BABCOCK & BROWN
WIND PARTNERS

2006

Annual Report

Financial year ending 30 June 2006

CONTENTS

Lake Bonney 1, South Australia
Cover: Alinta Wind Farm, Western Australia

Babcock & Brown Wind Partners' portfolio has grown and diversified significantly in FY06 by number of wind farms, wind regions, installed capacity and forecast generation

BBW is a specialist investment fund term Security Holder value through generation assets

BBW'S HIGH QUALITY PORTFOLIO OF WIND FARMS IS DIVERSIFIED BY WIND RESOURCE, EQUIPMENT SUPPLIER, CUSTOMER, NUMBER OF WIND FARMS, REVENUE ASSURANCE AND REGULATORY REGIME

BBW'S PORTFOLIO COMMENCED WITH FOUR OPERATIONAL WIND FARMS. AS AT JULY 2006 THIS HAD INCREASED TO 19 OPERATIONAL WIND FARMS, COMPARED WITH THE IPO FORECAST OF 15

BBW IS MANAGED BY BABCOCK & BROWN, AN EXPERIENCED ADVISOR, MANAGER AND INVESTOR IN THE WIND ENERGY INDUSTRY

of scale dedicated to delivering long
owning and operating wind energy

BBW'S GOAL IS TO IMPROVE THE PORTFOLIO VIA SELECTIVE ACQUISITIONS, AND OPTIMISE THE BENEFITS OF DIVERSIFICATION OF THE BUSINESS WITHIN A CLEARLY DEFINED AND DISCIPLINED INVESTMENT POLICY

THE WIND FARMS IN BBW'S PORTFOLIO ARE IN LOCATIONS WITH A FAVOURABLE WIND RESOURCE, AND ARE CHARACTERISED BY PREDICTABLE CASH FLOWS, LONG TERM INVESTMENT HORIZONS WITH RE-POWERING OPPORTUNITIES, AND NO DEVELOPMENT RISK

STRENGTHS OF BBW

- Well positioned to capitalise on social, economic and environmental factors driving a fast growing global wind energy industry
- Strong, stable cash flows derived from the existing diversified high quality portfolio
- An attractive fully tax deferred distribution of 10.2 cents per Security in FY06, and 12.5 cents in FY07
- Well capitalised balance sheet with conservative gearing
- Positioned for growth, driven by over 850MW of capacity over several years, secured under existing Framework Agreements
- Strategic relationship with Babcock & Brown provides access to a pipeline of acquisition opportunities, and to a team with over 19 years of experience in wind energy development, ownership, operation and funding
- Wind farm assets are acquired on a fully operational or ready for construction basis and have been de-risked prior to acquisition
- In-house and contracted operations and maintenance skills to manage and operate wind farms efficiently

FY06 ACQUISITION HIGHLIGHTS

2005

OCTOBER 2005
Babcock & Brown Wind Partners is admitted onto the Official List of the Australian Stock Exchange (ASX Code: BBW) with an application price of $1.40 per Stapled Security, and an initial market capitalisation of approximately $692m

DECEMBER 2005
BBW completes the acquisition of economic interests in Sweetwater 1 & 2, Caprock, Blue Canyon and Combine Hills wind farms in the United States. The five wind farms have an aggregate installed capacity of 324.25MW

2006

FEBRUARY 2006
BBW completes the acquisition of Eifel wind farm in Germany, which consists of four sites with a total expected capacity of 35MW and with an estimated long term energy production of 69.7GWh per year. The acquisition provides BBW with an asset in an established wind farm area of Germany, the world's largest wind energy market

MARCH 2006
BBW agrees to buy a 100% economic interest in three wind farms under development near Fruges in the north of France which, when constructed, will have a combined capacity of 22MW

BBW also enters into a new Framework Agreement in Germany with Plambeck Neue Energien AG, involving the purchase of a portfolio of wind farms comprising up to 300MW of installed capacity between 2006 and 2009

MAY 2006
BBW successfully completes a global capital raising of approximately $118.6m, at a price of $1.60 per Stapled Security. A total of 74.1m Stapled Securities were issued to fund the acquisition of certain Class B membership interests in a number of wind farms in the US, including Sweetwater 1, 2 & 3, Caprock, Blue Canyon, Combine Hills, Kumeyaay, Bear Creek, Jersey Atlantic and Crescent Ridge wind farms

JUNE 2006
BBW finalises agreements allowing commencement of construction of the Lake Bonney 2 wind farm, a 159MW project located in South Australia

Construction on the site, located adjacent to BBW's existing Lake Bonney 1 wind farm in one of the best wind resource regions in Australia, is anticipated to be completed by mid 2008, creating the largest wind farm in Australia and one of the largest wind farms in the world

JUNE 2006
BBW increases its stake in the Class B membership interests of five existing US wind farms, namely Sweetwater 1 & 2, Blue Canyon, Combine Hills and Caprock

The Directors of Babcock & Brown FY07 distribution forecast to 12.5 forecast of 11.2 cents per Security,

Dear Security Holders,

On behalf of your Boards, I am pleased to present Babcock & Brown Wind Partners' (BBW) inaugural Annual Report and to provide an overview of BBW's performance for the 12 months ending 30 June 2006 and an update on the Boards' forecasts for 2007.

BBW is well positioned to benefit from the growth in the global wind energy industry. The key drivers of this growth, and that of other renewable energy sources, relate to several factors including the need to ensure security of energy supply, the desire to reduce dependence on fossil fuels which are becoming increasingly expensive, as well as improvements in technology relating to renewable energy sources. In addition to these factors, some countries are also promoting renewable energy sources to achieve reduced emission targets.

The wind energy industry grew by 24% in terms of cumulative installed capacity over the 12 months to March 2006[1], and with such growth set to continue, the BBW Boards will continue their focus on managing and operating the current diversified portfolio of assets, and where beneficial to Security Holders, investing in new assets in the sector.

The 2006 financial year produced a sound performance for Security Holders with total revenue of $73m being achieved, and the payment of a fully tax deferred 10.2 cent distribution.

BBW commenced with four operational wind farms at the time of the IPO in late October 2005, finished FY06 with 16, and as at July 2006 this had increased to 19 operational wind farms. Total forecast annual energy generation has increased from 360GWh at the time of the IPO to 1,361GWh, 21% ahead of IPO FY07 generation forecast.

During FY06, BBW's revenue composition changed because of a number of one-off events and some operational variances. These events resulted in BBW not achieving the FY06 Directors' forecast for revenue of $77m and EBITDA of $57.5m. The one-off events included delays in the acquisition of the Olivo wind farms in Spain and delayed construction at the Niederrhein wind farms in Germany. In turn, the delays meant other operational variances, such as lower wind speeds in the European portfolio for May and June, had a disproportionate adverse financial impact on the portfolio during its ramp-up phase. Operational variances also included the receipt of pre-commissioning revenues from the Alinta wind farm, increased tariffs available under the Spanish market option, and the contribution from the Eifel wind farm, which was not originally included in the FY06 Directors' forecast. Finally, BBW has reached a commercial settlement with the contractor resulting in $5.25m compensation paid to BBW for loss of revenue, due to commissioning issues at the Alinta wind farm.

The combined financial impact of the delays, operational variances and compensation, resulted in EBITDA (after associates) to be $5.7m below FY06 Directors' forecasts, however net interest paid was also $5.4m below FY06 Directors' forecasts, due to the delays in the acquisition of the Olivo wind farms in Spain. Consequently the overall impact on BBW's net cash flow position for FY06 was marginally positive, after taking all adjustments into account.

In FY06, only four wind farms in the portfolio were fully operational for the full reporting period. As at the start of FY07, BBW's portfolio has increased to 19 wind farms. Going forward, the significant scale and diversity of the BBW portfolio should assist in ensuring a smoother earnings profile.

During the financial year BBW deployed $309m to acquire assets and businesses across a variety of wind farms in Europe, Australia and the US. Notwithstanding these acquisitions, BBW's balance sheet remains conservatively geared with significant latent borrowing capacity.

Based on the accretive acquisitions made during the year, the Directors have provided a re-forecast distribution of 12.5 cents for the 2007 financial year, up from 11.2 cents per Security from the 2007 distribution forecast at the time of the IPO. This represents an increase of 11.6%. In addition, the Directors retained their distribution growth rate target of at least 3.5% p.a. over the medium term. BBW remains committed to offering Security Holders an attractive and growing cash yield, fully tax deferred for 2007.

The ongoing relationship with Babcock & Brown (BNB) continues to provide a strong alignment of interests

Wind Partners have increased the cents per Security, up from the IPO an increase of 11.6%

between BBW Security Holders and BNB. The strong alignment arises from BNB's significant shareholding and the potential new investment opportunities available from BNB's development pipeline. In addition, BBW's own investment pipeline is assured via the current Framework Agreements in Spain and Germany, two of the largest wind energy markets in the world. On an installed capacity basis, BBW has potential investments of over 850MW to be acquired under these Framework Agreements over the next few years. Importantly BBW's solid financial position should allow a substantial portion of these opportunities to be funded without a requirement for any material additional ordinary equity in the near term, provided this delivers the best outcome for Security Holders.

It is the intention of your Boards to uphold strict acquisition and investment criteria to grow via acquisition on an accretive basis. BBW's existing portfolio of wind farms is characterised by predictable cash flows, locations with favourable wind resource, long term investment horizons with re-powering opportunities and no development risk. Future investments will be made in accordance with these criteria.

FY06 was a year of activity and rapid growth for BBW, as the portfolio achieved significant scale and geographical diversity in a short time frame. I believe that BBW is now well positioned to consolidate its position as a leading investor and manager of wind farms and deliver on its stated intended financial outcomes as contained within the Directors' re-forecasts for the 2007 financial year.

Specifically, in the near to medium term, the Boards and management team will focus on managing and operating the current diversified portfolio of high quality wind energy investments as efficiently and effectively as possible and, where beneficial to Security Holders, undertaking accretive investments in new assets in the sector.

The Boards remain committed to a strategy of building strong cash flows from wind farm investments. BBW's balance sheet remains in a sound financial position with significant latent borrowing capacity. BBW will focus on restructuring its balance sheet to ensure that funding is available to be applied towards driving Security Holder wealth.

On behalf of the Directors, I acknowledge the achievements and hard work of the BBW team and of our staff around the world. In particular the Boards congratulate the senior management team for their contribution, dedication and commitment in building a global wind energy investment vehicle of sufficient diversity and scale.

I would like to thank all Security Holders for their continued support over the year, and reinforce BBW's commitment to generating value for all Security Holders and the generation of a clean, safe and renewable energy form.

The Directors and I look forward to welcoming you at our Annual General Meeting.

Yours faithfully,

PETER HOFBAUER
Chairman

1 Source: World Market Update 2005, International Wind Energy Development, BTM Consult ApS – March 2006

CEO'S REPORT

THE 2006 FINANCIAL YEAR HAS BEEN AN EXCITING TIME FOR BBW. THE HIGHLIGHTS INCLUDED BBW'S LISTING ON THE ASX AND COMPLETION OF AN EXTENSIVE ACQUISITION PROGRAM. BBW COMMENCED OPERATIONS WITH FOUR WIND FARMS IN OCTOBER 2005 AND FINISHED THE YEAR WITH 16 OPERATING WIND FARMS. IN CONJUNCTION WITH MY SENIOR MANAGEMENT TEAM, I HAVE FOCUSED ON THIS BUSY ACQUISITION SCHEDULE AND ON BUILDING AND DEVELOPING AN OPERATIONAL BUSINESS THAT CREATES A PRODUCT BEING DRIVEN BY INCREASING DEMAND – ENERGY.

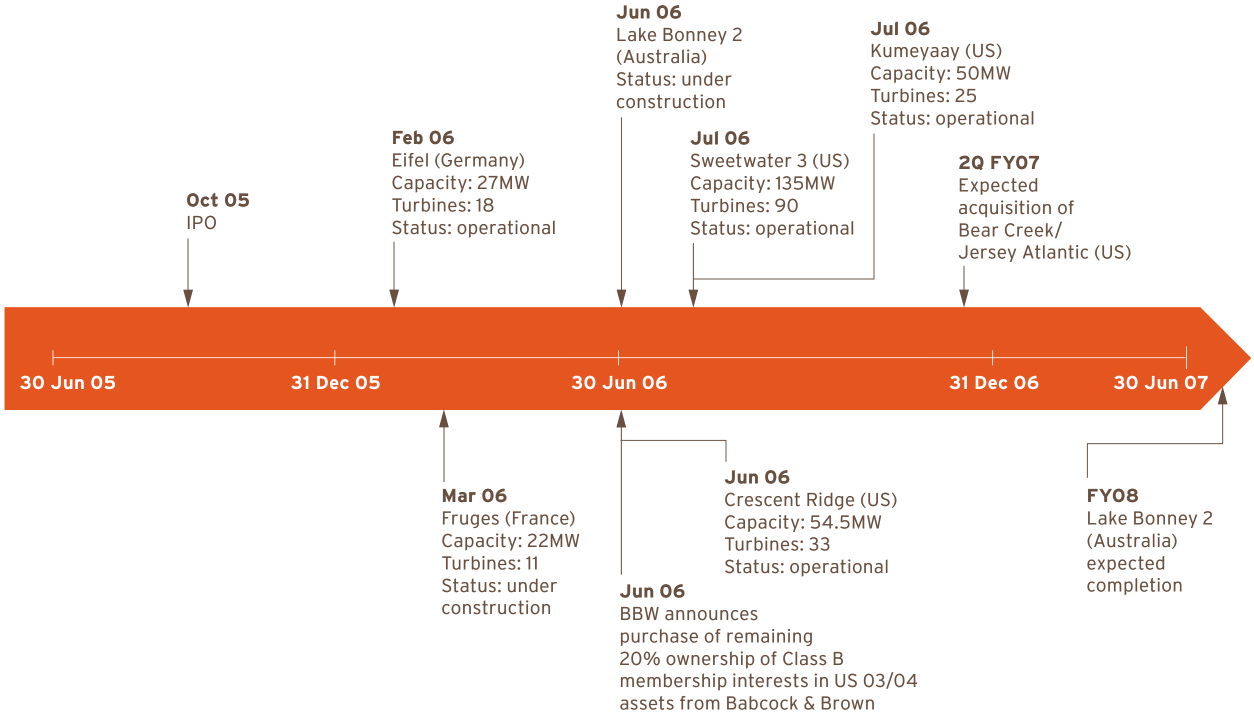
Since listing, BBW has acquired 12 fully operational wind farms, completed the construction of a further three, established a €150m multi-option financing facility to provide flexibility and efficiency around funding and put in place a team providing services across four countries (soon to be five) with diverse functions including accounting, operations, tax, treasury, legal and investor relations. BBW also raised an additional $118.6m of equity funding.

At the time of the IPO, the Prospectus and Product Disclosure Statement (Prospectus) noted several key factors driving the growth in wind energy, and today, the forces driving the economics for wind power are even stronger. The increasing fossil fuel price, renewed commitment to the reduction of greenhouse gas emissions, security of energy supply issues and increasing demand for energy underpin the growing demand for renewable energy sources such as wind power.

Accordingly, BBW's long term investment proposition remains robust, supported by increasingly attractive wind energy economics, in turn reflected in strong growth in installed wind power capacity. Recent industry sources have reported that world wind capacity is now 25% greater than this time last year, a growth rate that has been steady over five successive quarters.[1]

In terms of BBW's achievements during 2006, I would now like to run through our key milestones and report on our delivery for the financial year ended 30 June 2006.

KEY MILESTONES



1 Wind Power Monthly July 2006.

At IPO, it was intended that BBW would acquire three further Olivo wind farms in Spain, an 80% interest in the Class B membership units of the five US 03/04 assets held by Babcock & Brown, commission the Alinta wind farm in Western Australia and acquire two wind farms in North Rhine-Westphalia, Germany. All of these tasks have been completed.

Further wind farms were acquired in other jurisdictions, such as Eifel in Germany and Fruges in France (which is under construction). Several additional purchases were made in the US, some completed post balance date, as BBW acquired the remaining 20% interest of the US 03/04 assets, 100% and 50% of the Class B membership units of the Kumeyaay and Sweetwater 3 wind farms respectively. BBW also purchased 75% of the Class B membership units in the Crescent Ridge wind farm, thus making a strategic entry into the desirable PJM market operating across North East America.

All of the additional transactions were accretive to Security Holders, as demonstrated by the Boards announcing an increased 2007 distribution forecast from 11.2 cents per Security to 12.5 cents and maintenance of the distribution growth target of at least 3.5% going forward.

On 12 May 2006, BBW announced the successful completion of a global book build which was approved by Security Holders at General Meetings on 14 June 2006. This resulted in the issuance of 74.1m Securities, raising approximately $118.6m in new equity capital. The capital was used to fund a number of new acquisitions which had not been identified at the time the Prospectus was issued. In May, BBW also signed a Multi-Option Facility Agreement with a syndicate of banks for €150m, of which €62m was utilised at balance date.

OPERATIONS AND PERFORMANCE REPORTING

Operating a global wind energy business is a twenty four hour a day, seven days a week activity, which is undertaken by BBW's management and operations team. BBW's operational activities currently cover three continents, four countries and many regulatory and market conditions. This will expand to one more country in 2007. While the team has established uniform reporting standards, we are focused on making these more efficient by introducing scalable monitoring tools to report status and production from the portfolio's 19 wind farms and associated electrical infrastructure. The operations management team for BBW currently has over 20 people, excluding the many operations and management service provider teams.

The BBW portfolio has now matured to a critical mass and management is confident that the benefits of this diversified portfolio will be demonstrated through consistent, predictable earnings. We are particularly focused on leveraging and balancing the specific diversification factors of wind resource and fixed/market tariff split for the benefit of optimising returns.

In accordance with our asset management plans, we expect performance monitoring to become increasingly automated, as the respective individual remote monitoring systems are integrated and analysed on a portfolio basis. These systems are designed to be scalable to accommodate the significant growth identified later in my report.

FINANCIAL RESULTS AND REVIEW OF OPERATIONS

Whilst the FY06 financial result is satisfying in terms of delivering a 10.2 cents per Security distribution to Security Holders, the composition of the result, as previously documented in the Supplementary Investor Information released to the market on 14 August 2006, was different from initial expectations.

"IT IS NOT A CHOICE, AS SOME SUPPOSE, BETWEEN ECONOMIC PROSPERITY AND TACKLING CLIMATE CHANGE. IT IS TECHNOLOGICAL ADVANCES AND ECONOMIC DEVELOPMENT THAT WILL PROVIDE THE REALISTIC SOLUTION. IT IS THE FIRMS AND COUNTRIES THAT LEAD THE WAY IN ADAPTING TO THIS CHALLENGE THAT WILL HAVE THE COMPETITIVE ADVANTAGE IN THE FUTURE."

Tony Blair, UK Prime Minister, PA News, 29 December 2004

"WESTERN GOVERNMENTS AND BUSINESSMEN SHOULD POOL THEIR EFFORTS IN THE SEARCH FOR NON-TRADITIONAL SOURCES OF ENERGY AND MAKE MORE EFFORT TO USE ENERGY EFFICIENTLY...

THE APPROACH BY THE G8 OF FACILITATING NUCLEAR POWER LACKS VISION"

Former Soviet Union President Mikhail Gorbachev speaking to MPs in London, UK, 8 June 2006

"WIND IS THE FASTEST GROWING POWER SOURCE IN OUR COUNTRY AND WORLDWIDE. IT'S NOW COMPETITIVE WITH COAL IN AREAS WHERE THE CONDITIONS ARE RIGHT...

WE NEED A RENEWABLE PORTFOLIO STANDARD TO REQUIRE 20% OF ELECTRICITY TO BE PRODUCED FROM WIND, SOLAR AND OTHER RENEWABLES BY 2020."

US Senator Hillary Clinton, Washington, 23 May 2006

In broad terms, the result contained a number of non-recurring items and unexpected operational variances. The non-recurring items included delays in the acquisition of the Olivo wind farms in Spain and delayed construction of the Niederrhein wind farms in Germany. The impact of the delays was further exacerbated by low wind conditions in May and June 2006 across the European portfolio and at Lake Bonney 1.

These items were offset to some extent by the receipt of pre-commissioning revenues from the Alinta wind farm, increased tariffs available under the Spanish market option and revenue from Eifel which was not originally included in the Directors' forecasts.

Practical completion for the Alinta wind farm was also achieved, with final completion to take place no later than 24 August 2007. Negotiations with the contractor resulted in a $5.25m compensation payment for the delay in commissioning. The parties have agreed a timetable for achieving completion of all outstanding work and management is confident that the contractor will complete these tasks satisfactorily within the agreed timetable. Notwithstanding this, we believe that BBW is fully protected if the contractor does not comply with the timetable.

KEY FINANCIALS	AUSTRALIA	SPAIN	GERMANY	US	TOTAL
Revenue	$35.9m	$32.4m	$4.7m	n/a	$73.0m
EBITDA[1]	$30.0m[2]	$25.9m	$3.8m	n/a	$59.7m
Contribution to EBITDA[1]	48.6%	41.9%	6.1%	3.4%	n/a
Additional US cash distribution	n/a	n/a	n/a	$5.0m	$5.0m
US share of net profit	n/a	n/a	n/a	$2.1m	$2.1m

1 EBITDA after associates excluding corporate costs and foreign exchange (FX) gain
2 Includes pre-commissioning and revenue compensation for the Alinta wind farm

INVESTMENT STRATEGY

BBW's strategy is one of building sustainable cash flows to support steady growth in distributions to its Security Holders. This strategy was first described in the Prospectus and has been clearly reaffirmed by the Chairman in his letter to you.

Potential acquisitions are selected with the objective of satisfying the following criteria:

- Attractive offtake arrangements
- Predictable operating costs
- Favourable wind resource locations
- Long term investment horizons with re-powering opportunities
- Superior asset quality and condition
- Acceptable construction risk and/or commissioning risk
- Possibility of significant percentage stakeholding
- No development risk

Adherence to this checklist enables BBW to acquire wind farms on the basis that they provide secure returns without the need to take on unacceptable risk. From time to time, BBW will take on construction risk but only where BBW is protected by contractual agreements, including rights to damages on breach and appropriate warranties provided by reputable contractors with appropriate performance bonds. BBW will seek an appropriate risk adjusted rate of return where it takes on construction risk.

BBW has taken on construction risk with respect to Lake Bonney 2 and Fruges wind farms. In the case of the Plambeck Framework Agreement, BBW advanced €6m to Plambeck on execution of the agreement, however this payment is secured on the first two projects. BBW Security Holders are further protected in relation to this advance as repayment of the advance is indemnified by BNB.

IDENTIFIED GROWTH OPPORTUNITIES

The medium and long term growth drivers can be categorised as follows:

- Opportunities to acquire fully commissioned wind farms in the US
- Actively exploring re-powering in Europe and the US
- Opportunities in Europe particularly France and Portugal
- Working within existing Framework Agreements, to acquire wind farms in Spain and Germany

In addition to these growth drivers, there exists the opportunity to acquire assets from BNB.

As part of preparing BBW for its next phase of growth, we are reviewing our options for effective capital management. BBW's balance sheet is conservatively geared and under the Multi-Option Facility Agreement, BBW has access to €150m, of which €62m was utilised at balance date. We are considering a number of capital management alternatives including the refinance of some or all of the portfolio with the aim of maintaining capital efficiency and debt facilities that appropriately match BBW's assets and liabilities. We believe these capital management initiatives will provide a significant source of funds for future acquisitions without the need to raise new equity in the near term.

I believe that these initiatives will enable BBW to continue with its stated strategy of delivering Security Holder wealth through investing in and managing a diversified global portfolio of wind farms.

OUTLOOK

BBW remains well positioned for growth with exposure to rapidly growing developed markets in countries where governments and their constituents remain committed to renewable energy forms.

As at July 2006, BBW owns 19 operating wind farms in eight different wind regions, with total P50 generation of 1,361GWh per annum, which is 21% ahead of IPO FY07 generation forecast.

The first half of FY07 is expected to be a period of consolidation. Together with the senior management team, I will be driving a process of ongoing improvement and implementation of scaleable operating and financial reporting structures and risk management systems, a process which commenced on listing.

Furthermore, we will also be exploring initiatives in relation to sourcing cost effective capital and balance sheet restructuring, in order to fund near term acquisition activity without the need to raise ordinary equity.

Overall, FY07 will be a year in which Security Holders are expected to benefit from BBW's diversification strategy, as strong operating cash flows are delivered via increased distributions. In recognition of the sound underlying corporate fundamentals of the business, the Directors have upgraded the distribution guidance for FY07 from 11.2 cents per Stapled Security to 12.5 cents per Stapled Security.

I look forward to reporting further to you through FY07.

PETER O'CONNELL
Chief Executive Officer

"ONE OF THE OBJECTIVES OF THE GREEN PAPER ON ENERGY IS THE CONTINUATION OF THE EU'S LEADERSHIP IN ADDRESSING GLOBAL CLIMATE CHANGE. INITIATIVES SUCH AS THE EU EMISSIONS TRADING SCHEME AND AMBITIOUS TARGETS FOR RENEWABLE ENERGY SHOULD PLAY AN IMPORTANT ROLE IN SHAPING OUR ENERGY POLICY."

Andris Piebalgs, EU Energy Commissioner, Gliwice, Poland, 29 May 2006

"RENEWABLE ENERGIES ARE ESSENTIAL CONTRIBUTORS TO THE ENERGY SUPPLY PORTFOLIO AS THEY CONTRIBUTE TO WORLD ENERGY SUPPLY SECURITY, REDUCING DEPENDENCY OF FOSSIL FUELS RESOURCES, AND PROVIDE GREENHOUSE GASES MITIGATING OPPORTUNITIES"

Renewables in Global Energy Supply, 21 February 2006 International Energy Agency

"WE WANT ENERGY TO BE ACCESSIBLE, RELIABLE, SAFE AND CLEAN."

Junior 8 (J8) Summit 2006 in St Petersburg

As the costs of traditional energy energy sources become increasingly leading the way

THE ENERGY LANDSCAPE & WIND ENERGY

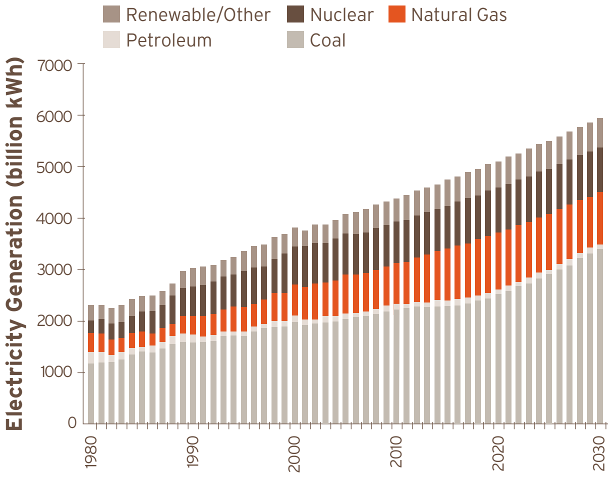
OVER THE NEXT 25 YEARS THE WORLD IS PROJECTED TO REQUIRE NEARLY 5,000GW OF NEW ELECTRICITY GENERATION, DRIVEN LARGELY BY THE GROWTH IN DEMAND IN DEVELOPING (NON-OECD) COUNTRIES, AND BY THE NEED TO REPLACE MORE THAN HALF OF THE EXISTING GENERATION FLEET THAT WILL BECOME OBSOLETE. THIS COST WILL BE NEARLY US$10 TRILLION, INCLUDING THE NECESSARY TRANSMISSION AND DISTRIBUTION INFRASTRUCTURE.

A host of electricity generation technologies will be required, but it is certain that the energy landscape of the future will look much different than that of the past. Wind power and other renewable technologies will grow in importance alongside 'modified' traditional generation such as clean coal, advanced Combined Cycle Gas Turbine (CCGT), and possibly next generation nuclear.

A convergence of environmental, social and economic forces is creating tremendous uncertainty about energy's status quo, including:

- deepening concerns about the threat of global warming and the environmental impact of burning traditional fossil fuels;
- the volatility and upward trend of fossil fuel prices driven by rapidly increasing demand, particularly in the developing countries, and concerns about supplies in the longer term;
- concerns regarding the security of energy supply for many countries that currently depend on imports to source fuel; and
- a growing consensus about the need to develop alternatives for energy that will satisfy the criteria above.

ELECTRICITY GENERATION BY FUEL SOURCE (BILLION KWH)



Source: EIA Annual Energy Outlook 2006

generation escalate, non-traditional cost competitive, with wind energy

Today, coal-fired and nuclear-processed steam account for 70% of global energy generation and constitute the lion's share of those power plants expected to become obsolete over the next three decades. Both energy sources face intense global scrutiny, but for different reasons.

Coal resources are abundant, however burning the high-carbon fuel source in electrical generation plants is believed to be a leading contributor to global warming and a major polluter of air and water. To rely on coal-fired plants to fill the generation gap without strict management of carbon emissions is regarded by many as inviting environmental catastrophe.

Commencing with the Kyoto Protocol, we have witnessed carbon emission policies tighten steadily, creating cost and technology hurdles for the world's most prevalent power generation fuel source.

Nuclear power, now accounting for about 20% of global generation, faces vastly different obstacles. While arguably a clean source of energy, the nuclear power industry must continue to contend with its waste, highly volatile spent uranium that must be stored for thousands of years. At a time when the world is challenged by geopolitical tension, the use of nuclear power – particularly in the developing countries where growth in demand for electricity will be greatest – is likely to be managed tightly.

The environmental, economic and public policy questions surrounding coal and nuclear opened the door for natural gas driven turbines, the power generation technology of choice over the last 15 to 20 years. An abundance of natural gas and efficient CCGT technologies drove a bubble of gas turbine capacity in the 1990s, and continues to drive new investment globally. But natural gas prices have also proven to be volatile recently, and have escalated along with the price of oil. With most of the world's natural gas reserves in Russia and the Middle East, that volatility is likely to persist due to the potential instability of supply, much like oil.

As for oil, while it fuels only 3% of global energy generation, spikes in oil prices and concerns about long term reserves and supply disruptions impact supply and demand of alternative fuels used in transport, petrochemicals and other petroleum-based industries – namely natural gas and to some extent coal.

The sum result of these trends – rising prices of fossil fuels, the increasing costs associated with managing carbon emissions, and the growing risks related to security of energy supply and nuclear waste management – has been unprecedented support, on a global level, for the development of renewable energy sources.

This support has been led by policymakers but has since transitioned to the energy industry at large. Renewable energy sources, for the most part, are carbon neutral, carry no geo-security concerns, are not import dependent, and are, at least in theory, unlimited in supply.

However, renewable energy sources continue to be constrained by the cost of generation or conversion, by intermittency due to variable weather patterns, and by proximity to the transmission grid. While these issues will continue to be addressed by the renewables industry in the public debate over energy policy, there is no longer any question over the opportunity for renewable energy to play a larger role in global power generation in the decades ahead.

How the energy landscape evolves will depend on a number of factors including public opinion, regulatory policy, technological development, global economic growth and the pace of decline in fossil fuel reserves. Carbon capture, energy security, and declining growth of fossil fuel reserves will continue to drive a significant upward trend in energy and electricity prices, felt already with US$60-70/barrel oil and spikes of 15 Million British Thermal Units (MMBTU) for natural gas.

Source: Emerging Energy Research

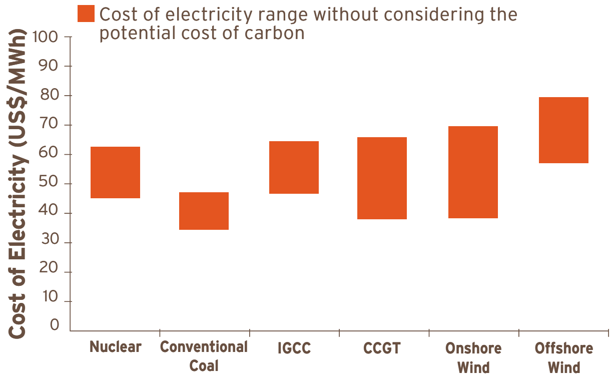
The energy landscape of the future the past. Wind power and other grow in importance

GROWTH IN WIND ENERGY

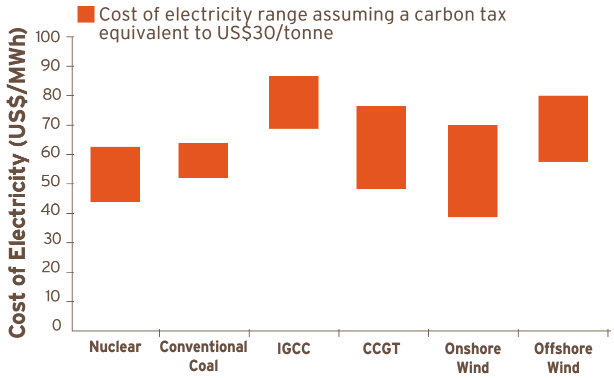
AS THE COSTS OF TRADITIONAL ENERGY GENERATION ESCALATE, NON-TRADITIONAL ENERGY SOURCES BECOME INCREASINGLY COST COMPETITIVE, WITH WIND ENERGY LEADING THE WAY.

Helped along initially by strong government support, particularly in Europe, the wind industry has now reached significant scale – with nearly US$20 billion invested annually – which has contributed to a reduction in cost of energy to about 4-7 US cents/ kWh depending on the specific wind resource. Not surprisingly, wind energy capacity additions accounted for about 10% of total new electricity generation added globally in 2006.

RELATIVE COSTS OF ELECTRICITY, NO CARBON TAX



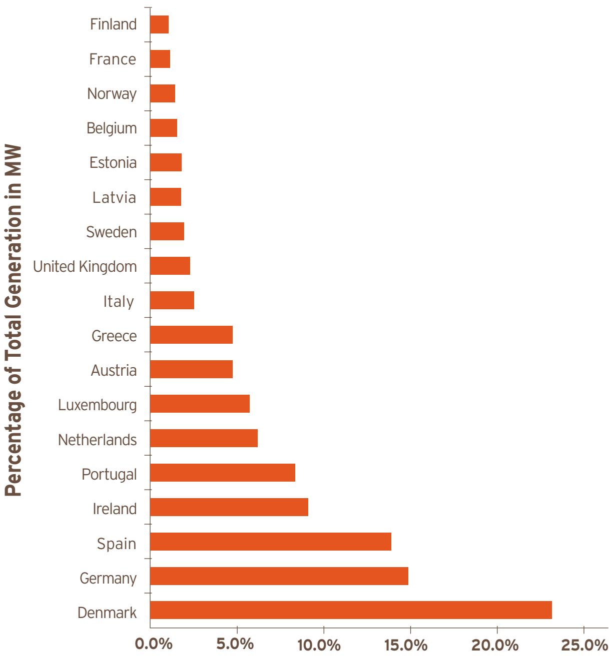
RELATIVE COSTS OF ELECTRICITY, WITH US$30 CARBON TAX



will look much different to that of renewable technologies will

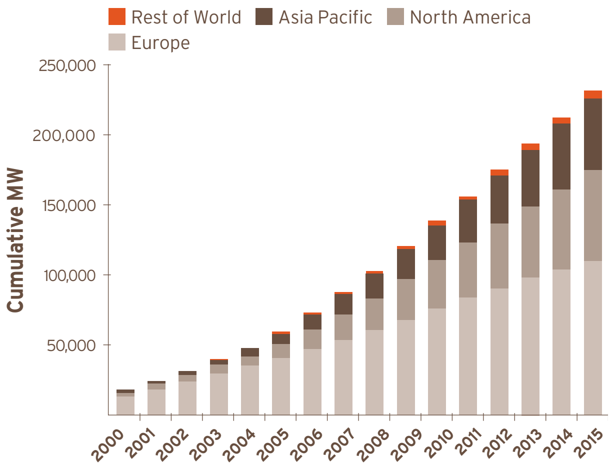
As a result, wind energy is already a significant contributor to the generation mix of many European countries, such as Denmark, Germany, Spain and Portugal, largely as a result of these powerful economic, social and environmental drivers. Europe accounted for two-thirds of global wind capacity with over 40.6GW of cumulative wind capacity installed.

EUROPEAN WIND POWER PENETRATION, 2005



This strong growth in wind energy is forecast to continue into the future, with estimated average growth rates for cumulative installations through to 2010 and 2015 of 19.8% and 15.6% per annum respectively, according to Emerging Energy Research. Moderating growth in Europe later in the decade will be offset by strong growth in North America and the Asia-Pacific region. Wind energy is expected to account for approximately 3% of global electricity generation by 2015, with the potential for much more. Offshore wind energy development is expected to contribute to accelerated growth after 2015.

WIND ENERGY MARKET FORECAST



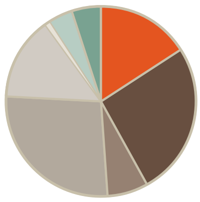
Source: Emerging Energy Research

Diversification provides BBW with associated with one individual wind

GEOGRAPHY & WIND RESOURCE

At the commencement of the 2007 financial year, BBW's portfolio operates across three continents, four countries and eight wind regions.

BBW PORTFOLIO GENERATION*



*based on forecast proportionate interest energy generation

CUSTOMERS

BBW's counterparties for the sale of renewable energy and any associated green certificates include many leading electricity distribution and retail companies, as well as market pools, across four countries and many states or regions.

These include:

- Australia — AGL; Country Energy; Alinta
- Germany — RWE Rhein Ruhr
- US — TXU; Pacific Corp
- Spain — Endesa

REGULATORY FRAMEWORKS SUPPORTING RENEWABLE ENERGY

BBW's wind farms operate under a mix of fixed price and fixed quantity regulatory frameworks, all focused on promoting growth in renewable energy generation and use.

Regulatory Mechanisms	Examples	Key Characteristics	Countries	Legislation
Direct Tariff	· Renewable Energy Feed-in tariffs	· Ensures revenue stream and potential return on investment, thus encouraging investment · Does not guarantee investment and growth levels	· Germany · Spain · France	· Renewable Energy Sources Act (EEG) 2004 · Electricity Act 1997 & Associated Royal Decrees · Electricity Law 2000 & subsequent Decrees
Quota Systems	· Renewable Energy targets · Green certificate market	· Ensures investment and growth levels · Perceived as non market friendly, mandates business activity and requires monitoring and tracking initiatives	· Australia	Renewable Energy (Electricity) Act 2000 and Mandatory Renewable Energy Target
Tax Credits	· Tax incentives	· Minimises market impact, perceived as market friendly and no cost to businesses/consumers · Policy can target specific technologies	· US	Energy Policy Act of 2005, Production Tax Credit Incentives

the ability to mitigate the risk farm or location

NUMBER OF WIND FARMS

BBW commenced with four operational wind farms at the time of the IPO, with an installed capacity of 147MW.

At July 2006, BBW has 19 operational wind farms compared with the IPO forecast of 15, with an installed capacity of 468MW. In addition, BBW has 181MW under construction and over 850MW secured under Framework Agreements.

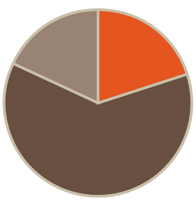
REVENUE ASSURANCE

BBW's revenue is derived from a mix of fixed tariffs, power purchase agreements and market pool sales.

This provides the certainty of defined revenue, as well as potential for upside where the opportunity to participate in favourable markets exists.

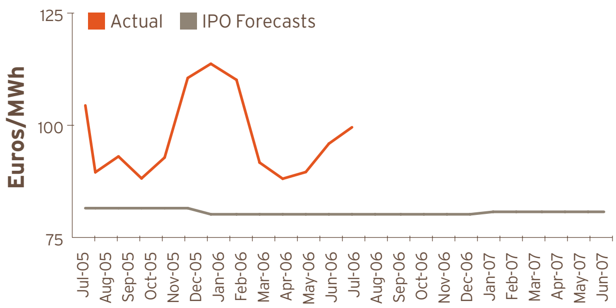
The current Spanish market option tariff has been consistently above BBW's IPO forecast, although there is no certainty that this premium will continue indefinitely. BBW also has market exposure for Crescent Ridge in the US.

BBW PORTFOLIO: REVENUE MIX



20% Fixed Tariff
62% PPA
18% Market Price

SPANISH MARKET OPTION TARIFF



Source: IPO forecast based on Ilex Energy Consulting

EQUIPMENT & SERVICE PROVIDERS

BBW utilises the technology from six of the ten leading global turbine suppliers:

- General Electric, Nordex, Gamesa, Vestas, Enercon and Mitsubishi/Power systems

In addition, operations and maintenance is undertaken by a range of specialist service providers, including the turbine suppliers while under warranty.

Australia

In the Australian wind market there are currently 41 operational wind farms, providing over 2,200GWh of electricity annually, which is enough to meet the household energy needs of over 300,000 homes. This represents 0.5% of Australia's current electricity requirements.[1]

The Australian wind energy market is still in the early stages of development and growth relative to the European and US markets, having received limited support from legislation encouraging renewable energy. The Australian Federal Government has not ratified the Kyoto Protocol, an international treaty designed to limit global greenhouse gas emissions, and is now focused heavily on encouraging the development of low emissions technologies such as "clean coal", and much less on renewable energy sources.

The Mandatory Renewable Energy Target (MRET) was set by the Australian Federal Government in 2001 to encourage renewable energy production of 9,500GWh p.a. until 2020. The scheme requires large energy users and energy wholesalers to purchase a portion of their energy from renewable sources and is now fully subscribed. It is envisaged that the push towards renewable energy will be made by various State governments, particularly in South Australia and Victoria.

By world standards, the wind resource in Australia is very good. Along the western and southern coastlines of Australia, average wind speeds are up to seven and eight metres per second. In production terms, the difference between wind speeds of seven and eight metres per second can equate to additional energy of approximately 50%. Accordingly, BBW's Australian wind farms are potentially highly productive.

Currently, BBW's Australian portfolio consists of the Lake Bonney 1 wind farm in South Australia and the Alinta wind farm in Western Australia. These wind farms benefit from the MRET scheme, which provides for the sale of environmental credits in the form of a renewable energy certificate (REC) for each MWh of electricty produced. BBW has long term Power Purchase Agreements in place for these Australian wind farms. Revenue assurance for Lake Bonney 1 is secured via a single offtake agreement for all electricity and RECs with a duration of 10 years. For the Alinta wind farm, all electricity and REC outputs are sold under long term offtake agreements.

During FY06 the Alinta wind farm continued to operate in the pre-commissioning phase. Whilst the Alinta wind farm was constructed within budget, the contractor did not achieve completion within the contracted time frame. Post 30 June 2006, BBW negotiated a settlement in order to achieve final completion, which provides BBW with access to substantial compensation if the terms are not met.

The outlook for BBW's Australian portfolio continues to be very positive. In June 2006, BBW announced that it had commenced construction of Lake Bonney 2, a 159MW wind farm located near Mount Gambier, in South Australia, which is anticipated to be fully operational by mid 2008. At that time, Lake Bonney is expected to be the largest operational wind farm in Australia with an installed capacity of 239MW and is forecast to generate over 691GWh per annum, making it a utility scale facility.

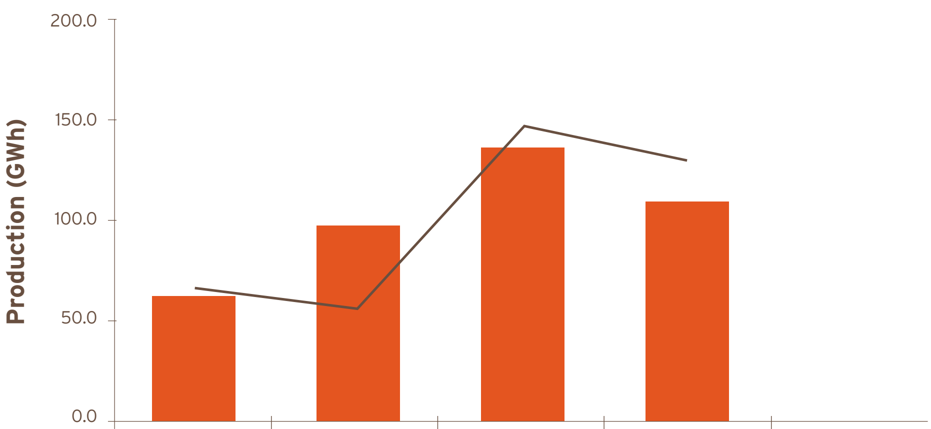
1 Statistics supplied by BTM 2005 World Market Update

PORTFOLIO OVERVIEW

- The Australian portfolio achieved revenue of $35.9m and contributed 48.6% of EBITDA[1]
- Energy production in Australia has exceeded budget for FY06 by 14.5GWh, or 3.7%[2]

KEY FINANCIALS	ACTUAL	IPO
Revenue	$35.9m	$33.7m
EBITDA[2]	$30.0m	$26.9m
Contribution to EBITDA[1]	48.6%	40.1%

PRODUCTION PROFILE



	Q1	Q2	Q3	Q4	Total
Actual	58.5	99.5[2]	134.1[2]	115.9[2]	408.0[2]
IPO forecast	62.9	54.6	146.7	129.3	393.5

1 EBITDA after associates excluding corporate costs and FX gain

2 Includes pre-commissioning and revenue compensation for Alinta wind farm which has been settled with the contractor

United States

The US is a highly developed wind market and, with accumulated installed capacity of 9,181MW, accounts for 15% of the global market. The US installed 2,431MW of new capacity in 2005, which exceeded all its previous annual installation records. It grew by 36% over the prior corresponding period, making it the world's largest market in terms of new capacity installed for the first time since the 1980s.[1]

The growth of the US market has been driven by the Production Tax Credit (PTC) system, which is the primary Federal Government incentive for wind development. The PTC is unique to the US, and offers tax credits to wind farm owners for the first ten years of operations.

In addition, 18 states have adopted a Renewables Portfolio Standard (RPS) program, based on a fixed quantity system whereby a renewable energy generator such as a wind farm is issued with renewable energy certificates. These can be on sold to energy retailers, who are required to deliver them to a state based regulator.

Currently, BBW's US portfolio consists of eight individual wind farms across four wind regions with total installed capacity of 563.7MW. Two of the US wind farms were acquired post balance date: Sweetwater 3 and Kumeyaay. Sweetwater 3 is the third stage of the Sweetwater wind farm project. The three stages have a combined capacity of 264MW, making Sweetwater one of the largest wind farms in the world.

The acquisition of the Crescent Ridge wind farm is a significant development, as it represents BBW's entry into the potentially lucrative PJM market pool and adjacent service territories, which cover more than 13 states with more than 21 million customers. The Crescent Ridge wind farm is located in a favourable wind energy region which is set to become an active market for renewable energy given its central location, extensive network and significant renewable energy targets.

The wind farms across the remainder of the portfolio are also in very favourable locations. For example, Kumeyaay and Caprock are highly attractive assets, located in New Mexico and California, where renewable energy standards are targeting 10% and 20% of their respective energy output to be supplied from renewable sources by 2017.

BBW's US portfolio remains poised to continue to grow significantly into 2007. Given the positive market dynamics in the US, such as the extension of the PTC system to the end of 2007, the existence and growth of state based RPS programs, a relatively favourable administrative environment and good access to grid connections, it is envisaged that BBW will look to acquire further assets in the country. It is anticipated that two further wind farms, namely Bear Creek and Jersey Atlantic, will be acquired during the first half of the 2007 financial year.

During FY06 total energy production for the US portfolio was in line with long term forecasts.

1 Statistics supplied by BTM 2005 World Market Update

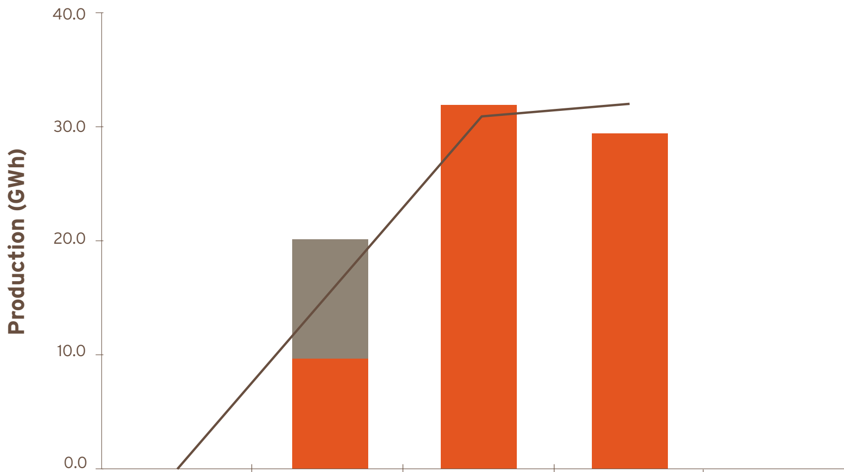
PORTFOLIO OVERVIEW

* Kumeyaay and Sweetwater 3: acquired July 2006

- The acquisition of the US 03/04 portfolio was delayed by one month resulting in the US cash distribution being lower than the IPO forecast
- The US 03/04 portfolio generated a total cash distribution of $7.1m inclusive of an equity accounted profit of $2.1m
- Equity accounted profits represented 3.4% of EBITDA

KEY FINANCIALS	ACTUAL	IPO
US share of net profit	$2.1m	$2.9m
Additional US cash distribution	$5.0m	$4.7m
TOTAL	$7.1m	$7.6m
Contribution to EBITDA[1]	3.4%	4.4%

PRODUCTION PROFILE[2]



	Q1	Q2	Q3	Q4	Total
Delay	0.0	9.8	0.0	0.0	9.8
Actual	0.0	9.7	33.5	28.8	72
IPO forecast adjusted for delay	0.0	10.3	31.3	32.0	73.6

1 EBITDA after associates excluding corporate costs and FX gain
2 Generation shown on a proportional equity interest basis

Germany

The German wind market is highly developed and mature and, with cumulative installed capacity of 18,445MW, is the world's largest wind energy market.[1] Germany accounts for 45% of the European Union's cumulative capacity.

The German market is backed by regulatory support on various levels, including long term federal legislation, commitment to the Kyoto Protocol and an attractive Government lending program.

In April 2004, an amendment to the Renewable Energy Sources Act (EEG) was passed in order to provide further impetus to the German renewable energy sector. Under the EEG, wind farms are paid a fixed tariff for electricity produced for a period of 20 years, plus the year of commissioning.

In response to the maturing of the onshore market and an expected decrease in the number of wind sites commissioned, the German market is expected to be dominated by re-powering initiatives over the medium term. In addition, further development of the German offshore market is expected to provide growth over the longer term.

BBW's presence in Germany is represented by the Niederrhein wind farms, being two wind farms located approximately 50km apart, and the Eifel wind farm, which consists of four groups of turbines with a current combined installed capacity of 27MW, located in the south-western region of the Rhineland-Palatinate, an established wind farm precinct.

In addition, Eifel is currently being expanded by a further 8MW, which is expected to be complete in late FY07.

During FY06 BBW entered into a Framework Agreement with Plambeck Neue Energien AG, which gives BBW the opportunity to acquire up to approximately 300MW of wind farms over the next four years. It is BBW's stated intention not to acquire any development risk under the terms of the agreement with Plambeck and as such it is the responsibility of Plambeck to undertake the development phase of individual wind farms.

During FY06 there was a slight delay in the construction of the Niederrhein wind farm which had a negative impact on the production profile, as illustrated by the accompanying production graph on the opposite page.

The Eifel wind farm acquired during FY06 was not part of any Framework Agreement and was not included in the original IPO forecasts. BBW expects to look at further growth opportunities in Germany via the Plambeck Framework Agreement and selective re-powering opportunities.

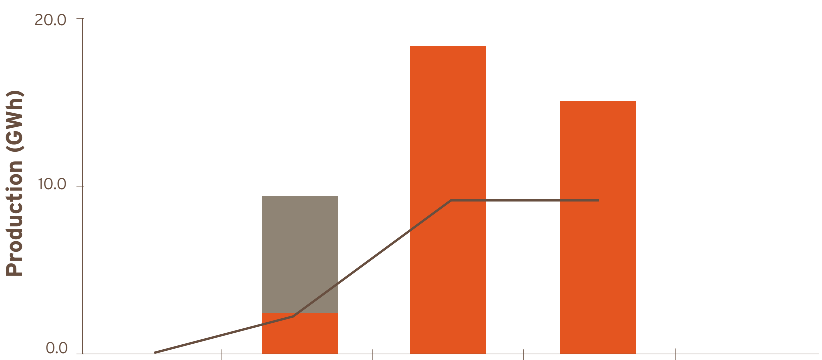
1 Statistics supplied by BTM 2005 World Market Update

PORTFOLIO OVERVIEW

- The German portfolio generated revenue of $4.7m, and contributed $3.8m or 6.1% of EBITDA
- Delays were experienced with the completion of the Niederrhein wind farms reducing production by 7.0GWh
- Outperformance against IPO forecast resulted from the contribution of Eifel

KEY FINANCIALS	ACTUAL	IPO
Revenue	$4.7m	$3.9m
EBITDA	$3.8m	$3.1m
Contribution to EBITDA[1]	6.1%	4.7%

PRODUCTION PROFILE



	Q1	Q2	Q3	Q4	Total
Delay	0.0	7.0	0.0	0.0	7.0
Actual	0.0	2.3	18.1	15.4	35.8
IPO forecast adjusted for delay	0.0	2.2	9.3	9.3	20.8

1 EBITDA after associates excluding corporate costs and FX gain

Spain

The Spanish market is a significant wind energy market, with an accumulated installed capacity of 10,027MW, representing 17% of cumulative global capacity. It is the second largest market in the world.[1]

Wind energy is the leading renewable power source in the Spanish power generation portfolio. The Spanish market is supported by a favourable regulatory environment and pricing regime that was first established in 1997, and strong and increasing overall demand for energy. The Spanish government has also signed the Kyoto Protocol and the EU has set national targets for the contribution of electricity from renewable energy sources as a proportion of gross consumption. For Spain this target has been set at 29.4% by 2010. On current estimations Spain produces approximately 20% of electricity from renewable sources.

Current regulations were put in place by the Spanish Government in March 2004 under a Royal Decree, and expand on the Electricity Act of 1997, which establishes the right to connect renewable installations to the grid, transfer output to the grid and receive a premium payment in return acknowledging the environmental benefits.

The Spanish regulatory regime allows wind generators to choose each year between a regulated fixed tariff, which is benchmarked to between 80% to 90% of the average reference price for end users of electricity in Spain, or a market option, which is set at a legislated premium plus incentive to the (variable) electricity pool price.

Prices under the market option have been considerably higher than the fixed tariff, and to date BBW has elected the market option for the wind farms in its Spanish portfolio. The pricing structure for renewables will be reviewed by the Spanish authorities in late 2006. However, the assumptions underlying BBW's FY07 Directors' forecast with respect to the market option remain conservative.

BBW's Spanish portfolio consists of six wind farms located in five different regions across Spain, with a total installed capacity of 158.28MW. At the time of the IPO only three of the Olivo wind farms had been acquired by BBW, with the remainder forecast to be acquired in late 2005 and early 2006. The acquisition of the remaining three Olivo wind farms was delayed by several months, which had a significant impact on the financial performance for FY06, as highlighted in the production graph on the opposite page. Favourable pricing conditions in Spain have somewhat mitigated the impact of these one-off events.

Going forward, Spain remains a very attractive market for wind energy, and BBW will continue to consider opportunities in the country.

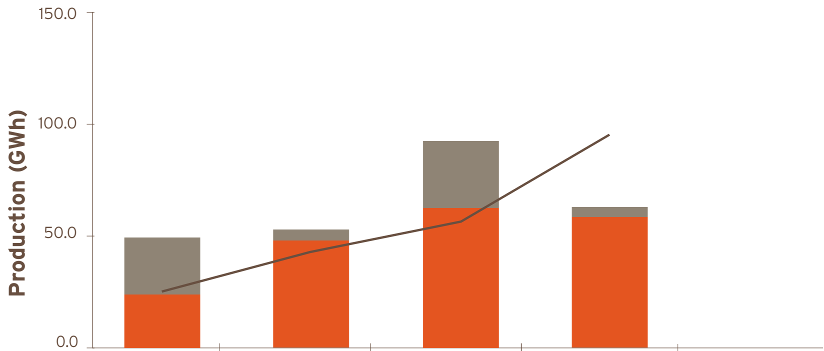
1 Statistics supplied by BTM 2005 World Market Update

PORTFOLIO OVERVIEW

- The Spanish portfolio achieved revenue of $32.4m, and contributed $25.9m or 41.9% of EBITDA
- Delays in the acquisition of three Olivo wind farms led to reduced production of 62.1GWh
- Energy production in Spain was in line with P50 forecast until March 2006
- Low wind speed for May and June resulted in 36.3GWh production lower than long term forecast

KEY FINANCIALS	ACTUAL	IPO
Revenue	$32.4m	$39.4m
EBITDA	$25.9m	$33.7m
Contribution to EBITDA[1]	41.9%	50.6%

PRODUCTION PROFILE



	Q1	Q2	Q3	Q4	Total
Delay	20.6	5.6	31.5	4.4	62.1
Actual	27.9	48.4	61.5	59.1	196.9
IPO forecast adjusted for delay	26.9	41.9	68.3	95.4	232.5

1 EBITDA after associates excluding corporate costs and FX gain

PORTFOLIO SUMMARY

WIND FARM	LOCATION	BBW'S EQUITY INTEREST (%)[1]		STATUS (ACQUISITION DATE)	INSTALLED CAPACITY - OPERATIONAL (MW)	
					TOTAL	EQUITY INTEREST
	AUSTRALIA					
Alinta Wind Farm	Western Australia	100%		Operational (Aug 2004)	89.1	89.1
Lake Bonney 1	South Australia	100%		Operational (Jun 2003)	80.5	80.5
Lake Bonney 2	South Australia	100%		Under-construction[3] (Sep 2005)	n/a[3]	n/a[3]
				AUSTRALIA SUB TOTAL	**169.6**	**169.6**
	SPAIN					
OLIVO PORTFOLIO						
Sierra del Trigo	Andalucia	100%		Operational (Dec 2004)	15.2	15.2
La Muela Norte	Aragon	100%		Operational (Dec 2004)	29.8	29.8
El Redondal	Castile & Leon	100%		Operational (Oct 2005)	30.6	30.6
Serra de Loba	Galicia	100%		Operational (Mar 2006)	36.0	36.0
La Plata[4]	Castille-La Mancha	100%		Operational (Jun 2005)	21.3	21.3
El Sardon	Andalucia	100%		Operational (May 2006)	25.5	25.5
	GERMANY					
NIEDERRHEIN						
Wachtendonk	North Rhine-Westphalia	99%		Operational (Mar 2005)	12.0	11.9
Bocholt Liedern	North Rhine-Westphalia	99%		Operational (Mar 2005)	7.5	7.4
Eifel	Rhineland Palatinate	100%		Operational (Feb 2005)	27.0	27.0
	FRANCE					
Fruges	Pas de Calais	100%		Under-construction[3] (Mar 2006)	n/a[3]	n/a[3]
				EUROPE SUB TOTAL	**204.9**	**204.7**
	US					
US 03/04						
Sweetwater 1	Texas	50%	11.1%	Operational (Dec 2005 & Jun 2006)	37.5	4.2
Sweetwater 2	Texas	50%	11.1%	Operational (Dec 2005 & Jun 2006)	91.5	10.2
Caprock	New Mexico	80%	15.9%	Operational (Dec 2005 & Jun 2006)	80.0	12.7
Blue Canyon	Oklahoma	50%	8.4%	Operational (Dec 2005 & Jun 2006)	74.3	6.3
Combine Hills	Oregon	50%	13.6%	Operational (Dec 2005 & Jun 2006)	41.0	5.6
Crescent Ridge	Illinois	75%	35.6%	Operational (Jun 2006)	54.5	19.4
POST BALANCE DATE TRANSACTIONS						
US 05						
Sweetwater 3	Texas	50%	12.6%	Operational (Jul 2006)	135.0	17.0
Kumeyaay	California	100%	37.0%	Operational (Jul 2006)	50.0	18.5
				US SUB TOTAL	**563.8**	**93.9**
				TOTAL	**938.3**	**468.2**

1 Percentages for US wind farms constitute percentage ownership of Class B Member Units of project entity and proportionate HLBV equity interest respectively as at July 2006

2 PPA - Power Purchase Agreement

3 Lake Bonney 2 will have installed capacity of 159MW, 53 turbines and a forecast long term mean energy production of 477.9GWh p.a. Fruges will have an installed capacity of 22MW, 11 turbines and a forecast long term mean energy production of 49.7GWh p.a.

4 The current grid connection limits the capacity to 10MW. A new grid connection is under construction, however Gamesa must compensate BBW for the loss of revenue due to limited capacity

TURBINES			FORECAST LONG TERM MEAN ENERGY PRODUCTION (GWH P.A.)		ENERGY SALE
NO. OF TURBINES	TYPE	RATING	TOTAL	EQUITY INTEREST	
54	NEG Micon NM82	1.65 MW	366.5	366.5	PPA[2]
46	Vestas V66	1.75 MW	213.4	213.4	PPA
n/a[3]	Vestas V90	3 MW	n/a[3]	n/a[3]	PPA & Market
100			**579.9**	**579.9**	
23	Gamesa G47	660 kW	32.3	32.3	Market Option
35	Gamesa G58	850 kW	70.6	70.6	Market Option
36	Gamesa G58/52	850 kW	66.5	66.5	Market Option
18	Gamesa G83	2 MW	99.9	99.9	Market Option
25	Gamesa G58	850 kW	45.6	45.6	Market Option
30	Gamesa G58	850 kW	47.9	47.9	Market Option
8	Nordex S77	1.5 MW	23.7	23.7	Fixed Tariff
5	Nordex S70	1.5 MW	13.3	13.3	Fixed Tariff
18	Nordex S70/77	1.5 MW	52.4	52.4	Fixed Tariff
n/a[3]	Enercon E70 E4	2 MW	n/a[3]	n/a[3]	Fixed Tarrif
198			**452.2**	**452.2**	
25	GE 1.5 S	1.5 MW	141.7	15.8	PPA
61	GE 1.5 SLE	1.5 MW	361.8	40.2	PPA
80	Mitsubishi MWT 1,000A	1 MW	316.6	50.2	PPA
45	NEG Micon NM72	1.65 MW	264.1	22.3	PPA
41	Mitsubishi MWT 1,000A	1 MW	119.6	16.3	PPA
33	Vestas V82	1.65 MW	171.9	61.2	Market Pool
90	GE 1.5 SLE	1.5 MW	508.5	64.1	PPA
25	Gamesa G87	2 MW	164.6	60.9	PPA
400			**2,048.8**	**331.0**	
698			**3,080.9**	**1,363.1**	

CORPORATE STRUCTURE

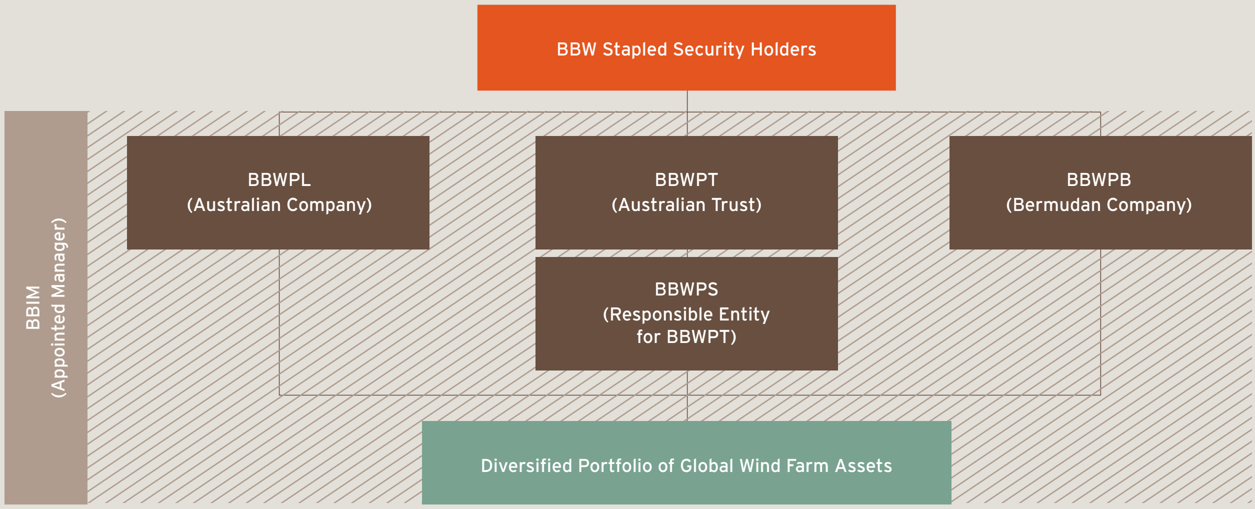
BABCOCK & BROWN WIND PARTNERS (BBW) CONSISTS OF THREE ENTITIES:

- BABCOCK & BROWN WIND PARTNERS LIMITED (BBWPL);
- BABCOCK & BROWN WIND PARTNERS TRUST (BBWPT); AND
- BABCOCK & BROWN WIND PARTNERS (BERMUDA) LIMITED (BBWPB).

ONE SHARE IN EACH OF BBWPL AND BBWPB AND ONE UNIT IN BBWPT HAVE BEEN 'STAPLED' TOGETHER TO FORM A SINGLE BBW STAPLED SECURITY. THESE BBW STAPLED SECURITIES ARE TRADEABLE ON THE AUSTRALIAN STOCK EXCHANGE.

NOTE THAT THE RESPONSIBLE ENTITY OF BBWPT IS BABCOCK & BROWN WIND PARTNERS SERVICES LIMITED (BBWPS), AND ALSO THAT BABCOCK & BROWN INFRASTRUCTURE MANAGEMENT PTY LIMITED (BBIM) HAS BEEN APPOINTED AS THE MANAGER OF BBW UNDER LONG TERM MANAGEMENT AGREEMENTS. BBWPS AND BBIM ARE WHOLLY OWNED SUBSIDIARIES OF THE BABCOCK & BROWN GROUP.

THE FOLLOWING DIAGRAM PROVIDES AN OVERVIEW OF BBW'S STRUCTURE:






BBW BOARDS

As at 30 June 2006 the Directors of the Babcock & Brown Wind Partners Boards were as follows:

PETER HOFBAUER
CHAIRMAN
BBWPS, BBWPL & BBWPB

Peter Hofbauer is the Global Head of Babcock & Brown's Infrastructure & Project Finance business unit and co-ordinates the group's infrastructure and project finance activities worldwide. He joined Babcock & Brown in 1989 and has worked in both the Sydney and London offices.

Prior to joining Babcock & Brown, Peter worked with Price Waterhouse and Partnership Pacific Limited/ Westpac Bank. He is also a Director of Babcock & Brown Infrastructure Limited and of the Responsible Entity of Babcock & Brown Infrastructure Trust. Peter is a former Director of Babcock & Brown Environmental Investments Limited.

Peter holds a Bachelor of Business degree and is a member of the Institute of Chartered Accountants and the Taxation Institute of Australia.

ANTHONY (TONY) BATTLE
INDEPENDENT DIRECTOR
BBWPS, BBWPL & BBWPB

Tony Battle has held various senior management positions in the finance industry for over 30 years, and at various stages has been involved in the evaluation and funding of major structured and corporate financings across a number of industry sectors. On a number of different occasions during his career, Tony has been a member of the 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.

DOUGLAS CLEMSON
INDEPENDENT DIRECTOR
BBWPS, BBWPL & BBWPB

Doug Clemson is the former Finance Director of Asea Brown Boveri (ABB) where, from 1988 until his retirement in 1999, he was responsible for the corporate and project finance needs of the ABB group in Australia and New Zealand. He was instrumental in the establishment of the activities of ABB Financial Services and its participation in the co-development, construction and funding of a number of important power generation, transportation and infrastructure projects in this region.

Prior to joining ABB, Doug held senior line management and finance executive positions with manufacturing groups, ACI and Smiths Industries. He is the recent chairman of Redbank Power and his previous directorships include General and Cologne Reinsurance, Electric Power Transmission Group, ABB Australia, ABB New Zealand, and Smiths Industries. Prior to joining the BBW Boards he was an Independent Director of Babcock & Brown Infrastructure (formerly Prime Infrastructure).

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

Photo from left to right:
Anthony Battle, Nils Andersen, Douglas Clemson, Warren Murphy, Peter Hofbauer

NILS ANDERSEN
INDEPENDENT DIRECTOR
BBWPS

Until recently, Nils Andersen held a senior position within Vestas, the Danish wind turbine manufacturer. Nils worked at Vestas for over 20 years. He was based in Denmark until 2003 when he was appointed as Managing Director of Vestas-Australia and was responsible for sales and marketing in the Pacific Region and South Africa. Nils started his career with Vestas as the export manager, responsible for market development worldwide and with a special focus on Indian sub-continent and Asia-Pacific countries. He subsequently held a number of management positions in sales and market development reporting to the CEO and then the Board. His experience expands across the globe. Nils has also held industry positions such as on export trade and international development councils and between 1994 and 1998 he was the vice-president of the European Wind Industry Association. Nils has held a number of Board positions within the Vestas group companies.

Before joining Vestas, Nils worked for FL Smidth, a leading manufacturer in cement plants based in Denmark. He worked with FL Smidth in Brazil, South Africa and Denmark.

Nils holds a Bachelor of Engineering degree and is a mechanical engineer by training. Nils has recently relocated back to Denmark.

WARREN MURPHY
DIRECTOR
BBWPS, BBWPL & BBWPB

Warren Murphy is a senior executive in the Infrastructure & Project Finance group at Babcock & Brown, based in the Sydney office. Warren has led the development of Babcock & Brown's energy sector capability in Australia and New Zealand, including the renewable energy business, and has specialised in the development of new projects in the infrastructure sector.

Recent transactions include the co-development of Redbank, Oakey, Braemar and Kwinana power stations, and the co-development of a number of renewable energy projects, including the Alinta and Lake Bonney wind farms in the initial portfolio. Prior to joining Babcock & Brown in 1997, Warren was a director of the project finance division of AIDC and before that worked at Westpac Banking Corporation.

Warren holds a Bachelor of Engineering (Hons) and a Bachelor of Commerce in Accounting and Economics.

MICHAEL GARLAND
ALTERNATE DIRECTOR*
BBWPL, BBWPB AND BBWPS

Michael Garland manages the US Infrastructure & Project Finance team of Babcock & Brown.

Prior to joining Babcock & Brown in 1986, Michael was a director of the State of California Energy Assessments Office where he was responsible for the implementation of the State Government's environmental and energy policies. Michael also coordinated and oversaw the design, construction, financing and operation of the California State energy facilities. Michael is a graduate of the University of California at Berkeley and is based in Babcock & Brown's San Francisco office.

ANTONINO LO BIANCO
ALTERNATE DIRECTOR*
BBWPL, BBWPB AND BBWPS

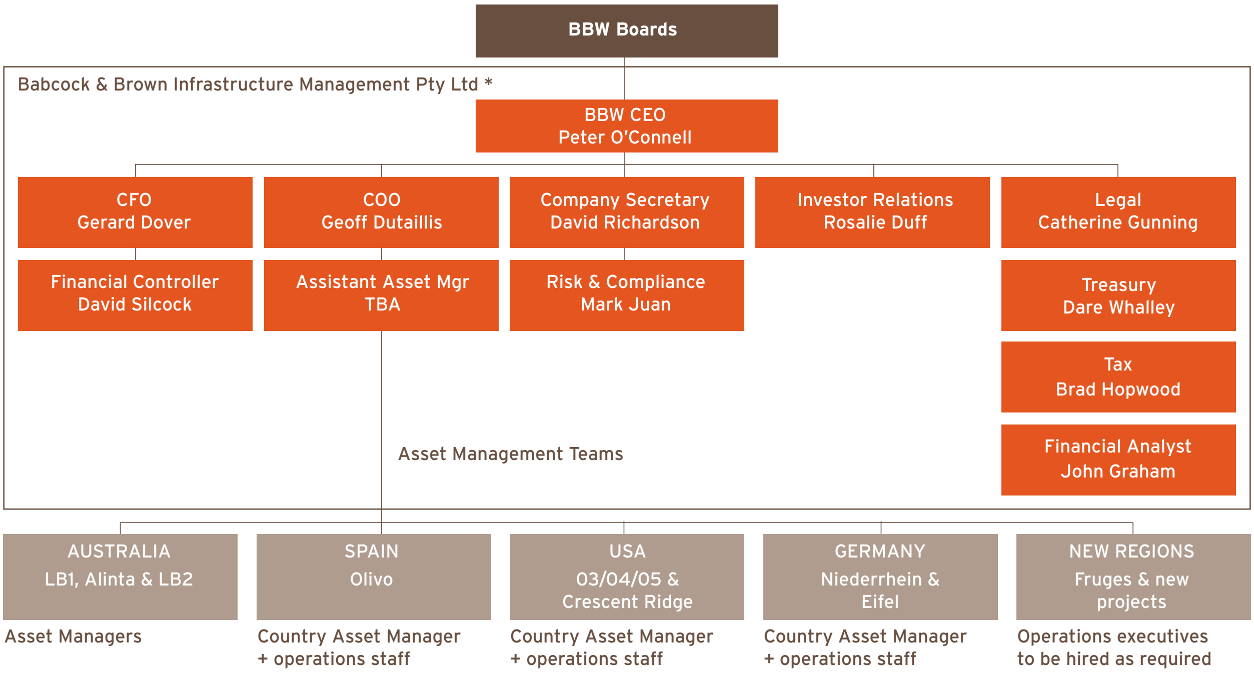
Antonino Lo Bianco manages the European Infrastructure & Project Finance team of Babcock & Brown.

Prior to joining Babcock & Brown in 1993, Antonino worked with Nomura International plc as a member of its Italian Corporate Finance Group.

Antonino is a graduate in Business Administration from Bocconi University in Milan and is based in the Milan office of Babcock & Brown.

* For Peter Hofbauer and Warren Murphy

MANAGEMENT RESOURCES AND REPORTING LINES



* Management company appointed under Management Services Agreement

PETER O'CONNELL – CHIEF EXECUTIVE OFFICER

Between 1979 and 1994, Peter practised as a commercial lawyer with two major Australian law firms. Peter was a partner with Minter Ellison and then with Gilbert & Tobin in Sydney.

As a lawyer and advisor, Peter worked on a number of large infrastructure projects such as the privatisation of the Williamstown Dockyard, purchase of AUSSAT, establishment of Optus, Telstra Stadium and the privatisation of Loy Yang B and the ANZAC Frigate contract.

In recent years, Peter has had a number of operational roles including as director of operations at Consolidated Press Holdings, managing director of a boutique business consultancy and most recently as managing director of Multiplex Infrastructure Pty Ltd. Peter is an experienced company director and has served on the boards of a number of Australian companies.

Peter has a Bachelor of Arts (Hons) and an LLB degree, is admitted as a solicitor in NSW, ACT and Victoria and has an unrestricted practising certificate.

GEOFF DUTAILLIS – CHIEF OPERATING OFFICER

Geoff joined Babcock & Brown to further his career in infrastructure development and specifically to focus on the expanding field of environmental infrastructure. Since joining Babcock & Brown, Geoff worked on new investment opportunities for Babcock & Brown Environmental Investments Limited and preparing BBW for its IPO.

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

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

GERARD DOVER – CHIEF FINANCIAL OFFICER

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

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

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

CATHERINE GUNNING – LEGAL COUNSEL

Catherine joined Babcock & Brown in December 2005 as Legal Counsel for a number of Specialised Funds including BBW. Prior to joining BBW, Catherine was a Senior Associate in the Corporate & Commercial Department at Allens Arthur Robinson. In private practice, Catherine acted for a number of high profile clients such as FOXTEL, Telstra, St George Bank and

Capral Aluminium Limited, advising on mergers, acquisitions and disposals, as well as on general corporate and commercial law issues. Before joining Allens Arthur Robinson, Catherine worked in London for leading private equity house NatWest Equity Partners (now Bridgepoint Capital Limited).

Catherine has a Bachelor of Economics and a Bachelor of Laws and is admitted as a legal practitioner of the Supreme Court of New South Wales. Catherine also has a Graduate Diploma in Applied Finance and Investment.

DAVID RICHARDSON – COMPANY SECRETARY

David joined Babcock & Brown in 2005 as Company Secretary for a number of the Specialised Funds and is responsible for the company secretarial function for the respective Boards and Committees, as well as the corporate governance requirements within those Funds. Prior to joining Babcock & Brown, David was a Company Secretary within the AMP Group, and at various stages was appointed Company Secretary for the AMP Capital Investors, Financial Services and Insurance divisions.

David holds a Diploma of Law, Bachelor of Economics and a Graduate Diploma in Company Secretarial Practice. David is a Member of Chartered Secretaries Australia.

MARK JUAN – RISK AND COMPLIANCE MANAGER

Mark joined Babcock & Brown in October 2005 as a Risk and Compliance Manager for a number of the Specialised Funds, including BBW. Prior to joining Babcock & Brown, Mark was a Risk and Compliance Manager in Macquarie Bank's Infrastructure and Specialised Funds Division.

Mark has over 12 years financial services experience in the areas of accounting, operations, compliance and risk management within funds management and investment banking, including roles with BT, Citigroup, Perpetual and ING.

Mark holds a Bachelor of Economics degree from Sydney University and is a member of CPA Australia.

ROSALIE DUFF – INVESTOR RELATIONS MANAGER

Rosalie joined Babcock & Brown in June 2006, to manage the Investor Relations function for Babcock & Brown Wind Partners. In this role she supports the CEO, Peter O'Connell and his senior management team in all external communications to the media and investment community.

Prior to joining Babcock & Brown, Rosalie was an Investor Relations Manager (Institutional), at AMP from 2002 until 2005, where she was responsible for establishing the strategic capability of the investor relations department. Rosalie is a senior investment professional with extensive experience in equity markets and the funds management industry, having held senior analytical positions covering domestic and international equity markets for over 10 years with Westpac.

Rosalie holds a Bachelor of Economics and a Master of Economics from Macquarie University.

DAVID SILCOCK – GROUP FINANCIAL CONTROLLER

David joined Babcock & Brown in August 2005 to fill the role of group financial controller of BBW. Prior to joining Babcock & Brown, David worked as a chartered accountant in public practice for the international accounting firm, Ernst & Young. After qualifying in the UK, David relocated with Ernst & Young to Silicon Valley in California for three years and then to the firm's Sydney office. David left public practice to join Woolworths Limited in a corporate finance role in October 2002.

David is a chartered accountant and has been a member of the Institute of Chartered Accountants in England & Wales since 1996. He holds a Masters degree in Economics.

BRAD HOPWOOD – TAX MANAGER

Brad joined Babcock & Brown in April 2006 to establish and lead the tax function for Babcock & Brown's Specialised Funds platform. Between 1992 and 2006, Brad worked with KPMG in Sydney and London, advising and assisting clients in the communications, banking, structured finance, property and funds management sectors.

As a Tax Senior Manager at the time of leaving KPMG, Brad has extensive experience in the full range of corporate tax issues affecting Australian businesses, both locally and internationally. Over his last few years at KPMG, Brad focused on mergers, acquisitions and other corporate transactions, leading and managing teams on due diligence and acquisition and funding structuring.

Brad holds Bachelor degrees in Economics and Law and a Graduate Diploma of Legal Practice. Brad is also admitted in New South Wales as a (non-practising) Solicitor.

DARE WHALLEY – TREASURER

Dare joined Babcock & Brown in June 2006 to establish and lead the treasury function across a number of Babcock & Brown's Specialised Funds. Prior to joining Babcock & Brown, Dare worked with UBS, ANZ Institutional Bank and TXU Australia. During his career, Dare has accumulated extensive experience in asset and liability management, corporate finance, the domestic and international debt capital markets and institutional banking.

Dare holds a Bachelor of Business, Economics and Finance from RMIT University and a Master of Applied Finance from Macquarie University.

JOHN GRAHAM – FINANCIAL ANALYST

John joined Babcock & Brown in June 2006 to establish the financial modelling function for Babcock & Brown's Specialised Funds business.

Between 2002 and 2006 John worked at Mercer Finance and Risk Consulting where he audited and wrote project finance models and software for option pricing and banking. Prior to this John lectured mathematics and statistics at University of Birmingham, UK and Imperial College of Science Medicine and Technology, London.

John holds a Bachelor of Arts and Doctor of Philosophy in Pure Mathematics.

A. GOVERNANCE STRUCTURE OF BABCOCK & BROWN WIND PARTNERS

This Corporate Governance Statement reflects the corporate governance principles and practices implemented by Babcock & Brown Wind Partners (BBW) upon listing on the Australian Stock Exchange on 28 October 2005 and which were in place as at the date of the 2006 Directors' Report (the Period).

BBW comprises:

- Babcock & Brown Wind Partners Limited ACN 105 051 616 (BBWPL), an Australian public company;
- Babcock & Brown Wind Partners (Bermuda) Limited ARBN 116 360 715 (BBWPB), a company established in Bermuda and registered in Australia;
- Babcock & Brown Wind Partners Trust ARSN 116 244 118 (BBWPT), an Australian trust of which Babcock & Brown Wind Partners Services Limited ACN 113 813 997, AFSL No. 290710 (BBWPS) is the Responsible Entity; and
- the respective subsidiary entities of each of BBWPL and BBWPT.

One share in each of BBWPL and BBWPB and one unit in BBWPT have been stapled together to form a single BBW Stapled Security. These BBW Stapled Securities have been tradeable on the Australian Stock Exchange from 28 October 2005 under the market code 'BBW'.

Roles of the BBW stapled entities

Generally, the current roles of the respective BBW stapled entities are as follows:

- BBWPL is the primary asset holding vehicle for BBW;
- BBWPB will hold relevant assets located outside Australia where this is the most efficient ownership structure for BBW; and
- BBWPT holds interests in financial investments and non-controlling interests in wind energy generation assets.

Any reference contained in this statement to BBWPS is a reference to BBWPS in its capacity as Responsible Entity of BBWPT, unless otherwise indicated. As Responsible Entity for BBWPT, the role of the BBWPS Board includes:

- diligently exercising its powers and performing its functions under BBWPT's Constitution and the Corporations Act in the interests of the unitholders of BBWPT;
- ensuring that the business of BBWPT is carried on and conducted in a proper and efficient manner;
- monitoring the financial performance of BBWPT, including approving BBWPT's financial statements;
- ensuring the existence of, and compliance with, adequate internal controls and procedures; and
- discharging its responsibilities in accordance with the Compliance Plan of BBWPT.

The BBWPL, BBWPB and BBWPS Boards (BBW Boards) are responsible for protecting the rights and interests of all investors and are accountable to them for the overall governance and management of BBW. The BBW Boards formulate and approve the strategic direction, investment objectives and goals of BBW.

In September 2005, BBWPL, BBWPB and BBWPS entered into long term Management Agreements with Babcock & Brown Infrastructure Management Pty Limited ACN 113 585 229 (BBIM or the Manager), a subsidiary of Babcock & Brown Limited (BNB). Under the Management Agreements, BBIM has agreed to provide management services to BBW. Any reference contained in this statement to an employee includes an employee of BNB who is seconded to BBIM to provide services to BBW under the Management Agreements, unless otherwise indicated.

Interaction between the roles of BBWPL, BBWPB and BBWPS

In accordance with the Stapling Deed entered into by BBWPL, BBWPB and BBWPS, these entities will continue to consult and exchange information with and seek the agreement of the other stapled entities when making decisions in relation to BBW.

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

- co-operate in respect of all matters relating to BBW and consult with the other prior to causing any act to be done or omission to be made which may materially affect the value of BBW Stapled Securities (including the announcement or payment of a dividend or trust distribution);
- make available to the other stapled entities all information in its possession necessary or desirable to fulfil its respective obligations under the Stapling Deed;
- make available to the other stapled entities all information and provide all assistance in relation to the preparation of financial accounts;
- co-operate to ensure that each stapled entity complies with its obligations under the ASX Listing Rules (including disclosure obligations), co-ordinate disclosure to the ASX and investors, and liaise with the ASX in relation to ASX Listing Rule matters;
- perform their obligations under the Stapling Deed and their respective Constitutions with a view to enhancing the market value of BBW Stapled Securities;
- notify the other stapled entities of an intention to acquire or sell assets where the value of those assets is greater than 5% of the entity's net tangible assets;

- take a consistent approach on proposed investments, and keep each other stapled entity properly informed of their investment policies and changes to those policies;
- not borrow or raise any money unless the other stapled entities agree;
- co-operate to ensure that BBWPL and BBWPB shareholder, as well as BBWPT unitholder meetings are held concurrently or, where necessary, consecutively;
- consult in relation to any reorganisation or restructure of capital or any changes to stapling arrangements, and not cause a placement, rights issue, distribution or dividend reinvestment plan, buy-back, re-purchase or redemption without the prior consent of the other stapled entities; and
- co-operate with the other stapled entities to ensure that each BBW Board has a common sub-group of Directors.

Therefore, as indicated, it is by the operation of the Stapling Deed that the Boards of BBWPL, BBWPB and BBWPS (as Responsible Entity of BBWPT) are together responsible for protecting the rights and interests of BBW Stapled Security Holders and are accountable to Stapled Security Holders for the overall corporate governance and management of BBW.

In addition to the Stapling Deed, during the Period BBWPL, BBWPB and BBWPS were parties to:

- Management Agreements with BBIM as noted above, pursuant to which BBIM agreed to use its reasonable endeavours to notify BBW of any potential investment opportunities relating to wind energy generation and closely related assets that come to the attention of BBIM and which BBIM reasonably believes may be of interest to BBW; and
- a Financial Advisory Mandate under which Babcock & Brown has, for a period of at least ten years from 27 October 2005 (the Allotment Date), a first and last right of refusal to provide any financial advisory or investment banking services required by BBW.

Given that the provision of such financial advisory services by Babcock & Brown to BBW may at times constitute a related party transaction, BBW has in place a policy which applies when it determines whether to engage Babcock & Brown for such services and on what terms. This policy requires any proposal for the engagement of Babcock & Brown or a related party of Babcock & Brown to be assessed by the Independent Directors on the BBW Boards as to whether the proposed terms of engagement are reasonable and otherwise on arm's length or better terms for BBW. The policy also requires any Director of a BBW Board who is not independent of Babcock & Brown to abstain from voting on an approval by a BBW Board of such an engagement.

B. PRINCIPLES OF GOOD CORPORATE GOVERNANCE

BBW is committed to implementing high standards of corporate governance. The ASX Corporate Governance Council has developed a set of guidelines entitled Principles of Good Corporate Governance and Best Practice Recommendations (the ASX Recommendations). BBW has compared its corporate governance practices to those outlined in the ASX Recommendations and advises that its practices were consistent with those of the ASX Recommendations, except where specifically noted in this Corporate Governance Statement below.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Role of the BBW Boards and Management

The BBW Boards operate in accordance with their respective Constitutions and have also adopted formal Board Charters which detail the functions and responsibilities of the Boards, distinguishing such functions and responsibilities from those which have been delegated to the Manager. The Board Charters include summaries of the responsibilities of the Directors.

The BBW Boards are responsible for protecting the rights and interests of all BBW Stapled Security Holders and are accountable to them for the overall governance and management of BBW.

As outlined in the Board Charters, the BBW Boards are generally responsible for the management of the affairs of BBW, however the following specific matters are reserved for determination by the BBW Boards:

- approving and monitoring the corporate strategy, policy and direction of BBW;
- determining BBW's distribution policy and evaluating and approving major capital expenditure, acquisitions, divestitures and other transactions of BBW;
- approving all accounting policies, financial reports and material reporting by BBW;
- considering recommendations of the Audit, Risk & Compliance Committees and appointing the external Auditor;
- reviewing the performance and effectiveness of BBW's corporate governance policies and procedures; and
- reviewing and evaluating the performance of each respective Board, Board Committee, and individual Director.

The BBW Board Charters also set out the specific powers and responsibilities of the Chairman, the Lead Independent Director and the Chief Executive Officer (further information is included in Principle 2 below).

The BBW Boards are assisted in their management of the affairs of BBW by the management company, BBIM. Under the terms of the Management Agreement with each of BBWPL, BBWPB and BBWPS, BBIM provides comprehensive management services to BBW and makes recommendations to the BBW Boards in respect of the management of BBW as set out in the Management Agreements, including prospective investments.

PRINCIPLES OF GOOD CORPORATE GOVERNANCE (CONT'D)

In accordance with the terms of the Management Agreements, the BBW Boards must consider any recommendations put to them by BBIM and determine whether the recommended action is in the best interests of BBW Security Holders. Where there is a joint responsibility with the other BBW Boards over aspects of BBW's operations, the BBW Boards will only have responsibility to the extent of their own specific involvement in those operations. However, the BBW Boards will co-operate to the extent required under the Stapling Deed in meeting those joint responsibilities to ensure the interests of Stapled Security Holders are met.

A summary of the Board Charter is available on BBW's website.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

The size and composition of the BBW Boards is determined in accordance with the Constitution of each BBW entity. In accordance with the Board Charters, it is intended that the BBW Boards will be comprised of Directors with a broad range of skills, expertise and experience from a diverse range of backgrounds. The Directors appointed to the respective BBW Boards, along with their appointment dates, are set out below.

Director	Status	BBWPL Board Appointment	BBWPB Board Appointment	BBWPS Board Appointment
P Hofbauer	Non-Executive Chairman	11/6/03	14/9/05	14/4/05
A Battle	Lead Independent Non-Executive Director	9/9/05	14/9/05	9/9/05
N Andersen	Independent Non-Executive Director	n/a	n/a	9/9/05
D Clemson	Independent Non-Executive Director	9/9/05	14/9/05	9/9/05
W Murphy	Non-Executive Director	24/11/03	14/9/05	14/4/05

Details of the experience and expertise of the above Directors are set out in the BBW Boards section of the Annual Report. Directors hold office until they resign voluntarily or are compelled by the terms of the respective BBW entity Constitutions to retire at an Annual General Meeting.

The BBW Boards have adopted a definition of an Independent Director consistent with that set out in ASX Recommendation 2.1. As shown in the table above, the Boards of BBWPL and BBWPB had equal numbers of Independent Non-Executive Directors and non-independent Directors during the Period. This does not comply with ASX Recommendation 2.1, which recommends that the Boards comprise of a majority of Independent Directors. The BBWPS Board has a majority of Independent Directors.

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

- the fact that the composition of all the BBW Boards was fully disclosed to Security Holders in the BBW Prospectus and Product Disclosure Statement, dated 26 September 2005, as part of the Initial Public Offer of BBW; and
- the Stapling Deed requires co-operation and consultation on all material matters between BBWPL, BBWPB and BBWPS, which means in effect that a majority of Independent Directors in aggregate are considering the material matters, due to the BBWPS Board consisting of a majority of Independent Directors.

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

The Directors of the BBW Boards consider it appropriate under the management arrangements for the Chairman of the BBW Boards to be an executive of Babcock & Brown. Mr Hofbauer is not an executive of BBW, rather he is the Global Head of Infrastructure of the Babcock & Brown Group, and therefore performs the role of Chairman of the BBW Boards from a non-executive perspective.

Each BBW Board has appointed a Lead Independent Director, Mr Anthony Battle, who has authority to call Board meetings or meetings of Independent Directors, as appropriate. Also, the Lead Independent Director will:

- chair any meetings of the Independent Directors;
- be the primary spokesperson for the Independent Directors at any General Meeting of BBW;
- represent the views of the Independent Directors to the BBW Boards, the Chief Executive Officer, and to BBIM; and
- be the primary channel of communication and point of contact between Independent Directors and the BBW Boards, the Chief Executive Officer and BBIM.

Throughout the Period, the Independent Directors met separately to review and discuss issues in the absence of non-independent Directors and management.

The roles of Chairman of the BBW Boards and Chief Executive Officer of BBW are not exercised by the same person. Mr Hofbauer is the Chairman of BBW and Mr Peter O'Connell is the Chief Executive Officer of BBW. The respective roles and responsibilities of the Chairman, the Chief Executive Officer and the Lead Independent Director are described in the Board Charters.

The arrangements set out above were also fully detailed in the BBW Prospectus and Product Disclosure Statement, and as BBW develops its existing asset base and continues to seek further investment opportunities, the BBW Boards will review their composition to ensure it is appropriate.

Each Director of the BBW Boards is entitled to seek independent professional advice at BBW's expense on any matter connected with the discharge of his or her responsibilities in accordance with the procedure set out in the Board Charters.

At this stage, the BBW Boards have determined not to establish a Nomination Committee (as recommended by ASX Recommendation 2.4), given the relatively small number of Directors on each BBW Board.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Code of Conduct

The BBW Boards recognise the importance of observing high standards of corporate practice and business conduct. To this end, each BBW Board has adopted a formal Code of Conduct which requires Directors and staff seconded to the Manager to maintain high ethical standards in all of their business activities.

The Code of Conduct requires Directors and staff seconded to the Manager to, among other things:

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

The Code of Conduct requires Directors and staff to report any actual or potential breach of the law, the Code of Conduct or other BBW policies. BBW promotes and encourages ethical behaviour and provides protection for those who report violations. A summary of the Code of Conduct is available on BBW's website.

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

Security Trading Policy

BBW has in place a formal Security Trading Policy which regulates the manner in which Directors and staff seconded to the Manager can buy or sell BBW Stapled Securities, and requires that they conduct their personal investment activities in a manner that is lawful and avoids conflicts between their own interests and those of BBW. The Policy is specifically designed to raise awareness and minimise any potential for breach of the prohibitions on insider trading contained in the Corporations Act.

The Policy specifies trading windows as the periods during which trading in securities can occur. These trading windows will generally be the eight week period following the release of BBW's full year or half year results, the month following BBW's Annual General Meeting, and the offer period under any prospectus. Trading is prohibited despite a window being open if the relevant person is in possession of non-public price sensitive information regarding BBW. The BBW Boards may authorise the opening of trading windows at other times.

A summary of the Security Trading Policy is available on BBW's website.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Chief Executive Officer and Financial Controller Sign-off

Prior to the BBW Boards approving the financial reports of BBW, in accordance with the Corporations Act and the ASX Recommendations, the Chief Executive Officer and the Financial Controller made the relevant written attestations in relation to the financial reports of BBW presenting a true and fair view, in all material respects, of BBW's financial condition and operational results, and were in accordance with relevant accounting standards.

Audit, Risk & Compliance Committee

Each of the BBW Boards have established an Audit, Risk & Compliance Committee, and unless otherwise required, meetings of these three Audit, Risk & Compliance Committees are held concurrently.

The respective BBW Boards and Audit, Risk & Compliance Committees have adopted Charters for each Committee. A summary of these Charters is available on BBW's website.

The responsibilities of the respective Audit, Risk & Compliance Committees include:

- overseeing the financial reporting process of the BBW entities to ensure the financial statements reflect appropriate accounting policies, principles, and laws;
- reviewing the effectiveness of the internal controls and risk management systems established by the BBW entities to ensure risks are appropriately identified, assessed and managed;
- reviewing the external financial Auditors' proposed audit scope and approach, as well as the results of financial audits; and
- specifically for BBWPT, monitoring the compliance of the Responsible Entity with BBWPT's Compliance Plan and report its findings to the BBWPS Board.

PRINCIPLES OF GOOD CORPORATE GOVERNANCE (CONT'D)

The Committees report to their respective BBW Boards following each Committee meeting, including making any recommendations from the Committees that require Board approval or action.

Each Committee operates on behalf of the respective BBW Boards to review any non-audit services provided by the external Auditor to ensure that these services are consistent with maintaining external audit independence.

The Members of each Audit, Risk & Compliance Committee are as follows:

- Douglas Clemson – Independent Non-Executive Committee Chairman
- Anthony Battle – Independent Non-Executive Committee Member
- Peter Hofbauer – Non-Executive Committee Member

All Committee Members are qualified accountants with extensive experience in financial and accounting matters.

The Committees generally meet as required, and since establishment of the Committees following the IPO of BBW in October 2005, four concurrent Committee meetings have been held. All Committee Members have attended each Committee meeting.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

Continuous Disclosure Policy

BBW is committed to complying with its continuous disclosure obligations pursuant to the Corporations Act and the ASX Listing Rules. In this regard, BBW has adopted a Continuous Disclosure Policy with the intention of ensuring that all investors have equal and timely access to material information concerning BBW.

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

The Company Secretary, in conjunction with the Chairman and the Chief Executive Officer, is responsible for:

- overseeing the implementation and operation of the Continuous Disclosure Policy;
- making ASX Announcements and other communications with the ASX;
- reviewing relevant information reported by the Directors and staff seconded to the Manager to determine whether any such information is required to be disclosed to the ASX and the market.

Directors and staff seconded to the Manager are also required to ensure that they are familiar with the Policy, report material information to the Company Secretary and provide sufficient details to the Company Secretary to allow a view to be formed as to whether the information requires disclosure.

In addition, the BBW Boards are actively and regularly involved in discussing disclosure obligations in respect of all major matters that come before them.

A summary of the Continuous Disclosure Policy is available on BBW's website.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Communications with Stapled Security Holders

BBW recognises the importance of maintaining effective communication with its Security Holders and keeping them informed of strategic objectives and major developments. In accordance with BBW's Continuous Disclosure Policy, BBW is committed to communicating with its Security Holders in an effective and timely manner to provide them with ready access to information relating to BBW. In this regard, BBW maintains a website (www.bbwindpartners.com) which provides access to substantial BBW-related information of interest to Security Holders, including:

- BBW market announcements and media releases promptly following their release;
- copies of the full year, half year and any other financial reports; and
- summaries of Board and Committee Charters and relevant corporate governance policies.

BBW encourages Security Holders to utilise its website as their primary tool to access Security Holder information and disclosures. In addition, the Half Year Financial Report, Full Year Financial Report and Annual Report facilitate the provision of detailed information to Security Holders in respect of the major achievements, financial results and strategic direction of BBW.

BBW has a practice of ensuring that all information to be given by BBW at any analyst briefing is first released to the market via the ASX to ensure that the market operates on an informed basis.

Security Holders are strongly encouraged to attend and participate in any General Meetings of the Security Holders, particularly the Annual General Meeting. BBW provides Security Holders with details of any proposed meetings well in advance of the relevant dates.

BBW's external Auditor will be requested to attend the Annual General Meeting and be available to answer Security Holder questions concerning the conduct of the audit and the preparation and content of the Auditor's report. This provides Security Holders an opportunity to ask questions of the Auditor and reinforces the Auditor's accountability to Security Holders.

In conjunction with BBW's Security Holder registry, Link Market Services Limited, BBW has established an enquiry email address and a dedicated telephone enquiry line to assist BBW Security Holders.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

The BBW Boards are ultimately responsible for overseeing and managing the material risks of BBW. The BBW Boards are committed to ensuring that their respective systems of risk oversight, management and internal control comply with the ASX Recommendations and that their culture, processes and structures facilitate realisation of BBW's business objectives, including potential opportunities, while managing adverse effects and preserving capital.

To assist the BBW Boards to fulfil their ultimate responsibilities in managing material risks of the business, the BBW Boards have established Audit, Risk & Compliance Committees, with responsibilities including reviewing the overall BBW risk management framework in relation to identifying, managing and monitoring the key risks of BBW, and obtaining reports from the Manager regarding the status of any key risk exposures or incidents. In undertaking these responsibilities, the Committees will principally rely on the resources and expertise of the Manager to implement and report upon the risk management systems and procedures implemented, such that the Committees are able to keep the BBW Boards informed of all significant business risks.

Risk Management Policy

Additionally, BBW has undertaken a review of its risk management framework and has adopted a Risk Management Policy, consistent with Australia/New Zealand Standard 4360, which clearly defines responsibilities for managing risk under the BBW's risk management framework.

BBW's Risk Management Policy aims to establish a sound system of identifying, analysing, evaluating, treating, monitoring and communicating risk. Specifically, the Policy is intended to:

- provide a framework for identifying, assessing, monitoring and managing risk;
- communicate the roles and accountabilities of participants in the risk management system; and
- highlight the status of risks to which BBW is exposed.

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

A description of the Risk Management Policy is available on BBW's website.

In relation to the capital raising undertaken by BBW in June 2006, and in accordance with ASIC Class Order 05/26, BBWPS documented and adopted a specific policy allowing an investment bank to act as BBWPT's nominee to conduct a bookbuild. This Policy also clarifies how the investment bank is to exercise its discretion in relation to conducting a bookbuild. A copy of this Policy is available to Security Holders upon request at no charge.

Chief Executive Officer and Financial Controller Sign-off

Prior to the BBW Boards approving the financial reports of BBW, the Chief Executive Officer and the Financial Controller made further written attestations to the BBW Boards as follows:

- that the attestations given to the Boards in relation to the integrity of the financial statements was founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the BBW Boards; and
- that BBW's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

PRINCIPLE 8: ENCOURAGE ENHANCED PERFORMANCE

The BBW Boards recognise the importance of ensuring that Directors and key executives of BBW are equipped with the knowledge and information they need to discharge their responsibilities effectively, and that individual and collective performance is regularly and fairly reviewed.

The respective Charters of the BBW Boards provide that, on an annual basis, the Boards will review and evaluate the performance of the Board, each Board Committee, and each individual Director. The performance review process will include measurements against both qualitative and quantitative indicators. Following each review and evaluation, the BBW Boards will consider the outcomes of the reviews and implement any necessary changes to improve the performance of the respective BBW Boards, Board Committees and individual Directors.

In addition, the respective Charters of the BBW Audit, Risk & Compliance Committees provide that, on an annual basis, the Committees will prepare and provide to their respective BBW Board:

- a self-evaluation of the Committee's performance against its Charter, goals and objectives;
- recommended goals and objectives for the coming year; and
- any recommended changes or improvements to its Charter, if necessary.

Furthermore, a review of the performance of non-independent Directors and key executives of the Manager is also undertaken by Babcock & Brown. Where appropriate, the outcome of these reviews will be discussed with the Independent Directors and BBW Boards, respectively.

PRINCIPLES OF GOOD CORPORATE GOVERNANCE (CONT'D)

PRINCIPLE 9: REMUNERATE FAIRLY AND RESPONSIBLY

The BBW Boards have not established respective Remuneration Committees (as recommended by ASX Recommendation 9.2), given the small size of the BBW Boards and the fact that as a consequence of the management arrangements between BBW and BBIM, senior executive management seconded to BBIM to provide services to BBW are not remunerated by BBW, but rather by Babcock & Brown. Similarly, the non-independent Directors of BBW are employees of Babcock & Brown, and are remunerated by Babcock & Brown.

Executive Remuneration

The remuneration policies of Babcock & Brown have been structured to be competitive in the industries in which it operates so as to ensure that it can attract and retain the talent needed to achieve both short and long term success for itself and BBW, while maintaining a strong focus on team work, individual performance and the interests of BBW Security Holders.

The policies and principles which are applied to determine the nature and amount of remuneration paid to the BBW non-independent Directors and the relevant senior management seconded to BBIM are set out in detail in the Remuneration Report (within the Directors' Report). Total remuneration of the non-independent Directors and BBIM staff by Babcock & Brown is delivered through base salary, a possible annual performance bonus and, for selected senior executives, through an equity incentive plan of Babcock & Brown Limited.

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

In such cases, the BBW Boards implement steps to ensure that any conflicts of interest are declared, managed and, where practicable, removed. Such steps include ensuring that non-independent Directors declare a conflict in circumstances where there are material dealings between Babcock & Brown and BBW and that, in those cases, non-independent Directors abstain from voting on all such matters. Other steps may include seeking independent third party advice or verification, engaging an alternative person to provide the relevant service, or having matters considered by a Committee of the BBW Boards comprised solely of Independent Directors. These measures are designed to ensure that, in the event of any conflict of interest, the interests of BBW Security Holders are given priority over the interests of Babcock & Brown and the non-independent Directors.

Independent Directors' Remuneration

The total remuneration paid to Independent Non-Executive Directors to 30 June 2006 is set out in the Remuneration Report. The BBW Boards periodically consider remuneration payable to its Independent Non-Executive Directors. Independent Non-Executive Directors are paid an annual fee for their service on the BBW Boards and all Committees of those Boards, and are not provided with retirement benefits, other than statutory superannuation, nor do they receive options or bonus payments.

PRINCIPLE 10: RECOGNISE THE LEGITIMATE INTERESTS OF STAKEHOLDERS

BBW recognises that it has a number of legal and other obligations to its non-Security Holder stakeholders, including staff, clients and the wider community.

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

In accordance with the Code of Conduct, BBW aims to provide a work environment in which all staff can excel regardless of race, religion, age, disability, gender, sexual preference or marital status. In this regard, BBW maintains various policies relating to the workplace, including in respect of occupational health and safety issues.

In accordance with the Code of Conduct and the Continuous Disclosure Policy described above, BBW is committed to delivering to the market accurate, timely and up-to-date information so that, in relation to BBW Stapled Securities, the entire investment community operates on an informed and equal basis.

These principles of fairness, honesty and propriety are essential elements of the various policies which have been adopted by Babcock & Brown Wind Partners.

In respect of the year ended 30 June 2006, the Directors submit the following report for Babcock & Brown Wind Partners.

CORPORATE STRUCTURE

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

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

One share in each of BBWPL and BBWPB and one unit in BBWPT have been stapled together to form BBW Stapled Securities, tradeable on the Australian Stock Exchange.

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

A structural representation of the above entity relationships is included in the Corporate Structure section of the Annual Report.

DIRECTORS

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

	BBWPL Board		BBWPB Board		BBWPS Board	
Current Directors	**Appointed**	**Resigned**	**Appointed**	**Resigned**	**Appointed**	**Resigned**
P Hofbauer	11/6/03	–	14/9/05	–	14/4/05	–
N Andersen	n/a	n/a	n/a	n/a	9/9/05	–
A Battle	9/9/05	–	14/9/05	–	9/9/05	–
D Clemson	9/9/05	–	14/9/05	–	9/9/05	–
W Murphy	24/11/03	–	14/9/05	–	14/4/05	–
Alternate Directors[1]						
M Garland	14/9/05	–	14/9/05	–	14/9/05	–
A Lo Bianco	14/9/05	–	14/9/05	–	14/9/05	–
Former Directors						
C Chapman	24/11/03	9/9/05	n/a	n/a	n/a	n/a
M George	12/8/05	9/9/05	n/a	n/a	14/4/05	9/9/05
P Green	n/a	n/a	n/a	n/a	14/4/05	9/9/05
J Pollock	24/11/03	9/9/05	n/a	n/a	n/a	n/a

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

COMPANY SECRETARIES

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

	BBWPL		BBWPB		BBWPS	
Current Company Secretary	**Appointed**	**Resigned**	**Appointed**	**Resigned**	**Appointed**	**Resigned**
D Richardson	26/10/05	–	26/10/05	–	26/10/05	–
Former Company Secretaries						
P Ferguson	11/6/03	26/10/05	n/a	n/a	n/a	n/a
J Howard	28/7/05	9/3/06	n/a	n/a	28/7/05	9/3/06
S Zanon	n/a	n/a	n/a	n/a	14/4/05	1/8/05

FORMER PARTNERS OF THE AUDIT FIRM

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

PRINCIPAL ACTIVITIES

BBW's principal activities include:

- managing its current portfolio of global wind energy generation assets; and
- seeking to identify and acquire additional wind energy generation assets which meet BBW's investment criteria.

To further expand its diversified portfolio of global wind energy generation assets, BBW intends to utilise its relationship with Babcock & Brown and develop other strategic alliances with wind generation development companies.

REVIEW OF OPERATIONS

A review of the operations of BBW and the results of those operations for the year ended 30 June 2006 is included in the Chairman's Letter and CEO's Report of the Annual Report, as well as the financial statements and accompanying Notes.

CHANGES IN STATE OF AFFAIRS

During the financial year there was no significant change in the state of affairs of the consolidated entity other than that referred to in the financial statements and Notes.

SUBSEQUENT EVENTS

ACQUISITIONS UNDER THE US FRAMEWORK AGREEMENT

In July 2006, BBW acquired certain Class B Membership interests in two US wind farms under the US Framework Agreement (refer section 12.4 of the IPO Prospectus and Product Disclosure Statement, dated 26 September 2005) for $93,516,000.

CRESCENT RIDGE WIND FARM – SALE OF 25% INTEREST TO EURUS ENERGY AMERICA LLC

On 30 June 2006, BBW acquired 100% of the Class B Membership interests in Crescent Ridge Holdings from Eurus Energy America. At that time, BBW entered into an agreement whereby Eurus had the ability to buy back 25% of these Class B Membership interests. In August 2006, Eurus paid BBW $14,207,000 for this 25% interest in Class B Membership interests. This reduced BBW's effective equity interest in the Crescent Ridge wind farm from 47% to 35%.

FUTURE DEVELOPMENTS

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

ENVIRONMENTAL REGULATIONS

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

DISTRIBUTIONS

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

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

REMUNERATION REPORT

SPECIALISED FUND PLATFORM

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

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

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

The Babcock & Brown remuneration philosophy seeks to focus on:

- driving performance over and above investor and market expectations; and
- ensuring variable pay is directly linked to performance and that individuals who contribute to this performance are rewarded.

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

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

Directors	
Peter Hofbauer[1]	Non-Executive Chairman of BBWPL, BBWPB and BBWPS
Nils Andersen	Independent Non-Executive Director of BBWPS
Anthony Battle	Lead Independent Non-Executive Director of BBWPL, BBWPB and BBWPS
Douglas Clemson	Independent Non-Executive Director of BBWPL, BBWPB and BBWPS
Warren Murphy[1]	Non-Executive Director of BBWPL, BBWPB and BBWPS

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

Executives[1]	
Peter O'Connell	Chief Executive Officer
Geoff Dutaillis	Chief Operating Officer
David Richardson	Company Secretary

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

ROLE OF THE BABCOCK & BROWN REMUNERATION COMMITTEE

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

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

MEMBERSHIP OF THE B&B REMUNERATION COMMITTEE

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

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

EXECUTIVES – REMUNERATION POLICY

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

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

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

REMUNERATION FRAMEWORK AND PHILOSOPHY

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

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

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

FIXED REMUNERATION

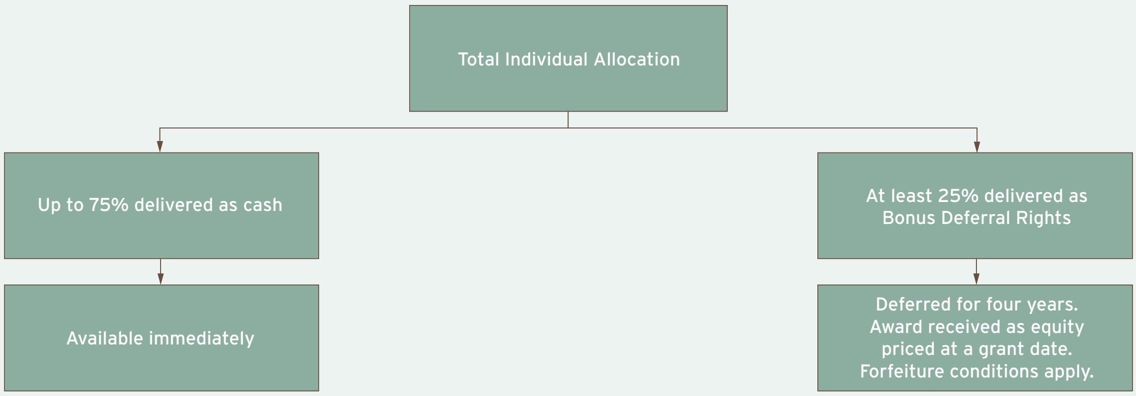
The Babcock & Brown Board has set fixed remuneration for BBW Executives at or lower than the median for comparable executives in companies with comparable businesses to that of BBW. This complements the strategy of weighting the variable amount of Executive pay to encourage superior performance consistent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

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

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

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

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



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

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

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

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

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

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

REMUNERATION OF THE DIRECTORS AND EXECUTIVES FOR THE YEAR ENDED 30 JUNE 2006
Details of the nature and amount of each element of the emoluments of each Director and relevant Executive of BBW for the 12 months ended 30 June 2006 are set out in the table below.

	Short term			Post Employment	Share-based Payments	Other	Total
	Salary, Fees & Commissions $	Cash Bonus $	Non-cash Benefits $	Super-annuation $	Options[5] $	$	$
Current Directors							
P Hofbauer[1]	–	–	–	–	–	–	–
W Murphy[1]	–	–	–	–	–	–	–
N Andersen[2]	27,711	–	–	2,494	–	–	30,205
T Battle	74,636	–	–	6,717	–	–	81,353
D Clemson	71,680	–	–	6,451	–	–	78,131
Former Directors							
C Chapman[1]	–	–	–	–	–	–	–
M George[1]	–	–	–	–	–	–	–
P Green[1]	–	–	–	–	–	–	–
J Pollock[1]	–	–	–	–	–	–	–
Total	**174,027**	**–**	**–**	**15,662**	**–**	**–**	**189,689**
Executives[3]							
P O'Connell	357,500	455,667	–	14,162	18,644	4,055	850,028
G Dutaillis	215,312	138,750	–	9,104	6,992	–	370,158
D Richardson[4]	45,657	8,800	–	3,642	–	–	58,099
Total	**618,469**	**603,217**	**–**	**26,908**	**25,636**	**4,055**	**1,278,285**

1 These Non-Executive Directors are not remunerated by BBW.
2 N Andersen is an Independent Non-Executive Director of Babcock & Brown Wind Partners Services Limited only (the Responsible Entity of the Babcock & Brown Wind Partners Trust).
3 These are the Executives that received the highest emoluments in 2005/2006. Executive fees paid for their services are part of the Babcock & Brown Infrastructure Management Pty Limited management agreement.
4 The remuneration for the services provided to BBW by D Richardson cannot be determined due to his other commitments within the B&B Group. However, the remuneration included above has been based on an assessment by management of the services performed directly for BBW.
5 BBW does not operate an options scheme in relation to BBW Stapled Securities. The options held by P O'Connell and G Dutaillis relate to options that each holds over shares in Babcock & Brown Limited.

EXECUTIVE EMPLOYMENT CONTRACTS

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

Length of contract	· Open-ended
Frequency of base remuneration review	· Annual
Benefits	· Executives are entitled to participate in B&B Group benefit plans that are made available.
STIP Participation	· Executives are eligible for an award of STI remuneration from the STIP pool available (if any).
Non-compete clauses	· If P Hofbauer leaves the B&B Group within three years of the IPO of Babcock & Brown Limited, he will (other than in limited circumstances) be prohibited from competing with the B&B Group for 12 months from the date of such departure. · Breach of the non competition restraint will entitle the B&B Group to claim a pre-agreed amount of US$1.5m or US$4m from the Executive in breach.
Termination of employment	· Employment of P Hofbauer and P O'Connell is able to be terminated by either party on three months' written notice and the B&B Group may elect to pay the executive three months' salary in lieu of notice. · Employment of G Dutaillis and D Richardson is able to be terminated by either party on one month's written notice and the B&B Group may elect to pay the executive one month's salary in lieu of notice.

SECURITY HOLDINGS

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

	Balance 1.07.05	Purchased	Sale of Shares	Balance 30.06.06
Current Directors				
P Hofbauer[1]	959,577	1,571,000	–	2,530,577
W Murphy	959,577	1,000,000	–	1,959,577
N Andersen	–	10,700	–	10,700
A Battle	–	30,000	–	30,000
D Clemson	–	140,000	–	140,000
Former Directors[2]				
C Chapman	–	–	–	–
M George	–	–	–	–
P Green	–	–	–	–
J Pollock	–	–	–	–
Total	**1,919,154**	**2,751,700**	**–**	**4,670,854**
Executives				
P O'Connell[3]	–	714,000	(357,000)	357,000
G Dutaillis	–	535,000	–	535,000
D Richardson	–	–	–	–
Total	**–**	**1,249,000**	**(357,000)**	**892,000**

1 As disclosed in accordance with the ASX Listing Rules, P Hofbauer has further increased his interests in BBW Securities since 30 June 2006.

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS – REMUNERATION POLICY AND STRUCTURE

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

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

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

Board/Committee	Role	Fee (p.a.)
BBWPL Board	Independent Director	$37,500
BBWPB Board	Independent Director	$10,000
BBWPS Board	Independent Director	$37,500
BBWPL/BBWPB/BBWPS Boards	Lead Independent Director	$10,000
BBWPL Audit, Risk & Compliance Committee	Independent Chairman	$4,000
	Independent Member	$2,000
BBWPB Audit, Risk & Compliance Committee	Independent Chairman	$4,000
	Independent Member	$2,000
BBWPS Audit, Risk & Compliance Committee	Independent Chairman	$4,000
	Independent Member	$2,000

DIRECTORS' MEETINGS – 1 JULY 2005 TO 30 JUNE 2006

During the financial year, there were 20 BBWPL Directors' meetings held, 14 BBWPB Directors' meetings held, and 16 BBWPS Directors' meetings held. The following table sets out the number of Directors' meetings held whilst the Director was appointed to the relevant Board, and the number of meetings attended during that time.

	BBWPL Board		BBWPB Board		BBWPS Board	
Current Directors	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
P Hofbauer	20	16	14	13	16	13
N Andersen	n/a	n/a	n/a	n/a	16	11
A Battle	17	14	14	13	16	14
D Clemson	17	16	14	13	16	15
W Murphy	20	18	14	13	16	15
Former Directors						
C Chapman	4	1	n/a	n/a	n/a	n/a
M George	1	1	n/a	n/a	1	1
P Green	n/a	n/a	n/a	n/a	1	0
J Pollock	4	3	n/a	n/a	n/a	n/a

COMMITTEE MEETINGS – 1 JULY 2005 TO 30 JUNE 2006

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

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

INDEMNIFICATION OF DIRECTORS AND OFFICERS

BBW has agreed to indemnify all Directors and Officers against losses incurred in their role as Director, Secretary, Executive or other employee of BBW or its subsidiaries, subject to certain exclusions, including to the extent that such indemnity is prohibited by the Corporations Act 2001 or any other law. The agreement stipulates that BBW will meet the full amount of any such liabilities costs and expenses (including legal fees). BBW has not been advised of any claims under any of the above indemnities.

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

PROCEEDINGS ON BEHALF OF BBW

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

NON-AUDIT SERVICES

The Directors are satisfied that the provision of non-audit services, during the year, by the Auditor (or by another person or firm on the Auditor's behalf) is compatible with the general standard of independence for Auditors imposed by the Corporations Act 2001. Details of amounts paid or payable to the Auditor for non-audit services performed during the year by the Auditor are outlined in Note 5 to the financial statements.

AUDITOR'S INDEPENDENCE DECLARATION

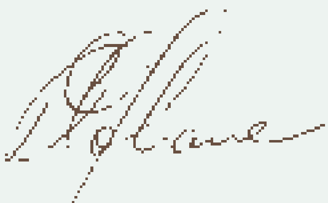
The Auditor's independence declaration is included in the financial report.

ROUNDING

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

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

On behalf of the Directors of BBW:



PETER HOFBAUER
Chairman

Sydney, 7 September 2006

PRICEWATERHOUSECOOPERS

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Auditors Independence Declaration

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

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

AJ Wilson
Partner
PricewaterhouseCoopers

Sydney
7 September 2006

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

		Consolidated		Parent Entity	
	Note	2006	2005	2006	2005
		$'000	$'000	$'000	$'000
Revenue	2	82,222	22,020	42,970	474
Other income	2	9,711	1,197	292	224
Operating expenses	2	(16,264)	(5,760)	(2,469)	(1,279)
Depreciation and amortisation expense	2	(20,061)	(5,970)	(1,514)	–
Finance costs	2	(29,587)	(7,693)	(6,156)	(900)
Management charges	2	(44,379)	–	(42,493)	–
Share of net profit from investments accounted for using the equity method	9	2,074	–	–	–
Net (loss)/profit before income tax expense		**(16,284)**	**3,794**	**(9,370)**	**(1,481)**
Income tax benefit/(expense)	3	49	(1,120)	1,886	317
Net (loss)/profit for the year		**(16,235)**	**2,674**	**(7,484)**	**(1,164)**
Attributable to Stapled Security Holders as:					
Equity holders of the parent		(20,442)	2,720	(7,484)	(1,164)
Equity holders of the other stapled entities (minority interests)		4,207	(46)	–	–
		(16,235)	**2,674**	**(7,484)**	**(1,164)**
Earnings per share of the parent based on earnings attributable to the equity holders of the parent:					
Basic (cents per Share)	21	(0.05)	0.02		
Diluted (cents per Share)	21	(0.05)	0.02		

The above Income Statement should be read in conjunction with the accompanying Notes included on pages 54 to 104.

BALANCE SHEET
AS AT 30 JUNE 2006

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Current assets					
Cash and cash equivalents	31	311,195	110,114	64,166	27,852
Receivables	6	20,355	8,230	31,378	10,102
Prepayments	7	3,722	5,703	961	–
Other current assets	8	26,211	12,409	2,208	1,059
Derivative financial instruments	10	194	–	–	–
Total current assets		**361,677**	**136,456**	**98,713**	**39,013**
Non-current assets					
Receivables	6	–	10,734	531,124	141,676
Prepayments	7	24,295	25,919	10,327	–
Investments accounted for using the equity method	9	176,049	–	–	–
Shares in controlled entities		–	–	42,766	–
Derivative financial instruments	10	12,845	–	32	–
Property, plant and equipment	11	664,882	378,201	–	–
Deferred tax assets	3	10,631	4,292	9,061	2,632
Goodwill	12	16,502	1,798	–	–
Intangible assets	13	146,154	23,751	3,586	–
Total non-current assets		**1,051,358**	**444,695**	**596,896**	**144,308**
Total assets		**1,413,035**	**581,151**	**695,609**	**183,321**
Current liabilities					
Payables	14	56,897	26,762	10,689	7,630
Borrowings	15	39,878	185,769	–	8,662
Derivative financial instruments	16	1,966	–	922	–
Current tax payables	3	1,743	1,094	–	–
Total current liabilities		**100,484**	**213,625**	**11,611**	**16,292**
Non-current liabilities					
Payables	14	–	2,234	–	–
Borrowings	15	631,489	188,335	688,220	166,518
Derivative financial instruments	16	1,662	–	1,402	–
Deferred tax liabilities	3	13,381	5,801	–	–
Total non-current liabilities		**646,532**	**196,370**	**689,622**	**166,518**
Total liabilities		**747,016**	**409,995**	**701,233**	**182,810**
Net assets/(liabilities)		**666,019**	**171,156**	**(5,624)**	**511**
Equity holders of the parent					
Contributed equity	18	4,454	1,748	4,454	1,748
Reserves	19	(13,868)	(4,553)	(1,357)	–
Retained earnings	20	(18,126)	2,316	(8,721)	(1,237)
		(27,540)	**(489)**	**(5,624)**	**511**
Equity holders of the other stapled entities (minority interests)					
Contributed equity	18	701,680	163,140	–	–
Reserves	19	(21,635)	–	–	–
Retained earnings	20	4,207	–	–	–
		684,252	**163,140**	**–**	**–**
Other minority interests	9	**9,307**	**8,505**	**–**	**–**
Total equity		**666,019**	**171,156**	**(5,624)**	**511**

The above Balance Sheet should be read in conjunction with the accompanying Notes included on pages 54 to 104.

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

		Consolidated		Parent Entity	
	Note	2006	2005	2006	2005
		$'000	$'000	$'000	$'000
Total equity at the beginning of the year		171,156	63,741	511	548
Adjustment to equity on adoption of AASB 132 and AASB 139: Derivative financial instruments	19	(7,491)	–	–	–
Transfer of net assets attributable to Security Holders from equity to liability*	18	(163,140)	–	–	–
Restated total equity at the beginning of the financial year		525	63,741	511	548
Movement in fair value of derivatives	19	14,676	–	(1,357)	–
Exchange differences on translation of foreign operations		11,307	(4,553)	–	–
Net income recognised directly in equity		25,983	(4,553)	(1,357)	–
Net (loss)/profit for the year		(16,235)	2,674	(7,484)	(1,164)
Total recognised income and expense for the year		**9,748**	**(1,879)**	**(8,841)**	**(1,164)**
Transactions with equity holders in their capacity as equity holders:					
Transfer of net assets attributable to Security Holders from liability to equity*	18	161,512	–	–	–
Contributions of equity, net of costs paid	18	487,048	121,304	2,025	1,127
Minority interest on acquisition of subsidiary**		802	–	–	–
Securities issued as consideration for purchase of interest in subsidiaries	18	68,000	–	–	–
Securities issued as consideration for payment of incentive fee	18	13,028	–	681	–
Reserves recognised on purchase of increased interest in a subsidiary***	18	(27,807)	–	–	–
Minority interest recognised on purchase of increased interest in a subsidiary***	18	(21,635)	–	–	–
Distributions paid*	22	(25,202)	(12,010)	–	–
Total equity at the end of the year		**666,019**	**171,156**	**(5,624)**	**511**
Total recognised income and expenses for the year is attributable to:					
Equity holders of the parent		5,541	(1,833)	(8,841)	(1,164)
Equity holders of the other stapled entities		4,207	(46)	–	–
		9,748	**(1,879)**	**(8,841)**	**(1,164)**

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

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

** The movement of $802,000 relates to (i) the elimination of the minority, $8,505,000, upon the purchase of the remaining 25% share of Walkaway Wind Power Pty Limited (see *** below) and (ii) the recording of a minority interest of $9,307,000 in relation to an 80% held subsidiary of Babcock & Brown Wind Partners-US LLC (see Note 9), an entity over which control was gained on 30 June 2006.

*** This item relates to the acquisition of the remaining 25% interest in Walkaway Wind Power Pty Limited (WWP) (also see Note 18). Prior to this acquisition BBWPL owned 75% of the share capital of WWP and consolidated WWP. Hence, this stepped acquisition does not result in a change in control and, consequently, the excess of the consideration over the fair value of the net assets purchased is 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.

The above Statement of Changes in Equity should be read in conjunction with the accompanying Notes included on pages 54 to 104.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

		Consolidated		Parent Entity	
	Note	2006	2005	2006	2005
		$'000	$'000	$'000	$'000
Cash flows from operating activities					
Receipts from customers		88,374	10,871	–	–
Payments to suppliers		(66,634)	(1,463)	(34,792)	(1,944)
Interest received		14,396	5,377	9,145	539
Distributions received from associates		7,024	–	–	–
Interest and other costs of finance paid		(27,212)	(8,028)	(895)	(966)
Income tax paid		(1,790)	–	–	–
Net cash provided by/(used in) operating activities	31(f)	**14,158**	**6,757**	**(26,542)**	**(2,371)**
Cash flows from investing activities					
Payment for property, plant and equipment		(76,632)	(213,757)	–	–
Payment for intangible assets		(18,271)	–	(5,100)	–
Payment for investments in controlled entities		(98,971)	(35,708)	(17,968)	–
Prepaid investment		(10,181)	–	–	–
Payment for investments in associates		(146,838)	–	–	–
Loans to related parties		–	–	(373,318)	–
Repayment of loans by related parties		–	–	9,044	–
Net cash used in/by investing activities		**(350,893)**	**(249,465)**	**(387,342)**	**–**
Cash flows from financing activities					
Proceeds from issues of equity securities, net of costs	18	487,048	121,305	2,024	1,128
Proceeds from borrowings		404,761	167,466	1,704	–
Repayment of borrowings		(312,038)	(12,043)	–	–
Proceeds from related parties		–	8,661	506,531	115,704
Repayment of borrowings to related parties		(18,785)	–	(59,848)	(86,609)
Distributions paid to Security Holders*		(26,830)	(12,010)	–	–
Net cash provided by financing activities		**534,156**	**273,379**	**450,411**	**30,223**
Net increase in cash and cash equivalents		**197,421**	**30,671**	**36,527**	**27,852**
Cash and cash equivalents at the beginning of the financial year		110,114	79,443	27,852	–
Effects of exchange rate changes on the balance of cash held in foreign currencies		3,660	–	(213)	–
Cash and cash equivalents at the end of the financial year	31(a)	**311,195**	**110,114**	**64,166**	**27,852**

* Upon implementation of A-IFRS in the year ended 30 June 2006 and prior to a change in the Trust's Constitution in September 2005, Security Holder interests were initially accounted for as debt. BBWPT paid a distribution of $1,628,000 in August 2005, prior to the change in the Constitution, which has been recognised as a reduction in this debt.

The above Cash Flow Statement should be read in conjunction with the accompanying Notes included on pages 54 to 104.

Notes to Financial Statements for the financial year ended 30 June 2006

1. SUMMARY OF ACCOUNTING POLICIES

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

(A) BASIS OF PREPARATION

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

Historical cost convention

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

Stapled Security

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

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

Compliance with IFRS

Accounting Standards include A-IFRS. Compliance with A-IFRS ensures that the consolidated financial statements and notes of BBWPL comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS except for the disclosure requirements in IAS 32 Financial Instruments: Disclosure and Presentation as the Australian equivalent Accounting Standard, AASB 132 Financial Instruments: Disclosure and Presentation does not require such disclosures to be presented by the parent entity where its separate financial statements are presented together with the consolidated financial statements of the consolidated entity.

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

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

Financial statements of BBW 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 BBW financial report for the year ended 30 June 2006, management has amended certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with A-IFRS. The comparative figures are restated to reflect these adjustments, except as stated below.

BBW has taken the election available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. BBW 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 BBW's equity and its net profit/loss are given in Note 33.

(B) CONSOLIDATED ACCOUNTS

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

In accordance with UIG 1013, consolidated financial statements have been prepared by BBWPL as the identified parent of BBW and the combined financial report prepared for BBW at 1 July 2004 has been used for the purpose of applying AASB 1 at the date of transition to restate BBW's comparative information. The financial statements of BBW should be read in conjunction with the separate financial statements of BBWPT for the period ended 30 June 2006.

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.

1. SUMMARY OF ACCOUNTING POLICIES (CONT'D)

Whilst stapled arrangements occurring prior to the application of AASB Interpretation 1002 are grandfathered and can continue to be accounted for in accordance with the principles established in UIG 1013, for disclosure purposes and the fact that BBW has entered into stapling arrangements both pre and post transition to 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

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of the entities controlled by BBWPL at 30 June 2006, including those deemed to be controlled by BBWPL by identifying it as the parent of BBW 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 income statement from the date on which control is obtained. Where control of an entity ceases during the financial period its results are included for that part of the period during which control existed.

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

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

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

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill net of any accumulated impairment loss identified on acquisition.

Refer to Note 9 for a further explanation of equity accounting of associates.

(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) BUSINESS COMBINATIONS

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the consolidated group's share of the identifiable net assets acquired is recorded as goodwill (refer to Note 1(o)). If the cost of the subsidiary acquired is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

1. SUMMARY OF ACCOUNTING POLICIES (CONT'D)

(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) ASSETS UNDER CONSTRUCTION

Costs incurred in relation to assets under construction are deferred to future periods.

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

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

(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 re-measured to their fair value at each reporting date. The resulting gain or loss is recognised in the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in the income statement depends on the nature of the hedge relationship.

The 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.

1. SUMMARY OF ACCOUNTING POLICIES (CONT'D)

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
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.

Under AGAAP, the net amount receivable or payable under interest rate swap agreements was progressively brought to account over the period to settlement. The amount recognised was accounted for as an adjustment to interest and finance charges during the period and included in other debtors or other creditors at each reporting date.

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 through 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.

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

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

(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.

1. SUMMARY OF ACCOUNTING POLICIES (CONT'D)

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 included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings; 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 was treated as an Australian dollar denominated asset but has now been restated.

(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 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.

1. SUMMARY OF ACCOUNTING POLICIES (CONT'D)

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.

The head entity, BBWPL, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred amounts, BBWPL also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Details about the tax funding agreement are disclosed in Note 3.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(O) 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 agreements, which vary from 15 months to three years .

Licences

Licences are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method to allocate the cost of licences over their estimated useful lives, which are up to 25 years.

(P) LEASED ASSETS

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

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.

1. SUMMARY OF ACCOUNTING POLICIES (CONT'D)

(Q) 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.

For assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating unit). If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the income statement immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

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

(R) CASH AND CASH EQUIVALENTS

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

(S) 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 cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

Distributions and dividends

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

(T) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of 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 the significant risks and rewards of ownership of the products has passed to the buyer and the Group attains the right to be compensated.

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

Other revenue

Interest income is recognised using the effective interest method.

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

1. SUMMARY OF ACCOUNTING POLICIES (CONT'D)

(U) LOANS AND RECEIVABLES

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

A provision for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of loans and receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(V) CONTRIBUTED EQUITY

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

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

(W) EARNINGS PER SHARE

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

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

(X) FAIR VALUE ESTIMATION

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

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

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

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

(Y) SEGMENT REPORTING

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

(Z) ROUNDING OF AMOUNTS

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

(AA) NEW ACCOUNTING STANDARDS AND UIG INTERPRETATIONS

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

1. SUMMARY OF ACCOUNTING POLICIES (CONT'D)

(i) UIG 4 Determining whether an Asset Contains a Lease
UIG 4 is applicable to annual periods beginning on or after 1 January 2006. The Group has not elected to adopt UIG 4 early. It will apply UIG 4 in its 2007 financial statements including the UIG 4 transition provisions. The Group will therefore apply UIG 4 on the basis of facts and circumstances that existed as of 1 July 2006. Implementation of UIG 4 is expected to result in the Group accounting for revenue generated from certain power purchase arrangements as lease income. The Group has not, as yet, quantified the effect of this UIG.

(ii) AASB 2005-9 Amendments to Australian Accounting Standards [AASB 4, AASB 1023, AASB 139 & AASB 132]
AASB 2005-9 is applicable to annual reporting periods beginning on or after 1 January 2006. The amendments relate to the accounting for financial guarantee contracts. The Group has not elected to adopt the amendments early. It will apply the revised standards in its 30 June 2007 financial statements. Application of the revised rules may result in the recognition of financial liabilities in the financial statements. An assessment has not yet been performed. The new rules will be implemented retrospectively with a restatement of the comparatives as required by AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors.

(iii) AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]
AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's financial instruments.

(iv) AASB 2006-1 Amendments to Australian Accounting Standards [AASB 121]
AASB 2006-1 is applicable to annual reporting periods ending on or after 31 December 2006. The amendment relates to monetary items that form part of a reporting entity's net investment in a foreign operation. It removes the requirement that such monetary items had to be denominated either in the functional currency of the reporting entity or the foreign operation. Babcock & Brown Wind Partners Group will conduct an assessment of the impact of this standard.

(AB) CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

(i) Estimated useful economic life of property, plant and equipment
As disclosed in Note 1(l) the Group depreciates property, plant and equipment over 25 years. This period of depreciation is utilised for assets that have useful economic lives in excess of 25 years as the life of the project is 25 years and no determination to extend the life of the project has been made at this stage.

(ii) Income taxes
The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provision in the period in which such determination is made.

2. PROFIT FROM OPERATIONS

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Revenue				
Revenue from the sale of energy and products	67,750	16,607	–	–
Revenue from the rendering of services	–	–	33,825	–
	67,750	**16,607**	**33,825**	**–**
Interest income	14,472	5,413	9,145	474
	82,222	**22,020**	**42,970**	**474**
Other income				
Compensation for loss of revenue*	5,250	–	–	–
Fair value gains on financial instruments	291	–	123	–
Foreign exchange gains	4,170	1,197	169	224
	9,711	**1,197**	**292**	**224**

* Under the Variation Deed to the Engineering, Procurement & Construction contract (EPC), the contractor has agreed to compensate a subsidiary of BBW for loss of revenue as a result of delays under the EPC during the year ended 30 June 2006 in the amount of $5,250,000 (also refer to Note 6 Receivables)

	Consolidated		Parent Entity	
(Loss)/profit before income tax has been arrived at after charging the following expenses:				
Operating expenses:				
Connection fees	1,662	1,015	–	–
Administration, consulting and legal fees	3,998	1,677	2,469	1,279
Wind farm operations and maintenance costs	10,604	3,068	–	–
	16,264	**5,760**	**2,469**	**1,279**
Depreciation of property, plant and equipment	16,217	5,672	–	–
Amortisation of intangible assets	3,844	298	1,514	–
	20,061	**5,970**	**1,514**	**–**
Finance costs:				
Interest expense	25,705	7,477	4,348	900
Fair value losses on financial instruments	1,143	–	476	–
Other finance charges	2,739	216	1,332	–
	29,587	**7,693**	**6,156**	**900**
Management charges:*				
Base fees	11,229	–	9,343	–
Incentive fee	33,150	–	33,150	–
	44,379	**–**	**42,493**	**–**

* Refer to Note 18 and Note 29 for further details.

3. INCOME TAXES

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
(A) INCOME TAX EXPENSE				
Income tax comprises:				
Current tax	(3,070)	(2,450)	(1,805)	(317)
Deferred tax	3,021	3,570	(81)	–
Under/(over) provided in prior years	–	–	–	–
	(49)	**1,120**	**(1,886)**	**(317)**
Deferred income tax expense included in income tax (revenue)/expense comprises:				
Decrease/(increase) in deferred tax assets*	(345)	(1,971)	(81)	–
(Decrease)/increase in deferred tax liabilities	3,366	5,541	–	–
	3,021	**3,570**	**(81)**	**–**

* Tax losses derived in the current year are shown as current tax expense.

	Consolidated 2006	Consolidated 2005	Parent Entity 2006	Parent Entity 2005
(B) NUMERICAL RECONCILIATION OF INCOME TAX/(BENEFIT) EXPENSE TO PRIMA FACIE TAX PAYABLE				
(Loss)/profit from continuing operations before income tax expense	(16,284)	3,794	(9,370)	(1,481)
Income tax expense calculated at 30% (2005: 30%)	(4,885)	1,138	(2,811)	(444)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Non-deductible expenses	231	1,143	–	–
Non-assessable income	(1,199)	–	–	–
Non-deductible expenses for trade tax purposes	64	–	–	–
Amortisation of goodwill	120	–	–	–
Amortisation of framework agreements	454	–	454	–
Unrealised foreign exchange movement	–	(1,327)	–	–
Management fee	4,900	–	–	–
Sundry items	(104)	(121)	(134)	127
Difference in overseas tax rates	(236)	287	–	–
Previously recognised and unused tax losses	606	–	605	–
Income tax (benefit)/expenses	**(49)**	**1,120**	**(1,886)**	**(317)**

3. INCOME TAXES (CONT'D)

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
(C) AMOUNTS RECOGNISED DIRECTLY IN EQUITY				
The following current and deferred amounts were not recognised in net profit or loss but charged directly to equity during the period:				
Current tax	–	–	–	–
Net deferred tax	(5,062)	–	151	–
	(5,062)	**–**	**151**	**–**
(D) TAX LOSSES				
Unused tax losses for which no deferred tax asset has been recognised	–	–	–	–
Potential tax benefit at 30%	**–**	**–**	**–**	**–**

(E) TAX CONSOLIDATION

BBWPL and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is BBWPL. The members of the tax-consolidated group are identified at Note 26.

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, BBWPL and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

(F) CURRENT TAX LIABILITIES				
Current tax payables:				
Income tax payable attributable to:				
Overseas entities in the group	**1,743**	**1,094**	**–**	**–**
(G) DEFERRED TAX BALANCES				
Deferred tax assets comprise:				
Unused revenue tax losses – corporate	9,222	4,092	8,249	2,582
Unused tax losses for trade tax purposes	64	–	–	–
Deductible equity raising costs	119	–	119	–
Effect of hedge movements	731	–	687	–
Unrealised foreign exchange loss	495	200	6	50
	10,631	**4,292**	**9,061**	**2,632**
Deferred tax liabilities comprise:				
Expenses capitalised	(720)	–	–	–
Income set off against project cost	502	–	–	–
Depreciation	(8,156)	(5,241)	–	–
Deconstruction reserve	(44)	–	–	–
Lease expenses	(376)	–	–	–
Imputed interest	–	(183)	–	–
Effect of hedge movements	(2,932)	–		
Uplift in property, plant and equipment in relation to acquisitions	(1,599)	(377)	–	–
Amortisation of goodwill	(56)	–	–	–
	(13,381)	**(5,801)**	**–**	**–**

3. INCOME TAXES (CONT'D)

	Consolidated				
2006	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Acquisitions/ disposals $'000	Closing balance $'000
Taxable and deductible temporary differences arise from the following:					
Gross deferred tax liabilities:					
Expenses capitalised	–	(720)	–	–	(720)
Income settled off against project cost	–	502	–	–	502
Depreciation	(5,241)	(2,915)	–	–	(8,156)
Deconstruction reserve	–	(44)	–	–	(44)
Lease expenses	–	(376)	–	–	(376)
Imputed interest	(183)	183	–	–	–
Uplift in property, plant and equipment in relation to acquisitions	(377)	–	–	(1,222)	(1,599)
Effect of hedge movements	–	–	(2,932)	–	(2,932)
Amortisation of goodwill	–	(56)	–	–	(56)
	(5,801)	**(3,426)**	**(2,932)**	**(1,222)**	**(13,381)**
Gross deferred tax assets:					
Unused revenue tax losses – corporate	4,092	5,130	–	–	9,222
Unused tax losses for trade tax purposes	–	64	–	–	64
Deductible equity raising costs	–	–	119	–	119
Effect of hedge movements	–	150	581	–	731
Unrealised foreign exchange loss	200	–	290	–	490
Sundry	–	5	–	–	5
	4,292	**5,349**	**990**	**–**	**10,631**

	Consolidated				
2005	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Acquisitions/ disposals $'000	Closing balance $'000
Gross deferred tax liabilities:					
Depreciation	(2,019)	(3,222)	–	–	(5,241)
Imputed Interest	–	(183)	–	–	(183)
Uplift in property, plant and equipment in relation to acquisitions	–	–	–	(377)	(377)
Unrealised foreign exchange movements	(50)	–	50	–	–
	(2,069)	**(3,405)**	**50**	**(377)**	**(5,801)**
Gross deferred tax assets:					
Unused revenue tax losses – corporate	1,833	2,259	–	–	4,092
Unrealised foreign exchange loss	–	–	200	–	200
Sundry	–	–	–	–	–
	1,833	**2,259**	**200**	**–**	**4,292**

4. KEY MANAGEMENT PERSONNEL REMUNERATION

(A) NAMES AND POSITIONS HELD BY STAPLED ENTITY DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL IN OFFICE AT ANY TIME DURING THE FINANCIAL YEAR

Current Directors	
P Hofbauer*	Non-Executive Chairman
W Murphy*	Non-Executive Director
N Andersen**	Independent Non-Executive Director, appointed 9 September 2005
A Battle***	Independent Non-Executive Director, appointed 9 September 2005
D Clemson	Independent Non-Executive Director, appointed 9 September 2005

Former Directors	
M George	Director, appointed 12 August 2005, resigned 9 September 2005
C Chapman	Director, resigned 9 September 2005
J Pollock	Director, resigned 9 September 2005
P Green	Director, appointed 4 April 2005, resigned 9 September 2005

Executives	
Peter O'Connell*	Chief Executive Officer, appointed 1 September 2005
Geoff Dutaillis*	Chief Operating Officer, appointed 1 October 2005

* The above Non-Executive Directors and Executives are employed by Babcock & Brown Australia Pty Limited
** Mr Andersen is a Director of BBWPS only
*** Mr Battle is the Lead Independent Director of BBW

(B) STAPLED ENTITY DIRECTORS' AND EXECUTIVES' REMUNERATION

30 June 2006	Salary, Fees and Commissions $	Cash Bonus $	Non-cash Benefits $	Post Employment Superannuation $	Equity Options $	Other $	Total $
Current Directors							
P Hofbauer*	–	–	–	–	–	–	–
W Murphy*	–	–	–	–	–	–	–
N Andersen	27,711	–	–	2,494	–	–	30,205
A Battle	74,636	–	–	6,717	–	–	81,353
D Clemson	71,680	–	–	6,451	–	–	78,131
Former Directors							
M George*	–	–	–	–	–	–	–
C Chapman*	–	–	–	–	–	–	–
J Pollock*	–	–	–	–	–	–	–
P Green*	–	–	–	–	–	–	–
Total	**174,027**	**–**	**–**	**15,662**	**–**	**–**	**189,689**
Executives							
P O'Connell	357,500	455,667	–	14,162	18,644	4,055	850,028
G Dutaillis	215,312	138,750	–	9,104	6,992	–	370,158
Total	**572,812**	**594,417**	**–**	**23,266**	**25,636**	**4,055**	**1,220,186**

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

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

4. KEY MANAGEMENT PERSONNEL REMUNERATION (CONT'D)

(C) OPTIONS AND RIGHTS HOLDINGS

BBW does not operate an option scheme. Consequently, no Director or Executive holds any options to purchase the Stapled Securities of BBW.

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

(D) SECURITY HOLDINGS

The number of Securities held by stapled entity Directors and Executives as at 30 June 2006 is detailed in the table below.

	Balance 1.07.05	Purchased	Sale of Securities	Balance 30.06.06
Current Directors				
P Hofbauer	959,577	1,571,000	–	2,530,577
W Murphy	959,577	1,000,000	–	1,959,577
N Andersen	–	10,700	–	10,700
A Battle	–	30,000	–	30,000
D Clemson	–	140,000	–	140,000
Former Directors				
M George*	–	–	–	–
C Chapman*	–	–	–	–
J Pollock*	–	–	–	–
P Green*	–	–	–	–
Total	**1,919,154**	**2,751,700**	**–**	**4,670,854**
Executives				
P O'Connell**	–	714,000	(357,000)	357,000
G Dutaillis	–	535,000	–	535,000
Total	**–**	**1,249,000**	**(357,000)**	**892,000**

* The Security Holdings of Messrs George, Chapman, Pollock and Green, if any, have not been disclosed as they were Directors prior to BBW's listing on the Australian Stock Exchange.

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

The number of securities held by stapled entity Directors and Executives as at 30 June 2005 is detailed in the table below.

	Balance 1.07.04	Purchased	Sale of Securities	Balance 30.06.05
Current Directors				
P Hofbauer	360,392	599,185	–	959,577
W Murphy	360,392	599,185	–	959,577
N Andersen	–	–	–	–
A Battle	–	–	–	–
D Clemson	–	–	–	–
Former Directors				
M George*	–	–	–	–
C Chapman*	–	–	–	–
J Pollock*	–	–	–	–
P Green*	–	–	–	–
Total	720,784	1,198,370	–	1,919,154

* The Security Holdings of Messrs George, Chapman, Pollock and Green, if any, have not been disclosed as they were Directors prior to BBW's listing on the Australian Stock Exchange.

No Securities were held by Messrs O'Connell and Dutaillis prior to their appointment as Executives of BBW.

4. KEY MANAGEMENT PERSONNEL REMUNERATION (CONT'D)

(E) REMUNERATION PRACTICES

Specialised Fund Platform

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

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

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

The Babcock & Brown remuneration philosophy seeks to focus on:

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

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

Role of the Babcock & Brown Remuneration Committee

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

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

Membership of the B&B Remuneration Committee

The B&B Remuneration Committee consists of five Directors, of which three are Independent Non-Executive Directors. Its members throughout 2005/2006 were:

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

Executives – Remuneration Policy

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

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

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

Remuneration Framework and Philosophy

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

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

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

4. KEY MANAGEMENT PERSONNEL REMUNERATION (CONT'D)

Fixed Remuneration

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

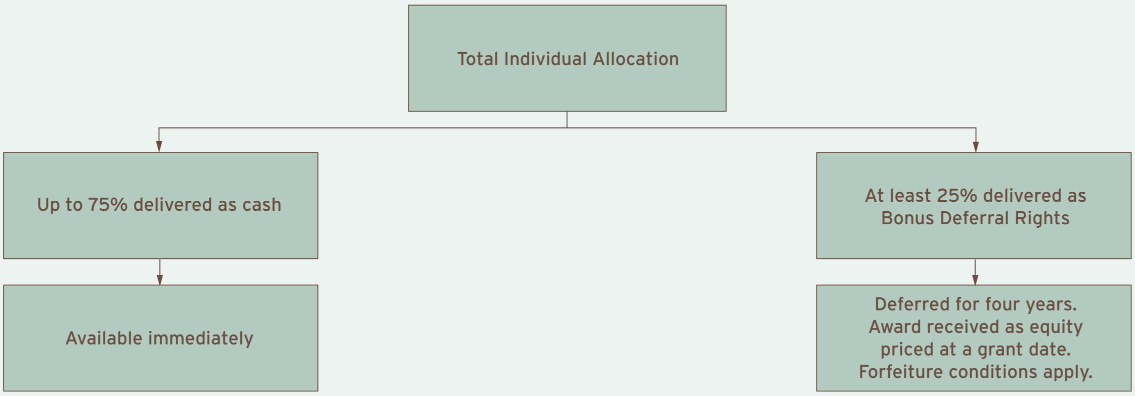
The fixed remuneration component for the Executives generally includes cash salary as well as non-cash benefits, primarily superannuation and ancillary benefits.

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

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

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

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



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

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

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

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

Long Term Incentive Plan (LTIP)

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

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

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

4. KEY MANAGEMENT PERSONNEL REMUNERATION (CONT'D)

Independent Non-Executive Directors – Remuneration Policy and Structure

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

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

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

Board/Committee	Role	Fee
Board – BBWPL	Chair	$ Nil
	Member	$37,500
Board – BBWPS	Chair	$ Nil
	Member	$37,500
Board – BBWPB	Chair	$ Nil
	Member	$10,000
BBW	Lead Independent	$10,000
Audit, Risk and Compliance Committees of each of the Stapled Entities	Chair	$12,000
	Member	$6,000

(F) DIRECTOR-RELATED TRANSACTIONS

There are no Director-related transactions.

5. REMUNERATION OF AUDITORS

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
Assurance services				
PricewaterhouseCoopers (2005: Ernst & Young)				
Audit services				
Audit and review of the financial report	451,330	236,235	25,677	5,112
Other assurance services				
Assistance with transition to Australian-equivalents to International Financial Reporting Standards	95,009	–	–	–
	546,339	**236,235**	**25,677**	**5,112**

6. RECEIVABLES

		Consolidated		Parent Entity	
	Note	2006	2005	2006	2005
		$'000	$'000	$'000	$'000
Current					
Trade debtors		14,709	8,130	–	–
Compensation for loss of revenue	2	5,250	–	–	–
Interest receivable		175	100	–	–
Amounts due from related parties	29	–	–	31,378	10,102
Other receivables		221	–	–	–
		20,355	**8,230**	**31,378**	**10,102**
Non-current					
Amounts due from related parties	29	–	10,734	531,124	141,676
		–	**10,734**	**531,124**	**141,676**

7. PREPAYMENTS

		Consolidated		Parent Entity	
	Note	2006	2005	2006	2005
		$'000	$'000	$'000	$'000
Current					
Prepaid operations expenses		2,042	1,867	–	–
Other prepayments		1,680	3,836	961	–
		3,722	**5,703**	**961**	**–**
Non-current					
Prepaid operations expenses		9,171	6,837	–	–
Prepaid investment costs	27	10,327	–	10,327	–
Other prepayments		4,797	19,082	–	–
		24,295	**25,919**	**10,327**	**–**

8. OTHER CURRENT ASSETS

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Goods and Services Tax and other tax receivables	25,792	12,230	2,208	1,059
Other	419	179	–	–
	26,211	**12,409**	**2,208**	**1,059**

9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Investments in associates	176,049	–	–	–

			Ownership interest		Carrying value	
Names of entity	Principal activity	Country of incorporation	2006 %	2005 %	2006 $'000	2005 $'000
Blue Canyon Windpower LLC	Wind energy	US	8	–	15,385	–
Caprock Wind LLC	Wind energy	US	16	–	43,281	–
Crescent Ridge LLC*	Wind energy	US	47	–	63,820	–
Eurus Combine Hills I LLC	Wind energy	US	14	–	12,266	–
Sweetwater Wind 1 LLC	Wind energy	US	11	–	11,057	–
Sweetwater Wind 2 LLC	Wind energy	US	11	–	30,240	–
					176,049	**–**

* Subsequent to the year end, BBW sold 25% of its interest in Crescent Ridge (see Note 30).

	Group's share of:			
2006	Assets $'000	Liabilities $'000	Revenue $'000	Net Profit after Tax* $'000
Blue Canyon Windpower LLC	8,427	84	353	786
Caprock Wind LLC	20,146	353	825	971
Crescent Ridge LLC	58,904	2,161	–	–
Eurus Combine Hills I LLC	7,774	1,198	346	313
Sweetwater Wind 1 LLC	6,272	102	258	4
Sweetwater Wind 2 LLC	16,543	245	698	–
	118,066	**4,143**	**2,480**	**2,074**

* This represents BBW's share of net profit after tax based on the method of equity accounting described below.

During the year ended 30 June 2006, BBW invested in the following wind farms:

- US03/04 Assets:
  - Sweetwater 1
  - Sweetwater 2
  - Caprock
  - Blue Canyon
  - Combine Hills
- Crescent Ridge

During the year, BBW invested $103,652,000 in the US03/04 assets and $55,215,000 in Crescent Ridge, plus ancillary costs of $8,715,000. Subsequent to the year end, BBW invested in additional US wind farms – refer to Note 30.

Long term equity funding in the US wind farms is contributed by Class A Members and Class B Members. Class A Members are allocated 100% of the tax benefits that flow from a project and after Class B capital is repaid, all cash distributions until a target return is achieved at which time (the Reallocation Date) their portion of the allocation of tax benefits and cash is reduced to approximately 15% – 25% and the remaining 75% – 85% is allocated to the Class B Members. BBW has invested in Class B Membership interests in each of the above wind farms.

The Class A Members receive a significant portion of their return on investment from the allocation of Production Tax Credits (PTCs) to them (available during the first 10 years of operation calculated on the electricity sales of a wind farm) and depreciation deductions on plant and equipment. Because the Class A Members are allocated all of the tax benefits prior to the Reallocation Date, the Class A Members may receive more of their economic return through tax benefits than as a direct cash return.

The Class B Members (including indirectly BBW) receive 100% of the cash distributions until the earlier of the point where (i) they have received cash in an amount equal to 100% of their initial capital investment made at the time of funding the long term equity to the Project LLC and (ii) a specified date that is later than the date when 100% of Class B initial capital investment is expected to have been repaid. Thereafter, until the Reallocation Date, the Class A Members receive 100% of the cash distributions. After the Reallocation Date the cash distributions are split between the Class A Members and Class B Members (including indirectly BBW) in the same proportion as the taxable income and PTCs (if any) are split after the Reallocation Date.

9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONT'D)

As the Class A Members and the Class B Members contributed long term equity funding at the commencement of operations, their investment was prior to, and is therefore different in quantum from, the investment made by BBW pursuant to the US Acquisition to acquire indirect interests in the Class B Membership interests held by the Investment LLCs. The initial Class B capital investment of each Investment LLC to be repaid by each Project LLC is not the same amount as that which BBW has invested in Babcock & Brown Wind Partners-US LLC (BBWPUS). In addition, the terms on which the capital contribution of the Class B Members is repaid differs from the terms on which BBW's capital contribution is repayable under the BBWPUS LLC Agreement.

MANAGING MEMBER OF PROJECT LLC

Each Project LLC is managed by a management committee comprised only of the Class B Members (this is the class in which BBW is indirectly investing). Decisions are made by majority vote so typically no Class B Member has a controlling position in cases where there are more than one Class B Member.

Each of the Investment LLCs, as a Class B Member of a Project LLC, is either the sole managing member or the co-managing member of the Project LLC. The duties of the managing member(s) consist principally of the selection and supervision of contractors and service providers to the Project LLC, including the O&M contractor, the Project Administrator and the Fiscal Administrator, and communicating with investors (Class A Members).

Approval of major decisions, such as financing, asset disposition and modifications to key agreements depends upon the stage of the investment, namely whether before or after the Reallocation Date. Prior to the Reallocation Date, major decisions require the approval of a supermajority which varies by Project LLC. After the Reallocation Date, major decisions require the approval of a majority of interest in the rights to distributable cash; accordingly such decisions are within the control of the Class B Members if they act together. The management committee must prepare an annual budget for approval with voting as set out above.

ACCOUNTING FOR AND EARNINGS TREND OF THE US ASSETS

Upon initial purchase of 80% of BBWPUS, BBW's investment did not represent a controlling interest. Given BBW's restricted ability to influence financial and operating decisions and the respective roles of BBW and other members of BBWPUS, BBW's investment in BBWPUS qualifies as an associate and was accounted for using the equity method.

BBW initially recorded its investment at cost and subsequently adjusted for its proportionate interest in post-acquisition changes in the net assets of BBWPUS.

The initial investment made by the Class B Members in each of the Project LLCs, in which BBW acquired an indirect interest through BBWPUS, represents typically 25% of the total capital contributions of the Class A Members and Class B Members as a whole. However, given the profile of returns, the roles of the respective members, and the operation of the management committee, the Investment LLCs (as Class B Members) account for the Project LLCs as associates.

Equity accounted earnings that are recorded by the Investment LLCs and Class B Members are determined by reference to period on period changes in their legal entitlement to the net assets of the Project LLCs, adjusted for distributions received. BBW has recognised 80% of the equity accounted earnings that flow up to and are recorded in BBWPUS.

Distributions by the Project LLCs, which are made in the period within which capital is repaid to Class B Members, necessarily reduce the net assets of the Project LLCs and hence the entitlement to those net assets by BBWPUS (and indirectly BBW). In this period within which capital is repaid to Class B Members, distributions are greater than equity accounted earnings. In the subsequent period but prior to the Reallocation Date, Class B Members do not receive any distributions which result in an increase in equity accounted earnings recognised by Investment LLCs. Following the Reallocation Date Class B Members receive the majority of distributions which, again reduce the net assets of the Project LLCs and hence the entitlement to those net assets by BBWPUS.

Subsequent to the initial 80% purchase, BBW purchased the remaining 20% of BBWPUS in June 2006 and gained control. BBW accounted for the acquisition at fair value. As a result of the fact that BBWPUS has an ownership interest of less than 100% in one of the Investment LLCs, BBW recorded a minority interest. This minority interest amounted to $9,307,000 at 30 June 2006. Following this purchase of the remaining 20% of BBWPUS, BBW will account for 100% of the equity accounted earnings that flow up to BBWPUS from the Project LLCs.

The investment in Crescent Ridge is structured similarly to that of the US 03/04 assets. As a consequence, equity accounted earnings are determined by reference to period on period changes in BBW's legal entitlement to the net assets of Crescent Ridge, adjusted for distributions received.

DISTRIBUTIONS RECEIVED FROM ASSOCIATES

During the year, the consolidated entity received distributions of $7,024,000 (2005: n/a) from its associates.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

The consolidated entity's share of the contingent liabilities of associates is disclosed in Note 24. None of the associates has any capital commitments.

10. DERIVATIVE FINANCIAL INSTRUMENTS – ASSETS

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current				
At fair value (2005: cost):				
Interest rate swaps	194	–	–	–
	194	**–**	**–**	**–**
Non-current				
At fair value (2005: cost):				
Foreign currency forward contracts	597	–	–	–
Interest rate swaps	12,248	–	32	–
	12,845	**–**	**32**	**–**

Refer Note 32 for further information.

11. PROPERTY, PLANT AND EQUIPMENT

	Consolidated		
	Assets under construction $'000	Plant and Equipment at cost $'000	Total $'000
Gross carrying amount			
Balance at 1 July 2004	93,132	–	93,132
Additions	195,568	–	195,568
Transfers	(137,912)	137,912	–
Acquisitions through business combinations	–	95,173	95,173
Balance at 1 July 2005	**150,788**	**233,085**	**383,873**
Additions	102,550	4,304	106,854
Transfers	(217,751)	217,751	–
Acquisitions through business combinations	4,100	171,981	176,081
Net foreign currency exchange differences	994	19,635	20,629
Balance at 30 June 2006	**40,681**	**646,756**	**687,437**
Accumulated depreciation/amortisation and impairment			
Balance at 1 July 2004	–	–	–
Depreciation expense	–	(5,672)	(5,672)
Net foreign currency exchange differences	–	–	–
Balance at 1 July 2005	**–**	**(5,672)**	**(5,672)**
Depreciation expense	–	(16,217)	(16,217)
Net foreign currency exchange differences	–	(666)	(666)
Balance at 30 June 2006	**–**	**(22,555)**	**(22,555)**
Net book value			
As at 30 June 2005	**150,788**	**227,413**	**378,201**
As at 30 June 2006	**40,681**	**624,201**	**664,882**

The Group has certain assets valued at $46,231,000 which are accounted for under finance leases (2005: nil). Refer to Note 15 and Note 25.

The parent entity does not have property, plant and equipment.

12. GOODWILL

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Gross carrying amount					
Balance at beginning of financial year		1,798	–	–	–
Additional amounts recognised from business combinations occurring during the period	27	14,704	1,798	–	–
Balance at end of financial year		**16,502**	**1,798**	**–**	**–**
Net book value					
At the beginning of the financial year		**1,798**	**–**	**–**	**–**
At the end of the financial year		**16,502**	**1,798**	**–**	**–**

Under AASB 3, Business Combinations, an entity is permitted a period of 12 months from acquisition date to complete the purchase accounting. BBW engaged an independent advisor to perform an exercise to allocate the purchase price paid at acquisition for the Olivo assets. As a result of this purchase price allocation, the goodwill balance in the prior year in relation to these assets has been restated to zero and the majority transferred to licences. Refer to Note 33 for further information.

ALLOCATION OF GOODWILL TO CASH-GENERATING UNITS

As permitted under AASB 3, Business Combinations, an exercise to allocate the purchase price paid for each of Eifel and Fruges will take place within a 12 month period from acquisition. This could result in a revision to the amount of goodwill recorded. As a result, at reporting date goodwill has not yet been allocated to a cash generating unit. Accordingly, no impairment testing of these amounts has been undertaken.

13. INTANGIBLE ASSETS

	Consolidated: Framework agreement $'000	Consolidated: Project-related agreements and licences $'000	Consolidated: Total $'000
Balance at 1 July 2004	–	–	–
Additions through business combinations	–	24,049	24,049
Balance at 1 July 2005	–	24,049	24,049
Additions	5,100	33,171	38,271
Additions through business combinations	–	82,132	82,132
Net foreign currency exchange differences	–	5,966	5,966
Balance at 30 June 2006	**5,100**	**145,318**	**150,418**
Accumulated amortisation and impairment			
Balance at 1 July 2004	–	–	–
Amortisation expense	–	(298)	(298)
Balance at 1 July 2005	–	(298)	(298)
Amortisation expense*	(1,514)	(2,330)	(3,844)
Net foreign currency exchange differences	–	(122)	(122)
Balance at 30 June 2006	**(1,514)**	**(2,750)**	**(4,264)**
Net book value			
As at 30 June 2005	**–**	**23,751**	**23,751**
As at 30 June 2006	**3,586**	**142,568**	**146,154**

13. INTANGIBLE ASSETS (CONT'D)

	Parent Entity		
	Framework agreement	Project-related agreements and licences	Total
	$'000	$'000	$'000
Balance at 1 July 2004 and 1 July 2005	–	–	–
Additions	5,100	–	5,100
Balance at 30 June 2006	**5,100**	**–**	**5,100**
Accumulated amortisation and impairment			
Balance at 1 July 2004 and 1 July 2005	–	–	–
Amortisation expense *	(1,514)	–	(1,514)
Balance at 30 June 2006	**(1,514)**	**–**	**(1,514)**
Net book value			
As at 30 June 2005	**–**	**–**	**–**
As at 30 June 2006	**3,586**	**–**	**3,586**

* Amortisation expense is included in the line item Depreciation and Amortisation in the income statement.

SIGNIFICANT INTANGIBLE ASSETS

Lake Bonney Stage 2

In September 2005 the Group entered into a Project Development Agreement (PDA) in relation to Lake Bonney Stage 2.

Under this PDA a fee of $20,000,000 was paid through the issuance of 14,286,000 Stapled Securities, each valued at $1.40 (see Note 18 Contributed Equity). Half of the fee was payable to a subsidiary of Babcock & Brown Limited – refer to Note 29. These securities were returnable to the extent that the developers did not meet certain conditions under the PDA. At 31 December 2005 the date by which the conditions needed to be met was not reached and accordingly the fee was disclosed as a prepayment in the accounts for the half year ended 31 December 2005.

In May 2006, the conditions of the PDA were fulfilled and the Group commenced construction of Lake Bonney Stage 2. Additional costs of $13,171,000 were incurred in relation to other project-related agreements and licences connected with Lake Bonney Stage 2.

Olivo

Following the allocation of the purchase price paid for each of the six wind farms that comprise the Olivo portfolio, project-related licences amounting to $106,181,000 have been recorded. This has resulted in a restatement of prior year balances – refer to Note 33. The licences are to be amortised over a period of 25 years.

14. PAYABLES

		Consolidated		Parent	
	Note	2006	2005	2006	2005
		$'000	$'000	$'000	$'000
Current					
Accounts payable		38,424	11,516	1,998	167
Amounts due to related parties	29	15,046	9,555	4,819	7,463
Interest payable		1,004	–	3,872	–
Goods and services tax payable		2,423	5,691	–	–
		56,897	**26,762**	**10,689**	**7,630**
Non-current					
Amounts payable to related parties	29	–	2,234	–	–
		–	2,234	–	–

15. BORROWINGS

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current				
Unsecured				
At amortised cost (2005: cost):				
Loans from related parties*	–	8,662	–	8,662
	–	**8,662**	**–**	**8,662**
Secured				
At amortised cost (2005: cost):				
Bank loans – Lake Bonney loan facility (ii)	–	5,604	–	–
Bank loans – Walkaway loan facility (iv)	–	160,202	–	–
Bank loans – Olivento loan facility (v)	30,667	11,556	–	–
Bank loans – Niederrhein loan facility (vi)	1,886	5,349	–	–
	38,157	**177,107**	**–**	**–**
Finance lease liabilities (vii)	1,721	–	–	–
Banking facilities	39,878	177,107	–	–
	39,878	**185,769**	**–**	**8,662**
Non-current				
Unsecured				
At amortised cost (2005: cost):				
Loans from related parties	–	–	678,932	166,518
	–	**–**	**678,932**	**166,518**
Secured				
At amortised cost (2005: cost):				
Babcock & Brown Wind Partners – Corporate Facility (i)	3,288	–	3,288	–
Bank loans – Lake Bonney loan facility (ii)	121,726	97,543	–	–
Lake Bonney mezzanine debt facility (iii)	15,908	–	–	–
Bank loans – Walkaway loan facility (iv)	169,150	–	–	–
Bank loans – Olivento loan facility (v)	254,895	90,792	–	–
Bank loans – Niederrhein loan facility (vi)	26,651	–	–	–
	591,618	**188,335**	**3,288**	**–**
Finance lease liabilities (vii)	39,871	–	–	–
	631,489	**188,335**	**688,220**	**166,518**

* Further information relating to loans from related parties is set out in Note 29.

(i) Corporate facility

BBWPL entered into a €30,000,000 facility earlier in the year. This facility was extended to €150,000,000 in May 2006. Amounts owing under the facility are secured by a fixed and floating charge over specific cash balances and other assets.

Drawings under the facility are in multiple currencies to match the underlying currencies of BBW's investments and provide a natural foreign currency hedge in relation to the debt servicing of amounts drawn under the facility.

The facility has a three year term and has been provided by BOS International (Australia) Limited, BNP Paribas and Australia and New Zealand Banking Group Limited.

At balance date, BBWPL had drawn funds of $9,588,000 (before costs of $6,300,000) and a letter of credit of $99,000,000 under the facility. BBWPL pays interest based on Euribor (Euro drawings), BBR (Australian Dollar) or LIBOR (other currencies), plus a margin. BBWPL is required to and has entered into financial instruments to fix the interest rate for a portion of the loan.

No repayments are due under the facility until the end of the three year term, although BBWPL is permitted to make repayments as and when it wants.

At balance date, approximately $149,592,000 of the facility was unused.

15. BORROWINGS (CONT'D)

(ii) Lake Bonney loan facility

This facility was re-financed during the year to accommodate the construction of Lake Bonney Stage 2 and ongoing operations of Lake Bonney Stage 1. The re-financed facility incorporates construction, term and working capital facilities.

The combined facilities have been provided by Dexia Credit Local Asia Pacific Pty Limited, KBC Finance Ireland, Societe Generale Australia and Suncorp Metway Limited.

The construction facility is repaid once construction of Lake Bonney Stage 2 is completed. The repayment is, in part, funded by the consolidated group, but also through additional drawings under the term facility. The final repayment dates of the working capital and term facilities are in June 2011 and December 2014, respectively.

The construction facility has a limit of $310,000,000 and had a balance of $41,335,000 at the balance date. Costs of $ 8,030,000 were incurred in relation to arranging the facility and will be amortised over the term. The interest rate on the construction facility is at a margin of 1.10% per annum over a base rate. The base rate is a floating rate set by reference to the average BBSY Bid Rate. Lake Bonney Wind Power Pty Limited has entered into financial instruments to fix the interest rate for a portion of the loan.

The term facility has a limit of $95,000,000 up to the point when Lake Bonney Stage 2 has been constructed and $280,000,000 thereafter.

The term facility had a balance of $94,025,000 at the balance date, which included $5,604,000 that is due and repayable during the year ended 30 June 2007.

There was no balance outstanding under the working capital facility at balance date, which has a limit of $6,000,000 from the point following construction of Lake Bonney Stage 2.

The interest rate on the term and working capital facilities is at a margin of 1.00% for the period through May 2008, 1.25% for the period from May 2008 to May 2013 and 1.40% per annum for the period after May 2013, over a base rate. The base rate is a floating rate set by reference to the average BBSY Bid Rate.

(iii) Lake Bonney mezzanine debt facility

This facility has been provided by NM Rothschild & Sons (Australia) Limited. It has a limit of $16,500,000, which can be increased to $20,000,000. The balance of funds drawn at balance date was $16,449,000 less cost incurred of $541,000.

The interest rate on the facility is at a margin of 4.0% per annum prior to 31 May 2011 and 4.5% thereafter, over a base rate. The base rate is a floating rate set by reference to the average BBSY Bid Rate.

The final repayment date of the mezzanine debt facility is December 2015. No amounts are repayable within the next financial year ended 30 June 2007.

(iv) Walkaway loan facility

This facility incorporates construction, term and working capital facilities and is provided by BNP Paribas and the Commonwealth Bank of Australia.

The construction facility had a limit of $206,016,000 and was converted into the term facility in June 2006.

At balance date the limit of the term facility, $169,150,000, was fully drawn. No amounts are repayable during the year ended 30 June 2007. No amounts have been drawn under the working capital facility, which has a limit of $2,000,000.

The interest rate on the construction facility is at a margin of 1.05% per annum over a base rate. The base rate is a floating rate set by reference to the average BBSY Bid Rate.

The interest rate on the term and working capital facilities is 1.05% per annum through December 2010, 1.25% per annum from December 2010 to December 2015 and 1.40% per annum therafter.

The final repayment date under the term facility is December 2018.

(v) Olivento loan facility

The facility incorporates term, working capital and VAT facilities and has been provided by Dexia Credit Local, Dexia Sabadell Banco Local, S.A. and the Bank of Scotland.

The limit of the term facility is €165,000,000. The term facility had a balance of €147,174,000 at balance date. Of the €147,174,000, €6,967,000 is repayable within the year ended 30 June 2007.

The limit of the working capital facility is €10,000,000, all of which was drawn at balance date and none of which is repayable in the year ended 30 June 2007.

The limit of the VAT facility is €19,000,000. There is a balance of €10,837,000 at the balance date, which is expected to be fully repaid in the year ended 30 June 2007.

The rate of interest on the term facility is at a margin of 1.10% for the period up to 31 December 2006, 1.20% for the period up to 31 December 2009 and 1.25% per annum thereafter, over a base rate. The base rate is a floating rate set by reference to the average Euribor rate for the period. Olivento has entered into financial instruments to fix the rate of interest.

The rates of interest on the working capital and VAT facilities are at a margin of 1.10% and 0.60% over the base rate noted above.

The final repayment date of the term and working capital facilities is December 2020.

15. BORROWINGS (CONT'D)

(vi) Niederrhein loan facility

The facility incorporates term, debt service reserve and decommissioning facilities and has been provided by HSH Nordbank.

The limit of the term facility is €17,252,000. The term facility had a balance of €16,580,086 at balance date, of which €1,095,528 is repayable within the year ended 30 June 2007.

The limit of the debt service reserve and the decommissioning reserve facility is €1,650,000, none of which was drawn at balance date.

The rate of interest on the term facility ranges between 3.25% fixed and EURIBOR plus a margin of 2.5%.

The rates of interest on the debt service and the decommissioning reserve facilities are EURIBOR plus a margin of 1.5%.

The final repayment date of the term and working capital facilities is 30 June 2020.

(vii) Finance lease liabilities

Refer to Note 25.

ASSETS PLEDGED AS SECURITY

Bank loans of project-level subsidiaries are secured by a combination of fixed and floating charges over the assets of these entities.

The corporate facility is secured by a fixed and floating charge over certain cash balances of $6,951,000 and a fixed and floating charge over the remaining assets of the Group.

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

The carrying amounts of assets pledged as security for current and non-current borrowings are:

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current				
Cash and cash equivalents	124,177	32,437	6,951	–
Receivables	43,825	38,911	–	–
Total current assets pledged as security	**168,002**	**71,348**	**6,951**	**–**
Non-current				
Receivables	14,342	–	–	–
Property, plant and equipment	656,839	399,877	–	–
Total non-current assets pledged as security	**671,181**	**399,877**	**–**	**–**
Total assets pledged as security	**839,183**	**471,225**	**6,951**	**–**

16. DERIVATIVE FINANCIAL INSTRUMENTS – LIABILITIES

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Current				
At fair value:				
Foreign currency forward contracts	1,100	–	903	–
Interest rate swaps	866	–	19	–
	1,966	**–**	**922**	**–**
Non-current				
At fair value:				
Foreign currency forward contracts	1,402	–	1,402	–
Interest rate swaps	260	–	–	–
	1,662	**–**	**1,402**	**–**

Refer Note 32 for further information.

17. CAPITALISED BORROWING COSTS

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Borrowing costs capitalised during the financial year	5,615	12,476	–	–
Weighted average capitalisation rate on funds borrowed generally	5.7%	6.3%	–	–

18. CONTRIBUTED EQUITY

	Note	No '000	$'000	No '000	$'000
Fully paid Stapled Securities/shares					
Balance as at 1 July 2004		62,116	62,116	62,116	620
Capital raisings (i)		100,640	112,800	100,640	1,128
Transfer to retained earnings		–	(10,028)	–	–
Balance as at 30 June 2005		**162,756**	**164,888**	**162,756**	**1,748**
Transfer of net assets attributable to Security holders from equity to liability (ii)		–	(163,140)	–	–
Transfer of net assets attributable to Security holders from liability to equity (ii)		–	161,512	–	–
Lake Bonney 2 (iii)		14,286	20,000	14,286	200
Alinta Wind Farm (iv)		34,286	48,000	34,286	480
Capital raising, net of issue costs (v)		356,937	487,048	356,937	2,024
Incentive fee (vi)		7,037	13,028	7,037	2
Capital distribution	22	–	(25,202)	–	–
Balance as at 30 June 2006		**575,302**	**706,134**	**575,302**	**4,454**
Attributable to:					
Equity holders of the parent			4,454		4,454
Equity holders of the other Stapled Securities (minority interests)			701,680		–
			706,134		**4,454**

Stapled securities entitle the holder to participate in dividends from BBWPL and BBWPB and in distributions from BBWPT. The holder is entitled to participate in the proceeds on winding up of the Group in proportion to the number of and amounts paid on the securities held.

(i) Capital raisings – 2005

In August 2004 the entity issued 41,944,000 securities at a price of $1.08. Total proceeds amounted to $45,300,000. In March 2005 the entity issued 58,696,000 securities at a price of $1.15. Total proceeds amounted to $67,500,000.

(ii) Change in Constitution

Upon the implementation of A-IFRS, 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.

(iii) Lake Bonney Stage 2

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

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.

18. CONTRIBUTED EQUITY (CONT'D)

(iv) 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 BBW. 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.

(v) Capital raising, net of issue costs

During the year ended 30 June 2006, BBW 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 $25,180,000.

In June 2006, BBW issued 74,100,000 Stapled Securities pursuant to a private placement. Each Stapled Security was valued at $1.60 and total proceeds amounted to $118,560,000 before costs of $2,304,000.

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Initial Public Offer	282,837	395,972	282,837	2,828
Capital raising	74,100	118,560	74,100	12
	356,937	**514,532**	**356,937**	**2,840**
Less: Issue costs	–	(27,484)	–	(816)
	356,937	**487,048**	**356,937**	**2,024**

(vi) Incentive Fee

The Management Agreement entered into between BBWPL and Babcock & Brown Infrastructure Management Pty Limited includes provisions for an incentive fee (see Note 29). Under the Agreement, up to 60% of the incentive fee may be paid in Stapled Securities. The incentive fee amounted to $33,150,000 and approximately 40%, or $13,028,000 was settled through the issue of 7,037,102 Stapled Securities at a price of $1.85 per Stapled Security.

19. RESERVES

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Foreign currency translation	6,754	(4,553)	–	–
Hedging	7,185	–	(1,357)	–
Acquisition	(49,442)	–	–	–
	(35,503)	**(4,553)**	**(1,357)**	**–**
Attributable to:				
Equity holders of the parent	(13,868)	(4,553)	(1,357)	–
Equity holders of the other Stapled Securities (minority interests)	(21,635)	–	–	–
	(35,503)	**(4,553)**	**(1,357)**	**–**
Foreign currency translation reserve				
Balance at beginning of financial year	(4,553)	–	–	–
Translation of foreign operations	11,307	(4,553)	–	–
Balance at end of financial year	**6,754**	**(4,553)**	**–**	**–**

Exchange differences arising on translation of foreign controlled entities are taken to the foreign currency translation reserve, as described in Note 1. The reserve is recognised in profit and loss when the net investment is disposed of.

19. RESERVES (CONT'D)

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Hedging reserve					
Balance at beginning of financial year		–	–	–	–
Adjustments on adoption of accounting policies specified by AASB 132 and AASB 139	1	(7,491)	–	–	–
Restated balance at 1 July 2005		**(7,491)**	**–**	**–**	**–**
Gain/(loss) recognised:					
Forward exchange contracts		(1,053)	–	(1,952)	–
Interest rate swaps		18,808	–	13	–
Deferred tax arising on hedges		(3,079)	–	582	–
Balance at end of financial year		**7,185**	**–**	**(1,357)**	**–**

The hedging reserve is used to record gains or losses on a hedging instrument that are recognised directly in equity, as described in Note 1. Amounts are recognised in profit and loss when the associated hedged transaction settles.

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Acquisition reserve					
Balance at beginning of financial year		–	–	–	–
Alinta Wind Farm		(49,442)	–	–	–
Balance at end of financial year		**(49,442)**	**–**	**–**	**–**

Prior to the acquisition BBWPL owned 75% of the share capital of Walkaway Wind Power Pty Limited (WWP) and consolidated WWP. Therefore, the acquisition of the remaining 25% did not result in a change of control but was an acquisition of the minority shareholders. These transactions are treated as transactions between owners of the group. Additional goodwill is recognised only to the extent that it represents goodwill which was attributable to the minority interest at the acquisition date but is now attributable to the parent entity. No such goodwill was recognised in relation to WWP. The difference between the purchase consideration and the amount by which minority interest is adjusted was recognised in the acquisition reserve.

20. RETAINED EARNINGS

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
Balance at beginning of financial year		2,316	1,625	(1,237)	(73)
Net profit attributable to Stapled Security Holders		(16,235)	2,674	(7,484)	(1,164)
Transfer from contributed equity		–	10,027	–	–
Distributions provided for or paid	22	–	(12,010)	–	–
Balance at end of financial year		**(13,919)**	**2,316**	**(8,721)**	**(1,237)**
Attributable to:					
Equity holders of the parent		(18,126)	2,316	(8,721)	(1,237)
Equity holders of the other Stapled Securities (minority interests)		4,207	–	–	–
		(13,919)	**2,316**	**(8,721)**	**(1,237)**

21. EARNINGS PER SECURITY/SHARE

	Consolidated	
	2006	2005
	Cents per Security/ Share	Cents per Security/ Share
Basic and diluted earnings per Stapled Security/parent entity share:		
Parent entity share	(0.05)	0.02
Stapled Security	(0.04)	0.02

The earnings and weighted average number of securities/shares used in the calculation of basic and diluted earnings per security/share are as follows:

	2006	2005
	$'000	$'000
Earnings attributable to the parent entity shareholders	(20,442)	2,720
Earnings attributable to the Stapled Security Holders	(16,235)	2,674

	2006	2005
	No. '000	No. '000
Weighted average number of securities/shares for the purposes of basic and diluted earnings per security/share	386,137	114,096

22. DISTRIBUTIONS AND FINANCE COSTS PAID

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

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

On 7 September 2006, the Board of Directors of BBW declared a final distribution in respect of the year ended 30 June 2006 of 5.1 cents per Stapled Security. The amount that will be paid on 29 September 2006 is $22,824,000.

No franking credits have been generated by the parent entity.

23. COMMITMENTS FOR EXPENDITURE

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
(A) CAPITAL EXPENDITURE COMMITMENTS				
Not longer than 1 year	109,561	128,905	–	–
Longer than 1 year and not longer than 5 years	158,088	4,000	–	–
Longer than 5 years	–	20,000	–	–
	267,649	152,905	–	–

(B) LEASE COMMITMENTS

Finance lease liabilities and non-cancellable operating lease commitments are disclosed in Note 25 to the financial statements.

23. COMMITMENTS FOR EXPENDITURE (CONT'D)

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
(C) OTHER EXPENDITURE COMMITMENTS				
Other				
Not longer than 1 year	4,038	–	–	–
Longer than 1 year and not longer than 5 years	15,785	–	–	–
Longer than 5 years	54,827	–	–	–
	74,650	**–**	**–**	**–**

24. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Letters of credit	108,540	10,694	99,000	–
Guarantees	59,211	–	54,679	–
Arising from equity accounted investments				
Consolidated entity's share of associates' contingent liabilities	874	–	–	–

A letter of credit for $99,000,000 has been provided to the financiers of the Lake Bonney Stage 2 project as security in support of LBWP's equity commitment under the financing documents.

Guarantees generally relate to wind farm operations and decommissioning.

25. LEASES

FINANCE LEASES

Leasing arrangements

Finance leases relate to assets at the Eifel wind farm.

		Minimum future lease payments			
		Consolidated		Parent Entity	
	Note	2006 $'000	2005 $'000	2006 $'000	2005 $'000
FINANCE LEASE LIABILITIES					
No later than 1 year		4,267	–	–	–
Later than 1 year and not later than 5 years		17,067	–	–	–
Later than 5 years		41,556	–	–	–
Minimum lease payments*		62,890	–	–	–
Less future finance charges		(21,298)	–	–	–
Present value of minimum lease payments		41,592	–	–	–
Included in the financial statements as:					
Current borrowings	15	1,721	–	–	–
Non-current borrowings	15	39,871	–	–	–
		41,592	**–**	**–**	**–**

* Minimum future lease payments include the aggregate of all lease payments and any guaranteed residual.

The finance leases have a term of 14 years with an option to purchase at the end of the term.

OPERATING LEASES

Leasing arrangements

	Consolidated		Parent Entity	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Non-cancellable operating lease payments				
Not longer than 1 year	1,777	1,321	–	–
Longer than 1 year and not longer than 5 years	8,160	7,409	–	–
Longer than 5 years	59,406	53,431	–	–
	69,343	**62,161**	**–**	**–**

26. SUBSIDIARIES

Name of entity	Country of Incorporation	Ownership interest 2006 %	2005 %
Parent entity			
Babcock & Brown Wind Partners Limited*	Australia		
Other stapled entities			
Babcock & Brown Wind Partners (Bermuda) Limited	Bermuda		
Babcock & Brown Wind Partners Trust	Australia		
Subsidiaries of BBW			
B&B Blue Canyon LLC	US	100	–
B&B Caprock LLC	US	80	–
B&B Combine Hills LLC	US	100	–
B&B Eifel UK Ltd	UK	100	–
B&B LB2 Pty Limited*	Australia	100	–
B&B Sweetwater 1 LLC	US	100	–
B&B Sweetwater 2 LLC	US	100	–
B&B Walkaway Pty Limited*	Australia	100	–
B&B Walkaway Trust	Australia	100	–
B&B Wind Pty Limited*	Australia	100	100
BBWP Europe Pty Limited*	Australia	100	–
BBWP Europe 2 Pty Limited*	Australia	100	–
BBWP (US) LLC	US	100	–
BBWP (US) Pty Limited*	Australia	100	–
Babcock & Brown Wind Partners France SAS	France	100	–
Babcock & Brown Wind Partners US LLC	US	100	–
Babcock & Brown Wind Partners (Spain) S.L.	Spain	100	–
CS Walkaway Pty Limited*	Australia	100	–
CS Walkaway Trust	Australia	100	–
Global Wind Partners UK Ltd	UK	100	100
Global Wind Partners UK 2 Ltd	UK	100	100
Global Wind Partners UK 3 Ltd	UK	100	–
GWP Europe Pty Limited*	Australia	100	100
GWP Europe 2 Pty Limited*	Australia	100	100
GWP Walkaway Pty Limited*	Australia	100	100
Lake Bonney Wind Power Pty Limited*	Australia	100	100
Lake Bonney Wind Power 2 Pty Limited*	Australia	100	–
Lake Bonney Wind Power 3 Pty Limited	Australia	100	–
NPP LB2 LLC*	US	100	–
NPP Projects I LLC*	US	100	100
NPP Projects V LLC*	US	100	–
NPP Walkaway Pty Limited*	Australia	100	–
NPP Walkaway Trust*	Australia	100	–
Olivento S.L.	Spain	100	100
Renewable Power Ventures Investment Trust	Australia	100	–
Sistemas Energeticos Del Sardon S.A.U.	Spain	100	–
Sistemas Energeticos Montes de Leon S.A.U.	Spain	100	–
Sistemas Energeticos Opinen S.A.U.	Spain	–	100
Sistemas Energeticos Serra da Loba S.A.U.	Spain	100	–
Sistemas Energeticos Sierra del Trigo S.A.U.	Spain	–	100
Sistemas Energeticos Villarubia S.A.U.	Spain	–	100

26. SUBSIDIARIES (CONT'D)

Name of entity	Country of Incorporation	Ownership interest 2006 %	2005 %
Subsidiaries of BBW (Cont'd.)			
Societe d'Exploitation du Parc Eolien de Fond Du Moulin SARL	France	100	–
Societe d'Exploitation du Parc Eolien de Mont Felix SARL	France	100	–
Societe d'Exploitation du Parc Eolien Le Marquay SARL	France	100	–
Walkaway Wind Power Pty Limited	Australia	100	75
Windpark Eifel GmbH & Co KG Partnership	Germany	100	–
Windpark Niederrhein GmbH & Co KG Partnership	Germany	99	99

* Denotes a member of the BBWPL tax consolidated group.

27. ACQUISITION OF BUSINESSES

BABCOCK & BROWN WIND PARTNERS (BERMUDA) LIMITED

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.

WALKAWAY WIND POWER PTY LIMITED

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 BBW. 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.

The transaction resulted in the purchase of 100% of the following entities:

- CS Walkaway PtyLimited
- CS Walkaway Trust
- B&B Walkaway Pty Limited
- B&B Walkaway Trust
- NPP Projects V LLC

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.

During the year ended 30 June 2006, BBW purchased 100% of the share capital of three wind farms in relation to the Olivo portfolio. The entities that were purchased were Montes de Leon S.A.U., Del Sardon S.A.U. and Serra da Loba S.A.U. An exercise to allocate the purchase price paid for these assets was undertaken and the following summarises the carrying and fair values at acquisition following this exercise:

27. ACQUISITION OF BUSINESSES (CONT'D)

	$'000 Carrying value	$'000 Fair value
Consideration		
Cash paid, net of cash acquired		71,235
Net assets acquired		
Cash	5,873	5,873
Receivables	17,336	17,336
Other assets	3,473	3,473
Licences	–	74,367
Plant and equipment	137,807	139,668
Deferred tax asset	–	189
Payables	(4,650)	(4,650)
Interest bearing liabilities	(158,555)	(158,555)
Deferred tax liability	–	(593)
	1,284	**77,108**
Less: cash acquired		(5,873)
Implied goodwill		–
		71,235

The acquired businesses contributed revenues of $11,728,000 and net profit of $1,951,000 to the Group for the period from acquisition to 30 June 2006. If the acquisitions had occurred on 1 July 2005, a further $19,259,000 of revenue and $3,409,000 of net profit would have been contributed to the Group.

During the year ended 30 June 2005, BBW purchased 100% of the share capital of three wind farms in relation to the Olivo portfolio. The entities that were purchased were Sierra del Trigo S.A.U., Opinen S.A.U. and Villarubia S.A.U. An exercise to allocate the purchase price paid for these assets was undertaken and the following summarises the carrying and fair values at acquisition following this exercise:

	$'000 Carrying value	$'000 Fair value
Consideration		
Cash paid, net of cash acquired		40,966
Net assets acquired		
Cash	2,032	2,032
Receivables	8,352	8,352
Other assets	1,160	1,160
Licences	–	25,072
Plant and equipment	98,619	101,400
Payables	(4,760)	(4,760)
Interest bearing liabilities	(89,368)	(89,368)
Deferred tax liability	–	(890)
	16,035	**42,998**
Less: cash acquired		(2,032)
Implied goodwill		–
		40,966

27. ACQUISITION OF BUSINESSES (CONT'D)

EIFEL

During the year, BBW purchased 100% of the share capital of B&B Eifel UK Limited (Eifel UK). Eifel UK has a 100% interest in the Windpark Eifel GmbH & Co KG partnership, which operates the Eifel wind farm. The purchase price was approximately $6,646,000, which includes associated costs of $2,950,000. The provisional values of net assets acquired, $2,747,000, comprised the following:

	$'000 Provisional values
Consideration	
Cash paid, net of cash acquired	4,160
Net assets acquired	
Cash	2,486
Receivables	667
Plant and equipment	36,322
Purchased goodwill	8,356
Payables	(1,141)
Interest bearing liabilities	(43,943)
	2,747
Less: cash acquired	(2,486)
Implied goodwill	3,899
	4,160

The acquired business contributed revenues of $2,131,000 and net loss of $123,000 to the Group for the period from acquisition, 1 January 2006, to 30 June 2006. If the acquisition had occurred on 1 July 2005, a further $5,500,000 of revenue and $265,000 of net profit would have been contributed to the Group.

AASB 3, Business Combinations requires the assets liabilities of a subsidiary to be recognised by the acquiring entity at fair value. AASB 3 also allows an acquiring entity 12 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 year ended 30 June 2007 and comparatives will be appropriately restated.

FRUGES

During the year, BBW acquired 100% of three companies in France: Societe d'Exploitation du Parc Eolien Le Marquay SARL, Societe d'Exploitation du Parc Eolien Fond du Moulin SARL and Societe d'Exploitation du Parc Eolien Mont Felix SARL. Each of the three companies is in the process of developing a wind farm in France (the Fruges Wind Farms).

The Fruges Wind Farms are in the construction phase and contributed no amount of revenue or net profit/loss to the Group's result.

The purchase price paid was approximately $12,000 for each company, plus costs of approximately $2,214,000. The book value of the net assets comprised cash of approximately $12,000 and goodwill of approximately $2,214,000 has been recognised.

PLAMBECK

BBW entered into a Framework Agreement with Plambeck Neue Energien AG in March 2006. Under this Agreement a prepayment of €6,000,000 ($10,327,000) was made towards future investments. The amount paid will reduce the purchase price of future acquisitions under the Agreement.

28. 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. BBW reports its primary segment information on a geographical basis.

The France operations were in construction phase and hence no revenue was generated from that segment. This segment is expected to start commercial operations in the first half of calendar 2007.

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

SEGMENT REVENUES

	External sales		Inter-Segment		Other		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Australia	30,644	9,005	–	–	9,891	4,757	40,535	13,762
Spain	32,446	7,602	–	–	169	172	32,615	7,774
Germany	4,660	–	–	–	13	–	4,673	–
Total of all segments	**67,750**	**16,607**	**–**	**–**	**10,073**	**4,929**	**77,823**	**21,536**
Share of profits of associates, net of tax (US)							2,074	–
Unallocated							14,110	1,681
Consolidated							**94,007**	**23,217**

SEGMENT RESULTS

	Australia		Spain		Germany		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Segmental result	9,668	2,479	8,719	2,318	1,017	–	19,404	4,797
Share of profits of associates, net of tax (US)							2,074	–
Unallocated							(37,762)	(1,003)
(Loss)/profit before income tax expense							**(16,284)**	**3,794**
Income tax expense							(49)	(1,120)
(Loss)/profit for the period							**(16,235)**	**2,674**

Note: Segment results for France are nil.

SEGMENT ASSETS AND LIABILITIES

	Assets		Liabilities	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
Australia	608,362	348,076	325,388	288,419
Spain	401,569	217,992	213,368	117,148
Germany	87,591	15,083	41,182	4,428
France	13,052	–	7,298	–
United States	302,461	–	159,780	–
Consolidated	**1,413,035**	**581,151**	**747,016**	**409,995**

28. SEGMENT INFORMATION (CONT'D)

	Australia 2006 $'000	Spain 2006 $'000	Germany 2006 $'000	France 2006 $'000	Unallocated 2006 $'000	Consolidated 2006 $'000
OTHER SEGMENT INFORMATION						
Carrying value of investments accounted for using the equity method (US)	–	–	–	–	176,049	176,049
Share of net profit/(loss) of associates and jointly controlled entities accounted for under the equity method (US)	–	–	–	–	2,074	2,074
Acquisition of segment assets:						
Property, plant and equipment	69,977	–	29,169	7,708	–	106,854
Intangible assets	33,171	–	–	–	5,100	38,271
Depreciation and amortisation of segment assets	(9,727)	(7,603)	(1,217)	–	(1,514)	(20,061)
Other significant expenses:						
Management charges	–	–	–	–	(44,379)	(44,379)
Finance costs	(15,263)	(9,747)	(1,566)	–	(3,011)	(29,587)
Administration, consultancy and legal fees	–	(1,031)	–	–	(2,967)	(3,998)
Operating and Maintenance expense	(2,854)	(2,915)	(259)	–	–	(6,028)
Land lease expense	(469)	(448)	(230)	–	–	(1,146)
Connection fees	(1,652)	–	(10)	–	–	(1,662)

	Australia 2005 $'000	Spain 2005 $'000	Germany 2005 $'000	Unallocated 2005 $'000	Consolidated 2005 $'000
Acquisition of segment assets:					
Property, plant and equipment	182,836	–	12,732	–	195,568
Depreciation and amortisation of segment assets	(3,678)	(2,292)	–	–	(5,970)
Other significant expenses:					
Finance costs	(5,115)	(1,662)	–	(916)	(7,693)
Administration, consultancy and legal fees	(56)	(341)	–	(1,280)	(1,677)
Operating and Maintenance expense	(779)	(1,200)	–	–	(1,979)
Land lease expense	(238)	–	–	–	(238)
Connection fees	(1,015)	–	–	–	(1,015)

29. RELATED PARTY DISCLOSURES

(A) EQUITY INTERESTS IN RELATED PARTIES

Equity interests in subsidiaries

Details of the percentage ownership held in subsidiaries are disclosed in Note 26 to the financial statements.

Equity interests in associates

Details of interests in associates are disclosed in Note 9 to the financial statements.

(B) KEY MANAGEMENT PERSONNEL DISCLOSURES

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

(C) OTHER RELATED PARTY TRANSACTIONS

Transactions involving the parent entity

During the financial year, $33,825,000 of management services were charged to various subsidiary entities by the parent entity, BBWPL.

Transactions involving other related parties

Receivables from related parties are disclosed in Note 6. Payables to related parties are disclosed in Note 14. Transactions were made on normal commercial terms and conditions at market rates.

Custodian, Responsible Entity and Manager fees and costs

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

Under BBWPT's constitution, BBWPS is entitled to a management fee of 2% per annum of the value of the gross assets of BBW. BBWPS has exercised its right under the constitution to waive the fee referred to above such that it is paid remuneration of $500,000 per annum. BBWPT incurred an amount of $347,000 in the year ended 30 June 2006, as the entitlement relates to only a part of the year. Prior to BBWPS becoming Responsible Entity of BBWPT, a trustee fee was payable. This amounted to $326,000 during the year ended 30 June 2006 (2005: $864,000).

Under the management agreements between Babcock & Brown Infrastructure Management Pty Limited (BBIM or the Manager), which is a subsidiary of Babcock & Brown Limited, and each of BBWPL, BBWPS (as Responsible Entity of BBWPT) and BBWPB, a base fee of 1.4% per annum of the net investment value of BBW at the end of each quarter is payable. Additionally, a performance fee is payable half-yearly calculated as 20% of the amount (if any) of the excess percentage return of BBW over the S&P/ASX 200 Accumulation Index for each half year, multiplied by BBW's market capitalisation at the end of the half year.

Base management fees paid or payable to BBIM were $7,165,000 during the year. Of this amount, BBWPL incurred $5,279,000, BBWPT incurred $730,000 and BBWPB incurred $1,156,000. Performance fees paid or payable to BBIM by BBWPL were $33,150,000 during the year.

Under the management agreement between BBWPL and BBIM, the Manager is entitled to an amount per annum in respect of expenses. This amount was set at $6,000,000 per annum in relation to the period following the Initial Public Offering (IPO) through to 30 June 2006. During the year BBWPL reimbursed BBIM $4,064,000 representing out-of-pocket expenses incurred by the Manager in the performance of its duties for the period to 30 June 2006.

Under a management agreement between Olivento S.L. and each of Babcock & Brown Limited and Babcock & Brown S.L., approximately $1,030,000 was paid during the year ended 30 June 2006.

Transactions with associates

Ownership interests in, and distributions received from, associates are set out in Note 9.

Related party transactions associated with the IPO

BBW entered into an IPO Financial Advisory Agreement with BBA. Under this Agreement, BBW paid BBA an IPO advisory fee of $9,580,000. BBWPL's share was $96,000, BBWPT's share was $9,382,000 and BBWPB's share was $102,000.

Additionally, as part of the IPO Financial Advisory Agreement, BBWPL paid BBA financial advisory fees amounting to $7,719,000 in relation to certain acquisitions and framework agreements.

BBW entered into a Foundation Offer Underwriting Agreement with BBAH in relation to 132,837,384 Stapled Securities. Under the Agreement BBW paid 2.5% of the issue price of these securities, $4,649,000. BBWPL's share was $46,000, BBWPT's share was $4,557,000 and BBWPB's share was $46,000.

29. RELATED PARTY DISCLOSURES (CONT'D)

Other related party transactions following the IPO
In addition to the above that relate to the IPO, at 30 June 2006, companies within the Babcock & Brown Limited group held 81,162,000 Stapled Securities in BBW and during the year ended 30 June 2006 received $3,779,000 as distributions on Stapled Securities held.

BBWPL has entered into tax sharing and tax funding agreements. The terms of these agreements are provided in Note 3.

BBWPL, BBWPS (as Responsible Entity of BBWPT) and BBWPB have entered into an Exclusive Financial Advisory Agreement with Babcock & Brown Australia Pty Limited (BBA), a subsidiary of Babcock & Brown Limited. Under this Agreement, the following payments have been made with respect to certain transactions. During the year ended 30 June 2006, $19,879,000 (2005: $10,660,000) of fees were paid or were payable by the Group to BBA for financial advisory and debt arranging services in relation to various accretive acquisitions.

During the year ended 30 June 2006, the Group paid BBA $4,584,000 for debt advisory fees associated with securing the corporate facility referred to in Note 15 and $10,000,000, settled through the issue of Stapled Securities, in respect of the Lake Bonney Stage 2 Project Development Agreement.

During the year ended 30 June 2006, the Group paid a subsidiary of Babcock & Brown Limited interest of $256,000 (2005: $953,000) relating to an outstanding loan that was repaid in November 2005. The interest rate on the loan was 8.75%.

The BBW Group paid approximately $210,000 to Renerco A.G. under Technical Management Agreements during the year ended 30 June 2006.

In relation to the Lake Bonney Stage 2 project, Lake Bonney Wind Power Pty Limited reimbursed Babcock & Brown Windpower Pty Limited approximately $24,000,000 of costs relating to construction.

Related party balances
At the year end, the BBW Group owed the following amounts to various subsidiaries of Babcock & Brown:

Babcock & Brown Australia Pty Limited	$10,029,000
Babcock & Brown Infrastructure Management Pty Limited	$4,554,000
Babcock & Brown Wind Partners Services Limited	$138,000
B&B Windpower Pty Limited	$244,000
Babcock & Brown Asset Holdings Pty Limited	$19,000

(D) PARENT ENTITIES

The parent entity in the consolidated entity is BBWPL.

The ultimate Australian parent entity is BBWPL.

The ultimate parent entity is BBWPL.

30. SUBSEQUENT EVENTS

ACQUISITIONS UNDER THE US FRAMEWORK AGREEMENT

In July 2006, the Group acquired certain Class B Membership interests in two US wind farms under the US Framework Agreement (refer Section 12.4 of the IPO Prospectus and Product Disclosure Statement, dated 26 September 2005) for $93,516,000.

CRESCENT RIDGE – SALE OF 25% INTEREST TO EURUS ENERGY AMERICA LLC

On 30 June 2006, BBW acquired 100% of the Class B Member interests in Crescent Ridge Holdings from Eurus. At that time, BBW entered into an agreement whereby Eurus had the ability to buy back 25% of these Class B Member interests. In August 2006, Eurus paid BBW $14,207,000 for this 25% interest in Class B interests. This reduced BBW's effective equity interest from 47% to 35%.

31. NOTES TO THE CASH FLOW STATEMENT

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000

(A) RECONCILIATION OF CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

	2006	2005	2006	2005
Cash and cash equivalents	311,195	110,114	64,166	27,852
	311,195	**110,114**	**64,166**	**27,852**

(B) BUSINESSES ACQUIRED

During the financial year, seven businesses were acquired. Details of the acquisitions are as follows:

	2006	2005	2006	2005
Consideration				
Cash and cash equivalents	107,342	39,280	–	–
Fair value of net assets acquired				
Current assets:				
Cash	8,371	3,572	–	–
Receivables and other current assets	19,667	8,727	–	–
Non-current assets:				
Property, plant and equipment	170,990	98,660	–	–
Equity accounted investments	19,744	–	–	–
Purchased goodwill	8,356	–	–	–
Licences	74,367	24,124	–	–
Deferred tax assets	189	–	–	–
Current liabilities:				
Payables	(5,791)	(5,086)	–	–
Non-current liabilities:				
Loans	(203,869)	(90,717)	–	–
Deferred tax liabilities	(593)	–	–	–
Net assets acquired	**91,431**	**39,280**	**–**	**–**
Premium on acquisition*	**15,911**	**–**	**–**	**–**
Net cash outflow on acquisition				
Cash and cash equivalents consideration	107,342	39,280	–	–
Less cash and cash equivalent balances acquired	(8,371)	(3,572)	–	–
Cash paid for purchase of controlled entity	**98,971**	**35,708**	**–**	**–**

*	$'000
Comprises:	
Goodwill	14,469
Acquisition reserve	1,442
	15,911

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

	Note	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
(C) NON-CASH FINANCING AND INVESTING ACTIVITIES					
Walkaway Wind Power Pty Limited	18	48,000	–	27,086	–
Lake Bonney Wind Power Pty Limited	18	20,000	–	–	–
		68,000	**–**	**27,086**	**–**
(D) FINANCING FACILITIES					
Secured bank loan facilities with various maturity dates through to December 2020 and which may be extended by mutual agreement:					
· Amount used		606,459	361,067	108,588	–
· Total amount available		508,230	78,525	149,592	–

Drawings under the Corporate Facility are subject to debt sizing parameters that are based on the forecast future cash flows of the Group. The amount used by the parent includes a letter of credit of $99,000,000.

(E) RESTRICTED CASH BALANCES
As at balance date $79,012,000 of cash held is restricted and includes amounts held under debt service and project cost reserves, as well as funds that have been cash collateralised in relation to guarantees.

(F) RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent Entity 2006 $'000	Parent Entity 2005 $'000
(Loss)/profit for the period	(16,235)	2,674	(7,484)	(1,164)
(Gain)/loss on fair value of financial assets	852	–	353	–
Share of associates' profit (less dividends)	4,951	–	–	–
Depreciation and amortisation of non-current assets	20,061	5,970	1,514	–
Foreign exchange (gain)/loss	–	–	(106)	
Amortisation of borrowing costs capitalised	1,232	–	913	–
Non-cash incentive fee payment	13,028	–	13,028	–
Increase/(decrease) in current tax liability	652	1,094	–	–
(Increase)/decrease in deferred tax balances	(2,491)	468	(5,847)	(2,869)
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase)/decrease in assets:				
Current receivables	6,235	(11,800)	(35,616)	(1,920)
Other current assets	(15,829)	(13,928)	(2,109)	–
Increase/(decrease) in liabilities:				
Current payables	1,702	22,279	8,812	3,582
Net cash provided by/(used in) operating activities	**14,158**	**6,757**	**(26,542)**	**(2,371)**

32. FINANCIAL INSTRUMENTS

(A) FINANCIAL RISK MANAGEMENT OBJECTIVES

The consolidated entity's treasury function provides services to the business, co-ordinates access to domestic and international financial markets, and manages the financial risks relating to the operations of the consolidated entity.

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

The consolidated entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The consolidated entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- interest rate swaps
- foreign currency forward contracts

(B) SIGNIFICANT ACCOUNTING POLICIES

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

(C) FOREIGN CURRENCY RISK MANAGEMENT

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

Forward foreign exchange contracts

It is the policy of the consolidated entity to enter into underlying debt arrangements in the local currency. Where necessary, however, forward foreign exchange contracts are entered into to cover specific foreign currency payments and receipts within 50% to 100% of the exposure generated.

The following table details the forward foreign currency contracts outstanding as at reporting date:

	Average exchange rate		Foreign currency		Contract value		Fair value	
	2006	2005	2006 FC'000	2005 FC'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Buy EURO sell AUD	0.5691	–	71,982	–	126,484	–	467	–
Buy USD sell AUD	0.7398	–	6,879	–	9,298	–	31	–
Sell EUR buy AUD	0.5860	–	24,984	–	42,633	–	(1,862)	–
Sell USD buy AUD	0.7482	–	27,555	–	36,821	–	(443)	–
			131,400	**–**	**215,236**	**–**	**(1,807)**	**–**

The consolidated entity has entered into contracts to hedge foreign currency payments under a construction contract. It has also entered into contracts to hedge its net investment in overseas entities. The consolidated entity has entered into forward foreign exchange contracts (for terms not exceeding 26 months) to hedge the exchange rate risk arising from these anticipated future transactions.

As at reporting date the aggregate amount of unrealised losses under forward foreign exchange contracts relating to anticipated future transactions is $1,053,000 (2005: nil). In the current year, these unrealised losses have been deferred in the hedging reserve to the extent the hedge is effective.

32. FINANCIAL INSTRUMENTS (CONT'D)

The cash flows are expected to occur at various dates between one month to two years. At balance date, the details of outstanding contracts are:

Buy Euro	Sold AUD		Average exchange rate	
	2006	2005	2006	2005
0-1 year	65,700	-	0.5691	-
1-2 years	60,784	-	0.5691	-

Buy USD	Sold AUD		Average exchange rate	
	2006	2005	2006	2005
0-1 year	-	-	-	-
1-2 years	9,298	-	0.7398	-

Buy AUD	Sold Euro		Average exchange rate	
	2006	2005	2006	2005
0-1 year	15,502	-	0.5989	-
1-2 years	27,131	-	0.5787	-

Buy AUD	Sold USD		Average exchange rate	
	2006	2005	2006	2005
0-1 year	26,156	-	0.7467	-
1-2 years	10,665	-	0.7525	-

(D) INTEREST RATE RISK MANAGEMENT

The consolidated entity is exposed to interest rate risk as it borrows funds at floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts.

Interest rate swap contracts

Under interest rate swap contracts, the consolidated entity agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the consolidated entity to mitigate the risk of changing interest rates on debt held. The fair value of interest rate swaps are based on market values of equivalent instruments at the reporting date and are disclosed below. The average interest rate is based on the outstanding balances at the start of the financial year.

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at reporting date:

	Average contracted fixed interest rate		Notional principal amount		Fair value	
	2006	2005	2006	2005	2006	2005
Outstanding floating for fixed contracts	%	%	$'000	$'000	$'000	$'000
Fixed swap – Australia	6.23	5.81	(304,566)	(333,211)	2,497	–
Fixed swap – Europe	3.64	3.74	(142,643)	(74,713)	8,819	–
			(447,209)	**(407,924)**	**11,316**	**–**

From 1 July 2005, interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated and effective as cash flow hedges. Interest rate swaps outstanding at 1 July 2005 were recognised as financial assets on adoption of the accounting policies specified in Note 1.

32. FINANCIAL INSTRUMENTS (CONT'D)

	Weighted average effective interest rate	Variable interest rate	Fixed maturity dates Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years	Non-interest bearing	Total
2006	%	$	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets:										
Cash and cash equivalents	2.75	232,183	6,090	2,261	4,381	3,668	4,017	58,595	–	311,195
Receivables	–	–	–	–	–	–	–	–	20,355	20,355
Other financial assets	–	–	–	–	–	–	–	–	26,211	26,211
Investments accounted for using the equity method	–	–	–	–	–	–	–	–	176,049	176,049
		232,183	**6,090**	**2,261**	**4,381**	**3,668**	**4,017**	**58,595**	**222,615**	**533,810**
Financial liabilities:										
Payables	–	–	–	–	–	–	–	–	56,897	56,897
Interest rate swaps*	5.10	(567,850)	–	–	46,555	–	–	521,295	–	–
Bank loans	5.76	629,775	–	–	–	–	–	–	–	629,775
Finance lease liabilities	6.29	–	1,721	1,957	2,015	2,142	2,277	31,480	–	41,592
		61,925	**1,721**	**1,957**	**48,570**	**2,142**	**2,277**	**552,775**	**56,897**	**728,264**

* Notional principal amounts.

The following table details the consolidated entity's exposure to interest rate risk as at 30 June 2005:

	Weighted average effective interest rate	Variable interest rate	Fixed maturity dates Less than 1 year	1-5 years	5+ years	Non-interest bearing	Total
2005	%	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets:							
Cash and cash equivalents	–	60,393	49,721	–	–	–	110,114
Receivables	–	–	–	–	–	18,964	18,964
Other financial assests	–	–	–	–	–	12,409	12,409
		60,393	**49,721**	**–**	**–**	**31,373**	**141,487**
Financial liabilities:							
Payables	–	–	15,246	–	–	13,750	28,996
Related party loans	8.68	–	8,662	–	–	–	8,662
Bank loans	6.28	365,442	–	–	–	–	365,442
Interest rate swaps	–	(313,203)	162,318	–	150,885	–	–
		52,239	**186,226**	**–**	**150,885**	**13,750**	**403,100**

32. FINANCIAL INSTRUMENTS (CONT'D)

(E) CREDIT RISK MANAGEMENT

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted a policy of dealing only with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The consolidated entity exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the Audit Committee annually. The consolidated entity measures credit risk on a fair value basis.

Trade accounts receivable consist of a small number of customers, spread across diverse geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

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

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

(F) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

(G) LIQUIDITY RISK MANAGEMENT

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

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

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

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

EFFECT OF A-IFRS ON THE BALANCE SHEET AS AT 1 JULY 2004

There is no effect of A-IFRS on the balance sheet as at 1 July 2004. Note that BBW 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

	Consolidated				Parent Entity		
	AGAAP*	Effect of transition to A-IFRS [a]	PPA [d]	A-IFRS incl. PPA	AGAAP*	Effect of transition to A-IFRS	A-IFRS
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenue from continuing activities	22,020	–	–	22,020	474	–	474
Other income	1,197	–	–	1,197	224	–	224
Operating expenses	(4,944)	–	(816)	(5,760)	(1,279)	–	(1,279)
Depreciation and amortisation expense	(6,101)	429	(298)	(5,970)	–	–	–
Borrowing costs	(7,693)	–	–	(7,693)	(900)	–	(900)
Net profit/(loss)before income tax expense	**4,479**	**429**	**(1,114)**	**3,794**	**(1,481)**	**–**	**(1,481)**
Income tax (expense)/revenue	(1,776)	–	656	(1,120)	348	(31)	317
Net (loss)/profit for the period	**2,703**	**429**	**(458)**	**2,674**	**(1,133)**	**(31)**	**(1,164)**
Attributable to Stapled Security Holders as:							
Equity holders of the parent	2,749	429	(458)	2,720	(1,133)	(31)	(1,164)
Equity holders of the other stapled entities (minority interests)	(46)	–	–	(46)	–	–	–
	2,703	**429**	**(458)**	**2,674**	**(1,133)**	**(31)**	**(1,164)**

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

33. IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)

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

	Consolidated				Parent Entity		
	AGAAP*	Effect of transition to A-IFRS [a]	PPA [d]	A-IFRS incl. PPA	AGAAP*	Effect of transition to A-IFRS	A-IFRS
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Current assets							
Cash and cash equivalents	110,114	–	–	110,114	27,852	–	27,852
Receivables	8,230	–	–	8,230	10,102	–	10,102
Prepayments	5,703	–	–	5,703	–	–	–
Other assets	12,409	–	–	12,409	1,059	–	1,059
Total current assets	**136,456**	**–**	**–**	**136,456**	**39,013**	**–**	**39,013**
Non-current assets							
Receivables	10,734	–	–	10,734	141,781	(105)	141,676
Prepayments	26,538	–	(619)	25,919	–	–	–
Property, plant and equipment	375,660	–	2,541	378,201	–	–	–
Deferred tax assets	4,292	–	–	4,292	2,527	105	2,632
Goodwill	28,218	(879)	(25,541)	1,798	–	–	–
Intangible assets	–	–	23,751	23,751	–	–	–
Total non-current assets	**445,442**	**(879)**	**132**	**444,695**	**144,308**	**–**	**144,308**
Total assets	**581,898**	**(879)**	**132**	**581,151**	**183,321**	**–**	**183,321**
Current liabilities							
Payables	26,762	–	–	26,762	7,630	–	7,630
Borrowings	185,769	–	–	185,769	8,662	–	8,662
Current tax payables	1,094	–	–	1,094	–	–	–
Total current liabilities	**213,625**	**–**	**–**	**213,625**	**16,292**	**–**	**16,292**
Non-current liabilities							
Payables	2,234	–	–	2,234	–	–	–
Borrowings	188,335	–	–	188,335	163,036	3,482	166,518
Deferred tax liabilities	5,211	–	590	5,801	3,451	(3,451)	–
Total non-current liabilities	**195,780**	**–**	**590**	**196,370**	**166,487**	**31**	**166,518**
Total liabilities	**409,405**	**–**	**590**	**409,995**	**182,779**	**31**	**182,810**
Net assets	**172,493**	**(879)**	**(458)**	**171,156**	**542**	**(31)**	**511**
Equity holders of the parent							
Contributed equity	1,748	–	–	1,748	1,748	–	1,748
Reserves	(3,245)	(1,308)		(4,553)	–	–	–
Retained earnings	2,345	429	(458)	2,316	(1,206)	(31)	(1,237)
	848	**(879)**	**(458)**	**(489)**	**542**	**(31)**	**511**
Equity holders of the other stapled entities (minority interests)							
Contributed equity	163,140	–	–	163,140	–	–	–
Reserves	–	–	–	–	–	–	–
Retained earnings	–	–	–	–	–	–	–
	163,140	**–**	**–**	**163,140**	**–**	**–**	**–**
Other minority interests	8,505	–	–	8,505	–	–	–
Total equity	**172,493**	**(879)**	**(458)**	**171,156**	**542**	**(31)**	**511**

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

33. IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)

ADJUSTMENTS ON TRANSITION TO AASB 132 FINANCIAL INSTRUMENTS: DISCLOSURE AND PRESENTATION AND AASB 139 FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT: 1 JULY 2005

	Consolidated			Parent Entity		
	30 June 2005 $'000	Adjustment (b) (c) $'000	1 July 2005 $'000	30 June 2005 $'000	Adjustment $'000	1 July 2005 $'000
Current assets						
Cash and cash equivalents	110,114	–	110,114	27,852	–	27,852
Receivables	8,230	–	8,230	10,102	–	10,102
Prepayments	5,703	–	5,703	–	–	–
Other assets	12,409	–	12,409	1,059	–	1,059
Total current assets	**136,456**	**–**	**136,456**	**39,013**	**–**	**39,013**
Non-current assets						
Receivables	10,734	–	10,734	141,676	–	141,676
Prepayments	25,919	–	25,926	–	–	–
Other financial assets	–	–	–	–	–	–
Property, plant and equipment	378,201	–	378,201	–	–	–
Deferred tax assets	4,292	3,211	7,503	2,632	–	2,632
Goodwill	1,798	–	1,798	–	–	–
Intangible assets	23,751	–	23,751	–	–	–
Total non-current assets	**444,695**	**3,211**	**447,906**	**144,308**	**–**	**144,308**
Total assets	**581,151**	**3,211**	**584,362**	**183,321**	**–**	**183,321**
Current liabilities						
Payables	26,762	–	26,762	7,630	–	7,630
Borrowings	185,769	–	185,769	8,662	–	8,662
Unit holder liabilities	–	163,140	163,140	–	–	–
Other financial liabilities	–	121	121	–	–	–
Current tax payables	1,094	–	1,094	–	–	–
Total current liabilities	213,625	163,261	376,886	16,292	–	16,292
Non-current liabilities						
Payables	2,234	–	2,234	–	–	–
Borrowings	188,335	–	188,335	166,518	–	166,518
Other financial liabilities	–	10,581	10,581	–	–	–
Deferred tax liabilities	5,801	–	5,801	–	–	–
Total non-current liabilities	**196,370**	**10,581**	**206,951**	**166,518**	**–**	**166,518**
Total liabilities	**409,995**	**173,842**	**583,837**	**182,810**	**–**	**182,810**
Net assets	**171,156**	**(170,631)**	**525**	**511**	**–**	**511**
Equity holders of the parent						
Contributed equity	1,748	–	1,748	1,748	–	1,748
Reserves	(4,553)	(7,491)	(12,044)	–	–	–
Retained earnings	2,316	–	2,316	(1,237)	–	(1,237)
	(489)	**(7,491)**	**(7,980)**	**511**	**–**	**511**

33. IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONT'D)

	Consolidated			Parent Entity		
	30 June 2005	Adjustment[(b) (c)]	1 July 2005	30 June 2005	Adjustment	1 July 2005
	$'000	$'000	$'000	$'000	$'000	$'000
Equity holders of the other Stapled Securities (minority interests)						
Contributed equity	163,140	(163,140)	–	–	–	–
Reserves	–	–	–	–	–	–
Retained earnings	–	–	–	–	–	–
	163,140	**(163,140)**	**–**	**–**	**–**	**–**
Other minority interests	8,505	–	8,505	–	–	–
Total equity	**171,156**	**(170,631)**	**525**	**511**	**–**	**511**

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 superceded policies.

Footnotes to the reconciliations of income and equity

(a) 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.

(b) 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 recognised 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.

(c) Financial instruments – 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.

(d) Purchase price allocation

Following a purchase price allocation exercise conducted to allocate the fair value relating to the acquisition of Spanish wind farms (Note 27), goodwill that was recorded upon the initial date of acquisition was allocated mostly to licences and to property, plant and equipment.

DIRECTORS' DECLARATION

In the opinion of the Directors of Babcock & Brown Wind Partners Limited (BBWPL):

(a) the financial statements and Notes set out on pages 50 to 104 are in accordance with the Corporations Act 2001 including:

  (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2006 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Directors pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the Directors of BBWPL:

PETER HOFBAUER
Director

Sydney, 7 September 2006

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Independent Audit Report to the members of Babcock & Brown Wind Partners Limited

Audit opinion

In our opinion the financial report of Babcock & Brown Wind Partners Limited:

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

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

Scope

The financial report and directors' responsibility

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

The directors of the 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.

Audit approach

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

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows.

PRICEWATERHOUSECOOPERS

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

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

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

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

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

Independence

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

PricewaterhouseCoopers

PricewaterhouseCoopers

AJ Wilson
Partner

Sydney
7 September 2006

US FRAMEWORK AGREEMENT

SUMMARY

BBWP (US) LLC, a Delaware limited liability company (US SUB) and BBPOP Wind Equity LLC, a Delaware limited liability company (BBWE) entered into a Capital Contribution Agreement, on 23 September 2005 (the 05 Agreement). On 31 July 2006, US SUB and BBWE entered into the Amended and Restated Membership Interest Purchase and Sale Agreement, amending and restating the terms of the 05 Agreement (the Amended 05 Agreement) and restructuring the transaction as a purchase and sale instead of a capital contribution.

Pursuant to the Amended 05 Agreement, on 31 July 2006 US SUB acquired 100% of the membership interests (the 05 Membership Interests) of BBPOP Wind Investment 3 LLC (Wind Investment 3). Wind Investment 3 holds 50% and 100% respectively of the Class B Membership interests in the Sweetwater 3 and Kumeyaay wind farms.

The Amended 05 Agreement provides for the subsequent closing (the Subsequent Closing) of the Bear Creek and Jersey Atlantic wind farms by way of the purchase and sale of 100% of the membership interests (the BBWPJ Membership Interests) of Babcock & Brown Wind Park Jersey LLC (BBWPJ) from BBWE. BBWPJ holds 59.3% of the Class B Membership interests in JB Wind Holdings LLC, which owns 100% of the Bear Creek and Jersey Atlantic wind farms through its ownership of 100% of the Class B Membership interests of Wind Park Bear Creek, LLC and Jersey-Atlantic Wind, LLC. In preparation for the Subsequent Closing, Wind Investment 3 has transferred its ownership of the Bear Creek and Jersey Atlantic wind farms to BBWE pursuant to the Amended 05 Agreement. In the case of the Subsequent Closing, US SUB will acquire 100% of the membership interests of BBWPJ indirectly through its wholly owned subsidiary Babcock & Brown Wind Partners – US LLC (BBWPUS). The Subsequent Closing must occur prior to 31 December 2006.

CLOSING CONDITIONS

Certain conditions need to be satisfied at or prior to completion of the Subsequent Closing which are fairly typical for a transaction of this kind. Conditions to Subsequent Closing include, among others:

- obtaining Federal Energy Regulatory Commission (FERC) approval;
- expiration of Hart-Scott Rodino (HSR) waiting period with no action taken by Federal Trade Commission (FTC) or the Department of Justice (DJ);
- accuracy of warranties when repeated;
- completion of due diligence on the Bear Creek and Jersey Atlantic wind projects (including receipt by BBW of all material contracts concerning these wind projects and updated disclosure schedules);
- delivery of counsels' opinions, certificates, reports and other documents;
- the transfer by Wind Investment 3 of 100% of the membership interest of BBWPJ to BBWE; and
- no material adverse change in the nature of BBWPJ and its subsidiaries or in the level of risk present in the projects.

TERMINATION

The Amended 05 Agreement may be terminated by either party if FERC approval is not obtained, if the HSR waiting period fails to expire due to FTC or DJ prohibiting the transaction, if a court issues an order prohibiting the Subsequent Closing or if the transaction has not closed by 31 December 2006 and by either party for a material breach of warranty or covenant which is not remedied. Furthermore, US SUB may, under certain specified circumstances, elect to terminate the Amended 05 Agreement if an independent valuation of the value of the completed wind projects is not consistent with the original calculated values. US SUB has the right to terminate such wind project upon (i) an uncured breach by BBWE of any material representation, warranty or covenant made in the Amended 05 Agreement with respect to such wind project, (ii) an unremedied material adverse change in the BBWPJ wind projects prior to the Subsequent Closing or (iii) certain material adverse risks being identified in the BBWPJ wind projects that were not comparable to risks borne by US SUB in similar prior US wind farm acquisitions.

REPRESENTATIONS, WARRANTIES AND COVENANTS

The Amended 05 Agreement contains representations and warranties by BBWE and US SUB which are fairly typical for a transaction of this kind and limitations are imposed on BBWE with regard to the pre-completion actions it can take with respect to its subsidiaries. BBWE's representations and warranties relating to specific wind projects are generally qualified by BBWE's knowledge. These include representations and warranties relating to BBWE's real property assets, compliance with laws, permits, environmental hazards and compliance, insurance and taxes. Prior to closing, BBWE covenants that it will conduct its business in the ordinary course substantially consistent with past practices and notify BBWE of any matter that could materially impact on BBWE's business. BBWE further covenants with respect to the wind projects that it will not take certain major actions without the consent of US SUB, such as granting liens, make acquisitions of assets, making capital expenditures, entering into new material contracts (with a minimum value threshold of US$50,000 for contracts and in all other cases).

US FRAMEWORK AGREEMENT (CONT'D)

INDEMNIFICATION

The Amended 05 Agreement contains an indemnity for loss from BBWE in respect of breaches of warranty or covenants unless they are fairly disclosed against or within the beneficiary's actual knowledge. Certain representations made by BBWE are excluded from BBWE's indemnity. BBWE has no indemnification obligation to the extent that the purchase price is adjusted to account for a claim or the claim is recovered from a third party. BBWE's maximum liability for claims in relation to a breach of its representations and warranties regarding organisation and status, power, authority and enforceability, no violation or conflicts, ownership of the membership interests to be transferred, beneficial ownership of subsidiaries and wind projects and investments by its subsidiaries is limited to (a) the amount of the purchase price of the 05 Membership Interests in the case of the Kumeyaay and Sweetwater Wind 3 acquisitions and (b) the amount of the purchase price of the BBWPJ Membership Interests in the case of the Bear Creek and Jersey Atlantic acquisitions. BBWE's maximum liability for all other claims, other than claims based on fraud, wilful misconduct or intentional misrepresentation) is limited to (a) 33% of the amount of the purchase price for the 05 Membership Interests in relation to the Kumeyaay and Sweetwater Wind 3 projects or (b) 33% of the amount of the purchase price for the BBWPJ Membership Interests in relation to the Bear Creek and Jersey Atlantic projects. Liability for breach of warranty is subject to a de minimis threshold which much first be reached in terms of the monetary value of a claim and an overall cap. A party's ability to claim in respect of breach of warranty is subject to a time bar on making claims. For most claims, the time bar is the greater of one year from the closing (or the Subsequent Closing) or until the completion of the audit for the tax year ended 31 December 2006. Certain other claims have specific survival periods, including claims relating to taxes, the environment (which has a three year time bar) or claims based on fraud, misconduct or intentional misrepresentation (which survive for the full period of the applicable statute of limitations). US SUB has an obligation, at BBWE's expense, to use commercially reasonable efforts to mitigate losses relating to all claims.

LIMITATION ON PURCHASER'S LIABILITY

US SUB's maximum liability exposure under the agreement other than for claims based on fraud, misconduct or intentional misrepresentation, is 10% of the purchase price for either of the 05 Membership Interests or, in the case of the Subsequent Closing, the BBWPJ Membership Interests (whether or not the closing occurs).

SPANISH FRAMEWORK AGREEMENT

BBWPL entered into a Framework Agreement, dated 13 September 2005, with Babcock & Brown (UK) Holdings Limited, a UK subsidiary of Babcock & Brown (B&B UK), pursuant to which BBWPL acquired certain rights and obligations in relation to the acquisition of wind farms in Spain which correspond to rights and obligations which B&B UK has with Gamesa Energía SAU. As consideration, B&B UK receives a fee from BBWPL each time BBWPL purchases a wind farm pursuant to the Framework Agreement. The wind farms must satisfy certain criteria in order to fall within the scope of the Framework Agreement. The Framework Agreement contemplates that wind farms with installed capacity of up to 450MW in aggregate of power could be available under the Framework Agreement over the next two years. BBWPL and B&B UK have agreed to co-ordinate the due diligence process in relation to any potential wind farms under the Framework Agreement. The Framework Agreement is governed by the law of New South Wales, Australia.

GERMAN FRAMEWORK AGREEMENT

BBWPL entered into a Framework Agreement, dated 13 September 2005, with Babcock & Brown GmbH, a European subsidiary of Babcock & Brown (B&B Germany) pursuant to which BBWPL becomes the beneficiary of certain rights from, and undertakes certain obligations to, B&B Germany which correspond to rights and obligations which B&B Germany has with Renerco Renewable Energy Concepts AG (Renerco). Since the execution of the German Framework Agreement, B&B Germany has acquired approximately 70% of Renerco, and Martin Rey, a Babcock & Brown Director, has been appointed as the Non-Executive Chairman of Renerco.

B&B Germany receives a fee from BBWPL under the agreement each time BBWPL purchases a wind farm pursuant to the Framework Agreement calculated by reference to the expected net energy output of the target wind farm. BBWPL also agrees to reimburse B&B Germany for costs incurred in enforcing rights under its agreement with Renerco. Renerco has agreed to grant a right of first refusal in relation to the acquisition of wind farms in Germany before the end of 2006 (and BBWPL becomes a beneficiary of this right by B&B Germany granting a back-to back right to BBWPL under the Framework Agreement). In exchange B&B Germany (with BBWPL being obliged towards B&B Germany) must give to Renerco a first right of refusal to provide management services in respect of those wind farms on arms' length market terms (similar to the services provided by Renerco to the Niederrhein wind farm under the Technical and Operations Management Agreement as outlined in the Prospectus in Appendix 3.4.4 page 215.) Furthermore, BBWPL is under an obligation which corresponds to the arrangement between B&B Germany and Renerco to review in good faith on a case-by-case basis whether to offer a technical services mandate on competitive market terms to Renerco for all wind farm projects B&B Germany (and thus BBWPL) acquires from other parties situated in Germany, Italy or Austria. BBWPL and B&B Germany have agreed to co-ordinate the due diligence process in relation to any potential wind farms under the Framework Agreement. The Framework Agreement is governed by the law of New South Wales, Australia.

PLAMBECK FRAMEWORK AGREEMENT

BBW has entered into a Framework Agreement, dated 29 March 2006, with Plambeck Neue Energien AG (Plambeck). Under the Framework Agreement, BBW has secured the rights to acquire a portfolio of wind farms comprising potentially up to approximately 300MW over the next four years. Wind farms will be acquired as specified conditions precedent for each wind farm are satisfied and they are completed. A number of the potential projects are still in the development phase and consequently these conditions precedent, whilst expected to be satisfied during the next four years, may take longer or in fact never become satisfied. It is Plambeck's responsibility to satisfy these conditions precedent.

IMPORTANT ASPECTS OF THE US ASSETS

LLC PROJECT AGREEMENTS – CHANGE OF CONTROL PROVISIONS

The limited liability company agreements (each a LLC Project Agreement) of the various Project LLC's for the US Assets provide for two levels of membership interests: Class A and Class B. The Class B Members serve as the managing members of the company.

The managing members have control over and manage the affairs of the Project LLC, but the consent of the Class A Members is required for certain material actions to be taken by the Project LLC (such as the incurrence of debt, sale of material assets, mergers, acquisitions, sale of the Project LLC or other similar actions).

Transfers of membership interests are permitted subject to (a) a right of first bid procedure for the benefit of non-transferring members, (b) a prohibition against transfers to certain disqualified transferees (such as competitors of the Project LLC), (c) prior to the Reallocation Date, transfers of Class B interests require consent of a designated super-majority of the Class A interest, and (d) Class A interest may be transferred after ten years if the Reallocation Date has not been reached and distributions have failed to exceed the sum of the Class B Members' capital contributions.

A change of control must comply with the foregoing transfer restrictions, except that an event causing a change of control of a company member's parent company does not constitute a change of control. However, these change of control clauses are triggered by a change of the managing manager outside the Babcock & Brown Group. A change of this kind requires the prior consent of the Class A Members in the Project LLC. The relevant limited liability company agreements provide that a change purported to be made in breach of these provisions is void and that specific performance in respect of those clauses can be sought. In addition, breach of these provisions may give rise to a claim of damages.

The BBWPUS LLC Agreement also contains similar restrictions on transfers of membership interests and changes in control or management of the investment fund that controls BBWP (US) LLC's membership interest. Currently, US SUB is the only member of BBWPUS.

Cash is distributed first to the Class B Members until they receive a return of their capital contributions, second to the Class A Members until the Reallocation Date has been reached, and thereafter a designated percentage to the Class B Members (approximately 80%) and to the Class A Members (approximately 20%).

If the Class A Members suffer losses resulting from the Class B Members' breach of covenants or misrepresentations under the LLC Project Agreement or if the Project Administrator fails to perform its obligations under applicable administration agreements, cash that would otherwise be distributed to the Class B Members is diverted instead to the Class A Members until the full amount of the loss is recovered. The Investment LLC that is the Class B Member in the Project LLC has an option to acquire the Class A interests after the Reallocation Date has been reached or after ten years.

BACK TO BACK GUARANTEES RE COVENANTS IN THE LLC PROJECT AGREEMENTS

In addition, each of BBWPL and, in certain instances, Babcock & Brown Wind Partners Services Limited in its capacity as Responsible Entity of BBWPT (together, the Guarantors) have entered into guarantees (the 'Back-to-Back Guarantees') in favour of Babcock & Brown International Pty Ltd and/or Babcock & Brown LP (the 'Beneficiaries').

The Back-to-Back Guarantees support guarantees (Downstream Guarantees) have been given by the Beneficiaries to support the obligations of the Investment LLCs which are Class B Members of Project LLCs (that own and operate wind farm projects in the United States) in favour of the Class A Members of those Project LLCs.

The Back-to-Back Guarantees guarantee the payment of 80% (or, in the case of a certain guarantee in respect of Caprock LLC, 64%) of the Beneficiaries' obligations paid from time to time under the relevant Downstream Guarantee that arise as a result of a breach of the covenants of an Investment LLC, acting in its capacity as the managing member or tax matters partner under the relevant LLC Project Agreement.

BERMUDA LAW ISSUES

Incorporation: BBWPB is incorporated in Bermuda.

Takeovers: Unlike BBWPL and BBWPT, BBWPB is not subject to the sections in Chapter 6 of the Corporations Act dealing with the acquisition of shares (including substantial holdings and takeovers). Bermuda company law does not have a takeover code which effectively means that a takeover of BBW will be regulated under Australian takeover law. Section 103 of the Bermuda Companies Act provides that where an offer is made for shares of a company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of such offer accept, the offeror may by notice require the non-tendering shareholders to transfer their shares on the terms of the offer. Dissenting shareholders may apply to the court within one month of the notice, objecting to the transfer. The test is one of fairness to the body of the shareholders and not to individuals, and the burden is on the dissentient shareholder to prove unfairness, not merely that the scheme is open to criticism.

STAPLED SECURITIES

Each Stapled Security is made up of one BBWPL share, one BBWPT unit and one BBWPB share which, under each of the Constitutions, are stapled together and cannot be traded or dealt with separately. In accordance with its requirements in respect of listed stapled securities, ASX reserves the right to remove any or all of BBWPL, BBWPB and BBWPT from the Official List if, while the stapling arrangements apply, the securities in one of these entities ceases to be stapled to the securities in the other entities or one of these entities issues securities which are not then stapled to the relevant securities in the other entities.

INCENTIVE FEES

The principal ongoing fees payable by BBW to BBIM as Manager comprise a base and incentive fee. With respect to the incentive fee, BBIM may be entitled to receive an incentive fee related to the relative performance of BBW. This fee is paid half yearly in respect of a financial half year. The incentive fee is payable to BBIM in cash out of assets, however subject to the Corporations Act and the Listing Rules, BBIM is prepared to accept up to 60% of its incentive fee in Stapled Securities and will be so paid if the BBWPL Independent Directors request.

In relation to the financial year ended 30 June 2006, approximately 40% of the incentive fee was paid in the form of an issue of 7,037,102 Stapled Securities. Note 18 to the financial statements provide further details with respect to this payment.

FURTHER INVESTOR INFORMATION

Further information required by the Australian Stock Exchange and not shown elsewhere in this Report is as detailed below. The information is current as at 11 September 2006.

NUMBER OF STAPLED SECURITIES AND HOLDERS

One share in each of BBWPL and BBWPB, and one unit in BBWPT, have been stapled together to form a single BBW Stapled Security. The total number of BBW Stapled Securities on issue as at the date of this Report is 575,301,766 and the number holders of these Stapled Securities is 3,761.

SUBSTANTIAL SECURITY HOLDERS

The names of substantial BBW Security Holders who have notified BBW in accordance with section 671B of the Corporations Act 2001 are set out below.

Substantial BBW Security Holders	BBW Stapled Securities Held	
	Number	Percentage
Babcock & Brown Group	132,539,730	23.04
Gandhara Master Fund Limited and Associates	56,068,600	9.75
National Power Partners Group	35,408,759	6.15

VOTING RIGHTS

It is generally expected that General Meetings of shareholders of BBWPL, shareholders of BBWPB, and unitholders of BBWPT will be held concurrently where proposed resolutions relate to all three BBW entities. At these General Meetings of BBWPL, BBWPB and BBWPT the voting rights outlined below will apply.

Voting rights in relation to General Meetings of BBWPL and BBWPB:

- on a show of hands, each shareholder of BBWPL and BBWPB who is present in person and each other person who is present as a proxy, attorney or duly appointed corporate representative of a shareholder has one vote; and
- on a poll, each shareholder of BBWPL and BBWPB who is present in person has one vote for each share they hold. Also each person present as a proxy, attorney or duly appointed corporate representative of a shareholder, has one vote for each share held by the shareholder that the person represents.

FURTHER INVESTOR INFORMATION (CONT'D)

Voting rights in relation to General Meetings of BBWPT:

- on a show of hands, each unitholder who is present in person and each other person who is present as a proxy, attorney or duly appointed corporate representative of a unitholder has one vote; and
- on a poll, each unitholder who is present in person has one vote for each one dollar of the value of the units in the Trust held by the unitholder. Also, each person present as proxy, attorney or duly appointed corporate representative of a unitholder has one vote for each one dollar of the value of the units in the Trust held by the unitholder that the person represents.

DISTRIBUTION OF BBW STAPLED SECURITIES

Category	Holders	Securities
1 – 1,000	277	196,709
1,001 – 5,000	1,280	4,380,891
5,001 – 10,000	935	7,647,025
10,001 – 100,000	1,046	30,285,256
100,001 – and over	223	532,791,885
Total	3,761	575,301,766

The number of Security Holders holding less than a marketable parcel of BBW Stapled Securities is 49.

TWENTY LARGEST SECURITY HOLDERS

		BBW Stapled Securities Held	
Rank	BBW Security Holder	Number	Percentage
1	ANZ Nominees Limited <Cash Income A/C>	117,262,147	20.38
2	BBI Energy (Wind) Pty Ltd	51,377,927	8.93
3	HSBC Custody Nominees (Australia) Limited-GSCO ECA	47,657,548	8.28
4	Citicorp Nominees Pty Limited	40,044,809	6.96
5	National Nominees Limited	35,960,286	6.25
6	Westpac Custodian Nominees Limited	28,897,562	5.02
7	BT (Queensland) Pty Limited c/- Margin Lending	16,742,000	2.91
8	Brispot Nominees Pty Ltd <House Head Nominee No.1 A/C>	16,410,967	2.85
9	JP Morgan Nominees Australia Limited	9,565,992	1.66
10	UBS Wealth Management Australia Nominees Pty Ltd	7,578,065	1.32
11	ASG Holdings Pty Ltd	7,336,570	1.28
12	Cogent Nominees Pty Limited <SMP Accounts>	5,733,360	1.00
13	NPP Projects II LLC	5,706,427	0.99
14	ANZ Nominees Limited A/C MMC Asset Management Ltd	5,301,152	0.92
15	IAG Nominees Pty Limited	4,396,495	0.76
16	HSBC Custody Nominees (Australia) Limited	4,275,911	0.74
17	Wind Corporation Australia Ltd	4,049,164	0.70
18	JGL Investments Pty Ltd	3,933,587	0.68
19	Sandhurst Trustees Ltd <Aust Ethical Equities A/C>	3,893,953	0.68
20	ANZ Nominees Limited A/C MMC Contrarian Ltd	3,789,218	0.66
	Total	419,913,140	72.99

ON-MARKET BUY-BACK

There is no current on-market buy-back of BBW Stapled Securities.

STAPLED SECURITIES THAT ARE RESTRICTED OR SUBJECT TO VOLUNTARY ESCROW

There are currently no BBW Stapled Securities which are restricted or subject to voluntary escrow.

USE OF CASH

BBW has used the cash (and assets in a form readily convertible to cash) that it held at 28 October 2005 (the date BBW listed on the Australian Stock Exchange) in a way consistent with its business objectives, as outlined in the financial statements and Notes.

KEY BBW ANNOUNCEMENTS

2006

30 June	Completes the purchase of the remaining 20% ownership interest in Babcock & Brown Wind Partners-US LLC (BBWPUS), increasing BBW's Class B Membership interests in Sweetwater 1 & 2, Blue Canyon, Caprock and Combine Hills wind farms in the US
28 June	BBW CEO presents to the UBS Utilities Conference in Australia
21 June	Announces estimated distribution for the six month period ending 30 June 2006 of 5.1 cents per Stapled Security
16 June	Finalises the purchase of three wind farms under construction near Fruges in France
14 June	Releases the results of General Meetings and lodges amended Constitutions
6 June	Implements a Distribution Reinvestment Plan
1 June	Finalises agreements for construction of the Lake Bonney 2 wind farm in South Australia
16 May	Releases Chairman's Letter to Security Holders and Notice of General Meetings
12 May	Successfully completes a global capital raising of approximately $118.6m at $1.60 per Stapled Security
19 April	Issues 7,037,102 BBW Stapled Securities at approx $1.85 per Stapled Security to Babcock & Brown Infrastructure Management Pty Limited (BBIM), in satisfaction of an approx 39.5% portion of the incentive fee payable to BBIM for the period ending 31 December 2005
30 March	Agrees to acquire a 100% economic interest in three wind farms under development near Fruges in France and establishes a new Framework Agreement with Plambeck Neue Energien AG in Germany
24 February	Releases Half Yearly Financial Report to 31 December 2005
16 February	Finalises the purchase of the Eifel wind farm in Germany
11 January	$33m incentive fee, based on the excess return of BBW for the period to 31 December 2005 is payable to the manager, Babcock & Brown Infrastructure Management Pty Ltd

2005

30 December	Enters contract to buy 100% economic interest in the Eifel wind farm in Germany
19 December	Announces estimated interim distribution for the six month period to 31 December 2005 of 5.1 cents per Stapled Security
5 December	Completes US acquisition of economic interest in Sweetwater 1 & 2, Caprock, Blue Canyon, Combine Hills
15 November	Peter O'Connell, CEO of BBW, presents at the UBS Utilities Conference in Sydney
28 October	BBW is admitted onto the Official List of the Australian Stock Exchange (ASX Code: BBW) and releases its Constitution and By-Laws
10 October	BBW releases its Prospectus & Product Disclosure Statement

Dates shown are when announcements were made to the Australian Stock Exchange (ASX).

The above list does not include all announcements made to the ASX, such as Change in Substantial Shareholder Notices and Change in Director's Interests Notices. A comprehensive list and full details of all publications can be found on the BBW website, www.bbwindpartners.com.

GLOSSARY

ASX	Australian Stock Exchange Limited (ABN 98 008 624 691)
B&B GERMANY	Babcock & Brown GmbH, a subsidiary of Babcock & Brown based in Munich, Germany
B&B UK	Babcock & Brown (UK) Holdings Limited, a subsidiary of Babcock & Brown based in London, UK
BABCOCK & BROWN	Babcock & Brown Limited (ABN 53 108 614 955)
BABCOCK & BROWN GROUP	Babcock & Brown and its subsidiaries from time to time
BBIM	Babcock & Brown Infrastructure Management Pty Ltd (ACN 113 585 229). BBIM is the Manager of BBW under long term management agreements
BBPOP	Babcock & Brown Power Operating Partners LLC, a US entity in the Babcock & Brown Group
BBW	Babcock & Brown Wind Partners, comprising BBWPL, BBWPB and BBWPS as Responsible Entity of BBWPT and, where the context permits, includes their subsidiaries from time to time
BBWE	BBPOP Wind Equity LLC, a US subsidiary of Babcock & Brown
BBWPB	Babcock & Brown Wind Partners (Bermuda) Limited (ARBN 116 360 715)
BBWPL	Babcock & Brown Wind Partners Limited (ABN 39 105 051 616)
BBWPS	Babcock & Brown Wind Partners Services Limited (ACN 113 813 997) (AFSL 290 710) the responsible entity of BBWPT
BBWPT	Babcock & Brown Wind Partners Trust (ARSN 116 244 118)
BBWPUS	Babcock & Brown Wind Partners - US LLC
BNB	Babcock & Brown Limited
BTM CONSULT	BTM Consult ApS, a Danish based consultancy firm specialising in renewable energy whose website can be found at www.btm.dk
BTM CONSULT REPORT 2005	The report prepared by BTM Consult titled ‘International Wind Energy Development – World Market Update 2005 - Forecast 2006-2010’ dated March 2006
CAPACITY	The maximum power that a wind turbine can safely produce or handle
CAPACITY FACTOR	A measure of the productivity of a wind turbine, calculated by the amount of power that a wind turbine produces over a set time period, divided by the amount of power that would have been produced if the turbine had been running at full capacity during that same time interval
CHESS	Clearing House Electronic Sub-Register System, operated by ASX Settlement and Transfer Corporation Proprietary Limited
CLASS A MEMBERS	Holders of Class A interests in a Project LLC
CLASS A MEMBERSHIP INTERESTS	The interests held by Class A Members
CLASS B MEMBERS	Holders of Class B interests in a Project LLC
CLASS B MEMBERSHIP INTERESTS	The interests held by Class B Members
CUSTODIAN AGREEMENT	The agreement pursuant to which the Responsible Entity has appointed BBAH to act as custodian of the assets of BBWPT
DIRECTORS’ FORECAST	A-IFRS forecast summaries of financial performance, cash flows and distributions for the years ending 30 June 2006 and 2007
DISTRIBUTIONS	Distributions of cash made by BBW to Security Holders in respect of their Stapled Securities
DRP	Distribution Reinvestment Plan
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortisation
EEG	German Act of 2004 granting priority to renewable energy resources
EURO OR €	Euro, the currency of the European Monetary Union

GLOSSARY

FINANCIAL YEAR	A period of 12 months starting on 1 July and ending on 30 June in the next calendar year
FRAMEWORK AGREEMENTS	The US Framework Agreement, the Spanish Framework Agreement, the German Framework Agreement and the Plambeck Framework Agreement. Details are included in the Additional Investor Information Section
FY	Financial Year
GAMESA	Gamesa Energía SAU, a company based in Spain
GRID	Also termed transmission system, the network of power lines and associated equipment required to deliver electricity from generators to consumers
GW	GigaWatt. One billion Watts of electricity
GWH	GigaWatt hour
HIN	Holder Identification Number
IGCC	Integrated Gasification Combined Cycle
INDEPENDENT ACCOUNTANT	PricewaterhouseCoopers
INSTALLED CAPACITY	The amount of capacity installed at a wind farm
INVESTMENT LLC	One of eight limited liability companies through which BBW invests as the Class B Member in the US Assets.
IPO	The Initial Public Offer of BBW Stapled Securities
IPO DOCUMENT	The BBW Product Disclosure Statement and Prospectus, dated 26 September 2005. Also referred to as the Prospectus and/or the PDS
IPO FORECAST PERIOD	The period between the date of allotment of Stapled Securities, being 27 October 2005, and 30 June 2007
KW	KiloWatt. One thousand Watts of electricity
KWH	KiloWatt hour. A unit of energy of work equal to 1,000 Watt-hours
KYOTO PROTOCOL	The international agreement signed in Kyoto, Japan in 1997 which builds on the United Nations Framework Convention on Climate Change and sets targets and timetables for cutting the greenhouse gas emissions of industrialised countries who are signatory states
LBWP	Lake Bonney Wind Power Pty Limited
LONG TERM MEAN ENERGY PRODUCTION	The best estimate of energy production in a year where there is a 50% probability that a given level of energy production will be exceeded in any year. This may also be referred to as P50
MRET	Mandatory Renewable Energy Target established by the federal government of Australia
MULTI-OPTION FACILITY AGREEMENT	The €150,000,000 multi-option secured debt facility of BBWPL arranged by BOS International (Australia) Limited (ABN 23 066 601 250) dated 23 September 2005 as amended and restated on 5 May 2006
MW	MegaWatt Equal to 1,000 kiloWatts or one million Watts
MWH	MegaWatt hour
NPAT	Net profit after taxes
OFFTAKE AGREEMENT	An agreement to take or receive electricity
P50	See Long Term Mean Energy Production
PDS	The BBW Product Disclosure Statement and Prospectus, dated 26 September 2005. Also referred to as the Prospectus and/or the IPO Document
PJM MARKET	PJM Market is the regional competitive market for the purchase and sale of electricity in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia in the United States.
PPA	Power Purchase Agreement
PRACTICAL COMPLETION	The date on which construction has been completed in accordance with the respective delivery contract(s), typically including all regulatory requirements

PRE-COMMISSIONING	Operation of the wind farm prior to practical completion, during which all aspects are tested for performance against specified criteria
PROJECT ADMINISTRATOR	A person appointed by a Project LLC to be responsible for managing its day-to-day activities
PROJECT LLC	One of eight limited liability companies which each own a wind farm in the US and in which BBW has acquired indirect Class B Member interests
PROJECT LLC AGREEMENT	A limited liability company agreement between the members of a Project LLC
PROSPECTUS	The BBW Product Disclosure Statement and Prospectus, dated 26 September 2005. Also referred to as the IPO Document and/or the PDS
PTC	Production Tax Credit: the result of the US Energy Policy Act of 1992, a tax credit that applies to wholesale electrical generators of wind energy facilities based upon the amount of energy generated in a year
REALLOCATION DATE	The date on which tax benefits and cash distributions are shared between the Class A Member and the Class B Members, being a date which occurs when the Class A Members target return has been achieved, as further described in a Project LLC Agreement as the flip date
REC	Renewable Energy Certificate
RENERCO	Renerco Rewable Energy Concepts AG, a German company
RPS	Renewables Portfolio Standard: a policy set by federal or state governments that a percentage of the electricity supplied by electricity generators be derived from a renewable source
SECURITY HOLDER	The registered holder of a Stapled Security
SRN	Shareholder reference number
STAPLED SECURITY	One unit in BBWPT, one ordinary share in BBWPL and one ordinary share in BBWPB, stapled together such that the unit and those shares cannot be traded or dealt with separately
TARIFF	Rates paid for electricity per kiloWatt hour consumed or generated
UNIT	An ordinary unit in BBWPT
UNITHOLDER	The registered holder of a Unit
US ASSETS	Sweetwater 1,2 & 3, Caprock, Blue Canyon, Combine Hills, Kumeyaay and Crescent Ridge
VESTAS	Vestas Wind Systems A/S, a company incorporated in Denmark
VESTAS-AUSTRALIA	Vestas-Australian Wind Technology Pty Ltd (ABN 80 089 653 878), a subsidiary of Vestas
WATT	The base unit of power. A measure of the rate at which work is being done. (746 W = one horsepower)
WATTHOUR (WH)	The electrical energy unit of measure equal to one Watt of power supplied to, or taken from an electric circuit steadily for one hour
WIND RESOURCE	A reference to the quality of energy potentially available from the wind in a particular place
WTG	Wind turbine generator

CORPORATE DIRECTORY

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Warren Murphy
Nils Andersen
A.J. (Tony) Battle
Douglas Clemson

CHIEF EXECUTIVE OFFICER

Peter O'Connell

COMPANY SECRETARY

David Richardson

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ANNUAL GENERAL MEETING

The Annual General Meeting of Babcock & Brown Wind Partners will be held in the Brisbane Room of the Sofitel Wentworth Sydney, 61 Phillip Street, Sydney at 10.00am on 31 October 2006.

ABOUT BBW AND THIS ANNUAL REPORT

Each Stapled Security in Babcock & Brown Wind Partners (ASX: BBW) comprises one share of Babcock & Brown Wind Partners Limited (BBWPL), an Australian public company, one unit of Babcock & Brown Wind Partners Trust (BBWPT), an Australian registered managed investment scheme whose Responsible Entity is Babcock & Brown Wind Partners Services Limited (BBWPS) which is a subsidiary of Babcock & Brown, and one share of Babcock & Brown Wind Partners (Bermuda) Limited (BBWPB).

All amounts expressed in dollars ($) in this Annual Report are Australian dollars, unless otherwise specified.

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