

24 February 2006

ASX Announcement

BBW – Half-Year Financial Report to 31 December 2005

Attached is the Babcock & Brown Wind Partners Consolidated Half-Year Financial Report to 31 December 2005, as well as the Appendix 4D.

ENDS.

Further Information:

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About Babcock & Brown Wind Partners

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

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

BBW's portfolio (including the Eifel wind farm) comprises an interest in 16 wind farms on three continents that have a total installed capacity of over 700 MW and are diversified by geography, currency, equipment supplier, customer and regulatory regime.

BBW is managed by Babcock & Brown Infrastructure Management Pty Limited, a wholly owned subsidiary of Babcock & Brown Limited (ASX: BNB), a global investment and advisory firm with longstanding capabilities in structured finance and the creation, syndication and management of asset and cash flow-based investments. Babcock & Brown has a long history of experience in the renewable energy field and extensive experience in the wind energy sector, having arranged financing for over 3000MW of wind energy projects and companies over the past 16 years, with an estimated value over US\$3 billion. Babcock & Brown's roles have included acting as an adviser/arranger of limited recourse project financing, arranging equity placements, lease adviser, project developer, principal equity investor and fund manager for wind energy projects situated in Europe, North America and Australia. Babcock & Brown has developed specialist local expertise and experience in the wind energy sector in each of these regions which it brings to its management and financial advisory roles of BBW.

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

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

Consolidated Half Year Report of Babcock & Brown Wind Partners Limited, Babcock & Brown Wind Partners Trust and Babcock & Brown Wind Partners (Bermuda) Limited, together Babcock & Brown Wind Partners, for the Half-Year Ended 31 December 2005

(Babcock & Brown Wind Partners Limited (“BBWPL”) ABN 39 105 051 616)
(Babcock & Brown Wind Partners Trust (“BBWPT”) ARSN 116 244 118)
(Babcock & Brown Wind Partners (Bermuda) Limited (“BBWPB”) ARBN 116 360 715)
together, Babcock & Brown Wind Partners (“BBWP”)

This Half Year Report is provided to the Australian Stock Exchange (“ASX”) under ASX Listing Rule 4.2A
This information should be read in conjunction with the BBWP Prospectus and Product Disclosure Statement dated 26 September 2005

Current Reporting Period: Half-Year from 1 July 2005 to 31 December 2005

Previous Corresponding Period: Half-Year from 1 July 2004 to 31 December 2004

<i>Contents</i>	<i>Page</i>
Appendix 4D Additional Information	2 - 5
Half-Year Report	6 - 40

Babcock & Brown Wind Partners (BBWP) comprises Babcock & Brown Wind Partners Limited (BBWPL) (ABN 39 105 051 616), Babcock & Brown Wind Partners Trust (BBWPT) (ARSN 116 244 118) and Babcock & Brown Wind Partners (Bermuda) Limited (BBWPB) (ARBN 116 360 715). Each share in BBWPL is stapled to a unit in BBWPT and a share in BBWPB.

Babcock & Brown Wind Partners Services Limited (BBWPS) (ABN 61 113 813 997) is the responsible entity of BBWPT. BBWPS is a subsidiary of Babcock & Brown Limited (BNB) (ACN 108 614 955).

Babcock & Brown Infrastructure Management Pty Ltd (BBIM) (ACN 113 585 229) is the manager of each of BBWPL, BBWPS and BBWPB pursuant to respective management agreements. BBIM is a wholly owned subsidiary of BNB.

Investments in BBWP are not deposits with or other liabilities of BNB or any entity in the Babcock & Brown Group, and are subject to investment risk including possible loss of income and capital invested. Neither BBWPS nor any member of the Babcock & Brown Group (including BNB and BBIM) guarantee the performance of BBWP or its stapled securities or the payment of a particular rate of return on BBWP stapled securities.

This half year report is not an offer or invitation for subscription or purchase of or a recommendation of stapled securities in BBWP. It does not take into account the investment objectives, financial situation and particular needs of an investor. Before making an investment in BBWP, an investor should consider whether such an investment is appropriate to their particular investment needs, objectives and financial circumstances and consult an investment adviser if necessary.

BBWPS, as responsible entity of BBWPT, and BBIM, as the manager of each of BBWPL, BBWPS and BBWPB, are entitled to fees for so acting. BNB and its related corporations, together with their officers and directors and officers and directors of BBWP, may hold stapled securities in BBWP from time to time.

The combined and consolidated financial report for BBWP has been prepared to enable BBWPL, BBWPS (as responsible entity of BBWPT) and BBWPB to comply with their obligations under the Corporations Act, to ensure compliance with the ASX Listing Rules and to satisfy the requirements of the Australian accounting standards in relation to stapled structures. The responsibility for preparation of the combined and consolidated financial report and any financial information contained in this half-year report rests solely with the directors of BBWPL, BBWPS and BBWPT.

Babcock & Brown Wind Partners

Appendix 4D Additional Information for the Half-Year Ended 31 December 2005

Results for Announcement to the Market for the Half-Year Ended 31 December 2005

Revenue and Net Profit		Percentage	Change
		Change	Amount
		%	\$'000
Revenue from ordinary activities*	[up/down]	N/A	N/A
Loss from ordinary activities after tax benefit attributable to members*	[up/down]	N/A	N/A
Net loss attributable to members*	[up/down]	N/A	N/A
Distributions		Amount per security	Franked amount per security
Interim distribution (FY 2006) - per fully paid stapled security		5.1¢	-
Final distribution (FY 2005) - per fully paid stapled security**		N/A	N/A
Record date for determining entitlements to the distribution:			
Interim distribution (FY 2006)		30 December 2005, 5PM AEST	
Final distribution (FY 2005)**		N/A	

* The movements in revenue and net profit are disclosed as not applicable as a result of the significant change in operations from the prior period. Additionally, the comparative period was prior to the entity listing on the Australian Stock Exchange ("ASX").

** The FY 2005 distribution is disclosed as not applicable since this period was prior to the entity listing on the ASX.

Babcock & Brown Wind Partners

Appendix 4D Additional Information for the Half-Year Ended 31 December 2005

Brief Explanation of Revenue, Net Profit and Distributions

Revenue

Total product revenue of \$25,635,000 was generated by sales from BBWP's fully operational wind farms as well as from two wind farms (Alinta and Wachtendonk) which were undertaking a testing phase during the reporting period.

The Directors remain committed to their strategy of building strong cash flows and after tax earnings from a geographically diversified portfolio of operating assets. The bulk of the product revenue came from operational wind farms being Lake Bonney in Australia, Sierra del Trigo, La Muela Norte, La Plata and Redondal in Spain and Bocholt-Liedern in Germany.

The operational performance is to be contrasted to the product revenue in the half year ended 31 December 2004 which derived solely from Lake Bonney wind farm in the sum of \$2,447,000.

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) and Net Loss

As expected, the strong early operational performance of BBWP's portfolio of wind generation assets produced EBITDA for the period of \$15,763,000. This represents EBITDA before the performance element of a management fee of \$32,985,000. This fee was pursuant to the management agreement between BBWPL and Babcock & Brown Infrastructure Management Pty Ltd ("BBIM"). BBIM is a subsidiary of Babcock & Brown Limited. The management fee correlates with the strong performance of the securities from listing until 31 December 2005 and in turn reflects the market's acceptance of BBWP's business strategy. BBWPL has paid \$19,957,000 of the fee in cash and expects to satisfy the remainder by issuing approximately 7,037,000 stapled securities.

The net loss for the period was \$18,302,000. The net loss before tax of \$27,040,000 included the performance element of the management fee referred to above. The net loss for the current period compares to a profit of \$1,115,000 in the half-year period ended 31 December 2004.

Distributions

The board confirmed that the distribution of 5.1 cents per security for the half-year would be paid on 23 March 2006.

The Directors of BBWP today also confirmed their expectations that BBWP would pay a full year distribution of 10.2 cents per stapled security for the year ended 30 June 2006.

Distribution Reinvestment Plan

Although BBWP does not currently have a distribution reinvestment plan the Board, in principle, agreed to introduce such a plan and security holders will be notified in due course when the plan is in effect.

Outlook

After an initial focus on the Initial Portfolio of wind farms to ensure they were fully operational (or where relevant, appropriately commissioned), the Board of BBWP and the management team are focused on delivering further assets under the Framework Agreements and also reviewing additional wind farm acquisition opportunities presented from time to time by Babcock & Brown. BBWP reaffirms its investment strategy to grow securityholder wealth through management of the Initial Portfolio and the acquisition of additional wind energy generation assets under the Framework Agreements, as well as from other sources.

Babcock & Brown Wind Partners

Appendix 4D Additional Information for the Half-Year Ended 31 December 2005

Distribution		Details Relating to Distributions		
		Date distribution paid /payable	Amount per security ¢	Amount per security of foreign sourced distribution ¢
Interim	FY 2006 Payable	23 March 2006	5.10	-
Final	FY 2005**		N/A	N/A
Interim Distribution			Half-Year Ended 31 Dec 05 \$'000	Half-Year Ended 31 Dec 04** \$'000
Ordinary securities			25,202	N/A
Total			25,202	

The interim distribution entitlement covers the six months ended 31 December 2005. The interim distribution entitlement is based on the securities issued as at the record date, 30 December 2005.

The interim distribution in respect of securities for the financial half-year ended 31 December 2005 has not been recognised in this report because the interim distribution has not been declared as at 31 December 2005.

** The FY 2005 distribution is disclosed as not applicable since this period was prior to the entity listing on the Australian Stock Exchange.

Babcock & Brown Wind Partners

Appendix 4D Additional Information for the Half-Year Ended 31 December 2005

Net Tangible Assets Per Security

	31 Dec 2005	30 June 2005
	\$	\$
Net tangible assets per security	0.96	0.91

Material Interests in Entities Which Are Not Controlled Entities

Name of equity accounted associates and joint venture entities	Ownership interest held at end of period		Contribution to net profit / (loss) after tax	
	31 Dec 2005	31 Dec 2004	Half-Year Ended 31 Dec 05	Half-Year Ended 31 Dec 04
	%	%	\$'000	\$'000
Babcock & Brown Wind Partners US LLC*	80	-	219	0
			219	0

*A U.S. subsidiary of BBWPL purchased the 80% interest in Babcock & Brown Wind Partners US LLC ("BBWPUS") on 30 November 2005. Under the terms of the Capital Contribution and Membership Purchase and Sale Agreement dated 22 September 2005, BBWPL's U.S. subsidiary does not have a controlling interest in BBWPUS. Given the U.S. subsidiary's restricted ability to influence financial and operating decisions, BBWPUS qualifies as an associate.

Information on Audit or Review

This half-year report is based on accounts to which one of the following applies.

- | | | | |
|--------------------------|--|-------------------------------------|---|
| <input type="checkbox"/> | The accounts have been audited. | <input checked="" type="checkbox"/> | The accounts have been subject to review. |
| <input type="checkbox"/> | The accounts are in the process of being audited or subject to review. | <input type="checkbox"/> | The accounts have not yet been audited or reviewed. |

Description of likely dispute or qualification if the accounts have not yet been audited or subject to review or are in the process of being audited or subjected to review.

Not applicable.

Description of dispute or qualification if the accounts have been audited or subjected to review.

None.

BABCOCK & BROWN WIND PARTNERS GROUP (BBWP)

**Comprising Babcock & Brown Wind Partners Limited and its
controlled entities**

ABN 39 105 051 616

**Interim Financial Report
for the Half-Year Ended
31 December 2005**

Babcock & Brown Wind Partners Group

Half-Year Report - 31 December 2005

Contents

An overview of the BBWP accounts	8
Directors' report	9
Auditor's independence declaration	12
Independent review report to the stapled security holders	13
Directors' declaration	15
Consolidated income statements	16
Consolidated balance sheets	17
Consolidated statements of changes in equity	18
Consolidated cash flow statements	19
Notes to the consolidated financial statements	20

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the BBWP Prospectus and Product Disclosure Statement dated 26 September 2005 and any public announcements made by BBWP during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Babcock & Brown Wind Partners Group

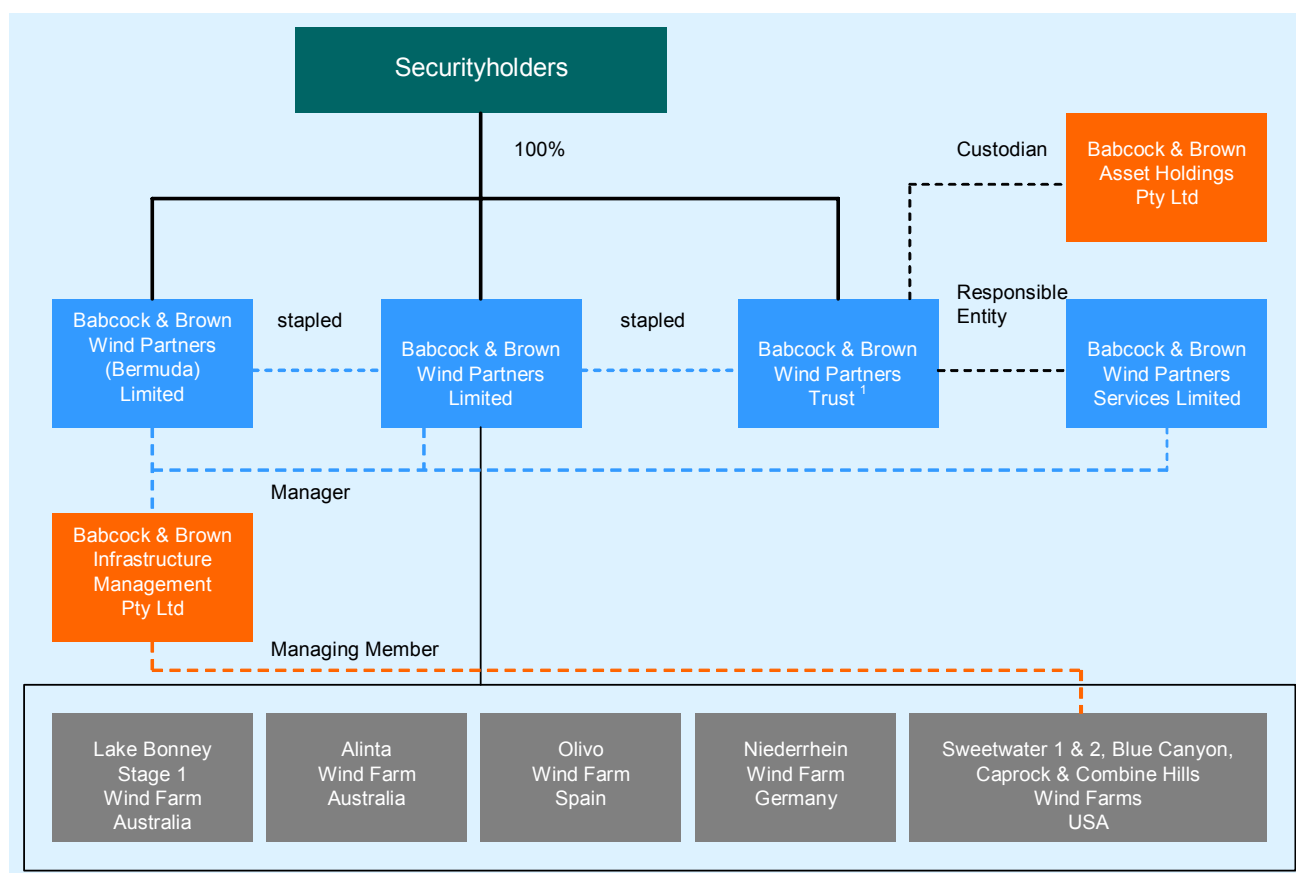
An Overview of the BBWP Accounts

Babcock & Brown Wind Partners Group (“BBWP” or the “Group”) consists of three entities:

- Babcock & Brown Wind Partners Limited (“BBWPL”);
- Babcock & Brown Wind Partners Trust (“BBWPT”); and
- Babcock & Brown Wind Partners (Bermuda) Limited (“BBWPB”).

The issued securities in these entities have been stapled together and trade as one listed security on the Australian Stock Exchange (ASX code: BBW). The stapled security that you own represents one share in each of BBWPL and BBWPB and one unit in BBWPT.

The following diagram provides an overview of BBWP’s structure.



Note: the diagram does not show all legal entities in the structure and is provided for illustrative purposes only. The wind farms in the USA are not wholly owned by BBWP.

¹BBWPT has a non-controlling interest in Walkaway Wind Power Pty Limited, the company that operated the Alinta wind farm.

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

As BBWPT is also considered a disclosing entity, separate financial statements for the BBWPT consolidated group at 31 December 2005 will be prepared.

Babcock & Brown Wind Partners Group

Directors' Report

In respect of the half year ended 31 December 2005, the directors of BBWPL submit the following report on the consolidated interim financial report of Babcock & Brown Wind Partners ("BBWP").

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

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

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

The directors report as follows:

Directors

The names of the directors of BBWPL during or since the end of the half-year and to the date of this report are:

BBWPL:

Mr P. Hofbauer

Mr W. Murphy

Mr A. Battle (appointed 9 September 2005)

Mr D. Clemson (appointed 9 September 2005)

Mr M. George (appointed 12 August 2005, resigned 9 September 2005)

Mr C. Chapman (resigned 9 September 2005)

Mr J. Pollock (resigned 9 September 2005)

Review of Operations

During the half-year ended 31 December 2005, BBWP completed its initial public offering, issuing 282,837,000 stapled securities and raising \$395,972,000 before costs of \$25,075,000.

During the half-year BBWP increased its 75% interest in Walkaway Wind Power Pty Limited to 100%. The remaining 25% interest was purchased through the issue of 34,286,000 BBWPL shares and 34,286,000 BBWPT units, together valued at \$1.40, total \$48,000,000, plus costs of \$1,442,000.

In November 2005, BBWP acquired an 80% interest in Babcock & Brown Wind Partners US LLC, which holds interests in five wind farms in the United States, for \$83,316,000.

During the half year BBWP entered into a Share Sale and Project Development Agreement with a subsidiary of Babcock & Brown Limited and a subsidiary of National Power Partners LLC ("LB2 Vendors") with respect to the Lake Bonney 2 wind farm ("LB2 Agreement").

The consideration payable to the LB2 Vendors under the LB2 Agreement was \$20,000,000 and was satisfied

Babcock & Brown Wind Partners Group

Directors' Report

through the issue of shares and units by BBWPL and Babcock & Brown Wind Partners Services Limited (the "Responsible Entity" or "BBWPS"), respectively. BBWPL and BBWPS issued 14,286,000 shares and 14,286,000 units, respectively, together valued at \$1.40. These securities are subject to a restricted securities and holding lock arrangement in the event that the terms of the LB2 Agreement are not achieved by the LB2 Vendors.

In October 2005, BBWP purchased the entire share capital of Montes de Leon, S.A.U. for approximately \$18,157,000, including a down payment made in the prior period of approximately \$830,000 and costs of approximately \$2,600,000. Montes de Leon S.A.U. operates the Redondal wind farm in the Castille & Leon region of Spain and the purchase forms part of the Olivo portfolio. Upon acquisition, the company had net liabilities of approximately \$2,852,000, and consequently goodwill of approximately \$21,009,000 has been recognised subject to fair value adjustments (see Note 5).

For the half-year ended 31 December 2005, the results of BBWP comprise the six month results of its Lake Bonney Stage 1, Sierra del Trigo, La Muela Norte, and La Plata wind farms, two months of its Redondal and Bocholt-Liedern wind farms and one month of its equity accounted investment in the five US wind farms. Furthermore, BBWP benefited from three months of results from the Alinta wind farm that was undertaking testing

BBWP's net loss after tax for the six months ended 31 December 2005 is \$18,302,000 (six months ended 31 December 2004: profit \$1,115,000). The loss generated in the six months to 31 December 2005 is comprised mainly of the performance element of the management fee of \$32,985,000 payable to Babcock & Brown Infrastructure Management Pty Limited ("BBIM") in accordance with the Management Agreement between BBWPL and BBIM dated 15 September 2005.

BBWP continues to seek to identify and to acquire assets that meet its acquisition and investment criteria. It then manages, enhances and reviews its portfolio of assets for the benefit of its stapled security holders.

First Financial Report under the Australian equivalents to International Financial Reporting Standards (A-IFRSs)

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

Financial statements of BBWP until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles ("AGAAP"). AGAAP differs in certain respects from A-IFRS. When preparing the BBWP interim financial report for the half year ended 31 December 2005, management has amended certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with A-IFRS. The comparative figures are restated to reflect these adjustments.

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

Financial Results

Due to the finite life clause contained within the BBWPT Trust constitution (the "Trust Constitution"), upon adoption of AASB 132 on 1 July 2005, the units in BBWPT were classified as debt for accounting purposes. The Trust Constitution was amended on 12 September 2005 such that the finite life clauses were removed. Accordingly, the units in BBWPT are classified as equity for accounting purposes at 12 September 2005. However, as the units in BBWPT were classified as debt for the period 1 July 2005 to 12 September 2005, the distribution that was declared and paid in August 2005 was a return of debt. No income accrued to the unit holders during the period in which the units were classified as debt.

Auditor's Independence Declaration

The auditor's independence declaration is included on page 12.

Babcock & Brown Wind Partners Group

Directors' Report

Rounding Off Of Amounts

The Group is of a kind referred to in Class Order 98/0100, as amended by Class Order 04/667, issued by the Australian Securities & Investments Commission relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

Signed in accordance with a resolution of directors.

On behalf of the Directors of BBWPL:



Peter Hofbauer

Director

Sydney, 24 February 2006

PricewaterhouseCoopers
ABN 52 780 433 757

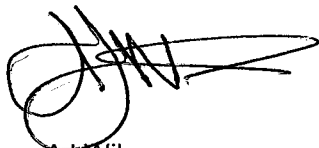
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Auditor's Independence Declaration

As lead auditor for the review of Babcock and Brown Wind Partners Limited for the half year ended 31 December 2005, I declare that to the best of my knowledge and belief, there have been:

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

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



AJ Wilson
Partner
PricewaterhouseCoopers

Sydney
24 February 2006

Independent review report to the members of Babcock & Brown Wind Partners Limited

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of Babcock & Brown Wind Partners Limited (the company) for the half-year ended 31 December 2005 included on the Babcock & Brown Wind Partners Limited web site. The directors of the company are responsible for the integrity of the company's web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the financial report identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Babcock & Brown Wind Partners Limited:

- does not give a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of the Babcock & Brown Wind Partners Group (defined below) as at 31 December 2005 and of its performance for the half-year ended on that date, and
- is not presented in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134: *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, the *Corporations Regulations 2001*.

This statement must be read in conjunction with the rest of our review report.

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for the Babcock & Brown Wind Partners Group (the consolidated entity) for the half-year ended 31 December 2005. The consolidated entity comprises both Babcock & Brown Wind Partners Limited (the company) and the entities it controlled during that half-year.

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

financial report.

Review approach

We conducted an independent review in order for the company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements. For further explanation of a review, visit our website <http://www.pwc.com/au/financialstatementaudit>.

We performed procedures in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report does not present fairly, in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134: *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the consolidated entity's financial position, and its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which included:

- inquiries of company personnel and
- analytical procedures applied to financial data.

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

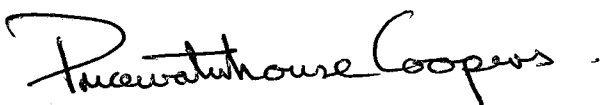
These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit, and accordingly, we do not express an audit opinion.

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

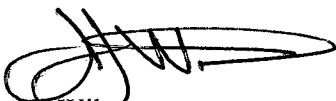
Our review did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

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



PricewaterhouseCoopers



AJ Wilson
Partner

Sydney
24 February 2006

Babcock & Brown Wind Partners Group

Directors' Declaration on the Consolidated Financial Report of Babcock & Brown Wind Partners Group

In the opinion of the directors of Babcock & Brown Wind Partners Limited ("BBWPL"), the consolidated financial statements for Babcock & Brown Wind Partners Group (as defined in Note 1) as set out on pages 16 to 40:

- a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- b) give a true and fair view of the consolidated financial position of BBWPL as at 31 December 2005 and of its performance, as represented by the results of its operations and cash flows, for the six months ended on that date.

In the directors' opinion:

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

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

On behalf of the Directors of BBWPL:



Peter Hofbauer

Director

Sydney, 24 February 2006

Babcock & Brown Wind Partners Group

Consolidated Income Statements for the Half-Year Ended 31 December 2005

	Note	Half-Year Ended 31 Dec 05 \$'000	Half-Year Ended 31 Dec 04 \$'000
Revenue from continuing activities		25,635	2,447
Other income		7,522	3,058
Share of net profit of associates accounted for using the equity method		219	-
Operating expenses		(6,545)	(898)
Depreciation and amortisation expense		(7,416)	(902)
Borrowing costs		(8,188)	(1,873)
Management charges		(35,783)	-
Other expenses		(2,484)	-
Net (loss)/profit before income tax	2	(27,040)	1,832
Income tax (benefit)/ expense		(8,738)	717
Net (loss)/ profit		(18,302)	1,115
Attributable to stapled security holders as:			
Equity holders of the parent		(18,243)	1,160
Equity holders of the other stapled entities (minority interests)		(59)	(45)
		(18,302)	1,115
Other minority interests		-	-
		(18,302)	1,115
Basic and diluted earnings per share of the parent (cents)	6	(6.4)	1.3

The above Consolidated Income Statements should be read in conjunction with the accompanying notes on pages 20 to 40.

Babcock & Brown Wind Partners Group

Consolidated Balance Sheets as at 31 December 2005

	Note	As at 31 Dec 2005 \$'000	As at 30 June 2005 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents		388,955	110,114
Receivables		16,529	8,230
Prepayments		35,815	5,703
Other		18,823	12,409
Total Current Assets		460,122	136,456
Non-Current Assets			
Receivables		-	10,734
Prepayments		10,721	6,844
Investments accounted for using the equity method		87,753	-
Property, plant and equipment		476,820	399,877
Intangibles		53,988	22,816
Deferred tax assets		16,007	4,292
Total Non-Current Assets		645,289	444,563
Total Assets		1,105,411	581,019
LIABILITIES			
Current Liabilities			
Payables		82,509	26,762
Interest-bearing liabilities		231,887	185,769
Provisions		-	1,094
Total Current Liabilities		314,396	213,625
Non-Current Liabilities			
Payables		-	2,234
Interest-bearing liabilities		247,805	188,335
Other financial liabilities		8,631	-
Deferred tax liability		5,599	5,211
Total Non-Current Liabilities		262,035	195,780
Total Liabilities		576,431	409,405
Net Assets		528,980	171,614
Equity Holders of the Parent			
Contributed equity	8	4,767	1,748
Reserves		(24,637)	(4,553)
Retained profits		(15,469)	2,774
		(35,339)	(31)
Equity Holders of the Other Stapled Entities (Minority Interests)			
Contributed equity	8	597,390	163,140
Reserves		(33,012)	-
Retained profits		(59)	-
		564,319	163,140
Other Minority Interests		-	8,505
Total Equity		528,980	171,614

The above Consolidated Balance Sheets should be read in conjunction with the accompanying notes on pages 20 to 40.

Babcock & Brown Wind Partners Group

Consolidated Statement of Changes in Equity for the Half-Year Ended 31 December 2005

	Note	Half-Year Ended 31 Dec 05 \$'000	Half-Year Ended 31 Dec 04 \$'000
Total equity at the beginning of the half year		171,614	63,741
Adjustment to equity on adoption of AASB 132 and AASB 139			
- Cash flow hedges		(7,491)	-
- Transfer of net assets attributable to security holders from equity to liability*		(163,140)	-
Movement in fair value of cash flow hedges		1,450	-
Exchange differences on translation of foreign operations		2,387	(153)
Net (loss)/ profit for the half year		(18,302)	1,115
Total recognised income and expense for the half year		(14,465)	962
Transactions with equity holders in their capacity as equity holders:			
Transfer of net assets attributable to security holders from liability to equity*		161,512	-
Contributions of equity, net of transaction costs paid		370,897	45,300
Minority interest on acquisition of subsidiary		(8,505)	-
Securities issued as consideration for purchase of interest in subsidiaries		68,000	-
Reserves recognised on purchase of increased interest in a subsidiary**		(16,430)	-
Minority interest recognised on purchase of increased interest in a subsidiary**		(33,012)	-
Distributions paid*	3	-	(1,746)
Total equity at the end of the half year		528,980	108,257
Total recognised income and expenses for the half year is attributable to:			
Equity holders of the parent		(14,406)	1,007
Equity holders of the other stapled entities (minority interests)		(59)	(45)
		(14,465)	962

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes on pages 20 to 40

* Upon the implementation of A-IFRS in the half year ended 31 December 2005, security holder interests were initially accounted for as debt. Following a change in the BBWPT constitution on 12 September 2005, security holder interests were reclassified as equity. Under the election granted under AASB 132 and AASB 139, these interests were also accounted for as equity in the comparative period.

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

** This item relates to the acquisition of the remaining 25% interest in Walkaway Wind Power Pty Limited ("WWP") (also see notes 5 and 8). Prior to this acquisition BBWPL owned 75% of the share capital of WWP and consolidated WWP accordingly. Hence, this stepped acquisition does not result in a change in control and, consequently, the excess of consideration over the fair value of the net assets purchased is required to be recognised within equity. Since BBWPL has been deemed the parent, the portion that relates to BBWPT's acquisition has been disclosed as a minority interest.

Babcock & Brown Wind Partners Group

Consolidated Cash Flow Statements For the Half-Year Ended 31 December 2005

	Note	Half-Year Ended 31 Dec 05 \$'000 Inflows / (Outflows)	Half-Year Ended 31 Dec 04 \$'000 Inflows / (Outflows)
Cash Flows from Operating Activities			
Receipts from customers		13,810	892
Payments to suppliers		(4,901)	(759)
Interest received		4,723	2,674
Interest and other costs of finance paid		(12,111)	(4,799)
Distributions received		503	-
Tax paid		(1,094)	-
Net Cash Provided By/ (Used In) Operating Activities		930	(1,992)
Cash Flows from Investing Activities			
Payment for property, plant and equipment		(35,737)	(80,678)
Payments for investments in associates and controlled entities		(113,785)	(30,762)
Net Cash Used In Investing Activities		(149,522)	(111,440)
Cash Flows from Financing Activities			
Distributions paid to security holders*	3	(1,628)	(1,746)
Proceeds from issue of securities, net of costs		370,897	45,300
Proceeds from borrowings		114,957	124,019
Repayment of borrowings		(50,121)	(3,247)
Repayment of borrowings to related parties		(8,917)	-
Net Cash Provided By Financing Activities		425,188	164,326
Net increase in cash held		276,596	50,894
Cash and cash equivalents at the beginning of the half-year		110,114	79,443
Effect of exchange rate changes on the balance of cash held in foreign currencies		2,245	-
Cash and cash equivalents at the end of the half-year		388,955	130,337

The above Consolidated Cash Flow Statements should be read in conjunction with the accompanying notes on pages 20 to 40.

* Upon the implementation of A-IFRS in the half year ended 31 December 2005 and prior to a change in the Trust's constitution in September 2005, security holder interests were initially accounted for as debt. BBWPT paid a distribution of \$1,628,000 in August 2005, prior to the change in the constitution, which has been recognised as a reduction in this debt.

Babcock & Brown Wind Partners Group

Notes to the Consolidated Financial Statements for the Half-Year Ended 31 December 2005

1. Summary of Significant Accounting Policies

This general purpose financial report for the interim half year reporting period ended 31 December 2005 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the BBWP Prospectus and Product Disclosure Statement dated 26 September 2005 of BBWP and any public announcements made by BBWP during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

(a) Basis of Preparation of Half Year Financial Report

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

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

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

Financial statements of BBWP until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (“AGAAP”). AGAAP differs in certain respects from A-IFRS. When preparing the BBWP interim financial report for the half year ended 31 December 2005, management has amended certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with A-IFRS. The comparative figures are restated to reflect these adjustments, except as stated below.

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

Reconciliations and descriptions of the effect of transition from previous AGAAP to A-IFRS on BBWP’s equity and its net profit/ loss are given in Note 10.

Historical cost convention

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

Stapled security

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

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

Babcock & Brown Wind Partners Group

Notes to the Consolidated Financial Statements for the Half-Year Ended 31 December 2005

(b) Consolidated Accounts

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

In accordance with UIG 1013, consolidated financial statements have been prepared by BBWPL as the identified parent of BBWP and the combined financial report prepared for BBWP at 1 July 2004 has been used for the purpose of applying AASB 1 at the date of transition to restate BBWP's comparative information. The financial statements of BBWP should be read in conjunction with the separate financial statements of BBWPT for the period ended 31 December 2005.

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

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

(c) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of the entities controlled by BBWPL at 31 December 2005, including those deemed to be controlled by BBWPL by identifying it as the parent of BBWP on transition to A-IFRS, and the results of those controlled entities for the period then ended. The effects of all transactions between entities in the consolidated group are eliminated in full. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

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

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

The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

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

Babcock & Brown Wind Partners Group

Notes to the Consolidated Financial Statements for the Half-Year Ended 31 December 2005

(d) Payables

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

(e) Acquisition of Assets

On acquisition of an asset, including a lease interest, fair values reflecting conditions at the date of acquisition are attributed to the identifiable separate assets and liabilities acquired. Where the fair value of the consideration paid exceeds the fair value of the identifiable separate assets and liabilities acquired, the difference is recognised as goodwill.

(f) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs.

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

Interest expense is recognised on an effective yield basis.

(g) Borrowing Costs

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

(h) Capitalised Project Costs

Costs incurred in the evaluation and purchase of major capital projects are deferred to future periods to the extent that they are expected beyond reasonable doubt to be recoverable.

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

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

(i) Property, Plant and Equipment

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

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

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

The following estimated useful lives are used in the calculation of depreciation:

- Plant and equipment 25 years

Babcock & Brown Wind Partners Group

Notes to the Consolidated Financial Statements for the Half-Year Ended 31 December 2005

(j) Derivative Financial Instruments

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

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

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

Fair value hedge

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

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

Cash flow hedge

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

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

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

Net investment hedge

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

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

Derivatives that do not qualify for hedge accounting

Babcock & Brown Wind Partners Group

Notes to the Consolidated Financial Statements for the Half-Year Ended 31 December 2005

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

Embedded derivatives

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

(k) Goods and Services Tax

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

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

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

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

(l) Financial Instruments Issued by the Company

Debt and equity instruments

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

Transaction costs on the issue of equity instruments

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

(m) Foreign Currency

Functional and presentation currency

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

Foreign currency transactions

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

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

- exchange differences which relate to assets under construction for future productive use are

Babcock & Brown Wind Partners Group

Notes to the Consolidated Financial Statements for the Half-Year Ended 31 December 2005

included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, are recognised in the foreign currency translation reserve and recognised in the income statement on disposal of the net investment.

Foreign operations

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

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

(n) Income Tax

Current tax

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

Deferred tax

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

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised.

However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax

Babcock & Brown Wind Partners Group

Notes to the Consolidated Financial Statements for the Half-Year Ended 31 December 2005

rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

Current and deferred tax for the period

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

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

Tax consolidation

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

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

(o) Investments

Investments in controlled entities are recorded at cost. Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements.

Dividend revenue is recorded on a receivables basis. Interest revenue is recognised on an accruals basis.

(p) Intangible Assets

Goodwill

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

Framework Agreements

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

(q) Leased Assets

Babcock & Brown Wind Partners Group

Notes to the Consolidated Financial Statements for the Half-Year Ended 31 December 2005

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

Consolidated entity as lessee

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

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

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

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

Lease incentives

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

(r) Impairment of Assets

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

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

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the income statement immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a

Babcock & Brown Wind Partners Group

Notes to the Consolidated Financial Statements for the Half-Year Ended 31 December 2005

revaluation decrease.

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

(s) Cash and Cash Equivalents

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

(t) Provisions

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

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

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

Onerous contracts

An onerous contract is considered to exist where the consolidated group has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

Distributions and dividends

Provision is made for the amount of any distribution or dividend declared on or before the end of, but not distributed at, balance date.

Restructuring

Provision for restructurings are recognised when Babcock & Brown Wind Partners has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by:

- starting to implement the plan; or
- announcing its main features to those affected by it.

Babcock & Brown Wind Partners Group

Notes to the Consolidated Financial Statements for the Half-Year Ended 31 December 2005

(u) Revenue Recognition

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

Product sales

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

Other revenue

Interest income is recognised on an accruals basis.

(v) Loans and Receivables

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

Babcock & Brown Wind Partners Group

Notes to the Consolidated Financial Statements for the Half-Year Ended 31 December 2005

2. Net Loss for the Half-Year

The net loss before income tax includes management fees owed to Babcock & Brown Infrastructure Management Pty Limited.

The management fees were calculated in accordance with the terms disclosed in the BBWP Prospectus and Product Disclosure Statement dated 26 September 2005. They include a base fee of \$1,630,000 and an incentive fee of \$32,985,000, both before goods and services tax, and reimbursed costs. These amounts were included in payables as at 31 December 2005.

3. Distributions and Finance Costs Paid and Proposed

	Half-Year Ended 31 Dec 05 \$'000	Half-Year Ended 31 Dec 04 \$'000
Finance costs in respect of 2005 year (2004: distribution) of 1.0 cents per stapled security (2004: 2.8 cents) paid in August 2005* (2004: August 2004) from the Trust's contributed equity	1,628	1,746
Total finance costs or distributions paid	<u>1,628</u>	<u>1,746</u>

The interim distributions in respect of ordinary securities for the financial half-years ended 31 December 2004 and 2005 have not been recognised in this report because the distributions have not been declared at the respective reporting dates.

On 24 February 2006, the board of directors of BBWP declared an interim distribution in respect of the half-year period to 31 December 2005 of 5.1 cents per stapled security. The amount that will be paid on 23 March 2006 is \$25,202,000.

The balance of the franking account at 31 December 2005 is \$ nil (31 December 2004: \$ nil).

* Upon the implementation of A-IFRS in the half year ended 31 December 2005 and prior to a change in BBWPT's constitution, security holder interests were initially accounted for as debt. BBWPT paid a distribution of \$1,628,000 in August 2005, which has been recognised as a reduction in this debt as a finance cost.

Babcock & Brown Wind Partners Group

Notes to the Consolidated Financial Statements for the Half-Year Ended 31 December 2005

4. Segment Information

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

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

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

The following table shows segment information for the half-year period ended 31 December 2005. In the half-year period ended 31 December 2004, all segment revenues and results were from operations in Australia.

Half-Year Ended 31 December 2005 \$'000

	Australia	Europe	Unallocated	Consolidated
Segment revenue	13,040	12,595	-	25,635
Segment result before interest	6,686	5,715	-	12,401
Net interest (expense)/ income	(2,964)	(2,925)	3,487	(2,402)
Net segment result after interest	3,722	2,790	3,487	9,999
Share of net profit of associates accounted for using the equity method	-	-	219	219
Unallocated corporate costs	-	-	(37,258)	(37,258)
Net loss before income tax	3,722	2,790	(33,552)	(27,040)
Income tax benefit				8,738
Net loss				(18,302)

Babcock & Brown Wind Partners Group

Notes to the Consolidated Financial Statements for the Half-Year Ended 31 December 2005

5. Changes in the Composition of the Consolidated Entity Acquisition of Businesses

Name of Business acquired	Notes	Principal Activity	Date of Acquisition	Ownership interest of Shares / units %	Cost of Acquisition \$'000
Babcock & Brown Wind Partners (Bermuda) Limited	(1)	Wind energy generation	September 2005	100	-
B&B LB2 Pty Limited	(2), (3)	Wind energy generation	September 2005	100	-
NPP LB2 LLC	(2), (3)	Wind energy generation	September 2005	100	-
CS Walkaway Pty Limited	(2), (4)	Wind energy generation	September 2005	100	49,442
CS Walkaway Trust	(2), (4)	Wind energy generation	September 2005	100	
B&B Walkaway Pty Limited	(2), (4)	Wind energy generation	September 2005	100	
B&B Walkaway Trust	(2), (4)	Wind energy generation	September 2005	100	
NPP Projects V LLC	(2), (4)	Wind energy generation	September 2005	100	
Montes de Leon S.A.U.	(5)	Wind energy generation	October 2005	100	18,157

(1) The shares in Babcock & Brown Wind Partners (Bermuda) Limited are stapled to shares in BBWPL and units in BBWPT. AASB Interpretation 1002 applies to stapling arrangements occurring during annual reporting periods ending on or after 31 December 2005 where the identified parent, in this case BBWPL, does not obtain an ownership interest in the entity whose securities have been stapled, BBWPB.

As a consequence of the stapling arrangement involving no acquisition consideration and no ownership interest being acquired by the combining entities, no goodwill is recognised in relation to the stapling arrangement and the interests of the equity holders in the stapled securities are treated as minority interests.

(2) Please see note 8, Issuances, Repurchases, and Repayments of Securities, for an explanation as to the method by which the cost of acquisition was satisfied.

(3) B&B LB2 Pty Limited and NPP LB2 LLC each have a 50% interest in Lake Bonney Wind Power 2 Pty Limited ("LBWP 2"). LBWP 2 will operate the Lake Bonney Stage 2 wind farm. The fair value of the net assets of the purchased group was nil and hence no goodwill has been recognised upon acquisition.

As part of the Share Sale and Project Development Agreement, the vendors will develop the wind farm to the point where project financing can be drawn for the purposes of construction ("Development Close"). Pursuant to, and in satisfaction of, the agreement, BBWPL and BBWPT issued shares and units with a fair value of \$20,000,000.

The agreement is conditional upon the vendors achieving Development Close within a specified time.

Babcock & Brown Wind Partners Group

Notes to the Consolidated Financial Statements for the Half-Year Ended 31 December 2005

Consequently, the fair value of the amount that has been issued in shares and units, \$20,000,000, will be recognised as a prepayment until such time as the acquisition is unconditional.

(4) These entities indirectly own 25% of Walkaway Wind Power Pty Limited (“WWP”). This acquisition resulted in the Group increasing its ownership interest in the share capital of WWP from 75% to 100%.

The fair value of the net assets of the purchased group was nil. Given that there was no goodwill recognised upon the initial transaction, in which 75% of WWP was purchased, no goodwill is recognised as a result of this transaction. The purchase price of \$49,442,000 has been recognised within equity.

Furthermore, since BBWPL already controlled WWP, WWP’s net assets and results continue to be consolidated.

(5) Montes de Leon S.A.U. (“MdL”) operates the Redondal wind farm in Spain. The net liabilities of MdL at acquisition were as follows:

	\$’000
Consideration	
Cash paid, net of cash acquired	18,157
Book value of net liabilities acquired	
Receivables	8,203
Prepayments	621
Plant and equipment	42,403
Payables	(7,532)
Interest bearing liabilities	(46,547)
	(2,852)
Goodwill on acquisition	21,009
	18,157

The acquired business contributed revenues of \$2,338,000 and net profit of \$720,000 to the Group for the period from 29 October 2005 to 31 December 2005. If the acquisition had occurred on 1 July 2005, consolidated revenue and consolidated loss of the Group for the half-year ended 31 December 2005 would have been \$26,661,000 and \$17,527,000 respectively.

AASB3: *Business Combinations* requires the assets and liabilities of a subsidiary to be recognised by the acquiring entity at fair value. AASB3 also allows an acquiring entity twelve months from acquisition date to finalise the acquisition accounting. Any movements in the acquired net assets based on fair values will be recognised in the 30 June 2006 Annual Report.

Babcock & Brown Wind Partners Group

Notes to the Consolidated Financial Statements for the Half-Year Ended 31 December 2005

6. Earnings/ Loss Per Security

	6 months to 31 December 2005	6 months to 31 December 2004
Earnings/ Loss per Share of the Parent		
Basic and diluted earnings/ (loss) per share (cents)	(6.4)	1.3
Earnings/ (loss) used in calculation of basic and diluted earnings per share to security holders (\$'000)	(18,243)	1,160
Weighted average number of shares on issue used in calculation of earnings per share ('000)	284,997	90,308
Earnings/ Loss per Stapled Security of the Stapled Entity		
Basic and diluted earnings/ (loss) per stapled security (cents)	(6.4)	1.2
Earnings/ (loss) used in calculation of basic and diluted earnings per stapled security to security holders (\$'000)	(18,302)	1,115
Weighted average number of stapled securities on issue used in calculation of earnings/ (loss) per stapled security ('000)	284,997	90,308

7. Contingent Liabilities

	31 Dec 2005 \$'000	30 June 2005 \$'000
Letters of credit	11,891	9,511
Guarantees	1,577	1,183
	<u>13,468</u>	<u>10,694</u>

Babcock & Brown Wind Partners Group

Notes to the Consolidated Financial Statements for the Half-Year Ended 31 December 2005

8. Issuances, Repurchases, and Repayments of Securities

Lake Bonney 2

In September 2005 BBWPL and BBWPS, as responsible entity of BBWPT, entered into a Share Sale and Project Development Agreement with a subsidiary of Babcock & Brown Limited and a subsidiary of National Power Partners LLC ("LB2 Vendors") with respect to the Lake Bonney 2 wind farm ("LB2 Agreement").

The consideration payable to the LB2 Vendors under the LB2 Agreement was \$20,000,000 and was satisfied through the issue of shares and units by BBWPL and BBWPS, respectively ("LB2 Consideration Securities").

The combined fair value of each share and unit that comprised the LB2 Consideration Securities was \$1.40, which was based on the offer price of stapled securities at the subsequent initial public offering in October 2005. Correspondingly, BBWPL issued 14,286,000 shares and BBWPS issued 14,286,000 units. The 14,286,000 stapled securities are subject to a restriction agreement, as well as a holding lock arrangement, until the point that the LB2 Vendors satisfy the terms of the LB2 Agreement.

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

Alinta Wind Farm

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

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

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

Initial Public Offering

During the half-year reporting period, BBWP issued 282,837,000 stapled securities pursuant to its initial public offering. Each stapled security was valued at \$1.40 and total proceeds amounted to \$395,972,000 before costs of \$25,075,000.

Babcock & Brown Wind Partners Group

Notes to the Consolidated Financial Statements for the Half-Year Ended 31 December 2005

The following table provides the movement in contributed equity during the period:

	Stapled Securities (No. '000s)	Stapled Securities (\$'000)
Opening balance at 1 July 2005	162,756	164,888
Transfer of net assets attributable to security holders from equity to liability*	-	(163,140)
Transfer of net assets attributable to security holders from liability to equity*	-	161,512
Lake Bonney 2	14,286	20,000
Alinta wind farm	34,286	48,000
Initial public offering, net of costs	282,837	370,897
Closing balance at 31 December 2005	494,165	602,157

* Upon the implementation of A-IFRS in the half year ended 31 December 2005, security holder interests were initially accounted for as debt. Following a change in the BBWPT constitution on 12 September 2005, security holder interests were reclassified as equity. Under the election granted under AASB 132 and AASB 139, these interests were also accounted for as equity in the comparative period.

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

9. Subsequent Events

Eifel

On 16 February 2006, BBWPL acquired B&B Eifel UK Ltd from a subsidiary of Babcock & Brown Limited. B&B Eifel UK Ltd is the 100% limited partner of the German limited partnership, NPV Zweite Windpark GmbH & Co KG Partnership ("Eifel").

In accordance with the Sale & Purchase Agreement, signed on 30 December 2005, BBWPL paid the first instalment of \$13,507,000.

Babcock & Brown Wind Partners Group

Notes to the Consolidated Financial Statements for the Half-Year Ended 31 December 2005

10. Impacts of the Adoption of Australian Equivalents to International Financial Reporting Standards

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

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

Effect of A-IFRS on the balance sheet as at 1 July 2004 and 31 December 2004

There is no effect of A-IFRS on the balance sheet as at 1 July 2004 or as at 31 December 2004. Note that BBWP has taken advantage of the election available to it under AASB 132 and AASB 139.

Effect of A-IFRS on the income statement for the half-year ended 31 December 2004

There is no effect of A-IFRS on the income statement for the half-year ended 31 December 2004. Note that BBWP has taken advantage of the election available to it under AASB 132 and AASB 139.

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

	Financial year ended 30 June 2005		
	Superseded policies \$'000	Effect of transition to A-IFRS \$'000	A-IFRS \$'000
Revenue from continuing activities	16,607	-	16,607
Other Income	6,610	-	6,610
Depreciation and amortisation expense	(6,102)	429	(5,673)
Borrowing costs	(7,693)	-	(7,693)
Other operating expenses	(4,944)	-	(4,944)
Net (loss)/profit before income tax	4,478	429	4,907
Income tax expense	1,776	-	1,776
Net (loss)/ profit for the half year	2,702	429	3,131

Babcock & Brown Wind Partners Group

Notes to the Consolidated Financial Statements for the Half-Year Ended 31 December 2005

Effect of A-IFRS on the balance sheet as at 30 June 2005 and 1 July 2005

	As at 30 June 2005			As at 1 July 2005	
	Superseded policies \$'000	Effect of transition to A-IFRS \$'000	A-IFRS 30 June 2005 \$'000	Effect of transition to A-IFRS \$'000	A-IFRS 1 July 2005 \$'000
ASSETS					
Current Assets					
Cash and cash equivalents	110,114	-	110,114	-	110,114
Receivables	8,230	-	8,230	-	8,230
Prepayments	5,703	-	5,703	-	5,703
Other	12,409	-	12,409	-	12,409
Total Current Assets	136,456	-	136,456	-	136,456
Non-Current Assets					
Receivables	10,734	-	10,734	-	10,734
Prepayments	6,844	-	6,844	-	6,844
Property, plant and equipment	399,877	-	399,877	-	399,877
Intangibles	23,695	(879)	22,816	-	22,816
Deferred tax assets	4,292	-	4,292	3,211	7,503
Total Non-Current Assets	445,442	(879)	444,563	3,211	447,774
Total Assets	581,898	(879)	581,019	3,211	584,230
LIABILITIES					
Current Liabilities					
Payables	26,762	-	26,762	-	26,762
Interest-bearing liabilities	185,769	-	185,769	-	185,769
Unit holder liabilities	-	-	-	163,140	163,140
Other financial liabilities	-	-	-	121	121
Provisions	1,094	-	1,094	-	1,094
Total Current Liabilities	213,625	-	213,625	163,261	376,886
Non-Current Liabilities					
Payables	2,234	-	2,234	-	2,234
Interest-bearing liabilities	188,335	-	188,335	-	188,335
Other financial liabilities	-	-	-	10,581	10,581
Deferred tax liability	5,211	-	5,211	-	5,211
Total Non-Current Liabilities	195,780	-	195,780	10,581	206,361
Total Liabilities	409,405	-	409,405	173,842	583,247
Net Assets	172,493	(879)	171,614	(170,631)	983
Equity					
Contributed equity	164,888	-	164,888	(163,140)	1,748
Reserves	(3,245)	(1,308)	(4,553)	(7,491)	(12,044)
Retained profits	2,345	429	2,774	-	2,774
Total parent entity interest in equity	163,988	(879)	163,109	(170,631)	(7,522)
	8,505	-	8,505	-	8,505
Total Equity	172,493	(879)	171,614	(170,631)	983

Babcock & Brown Wind Partners Group

Notes to the Consolidated Financial Statements for the Half-Year Ended 31 December 2005

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

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

Notes to the reconciliations of income and equity

For the purposes of presenting the 30 June 2005 and 1 July 2005 balance sheets under A-IFRS, the following adjustments were made to the AGAAP presentation:

Goodwill

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

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

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

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

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

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

Financial instruments

Cash Flow Hedges

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

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

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

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

Babcock & Brown Wind Partners Group

Notes to the Consolidated Financial Statements for the Half-Year Ended 31 December 2005

Transfer of Equity to Debt

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

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