(18,785)	-
Distributions paid to Security Holders	(12,010)	(26,830)	(50,513)
Net cash provided by financing activities	273,379	534,156	673,444
Net increase in cash and cash equivalents	30,671	197,421	135,340
Cash and cash equivalents at the beginning of the financial year	79,443	110,114	311,195
Effects of exchange rate changes on the balance of cash held in foreign currencies	-	3,660	(4,910)
Cash and cash equivalents at the end of the financial year	110,114	311,195	441,625

Source: BBW's audited financial statements for the years ended 30 June 2005, 2006 and 2007

In relation to the above historic cash flow statements, we note that over the year ended 30 June 2007, acquisition related costs of approximately A\$7.3 million were unpaid at the balance date. During the year ended 30 June 2006, BBW purchased the Eifel Wind Farm.

6.5 *Capital structure*

Issued capital

As at 11 September 2007, BBW had approximately 803.2 million fully paid ordinary securities outstanding.

Registered Security Holders

BBW's top ten Security Holders as at 11 September 2007 are set out below.

Table 11: BBW top 10 Security Holders as at 11 September 2007

Investor	Securities owned	% Issued capital owned
Citicorp Nominees Pty Limited	117,271,883	14.6
HSBC Custody Nominees (Australia) Limited – A/C 2	95,068,920	11.8
National Nominees Limited	83,219,068	10.4
ANZ Nominees Limited	77,844,751	9.7
HSBC Custody Nominees (Australia) Limited	48,675,409	6.1
JP Morgan Nominees Australia Limited	48,061,057	6.0
UBS Wealth Management Australia Nominees Pty Ltd	19,450,571	2.4
HSBC Custody Nominees (Australia) Limited – GSI ECSA	15,879,918	2.0
HSBC Custody Nominees (Australia) Limited – GSCO ECA	14,586,661	1.8
HSBC Custody Nominees (Australia) Limited	14,125,981	1.8
Total for top 10 Security Holders	534,184,219	66.5
Other Security Holders	269,034,304	33.5
Total	803,218,523	100.0

Source: BBW

The concentration of securities held in BBW as at 11 September 2007 is set out in the table below.

Table 12: Concentration of Security holdings in BBW as at 11 September 2007

Securities held	Number of Security Holders	Number of securities held
1-1000	68,804	15,703,347
1,001-5,000	8,661	19,432,559
5,001-10,000	2,051	15,033,268
10,001-100,000	1,862	45,282,112
100,001-and over	208	707,767,237
Total	81,586	803,218,523

Source: BBW

Substantial Security Holders

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

Table 13: BBW substantial Security Holders as at 11 September 2007

Security Holder	BBW stapled securities held (%)
Babcock & Brown Group	12.1
Wellington Management Company, LLP	9.1
Merrill Lynch & Co., Inc	7.9
Kairos Fund Limited	6.7
Total	18.8

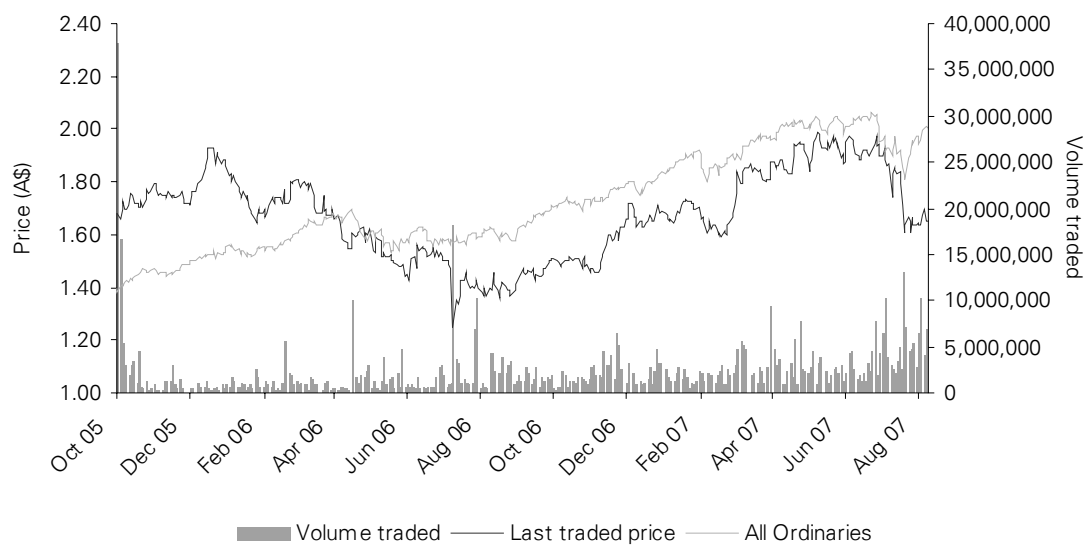
Source: BBW

We note that on 14 September 2007, BBW issued an additional 6.2 million securities under the Distribution Reinvestment Plan for the final distribution for the six months ended 30 June 2007.

6.6 Security price analysis

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

Figure 7: BBW Security price



Source: IRESS and Bloomberg

Note: excludes off-market trades

In relation to the figure above we note:

- BBW's Security price surged 20 percent in their trading debut on the ASX on 28 October 2005 after the company raised A\$396.0 million in an initial public offering to fund expansion. After listing at A\$1.40, the securities rose to A\$1.70 before closing on the first day of trading at A\$1.68, with 37.9 million securities having traded
- unusually low wind conditions during May 2006 and June 2006 resulted in an earnings downgrade and subsequently triggered a 13.4 percent drop in BBW's share price on 4 August 2006 to A\$1.27
- the maximum closing price of A\$1.99 was recorded on 5 June 2007. Although the market in general displayed a similar upward trend, the peak in BBW's share price appeared to coincide with the company's announcement on 1 June 2007 regarding the favourable final outcome of the Spanish tariff review. Therein, BBW announced that the new Royal Decree published by the Spanish government removed an element of regulatory uncertainty in the

Spanish wind energy market, which was a clear improvement from the initial draft decree released in 2006

- BBW’s total Security Holder return, defined as a combination of distributions and Security price appreciation over its first 12 months of listing, was 14.6 percent
- BBW outperformed the All Ordinaries Index consistently up until late April 2006. However, since late April, BBW’s performance has been consistently relatively lower than the All Ordinaries Index
- BBW’s closing price on 11 September 2007 was A\$1.64.

Volume Weighted Average Price (VWAP) and liquidity analysis

An analysis of the trading volume in BBW securities for the 12 month period to 6 September 2007 is set out below.

Table 14: BBW’s VWAP and liquidity analysis

Period	Highest traded price during period	Lowest traded price during period	VWAP of period	Cumulative volume of shares traded during period	Volume of securities traded as a percentage of the average number of issued securities
7 days	\$1.685	\$1.620	\$1.649	16,507,361	2.2%
30 days	\$1.870	\$1.430	\$1.658	108,475,947	15.8%
90 days	\$2.000	\$1.430	\$1.794	234,717,632	34.7%
180 days	\$2.070	\$1.430	\$1.816	387,874,931	59.7%
360 days	\$2.070	\$1.200	\$1.729	602,399,041	98.0%

Source: ASX Announcements and Bloomberg as at 11 September 2007

Note: excludes off-market trades

The above analysis indicates that the market for BBW’s securities has been highly liquid over the 12 months prior to 11 September 2007, with turnover of approximately 98 percent of BBW’s average issued capital.

7 Profile of the Enersis Portfolio

7.1 General

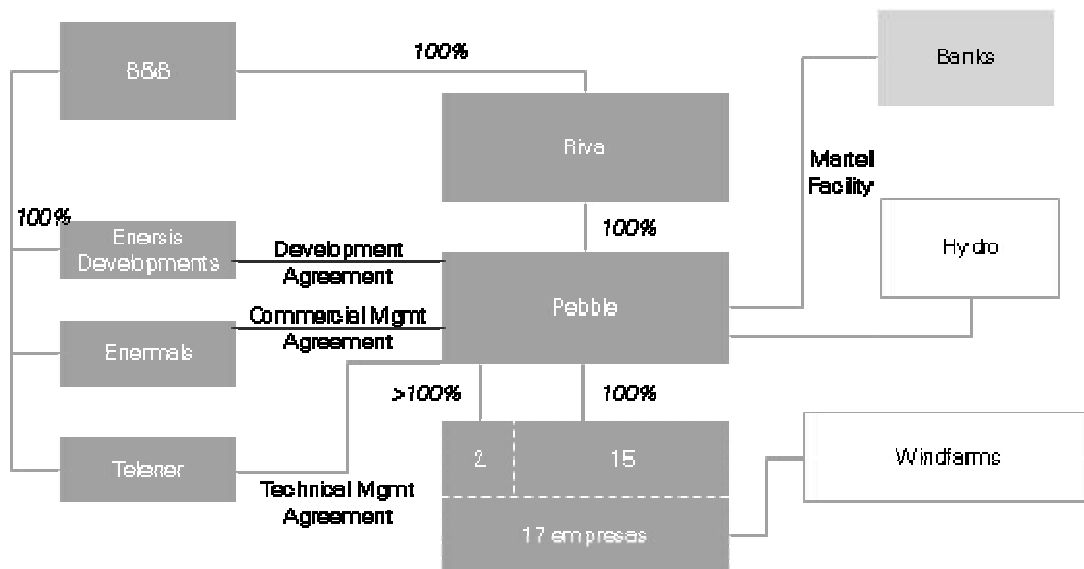
On 16 December 2005, B&B acquired 100 percent of the shares of Enersis. Enersis, founded in 1988, has been a leader in the Portuguese renewable energy market.

As at 31 December 2005, Enersis was the largest owner of wind farms and small hydroelectric projects in Portugal with market shares of 25 percent and 30 percent, respectively. Historically, Enersis had developed, construction-managed, operated and owned all of its renewable energy projects. In doing so, it gained significant expertise and experience in all aspects of its business model.

With respect to its development activities, Enersis is planning additional wind farms or extensions to existing wind farms in Portugal and new wind farms in France. It is also reviewing opportunities with other renewables such as wave energy.

B&B owns the Enersis group through Riva. Riva owns the Portuguese holding company, Pebble, which in turn owns 17 project companies (empresas) which own the Portuguese wind farms. Pebble wholly owns all but two of the empresas, which relate to three wind farms, and is the borrower of the Enersis debt facilities. Pebble has also outsourced administration and technical management services from B&B. The corporate structure of Riva is set out in the diagram below.

Figure 8: Corporate structure of Riva



Source: BBW

The Enersis Portfolio assets located in Portugal comprises the following wind farms.

Table 15: The Enersis Portfolio

Name of wind farm	MW	Commercial operation date
Achada	6.9	May 2005
Arcela	11.5	August 2005
Bigorne	7.0	May 2002
Borninhos	2.0	May 2004
Cabeço Alto	11.7	September 2002
Candeeiros	111.0	June 2005
Chão Falcão I	34.5	December 2004
Degracias	20.0	August 2005
Freita I	18.4	July 2002
Igreja Nova I	3.3	October 1999
Igreja Nova II	3.9	December 2002
Jarmeleira	0.9	July 2002
Lagoa Funda	9.0	January 1995
Lomba da Seixa I	13.0	January 2001
Lomba da Seixa II	12.0	May 2004
Lousã I*	35.0	August 2006 (provisional takeover)
Malhadas	9.9	July 2001
Malhadizes	12.0	January 2005
Meroicinha	9.0	October 2003
N ^a Sr ^a da Vitória	12.0	November 2004
Pampilhosa	114.0	September 2005
Rabaçal	2.0	August 2005
São Cristóvão	3.3	January 2000
São Cristóvão II*	2.0	n/a
Sao Mamede	6.9	February 2006
Serra de Escusa	2.0	February 2005
S. de Todo o Mundo	10.0	August 2004

Name of wind farm	MW	Commercial operation date
Vila Lobos	10.0	March 1998
Chiqueiro*	4.0	n/a
São Macário*	11.5	n/a
Leomil*	16.1	n/a
TOTAL	524.8	

Source: BBW

*Note: * indicates that the wind farm is under construction*

The Enersis Portfolio consists of 25 wind farms that are in operation with a total installed capacity of 456.2MW. The portfolio also contains five construction projects which are made up of three new wind farms plus an extension of one of the existing assets, with a total installed capacity of 68.6MW. The first of the assets was commissioned in 1997 and, on average, the portfolio has been operating for over two years.

The geographic locations of these wind farms offer the Enersis Portfolio exposure to the two main prevailing winds in the peninsula, specifically those from the west (Atlantic) and the south (Mediterranean). A map of the geographic locations of the Portuguese wind farms is presented in Appendix 7. We set out the key characteristics of each of the wind farms in the table below.

Table 16: Enersis' wind farm portfolio

Wind farm name	Installed MW	# of WTGs	Turbine capacity	Turbine supplier	Annual GwH (P50)	Commercial Operations
Achada	6.9	3	2,300	Nordex	21.3	2005
Arcela	11.5	5	2,300	Nordex	26.6	2005
Bigorne	7.0	4	1,750	Vestas	15.4	2002
Borninhos	2.0	1	2,000	Enercon	5.1	2004
Cabeco Alto	11.7	9	1,300	Nordex	25.9	2000
Candeeiros I	111.0	37	3,000	Vestas	312.9	2005
Chao Falcao I	34.5	15	2,300	Nordex	74.6	2005
Degracias	20.0	10	2,000	Vestas	47.2	2005
Freita I	18.4	8	2,300	Nordex	39.8	2006
Igreja Nova I	3.3	2	1,650	Nordex	15.5	1999
Igreja Nova II	3.9	3	1,300	Vestas		2002
Jarmeleira	0.9	1	850	Vestas	1.9	2002
Lagoa Funda	9.0	18	500	Mitsubishi	13.1	1998/2002
Lomba de Seixa I	13.0	10	1,300	Nordex	23.5	2001
Lomba de Seixa II	12.0	8	1,500	GEWE	24.9	2004
Malhadas	9.9	15	660	Vestas	25.1	2001/2004
Malhadizes	12.0	6	2,000	Enercon	25.9	2005
Meroicinha	6.0	3	2,000	Vestas	21.4	2003
Meroicinha	3.0	1	3,000	Vestas		2003
N.aSr.a da Vitoria	12.0	8	1,500	GEWE	22.6	2004
Pampilhosa	114.0	38	3,000	Vestas	291.0	2006
Rabacal	2.0	1	2,000	Vestas	5.5	2005
Sao Cristovao	3.3	2	1,650	Vestas	7.2	2001
Sao Mamede	6.9	3	2,300	Nordex	12.0	2006
Serra de Escusa	2.0	2	1,000	WinWind	3.9	2005
S. de Todo Mundo	10.0	5	2,000	Vestas	24.8	2004
Vila Lobos	10.0	20	500	Enercon	27.8	1998
Total operational	456.2	238			1215.3	
Lousa I*	35.0	14	2,500	GEWE	100.4	2006
Sao Cristovao II	2.0	1	2,000	Vestas	4.5	n/a
Chiqueiro	4.0	2	2,000	Vestas	8.9	n/a
Sao Macario	11.5	5	2,300	Nordex	26.2	n/a
Leomil	16.1	7	2,300	Nordex	40.2	n/a
Total construction	68.6	29			79.8	
Total	524.8	267			1295.1	

Source: BBW

Note: * provisional takeover

It is anticipated that construction of all of the portfolio projects will have been completed by June 2009.

Development pipeline

Four of Riva's subsidiaries have entered into a Development Agreement with a subsidiary of B&B under which they have committed to acquire additional wind farms from B&B developer upon those wind farms being certified as ready for construction and meeting certain economic return criteria. The Enersis SPA and Enersis JVA include obligations on BBW to fund the Riva subsidiaries in relation to these investment obligations. The developments are tied to existing wind farms in the Enersis Portfolio.

7.2 Key agreements

Long-term off-take agreements

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

A PPA is the most common form of off-take agreement, and usually covers such items as the sale/purchase of contracted capacity and energy (including a specified energy price) over a fixed (usually long-term) period, a guaranteed purchaser (counterparty), operation of the wind farm, financing of the wind farm, guarantees of performance, penalties, and other terms and conditions.

In accordance with Portuguese law, all of the wind farms benefit from PPAs of indefinite duration under which at least the first fifteen years feature fixed price tariffs. Subsequent to this period the fixed price will either be extended for a further five years or the projects will be able to sell their electrical output and green credits in the market. If the green certificates market has not sufficiently developed at the end of fifteen years, then the projects will benefit from a further five years of the set tariff.

With some plants in operation since 1998, the existing 456.2MW portfolio has the benefit of a strong operating history with significant capacity additions in recent years such that the portfolio's weighted average initial fixed tariff period is just over 14 years. A five year fixed tariff extension would provide the portfolio with just over 19 years of price certainty.

The PPA counterparties under the various PPAs are either the Portuguese national electric transmission company, REN, or EDP, the dominant national electric company.

Tariffs

The tariff applicable to the purchase of energy from wind farms is set out in legislation pursuant to a remuneration formula which includes the following components:

- A fixed part of the remuneration – which partially reflects, amongst other details, the monthly unit costs of new investments in new production resources which are avoided by

the construction of the plant. The plant has to guarantee the same level of energy that could be produced by those new production resources

- A variable part of the remuneration – which partially reflects, among other details, the avoided operations and maintenance costs for the new plant
- An environmental remuneration component – which partially reflects the environmental benefits of utilising renewable resources. This considers, for example, the reference unit value for CO₂ emission, which is avoided by the plant.

In addition to the part-calculations mentioned above, the legal formula also comprises a mandatory element, the KMHO factor, which takes into account the electrical energy produced by the plant during some specific hours of the day.

Operations and Maintenance services

For the past 15 years, Telener has coordinated the operations and maintenance services for the Portuguese wind farm portfolio in Portugal as well as for the small hydro assets of Enersis. Telener has over 15 years of experience and coordinates the operation of all of the wind farms centrally. The company is one of the most experienced, independent providers of supervision, operations and maintenance services to the renewable energy sector. Telener, now a fully owned subsidiary of B&B, will continue to provide technical management services to the wind assets.

In relation to the wind assets, the WTG manufacturers provide operations and maintenance services under the WOM agreements. Therefore, Telener's role is to perform close supervision of the assets and WTG services, and to focus on maximizing production.

The turbine suppliers for each of the wind farms within the Portfolio have entered into WOM agreements which cover the initial period of operation of the wind farm.

The portfolio is diversified across the following six different turbine manufacturers being Vestas, Winwind, Enercon, GE Wind, Mitsubishi and Nordex.

7.3 *Financial overview*

Historic performance

We have not reviewed the historic performance of each of the Portuguese wind farms due to lack of recent available financial information. We note that BBW's consultants did however have regard to recent performance of the Portuguese wind farms in establishing their revised energy production estimates for the Enersis Portfolio.

8 Profile of the US07 Portfolio

8.1 General

The US07 Portfolio comprises the following three wind farms:

- Sweetwater 4
- Sweetwater 5
- Cedar Creek.

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

Table 17: Key characteristics

Characteristic	Sweetwater 4	Sweetwater 5	Cedar Creek
Location	Texas	Texas	Colorado
Size	240.8MW	80.5MW	300.5MW
Turbine capacity	Mitsubishi 1MW Siemens 2.3MW	2.3MW	GE 1.5MW Mitsubishi 1MW
Turbine manufacturer	Mitsubishi and Siemens	Siemens	GE and Mitsubishi
Turbine warranty	5 years for Mitsubishi turbines and 2 years for Siemens turbines	2 years for Siemens turbines	2 years for GE (parts only) and 5 years for Mitsubishi turbines

Source: BBW

The wind resource for each site was evaluated by an independent engineer based on wind data collected on the sites together with long-term reference data and other available resources. The wind farms use turbine technology which has been successfully used in US and European wind farms, and therefore the technology risk is considered to be minimal.

8.2 **Key agreements**

Long-term off-take agreements

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

Both Sweetwater 4 and Cedar Creek have secured long-term PPAs for the sale of their energy output.

The PPAs for Sweetwater 4 and Cedar Creek guarantee the sale of all energy produced at a fixed price, and therefore provide a relatively high level of certainty in relation to the forecast revenues of the wind farms.

The smaller Sweetwater 5 project has, to date, not secured a PPA. It will sell its output as a “qualifying facility” pursuant to US PURPA legislation and receive the prevailing market price. Nothing precludes the subsequent entry into either a PPA or a fixed for floating swap of the spot market energy price.

We set out below the nature and key terms of these contracts in relation to each wind farm.

Table 18: Key terms – off-take agreements

Characteristic	Sweetwater 4	Sweetwater 5	Cedar Creek
Type of agreement	Power Purchase Agreement	Qualifying Facility (at prevailing market price)	Power Purchase Agreement
Counterparty	City Public Service Energy (CPS Energy)	Lower Colorado River Authority (LCRA)	Public Service Company of Colorado
Contract term	20 years	Ongoing	20 years
% of output contracted under agreement	100%	100%	100%

Source: BBW

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

Operating and maintenance agreements

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

Table 19: Key terms – turbine operating and maintenance agreements

Characteristic	Sweetwater 4	Sweetwater 5	Cedar Creek
Counterparty	Mitsubishi and Siemens	Siemens	GE and Mitsubishi
Term *	Mitsubishi 5 years and Siemens 2 years	2 years	Mitsubishi 2 years plus a 3 year extension GE 2 years (parts only)
Guaranteed turbine availability for term of O&M agreement	95%	95%	95% after 9 months (Mitsubishi only)
Power Curve Guarantee for term of O&M agreement	At least 95% of a specified energy yield	At least 95% of a specified energy yield	At least 95% of a specified energy yield

Source: BBW

**Siemens and Mitsubishi undertake maintenance during their warranty periods, whereas GE appoint a 3rd party contractor. Post warranty maintenance is assumed to be continued by either the manufacturer or a qualified third party contractor. Associated costs have been advised by the projects Independent Engineer, Garrad Hassan*

Leases of freehold land

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

Table 20: Key terms - lease agreements

Characteristic	Sweetwater 4	Sweetwater 5	Cedar Creek
Lease term (with options)	30 years	30 years	35 years

Source: BBW

With regard to the above we note that the terms of the leases for each of the wind farms is in excess of the terms of the respective PPAs and the expected useful lives of the WTGs located at the US wind farms.

8.3 Capital structure

The US07 Portfolio assets will be owned by a combination of Class A members (institutional investors) and Class B members. The US07 Transaction relates to the acquisition of Class B membership interests by BBW. In relation to the capital structure of the portfolio, we note that:

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

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

Time period 1 (T1)

- The Class B members receive 100 percent of the cash distributions from the portfolio until they receive the full amount of their initial capital investment.
- The Class A members will not receive any cash distributions during this period.
- The Class A members receive 100 percent of the tax benefits and tax detriments from the portfolio. The Class B members will not receive any tax benefits or tax detriments during this period.
- T1 runs until May 2013 for Sweetwater 4 and Sweetwater 5 and June 2013 for Cedar Creek.

Time period 2 (T2)

- The Class A members receive 100 percent of the cash distributions, tax benefits and tax detriments until the Reallocation Date has occurred. The Reallocation Date is defined as the date from which tax benefits and cash distributions are shared proportionately between Class A members and Class B members in accordance with their proportionate interests, as stipulated in the Limited Liability Company Agreement (LLC).
- The Class B members receive no cash distributions, tax benefits or tax detriments until the Reallocation Date.
- T2 runs until August 2017 for Sweetwater 4 and 5 and October 2017 for Cedar Creek.

Time period 3 (T3)

- Once the Reallocation Date has occurred, Class A members and Class B members are allocated a share of the total cash distributions, tax benefits and tax detriments as specified in the LLC between Class A and Class B members dated 24 May 2007 for Sweetwater 4 and 5. The Cedar Creek LLC will be signed at the funding of Cedar Creek.

- T3 runs until the end of the explicit forecast period during May 2027 for Sweetwater 4, December 2027 for Sweetwater 5 and during October 2027 for Cedar Creek.

Time period TV (TTV)

- TTV, is a 5 year extension of management's explicit forecast period to reflect the terminal value that can be extracted from the remaining useful lives of the wind turbines.
- TTV runs until the end of the useful lives of the wind turbines during May 2032 for Sweetwater 4, December 2032 for Sweetwater 5 and during October 2032 for Cedar Creek.

8.4 Financial overview

Historic performance

The US wind farms are either yet to or have only recently commenced commercial operations (in the case of Sweetwater 4), and accordingly no meaningful historical data is available.

9 Assessment of value of the Enersis Portfolio

9.1 General

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

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

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

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

9.2 Valuation methodology

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

In our experience, the most appropriate method for determining the value of assets similar to the Portuguese wind farms is the DCF approach.

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

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

- a review of the Enersis Model to understand the basic data flows and to identify the key data inputs and outputs
- project history where applicable, current operations and outlook for the wind farms were discussed with management
- a model review report prepared by an independent adviser, was reviewed to ensure third party sign off on the mechanical accuracy of the Enersis Model.

We note also that key assumptions (including wind measures, energy output and off-take prices) used in the Enersis Model have been determined by third parties. We have reviewed the available reports prepared by these third parties and the assumptions adopted. Based on this we consider the assumptions to be appropriate for the purposes of our valuation.

9.3 *Disclosure of information*

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

9.4 *Key parameters of the valuation*

Wind

Forecast electricity generation by each wind farm is based on independent wind studies. The forecasts are based on their assessment of the prospective output of each wind farm, with consideration given to the recent performance of the assets where relevant. The wind farms in the portfolio are spread over a large area across Portugal, providing geographic diversification benefits that can be expected to result in less volatility and a greater chance of achieving forecast wind measures on a portfolio basis.

Electricity sales

Under the Portuguese regulatory environment, each of the wind farms within the portfolio have long-term PPAs in place in relation to 100 percent of generated electricity (see Section 7.2 for further details). The forecasts are based on the assumption that the off-take agreements govern the first 15 years of operations of each wind farm (or for at least 15 years from February 2005), after which point the tariffs are expected to revert to market energy prices, which are based on independent forecasts conducted by Pöyry Energy Consulting. The forecast prices are based on the assumption that the Portuguese and Spanish Energy tariffs will align.

We note that the Enersis Portfolio will have access to a five year extension of the PPAs beyond the periods assumed under the current set of forecasts. This provides potential upside to the forecasts as an owner of these wind farms would be likely to exercise this option in the event that the revenues generated through sale of energy and green credits in the market are expected to be lower than those available under an extended PPA.

Operating margins

The Enersis Portfolio has an average of over two years of operating history across 25 of the 30 wind farms (three of the wind farms are currently under construction). BBW has referred to this history in assessing the proposed acquisition and has based its forward cash flow forecasts on this information. In BBW's view, the management team responsible for the Enersis Portfolio is experienced and has demonstrated competence in managing the assets.

As the Enersis Portfolio includes a number of projects which are still under development, we cannot assess the reasonableness of forecast operating margins of some of the wind farms against historic performance. However, we note that an independent consultant has forecast the operating costs of the wind farms as well as the energy output. We understand that in preparing their forecasts, regard was given to the historic operating performance of the wind farms where available.

Maintenance expenditure

Forecast maintenance expenditure for each wind farm incorporated in the Enersis Model is consistent with an independent third party report which incorporates life cycle rehabilitation requirements. Maintenance agreements are in place with the respective turbine suppliers which provides a relatively higher degree of confidence with regard to forecast maintenance spend over the term of these agreements.

Terminal value

Our valuation of the Enersis Portfolio is based on the future cash flows expected to be received by equity owners over the useful lives of the wind farms which is forecast to be 25 years from the date of commencement of operations of each wind farm, consistent with the expected useful life of the WTGs. In assessing the value of the Enersis Portfolio, the Enersis Model generates cash flow forecasts over the useful life of each wind farm, with the total cash flows to equity forecast taking into account the corporate structure of Riva.

The cash flows forecast in the Enersis Model are based on the assumption that the Enersis debt facilities are refinanced upon acquisition of 50 percent of Riva by BBW, and that the refinanced debt is not fully paid down over the term of the useful life of the wind farm assets. At the end of this explicit cash flow period (30 June 2030) approximately 32 percent of this debt balance therefore remains. For the purpose of our valuation, we have assumed that this debt balance is not repaid, and instead adopted this balance as a proxy for the terminal value of the Enersis

Portfolio. This ‘terminal value’ implies an EBITDA multiple of approximately 2.4 times forecast EBITDA for the year ending 31 December 2030.

We note that this assumption is relatively conservative when compared to a terminal value calculated based on the assumption that the wind farms are ‘repowered’ when they reach the end of their useful life. ‘Repowering’ refers to the process whereby the existing WTGs are replaced with newer WTGs, which are forecast to have higher generating capacity than the existing WTGs due to the technological advancements expected to be made over the course of the next 20 to 25 years. The energy output and tariff forecasts adopted for the purpose of this terminal value scenario are based on forecasts by an independent third party.

In light of the above, we are of the view that the terminal value adopted is conservative, but that due to the uncertainty surrounding the future operations and viability of the wind farms beyond the useful life of the WTGs, it is an appropriate proxy for the purpose of our assessment.

Discount rate

In calculating our assessed valuation range for the Enersis Portfolio we have calculated a separate discount rate for the cash flows forecast to be generated by the wind farms under a PPA and for cash flows forecast to be generated through the sale of electricity in the market, due to the increased price risk faced without an off-take agreement in place. The discount rate has been weighted according to the proportion of the revenues in each year which are forecast to be generated under a PPA, and the blended discount rate has been applied to the forecast net equity distributions. A detailed explanation of the discount rates used, and the calculation thereof, is set out in Appendix 6, and a summary of the rates adopted is set out in the table below.

Table 21: Discount rates adopted

		Low	High
Cash flows under PPA	Cost of equity	11.0%	13.0%
Cash flows from sale of energy and RECs in the market	Cost of equity	14.0%	16.0%

Source: KPMG analysis

9.5 *Summary of assessed value*

In calculating our assessed value of 50 percent of the equity in the Enersis Portfolio, we have calculated a pro-rata 50 percent share based on our assessed 100 percent equity value. Set out below is our assessed valuation range for the equity in the Enersis Portfolio.

Table 22: Assessed value of 100% and 50% of the equity in the Enersis Portfolio

€ millions	Low	High	Mid-point
100% equity value	250.3	278.9	264.6
50% equity value	125.1	139.4	132.3

Source: KPMG analysis

9.6 *Valuation cross check*

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

In order to assess the total enterprise value (or business value, as opposed to equity value) of the Enersis Portfolio as at 30 June 2007 (the date from which BBW's economic interest in the Enersis Portfolio begins), we have summed our assessed mid-point value of 100 percent of the equity in the Enersis Portfolio of €264.6 million with the net debt amount of €762.0 million which is forecast to be raised upon acquisition to repay the Enersis debt facilities. Due to three of the wind farms being under construction for part of the year ending 31 December 2007, the first full period of EBITDA contribution is the year ending 31 December 2008. The implied EBITDA multiple for 2008 is approximately 10.9 times. In our opinion, this does not appear unreasonable given the following:

- the implied multiple is slightly below the historical mean and median of our selected comparable companies of 12.0 times and 12.1 times respectively, but within the observed range of 7.0 times to 17.2 times (excluding outliers)
- the implied multiple is approximately equal to the forecast mean and median of our selected comparable companies of 11.7 times and 10.8 times respectively, but within the observed range of 8.4 times to 23.9 times (excluding outliers)
- the comparable companies are typically diversified in terms of owning and/or operating a portfolio of renewable energy assets, including development projects, in a range of geographical locations
- the implied multiple is slightly below the mean but equal to the median of selected comparable transactions of 15.6 times and 10.9 times respectively, but within the observed range of 6.4 times to 23.6 times (excluding outliers).

We have also had regard to the multiple of total capacity (including wind farms under construction) implied by our valuation, of approximately €2.0 million per MW. This does not appear unreasonable in the context of multiples implied by recent transactions in the region, such as the acquisition by E.ON AG of a 227MW portfolio of Spanish wind farms, on an implied multiple in excess of €3.0 million per MW.

10 Assessment of value of the US07 Portfolio

10.1 General

In selecting the appropriate methodology by which to value the US07 Portfolio, we have considered which of the methodologies discussed in Section 9.1 a potential purchaser would most likely adopt as well as the specific circumstances relating to the US07 Transaction.

10.2 Valuation methodology

We have been provided with financial models by BBW containing detailed forecast cash flows for the portfolio over the useful lives of the assets (the US07 Models). Generally, electricity generation assets have finite lives, require capital expenditure which typically varies year to year, and have a range of cash flow inputs that make the forecasting of future cash flows a suitable basis on which to rely for valuation purposes.

In particular, the US07 Portfolio has unique cash flow profiles applicable to Class A and Class B members during different periods.

In our experience, the most appropriate method for determining the value of assets similar to the US07 Portfolio is the DCF approach, for the same reasons as discussed in Section 9.2.

In undertaking our assessment of value, we have relied upon the Models for the US07 Portfolio, but the following checks have also been undertaken:

- a review of the US07 Models to understand the basic data flows and to identify the key data inputs and outputs
- project history where applicable, current operations and outlook for the US wind farms were discussed with management
- a model review report prepared by a Big 4 accounting firm, other than KPMG, was reviewed to ensure third party sign off on the mechanical accuracy of the financial models.

We note also that key assumptions (including wind measures, energy output and off-take prices) used in the US07 Models have been determined by third parties. We have reviewed the available reports prepared by third parties and the assumptions adopted. Based on this we consider the assumptions to be appropriate for the purposes of our valuation.

10.3 ***Disclosure of information***

As noted earlier, in undertaking our valuation of the US07 Portfolio, KPMG has had access to all financial information considered necessary for the purposes of our work. In this report we have limited the disclosure of information to that which is placed into the public domain by BBW. This approach has been adopted following a request by BBW and the commercially sensitive and confidential nature of certain operational and financial information supplied to us.

10.4 ***Key parameters of the valuation***

Wind

Forecast electricity generation by each US wind farm is based on independent wind studies. The wind farms in the portfolio are spread over two distinct wind areas across the US, providing geographic diversification benefits that can be expected to result in less volatility and a greater chance of achieving forecast wind measures on a portfolio basis.

Electricity sales

All three wind farms within the portfolio have long-term off-take agreements in place in relation to 100 percent of generated electricity. Of these, two have fixed prices under PPAs (Sweetwater 4 and Cedar Creek) while the output of the remaining wind farm (Sweetwater 5) is based on applicable market rates under QF Agreements (see Section 8.2 for further detail).

Operating margins

Two of the three wind farms have no operating history and the third, Sweetwater 4, has only recently commenced commercial operations thus providing insufficient historic operating performance for forward-looking comparisons. Accordingly, we cannot assess the reasonableness of forecast operating margins of the wind farms against historic performance. However, we note that forecast operating margins are consistent with those observed for other wind farms in the US within the existing BBW portfolio.

Maintenance expenditure

Forecast maintenance expenditure for each wind farm incorporated in the US07 Models is consistent with various independent third party engineer reports, and incorporates life cycle rehabilitation requirements. Maintenance agreements are in place with the respective turbine suppliers which provides a relatively higher level of confidence with regard to forecast maintenance spend.

Terminal value

Our valuation of the US07 Portfolio is based on the future cash flows expected to be received by Class B members over the useful lives of the wind farms. In assessing the value of each wind farm, management provided us with a 20 year cash flow forecast. However, we understand from management that the useful lives of the wind turbines extend beyond the 20 year cash flow forecasts provided. Set out below are the useful lives of the wind turbines for each wind farm.

Table 23: Useful lives of the wind turbines

Terms	Sweetwater 4	Sweetwater 5	Cedar Creek
Useful lives of wind turbines	25 years	25 years	25 years

Source: BBW

As noted above and as part of assessing the terminal value of each wind farm, we extended management’s forecast for an additional 5 years (in extending the forecast, we assumed a year on year growth of 2.2 percent in the cash flows in line with average forecast inflation in the US for 2007 and forecast 2008). Thereafter, we assumed zero forecast cash flows as the wind turbines would have reached the end of their useful lives and accordingly, any residual value in the wind turbines would be offset by costs associated with demolition and site remediation.

Discount rate

In calculating our assessed valuation range for the US07 Portfolio we have calculated a separate discount rate for each of the three wind farms. In the case of Sweetwater 4 and 5, the discount rates have been weighted according to each wind farm’s contribution to total cash distributions to Class B members in each month, and the blended discount rate has been applied to the Class B equity distributions. A detailed explanation of the discount rates used, and the calculation thereof, is set out in Appendix , and a summary of the rates adopted is set out in the tables below.

Table 24: Discount rates adopted – Sweetwater 4

Period		Discount rate	
		Low	High
T1 – May 2007 to May 2013	WACC	6.4%	7.1%
T2 – June 2013 to August 2017	Cost of equity	11.7%	13.9%
T3 – August 2017 to May 2027	WACC	7.9%	8.8%
TTV – May 2027 to May 2032	WACC	10.7%	11.6%

Source: KPMG analysis

Table 25: Discount rates adopted – Sweetwater 5

Period		Discount rate	
		Low	High
T1 – Jan 2007 to May 2013	WACC	7.1%	7.8%
T2 – June 2013 to August 2017	Cost of equity	13.7%	15.9%
T3 – August 2017 to December 2027	WACC	9.3%	10.2%
TTV – January 2028 to December 2032	WACC	10.7%	11.6%

Source: KPMG analysis

Table 26: Discount rates adopted – Cedar Creek

Period		Discount rate	
		Low	High
T1 – October 2007 to June 2013	WACC	6.2%	6.9%
T2 – July 2013 to October 2017	Cost of equity	11.5%	13.7%
T3 – October 2007 to October 2027	WACC	7.8%	8.7%
TTV – October 2027 to October 2032	WACC	10.6%	11.5%

Source: KPMG analysis

10.5 *Summary of assessed value*

In calculating our assessed value of the Class B membership interests in the US07 Portfolio, we have applied a range of discount rates to result in an assessed valuation range. Set out below is our assessed valuation range for the Class B membership interest in the US07 Portfolio.

Table 27: Assessed value of the Class B membership interest in the US07 Portfolio

US\$ millions	Low	High	Mid-point
Class B membership interests	303.8	325.4	314.6

Source: KPMG analysis

10.6 *Valuation cross check*

In assessing the reasonableness of our assessed value of the US07 Portfolio, we have undertaken a cross check to implied multiples of EBITDA.

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

In order to assess the total enterprise value (or business value, as opposed to equity value) of the US07 Portfolio, we have summed our assessed mid-point value of the Class B membership

interest in the US07 Portfolio US\$314.6 million with the proposed capital contribution to be made by the Class A members. Due to the staged timing of the acquisition, the first full year of EBITDA contribution is 2009. The implied EBITDA multiple for 2009 is approximately 9.9 times (including PTCs). In our opinion, this does not appear unreasonable given the following:

- the implied multiple is slightly below the historical mean and median of our selected comparable companies of 12.0 times and 12.1 times respectively, but within the observed range of 7.0 times to 17.2 times (excluding outliers)
- the implied multiple is slightly below the forecast mean and median of our selected comparable companies of 11.7 times and 10.8 times respectively, but within the observed range of 8.4 times to 23.9 times (excluding outliers)
- the comparable companies are typically diversified in terms of owning and/or operating a portfolio of renewable energy assets, including development projects, in a range of geographical locations
- the implied multiple is slightly below the mean and median of selected comparable transactions of 15.6 times and 10.9 times respectively, but within the observed range of 6.4 times to 23.6 times (excluding outliers).

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

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

We have also had regard to the multiple of total capacity (including wind farms under construction) implied by our valuation, of approximately US\$1.9 million per MW. This does not appear unreasonable in the context of the multiple implied by BBW's acquisition of a similar portfolio of US wind farms in early 2007, on an implied multiple of approximately \$1.8 million per MW.

11 Evaluation of the Enersis Transaction

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

11.1 *The pricing of the Enersis Portfolio is at a fair price*

The proposed purchase price falls within our assessed valuation range

The proposed purchase price expected to be paid under the Sale and Purchase Agreement for a 50 percent interest in the Enersis Portfolio is €132.6 million as set out in Section 3.1. The consideration payable by BBW will also include a further €5.1 million as an adjustment to reflect a cost of carry since 1 July 2007 through to the expected settlement date. This adjustment is required to be made as BBW is proposing to acquire an economic interest in the Enersis Portfolio which will include all returns between 1 July 2007 and the settlement date. We note that the adjustment reflects a return on investment over this period which approximates the expected internal rate of return implied by the purchase price of the Enersis Portfolio.

As set out in Section 9, our assessed valuation range for a 50 percent interest in the Enersis Portfolio is €125.1 million to €139.4 million, excluding any payment for cost of carry after 1 July 2007. The proposed purchase price falls within our assessed valuation range, and on this basis we consider the purchase price to be fair.

In addition to the purchase price of €132.6 million, BBW will pay advisory fees in the order of €6.8 million to B&B in accordance with the Exclusive Financial Advisory Agreement between the two parties. Third party transaction costs of approximately €1.3 million are also expected to be incurred in relation to the Enersis Transaction.

11.2 Financial impact of the Enersis Transaction

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

BBW management's internal calculations suggest that the acquisition of the Enersis Portfolio is expected to have an immediate positive impact on BBW's NOCF less a forecast notional debt amortisation charge.

The impact on NOCF less debt amortisation in 2008 is expected to be accretive at approximately A\$6.0 million or 0.74 Australian cents per Security, compared to 14.0 Australian cents per Security expected to be generated by BBW's existing portfolio in 2008. Similarly, the impact on NOCF less debt amortisation in 2009 is expected to be accretive at approximately A\$9.4 million or 1.12 Australian cents per Security, compared to 15.3 Australian cents per Security forecast to be generated by BBW's existing portfolio in 2009.

The acquisition is expected to support BBW's stated distribution guidance

Based on the accretive impact of the acquisition on NOCF less debt amortisation, BBW has advised that it has increased its distribution guidance for 2008 to 14.5 Australian cents per Security from 14.0 Australian cents per Security. In addition, BBW expects distributions to Security Holders in 2009 of 15.5 Australian cents per Security (a 6.9 percent increase from 2008 forecast). This 2009 distribution guidance assumes the same factors taken into account in providing the 2008 distribution guidance. That is, the Enersis Transaction is approved by Security Holders, the Enersis Portfolio is acquired in line with the timing set out in the NOM, the Portuguese wind farms' performance meets the expectations of independent forecasts, no performance fees are payable to B&B, and the US07 Transaction is approved and proceeds as outlined in the NOM.

Further, BBW has advised that it is committed to retaining its distribution growth rate target of at least 5 percent per annum in the medium term, assuming BBW continues to make accretive acquisitions, including certain opportunities which have already been identified.

The acquisition is expected to be earnings accretive

Based on a review of BBW management's calculations of the expected impact of the acquisition of the Enersis Portfolio on net profit after tax, the impact on BBW's earnings in 2008 and 2009 is expected to be accretive.

The acquisition will result in an increased level of gearing

As a result of the acquisition BBW will incur additional debt which will increase BBW's financial risk profile. BBW will acquire its 50 percent interest in the Enersis Portfolio through an entity which has a subsidiary which has approximately €708 million of external debt (plus approximately €54 million which is expected to be drawn down to fund remaining construction payments) on a stand-alone portfolio basis. BBW's net debt to enterprise value was approximately 45.1 percent as at 30 June 2007. At the completion of the Enersis Transaction, management expects this to increase to approximately 58.4 percent on a pro-forma basis (based

on the number of BBW securities on issue and closing share price as at 19 September 2007). This increased gearing risk is mitigated to a certain extent through an active interest rate hedging policy. This level of gearing would be towards the upper end of the range observed in selected comparable companies of 5.8 percent to 68.1 percent, and generally consistent with a broader set of energy utility and infrastructure companies.

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

Each of the wind farms in the Enersis Portfolio have secured long-term off-take agreements for 100 percent of their output, thereby creating relative certainty over the majority of their revenue streams during their respective lives of operations. The average remaining life of the PPAs within the Enersis Portfolio is for 13 years, after which green certificates will be issued as wind energy supply enters normal market conditions. Additional certainty exists in that the tariffs will be extended for another five years if such market conditions do not evolve.

To reduce counter party risk, the PPAs in the Enersis Portfolio have been signed with either the Portuguese national electric transmission company, REN, or EDP, the dominant national electric company.

11.3 *Strategic considerations for BBW regarding the Enersis Transaction*

The portfolio has an operating history and an experienced management team

The Enersis Portfolio has up to 12 years and an average of over two years of operating history across 25 of the 30 wind farms. The average age of the Enersis Portfolio should have the effect of limiting the delays and ramp-up losses associated with establishing new wind farms. Only five of the 30 wind farms are still in construction. In addition, the 456.2MW operational proportion of the portfolio has the benefit of a strong operating history with significant capacity additions in recent years.

The management team responsible for the Enersis Portfolio is experienced and, in BBW's view, has demonstrated competence in managing the assets. For the past 15 years Telener has coordinated the operations and maintenance services for the Portuguese wind farms. Telener is one of the more experienced, independent providers of supervision, operations and maintenance services to the renewable energy sector. Telener, now a fully owned subsidiary of B&B, will continue to provide technical management services to the wind assets reducing operating risk.

The Enersis Portfolio will increase BBW's geographic diversification

The location of Enersis' Portfolio in Portugal, where BBW currently has no existing assets, combined with the European style feed-in tariff regulatory system will further enhance the diversification of BBW's portfolio. In addition, the geographic locations of Enersis' wind farms offers the BBW portfolio exposure to the two main prevailing winds on the Portuguese peninsula, specifically those from the west (Atlantic) and the south (Mediterranean).

In January 2007, the Portuguese government announced new renewable energy targets of 45 percent of total consumption by 2010 as part of a government strategy to reduce the country's dependency on energy imports. Further, it is projected that between 2007 and 2012, the government will spend a total of €8.1 billion on new renewable energy projects with wind energy being expected to receive the largest share of the total investment at approximately €5.1 billion. In an overall sense, the stable growth of the Portuguese wind energy sector is attributed to several supporting policies to promote renewable energy production including favourable legislation associated with new grid connection permits, resulting for example in applicable tariffs reducing by approximately 15 percent.

The portfolio provides diversification across turbine manufacturers

The turbines for the Enersis Portfolio are manufactured by Vestas, Nordex, (GE), Enercon, Mitsubishi and WinWind, with Vestas supplying the majority of the turbines. Vestas is one of the largest turbine manufacturers worldwide and manufactures turbines using technology which has been successfully implemented in US and European wind farms, and therefore the technology risk is considered low.

Increased scale provides greater purchasing power

The increase in scale that would result from acquiring the Enersis Portfolio (an increase of over 17 percent in BBW's total generating capacity based on BBW's proposed proportionate interest of 50 percent) for operational and projects under construction, is expected to provide BBW with greater flexibility and negotiating power in any potential wind farm acquisitions in the future.

BBW's view of future regulatory changes is positive

The price of the energy that the Enersis Portfolio produces and sells into the market is fixed pursuant to decrees by the Portuguese government. This feature should provide relative stability in revenues from the Enersis Portfolio and reduce the average energy price variability of BBW's portfolio. Further, Portugal and Spain are joint signatories to an agreement to integrate their electricity sectors into an Iberian electricity market with 29 million customers and 300 TWh of consumption.

In March 2007, the European Council endorsed a binding target for the European Community to source 20 percent of energy consumption from renewable sources by 2020. This is likely to be the beginning of a wave of new legislation which is expected to deliver significant results in reaching renewable energy targets within the EU. In addition, the European Council also endorsed a commitment to a "single Europe-wide internal energy market", allowing for integration of wind energy amongst the 27 EU member states. The realisation of a single market for wind energy would assist in maximising the wind energy potential of each country, facilitating a competitive wind energy market within the EU.

The purchase price is denominated in Euros

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

BBW will hedge the initial investment and a proportion of the expected Euro-denominated distributions from the Enersis Portfolio over the following three years into Australian dollars in line with its hedging policy.

BBW has an option over the remaining 50 percent of the Enersis Portfolio and its future development pipeline

Acquisition of the Enersis Portfolio will provide BBW with additional wind farm investment opportunities in the future, specifically in respect of the option to acquire the remaining 50 percent interest in the Enersis Portfolio which is not being acquired as part of the Proposed Transaction. Under the Enersis JVA between BBW and B&B, BBW will hold a first and last right of refusal over B&B's remaining 50 percent shareholding in the Enersis Portfolio. Under the Enersis JVA, B&B must offer their remaining shares to BBW by 30 September 2008. BBW Security Holder approval of the acquisition of the remaining shares is being sought at the Annual General Meeting on 9 November 2007, subject to an assessment of the terms of the transaction (including price) at the time of the acquisition by an Independent Expert. Further details of the Enersis JVA are set out in the NOM of which this report forms a part.

In terms of future expansion to the Enersis Portfolio, five of the 30 wind farms are under construction. However, we note that any delays associated with the commissioning process of these projects would defer any future revenue profile and reduce the cash flow available for distribution to BBW.

Implications of the Proposed Transactions not being approved

Should the Proposed Transactions not be approved by BBW Security Holders:

- the benefits of the Enersis Transaction outlined above would not be achieved
- management has advised that the cash that would otherwise have been spent on the acquisition will be available to pursue other investment options
- transaction costs of approximately €1.3 million would have been incurred.

12 Evaluation of the US07 Transaction

In evaluating the US07 Transaction, we have considered a variety of issues which will have implications for the future operations of BBW, the advantages and disadvantages likely to result from approval of the US07 Transaction, as well as the consequences to the Security Holders of not approving the US07 Transaction. We note that in reviewing a related party transaction of this nature, there are a number of key issues which we consider may most influence a Security Holder's decision to approve the US07 Transaction, and our analysis has focused on these issues.

12.1 *The pricing of the of the US07 Portfolio is at a fair price*

The proposed purchase price falls within our assessed valuation range

The proposed purchase price for the US07 Portfolio is US\$308.6 million, to be paid by BBW in various stages between November 2007 and December 2007 as set out in Section 3.2.

As set out in Section 10, our assessed valuation range for the Class B membership interests in the US07 Portfolio is US\$303.8 million to US\$325.4 million. The proposed purchase price of US\$308.6 million falls within our assessed valuation range, and on this basis we consider the purchase price to be fair.

In addition, we note that the proposed purchase price is based on BBW achieving an agreed internal rate of return, which exceeds its current assessed long-term cost of capital. In our experience of valuing assets of a similar nature, and having regard to similar listed investments, the agreed internal rate of return does not appear unreasonable (this is discussed in further detail in Section 10.6).

As discussed in Section 3.2, a range of plus or minus 15 percent has been set around the purchase price, effectively setting a floor and a ceiling. This range allows for BBW to adjust the purchase price to maintain the agreed internal rate of return based on updated forecast cash flows of the US07 Portfolio as each of the US wind farms reaches commercial operation. In the event that forecast cash flows drop to a point whereby a price below the floor would need to be paid to maintain the internal rate of return, a lower than expected internal rate of return would arise. Equally, if forecast cash flows rise to a point whereby a price above the ceiling would need to be paid to maintain the internal rate of return, a higher than expected internal rate of return would arise. Management has advised that they regard the possibility of either of these cases occurring as unlikely. In our view, the inclusion of this adjustment mechanism in the US07 Transaction terms is reasonable from the perspective of BBW Security Holders in that it increases the probability of achieving the agreed internal rate of return.

In addition to the purchase price of US\$308.6 million, BBW will pay advisory fees in the order of US\$7.0 million to B&B. Third party transaction costs of approximately US\$2.0 million are also expected to be incurred in relation to the US07 Transaction.

12.2 Financial impact of the US07 Transaction

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

BBW management's internal calculations suggest that the acquisition of each wind farm in the US07 Portfolio is expected to have an immediate positive impact on BBW's NOCF less a forecast notional debt amortisation charge.

The impact on NOCF less debt amortisation in 2008 is expected to be accretive at approximately A\$2.1 million or 0.26 Australian cents per Security, compared to 14.0 Australian cents per Security expected to be generated by BBW's existing portfolio in 2008. Similarly, the impact on NOCF less debt amortisation in 2009 is expected to be accretive at approximately A\$8.3 million or 0.99 Australian cents per Security, compared to 15.3 Australian cents per Security forecast to be generated by BBW's existing portfolio in 2009.

Whilst the impact on NOCF in 2008 is expected to be impacted due to a partial year's contribution from Sweetwater 5 (of approximately six months) and Cedar Creek (of approximately six months), the impact on NOCF in 2009, being the first full year's contribution from the US07 Portfolio is expected to be almost four times that of 2008, as described above.

The acquisition is expected to support BBW's stated distribution guidance

Based on the accretive impact of the acquisition on NOCF less debt amortisation, BBW has advised that it has increased its distribution guidance for 2008 to 14.5 Australian cents per Security from 14.0 Australian cents per Security. In addition, BBW expects distributions to Security Holders in 2009 of 15.5 Australian cents per Security (a 6.9 percent increase from 2008 forecast). This 2009 distribution guidance assumes the same factors taken into account in providing the 2008 distribution guidance. That is, the US07 Transaction is approved by Security Holders, the US07 Portfolio is acquired in line with the timing set out in the NOM, the US wind farms' performance meets the expectations of independent forecasts, no performance fees are payable to B&B, and the Enersis Transaction is approved and proceeds as outlined in the NOM.

Further, BBW has advised that it is committed to retaining its distribution growth rate target of at least 5 percent per annum in the medium term, assuming BBW continues to make accretive acquisitions, including certain opportunities which have already been identified.

The acquisition is expected to be earnings accretive

Based on a review of BBW management's calculation of the expected impact of the acquisition of the US07 Portfolio on net profit after tax, impact on BBW's earnings in 2008 and 2009 is expected to be accretive.

In relation to the expected earnings impact of the acquisition, we note that the investment in the US07 Portfolio will not be consolidated (for accounting purposes) by BBW until the Reallocation Date (see Section 8.3 for details), expected to be during July 2017 for Sweetwater 4 and 5 and during October 2017 for Cedar Creek, at which time BBW obtains a controlling

interest for accounting purposes. While BBW is not required to recognise any intangible assets (or related amortisation charges) in its accounts in relation to the US07 Transaction until a controlling interest is obtained, such amortisation charges (and their negative impact on BBW's earnings) are likely to be incurred upon consolidation of the US07 Portfolio at the Reallocation Date.

The acquisition will result in an increased level of gearing

As a result of the acquisition BBW will incur additional debt which will increase BBW's financial risk profile. BBW's net debt to enterprise value was approximately 45.1 percent as at 30 June 2007. At the completion of the US07 Transaction, management expects this to increase to approximately 50.7 percent on a pro-forma basis (based on the number of BBW securities on issue and closing share price as at 19 September 2007). This increased risk is mitigated to a certain extent through an active interest rate hedging policy. This level of gearing would be towards the upper end of the range observed in selected comparable companies of 5.8 percent to 68.1 percent, and generally consistent with a broader set of energy utility and infrastructure companies.

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

Each of the US wind farms have secured long-term off-take agreements for 100 percent of their output, thereby creating relative certainty over the majority of their revenue streams during their respective lives of operations. The PPAs for Sweetwater 4 and Cedar Creek provide price certainty and are for a term of 20 years, whereas the QF Agreement for Sweetwater 5 has no specified expiry date but continues whilst the wind farm qualifies under Section 210 of the PURPA, and provides the prevailing market price for the facility's output. To reduce counter party risk, the PPAs in the US07 Portfolio have been signed with two different counterparties (see Section 8.2).

12.3 *Strategic considerations for BBW regarding the US07 Transaction*

The US07 Portfolio will increase BBW's geographic diversification

As detailed in Section 6, BBW already owns operational wind farms in California, Illinois, New Jersey, New Mexico, Oklahoma, Oregon, Pennsylvania and Texas.

The US07 Portfolio includes wind farms located in Texas and Colorado. Although BBW already has exposure in the state of Texas with Sweetwater 1, 2 and 3, it has no exposure in the state of Colorado. Accordingly, the acquisition of the US wind farms should increase the diversity of BBW's wind energy generation assets and reduce revenue volatility. In 2006, the AWEA listed the top twenty states in the US for wind energy potential, as measured by annual energy potential in billions of kWhs, taking into consideration environmental and land use exclusions. The table below details the wind farms in the US07 Portfolio, and the AWEA rankings for the respective states.

Table 28: AWEA wind energy potential rankings for the US07 Portfolio

Wind Farm	Location	AWEA State Ranking
Sweetwater 4	Texas	2
Sweetwater 5	Texas	2
Cedar Creek	Colorado	11

Source: BBW

The portfolio provides diversification across turbine manufacturers

The turbines for the US07 Portfolio are manufactured by GE, Mitsubishi and Siemens, with Mitsubishi supplying the majority of the turbines. Mitsubishi is one of the largest turbine manufacturers worldwide and manufactures turbines using technology which has been successfully implemented in US and European wind farms, and therefore the technology risk is considered low. In addition, other turbines used by BBW globally are sourced from various other manufacturers.

Increased scale provides greater purchasing power

The increase in scale that would result from acquiring the US07 Portfolio (increase of approximately 25 percent in BBW’s total generating capacity (operational and under construction projects), and approximately 48 percent of generating capacity in the US) is expected to provide BBW with greater flexibility and negotiating power in any potential wind farm acquisitions in the future.

BBW’s view of future regulatory changes is positive

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

The current law in Texas (where Sweetwater 4 and 5 are located) requires 5,880MW of new renewable energy generation facilities be built in the state by 2015, consistent with President George W. Bush’s target of generating 20 percent of the nation’s power from renewable sources by 2010. Increased awareness of global warming and environmental issues through high profile advocates and economic reports that quantify the effects of environmental policies are likely to provide further drivers for positive regulatory change.

On 27 March 2007, the Governor of Colorado (where Cedar Creek is located), Mr Bill Ritter signed the House Bill 1281, which required large investor-owned utilities to produce 20 percent of their energy from renewable resources by 2024.

The purchase price is denominated in US dollars

The US07 purchase price has been agreed in US dollars and accordingly BBW bears the risk of any adverse movement in the exchange rate. Equally, BBW will benefit from any positive change in the exchange rate.

BBW will hedge the US dollar distributions from the US07 Portfolio into Australian dollars in line with its hedging policy.

Acquisition of the US07 Portfolio may not include all wind farms

There is a risk that BBW may not acquire all of the US wind farms comprising the US07 Portfolio even if the US07 Transaction is approved by BBW Security Holders. At each stage of the acquisition as each wind farm reaches commercial operation, certain conditions precedent relating to each wind farm (detailed in the NOM of which this report forms a part) must be satisfied in order for it to be acquired into the portfolio. Where these conditions are not satisfied, BBW will not acquire the relevant wind farm, but also will not be obliged to pay the relevant proportion of the purchase price attributable to that wind farm.

If BBW does not acquire all of the wind farms comprising the US07 Portfolio, BBW will not fully realise the diversification and scale benefits described above.

Implications of the Proposed Transactions not being approved

Should the Proposed Transactions not be approved by BBW Security Holders:

- the benefits of the US07 Transaction outlined above would not be achieved
- management has advised that the cash that would otherwise have been spent on the acquisition will be available to pursue other investment options
- transaction costs of approximately US\$2.0 million would have been incurred.

13 Evaluation of the Proposed Transactions

In our opinion, having considered the overall implications of the Proposed Transactions viewed collectively, the Proposed Transactions are fair and reasonable to the Security Holders of BBW (excluding B&B and its associates) when considered together.

In forming our opinion, we have separately evaluated each of the Proposed Transactions on a stand alone basis, and then considered them together below.

13.1 *The pricing of the Proposed Transactions are at a fair price*

The combined proposed purchase price falls within our assessed valuation range.

As set out in Section 2.1 and Section 2.2, the pricing of the Enersis and US07 Transactions, when considered on a stand-alone basis are each within our respective assessed value ranges. Accordingly, the pricing of the Enersis and US07 Transactions, when considered on a combined basis, is also necessarily within our assessed value range. On this basis, we consider the combined purchase price to be fair.

13.2 *Financial impact of the Proposed Transactions*

When considered collectively, the Proposed Transactions are expected to be immediately accretive to BBW's net operating cash flow

BBW management's internal calculations suggest that collectively the acquisitions are expected to have an immediate positive impact on NOCF less notional debt amortisation of BBW. The impact on NOCF less debt amortisation in 2008 and 2009 is expected to be accretive by approximately A\$8.1 million or 0.99 Australian cents per Security, and A\$17.7 million or 2.12 Australian cents per Security in 2008 and 2009 respectively. These increases in NOCF less debt amortisation compare to base NOCF less debt amortisation amounts of 14.0 Australian cents and 15.3 Australian cents per Security forecast to be generated by BBW's existing portfolio in 2008 and 2009 respectively.

The Proposed Transactions are expected to support BBW's stated distribution guidance

Based on the accretive impact of the acquisitions on NOCF, BBW has advised that it has increased its distribution guidance for 2008 to 14.5 Australian cents per Security from 14.0 Australian cents per Security. In addition, BBW expects distributions to Security Holders in 2009 of 15.5 Australian cents per Security (a 6.9 percent increase from 2008 forecast).

Collectively, the Proposed Transactions are expected to be earnings accretive

Based on a review of BBW management's calculation of the expected impact of the acquisitions on net profit after tax, the impact on BBW's earnings in 2008 and 2009 is expected to be accretive.

The Proposed Transactions will result in an increased level of gearing

As a result of the acquisition BBW will incur additional debt which will increase BBW's financial risk profile. BBW's net debt to enterprise value was approximately 45.1 percent as at 30 June 2007. At the completion of the US07 Transaction, management expects this to increase to approximately 62.8 percent on a pro-forma basis (based on the number of BBW securities on issue and closing share price as at 19 September 2007). This increased risk is mitigated to a certain extent through an active interest rate hedging policy. This level of gearing would be towards the upper end of the range observed in selected comparable companies of 5.8 percent to 68.1 percent, and generally consistent with a broader set of energy utility and infrastructure companies.

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

Each of the wind farms in the Enersis and US07 Portfolios have secured long-term off-take agreements for 100 percent of their output for varying periods, thereby creating relative certainty over the majority of their revenue streams during the terms of the various PPAs. To reduce counter party risk, the PPAs in the Enersis and US07 Portfolios have been signed with different counterparties.

13.3 *Strategic considerations for BBW regarding the Proposed Transactions*

Various other factors exist that, overall, support BBW undertaking the Proposed Transactions. The strategic considerations for BBW collectively undertaking the Proposed Transactions are that:

- the operating history and management team in the case of the Enersis Transaction provides a solid basis for forecast performance
- BBW will have a greater level of geographic diversification associated with its portfolio
- the portfolio will provide diversification across turbine manufacturers post the Proposed Transactions
- the increased scale of the portfolio provides greater purchasing power
- future regulatory changes, particularly in Portugal, appear positive
- BBW retains an option over the remaining 50 percent of the Enersis Portfolio and has access to its development pipeline
- acquisition of the US07 Portfolio may not include all US wind farms.



13.4 ***Conclusion in relation to the Proposed Transactions***

In our opinion, having regard to the matters discussed above, the Proposed Transactions, when considered together, are fair and reasonable to BBW Security Holders (excluding B&B and its associates).

Appendix 1 – Qualifications and declarations

Qualifications

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

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

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

Jonathan van Rooyen is an Executive Director of KPMG. He holds a Bachelor of Business, National Diploma of Finance and Management, and is a Fellow of the Financial Services Institute of Australasia. Jonathan has considerable experience in the preparation of valuations across a diverse range of industries, and in the preparation of expert reports.

Andrew Menon is an Executive of KPMG. He holds a Bachelor of Business Honours, a Bachelor of Business Banking and Finance and a Bachelor of Business Accounting. Andrew has considerable experience in the preparation of valuations across a diverse range of industries, and in the preparation of expert reports.

James White is an Executive of KPMG. He holds a Bachelor of Commerce and a Bachelor of Science. James has considerable experience in the preparation of valuations across a diverse range of industries, and in the preparation of expert reports.

Messrs Wingrove, van Rooyen, Menon and White were assisted by other qualified staff from KPMG.

Declarations

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

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

Interests

KPMG is entitled to receive a fee in the order of A\$330,000 excluding GST, for the preparation of this report. Except for this fee, KPMG has not received and will not receive any pecuniary or other benefit whether direct or indirect for or in connection with the preparation of this report.

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

Consent

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

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

Responsibility

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



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

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

Indemnity

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

Appendix 2 – Sources of information

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

Company and transaction information

- BBW's Notice of Annual General Meetings
- portfolio and individual wind farm financial models
- Legal Review Report: Enersis Wind Farms, April 2006
- Information Memorandum relating to the Enersis Portfolio, April 2006
- BBW management's internal models regarding financial impact of the proposed acquisition
- summary of Portfolio Purchase Agreement dated 23 August 2007
- BBW 2006 Annual Reports
- BBW 2007 Preliminary Financial Report
- various analyst reports and internal management reports on BBW, as well as analyst presentations prepared by BBW
- financial information from Bloomberg and IRESS
- BBW website and various press and media articles relating to BBW.

Industry information

- 'Global Wind Energy Outlook 2006', Global Wind Energy Council (GWEC)
- 'IEA Wind Energy Annual Report 2006', International Energy Association (IEA)
- 'large Scale Integration of Wind Energy in the European Power Supply', European Wind Energy Association (EWEA)
- 'Powering Change', EWEA
- 'Wind Energy: A Vision for Europe in 2030', European Wind Energy Technology Platform
- 'Renewables in Global Energy Supply January 2007', IEA
- 'IEA 2006 Annual Report', IEA

- *'Plugging the Gap'*, GWEC
- *Yearbook 2007*, Project Finance International
- various reports from the American Wind Energy Association (AWEA), GWEC, IEA and EWEA websites
- various analyst and broker reports on the international wind energy industry
- financial and comparable company and transaction information from Bloomberg and Thomson SDC.

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

Appendix 3 – Comparable companies

Table 29: Comparable companies

Comparable companies	Country	Market Capitalisation AUD\$m	EBITDA Margin %	Historic EBITDA Multiple (3) times	Forecast EBITDA Multiple (4) times	Historic EBIT Multiple (5) times	Forecast EBIT Multiple (6) times	NOA Multiple (7) times	Net Debt to Enterprise Value % (8)	Gearred Equity Beta (9)	Ungearred Asset Beta (10)
INVESTRA LIMITED	AU	924.7	67.5%	13.4	12.3	19.3	16.1	1.4	68.1%	0.38	0.15
ENERGY DEVELOPMENTS LIMITED	AU	597.4	53.8%	9.9	8.4	16.6	13.6	1.5	27.6%	1.18	0.93
EPCOR POWER LP	CA	1,508.6	51.7%	12.5	10.5	20.9	n/a	1.3	39.8%	0.43	0.30
GREAT LAKES HYDRO INCOME FND	CA	1,038.0	69.4%	12.6	12.6	16.7	n/a	1.5	40.2%	0.70	0.49
NORTHLAND POWER INCOME TR UT	CA	954.7	50.8%	11.7	9.9	21.3	n/a	1.5	12.1%	0.64	0.59
CAN HYDRO DEVELOPERS INC	CA	873.8	56.9%	38.1	23.9	65.8	34.1	1.8	24.4%	0.97	0.80
ALGONQUIN POWER INC FUND-UTS	CA	703.5	41.1%	10.7	9.7	19.8	n/a	1.3	24.5%	0.60	0.49
BORALEX POWER INCOME-UNIT	CA	671.9	61.9%	9.8	11.1	14.6	n/a	1.3	13.5%	0.66	0.60
VATTENFALL EUROPE AG	GE	15,445.7	13.1%	7.0	2.4	7.6	3.9	1.3	5.8%	0.35	0.34
CONERGY AG	GE	2,956.3	7.6%	35.8	18.8	39.1	21.6	5.3	9.8%	n/a	n/a
REPOWER SYSTEMS AG-REG'D *	GE	1,869.0	3.6%	63.2	26.0	85.6	32.5	5.6	n/a	1.07	1.07
PLAMBECK NEUE ENERGIE-REG	GE	239.8	2.4%	98.1	10.7	954.8	12.6	2.8	29.0%	0.81	0.65
SOLARPARC AG	GE	98.9	52.3%	17.2	n/a	40.6	n/a	1.9	22.5%	0.39	0.33
ENERGIEKONTOR AG	GE	113.2	46.6%	13.9	n/a	44.1	n/a	1.3	46.7%	0.80	0.52
IBERDROLA SA	SP	79,846.0	37.6%	15.3	10.6	21.8	15.3	2.6	21.5%	0.58	0.49
BKW FMB ENERGIE AG *	SZ	6,373.8	26.2%	10.1	13.0	14.9	16.8	2.1	n/a	0.36	0.36
Total Mean (excluding outliers)			40.1%	12.0	11.7	22.9	13.1	2.4	22.6%	0.66	0.54
Total Median (excluding outliers)			48.7%	12.1	10.8	19.8	15.7	1.5	23.4%	0.64	0.50

Notes:

1) Represents market capitalisation as at 6 August 2007 (denominated in millions of Australian dollars).

2) Represents historic EBITDA as a percentage of historic revenue.

3) Represents enterprise value divided by historic EBITDA.

4) Represents enterprise value divided by forecast EBITDA (broker consensus).

5) Represents enterprise value divided by historic EBIT.

6) Represents enterprise value divided by forecast EBIT (broker consensus).

7) Represents enterprise value divided by net operating assets ("NOA") where NOA equals book value of equity plus net debt.

8) Represents net debt as a percentage of enterprise value.

9) Represents adjusted monthly beta sourced from Bloomberg over the trailing five years.

10) Represents ungeared asset beta, calculated as geared equity beta divided by $(1+D/E*(1-t))$, where t is the corporate tax rate of the relevant country.

Outliers have been shaded and excluded from the calculation of mean and median where specified.

"n/a" data not available / not applicable

* Ungearred asset beta could not be calculated due to negative net debt or net debt to equity not being able to be determined; geared equity beta used in lieu

Source: Bloomberg, downloaded on 7 August 2007

Descriptions of comparable companies

Envestra Limited operates natural gas distribution networks and transmission pipelines in South Australia, Queensland and the Northern Territory. The Company's networks distribute gas to households and businesses in Adelaide, Brisbane (north of Brisbane River), Alice Springs and various regional centres in SA and Queensland.

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

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

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

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

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

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

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

Vattenfall Europe AG generates and supplies electricity and district heating primarily within and around the city of Hamburg. The Company is part of a cross-regional German power-grid for which it furnishes electricity on load management demand. Vattenfall provides electricity and district heating mainly to residential, commercial and municipal customers.

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

REpower Systems AG develops, produces, installs, sells, and maintains wind power plants.

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

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

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

Iberdrola S.A. generates, distributes, trades, and markets electricity in Spain, Portugal, and Latin America. The Company operates nuclear, hydroelectric, oil-fuelled, coal-burning, and combined cycle natural gas plants. Iberdrola also markets natural gas, constructs, promotes, and operates wind farms, and offers engineering, real estate, and telecommunications services.

BKW FMB Energie AG generates and distributes electricity. The Company produces electricity using nuclear, hydroelectric, solar, biomass and wind energy. BKW distributes electricity to communities throughout Switzerland, and in France, Italy, and Germany.

Appendix 4 – Comparable transactions

Table 30: Comparable transactions

Target Name	Target Description	Country	Acquirer Name	Date Announced	Acquired/ floated/ %	Transaction Value SAUD m	Historical EBITDA Multiple (times)
Desarrollos Eolicos SA	Desarrollos Eolicos is a Spanish wind farm operator.	Spain	Caja de Ahorros y Monte de Piedad de Madrid SA	Feb-07	20.0%	168	65.3
REpower Systems AG	German manufacturer and supplier of wind power generating facilities	Germany	Suzlon Energy Limited	Feb-07	74.6%	1322	66.7
Novera Macquarie Renewable Energy Limited	Australian 50:50 joint venture between Novera Energy Limited and Macquarie Bank Limited, whose purpose is to acquire and operate renewable energy assets, initially in the United Kingdom.)	Australia	Novera Energy Limited	Dec-06	50.0%	37	6.7
EDF Energies Nouvelles SA	EDF Energies Nouvelles SA produces green electricity. The company uses wind power, hydro power, solar power and biomass to produce energy.	France		Nov-06	28.9%	820	75.8
Aerowatt SA	Aerowatt is a French company that owns and operates integrated wind farms.	France	IPO	Nov-06	46.0%	28	20.1
Plambeck Neue Energien AG	Wind farm project developer, windmill parks for electricity generation, electricity generator	Germany	Rights issue	Nov-06	33.3%	31	31
Enertad SpA	Enertad is a Milan-based winfarm company.	Italy	ERG SpA	Oct-06	51.0%	250	17.9
Iberdrola SA	Iberdrola S.A. generates, distributes, trades, and markets electricity in Spain, Portugal, and Latin America. The Company operates nuclear, hydroelectric, oil-fueled, coal-burning, and combined cycle natural gas plants.	Spain	ACS	Sep-06	6.3%	2671	17.2
Perfect Wind SAS	Perfect Wind is a Paris-based wind-powered electricity generator.	France	Iberdrola SA	Jul-06	100.0%	88	156.9
Enertad SpA	Enertad is a Milan-based windfarm company.	Italy	Alerion Industries SpA	Jul-06	51.0%	233	17.5
Desarrollos Eolicos SA	Wind farm operator	Spain	Nuevas Energias de Occidente	Dec-05	100.0%	1100	59
Enersis Sa	Portugal based operator in the field of generating power from renewable resources through mini-hydro plants and wind farms.	Portugal	Babcock & Brown Ltd	Dec-05	89.9%	669	21.7
Meta SpA	Meta S.p.A. distributes energy and offers environmental services. The Company distributes electricity, water, natural gas, and heat, provides public lighting and road sign services, and collects and disposes of solid waste.	Italy	Holding Energia & Risorse	Nov-05	71.0%	420	10.0
Meta SpA	Meta S.p.A. distributes energy and offers environmental services. The Company distributes electricity, water, natural gas, and heat, provides public lighting and road sign services, and collects and disposes of solid waste.	Italy	Holding Energia & Risorse	Nov-05	29.0%	170	9.9
Yunnan Wenshan Elec Power Co	Yunnan Wenshan Electric Power Co., Ltd. generates hydroelectric power in Wenshan Zhou, Yunnan province.	China	Yunnan Guangju Mingyuan Invest	Nov-05	37.4%	10	6.4
Babcock & Brown Wind Partners	Babcock & Brown Wind Partners is an investment fund that owns interests in wind farm assets.	Australia	IPO	Oct-05		299	12.8
Southern Hydro Ltd	Southern Hydro is an Australian hydropower company.	Australia	Australia Gas Light Co.	Oct-05	100.0%	1054	34.0
Corporacion Eolica Cesa SA	Corporacion Eolica Cesa SA is a wind farming holding company.	Spain	Gala Capital	May-05	7.5%	40	122.6

Source: Thomson SDC, Bloomberg, company prospectuses and reports, and broker reports.

Table 31: Comparable transactions (cont.)

Target Name	Target Description	Country	Acquirer Name	Date Announced	Acquired/ floated %	Transaction Value SAUD m	Historical EBITDA Multiple (times)
Pacific Hydro Limited	Australian operator of hydro and wind farms for electricity generation	Australia	Industry Funds Management (Nominees) Pty Ltd	Apr-05	100.0%	959	23.6
Pacific Hydro Limited	Australian operator of hydro and wind farms for electricity generation	Australia	Energia Hidroelectrica de Navarra (EHN)	Mar-05	100.0%	935	23.6
Energy Developments Ltd	Energy Developments Limited provides renewable energy and low greenhouse gas emission energy. The Company provides services to landfill gas power generation, coal mine methane power generation, and remote area power generation.	Australia	Infratil Ltd	Mar-05	6.3%	28	10.6
Energy Power Resources Ltd	UK-based renewable energy group	United Kingdom	Macquarie European Infrastructure Fund	Mar-05	100.0%	445	9.3
Sistemas Energeticos Manon Ortigueira SA	Sistemas Energeticos Manon Ortigueira is a producer of green energy and also owns the La Coruna-based Coriscada wind farm.	Spain	Union Fenosa Energias Especiales SA	Dec-04	56.0%	15	10.9
Electricidade de Portugal SA	Electricity producer and generator	Portugal	Rights issue	Nov-04	21.9%	2045	10.6
TXU Corp	TXU Corp. is a energy company with operations in North America. TXU also owns interests in wind-generated energy assets in Texas and North America.	United States	TXU Corp	Nov-04	17.7%	3390	41.8
Shenyang Jinshan	Shenyang Jinshan Thermoelectric Co., Ltd. generates and sells electric power. The Company also produces heat power and steam power.	China	Dandong Dongchen Econ & Trade	Nov-04	24.0%	21	10.9
Enel SpA	Enel S.p.A. generates, transmits, distributes, and trades electricity. The Company operates hydroelectric, geothermal, and other generating plants.	Italy	Investors	Oct-04	20.0%	10274	7.5
Electric Power Dvlp Co Ltd	Electric Power Development Co.,Ltd. generates, transmits, distributes, and sells electric power using hydroelectric, coal-fired and other thermal power stations throughout Japan.	Japan	Investors(Non-US)	Oct-04	83.1%	2798	7.6
Contact Energy Ltd	Contact Energy Limited is a diversified and integrated energy company which focuses on the generation of electricity and the sale of electricity and gas in New Zealand.	New Zealand	Origin Energy Ltd	Oct-04	100.0%	1480	10.0
ENEL SpA	Enel S.p.A. generates, transmits, distributes, and trades electricity. The Company operates hydroelectric, geothermal, and other generating plants.	Italy	Investors	Sep-04		10274	7.5
Contact Energy Ltd	Contact Energy Limited is a diversified and integrated energy company which focuses on the generation of electricity and the sale of electricity and gas in NZ.	New Zealand	Origin Energy Ltd	Jul-04	51.4%	4061	12.1
Corporacion Eolica Cesa SA	Wind farming holding company	Spain	Bridgepoint Capital Ltd	Jun-04	23.8%	140	75.5
Aare-Tessin fuer Elektrizitaet	Aare-Tessin AG fuer Elektrizitaet Olten, known as the Atel-Group, generates, transmits, and distributes electricity in Switzerland and neighboring countries. Atel owns and operates hydroelectric and nuclear generating plants.	Switzerland	UBS AG	Apr-04	40.3%	1	7.9
Leshan Electric Power Co Ltd	Leshan Electric Power Co., Ltd. generates and distributes hydroelectric power. The Company also operates in water supply and gas distribution.	China	Chengdu Yanyu Real Estate Dvlp	Jan-04	8.2%	5	17.6
Novera Energy Ltd	Novera Energy Limited owns and develops renewable energy assets in the United Kingdom and Europe, with power generated from landfill gas, wind, hydro and industrial operations.	Australia	Unilico Investment Trust plc	Nov-03	12.5%	7	23.6
Southern Hydro Ltd	Southern Hydro is an Australian hydropower company.	Australia	Meridian Energy Ltd	Mar-03	100.0%	600	7.2
Average (exc. outliers)							15.6
Median (exc. outliers)							10.9
<i>Notes:</i>							
<i>1) Implied approximate value as if 100% of the company or business had been acquired/floated.</i>							
<i>n/a: data not available</i>							

Source: Thomson SDC, Bloomberg, company prospectuses and reports, and broker reports.

Appendix 5 – Overview of the valuation methodologies

Discounted cash flow methodology

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

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

Discount rate

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

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

Terminal value

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

Capitalisation of earnings methodology

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

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

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

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

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

Net assets or cost based methodology

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

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

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

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

Alternative acquirer

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

Quoted price of listed securities

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

Industry specific methodology

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

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

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

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

Enterprise or equity value

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

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

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

Appendix 6 – Discount rates

Introduction to WACC and CAPM concepts

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

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

where the key inputs are defined as follows:

K _d	the pre-tax cost of debt, which is the rate of return required by the providers of debt finance
K _e	the after-tax cost of equity, which is the rate of return required by the providers of equity capital
t	the applicable corporate tax rate
D	the market value of debt
E	the market value of equity
D/D+E	the proportion of debt in the capital mix of the relevant business operation
E/D+E	the proportion of equity in the capital mix of the relevant business operation.

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

Each component of the WACC formula is discussed further below.

Cost of equity (Ke)

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

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

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

where the key inputs are defined as follows:

R_f risk free rate of return

MRP equity market risk premium

β beta factor of the investment or business operation

α company specific risk factor (alpha).

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

Risk free rate (R_f)

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

Market risk premium (MRP)

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

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

Beta factor (β)

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

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

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

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

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

Alpha factor (α)

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

- size issues
- profitability issues
- operational issues

- structural (industry specific) issues.

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

Cost of debt (Kd)

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

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

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

Corporate tax rate (t)

The selected tax rate needs to have regard to federal, state and other relevant corporate taxes.

Debt/equity mix

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

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

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

Discount rates adopted for the Enersis Transaction

We have adopted nominal after-tax discount rates in our valuation of the Enersis Portfolio. As the cash flows being discounted are denominated in Euros and represent the return from each of the wind farms to respective equity holders. Accordingly, we have discounted these cash flows using Euro-denominated cost of equity discount rates (equity rates of return).

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

In this regard, we recognise the subjective risks attaching to the cash flow projections for the wind farms and the CAPM theoretical model, which has been discussed earlier. In forming our conclusions, we have not simply mechanically applied a theoretical model but have also considered the unique risks inherent in the cash flows. The Euro-denominated cash flow projections for the Portuguese wind farms are expressed in nominal (inflation adjusted) Euros and therefore nominal discount rates have been calculated. We consider the rates adopted to be appropriate and reasonable, reflecting the riskiness of the cash flows relative to market conditions at the valuation date. In addition, the cash flows attributable to the equity owners of the Enersis Portfolio can be divided into two distinct periods based on whether they are generated under PPAs or through sales of electricity and renewable energy credits on the market, as discussed in Section 7.2 of this report.

Set out below are the discount rates for the Portuguese wind farms which have been applied to the Euro-denominated cash flows on a portfolio basis. The actual discount rate adopted in each discounting period has been calculated as a weighted average of the discount rates below, based on the proportion of the revenues forecast to be generated under a PPA (for each period).

Table 32: Discount rates adopted

		Low	High
Cash flows under PPA	Cost of equity	11.0%	13.0%
Cash flows from sale of energy and RECs in the market	Cost of equity	14.0%	16.0%

Source: KPMG analysis

Calculation of discount rates

The inputs used in calculating appropriate Euro-denominated discount rates for valuing the Enersis Portfolio, and the basis for their selection, are set out below.

Risk free rate (Rf)

We have applied a risk free rate proxy of the ten-year Portuguese generic government bonds in the order of 4.5 percent per annum at the valuation date.

Market risk premium (MRP)

Based on market risk premiums adopted in the European markets (specifically Portugal) and accepted industry practice, we have adopted a MRP for the Portuguese market of 5 percent per annum.

Beta factor (β)

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

- the asset betas of comparable quoted companies in the renewable energy sector, which range from 0.30 to 0.93, with a mean and median (excluding outliers) of 0.54 and 0.50 respectively. Further information on comparable company beta factors is set out in Appendix 3
- asset betas in the order of 0.40 used by regulators in price determinations for regulated assets in Australia and the UK.

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

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

- the majority of the output of the Portuguese wind farms are subject to long-term PPAs, particularly in the near-term (as discussed in Section 7.2)
- the counterparties to the PPAs are the Portuguese national electric transmission company, REN, or EDP, the dominant national electric company, and therefore the risk of counterparty failure is considered to be low
- the wind farms use turbine technology which has been successfully adopted over time in US and European wind farms, and therefore the technology risk is considered to be low
- the wind farms are subject to fuel supply risk, as the output generated is dependent upon the wind resources at each project site, which, by nature, is unpredictable. We note that this risk is mitigated by the wind data analysis undertaken in respect of each of the Portuguese wind farms. In this regard, the Enersis Portfolio comprises 29 wind farms in various locations across Portugal, and therefore offers portfolio diversification benefits
- the wind farms operate in a relatively mature and developed industry

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

We therefore consider that, on balance, an asset beta in the range of 0.45 to 0.65 is appropriate for valuing the Enersis Portfolio.

Debt/equity mix

We have calculated the regearred equity beta to be adopted in calculating the cost of equity based on a gearing level of 185.7 percent debt to equity (65 percent debt to enterprise value), reflecting our view of the optimal gearing level of the Enersis Portfolio, having regard to the actual gearing level forecast to be in place, of approximately 60 percent debt to enterprise value on a pro-forma basis post the Enersis Transaction.

Based on the this level of gearing, we have calculated a regearred beta range of 1.06 to 1.54.

Alpha factor (α)

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

- at the valuation date, five of the Portuguese wind farms are under construction and accordingly, the Enersis Portfolio is exposed to certain risks associated with the ongoing construction process such as delays in the installation and commissioning process, which would delay the revenue profile of the wind farms and reduce cash flows available for distribution
- historical data is not a available for the purposes of assessing the reasonableness of the assumptions regarding the expected future performance of these wind farms
- the forecast cash flows have been based on the assumption that the Enersis debt facilities are immediately refinanced upon acquisition. We understand that this refinancing is unlikely to occur until some time during 2008.

Having regard to the above factors, and based on our experience in valuing assets of this nature, we have applied a company specific premium of 1 percent to the discount rates applicable to all periods for the Enersis Portfolio. This reflects the uncertainty of the wind farms relating to their ability to achieve their forecast cash flows due to the factors discussed above.

Further, we applied an additional company specific premium of 3 percent to the discount rates applicable to the proportion of cash flows which are not generated under a PPA for each of the forecast years to reflect the increased risk and volatility surrounding forecast market prices and conditions, including the risks relating to the potential marketability renewable energy credits.

Discount rates adopted for the US07 Transaction

We have used a US dollar denominated WACC to discount the US07 Portfolio cash flows during periods T1, T3 and TTV as during these periods, while the cash distributions to the equity holders are based on ungeared project cash flows (there is no debt at the individual wind farm project level), the investors are able to gain additional value from their investments by borrowing against the asset and claiming a tax deduction for the borrowing costs incurred. Accordingly, at an optimal gearing level, the project distributions for the Class B members during T1, T3 and TTV generate a tax shield for investors from their ability to optimise their investment financing structure.

During T2, Class A members rank in priority before the Class B members in their right to receive 100 percent of the cash and tax benefits distributed by the US07 Portfolio (until the Reallocation Date), and therefore the remaining value of the Class B member’s investment during T2 (represented by future T3 and TTV cash flows) carries this additional ‘subordinated’ risk. The priority rights over the cash flows held by Class A investors are similar in nature to those of a debt provider who is entitled to a priority return before remaining equity holders receive their return. Consequently, we consider it appropriate to apply a US dollar denominated cost of equity during T2 to reflect the higher risk borne by the Class B members as they rank behind the Class A members and are entitled to no cash or tax distributions from the project.

Set out below are the discount rates and the timing of forecast contributions for each of the US wind farms that make up the US07 Portfolio. We have calculated a separate discount rate for each of the three wind farms. In the case of Sweetwater 4 and 5, the discount rates have been weighted according to each wind farm’s contribution to total cash distributions to Class B members in each month, and the blended discount rate has been applied to the Class B equity distributions.

Table 33: Discount rates – Sweetwater 4

Period		Discount rate	
		Low	High
T1 – May 2007 to May 2013	WACC	6.4%	7.1%
T2 – June 2013 to August 2017	Cost of equity	11.7%	13.9%
T3 – August 2017 to May 2027	WACC	7.9%	8.8%
TTV – May 2027 to May 2032	WACC	10.7%	11.6%

Source: KPMG analysis

Table 34: Discount rates – Sweetwater 5

Period		Discount rate	
		Low)	High
T1 – Jan 2007 to May 2013	WACC	7.1%	7.8%
T2 – June 2013 to August 2017	Cost of equity	13.7%	15.9%
T3 – August 2017 to December 2027	WACC	9.3%	10.2%
TTV – January 2028 to December 2032	WACC	10.7%	11.6%

Source: KPMG analysis

Table 35: Discount rates – Cedar Creek

Period		Discount rate	
		Low	High
T1 – October 2007 to June 2013	WACC	6.2%	6.9%
T2 – July 2013 to October 2017	Cost of equity	11.5%	13.7%
T3 – October 2007 to October 2027	WACC	7.8%	8.7%
TTV – October 2027 to October 2032	WACC	10.6%	11.5%

Source: KPMG analysis

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

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

Calculation of the discount rates

The inputs used in calculating appropriate discount rates for valuing the US07 Portfolio, and the basis for their selection, are set out below.

The cash flows attributable to the Class B members of the US07 Portfolio can be divided into four distinct periods, as discussed in Section 8.3 of this report.

During the periods T1, T2 and T3, the wind farms sell 100 percent of their output under long-term off-take agreements. During TTV, we assumed that the wind farms will sell 100 percent of their output based on prevailing market rates under a QF Agreement. On this basis, we have

derived a range of discount rates for each wind farm in the portfolio for each period to take into account the different cash flow risk profiles of each period.

Risk free rate (Rf)

We have applied a risk free rate proxy of the ten-year and thirty-year US generic government bonds in the order of 4.7 percent per annum at the valuation date.

Corporate tax rate (t)

As advised by management and having regard to federal, state and other corporate taxes, we applied a corporate tax rate of 35 percent for Sweetwater 4 and 5 and 38 percent for Cedar Creek.

Market risk premium (MRP)

Based on market risk premiums adopted in the US market and accepted industry practice, we have adopted a MRP for the US market of 5 percent per annum.

Beta factor (β)

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

- the asset betas of comparable quoted companies in the renewable energy sector, which range from 0.30 to 0.93, with a mean and median (excluding outliers) of 0.54 and 0.50 respectively. Further information on comparable company beta factors is set out in Appendix 3
- asset betas in the order of 0.40 used by regulators in price determinations for regulated assets in Australia and the UK.

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

In determining an appropriate asset beta for the wind farms in the US07 Portfolio, we have considered, in general:

- the majority of the output of the wind farms are subject to long-term off-take agreements (as discussed in Section 8.2)
- the counterparties to the off-take agreements are generally investment grade corporations, and therefore the risk of counterparty failure is considered to be low

- the wind farms use turbine technology which has been successfully used in US and European wind farms, and therefore the technology risk is considered to be low
- the wind farms are subject to fuel supply risk, as the output generated is dependent upon the wind resources at each project site, which is unpredictable. We note that this risk is mitigated by the wind data analysis undertaken in respect of each of the three wind farms
- the US07 Portfolio comprises three wind farms in two different locations across the US, and therefore offers portfolio diversification benefits
- the US wind farms operate in a relatively mature and developed industry
- many of the selected comparable companies pursue development opportunities, which by their nature are subject to more risk than an operating asset
- many of the selected comparable companies are diversified in terms of holding a portfolio of assets, and operate in various geographic regions.

We therefore consider that, on balance, an asset beta in the range of 0.45 to 0.65 is appropriate for valuing the US07 Portfolio.

Debt/equity mix

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

- For periods T1 and T2, we have adopted a gearing level of 185.7 percent debt to equity (65 percent debt to enterprise value), reflecting our view of the optimal gearing level of an investor in the 07 Portfolio during these stages. We note that, given the distribution profile of the US07 Portfolio during T2, it is unlikely that a Class B investor could fund their investment via debt (as there are no Class B distributions during T2). However, we have likened the subordinated position of Class B members relative to Class A members during T2 to that of equity holders who rank behind debt providers in their right to distributions, and have therefore assumed a gearing level of 185.7 percent debt to equity to reflect this structure.
- For period T3 and TTV, we have adopted a gearing level of 42.9 percent debt to equity (30 percent debt to enterprise value), reflecting an average gearing level in T3 and TTV as debt would be repaid over the life of the assets. It is our view that as cash flows during T3 and TTV are shared between the Class A and B members, debt providers would be willing to lend a lower proportion of value during this stage of the project life.

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

Table 36: Regear beta factors

Period	Range of regear beta factors (β)		
	Sweetwater 4	Sweetwater 5	Cedar Creek
T1	0.99 to 1.43	0.99 to 1.43	0.97 to 1.40
T2	0.99 to 1.43	0.99 to 1.43	0.97 to 1.40
T3	0.58 to 0.83	0.58 to 0.83	0.57 to 0.82
TTV	0.58 to 0.83	0.58 to 0.83	0.57 to 0.82

Source: KPMG analysis

Alpha factor (α)

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

- at the valuation date, the wind farms are either yet to or have only recently commenced commercial operations (in the case of Sweetwater 4), and accordingly, historical data is not a meaningful reflection of expected future performance. We applied a company specific premium of 1 percent to the discount rates applicable to all periods (T1 to T3) for all wind farms. This reflects the uncertainty of the wind farms relating to their ability to achieve their forecast cash flows in the absence of a sufficient period of proven historical operating results
- we applied an alpha factor of 1 percent to each project during T2 to reflect the priority of the Class A members over the Class B members to all project distributions (cash and tax) until the Reallocation Date, and the related subordinated position of Class B members (relative to Class A members) in their ability to access future (T3 and TTV) cash flows
- we applied an alpha factor of 1 percent to each project during T3 to reflect the uncertainty relating to the timing and quantum of cash flows in T3, due to the commencement of T3 being dependent on the timing of the Reallocation Date
- whilst the QF Agreement for Sweetwater 5 provides certainty around the purchase of all electricity generated and do not expire within the explicit forecast period, the forecast cash flows are subject to price volatility based on prevailing market prices at the time of sale. Accordingly, we applied an additional company specific premium of 2 percent to the discount rates applicable to all periods (T1 to TTV) for Sweetwater 5 to reflect the increased risk and volatility surrounding forecast market prices under a QF Agreement
- for the period during TTV (beyond the explicit forecast), we assumed that the output of the wind farms will be based on prevailing market rates under QF Agreements and applied an

additional company specific premium of 2 percent to the discount rates applicable to T3 for Sweetwater 5 (being the only wind farm that operates under a QF Agreement). This reflects less than optimal output of the wind farms as the wind turbines approach the end of their useful lives.

Based on the above, we set out below a summary of the company specific premiums (α) added to the discount rates of the wind farms:

Table 37: Alpha factors

Period	Alpha factors (α) (%)
<u>Sweetwater 4 – PPA</u>	
T1 – May 2007 to May 2013	1%
T2 – June 2013 to August 2017	2%
T3 – August 2017 to May 2027	2%
TTV – May 2027 to May 2032	6%
<u>Sweetwater 5 – QF Agreement</u>	
T1 – Jan 2007 to May 2013	3%
T2 – June 2013 to August 2017	4%
T3 – August 2017 to December 2027	4%
TTV – January 2028 to December 2032	6%
<u>Cedar Creek – PPA</u>	
T1 – October 2007 to June 2013	1%
T2 – July 2013 to October 2017	2%
T3 – October 2007 to October 2027	2%
TTV – October 2027 to October 2032	6%

Source: KPMG analysis

We note that, on a comparable basis, the alpha factor applied for the period during TTV (beyond the PPA/QF Agreement) for the US07 Portfolio is higher than the alpha factor applied for the period beyond the PPA in the case of our valuation of the Enersis Portfolio (which is 4 percent). In this regard, the risks relating to the forecast period during TTV are higher than those beyond the PPA in the case of the Enersis valuation, as the cash flows are escalated at CPI from a base equal to the cash flows expected under the final period of the PPA/QF Agreement.

In the case of the Enersis Portfolio, the cash flows forecast in the first year beyond the PPA are lower than those expected in the final year under a PPA, based on independent forecasts. In the

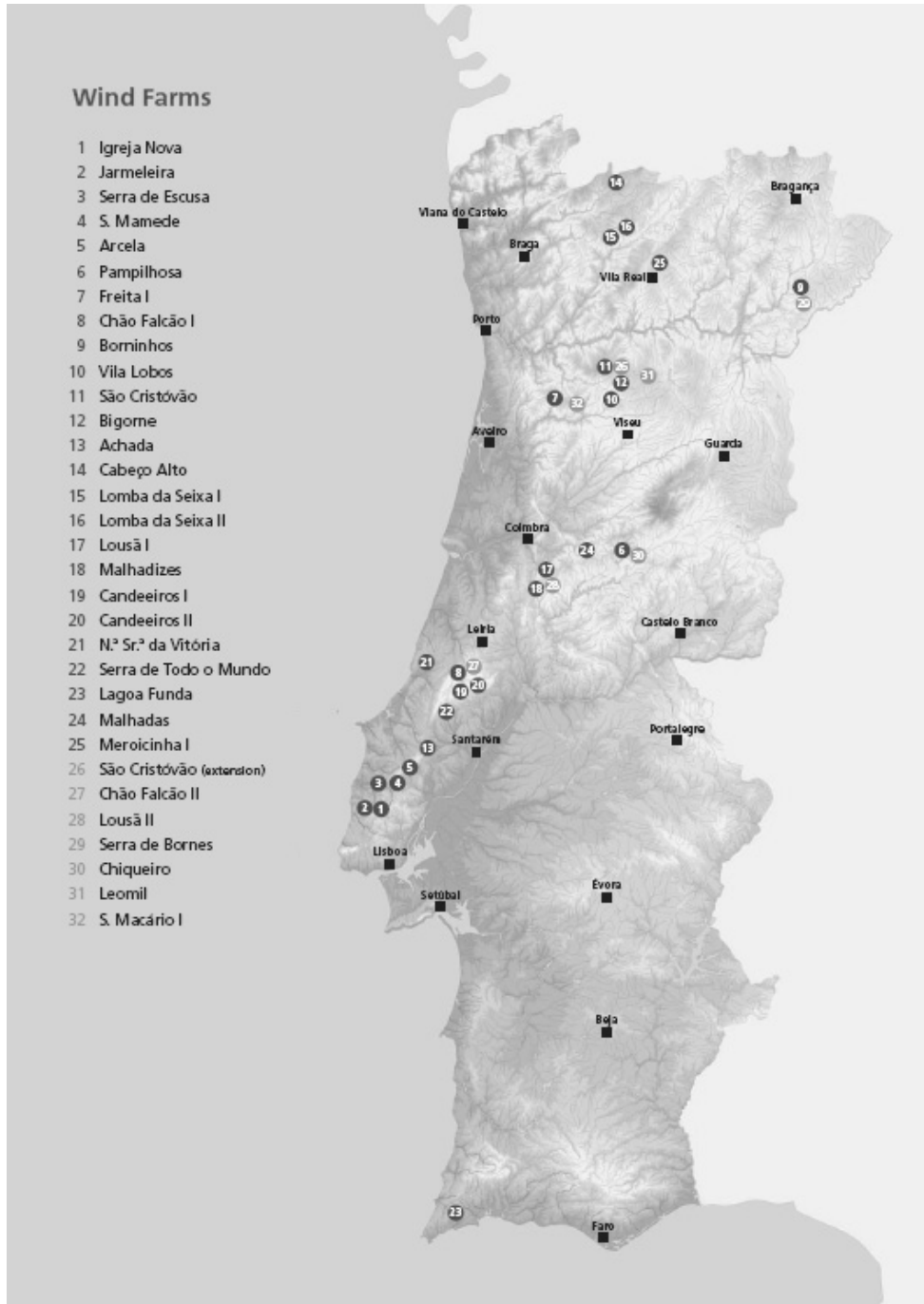
absence of independent forecasts beyond the PPA/QF Agreement for the US07 Portfolio, we have adopted the inflation assumption as a best estimate, and consequently an alpha factor of 6 percent (which is 2 percent higher than the alpha factor adopted for Enersis) has been applied.

Cost of debt (Kd)

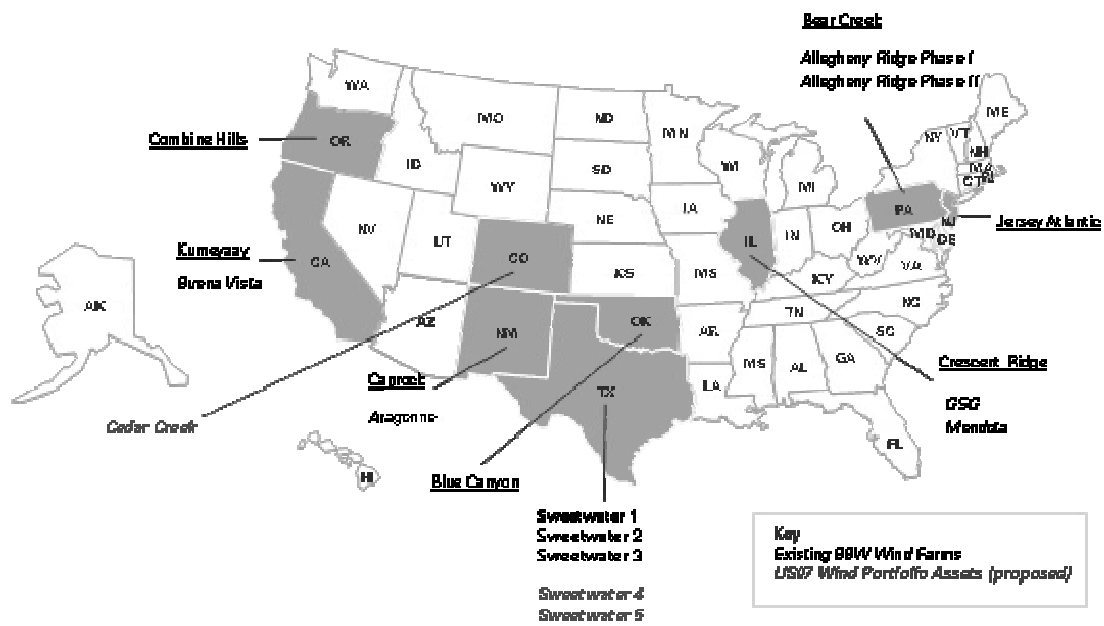
We consider an interest margin of 150 basis points (i.e. 1.5 percent) above the risk free rate to be appropriate, based on our experience with other similar infrastructure assets. We have applied this margin to the risk free rate as at the valuation date.

Accordingly, after applying a US taxation rate of 35 percent, we have adopted a post-tax cost of debt in the order of 4.1 percent for the US07 Portfolio.

Appendix 7 – Geographic location of the Portuguese wind farms



Appendix 8 – Geographic location of BBW’s US wind farms



APPOINTMENT OF PROXY

If you would like to attend and vote at the Meetings, please bring this form with you. This will assist in registering your attendance.

You can also lodge your vote on-line at
www.linkmarketservices.com.au

I/We being a member(s) of Babcock & Brown Wind Partners Limited and Babcock & Brown Wind Partners (Bermuda) Limited and being a unitholder of Babcock & Brown Wind Partners Trust (together **BBW**) entitled to attend and vote hereby appoint

A the **Chairman of the Meetings (mark box)** **OR** if you are **NOT** appointing the Chairman of the Meetings as your proxy, please write the name of the person or body corporate (excluding the registered securityholder) you are appointing as your proxy

or failing the person/body corporate named, or if no person/body corporate is named, the Chairman of the Meetings, as my/our proxy to act generally at the meetings on my/our behalf and to vote in accordance with the following instructions (or if no directions have been given, as the proxy sees fit) at the Meetings of BBW to be held at 11 am AEDT on Friday, 9 November 2007, at the Grand Ballroom, Sofitel Wentworth, 61-101 Phillip Street, Sydney NSW and at any adjournment of those meetings.

Where more than one proxy is to be appointed or where voting intentions cannot be adequately expressed using this form an additional form of proxy is available on request from the security registry. Proxies will only be valid and accepted by BBW if they are signed and received no later than 48 hours before the meetings. The Chairman of the Meetings intends to vote undirected proxies in favour of all items of business.

B To direct your proxy how to vote on any resolution please insert in the appropriate box below.

	For	Against	Abstain*		For	Against	Abstain*
ORDINARY BUSINESS				SPECIAL BUSINESS			
Resolution 2 To adopt the Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Resolution 6 Placement of 4.35 million Stapled Securities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3 To re-elect Anthony Battle as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Resolution 7 Approval of past issue of Stapled Securities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4 To re-elect Warren Murphy as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Resolution 8 Related party transactions – acquisition of the US07 Portfolio and 50% of the Enersis Portfolio	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5 Re-appointment of Auditor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Resolution 9 Acquisition of remaining 50% of the Enersis Portfolio	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

IMPORTANT: FOR ITEMS 6, 8 AND 9 ABOVE

If the Chairman of the Meetings is appointed as your proxy, or may be appointed by default and you do **not** wish to direct your proxy how to vote as your proxy in respect of Items 6, 8 and 9 above, please place a mark in this box. By marking this box, you acknowledge that the Chairman of the Meetings may exercise your proxy even though he/she has an interest in the outcome of these Items and that votes cast by him/her for these Items, other than as proxyholder, would be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chairman of the Meetings will not cast your votes on Items 6, 8 and 9 and your votes will not be counted in calculating the required majority if a poll is called on these Items. The Chairman of the Meetings intends to vote undirected proxies in favour of Items 6, 8 and 9.

C

* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

D SIGNATURE OF SECURITYHOLDERS – THIS MUST BE COMPLETED

Securityholder 1 (Individual)	Joint Securityholder 2 (Individual)	Joint Securityholder 3 (Individual)
<input type="text"/>	<input type="text"/>	<input type="text"/>
Sole Director and Sole Company Secretary	Director/Company Secretary (Delete one)	Director

This form should be signed by the securityholder. If a joint holding, either securityholder may sign. If signed by the securityholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the securityholder's constitution and the *Corporations Act 2001* (Cwlth).

Link Market Services Limited advises that Chapter 2C of the *Corporations Act 2001* requires information about you as a securityholder (including your name, address and details of the securities you hold) to be included in the public register of the entity in which you hold securities. Information is collected to administer your securityholding and if some or all of the information is not collected then it might not be possible to administer your securityholding. Your personal information may be disclosed to the entity in which you hold securities. You can obtain access to your personal information by contacting us at the address or telephone number shown on this form. Our privacy policy is available on our website (www.linkmarketservices.com.au).



How to complete this Proxy Form

1 Your Name and Address

This is your name and address as it appears on BBW's security register. If this information is incorrect, please make the correction on the form. Securityholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your securities using this form.**

2 Appointment of a Proxy

If you wish to appoint the Chairman of the Meetings as your proxy, mark the box in section A. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meetings please write the name of that person in section A. If you leave this section blank, or your named proxy does not attend the meetings, the Chairman of the Meetings will be your proxy. A proxy need not be a securityholder of the company. A proxy may be an individual or a body corporate.

3 Votes on Items of Business

You should direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of securities you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

4 Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the meetings and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's security registry or you may copy this form.

To appoint a second proxy you must:

- (a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (b) return both forms together.

5 Signing Instructions

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either securityholder may sign.

Power of Attorney: to sign under Power of Attorney, you must have already lodged the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the certificate may be obtained from the company's security registry.

Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by 11 am AEDT on Wednesday, 7 November 2007, being not later than 48 hours before the commencement of the meeting. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy forms may be lodged using the reply paid envelope or:

- by posting, delivery or facsimile to Babcock & Brown Wind Partners security registry as follows:
Babcock & Brown Wind Partners
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Facsimile: (02) 9287 0309
- lodging it online at Link's website (www.linkmarketservices.com.au) in accordance with the instructions given there (you will be taken to have signed your proxy form if you lodge it in accordance with the instructions given on the website);
- delivering it to Level 12, 680 George Street, Sydney NSW 2000.