

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
Level 23 The Chifley Tower · 2 Chifley Square · Sydney NSW 2000 Australia
T +61 2 9229 1800 · F +61 2 9235 3496 · www.bbpower.com



ASX Release

26 September 2008

BABCOCK & BROWN POWER TRUST - ANNUAL FINANCIAL REPORT

Babcock & Brown Power (ASX:BBP) advises that the attached Annual Financial Report of the Babcock & Brown Power Trust for the year ended 30 June 2008 has been dispatched to Securityholders today.

ENDS

Further Information:

Fiona Osler
Investor Relations
Babcock & Brown Power
Ph + 61 2 9216 1383

About Babcock & Brown Power

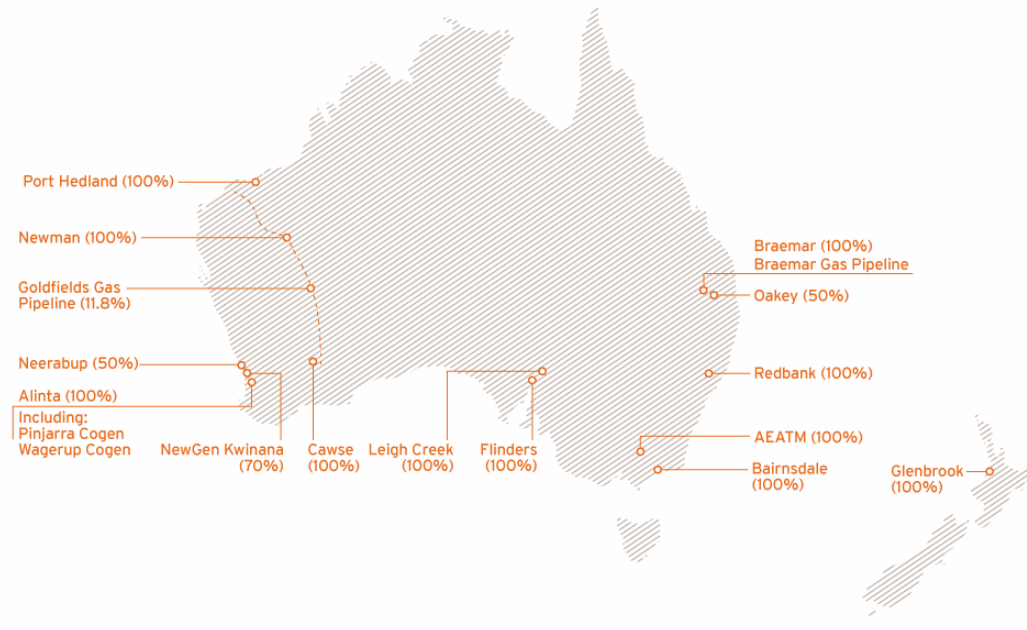
Babcock & Brown Power (ASX:BBP) is a power generation business, with assets diversified by geographic location, fuel source, customers, contract types and operating mode. Its aim is to grow returns to its securityholders through optimisation of its existing power generation business and the addition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

The portfolio has interests in 12 operating power stations representing over 3,000MW¹ of installed generation capacity and two power stations under construction. BBP has interests in a number of other associated power assets including the WA retail assets Alinta. Babcock & Brown has been developing, operating and acquiring the generation portfolio over a period of 10 years.

¹ Some assets have minority shareholders.

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Portfolio Summary



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Babcock & Brown Power Trust

ARSN 122 375 562

Annual Financial Report

for the year ended 30 June 2008

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This financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2008 and any public announcements made by Babcock & Brown Power Trust during the reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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 Babcock & Brown Power Trust for the year ended 30 June 2008.

DIRECTORS

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

Mr L F Gill (Chairman) - appointed 1 July 2008	appointed 29 October 2006
Mr W D Murphy (Chairman) - through to 1 July 2008	appointed 4 April 2006
Mr P F Hofbauer	appointed 14 October 2005
Mr J Fletcher	appointed 29 October 2006
Mr P M Kinsey	appointed 29 October 2006 (resigned 1 July 2008)
Mr M Garland (Alternate for Mr P F Hofbauer through to 23 November 2007, from 23 November 2007 Alternate for Mr W D Murphy)	appointed 9 November 2006
Mr G W Denton (Alternate for Mr W D Murphy through to 23 November 2007, from 23 November 2007 Alternate for Mr P F Hofbauer)	appointed 9 November 2006

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

Mr L F Gill - Independent Non-Executive Director - Independent Chairman from 1 July 2008

Leonard (Len) Gill has extensive knowledge and over 29 years' experience in the Australian energy industry. He is the former Chief Executive Officer of TXU Australia (now TRUenergy). Prior to his appointment as CEO, Len headed TXU's wholesale energy division for five years, which included general management responsibility for power generation and gas storage assets. Len is also a former Non-Executive Director of Verve Energy. Len holds a Bachelor of Engineering (Hons) degree and is a Member of the Australian Institute of Company Directors.

Mr W D Murphy - Chairman until 1 July

Warren Murphy is 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 Babcock & Brown Wind Partners and of the responsible entity of Babcock & Brown Wind Partners Trust, and Sydney Gas Limited.

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

Mr P F Hofbauer - Non-Executive Director

Peter Hofbauer is the Global Head of Babcock & Brown's Infrastructure group and coordinates the group's infrastructure activities worldwide. Peter is also a director of Babcock & Brown Wind Partners Limited and Babcock & Brown Infrastructure Limited.

Prior to joining Babcock & Brown in 1989, Peter worked with Price Waterhouse and Westpac Project and Advisory Services Limited. Peter worked in the Sydney office of Babcock & Brown until early 1996 covering a range of business areas including large-scale asset, property and tax based structured financing transactions. From 1996 until 2000, Peter worked in the London office of Babcock & Brown where he was responsible for establishing Babcock & Brown's European property and infrastructure principal finance group. This involved, among other things, the establishment and ongoing management of a wholesale investment fund for Babcock & Brown and its clients.

Peter has a Bachelor of Business from Swinburne University. He is a member of the Institute of Chartered Accountants in Australia, the Taxation Institute of Australia and the Financial Services Institute of Australasia.

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BABCOCK & BROWN POWER TRUST

DIRECTORS' REPORT

Mr J Fletcher - Independent Non-Executive Director

John Fletcher is currently a Director of APA Group and Sydney Water Corporation. His recent experience includes board positions with Foodland Associated Limited, Integral Energy and NGC Limited of New Zealand. He held a number of executive roles at The Australian Gas Light Company, including that of CFO, and has extensive experience in 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. He has been involved in the negotiation of various types of commercial contracts, including power projects and transportation projects in a number of countries, such as 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, a Graduate Diploma in Financial Management and a Master of Commerce.

Mr M Garland - Alternate Director for Mr P F Hofbauer

Mike Garland is head of Babcock & Brown's North America Infrastructure & Project Finance group. Mike has over 25 years of experience developing, constructing, managing and investing in power and infrastructure in the United States and around the world. Mike's experience includes renewable facilities, fossil power plants, transmission facilities and regulated, contracted and merchant assets. Mike has successfully closed power financings ranging in value from \$10 million to over \$3 billion. Mike holds a Bachelor of Arts in physics from the University of California at Berkeley and is a registered representative of NASD, Inc.

Mr G W Denton - Alternate Director for Mr W D Murphy

Graham Denton is principally involved in project finance in the energy sector. Graham has had extensive involvement in the co-development of Oakey, Braemar, Redbank, NewGen Kwinana and Uranquinty as well as the Lake Bonney and Alinta wind farm developments. Prior to joining Babcock & Brown in 1997, Graham was employed by AIDC Ltd in a project finance advisory role, and before that he was employed by Eskom, the South African electricity utility. He has a Bachelor of Commerce (Hons) in Economics and a Master of Commerce degree.

COMPANY SECRETARY

The following persons were Company Secretary of BBPL 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 3 April 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 Babcock & Brown Power. 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 the Specialised Funds and is now principally responsible for the company secretarial function and corporate governance requirements of Babcock & Brown Wind Partners. 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, a Bachelor of Economics and a Graduate Diploma in Company Secretarial Practice. He is a Member of Chartered Secretaries Australia.

REMUNERATION REPORT (AUDITED)

Specialised Funds 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. One of these Funds is Babcock & Brown Power (BBP). Under the terms of those Management Agreements, the Manager provides a Core Management Team which comprises Babcock & Brown employees who are seconded to the Manager on either a full or part time basis in relation to the management of a Fund. These employees are therefore 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 BBP are remunerated on a different basis than that applicable to Babcock & Brown employees.

The following matters should be noted in understanding how the Executives¹ in the BBP Core Management Team (BBP Executives) are remunerated and how their remuneration is aligned to the performance of BBP and Babcock & Brown:

- Babcock & Brown meets the costs of employment (including bonuses) of the BBP Executives as these remuneration costs are a category of expenses under the Management Agreements that are not separately recoverable from BBP.
- The recovery of expenses by the Manager (including the remuneration of the BBP Executives) is capped in accordance with the Management Agreements.
- As employees of Babcock & Brown, the BBP Executives are remunerated on a calendar year basis with annual incentive remuneration payments made in relation to their performance for the 12 months ending 31 December. These incentive payments are paid in March each year following the previous 31 December financial year end of Babcock & Brown.
- The remuneration of BBP Executives is made up of three components being fixed remuneration, short term incentives (STI) and long term incentive components (LTI):
 - fixed remuneration comprises a cash salary and statutory entitlements including superannuation;
 - STI comprises a cash bonus and Share Awards (see below for further details); and
 - LTI comprises Bonus Deferral Rights and performance-based Options which are subject to various hurdle requirements as described below.
- Where a Babcock & Brown employed BBP Executive is directly and solely involved in the management of BBP, 50% of any Bonus Deferral Right allocation will be invested in Babcock & Brown Bonus Deferral Rights and the remaining 50% in BBP Bonus Deferral Rights.
- Subject to vesting arrangements and no disqualifying events, Bonus Deferral Rights vesting commences at year four after allocation.
- Total remuneration of BBP Executives includes LTI of between 20% and 50% which is aligned to the security price of both BBP and Babcock & Brown.
- Accordingly, the total remuneration disclosed in this Remuneration Report:
 - is the remuneration paid for the performance of the BBP Executive during the 12 months ending 31 December 2007; and
 - includes deferred equity components issued at prevailing prices as at their respective grant date in April 2008; i.e. Share Awards and Babcock & Brown Bonus Deferral Rights were issued at a price of \$12.8233 per security, BBP Bonus Deferral Rights were issued at a price of \$1.81 per security and TSR Hurdled Options were issued at a strike price of \$12.95 per security.
- Babcock & Brown's and BBP's security prices closed on Friday, 22 August 2008 at \$2.48 and \$0.225 respectively. The ultimate value of the LTI components of the BBP Executive's total remuneration is linked to the security prices of Babcock & Brown and BBP. The securities allocated as LTI have lost approximately 80% of their total value based on the abovementioned closing prices on 22 August 2008 and, accordingly, the value of the BBP Executives' LTI has declined by 80%. As noted above, the LTI components of the BBP Executives' remuneration does not vest for four years.

1 In this report "BBP Executive" refers to the BBP Key Management Personnel who are not Directors, as well as the five most highly remunerated senior managers.

BABCOCK & BROWN POWER TRUST

DIRECTORS' REPORT

Remuneration report (audited) (continued)

The financial impact for each BBP Executive is highlighted in the table below:

Year	Short-term employee benefits			Total of short-term employee benefits	Post-employment benefits	Other long-term employee benefits	Share-based payments ²		Total	
	Salary	STI Plan relating to current period	Non-monetary benefits		Super-annuation	Long service leave	Equity settled	Cash settled		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	
BBP Executive¹										
Paul Simshauser	2008 ³	365,000	412,475	-	777,475	13,129	6,083	622,455	8,788	1,427,930
	2008 ⁴	365,000	412,475	-	777,475	13,129	6,083	104,885	3,090	904,662
James Brown	2008 ³	294,900	350,000	-	644,900	13,129	4,915	168,592	1,952	833,488
	2008 ⁴	294,900	350,000	-	644,900	13,129	4,915	25,977	686	689,907
Brian Green	2008 ³	294,900	350,000	-	644,900	13,129	4,915	189,449	2,420	854,813
	2008 ⁴	294,900	350,000	-	644,900	13,129	4,915	32,204	851	695,999
Andrew Kremor	2008 ³	360,000	232,700	-	592,700	13,129	6,000	30,820	1,607	644,256
	2008 ⁴	360,000	232,700	-	592,700	13,129	6,000	3,339	565	615,733

1 These are the BBP Executives who received the highest emoluments in respect of the 2007 calendar year.

2 Share-based payments include LTI Plan options and Bonus Deferral Rights.

3 Remuneration for calendar year 2007 with LTI components based on the allocation prices as at the grant date on 21 April 2008.

4 Remuneration for calendar year 2007 with LTI components based on the closing prices of B&B and BBP security prices as at Friday, 22 August 2008.

BBP Executives

The following persons were BBP Executives during the financial year:

Mr Paul Simshauser	Chief Executive Officer ⁵
Mr Brian Green	Chief Operating Officer ⁵
Mr James Brown	Chief Financial Officer ⁵
Ms Julia Oakley	General Manager, Business Services ⁵ (appointed 28 April 2008)
Mr Andrew Kremor	General Manager, Energy Markets ⁵
Mr Tom Richardson	General Manager, Transition ⁶

Remuneration Policy

The B&B Board recognises that Babcock & Brown operates in a global marketplace 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.

Remuneration structure

During 2007, the B&B Board determined that remuneration would be assessed under a total annual remuneration model consisting of fixed remuneration and incentive remuneration (short-term incentives (STI) and long-term incentives (LTI)). The amount of incentive remuneration is determined after Babcock & Brown's year-end (December) and is calculated as total annual remuneration approved by the B&B Board less fixed remuneration. Incentive remuneration is then allocated between the components in accordance with the criteria set out in further detail in this report.

⁵ These persons are employed by Babcock & Brown Australia Pty Limited.

⁶ Employed by BBP. Retired July 2008.

Operation of total annual remuneration in calendar year 2007

The process for determining the calendar year 2007 total annual remuneration allocation for BBP Executives is outlined below:

Step 1: During 2007, the BBP Nomination & Remuneration Committee agreed Key Performance Indicators (KPIs) for the BBP Executives to establish criteria for assessing performance.

The BBP Nomination & Remuneration Committee consists of five Directors, of whom three are Independent Non-Executive Directors. Its members from the Committee's inception on 25 June 2007 through to 30 June 2008 were:

- Mr P M Kinsey (Chair)
- Mr L F Gill
- Mr W D Murphy
- Mr P F Hofbauer
- Mr J A Fletcher

KPIs for the BBP Executive were refined during 2007 to further align their interests and behaviours with those of BBP's security-holders. On a calendar year basis, each individual's performance is assessed against their KPIs to establish their final total annual remuneration.

There are three sets of KPIs.

The first set focuses BBP Executives on outstanding role modelling of the B&B Group's and BBP's core values through:

- working together to maximise the short-term and long-term performance of BBP for investors, clients and employees;
- attracting, developing, motivating and retaining the best people to build, lead and sustain BBP's businesses; and
- enhancing and protecting BBP's unique assets and source of competitive advantage - people, relationships, capital and reputation.

The second set focuses BBP Executives' contribution to the generation of short-term and long-term profitability of BBP.

The third set focuses on the generation of long-term profitability of BBP. Longer term measures include each individual's direct contribution to the performance of BBP.

Step 2: Independent members of the BBP Nomination & Remuneration Committee provided input to Babcock & Brown on the performance of BBP Executives to assist in determining the preliminary total annual remuneration allocation amount.

The recommendations for the BBP Executive were determined based upon their relative performance assessed in accordance with the KPIs outlined above in Step 1.

Step 3: The B&B Corporate Management Committee established individual allocations from the total incentive remuneration allocation amount and made recommendations to the B&B Remuneration Committee.

Summary of incentive plans

Short-term incentive (STI) plan

All B&B Group employees are eligible to participate in the STI plan. The B&B Board's policy is to allocate at least 25% of an employee's STI award above a threshold level to a grant of Bonus Deferral Rights (BDRs) with the balance paid in cash. For the remuneration period ending 31 December 2007, the B&B Board allocated 30% of an employee's STI award above \$350,000 to a grant of BDRs. BDRs take the form of B&B BDRs and Fund BDRs (each further described below). The threshold level and allocation percentage are subject to annual review.

All STIs below the threshold level are generally delivered entirely as cash. However, to encourage increased employee share ownership levels and a greater alignment of interests between employees, B&B shareholders and BBP security-holders, certain employees can voluntarily sacrifice up to 100% of their discretionary STI into Voluntary Bonus Deferral Rights (Voluntary BDRs). Only employees in locations where the tax regime allows deferral are eligible to participate in the Voluntary BDR plan.

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BABCOCK & BROWN POWER TRUST

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (CONTINUED)

The following tables provide further information on the various equity and equity-based components of STI for the remuneration period ending 31 December 2007.

Share Awards

The nature, eligibility and general terms of the Share Awards are outlined in the table below:

Nature	Each fully vested Share Award entitles the participant to one share in Babcock & Brown at no cost. Fifty percent of the Share Awards are exercisable from August 2008 and the remaining 50% from February 2009.
Eligibility	All employees who have total short-term incentive remuneration of more than \$200,000.
Quantum of Share Awards to be allocated	The number of Share Awards granted is determined by dividing the amount of the Share Award allocation by the market value of Babcock & Brown shares at the time the Share Awards are granted. The grant of Share Awards occurred in April 2008.
Entitlement and treatment of dividends	<p>Each Share Award is backed by a Babcock & Brown share either issued to or acquired by the Babcock & Brown Australian Incentive Trust or the Babcock & Brown Executive Achievement Share Trust, as applicable. Dividends received on these shares, less trust expenses and taxes as determined by the Trustee, will be applied towards acquiring additional Babcock & Brown shares (Dividend Reinvestment Plan (DRP) Shares). Any DRP Shares will also hold entitlements to future dividends, which will be treated in the same way.</p> <p>The DRP Shares will be held by the Trust until the time the B&B Share Awards are exercised. Once the Share Awards have been exercised, the employee is entitled to receive dividends on their shares, similar to any other Babcock & Brown shareholder.</p>

Babcock & Brown Bonus Deferral Rights (B&B BDRs)

B&B BDRs are designed to further align the interests of employees, B&B shareholders and BBP Securityholders and act as a retention mechanism. The nature and general terms of the B&B BDRs are outlined in the table below:

Nature	Each B&B BDR entitles the participant to one share in Babcock & Brown at no cost after a four year vesting period.
Eligibility	<p>If the participant only contributes to Babcock & Brown, and receives an STI award above the threshold level, they will receive all of their BDR allocation in B&B BDRs.</p> <p>If the participant makes a contribution to both Babcock & Brown and Babcock & Brown Listed Managed Fund(s), and receives an STI award above the threshold level, they will receive 50% of their BDR allocation as B&B BDRs and the remaining 50% in Fund BDRs (see below).</p>
Quantum of B&B BDRs to be allocated	The number of B&B BDRs granted is determined by dividing the amount of the B&B BDR allocation by the market value of Babcock & Brown shares at the time the B&B BDRs are granted. The B&B BDRs were granted to BBP Executives during April 2008.
Entitlement and treatment of dividends	The same treatment as the Share Awards applies (see above section).
Forfeiture conditions of the B&B BDRs	Any participant leaving the B&B Group may forfeit their B&B BDRs if they terminate employment within the four year vesting period, unless the B&B Board exercises its discretion in certain circumstances, such as redundancy or retirement. The B&B Board also reserves the right to allow vesting in other circumstances, which would include a participant leaving Babcock & Brown to pursue other interests which the B&B Board is satisfied will not compete with the B&B Group.

Fund Bonus Deferral Rights (Fund BDRs)

The B&B Board believes that the B&B Managed Funds are central to Babcock & Brown's long-term strategy and business model. During 2007, the B&B Board introduced Fund BDRs to further align eligible employees' interests with those of the applicable Listed Managed Fund's Securityholders. The nature, eligibility and general terms of the Fund BDRs are outlined in the table below:

Nature	Each Fund BDR entitles the participant to a cash payment, linked to the performance of the applicable B&B Listed Managed Fund (reflected by the market price movement plus income reinvestment of the relevant Babcock & Brown Listed Managed Fund's securities, less any applicable withholdings) at the end of the four year vesting period. If the employee contributed to more than one Fund, the amount to be delivered in Fund BDRs will be allocated equally between the various Babcock & Brown Listed Managed Funds to which they make a contribution.
Eligibility	If the employee only contributes to Babcock & Brown, they are not eligible to receive Fund BDRs. If the employee makes a contribution to both Babcock & Brown and a Babcock & Brown Listed Managed Fund(s), and receives an STI award above the threshold level, they will receive 50% of their BDR allocation in B&B BDRs and the remaining 50% in Fund BDRs.
Quantum of Fund BDRs to be allocated	Similar to the B&B BDRs, the number of Fund BDRs granted is determined by dividing the amount of the Fund BDR allocation by the market value of the applicable Babcock & Brown Listed Managed Fund's securities at the time the Fund BDRs are granted. The Fund BDRs were granted to BBP Executives during April 2008.
Entitlement to dividends/distributions	Any dividends/distributions paid during the vesting period are included in the calculation to determine the cash payment that will be paid to the participant at the end of the vesting period. No actual dividends/distributions are received by the participant as the Fund BDRs are not backed by equity in the applicable Fund.
Forfeiture conditions	The same forfeiture conditions that apply to B&B BDRs also apply to Fund BDRs (see above).

As short-term incentive allocations are determined after the end of B&B's financial year (31 December) and are directly dependent on the B&B Group's financial performance, employees are not able to be advised of a target STI amount. Accordingly, Babcock & Brown cannot specify the percentage of the BBP Executives' target STI that was paid and forfeited during the financial year.

Long-term incentive (LTI) plan

The nature, eligibility and general terms of performance-based Options are outlined in the table below:

Nature	Each performance-based Option entitles the participant to one share in Babcock & Brown upon vesting subject to the payment of an exercise price. The exercise price of each Option will generally be based on the market value of shares at the time of grant.
Eligibility	All employees who have total annual remuneration which is more than double fixed remuneration and have total annual remuneration which is in excess of \$250,000.
Quantum of performance-based options to be granted	The number of performance-based Options to be granted is determined by dividing the amount of the LTI allocation by the value of the performance-based Option at the time they are granted. The performance-based Options are expected to be granted to Executives and other employees during April 2008.
Vesting and performance period	The B&B Board's policy on the terms of vesting of LTI awards will typically include vesting at least three years after grant, subject to the achievement of a performance hurdle. Performance-based Options to be granted for 2007 will have a three and a half year vesting period, subject to achievement of a relative TSR hurdle.

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BABCOCK & BROWN POWER TRUST

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (CONTINUED)

Performance hurdle

The relative TSR hurdle set by the B&B Board measures Babcock & Brown's TSR performance against all other ASX 100 index companies as at the date of grant measured over the three and a half year vesting period. The B&B Board has chosen Relative TSR ranking as the performance hurdle for the LTI awards because this hurdle ensures the greatest alignment between executive reward and the creation of shareholder value. By using ASX 100 index companies as the peer group, Babcock & Brown ensures that Executives and other senior executives will only be rewarded when Babcock & Brown's TSR has exceeded the median of the broader Australian market. LTI awards will vest in accordance with the table below:

Percentile	% of options that vests
Below 51st percentile	Nil
51st to 74th percentile	Progressive vesting on a straight-line basis from 50% to 99%
At or above 75th percentile	100%

The B&B Remuneration Committee has determined that it is appropriate to retest performance 12 months after the initial test date (i.e. after 4.5 years) for the 2008 grants if they are not fully vested at the initial test date (i.e. after 3.5 years).

The B&B Remuneration Committee understands that some stakeholder and shareholder bodies are against more than one test date and conducted a review of the testing mechanism during 2006. After this review, and also because of the recent market volatility, the B&B Remuneration Committee determined that it was appropriate to keep two test dates in place.

The reasons for this included that the impacts of long-term decision making may not be reflected over the first 3.5 years and that stock market volatility means that Babcock & Brown's share price on the first test date may not reflect its fundamental value on that day. In addition, Babcock & Brown believes that having two test dates still aligns Executives and other senior executives' interests with those of shareholders and Securityholders because performance is tested over the entire 4.5 year period and therefore relative performance in the year following the first test date would need to be strong to make up for any underperformance over the first 3.5 years. Executives and other senior executive are therefore only rewarded when shareholders are similarly rewarded.

To measure performance against the TSR performance hurdle, Babcock & Brown's external remuneration advisor will obtain, for each company in the ASX 100 as at the grant date, the TSR over the performance period and then rank these companies by their TSR performance. Babcock & Brown's TSR will then be compared to the TSR of the companies in this peer group to determine its percentile ranking and the level of vesting that will occur. This analysis will then be presented to the B&B Remuneration Committee for approval. This method of assessment was chosen because it ensures independence when determining vesting levels.

Forfeiture conditions

Any participant leaving the B&B Group may forfeit their Options if they terminate employment within the 3.5 year vesting period, unless the B&B Board exercises its discretion in certain circumstances, such as redundancy or retirement. The B&B Board also reserves the right to allow vesting in other circumstances which would include a participant leaving Babcock & Brown to pursue other interests which the Board is satisfied will not compete with the B&B Group.

The 2007 performance year was the first time that Options were used as a formal part of the Executive remuneration framework. Accordingly, no information can be provided as yet on the percentage of Executive Option allocations that were vested or forfeited during the financial year.

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Table 1: Remuneration of the Executives for the 2007 calendar year

Details of the nature and amount of each element of the emoluments of each Executive of BBP for the calendar year ended 31 December 2007 and 31 December 2006 are set out in the table below.

Year	Salary (cash) \$	Short-term employee benefits			Non-monetary benefits \$	Total of short-term employee benefits (cash) \$	Post-employment benefits Super-annuation \$	Other long-term employee benefits Long service leave \$	Share-based payments		Total \$
		STIP relating to current period (cash) \$	STIP relating to prior years \$	Equity settled ² \$					Cash settled ³ \$		
Executives											
Mr Paul Simshauser ¹	2008	365,000	412,475	-	-	777,475	13,129	6,083	622,455	8,788	1,427,930
	2007	253,011	165,000	-	-	418,011	12,686	-	12,567	-	443,264
Mr James Brown ¹	2008	294,900	350,000	-	-	644,900	13,129	4,915	168,592	1,952	833,488
	2007	212,241	65,200	-	-	277,441	12,686	-	4,189	-	294,316
Mr Brian Green ¹	2008	294,900	350,000	-	-	644,900	13,129	4,915	189,449	2,420	854,813
	2007	187,665	-	-	28,035	215,700	12,686	-	-	-	228,386
Mr Andrew Kremor ¹	2008	360,000	232,700	-	-	592,700	13,129	6,000	30,820	1,607	644,256
	2007	28,175	-	-	-	28,175	2,536	-	-	-	30,711
Mr Tom Richardson ¹	2008	334,255	150,000	-	-	484,255	13,745	-	-	-	498,000
	2007	-	-	-	-	-	-	-	-	-	-
Mr Mark Williamson	2008	-	-	-	-	-	-	-	-	-	-
	2007	33,514	-	-	-	33,514	3,016	-	-	-	36,530
Mr John Remedios	2008	-	-	-	-	-	-	-	-	-	-
	2007	104,399	-	-	-	104,399	9,148	-	-	-	113,547
Total remuneration for Executives	2008	1,649,055	1,495,175	-	-	3,144,230	66,261	21,913	1,011,316	14,767	4,258,487
	2007	819,005	230,200	-	28,035	1,077,240	52,758	-	16,756	-	1,146,754

1 These are the five Executives who received the highest emoluments in the 2007 calendar year.

2 Equity settled share based payments comprise Share Awards, B&B BDRs and performance-based Options.

3 Cash settled share based payments comprise BBP BDRs.

Table 2: Remuneration components as a proportion of total remuneration

The below remuneration mix is based upon the above remuneration table, which includes the amortisation of prior year unvested equity awards and the current year's amortisation for grants made in 2007. The actual remuneration mix pre-amortisation is outlined in the Remuneration Structure section on page 14 of this report.

	Performance-based remuneration					Total %
	Fixed remuneration ⁴ %	Cash %	Share Awards %	Bonus Deferral Rights ⁵ %	Options %	
Executives						
Mr Paul Simshauser	26.91	28.89	36.24	2.38	5.58	100
Mr James Brown	37.55	41.99	15.45	0.91	4.10	100
Mr Brian Green	36.61	40.94	18.68	1.10	2.67	100
Mr Andrew Kremor	58.85	36.12	1.97	0.97	2.09	100
Mr Tom Richardson	69.88	30.12	0.00	0.00	0.00	100

4 Fixed Remuneration consists of salary, non-monetary benefits, superannuation and long service leave.

5 Bonus Deferral Rights refers to both B&B BDRs and Fund BDRs.

BABCOCK & BROWN POWER TRUST

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (CONTINUED)

Table 3: Value of remuneration that vests in future years

	Remuneration subject to vesting ¹				
	2008	2009	2010	2011	2012
Executives					
Mr Paul Simshauser	631,243	113,772	113,772	113,772	68,339
Mr James Brown	170,544	41,747	41,747	41,747	24,067
Mr Brian Green	191,869	32,193	32,193	32,193	24,584
Mr Andrew Kremor	32,427	19,706	19,706	19,706	15,211

¹ Remuneration amounts disclosed in the above table refer to the maximum value of Options, B&B BDRs and Fund BDRs, where relevant. These amounts have been determined at grant date by using an appropriate pricing model and amortised in accordance with AASB 2 *Share Based Payment*. The minimum value that may vest is \$nil and no remuneration currently granted vests after 31 December 2012.

Outstanding Babcock & Brown Share Awards

Share Awards were granted to Executives during April 2008 with the number to be granted based on the market price of Babcock & Brown's shares as at the grant date. The value per Share Award will be determined at the date of grant.

Upon exercise, the Share Awards entitle the holder to subscribe for one fully paid ordinary share in Babcock & Brown together with their related Dividend Reinvestment Shares and do not entitle the holder to participate in share issues made by Babcock & Brown. No exercise price is payable in relation to the Share Awards and no amounts will be paid, or payable by the recipient, for the granting of these Share Awards. These Share Awards will be issued fully vested at the date of grant.

Table 4: Terms and conditions of outstanding Share Awards

The table below provides the terms and conditions of outstanding Share Awards. Included in this table is an amount for Share Awards granted during April 2008.

	Total value \$	% Exercisable from	
		August 2008 ²	February 2009 ³
Executives			
Mr Paul Simshauser	517,472	50	50
Mr James Brown	128,798	50	50
Mr Brian Green	159,676	50	50
Mr Andrew Kremor	12,720	50	50

² The Share Awards are exercisable from the date immediately following the results release to the ASX for Babcock & Brown Limited for the half year ending 30 June 2008 on 21 August 2008.

³ The Share Awards are exercisable from the date immediately following results release to the ASX for Babcock & Brown Limited for the full year ending 31 December 2008 anticipated to be late February 2009.

Outstanding Babcock & Brown Bonus Deferral Rights (B&B BDRs)

Upon vesting, the B&B BDRs entitle the holder to subscribe for one fully paid ordinary share in Babcock & Brown together with their related Dividend Reinvestment Shares and do not entitle the holder to participate in share issues made by Babcock & Brown. No exercise price is payable in relation to the B&B BDRs and no amounts have been paid, or are payable by the recipient, for the granting of these B&B BDRs. No B&B BDRs vested, were exercised or lapsed during the year and all B&B BDRs held at 31 December 2007 are unvested and unexercisable. Unless indicated otherwise, all B&B BDRs do not have an expiry date as they are automatically converted to Babcock & Brown shares upon vesting. The BBP independent Non-Executive Directors do not hold any B&B BDRs.

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Table 5: Terms and conditions of outstanding B&B Bonus Deferral Rights

The table below provides the terms and conditions of outstanding B&B BDRs. Included in this table is an amount for B&B BDRs granted during April 2008.

	Granted Number	Grant date	Value per B&B BDR \$	Total value \$	Vesting date ¹
Executives					
Mr Paul Simshauser	9,691	21/04/08	13.02	126,177	23/02/12
Mr James Brown	2,152	21/04/08	13.02	28,019	23/02/12
Mr Brian Green	2,668	21/04/08	13.02	34,737	23/02/12
Mr Andrew Kremor	1,772	21/04/08	13.02	23,071	23/02/12

¹ B&B BDRs granted in 2008 will vest following the release to the ASX of Babcock & Brown's full year results for the 2011 year, anticipated to be in late February 2012. B&B BDRs granted in 2007 will vest following the release to the ASX of Babcock & Brown's full year results for the 2010 year, anticipated to be in late February 2011. B&B BDRs granted in 2006 will vest following the release to the ASX of Babcock & Brown's full year results for the 2009 year, anticipated to be in late February 2010.

Outstanding Fund Bonus Deferral Rights

The Fund BDRs represent 50% of the Executive's total BDR allocation. Upon vesting, the Fund BDRs entitle the holder to a cash payment linked to the performance of the applicable Fund over the period from grant date to vesting date. No Fund BDRs vested, were payable or lapsed during the year and all Fund BDRs held at 31 December 2007 are unvested and unexercisable. No exercise price is payable in relation to the Fund BDRs. The BBP independent Non-Executive Directors will not be granted any Fund BDRs.

Table 6: Terms and conditions of outstanding Fund Bonus Deferral Rights

The grant date for these Fund BDRs was 10 April 2008, with the number granted based on the five-day volume weighted average price of BBP securities prior to the grant date. The Fund BDRs vest following the release to the ASX of Babcock & Brown's full year results for the 2011 year, anticipated to be in late February 2012.

	Total value \$
Executives	
Mr Paul Simshauser	43,942
Mr James Brown	9,759
Mr Brian Green	12,098
Mr Andrew Kremor	8,036

Outstanding Options

The table below outlines the terms and conditions of all Options that are currently held by Executives. These Options were issued at no cost and no amounts have been paid, or are payable, by the recipient for the granting of these Options. 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 Babcock & Brown. No Options vested, were exercised or lapsed during the year and all Options held at 31 December 2007 are unvested and unexercisable. The BBP Independent Non-Executive Directors do not hold any Options.

Table 7: Terms and conditions of outstanding Options

The table below provides the terms and conditions of outstanding Options. Included in this table is an amount for Options granted during April 2008.

	Granted Number	Grant date ²	Value per Option \$	Total value of Options granted \$	First exercise date ³	Last exercise date
Executives						
Mr Paul Simshauser	22,500	9/03/07	7.54	169,650	25/08/11	9/03/13
	52,607	21/04/08	3.73	196,224	18/08/11	21/04/14
Mr James Brown	7,500	9/03/07	7.54	56,550	25/08/11	9/03/13
	27,055	21/04/08	3.73	100,915	18/08/11	21/04/14
Mr Brian Green	28,558	21/04/08	3.73	106,521	18/08/11	21/04/14
Mr Andrew Kremor	16,871	21/04/08	3.73	62,929	18/08/11	21/04/14

² The grant date for these performance-based Options was April 2008, with the number of Options granted based on the value per Option at the date of grant. The exercise price is based on the five-day volume weighted average price of Babcock & Brown's shares prior to the grant date to Executives.

³ The first exercise date for Options exercisable in 2011 is the date immediately following the results release to the ASX for Babcock & Brown for the half year ending 30 June 2011, anticipated to be in late August 2011, subject to the performance hurdle for these awards being achieved.

BABCOCK & BROWN POWER TRUST

DIRECTORS' REPORT

Executive employment contracts

The base salaries for Executives as at 30 June 2008, in accordance with their employment contract, are shown below:

	Base remuneration per service agreement \$
Executives	
Mr Paul Simshauser	365,000
Mr James Brown	330,000
Mr Brian Green	330,000
Mr Andrew Kremor	365,000
Mr Tom Richardson	334,255

All of the above Executive employment contracts contain the conditions below, with the exception of Tom Richardson (who retired on 31 July 2008):

Length of contract	Open-ended.
Frequency of base remuneration review	Annual
Benefits	Executives are entitled to participate in Babcock & Brown benefit plans that are made available.
Incentive remuneration	Executives are eligible for an award of incentive remuneration (if any).
Termination of employment	Employment is able to be terminated by either party on three months' written notice. Babcock & Brown may elect to pay the Executive three months' salary in lieu of notice.

NON-EXECUTIVE DIRECTORS

The following persons were Directors of BBP during the financial year:

Directors

Mr L F Gill	Independent Chairman from 1 July 2008, and Independent Non-Executive Director
Mr W D Murphy	Chairman from 23 November 2007 through to 1 July 2008, Non-Executive Director, Babcock & Brown Executive
Mr P F Hofbauer	Chairman through to 23 November 2007, Non-Executive Director, Babcock & Brown Executive
Mr J Fletcher	Independent Non-Executive Director
Mr P M Kinsey	Independent Non-Executive Director

REMUNERATION POLICY AND STRUCTURE

Independent Directors' individual fees, including committee fees, are determined by the BBP Board within the aggregate amount approved by Securityholders. The current maximum aggregate amount which may be paid to all Non-Executive Directors is \$750,000 per annum. Babcock & Brown senior executives who are Directors of BBP are allocated the same amount of remuneration as the Independent Directors; however, these senior executives do not directly receive any remuneration for their role as director as these amounts are included as part of the fee paid to the Manager.

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 2008 are set out below:

Board/Committee	Role	Fee \$
Board	Chair	Nil
	Member	125,000
	Lead Independent Director	10,000
Audit & Risk Management Committee	Chair	13,000
	Member	6,500
Nomination & Remuneration Committee	Chair	4,000
	Member	2,000

The fees above apply in aggregate to membership on both the BBPL and BBPS Boards/Committees.

DIRECTORS' MEETINGS

The number of meetings of Directors (including meetings of Committees of Directors) held during the year ended 30 June 2008, and the number of meetings attended by each Director, are as follows:

	Meetings of Committees			
	Scheduled Directors' meetings in BBPL	Scheduled Directors' meetings in BBPS	Audit, Risk & Compliance Committee for BBPL and BBPS	Nomination & Remuneration for BBPL
Number of meetings held:	19	19	7	4
Number of meetings attended:				
Mr P F Hofbauer ¹	17	17	-	2
Mr W D Murphy	19	19	6	4
Mr P M Kinsey	18	18	7	3
Mr J Fletcher	19	19	7	4
Mr L F Gill ¹	19	-	-	4

¹ Mr Hofbauer and Mr Gill are not currently members of the Audit, Risk & Compliance Committee (ARCC). Mr Gill attended one ARCC meeting during the financial year ended 30 June 2008

Table 8: Remuneration of Independent Directors for the years ended 30 June 2008 and 2007

Details of the nature and amount of each element of the emoluments of each Independent Director of BBP for the years ended 30 June 2008 and 2007 are set out in the table below.

	Year	Short-term employee benefits Fees	Post-employment benefits Superannuation	Total
	\$	\$	\$	\$
Independent Directors				
Mr L F Gill (Independent Chairman) - from 1 July 2008	2008	127,001	11,430	138,431
Mr L F Gill	2007	37,083	3,338	40,421
Mr J A Fletcher	2008	140,000	12,600	152,600
Mr J A Fletcher	2007	79,561	7,161	86,722
Mr P M Kinsey	2008	145,500	13,095	158,595
Mr P M Kinsey	2007	82,258	7,403	89,661
Non-Executive Directors				
Mr P F Hofbauer	2008	127,000	N/A	127,000
Mr P F Hofbauer	2007	110,000	N/A	110,000
Mr W D Murphy	2008	133,500	N/A	133,500
Mr W D Murphy	2007	114,000	N/A	114,000
Total remuneration for Independent Directors	2008	673,001	37,125	710,126
	2007	422,902	17,902	440,804

REVIEW OF OPERATIONS

The Babcock & Brown Power Trust (BBPT) is a registered management investment scheme which acts as a financing vehicle to Babcock & Brown Power Limited. The units of BBPT and the shares of BBPL were stapled together to form Babcock & Brown Power (BBP). BBP was listed on the Australian Stock Exchange on 1 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 2008 was \$202,789,000 (30 June 2007: \$111,188,960). The overriding driver of this result relates to the fair value treatment of the loan to BBPL.

BABCOCK & BROWN POWER TRUST

DIRECTORS' REPORT

PRINCIPAL ACTIVITIES

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

DISTRIBUTIONS

The Board of Directors of BBP has decided not to make a distribution for the six month period ended 30 June 2008 as part of a capital management plan to strengthen the balance sheet.

SIGNIFICANT CHANGES TO THE STATE OF AFFAIRS

During the year ended 30 June 2008, there were no significant changes to the state of affairs of the Trust other than those disclosed in the financial statements and notes thereof.

MATTERS SUBSEQUENT TO END OF THE FINANCIAL YEAR

There have been no material matters subsequent to the end of the financial year.

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.

INDEMNIFICATION OF OFFICERS AND AUDITORS

BBP has agreed to indemnify each Director, Alternate and officer 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.

BBP has not indemnified or agreed to indemnify the auditor of BBP 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.

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 the 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 Trust'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 5 of the Notes to the Financial Statements.

AUDITOR'S INDEPENDENCE DECLARATION

PricewaterhouseCoopers was re-appointed auditor of the BBP group, effective 5 November 2007.

The Auditor's Independence Declaration is included on page 18 and forms a part of Directors' Report.

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ENVIRONMENTAL REGULATION

The Trust's assets are subject to environmental regulations under both Commonwealth and State legislation. The Directors are satisfied that BBP has adequate systems in place for the management of its environmental responsibilities and compliance under its various licence requirements and regulations. The Directors are not aware of any breaches of these environmental requirements as they apply to the Trust and to the best of their knowledge and enquiries all activities have been undertaken in compliance with environmental regulations.

ROUNDING OFF OF AMOUNTS

The Trust is 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 and Financial 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 L F Gill
Director

Dated at Sydney this the 29th day of August 2008.

AUDITOR'S INDEPENDENCE DECLARATION



PricewaterhouseCoopers
ABN 52 780 433 757

Darling Park Tower 2
201 Sussex Street
GPO Box 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
Telephone 61 2 8266 0000
Facsimile 61 2 8266 9999

AUDITORS' INDEPENDENCE DECLARATION

As lead auditor for the audit of Babcock and Brown Power Trust for the year ended 30 June 2008, 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 & Brown Power Trust during the period.

PricewaterhouseCoopers

Marc Upcroft
Partner

Sydney
29 August 2008

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INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	2008 \$'000	2007 \$'000
Revenue from ordinary activities		
Financing Income	4,191	4,640
Total Revenue from ordinary activities	4,191	4,640
Finance costs ¹	(204,216)	(114,567)
Other corporate expenses	(2,758)	(1,262)
Total expenses from ordinary activities	(206,974)	(115,829)
Net profit/(loss) before income tax	(202,789)	(111,189)
Profit/(loss) for the year	(202,789)	(111,189)
Earnings per unit		
Basic (cents per unit)	(31.40)	(52.12)
Diluted (cents per unit)	(31.40)	(52.12)

¹ The finance costs represent a fair value adjustment required to the loan due from Babcock & Brown Power Limited in accordance with the accounting standards.

The above Income Statements should be read in conjunction with the Notes to the Financial Statements disclosed on pages 23 to 31.

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BALANCE SHEETS

AS AT 30 JUNE 2008

	Note	2008 \$'000	2007 \$'000
Current assets			
Cash and cash equivalents		679	1,791
Other receivables	3	111	67
Loans to related parties	3	93,661	33,083
Total current assets		94,451	34,941
Non-current assets			
Loans to related parties	3	707,593	408,864
Total non-current assets		707,593	408,864
Total assets		802,044	443,805
Current liabilities			
Trade and other payables	4	273	3,084
Total current liabilities		273	3,084
Total liabilities		273	3,084
Net assets		801,771	440,721
Unitholders' interest			
Units on issue	5	1,115,749	551,910
Accumulated losses	6	(313,978)	(111,189)
Total equity		801,771	440,721

The above balance sheets should be read in conjunction with the Notes to the Financial Statements disclosed on pages 23 to 31.

STATEMENT OF CHANGES IN UNITHOLDER INTERESTS FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 \$'000	2007 \$'000
Unitholders' interest at the beginning of the year		440,721	1
Total income and expense for the period recognised directly in Unitholders' interest			
Profit/Loss for the year		(202,789)	(111,189)
Total income and expense for the year		(202,789)	(111,189)
Distribution	5	(142,513)	-
Units issued (net of transaction costs)	5	706,352	551,910
Total unitholders' interest at the end of the year		801,771	440,721

The above statements of changes in unitholders equity should be read in conjunction with the Notes to the Financial Statements disclosed on pages 23 to 31.

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CASH FLOW STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008 \$'000	2007 \$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	67	1,077
Payments to suppliers and employees (inclusive of GST)	(3,556)	-
Interest received	88	440
Interest and other costs of finance paid	(4)	(2)
Net cash inflow from operating activities	(3,405)	1,515
Cash flows from investing activities		
Loan to related party	(30,575)	(189,350)
Net cash (outflow) from investing activities	(30,575)	(189,350)
Cash flows from financing activities		
Distributions paid to Securityholders	(142,512)	-
Proceeds from issue of securities (net of transaction costs paid)	29,538	189,350
Proceeds from borrowings	145,842	-
Proceeds from oversubscription of units	-	276
Net cash inflow from financing activities	32,868	189,626
Net increase in cash and cash equivalents	(1,112)	1,791
Cash and cash equivalents at the beginning of the year	1,791	-
Cash and cash equivalents at the end of the year	679	1,791

The above cash flow statements should be read in conjunction with the Notes to the Financial Statements disclosed on pages 23 to 31.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

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 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 29 August 2008.

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (A-IFRS). Compliance with A-IFRS ensures that the consolidated financial statements and notes of BBPL comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS.

Stapled Securities

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

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 Australian Securities Exchange on 11 December 2006.

The shares in the Company and the units of the Trust will remain stapled 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 and financial assets and liabilities (including derivative instruments) at fair value through the income statement.

Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It requires management to exercise its judgement in the process of applying accounting estimates. It also requires management to exercise its judgement in the process of applying the Trust's accounting policies.

(b) Foreign currency translation

Functional and presentation currency

The consolidated 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.

Cash that is reserved and its use specifically restricted for maintenance and/or debt servicing under the Trust's borrowing agreements is defined as restricted cash. 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 the collection of all outstanding amounts. The amount of the provision is recognised in the income statement.

(f) Loans and receivables

Loans and receivables 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 and receivables are carried at amortised cost using the effective interest method.

Subsequent measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Fair value

If the market for a financial asset is not active and for unlisted securities, the Trust establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

(g) Fair value estimation

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

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, 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 entity is the current bid price. The appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Trust uses a variety of methods, such as estimated discounted cash flows, and makes assumptions that are based on the market conditions existing at each balance 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 entity for similar financial instruments.

(h) Trade and other payables

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(i) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest rate.

Borrowings are classified as current liabilities unless the Trust has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised on other income or other expenses.

(j) Contributed equity

Ordinary securities are classified as equity. Incremental costs directly attributable to the issue of new units 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.

(k) 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. In addition:

Interest income is recognised using effective interest method.

(l) Dividends or distributions

Provision is only made for the amount of any distribution 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.

(m) 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.

(n) Earnings per unit

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

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

In calculating diluted earnings per security, the profit from continuing operations attributable to ordinary equity holders of BBP is adjusted for interest savings on convertible notes.

2. PROFIT/(LOSS) FROM OPERATIONS

	2008 \$'000	2007 \$'000
Revenue		
Interest income		
Related parties - from BBPL	4,091	4,200
Bank deposits	100	440
	4,191	4,640
Profit/(loss) before income tax has been arrived at after charging the following expenses:		
Operating expenses:		
Base fee	(2,373)	(914)
Responsible entity fee	(559)	(305)
Custodian fee	(93)	(43)
Other expenses	267	-
	(2,758)	(1,262)
Finance costs:		
Interest expense	(6)	(2)
Fair value adjustment to interest free loan receivable	(204,210)	(114,565)
	(204,216)	(114,567)

3. LOANS AND OTHER RECEIVABLES

	2008 \$	2007 \$
Current		
GST refundable	111	67
Loan to BBPL	93,661	33,083
	93,772	33,150
Non-current		
Loan to BBPL	707,593	408,864
	707,593	408,864

The principal amount of the loan to BBPL is \$1.122 billion. Fair value is based on forecast cash flows discounted using a 10-year benchmark interest rate of 6.39% + 2%.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

4. TRADE AND OTHER PAYABLES

	2008 \$'000	2007 \$'000
Current		
Other payables	273	277
Payables to Babcock & Brown Power Advisory Pty Limited	-	700
Payables to Babcock & Brown Australia Limited	-	2,107
	273	3,084

5. CONTRIBUTED EQUITY

		Unit in BBPT		
		Number '000	Issue price per unit \$	
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
Units Issued on acquisition of Alinta	27 Aug 07	3,584	1.97	7,043
Units Issued on acquisition of Alinta	6 Sept 07	331,303	1.97	651,024
Distribution paid	30 Sept 07			(50,301)
Share Purchase plan	5 Dec 07	15,145	1.95	29,538
Distribution Reinvestment Plan	31 Mar 08	17,007	1.11	18,886
Distribution paid	31 Mar 08			(92,212)
Less: IPO Transaction Costs				(139)
Balance 30 June 2008		726,329		1,115,749

6. RETAINED EARNINGS

	2008 \$'000	2007 \$'000
Balance at beginning of financial year	(111,189)	-
Net profit attributable to unitholders	(202,789)	(111,189)
Balance at end of financial year	(313,978)	(111,189)

7. EARNINGS PER UNIT

	2008 Cents per unit	2007 Cents per unit
Basic earnings per unit	(31.40)	(52.12)
Diluted earnings per unit	(31.40)	(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 unit holders ('000)	(202,786)	(111,189)
Weighted average number of units for the purposes of basic and diluted earnings per unit	645,893,796	213,326,444

8. DISTRIBUTIONS

	2008		2007	
	Cents per unit	Total \$'000	Cents per unit	Total t\$'000
Recognised amounts				
Fully paid units				
Paid from contributed equity	14	50,301	-	-
	13	92,212	-	-
Total distributions paid		142,513	-	-

The Board of Directors of BBP has decided not to make a distribution for the six month period ended 30 June 2008 as part of a capital management plan to strengthen the balance sheet.

9. NOTES TO THE CASH FLOW STATEMENTS

(a) Reconciliation of cash and cash equivalents

	2008 \$'000	2007 \$'000
Cash and cash equivalents including:		
Restricted cash ¹	-	696
Unrestricted cash	679	1,095
	679	1,791

¹ 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.

(b) Reconciliation of profit for the period to net cash flows from operating activities

	2008 \$'000	2007 \$'000
Profit/(loss) for the period	(202,786)	(111,189)
Fair value of interest free loan	204,210	114,565
(Increase)/decrease in assets	(4,122)	(4,669)
(Increase)/decrease in liabilities	(704)	2,808
Net cash from operating activities	(3,405)	1,515

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

10. SEGMENT INFORMATION

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

11. CONTINGENT ASSETS AND LIABILITIES

Contingent liabilities

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

Contingent assets

There are no material contingent assets.

12. RELATED PARTIES DISCLOSURES

Other related party transactions

Transactions involving other related parties

Receivables from related parties are disclosed in Note 3. Payables to related parties are disclosed in Note 4. 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 2008, fees paid or payable to the Custodian by the Trust were \$93,133 (2007: \$42,909).

Responsible Entity fees

Under the terms of the Trust Constitution, the Responsible Entity, Babcock & Brown Power Services Limited ("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 2008, fees paid or payable to the Responsible Entity by the Trust were \$559,359 (2007: \$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 2008 fees paid or payable to the Manager by the Trust were \$2,372,525 (2007: \$913,502).

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.

13. FINANCIAL RISK MANAGEMENT

(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 trade financial instruments, including derivative financial instruments, for speculative purposes.

(i) Market risk

Interest rate risk

The Trust provided an interest-free loan to BBPL which has a fixed-term of repayment for a maximum of 10 years. In the opinion of the Directors, the Trust has no interest rate risk.

(ii) Credit risk

Credit risk refers to the loss that BBPT would incur if a debtor or other counterparty fails to perform under its contractual obligations. The carrying amounts of financial assets recognised in the balance sheet best represent the Trust's maximum exposure to credit risk at reporting date.

Other than the receivable from BBPL, the Trust has no significant concentrations of credit risk. The credit of all financial assets are consistently monitored in order to identify any potential adverse changes in the credit quality.

(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) 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 (2007: fair value).

The 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.
- the fair value of derivative instruments, included in hedging assets and liabilities, are calculated using quoted prices. 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 entity uses a variety of methods, such as estimated discounted cash flows, and makes assumptions that are based on market conditions existing at each balance date. These amounts reflect the estimated 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.

14. ADDITIONAL INFORMATION

Babcock & Brown Power Trust is formed and operates in Australia.

Registered office of the Company

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

Principal place of business

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

15. NET TANGIBLE ASSETS PER SECURITY

	30 June 2008	30 June 2007
	\$	\$
Net tangible assets per security	1.10	1.23

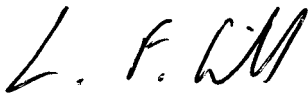
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BABCOCK & BROWN POWER TRUST

DIRECTORS' DECLARATION

1. In the opinion of the Directors of Babcock & Brown Power Services Limited, the Responsible Entity of the Babcock & Brown Power Trust (the Trust):
 - (a) the financial statements and notes, set out on pages 19 to 31, 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 2008 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 2008, 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 2008.

Signed in accordance with a resolution of the Directors:



Mr L F Gill
Director, Babcock & Brown Power Services Limited
Dated at Sydney this 29th day of August 2008.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BABCOCK & BROWN POWER TRUST



PricewaterhouseCoopers
ABN 52 780 433 757

Darling Park Tower 2
201 Sussex Street
GPO Box 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
Telephone 61 2 8266 0000
Facsimile 61 2 8266 9999

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BABCOCK & BROWN POWER TRUST

Report on the financial report and the AASB 124 Remuneration disclosures contained in the directors' report

We have audited the accompanying financial report of Babcock and Brown Power Trust (the Trust) which comprises the balance sheet as at 30 June 2008, and the income statement, statement of recognised income and expense 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 both 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 controls 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. In Note 1 (a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

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.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF BABCOCK & BROWN POWER TRUST



Independence

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

Auditor's opinion

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 2008 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 entity's financial report also complies with International Financial Reporting Standards as disclosed in Note 1 (a).

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in pages 5 to 15 of the directors' report for the year ended 30 June 2008. The directors are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of Babcock and Brown Power Trust for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers".

PricewaterhouseCoopers

A handwritten signature in cursive script that reads "Marc Upcroft".

Marc Upcroft
Partner

Sydney
29 August 2008

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

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

Principal administration office

Level 23, The Chifley Tower
2 Chifley Square
Sydney NSW 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
Fax: +61 2 9287 0303

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