

BABCOCK & BROWN POWER

Babcock & Brown Power Limited · ABN 67 116 665 608
Babcock & Brown Power Services Limited · ABN 37 118 165 156
as responsible entity for Babcock & Brown Power Trust · ARSN 122 375 562
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ASX Release

27 September 2007

BABCOCK & BROWN POWER TRUST – ANNUAL FINANCIAL REPORT

Babcock & Brown Power (ASX: BBP) advises that the attached Annual Financial Report for the year ended 30 June 2007 of the Babcock & Brown Power Trust has been despatched to unitholders today.

ENDS

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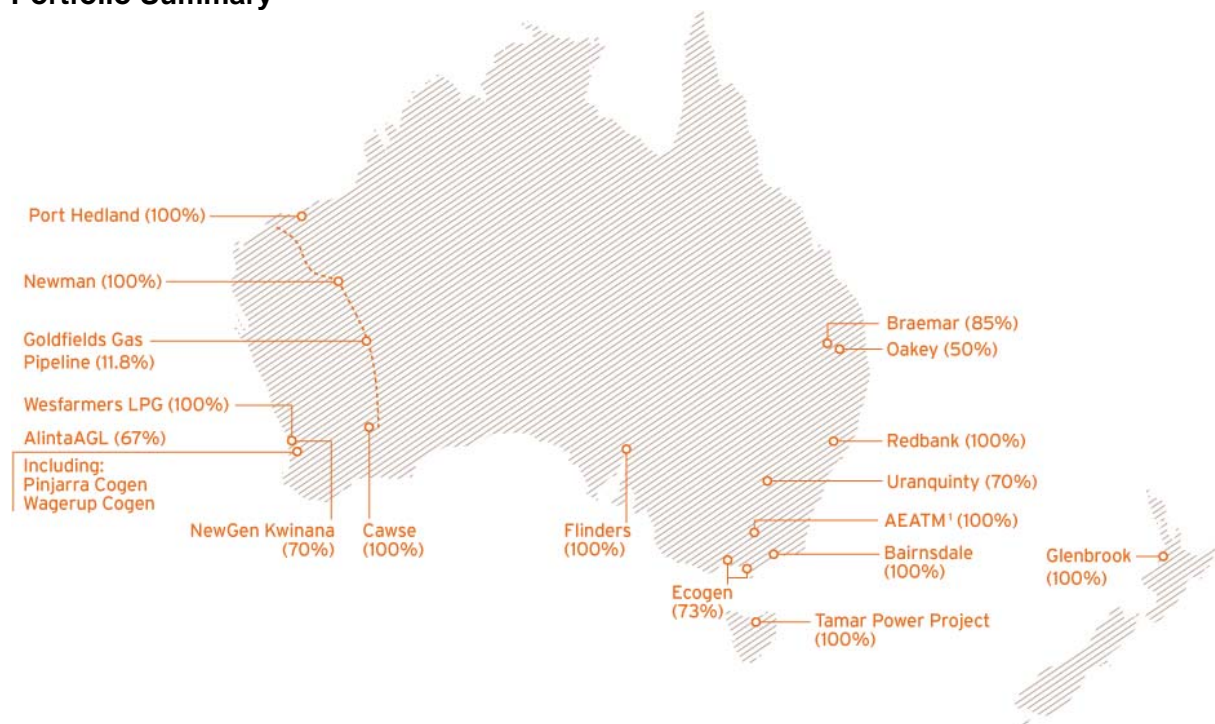
About Babcock & Brown Power

Babcock & Brown Power (ASX:BBP) is a power generation business, with assets diversified by geographic location, fuel source, customers, contract types and operating mode. Its aim is to grow returns to its securityholders through optimisation of its existing power generation business and the addition of further generation assets and associated businesses via a combination of new construction and strategic acquisitions.

The portfolio has interests in thirteen operating power stations representing over 3,300 MW¹ of installed generation capacity and five power stations under construction. BBP owns a number of other associated power assets the largest being a 67% stake in the WA retail assets of AlintaAGL. Babcock & Brown has been developing, operating and acquiring the generation portfolio over a period of 10 years.

¹ Some assets have minority shareholders.

Portfolio Summary



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

Babcock & Brown Power Trust

ARSN 122 375 562

Annual Financial Report

for the year ended 30 June 2007

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BABCOCK & BROWN POWER TRUST

DIRECTORS' REPORT

The Babcock & Brown Power Group (BBP) consists of the following entities:

- Babcock & Brown Power Limited (BBPL);
- Babcock & Brown Power Trust (BBPT or the Trust); and
- the subsidiary entities of BBPL

One share in BBPL and one unit in BBPT have been stapled together to form a single BBP Stapled Security. These BBP Stapled Securities are tradable on the Australian Securities Exchange (ASX).

The Directors of Babcock & Brown Power Services Limited (BBPS), the Responsible Entity of BBPT, hereby submits the following financial report on the financial results of BBPT for the year ended 30 June 2007.

DIRECTORS

The following persons were Directors of BBPS at any time during the year, up to the date of this Directors' report.

Mr P F Hofbauer (Chairman)	appointed 3 February 2006
Mr W D Murphy	appointed 3 February 2006
Mr J Fletcher	appointed 29 October 2006
Mr P M Kinsey	appointed 29 October 2006
Ms K M Connolly	appointed 3 February 2006; resigned 29 October 2006

Particulars of the qualifications, experience and special responsibilities of the Directors at the date of this report are set out below:

Mr Hofbauer - Chairman

Peter Hofbauer is the Global Head of Babcock & Brown's Infrastructure & Project Finance group and coordinates 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 (BBI) and of the responsible entity of Babcock & Brown Infrastructure Trust (BBIT) as well as a director of Babcock & Brown Wind Partners Limited (BBWP) and of the responsible entity of Babcock & Brown Wind Partners Trust (BBWPT).

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

Mr W D Murphy - Non-Executive Director

Warren Murphy is the Co-Head of Australian Infrastructure and the Head of Australian Energy in the Infrastructure & Project Finance group at Babcock & Brown, based in the Sydney office. Warren leads the development of Babcock & Brown's energy sector capability in Australia and New Zealand, and has specialised in the development of new projects in the infrastructure sector.

Recent transactions include the co-development of Redbank, Oakey, NewGen Kwinana, Braemar and Uranquinty, and the co-development of a number of renewable energy projects, including the Alinta and Lake Bonney wind farms. Warren joined Babcock & Brown in 1997. Prior to joining Babcock & Brown, he was a director of the project finance division of AIDC and before that worked at Westpac Banking Corporation. He is also a director of BBWP and of the responsible entity of BBWPT, and Sydney Gas Limited.

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

Mr J Fletcher - Independent Non-executive director

John Fletcher is currently a Director of Integral Energy Australia based in Sydney. His recent experience includes board positions with Foodland Associated Limited, The Australian Pipeline Trust and NGC Limited of New Zealand. He held a number of executive roles at The Australian Gas Light Company including that of Chief Financial Officer and has extensive experience of the energy industry. John has a Bachelor of Science and a Master of Business Administration. He is a Fellow of the Australian Institute of Company Directors.

Mr P M Kinsey - Independent Non-executive director

Peter Kinsey is the Regional Legal & Compliance Manager South Asia for the global ABB Limited Group and a Director of ABB Australia Pty Limited and ABB Limited (New Zealand). Peter has been a corporate lawyer for over 25 years in a number of major corporations. Peter has been involved in the negotiation of various types of commercial contracts including power projects and transportation projects in a number of countries, including Australia, New Zealand, the United States, Sweden, Japan, China, Thailand, Indonesia, Malaysia and India. Peter gives seminars on compliance and business ethics throughout Asia for ABB.

Prior to joining ABB, Peter was General Counsel at David's Holdings Pty Ltd and prior to that Corporate Legal Manager of Alliance Holdings Ltd.

Peter holds a Bachelor of Law, Graduate Diploma in Financial Management and a Master of Commerce.

BABCOCK & BROWN POWER TRUST

DIRECTORS' REPORT

Ms K M Connolly - Executive director

Kay Connolly resigned as a Director on 29 October 2006. Since joining Babcock & Brown in 2000, Kay has been involved in the IPOs of Babcock & Brown Infrastructure, Babcock & Brown Wind Partners and BBPL. Kay is a director of the project entities that own Oakey, Braemar and NewGen Kwinana Power Stations. Kay holds a Bachelor of Commerce and Bachelor of Law from the University of New South Wales and is a member of the Institute of Chartered Accountants.

COMPANY SECRETARY

The following persons were Company Secretary of BBPS at any time during the year, up to the date of this Directors' report.

Mr J P Remedios	appointed 8 December 2006
Mr D E Richardson	appointed 16 May 2006
Ms F L White	appointed 3 April 2006; resigned 8 December 2006
Ms M J Hedges	appointed 1 June 2006; resigned 12 December 2006

Particulars of the qualifications and experience of the Company Secretaries as at the date of this report are set out below:

Mr J P Remedios

John Remedios joined Babcock & Brown in November 2006 and is principally responsible for the company secretarial function and corporate governance requirements of BBP. Prior to joining Babcock & Brown, John was a Senior Legal Counsel for AMP Capital Investors and held various company secretarial positions including Company Secretary of AMP Life Limited and Assistant Company Secretary of AMP Limited. John holds Bachelor of Economics and Bachelor of Law (Hons.) degrees from the University of Sydney and is a Member of the Law Society of New South Wales.

Mr D E Richardson

David Richardson joined Babcock & Brown in 2005 as Company Secretary for a number of Specialised Funds and is responsible for the company secretarial function for the respective Babcock & Brown Wind Partners ("BBW") Boards and Committees, as well as the corporate governance requirements within BBW. 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.

PRINCIPAL ACTIVITIES

The Trust is a registered management investment scheme which acts as a financing vehicle to BBPL.

DISTRIBUTIONS

Since the end of the financial year, the Directors have declared a final distribution for the year ended 30 June 2007 of 14 cents per Stapled Security to be paid on 17 September 2007, totalling \$50,300,602.

REVIEW OF OPERATIONS

The Trust is a registered management investment scheme which acts as a financing vehicle to BBPL. The units of BBPT and the shares of BBPL were stapled together to form BBP. BBP was listed on the ASX on 11 December 2006.

The Trust was formed on 18 May 2006 at which point 1000 Units were issued. Since the formation and up to the IPO date of 11 December 2006 an additional 359,289,014 Units were issued progressively. These Units were stapled together with the Shares in BBPL to form the Stapled Securities of BBP. On 9 November 2006, the units of the Trust and the shares of the Company were stapled (the Stapled Securities).

The net loss after tax for the year ended 30 June 2007 was \$111,188,960. The overriding driver of this result relates to the fair value treatment of the loan to BBPL.

SIGNIFICANT CHANGES TO THE STATE OF AFFAIRS

During the year ended 30 June 2007 there was no significant changes to the state of the affairs to BBPT other than those disclosed in the financial statements and notes thereof.

MATTERS SUBSEQUENT TO END OF THE FINANCIAL YEAR

On 11 May 2007, BBP announced that as a member of the Babcock & Brown and Singapore Power International consortium, it had been advised by the Board of Alinta Limited that the Board had recommended to shareholders the Consortium's proposal to acquire the whole of the share capital of Alinta.

Under the Scheme of Arrangement BBP agreed to acquire the Alinta power generation portfolio and 67% of the WA retail assets owned by Alinta. The purchase of these assets will be funded through the issue of BBP stapled securities at a fixed ratio of 0.669 per Alinta share and a cash contribution of \$25,000,000 to be sourced through committed debt representing a combined incremental contribution of approximately \$37,500,000 to the consortium's proposal.

On 3 July 2007, the Federal Court issued orders convening meetings to consider the Scheme and that the scheme documents had been registered with ASIC. The Alinta shareholders voted on the Scheme of Arrangement on

BABCOCK & BROWN POWER TRUST

DIRECTORS' REPORT

Wednesday, 15 August, with 88% of shareholders (present or via proxy) voting 97% in favour of the Scheme of Arrangement. The Federal Court on 17 August 2007 approved the Scheme with completion of the transaction to occur on 31 August 2007.

For full details of financial implication of the acquisition please refer to the Alinta Scheme Booklet. Certain information relating to the financial effect of the Alinta acquisition which was effected after 30 June 2007, has not been disclosed because it has been deemed impractical. BBP had access to information to prepare the Scheme Booklet, which is based on a balance date of 31 December 2006. This Scheme Booklet is available on BBP's website at www.bbpower.com.au.

On 1 September 2007, a further 331,303,246 stapled securities were issued.

FUTURE DEVELOPMENTS

Further information on likely developments in the operations of the Trust and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Trust.

ENVIRONMENTAL REGULATION

The Directors are satisfied that adequate systems are in place for the management of its environmental responsibilities and compliance for its various licence requirements and regulations. The Directors are not aware of any breaches of these requirements and to the best of their knowledge all activities have been undertaken in compliance with environmental regulations.

DIRECTORS' MEETINGS - 1 JULY 2006 TO 30 JUNE 2007

The following table sets out the number of Directors' meetings held during the year to 30 June 2007 and the number of meetings attended by each Director (while they were a director). During the financial year, there were 16 BBPS Board meetings held.

CURRENT DIRECTORS	BBPS BOARD	
	HELD	ATTENDED
Mr P F Hofbauer	16	16
Mr W D Murphy	16	15
Mr P M Kinsey	14	14
Mr J Fletcher	14	13
FORMER DIRECTORS		
Mr P F Hofbauer	3	3

COMMITTEE MEETINGS - 1 JULY 2006 TO 30 JUNE 2007

The following table sets out the number of BBPL and BBPS Audit, Risk & Compliance Committee meetings held during the year to 30 June 2007 and the number of meetings attended by each Committee Member.

CURRENT DIRECTORS	BBPS ARCC	
	HELD	ATTENDED
Mr J Fletcher	3	3
Mr W D Murphy	3	3
Mr P M Kinsey	3	3

INDEMNIFICATION OF OFFICERS AND AUDITORS

The insurance policy of BBP has agreed to indemnify each director, alternate and officer of BBPS on a full indemnity basis against all losses and liabilities incurred in their role as a director, alternate or officer (including for legal costs incurred in preparing for, conducting or defending legal actions). This indemnity is subject to certain exclusions, including to the extent that such indemnity is prohibited by the Corporations Act 2001 or any other law, or to the extent that the loss or liability is covered by insurance. BBP has not been advised of any claims under any of the abovementioned indemnities.

BBPS has not indemnified or agreed to indemnify the auditors of BBPT at any time during the financial year.

During the financial year, BBP has paid insurance premiums for a directors' and officers' liability insurance contract that provides cover for current and former directors, secretaries and executives officers of BBP, its controlled entities and BBPS. The Directors have not included details of the nature or limit of the liabilities covered in this directors' and officers' liability insurance contract or the amount of the premium paid, as disclosure is prohibited under the terms of the contract.

BABCOCK & BROWN POWER TRUST

DIRECTORS' REPORT

PROCEEDINGS ON BEHALF OF THE RESPONSIBLE ENTITY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Responsible Entity (BBPS), or to intervene in any proceedings to which BBPS is a party, for the purpose of taking responsibility on behalf of the BBPS for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the BBPS with leave of the Court under section 237 of the Corporations Act 2001.

NON-AUDIT SERVICES

The Board of directors has considered the position and, in accordance with advice received from the Audit, Risk & Compliance Committee, is satisfied that the provision of the non-audit services by the BBPT's external auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. Details of the amounts paid to the Auditor, which include amounts paid for non-audit services are set out in Note 4 of the Notes to the Financial Statements.

AUDITOR'S INDEPENDENCE DECLARATION

PricewaterhouseCoopers were appointed auditors of the BBPT, effective 12 August 2006.

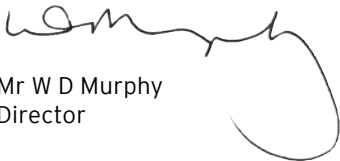
The auditor's independence declaration is included on page 6 of the annual financial report.

ROUNDING OFF OF AMOUNTS

The Trust is a registered scheme of a kind referred in Class Order 98/100, issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the Directors' Report. Amounts in the Directors' Report and the Financial Report are rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors



Mr W D Murphy
Director

Dated at Sydney this 12 September 2007

AUDITOR'S INDEPENDENCE DECLARATION



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Auditor's Independence Declaration

As auditor for the audit of Babcock and Brown Power Trust for the year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Babcock and Brown Power Trust during the period.

A handwritten signature in black ink, appearing to read 'S Snook'.

Stephen R Snook
Partner
PricewaterhouseCoopers

Brisbane
12 September 2007

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 \$'000	2006 ⁱ \$'000
Revenue			
Financing income	3	4,640	-
Finance costs	3	(114,567)	-
Other corporate expenses	3	(1,262)	-
Profit / (loss) before income tax		(111,189)	-
Profit / (loss) profit for the year		(111,189)	-
Earnings per unit			
		Cents	Cents
Basic earnings per unit	10	(52.12)	-
Diluted earnings per unit	10	(52.12)	-

i Comparative period represents from date of formation being 18 May 2006 through to 30 June 2006.

The above balance sheet should be read in conjunction with the accompanying notes included in pages 11 to 30.

BALANCE SHEET

AS AT 30 JUNE 2007

	Note	2007 \$'000	2006 ⁱ \$'000
Current assets			
Cash and cash equivalents	12	1,791	-
Other receivables	6	67	-
Loans to related parties	6	33,083	-
Total current assets		34,941	-
Non-current assets			
Loans to related parties	6	408,864	1
Total non-current assets		408,864	1
Total assets		443,805	1
Current liabilities			
Trade and other payables	7	3,084	-
Total current liabilities		3,084	-
Total liabilities		3,084	-
Net assets		440,721	1
Unitholders' interest			
Units on Issue	8	551,910	1
Accumulated losses	9	(111,189)	-
Total equity		440,721	1

i Comparative period represents from date of formation being 18 May 2006 through to 30 June 2006.

The above balance sheet should be read in conjunction with the accompanying notes included in pages 11 to 30.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 \$'000	2006 ⁱ \$'000
Unitholders' interest at the beginning of the financial year		1	-
Total income and expense for the period recognised directly in Unitholders' interest			
Profit / (loss) for the period		(111,189)	-
Total income and expense for the period		(111,189)	-
Units issued (net of transaction costs)	8	551,910	1
Total Unitholders' interest for the period		440,721	1

i Comparative period represents from date of formation being 18 May 2006 through to 30 June 2006.

The above balance sheet should be read in conjunction with the accompanying notes included in pages 11 to 30.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2007

Note	2007 \$'000	2006 ⁱ \$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	1,077	-
Interest received	440	-
Interest and other costs of finance paid	(2)	-
Net cash inflow from operating activities	1,515	-
Cash flows from investing activities		
Loan to related party	(189,350)	-
Net cash (outflow) from investing activities	(189,350)	-
Cash flows from financing activities		
Proceeds from issue of securities (net of transaction costs paid)	189,350	-
Proceeds from oversubscription of units	276	-
Net cash inflow from financing activities	189,626	-
Net increase in cash and cash equivalents	1,791	-
Cash and cash equivalents at the beginning of the year	-	-
Cash and cash equivalents at the end of the year	1,791	-

i Comparative period represents from date of formation being 18 May 2006 through to 30 June 2006.

The above balance sheet should be read in conjunction with the accompanying notes included in pages 11 to 30.

CONTENT OF THE NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

1. SUMMARY OF ACCOUNTING POLICIES

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

This report should be read in conjunction with the BBP Prospectus and Product Disclosure Statement dated 10 November 2006 and any public announcements made by BBP during the year in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, including Australian Interpretations and the Corporations Act 2001.

The financial statements were approved by the Board of Directors on 12 September 2007.

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (A-IFRS). Compliance with A-IFRS ensures that the financial statements and notes of BBPT comply with International Financial Reporting Standards (IFRS).

Stapled security

The shares of BBPL (or the Company) and the units in BBPT (or the Trust) are combined and issued as Stapled Securities in BBP. The shares in the Company and the units of the Trust cannot be traded separately and can only be traded as Stapled Securities.

This financial report consists of the financial statements of BBPT.

Trust formation and termination

The Trust was formed on 18 May 2006. On 9 November 2006, the units of the Trust and the shares of the Company were stapled (the Stapled Securities). On 10 November 2006, the Stapled Securities were offered to the public through an Initial Public Offering and were listed on the ASX on 11 December 2006.

The shares in the Company and the units of the Trust will remain stapled commencing from 9 November 2006 until the earlier of the Company ceasing to exist or being wound up, or the Trust being dissolved in accordance with the provisions of the Trust Constitution.

Historical cost convention

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

(b) Foreign currency translation

Functional and presentation currency

The financial statements are presented in Australian dollars, which is the Trust's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except where deferred in equity as qualifying cash flow hedges.

(c) Rounding

The Trust 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.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with financial institutions, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of any bank overdrafts.

These assets are stated at nominal values. Bank overdrafts are shown within Borrowings in the Current Liabilities on the Balance Sheet and are carried at the principal amount. Interest on bank overdrafts is recognised as an expense as it occurs.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

Restricted cash is shown in the balance sheet according to the timing of its release. Accordingly cash that cannot be applied or used within the next 12 months is shown as a Non-Current Asset. All other cash and cash equivalents are shown as Current Assets.

(e) Trade receivables

All trade debtors are recognised initially at fair value, less any subsequent provision for doubtful debts. Collectability of trade debtors is reviewed on an ongoing basis. Debts, which are known to be uncollectible, are written off. A provision for doubtful debts is established when some doubt exists as to collection of all outstanding amounts. The amount of the provision is recognised in the income statement.

(f) Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Trust provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest method.

(g) Trade and other payables

These amounts represent liabilities for goods and services provided to the Trust prior to end of financial period, which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition.

(h) Contributed equity

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

(i) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The amount recognised is the fair value of consideration received. Interest income is recognised using effective Interest method.

(j) Earnings per unit

Basic earnings per unit is calculated by dividing the profit attributable to unitholders of the Trust, excluding any costs of servicing equity other than ordinary units, by the weighted average number of units outstanding during the financial year

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

(k) Distribution

Provision is only made for the amount of any distribution declared when they are declared by the Directors and no longer at the discretion of the entity, on or before balance date but not distributed at balance date.

(l) GST

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other current receivables or payables in the balance sheet.

Cash flows are included in the consolidated statement of cash flows 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.

2. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and Australian interpretations have been published that are not mandatory for 30 June 2007 reporting periods. BBPT's assessment of the impact of these new standards and interpretations is set out below.

(a) Early adoption of standards

BBPT has elected to apply the revised AASB 101 Presentation of Financial Statements (issued October 2006) to the annual reporting period beginning 1 July 2006. The revision does not have an impact on BBPT's financial statements.

(b) AASB 2007-4 Australian Additions to, and Deletions from, International Financial Reporting Standards

The amendment introduces a number of options that existed under IFRS but had not been included in the original Australian equivalents to IFRS and remove many of the additional Australian disclosure requirements. The application will not effect the amounts recognised in the financial statements, with the exception of employee

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

benefits. On adoption of the amendment, an assessment will be made as to whether there is an active market for corporate bonds in Australia and if so, a corporate bond rate should be used in the valuation of all employee benefits.

The application includes applying the pronouncement to the comparatives in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. No adjustments to any of the financial statements were required for the above pronouncement, but certain disclosures will no longer be required .

(c) AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. BBPT 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 BBPT's financial instruments.

(d) AASB-I 10 Interim Financial Reporting and Impairment

AASB-I 10 is applicable to financial reporting periods commencing on or after 1 November 2006. BBPT has not recognised an impairment loss in relation to goodwill, investments in equity instruments or financial assets carried at cost in an interim reporting period but subsequently reversed the impairment loss in the Annual Report. Application of the interpretation will therefore have no impact on the financial statements.

(e) AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8

AASB 8 and AASB 2007-3 are applicable to annual reporting periods commencing on or after 1 January 2009. BBP has not adopted the standard early. Application of the standard will not affect any of the amounts recognised in the financial statements, but will impact the information disclosed in relation to BBPT's segment reporting.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

3. PROFIT/(LOSS) FROM OPERATIONS

	2007 \$'000	2006 ⁱ \$'000
Revenue		
Interest income		
Related parties - from BBPL	4,200	-
Bank deposits	440	-
	4,640	-
Profit / (loss) before income tax has been arrived at after charging the following expenses:		
Operating expenses:		
Base fee	(914)	-
Responsible entity fee	(305)	-
Custodian fee	(43)	-
	(1,262)	
Finance costs:		
Interest expense	(2)	-
Fair value adjustment to interest free loan receivable	(114,565)	
	(114,567)	-

i Comparative period represents from date of formation being 18 May 2006 through to 30 June 2006.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

4. REMUNERATION OF AUDITORS

During the year all professional fees paid or payable for services provided by the auditor of BBPL, its related practices and non-related audit firms are borne by BBPL and its subsidiaries Babcock & Brown Power Advisory Pty Limited. No apportionment has been made between BBPL and BBPT, the fees below represent 100% of the fee paid or payable.

Accordingly, the fees paid or payable are as follows:

	2007 \$'000	2006' \$'000
(a) Audit services		
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports	406,410	-
Other audit work under the Corporation Act 2001		
Total remuneration for audit services	406,410	-
(b) Non-audit services		
PricewaterhouseCoopers Australian firm		
Taxation services	-	-
Other	9,602	-
Non PricewaterhouseCoopers audit firms		
Due diligence services	2,089,804	-
Tax compliance services	220,000	-
Other	70,000	-
Total remuneration for non-audit services	2,389,406	-

i Comparative period represents from date of formation being 18 May 2006 through to 30 June 2006.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

5. REMUNERATION OF KEY MANAGEMENT PERSONNEL

Details of key management personnel

The Key Management Personnel (KMP) of BBPS during the year were:

Current Directors

Mr P F Hofbauer (Chairman)	appointed 3 February 2006
Mr W D Murphy	appointed 3 February 2006
Mr J Fletcher	appointed 29 October 2006
Mr P M Kinsey	appointed 29 October 2006

Former Directors

Ms K M Connolly	appointed 3 February 2006; resigned 29 October 2006
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Executives

Mr Paul Simshauser (CEO)	appointed 23 October 2006
Mr James Brown (CFO)	appointed 4 September 2006
Mr Brian Green (COO)	appointed 9 October 2006
Mr Mark Williamson (Group Manager for Energy Trading)	appointed 14 May 2007
Mr Andrew Kremor (General Manager for Energy Markets)	appointed 4 June 2007

In the year ended 30 June 2006, the key management consisted entirely of the Non-Executive Directors in office at that time. None has received a fee for the services that they have provided to BBPS. Furthermore, the remuneration for their service to BBPS cannot be determined due to their other commitments within the B&B Group.

Key management personnel remuneration

Executives fees paid for their services are part of the Babcock & Brown Power Management Pty Limited management agreement. The remuneration presented represents the amount paid to each Executive for their services to BBP, as opposed to BBPS, since the remuneration for the services provided to BBPS cannot be determined due to their commitments to BBPL.

The aggregate remuneration of the KMP of BBPS over the year ended 30 June 2007 is set out below:

	2007 \$'000
Short-term employee benefits	1,165,751
Post-employment benefits	50,893
Other long-term benefits	-
Termination benefits	-
Share-based payments	16,756
Total	1,233,400

Options held in Babcock & Brown Limited

Outlined below are the option holdings of the KMP over the period 1 July 2006 - 30 June 2007 in Babcock & Brown Limited.

	Balance 1 July 2006	Granted as remuneration	Acquired via other means	Exercised	Balance 30 June 2007
Executives					
Mr James Brown	-	7,500	-	-	7,500
Mr Paul Simshauser	-	22,500	-	-	22,500

No options were exercised by the KMP during the year. All options were unvested and unexercisable at 30 June 2007.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

5. REMUNERATION OF KEY MANAGEMENT PERSONNEL (CONTINUED)

Options held in BBP

The KMP did not hold any Options in BBP over the periods ending 30 June 2006 and 30 June 2007.

Bonus deferral rights held in BBP

The KMP did not hold any Bonus Deferral Rights in BBP over the periods ending 30 June 2006 and 30 June 2007.

Security holdings in BBP

Outlined below are the security holdings of the KMP over the period 11 December 2006 - 30 June 2007 in BBP:

	Balance 11 December 2006 Number	Acquired during the year Number	Sold during the year Number	Balance 30 June 2007 Number
Directors				
Mr John Fletcher	80,000	-	-	80,000
Mr Peter Hofbauer	1,238,383	-	-	1,283,383
Mr Peter Kinsey	16,000	-	-	16,000
Mr Warren Murphy	931,162	-	-	931,162
Executives				
Mr James Brown	25,000	-	-	25,000
Mr Brian Green	-	-	-	-
Mr Andrew Kremor	-	-	-	-
Mr Paul Simshauser	80,000	-	-	80,000
Mr Mark Williamson	2,600	-	-	2,600

No securities were granted as remuneration to the KMP during the financial year and no securities were acquired upon the exercise of options during the financial year.

There were no security holdings in BBP by the KMP prior to listing date on 11 December 2006.

Loans to key management personnel and their personally related entities from Babcock & Brown Limited

No loans have been made by Babcock & Brown Limited to Key Management Personnel over FY06 and FY07.

Loans to key management personnel and their personally related entities from BBPT.

No loans have been made by BBPT to Key Management Personnel over FY06 and FY07.

Further disclosures are required under AASB 124 Related Party Disclosures are included in Note 16.

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 B&B Group. It should be noted that the employees of subsidiaries of BBP may be remunerated on a different basis than that applicable to Babcock & Brown employees.

Babcock & Brown is currently reviewing its 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 of the respective Fund and the investors in those Funds.

The remuneration strategy of Babcock & Brown is critical to achieving BBP'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 Securityholder and market expectations
- 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 BBP.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

5. REMUNERATION OF KEY MANAGEMENT PERSONNEL (CONTINUED)

Remuneration committee

Role of the Babcock & Brown Remuneration Committee

The Babcock & Brown 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 Babcock & Brown 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 Babcock & Brown Remuneration Committee seeks advice from independent remuneration advisors.

Membership of the Babcock & Brown Remuneration Committee

The Babcock & Brown Remuneration Committee consists of five Directors, of which three are independent Non-Executive Directors. Its members throughout 2006/2007 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 BBP in the best interests of the Securityholders of BBP.

Attracting, developing and retaining talent is essential for BBP'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 BBP have significant shareholdings in BBP.

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 Securityholder interests:

- fixed remuneration (base salary and benefits, primarily superannuation and ancillary benefits)
- short-term Incentive Plan (annual cash bonus and equity deferral)
- long-term Incentive Plan (executive share options and performance rights).

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

Fixed remuneration

The Babcock & Brown Board has set fixed remuneration for its Executives at or lower than the median for comparable executives in companies with comparable businesses to that of BBP. 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 2006) are generally delivered entirely as cash.

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 (including BBP).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

5. REMUNERATION OF KEY MANAGEMENT PERSONNEL (CONTINUED)

Executives (continued)

As part of the corporate governance framework for Babcock & Brown's Specialised Funds, as set out in the Corporate Governance Statement, BBP's Board going forward will develop specific Key Performance Indicators for the senior management providing services to BBP. The framework provides that the Independent Directors of BBP 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 BBP, and the Independent Directors are consulted on that remuneration.

As short-term incentive allocations are determined after the end of the Babcock & Brown financial year and are directly dependent on the B&B Group's financial performance, employees are not advised of a target bonus amount.

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 current year, 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 BBP performance.

Table 1: Remuneration of Executives for the year ended 30 June 2007

Details of the nature and amount of each element of the emoluments of each Executive of BBPS and of the consolidated entity for the year ended 30 June 2007 are set out in the table below.

Executives ³	Year	SHORT-TERM EMPLOYEE BENEFITS			POST-EMPLOYMENT BENEFITS	LONG-TERM EMPLOYEE BENEFITS	Total \$
		Salary \$	STIP relating to current period ¹	Non-monetary benefits	Superannuation \$	Share-based payments ²	
Mr Paul Simshauser	2007	253,011	165,000	-	12,686	12,567	443,264
Mr James Brown	2007	212,241	65,200	-	12,686	4,189	294,316
Mr Brian Green	2007	187,665	-	28,035	12,686	-	228,386
Mr Mark Williamson	2007	33,514	-	-	3,016	-	36,530
Mr Andrew Kremor	2007	28,175	-	-	2,536	-	30,711
Total remuneration for Executives	2007	714,606	230,200	28,035	43,610	16,756	1,033,207

Note 1: The STIP relating to the current period is for bonuses paid in March 2007 relating to the calendar year ended 31 December 2006.

Note 2: Share based payments include the proportion of the value of LTIP options which relate to the year ended 30 June 2007.

Note 3: The above amounts are the remuneration as executives for the BBP Group. No allocation has been made between BBPL and BBPS.

Table 2: Remuneration components as a proportion of total remuneration for the year ended 30 June 2007

Executives	Fixed remuneration %	Cash STIP %	Share-based payments ¹	Total %
Mr James Brown	77	22	1	100
Mr Brian Green	100	0	0	100
Mr Andrew Kremor	100	0	0	100
Mr Paul Simshauser	60	37	3	100
Mr Mark Williamson	100	0	0	100

¹ Share-based payments includes LTIP options and Bonus Deferral Rights.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

5. REMUNERATION OF KEY MANAGEMENT PERSONNEL (CONTINUED)

Executives (continued)

Outstanding executive share options

During the year ended 30 June 2007, options under the LTIP were granted as equity remuneration benefits to Mr Paul Simshauser and Mr James Brown.

The table below shows the terms and conditions of all options that are currently held by Executives granted as part of their remuneration for services to BBP. These options were issued at no cost and each option entitles the holder to subscribe for one fully-paid ordinary share in Babcock & Brown. The options do not entitle the option holder to participate in share issues made by the Company. The exercise price for each grant is specified in the table.

Table 3: Terms and conditions of option allocations

Executives	Granted number	Grant date	TERMS AND CONDITIONS FOR EACH GRANT				
			Value per option \$	Total value \$	Exercise price per share \$	First exercise date	Last exercise date
Mr James Brown	7,500	9/03/2007	7.54	56,550	25.54	25/08/2011	9/03/2013
Mr Paul Simshauser	22,500	9/03/2007	7.54	169,650	25.54	25/08/2011	9/03/2013

No options have vested or lapsed during the year and there have been no other movements in relation to these holdings. All options held at 30 June 2007 are unvested and unexercisable

The first exercise date for options exercised in 2011 is the date immediately following the results release to the market for the Babcock & Brown Group for the half-year ending 30 June 2011, anticipated to be in late August 2011, subject to the performance hurdles for these awards being achieved.

Executive employment contracts

The base salaries for Executives as at 30 June 2007, in accordance with their employment contract, are shown below:

Executives	Base remuneration per service agreement \$
Mr James Brown	259,800
Mr Brian Green	259,800
Mr Andrew Kremor	355,000
Mr Paul Simshauser	365,000
Mr Mark Williamson	250,000

All of the above Executive employment contracts are open-ended, require three months notice (with the exception of Company Secretary which is four weeks) by either party to terminate employment, and contain no other termination payment provisions.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

5. REMUNERATION OF KEY MANAGEMENT PERSONNEL (CONTINUED)

Directors

Remuneration policy and structure

Independent Directors

Independent Directors' individual fees, including Committee fees, are determined by their role on the relevant Boards and Committees. The maximum aggregate fee pool from which Non-Executive Directors are paid has been approved by BBPL's shareholders and is currently \$750,000 per annum.

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.

Fees payable to Independent Directors during the year ended 30 June 2007 are set out below:

Board/Committee	Role	Fee \$
Per Board	Chair	\$Nil
	Member	\$55,000
	Lead Independent Director	\$4,000
Audit, Risk & Compliance Committee	Chair	\$4,000
	Member	\$2,000

The fees above apply to both BBPL and BBPS Boards.

Non-Executive Directors

Under the Management Agreements entered into by BBPL and BBPS, the parties have agreed with the Manager that a portion of the manager base fee be designated as an amount referable for the Manager making available the services of Peter Hofbauer and Warren Murphy as Non-Executive Directors of BBPS. The amount which has been so designated corresponds with the scale of remuneration paid to Independent Directors set out in the table above.

Table 4: Remuneration of Directors for the year ended 30 June 2007

Details of the nature and amount of each element of the emoluments of each Director of BBPS for the year ended 30 June 2007 are set out in the table below.

Board/Committee	Year	Primary Fees \$	Post-employment Superannuation	Total \$
Non-Executive Directors				
Mr P F Hofbauer (Chairman)**	2007	55,000	N/A	55,000
Mr W D Murphy*	2007	57,000	N/A	57,000
Independent Directors				
Mr J Fletcher*	2007	39,781	3,581	43,362
Mr P M Kinsey*	2007	41,129	3,702	44,831
Total remuneration for Directors	2007	192,910	7,283	200,193

Note: Independent Directors did not receive any non-monetary benefits in 2006 or 2007 for services to BBP.

* Member of the Board of Directors and the Audit, Risk & Compliance Committee for BBPS.

** Member of the Board of Directors for BBPS.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

6. LOAN AND OTHER RECEIVABLES

	2007 \$'000	2006 ⁽ⁱ⁾ \$'000
Current		
GST refundable	67	-
Loan to BBPL	33,083	-
	33,150	-
Non-current		
Loan to BBPL	408,864	1
	408,864	1

The principal amount of the Loan to BBPL is \$554,000,000 million. Fair value is based on forecast cash flows discounted using a 10 year benchmark interest rate of 6.39%+2%.

7. TRADE AND OTHER PAYABLES

	2007 \$'000	2006 ⁽ⁱ⁾ \$'000
Current		
Other payables	277	-
Payables to Babcock & Brown Power Advisory Pty Limited	700	-
Payables to Babcock & Brown Australia Limited	2,107	-
	3,084	-

i Comparative period represents from date of formation being 18 May 2006 through to 30 June 2006.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

8. CONTRIBUTED EQUITY

	Number	Unit in BBPT		
		Issue Price (\$ per unit)		
	\$'000		\$'000	
Fully paid units				
Units issued on formation	1		1	
Balance as at 30 June 2006	1		1	
Units issued on acquisition of assets	77,557		80,522	
Conversion of BBPCS	19 Oct 06 & 11 Dec 06	163,912	1.75	286,846
Conversion of capitalised interest on BBPCS	11 Dec-06	6,601	1.75	11,552
Initial Public Offering	11 Dec-06	111,219	1.75	194,633
		359,290		573,553
Less: IPO Transaction Costs				(21,643)
Balance 30 June 2007		359,290		551,910

On 11 December 2006, BBP successfully completed an Initial Public Offer (IPO) of Stapled Securities. \$278,000,000 of new securities were issued at IPO.

In 2005 and 2006, BBP issued Babcock & Brown Power Convertible Securities (BBPCS) to fund the acquisition of certain assets in the initial portfolio. \$255 million BBPCS were issued in July 2006. Prior to the Offer all of the BBPCS (amount to \$426 million) were converted (based on their principal amount plus accrued interest) into Stapled Securities at the \$2.50 Offer price.

Babcock & Brown, vendors of minority interest in some of the power stations and former holders of BBPCS were issued securities amounting to \$509 million (\$426 million of which were on conversion of the BBPCS) and have become Foundation Investors and held approximately 63% of BBP at listing date.

A summary of these transactions are shown above, and more details of these inter-related transactions are disclosed in the BBP Prospectus and Product Disclosure Statement dated 10 November 2006 and available on the BBP website: www.bbpower.com

9. RETAINED EARNINGS

(i) Comparative period represents from date of formation being 18 May 2006 through to 30 June 2006.

	2007 \$'000	2006 ⁽ⁱ⁾ \$'000
Balance at beginning of financial year	-	-
Net profit attributable to Unitholders	(111,189)	-
Distributions provided for or paid	-	-
Balance at end of financial year	(111,189)	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

10. EARNINGS PER UNIT

	2007 Cents per unit	2006 ⁽ⁱ⁾ Cents per unit
Basic earnings per unit	(52.12)	-
Diluted earnings per unit	(52.12)	-
The earnings and weighted average number of units used in the calculation of basic and diluted earnings per unit are as follows:		
Earnings attributable to Unitholders (\$'000)	(111,189)	-
Weighted average number of units for the purposes of basic and diluted earnings per unit	213,326,444	712

11. DISTRIBUTIONS

	2007		2006	
	Cents per unit	Total \$'000	Cents per unit	Total \$'000
Recognised Amounts				
Fully paid units				
Final distribution:				
Paid from retained earnings	-	-	-	-
Paid from contributed equity	-	-	-	-

On 29 August 2007, the Board of Directors of BBP declared a final distribution in respect of the year ended 30 June 2007 of 14 cents per Stapled Security. The amount that will be paid on or about 17 September 2007 is \$50,300,200.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

12. NOTES TO THE CASH FLOW STATEMENTS

	2007 \$'000	2006 \$'000
(a) Reconciliation of cash and cash equivalents		
Cash and cash equivalents including:		-
Restricted cash ⁽ⁱ⁾	696	-
Unrestricted cash	1,095	-
	1,791	-

(i) Cash at end of year 30 June 2007 includes \$696,000 of restricted cash related to refunds of oversubscription of units at BBP initial public offerings on 11 December 2006.

	2007 \$'000	2006 \$'000
(b) Reconciliation of profit for the period to net cash flows from operating activities		
Profit / (loss) for the period	(111,189)	-
Fair value of interest free loan	114,565	-
(Increase) / decrease in assets	(4,669)	-
(Increase) / decrease in liabilities	2,808	-
Net cash from operating activities	1,515	

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

13. SEGMENT INFORMATION

The Trust has one primary business and operates predominately in one geographical region (Australia). Its principal activity is the provision of loans to related entities, for the purpose of those entities undertaking investments.

14. SUBSEQUENT EVENTS

Alinta

On 11 May 2007, BBP announced that as a member of the Babcock & Brown and Singapore Power International consortium, it had been advised by the Board of Alinta Limited that the Board had recommended to shareholders the Consortium's proposal to acquire the whole of the share capital of Alinta.

Under the Scheme of Arrangement, BBP agreed to acquire the Alinta power generation portfolio and 67% of the WA retail assets owned by Alinta. The purchase of these assets will be funded through the issue of BBP Stapled Securities at a fixed ratio of 0.669 per Alinta share and a cash contribution of \$25,000,000 to be sourced through committed debt representing a combined incremental contribution of approximately \$37,500,000 to the consortium's proposal.

On 3 July 2007, the Federal Court issued orders convening meetings to consider the Scheme and that the scheme documents had been registered with ASIC. The Alinta shareholders voted on the Scheme of Arrangement on Wednesday, 15 August, with 88% of shareholders (present or via proxy) voting 97% in favour of the Scheme of Arrangement. The Federal Court on 17 August 2007 approved the Scheme with completion of the transaction to occur on 31 August 2007.

For full details of financial implication of the acquisition please refer to the Alinta Scheme Booklet. Certain information relating to the financial effect of the Alinta acquisition which was effected after 30 June 2007 has not been disclosed because it has been deemed impractical. BBP had access to information to prepare the Scheme Booklet, which is based on a balance date of 31 December 2006. This Scheme Booklet is available on BBP's website at www.bbpower.com.au.

On 1 September 2007, a further 331,303,246 stapled securities were issued.

15. CONTINGENT ASSETS AND LIABILITIES

Contingent liabilities

There are no contingent liabilities in existence at the date of this report.

Contingent assets

There are no contingent assets.

16. RELATED PARTIES DISCLOSURES

(a) Key management personnel disclosures

Details of key management personnel remuneration are disclosed in note 5 to the financial statements.

(b) Other related party transactions

Transactions involving other related parties

Receivables from related parties are disclosed in note 6. Payables to related parties are disclosed in note 7. Transactions were made on normal commercial terms and conditions and under normal market rates.

Custodian, Responsible Entity and Manager fees and costs

Custodian fee

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 BBPT is payable. During the year ended 30 June 2007, fees paid or payable to the Custodian by the Trust were \$42,909.

Responsible entity fees

Under the terms of the Trust Constitution the Responsible Entity, BBPS, which is a subsidiary of Babcock and Brown, is entitled to a management fee of 2% per annum of the value of the gross assets of BBPT. The Responsible Entity has waived its right to receive the management fee referred above in return for the payment to it of a fee of \$550,000 per annum, increased by CPI. During the year ended 30 June 2007, fees paid or payable to the Responsible Entity by the Trust were \$305,137, as the entitlement relates to only part of a year. Before BBPS became the responsible entity a trustee fee of \$nil was paid.

Base fees

The Manager, Babcock & Brown Power Management Pty Ltd ("BBPM"), which is a subsidiary of Babcock & Brown Limited, is entitled to receive Base Fees for services provided under the Management Agreements. The aggregate fees are equal to 1% of the Net Investment Value which is split between BBPL (0.8%) and BBPT (0.2%) under the Management Agreements, less, in the case of BBPT only, the Responsible Entity Fee. The Base Fees are payable to the Manager quarterly in arrears. During the year 30 June 2007; fees paid or payable to the Manager by the Trust were \$913,502.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

Related party transactions associated with the IPO

BBP entered into an IPO Financial Advisory Agreement with Babcock & Brown Australia ("BBA"). Under this Agreement, BBP paid BBA an IPO advisory fee of \$13,000,000. Additionally, as part of the IPO Financial Advisory Agreement, BBP paid BBA financial advisory fees amounting to \$10,000,000 in relation to certain acquisitions and framework agreements. BBP entered into a Foundation Offer Underwriting Agreement with BBAH in relation to Stapled Securities, amounting to \$3,700,000.

17. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives

The Trust's treasury function provides services to the business, coordinates access to domestic and international financial markets, and manages the financial risks relating to the operations of the Trust. The Trust does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

(b) Significant accounting policies

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

(c) Interest rate risk management

The Trust provided an interest free loan to BBPL which has a fixed term of repayment for a maximum of 10 years.

The Trust also provided other interest bearing loans to BBPL.

The Trust borrowed funds from Babcock & Brown Australia and Babcock & Brown Power Advisory Pty Limited (a subsidiary of BBPL). These funds are repayable at call.

2007	Weighted average effective interest rate %	Variable interest rate \$'000	Fixed maturity dates				Non-interest bearing \$'000	Total \$'000
			Less than 1 year \$'000	1-5 years \$'000	5+ years \$'000			
Financial assets								
Cash and cash equivalents	5.75	1,791	-	-	-	-	1,791	
Receivables	10.10	51,394	1,306	-	23,863	365,451	442,014	
		53,185	1,306	-	23,863	365,451	443,805	
Financial liabilities								
Payables		-	-	-	-	277	277	
Borrowings		-	-	-	-	2,807	2,807	
		-	-	-	-	3,084	3,084	

(d) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Trust. The Trust only deals with creditworthy counterparties and obtains sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Trust exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread amongst approved counterparties. The Trust measures credit risk on a fair value basis.

The Trust does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics, with the exception of the stapled entity, BBPL. 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 Trust's maximum exposure to credit risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

17. FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair value of financial instruments

The directors are of the opinion that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values (2006: net fair value).

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.
- the fair value of derivative instruments, included in hedging assets and liabilities, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments. These amounts reflect the estimate amount which the Trust would be required to pay or receive to terminate (or replace) the contracts at their current market rates at the reporting date.

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

(f) Liquidity risk management

The Trust 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

18. ADDITIONAL INFORMATION

BBPT is formed and operates in Australia.

Registered Office of the Company	Principal place of business
Level 23 The Chifley Tower 2 Chifley Square Sydney, New South Wales 2000 Telephone: +61 2 9229 1800	Level 23 The Chifley Tower 2 Chifley Square Sydney, New South Wales 2000 Telephone: +61 2 9229 1800

19. NET TANGIBLE ASSETS PER SECURITY

30 June 2007

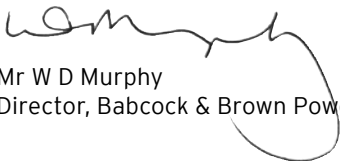
Net tangible assets per Stapled Security	1.23
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NOTES TO THE FINANCIAL STATEMENTS

DIRECTORS' DECLARATION

1. In the opinion of the directors of BBPS, the Responsible Entity of BBPT (the Trust):
 - (a) the financial statements and notes, set out on pages 7 to 33, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Trust's financial position as at 30 June 2007 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.
2. The Trust has operated during the year in accordance with the provisions of the Trust Constitution dated 18 May 2006.
3. The Register of Unitholders has, during the year ended 30 June 2007, been properly drawn up and maintained so as to give true account of the Unitholders of the Trust.
4. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2007.

Signed in accordance with a resolution of the directors:



Mr W D Murphy
Director, Babcock & Brown Power Services Limited

Dated at Sydney this 12 September 2007

INDEPENDENT AUDIT REPORT TO THE UNITHOLDERS OF BABCOCK AND BROWN POWER TRUST



PricewaterhouseCoopers
ABN 52 780 433 757

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Independent audit report to the unitholders of Babcock and Brown Power Trust

Report on the financial report

We have audited the accompanying financial report of Babcock and Brown Power Trust, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Babcock and Brown Power Trust.

Directors' responsibility for the financial report

The directors of Babcock and Brown Power Services Limited as responsible entity for the Trust are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

INDEPENDENT AUDIT REPORT
TO THE UNITHOLDERS OF BABCOCK AND BROWN POWER TRUST



Auditor's opinion on the financial report

In our opinion:

- (a) the financial report of Babcock and Brown Power Trust is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Trust's financial position as at 30 June 2007 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes comply with International Financial Reporting Standards as disclosed in Note 1.

A handwritten signature in black ink that reads "PricewaterhouseCoopers".

PricewaterhouseCoopers

A handwritten signature in black ink that reads "S Snook".

Stephen R Snook
Partner

Brisbane
12 September 2007

BABCOCK & BROWN POWER TRUST ANNUAL FINANCIAL REPORT

ADDITIONAL INFORMATION

This report is based on accounts to which one of the following applies:

- The accounts have been audited. The accounts have been subject to review.
 The accounts are in the process of being audited or subject to review. The accounts have not yet been audited or reviewed.

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

Not applicable.

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

None.

Unquoted equity securities shareholdings greater than 20%

NIL

Other stock exchanges on which securities are quoted

NIL

Company Secretary

Mr John Remedios

Registered Office of the Company

Level 23
The Chifley Tower
2 Chifley Square
Sydney, New South Wales 2000
Telephone: +61 2 9229 1800

Principal place of business

Level 23
The Chifley Tower
2 Chifley Square
Sydney, New South Wales 2000
Telephone: +61 2 9229 1800

Share Registry

Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Telephone: 1800 883 072
International: +61 2 8280 7183
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