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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30 September 2009

BABCOCK & BROWN POWER (ASX:BBP)

ANNUAL FINANCIAL REPORT TO 30 JUNE 2009

Attached is the Annual Financial Report of Babcock & Brown Power Limited and Babcock & Brown Power Trust for the year ended 30 June 2009.

ENDS

Further Information:

Ross Rolfe AO	Peter Brook
Chief Executive Officer	Chief Financial Officer
Ph + 61 2 9372 2627	Ph + 61 2 9372 2623

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.

The portfolio has interests in 12 operating power stations representing approximately 2,800MW[1] of installed generation capacity. BBP also owns the Alinta retail business in WA.

[1] Some assets have minority shareholders.

Babcock & Brown Power

Consolidated Annual Financial Report

30 June 2009

Consisting of:
Babcock & Brown Power Limited
ABN 67 116 665 608
Babcock & Brown Power Trust
ARSN 122 375 562

Babcock & Brown Power

Annual Financial Report

For the year ended 30 June 2009

Directors' report

The Directors of Babcock & Brown Power Limited (BBPL or the Company) and its consolidated entities (BBP or the Group) present their Directors' report together with the consolidated financial statements for the year ended 30 June 2009.

The Company together with Babcock & Brown Power Trust form Babcock & Brown Power, a stapled security traded on the Australian Stock Exchange.

Directors

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

Mr L F Gill (Chairman) – from 1 July 2008	appointed 29 October 2006
Mr J Fletcher	appointed 29 October 2006
Mr P M Kinsey	appointed 29 October 2006
Mr R K Rolfe (Managing Director & Chief Executive Officer)	appointed 8 December 2008
Mr J Bowyer	appointed 3 September 2008, resigned 8 December 2008
Mr W D Murphy	resigned 3 September 2008
Mr P F Hofbauer	resigned 3 September 2008
Mr M Garland (Alternate for Mr W D Murphy)	role ceased 3 September 2008
Mr G W Denton (Alternate for Mr P F Hofbauer)	role ceased 3 September 2008

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 – Chairman from 1 July 2008

Leonard (Len) Gill has extensive knowledge and over 30 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 of TXU, Len headed the 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 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 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 26 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.

Mr R Rolfe – Managing Director & Chief Executive Officer

Ross Rolfe is the Chief Executive Officer of BBP. Ross was appointed to this position in October 2008, having worked as the acting Chief Executive Officer since August 2008.

Prior to his role with BBP, Ross worked as a senior executive with Babcock & Brown from July 2007. His role with Babcock & Brown was of a strategic nature with a primary focus on infrastructure (predominantly in energy and transport).

Previously, Ross held a range of Chief Executive Officer positions in the Queensland Government and in industry in Queensland over the last decade. He was the Director General of the Department of the Premier and Cabinet. He was also the Co-ordinator General in Queensland – a position he held for six years. In this role Ross was responsible for the delivery of the South Queensland Regional Infrastructure Plan and the design and the implementation of the Water Grid. Ross has also held the position of Chief Executive Officer for Stanwell Corporation (one of Queensland's largest energy generation companies) for the period from January 2002 to July 2005.

Ross is also a member of the Board of Infrastructure Australia, a member of the National Board of Infrastructure Partnerships Australia and a non-executive Director of WDS Limited, Evans & Peck Pty Ltd and the Thiess Group

Company Secretary

The Company Secretary of BBPL during the year and up to the date of this Directors' report was Mr John P. Remedios. John joined Babcock & Brown Power 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 Power, 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.

Principal activities

The principal activity of BBP is the acquisition, construction, ownership and management of power generation assets, energy retail and related assets and activities.

Distributions

As previously announced on 21 October 2008, the Board of Directors of BBP have suspended distributions until it has adequately strengthened its capital structure. Accordingly no distribution for the year ended 30 June 2009 will be paid.

In the prior year a distribution of 13 cents was paid in March 2008.

Review of operations

Information on the operations and financial position of the BBP Group is set out in the review of operations attached and forming a part of this annual financial report.

Significant changes to the state of affairs

During the year ended 30 June 2009 there was no other significant changes to the state of the affairs of the Group other than those disclosed in the financial statements and notes thereof.

Going Concern

BBP has several business critical issues that it is facing over the near term. These include the restructuring and or settlement of financing arrangements within the Group and the management of the impact of the North West Shelf Joint Venture (NWS) gas supply arbitration. The Directors acknowledge that there is significant uncertainty over the ability of BBP to continue as a going concern until these issues are formally resolved. With an understanding of status of the restructuring negotiations and BBP's expectations on the resolution of the NWS price dispute, the Directors are of the opinion that the accounts are correctly prepared on the basis that the Group is a going concern, If for any reason BBP was unable to successfully resolve its current negotiations on any of the above issues within the range of BBP's expectations, BBP may not be able to realise its assets in the ordinary course of business.

Throughout the course of the second half of the financial year, BBP has been constructively engaged with its two major finance providers to restructure their loan agreements. BBP has made substantial progress in the commercial negotiations in relation to the restructuring of the debt owed to the Babcock & Brown Group ("B&B") and a syndicate of banks that have lent to a subsidiary, BBP Finance Australia Pty Limited ("the BBPF Syndicate").

As at 30 June 2009, BBP's outstanding borrowing obligation with B&B was $399 million (excluding deferred borrowing costs). B&B is seeking approval of its banking group to enter into transaction documents to implement the restructure. Details of the restructure will be released once the parties have legally committed to the terms. The Directors expect that the restructure of the B&B debt will require a security holder vote. The directors expect to be able to seek security holder approval at the AGM on 30 November 2009, subject to the timely receipt of approval from B&B. In the event that a binding agreement is not reached, the loans are due March 2010. B&B currently has a right to accelerate the loans. Were B&B to call for the acceleration of its loans this would allow the Babcock & Brown Power Trust (BBPT) to call its loans and may precipitate the acceleration of the BBPF Syndicate debt.

The BBPF Syndicate Facility outstanding as at 30 June 2009 was $2,541million. The BBPF Syndicate is seeking credit approval to restructure the debt., Details of this restructure will be announced to the market when approval is received and it would be expected that the restructure would be executed by 31 October 2009. Until the Facility is restructured, the BBPF Syndicate has the effective right to accelerate the debt. The acceleration of the BBPF loan may precipitate the acceleration of the B&B and BBPT debts.

Based on discussions with the parties, the Directors reasonably believe that the necessary consents to enter into legally binding agreements to implement all restructures will be received in October and a security holder vote is expected to be held in respect of the B&B restructure, as soon as possible thereafter. Accordingly the directors do not expect any of B&B, BBPF Syndicate or BBPT to call for the acceleration of their respective loans.

BBP's balance sheet as at 30 June 2009 presents a negative net current asset position of $2,956 million as a result BBP not being a position to unilaterally defer settlement of its major loan facilities (including the interest rate swap liabilities associated with the BBPF Facility) for a period of twelve months beyond 30 June 2009. If BBP had been in a position to extend the repayment of these obligations beyond 30 June 2010, it would have had positive current net assets of $84 million.

Net asset position	**30 June 2009 Statutory balance sheet ($m)**	**30 June 2009 Refinance assumption ($m)**
Current net asset position	(2,956)	84
Net asset position	951	951

BBP has been in arbitration with the NWS in respect to the contract price for the supply of a material volume of gas for its Alinta business. The formal arbitration hearing was concluded in September 2009. The Arbitrator is not expected to hand down his determination until late October 2009 at the earliest. BBP has made an accounting provision for the outcome that it reasonably expects from the overall resolution of the NWS price dispute. Further BBP expects to be able to meet its obligations that might result from the dispute on the basis of the restructure of its financial arrangements as well as commercial discussions with both the NWS joint venture partners and BBP's commercial customers. A determination that is significantly outside of BBP's expectations may have a material impact on the Alinta business and at that time could result in a reassessment of the value of the Alinta business and the going concern assumptions.

The Directors regularly monitor and review the debt facilities, debt profile, business operations and forecast cash flows which take into account the assumptions including but not limited to the forward pricing of electricity, future gas tariffs, fuel supply costs,and maintenance capital expenditure and the issues raised above.

The Directors acknowledge that until legally binding agreements with its lenders are in place and the NWS price dispute is finally resolved there is risk that BBP's expectations may not be achieved and therefore there is significant uncertainty over the ability of the BBP Group to continue as a going concern. If for any reason, BBP was unable to operate as a going concern, there would be an associated impact on its ability to realise its assets at their recognised values, in particular, goodwill and other intangible assets and deferred tax assets.

Having reviewed the various factors facing the Group, the Directors are of the opinion that the BBP Group is a going concern and that the information in this financial report is properly prepared on that basis.

Matters subsequent to end of the financial year

Acquisition of minority interests in Our Neighbourhood Energy

On 3 July 2007 BBP acquired 65% of Neighbourhood Energy Pty Ltd and had a contractual commitment to acquire the remaining equity under certain terms.

On 14 August 2009, BBP agreed to revised terms for the acquisition of the remaining 35% equity interest in Neighbourhood Energy Pty Ltd from the minority shareholders which would take its effective ownership interest to 100%. The remaining equity will be acquired for consideration of $2.95million and the transaction is expected to be completed by 31 December 2009.

Refinance of BBP

Subsequent to the 30 June 2009 balance date, the 11 members of the BBPF Syndicate and B&B are in the process of seeking internal approval to implement the restructuring resulting from the commercial negotiations, which in the case of B&B involves the consent of its financiers. As previously announced BBP had expected to have entered into legal agreements to implement the transactions prior to 30 September 2009, but now expects this will not occur until late October, at which time details of binding agreements will be announced to the market. It is expected that resolution with B&B will require a security holder vote.

Future developments

Further information on likely developments in the operations of the Group 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 Group.

Remuneration report (audited)

EXECUTIVE AND DIRECTOR REMUNERATION REPORT FOR THE YEAR TO 30 JUNE 2009

This report outlines the remuneration philosophy and framework currently applicable to BBP, in particular how this relates to BBP's senior executives and directors outlined below.

During the year, BBP took a number of steps to formally separate itself from its management arrangements with Babcock & Brown Limited (B&B). This included the transfer of the employment arrangements of BBP's key executives from B&B to BBP, with effect from 1 January 2009. Accordingly, this remuneration report includes amounts paid by B&B to Directors and executives for the period 1 July to 31 December 2008.

There has also have been a number of changes to the executive management of BBP during this period including the positions of Chief Executive Officer and Chief Financial Officer.

The information in this remuneration report has been audited in accordance with the requirements of section 308(3C) of the *Corporations Act 2001*.

REMUNERATION POLICY & APPROACH

BBP aims to recruit, retain and reward the best available employees to meet the organisation's objectives. The Board and executive recognise that BBP operates in a competitive environment and that retaining the talents and experience of motivated, suitably qualified specialists is in the best interests of the business and its various stakeholders.

BBP has a formally constituted Nomination & Remuneration Committee (the Committee) which is comprised by BBP's three independent directors and chaired by Mr Peter Kinsey. The Committee is charged with responsibility for considering the composition of the BBP Board and succession planning, as well as reviewing and making recommendations to the BBP Board on the level of remuneration and performance of the directors and senior executives within the organisation. The Committee met six times during the 2009 year.

The 2009 year has been particularly challenging for BBP and has required a significant focus on stabilising the financial structure of the business through various initiatives. In these circumstances the BBP Board's approach to executive remuneration has been to provide a balance of fixed remuneration and retention focussed short term incentives. In determining the 2009 remuneration mix, the Board utilised the services of external remuneration consultants who benchmarked the remuneration of senior executives against their peers within ASX 200 entities.

During the financial year 2009, BBP has transitioned the employment contracts of its Key Management Personnel (KMP) from calendar year to financial year in line with BBP reporting obligations.

BBP EXECUTIVES

The executives outlined in the report are considered to be the KMP of the BBP organisation. KMPs are those members of the senior management team with authority and responsibility for planning, directing and controlling the activities of the BBP group.

The following persons were considered to be KMP for the year to 30 June 2009:

Executive Management	
Mr Ross Rolfe	Chief Executive Officer (appointed 29 August 2008)
Mr Peter Brook	Chief Financial Officer (appointed 7 October 2008)
Mr Brian Green	Chief Operating Officer
Mr Andrew Kremor	General Manager, Energy Markets (resigned – effective 31 August 2009)
Mr Victor Browner	General Manager (Acting to April 2009) - Alinta
Mr Andrew Bills	General Manager, Commercial
Mr Zeki Akbas	General Manager, Alinta (appointed 28 May 2009)
Mr Paul Simshauser	Chief Executive Officer – (resigned 29 August 2008)
Mr James Brown	Chief Financial Officer – (resigned 29 August 2008)

REMUNERATION OF THE EXECUTIVES FOR THE 2009 FINANCIAL YEAR

Details of the nature and amount of each element of the emoluments of each executive of BBP for the years ended 30 June 2009 and 2008 are set out in the table below.

		Short-term employee benefits						Post-Employment benefits	Termination benefits	Other long term employee benefits	Share based payments		TOTAL
	Year	Salary (cash)	Short term incentive (relating to current period)	Retention Incentive	Short term incentive (relating to prior years)	Non-monetary benefits[2]	Total of short-term employee benefits	Superannuation	Severance payments	Long Service Leave Liability	Equity settled[3]	Cash settled[4]	
		$	$	$	$	$	$	$	$	$	$	$	$
Executives													
Mr Ross Rolfe[1, 2,5,6]	**2009**	**727,499**	**-**	**220,000**	**233,000[5]**	**-**	**1,180,499**	**13,744**	**-**	**29,263**	**(57,705)**	**-**	**1,165,801**
	2008	-	-	-	-	-	-	-	-	-	-	-	-
Mr Peter Brook[1, 2,6]	**2009**	**345,688**	**-**	**180,000**	**-**	**-**	**525,688**	**10,309**	**-**	**8,164**	**-**	**-**	**544,161**
	2008	-	-	-	-	-	-	-	-	-	-	-	-
Mr Brian Green[1, 2]	**2009**	**430,000**	**-**	**143,000**	**-**	**-**	**573,000**	**13,744**	**-**	**22,347**	**(44,660)**	**(3,629)**	**560,802**
	2008	294,900	350,000	-	-	-	644,900	13,129	-	4,915	189,449	2,420	854,813
Mr Andrew Kremor	**2009**	**430,938**	**-**	**100,000**	**-**	**-**	**530,938**	**13,744**	**-**	**18,037**	**(27,149)**	**(2,411)**	**533,159**
	2008	360,000	232,700	-	-	-	592,700	13,129	-	6,000	30,820	1,607	644,256
Mr Andrew Bills[1,6]	**2009**	**413,750**	**-**	**143,000**	**260,000**	**-**	**816,750**	**15,821**	**-**	**18,604**	**-**	**-**	**851,175**
	2008	-	-	-	-	-	-	-	-	-	-	-	-
Mr Victor Browner[1,2,6]	**2009**	**269,725**	**-**	**160,961**	**65,688**	**-**	**496,374**	**45,176**	**-**	**38,600**	**-**	**-**	**580,150**
	2008	-	-	-	-	-	-	-	-	-	-	-	-
Mr Tom Richardson [7]	**2009**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2008	334,255	150,000	-	-	-	484,255	13,745	-	-	-	-	498,000
Mr Paul Simshauser[2]	**2009**	**165,308**	**-**	**-**	**-**	**-**	**165,308**	**6,872**	**15,138**		**(151,192)**	**(13,183)**	**22,943**
	2008	365,000	412,475	-	-	-	777,475	13,129	-	6,083	622,455	8,788	1,427,930
Mr James Brown[2]	**2009**	**137,500**	**-**	**-**	**-**	**-**	**137,500**	**6,872**	**391,477**	**-**	**(57,598)**	**(2,928)**	**475,323**
	2008	294,900	350,000	-			644,900	13,129	-	4,915	168,592	1,952	833,488
Total remuneration for Executives	**2009**	**2,920,408**	**-**	**946,961**	**558,688**	**-**	**4,426,057**	**126,282**	**406,615**	**135,015**	**(338,304)**	**(22,151)**	**4,733,514**
	2008	1,649,055	1,495,175	-	-	-	3,144,230	66,261	-	21,913	1,011,316	14,767	4,258,487

1 These are the five executives who received the highest emoluments in the 2009 financial year.
2 A number of executives receive salary continuance insurance under a BBP group policy. The insurance premium paid by BBP in respect of that policy relating to the period 28 February 2009 to 27 February 2010 was $91,738 and has not been apportioned to individual executives
3 Current year losses as a result of executives forfeiting benefits previously available under B&B sponsored equity settled share based payment schemes, including Share Awards, B&B Bonus Deferral Rights (BDRs) and performance-based Option schemes. Benefits were forfeited as a result of the cessation of employment relationships with Babcock & Brown Limited during the year.
4 Current year losses as a result of relevant executives forfeiting benefits previously available under B&B sponsored cash settled share based payment BDRs. Benefits were forfeited as a result of the cessation of employment relationships with Babcock & Brown Limited during the year.
5. Mr Rolfe was paid a short term incentive amount of $700,000 by BBP in respect of the calendar year 2008. Mr Rolfe had been entitled to this amount under his former contractual employment relationship with B&B. Of the $700,000 paid, $233,000 related to services Mr Rolfe provided to BBP. The balance while paid by BBP related to Mr Rolfe's services provided to other B&B activities. The full $700,000 was netted off against manager fees and other amounts payable to B&B by BBP.
6. These executives do not have prior period remuneration disclosed because they were either not employed in the service of BBP or they were not considered KMP's in the previous year.
7. Mr Richardson was not considered to be a KMP in the 2009 financial year.

EXECUTIVE EMPLOYMENT CONTRACTS

The base salaries for executives as at 30 June 2009, in accordance with their employment contract, are shown below:

Executives	Base Remuneration per Service Agreement ($)
Mr Ross Rolfe	800,000
Mr Peter Brook	470,000
Mr Brian Green	430,000
Mr Andrew Kremor	430,000
Mr Andrew Bills	470,000
Mr Victor Browner	269,725

The employment contract of Mr Ross Rolfe, contains the conditions below:

Length of contract	• Open-ended
Frequency of base remuneration review	• Annual
Incentive remuneration	• Eligible for a Maximum Annual Short Term Incentive up to 60% of base salary and a long term incentive up to 40% of base salary to be delivered in cash, securities or equivalent benefits as determined by the Board in its sole discretion. • Subject to performance, eligible for a payment of up to 50% of the Maximum Annual STI, to be paid on the first pay period on or after 30 September 2009.
Termination of employment	• May be terminated by BBP with twelve months written notice or by Mr Rolfe providing 6 months written notice.

The employment contract of Mr Peter Brook contains the conditions below:

Length of contract	• Open-ended
Frequency of base remuneration review	• Annual
Incentive remuneration	• Eligible to receive a Maximum Annual Short Term Incentive, up to 60% of base salary, and a long term incentive up to 40% of base salary to be delivered in cash, securities or equivalent benefits as determined by the Board in its sole discretion.
Termination of employment	• May be terminated by BBP with nine months written notice or by Mr Brook providing 3 months written notice.

The employment contract of Mr Brian Green contains the conditions below:

Length of contract	• Open-ended
Frequency of base remuneration review	• Annual
Incentive remuneration	• Eligible to receive a Maximum Annual Short Term Incentive, up to 65% of base salary, and a long term incentive up to 40% of base salary to be delivered in cash, securities or equivalent benefits as determined by the Board in its sole discretion.
Termination of employment	• May be terminated by BBP with six months written notice or by Mr Green providing 6 months written notice.

The employment contract of Mr Andrew Kremor contains the conditions below:

Length of contract	• Open-ended
Frequency of base remuneration review	• Annual
Incentive remuneration	• Eligible to receive a Maximum Annual Short Term Incentive, up to 55% of base salary, and a long term incentive up to 40% of base salary to be delivered in cash, securities or equivalent benefits as determined by the Board in its sole discretion.
Termination of employment	• May be terminated by BBP with six months written notice or by Mr Kremor providing 3 months written notice. • **Note:** Mr Kremor has resigned from the employment of BBP. His arrangements ended on 31 August 2009.

The employment contract of Mr Andrew Bills contains the conditions below:

Length of contract	• Open-ended
Frequency of base remuneration review	• Annual
Incentive remuneration	• Entitled to receive a Maximum Annual Short Term Incentive, up to 60% of his base salary, and a long term incentive up to 35% of his base salary to be delivered in cash, securities or equivalent benefits as determined by the Board in its sole discretion.
Termination of employment	• May be terminated by BBP with six months written notice or by Mr Bills providing 3 months written notice.

The employment contract of Mr Victor Browner contains the conditions below:

Length of contract	• Open-ended
Frequency of base remuneration review	• Annual
Incentive remuneration	• Entitled to receive a Maximum Annual Short Term Incentive, up to 45% of his total fixed remuneration package and a long term incentive up to 50% of his remuneration package as determined by the Board in its sole discretion.
Termination of employment	• May be terminated by BBP with six months written notice or by Mr Browner providing 1 month written notice.

FORFEITURE OF BABCOCK & BROWN INCENTIVE ARRANGEMENTS

Mr Paul Simshauser and Mr James Brown left the employment of B&B and resigned their positions with BBP on 29 August 2008. Continuing BBP executives transferred their employment arrangements from B&B to BBP on 1 January 2009. Under their former employment arrangements with B&B, executives had the potential to benefit from a number of incentive schemes that were to be equity or cash settled, the details of which were fully disclosed in BBP's 2008 annual report. Access to these benefits was forfeited as a result of the termination of the executive employment arrangements with B&B during the year. Negative remuneration presented under the share based payment column of the remuneration table above represent reversals of prior period amortisation in respect of the unvested B&B Bonus Deferral Rights scheme, Options over B&B shares scheme and the Fund Bonus Deferral Rights scheme, which will now not be paid.

The following table presents the equity settled entitlements forfeited by BBP executives as a result of the termination of their employment arrangements with B&B:

	B&B Bonus Deferral Rights				Options over B&B shares				TOTAL
	Opening balance	Forfeited	Closing balance	Value forfeited ($)	Opening balance	Forfeited	Closing balance	Value forfeited ($)	Equity Settled Value forfeited
Mr Ross Rolfe	6,469	(6,469)	-	**25,268**	27,055	(27,055)	-	**32,437**	**57,705**
Mr Brian Green	2,668	(2,668)	-	**10,421**	28,558	(28,558)	-	**34,239**	**44,660**
Mr Andrew Kremor	1,772	(1,772)	-	**6,921**	16,871	(16,871)	-	**20,228**	**27,149**
Mr Paul Simshauser	9,691	(9,691)	-	**37,853**	75,107	(75,107)	-	**113,339**	**151,192**
Mr James Brown	2,152	(2,152)	-	**8,406**	34,555	(34,555)	-	**49,192**	**57,598**

The following table presents the cash settled entitlements that were to be cash settled, forfeited by BBP executives as a result of the termination of their employment arrangements with B&B:

	BBP Bonus Deferral Rights			
	Opening balance	Forfeited	Closing balance	Cash Settled Value forfeited ($)
Mr Brian Green	18,903	(18,903)	-	**3,629**
Mr Andrew Kremor	12,557	(12,557)	-	**2,411**
Mr Paul Simshauser	68,660	(68,660)	-	**13,183**
Mr James Brown	15,249	(15,249)	-	**2,928**

The following table presents the Share Awards entitlements of BBP executives as at 30 June 2009. Share Awards under this scheme vested in April 2008 and were fully expensed by B&B in the 2008 year. As a result of Babcock & Brown Limited entering into voluntary administration on 13 March 2009, the remaining entitlements have no value.

	Opening balance	Granted during year	Lapsed during the year	Closing balance	Fair value of shares 30 June 2009 ($)
Mr Ross Rolfe	15,094	-	7,547	**7,547**	-
Mr Brian Green	12,452	-	6,226	**6,226**	-
Mr Andrew Kremor	992	-	496	**496**	-
Mr Paul Simshauser	40,354	-	20,177	**20,177**	-
Mr James Brown	10,044	-	5,022	**5,022**	-

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 R K Rolfe	Chief Executive Officer from 29 August 2008 & Managing Director from 8 December 2008
Mr J Fletcher	Independent Non-Executive Director
Mr P M Kinsey	Independent Non-Executive Director
Mr W D Murphy	Executive Director – resigned 3 September 2008
Mr P F Hofbauer	Executive Director – resigned 3 September 2008
Mr M Garland	Alternate Director to Mr W D Murphy – resigned 3 September 2008
Mr G W Denton	Alternate Director to Mr P F Hofbauer – resigned 3 September 2008
Mr J Bowyer	Independent Non-Executive Director – from 3 September 2008 to 8 December 2008

REMUNERATION POLICY AND STRUCTURE

Non-Executive Directors' individual fees, including committee fees, are reviewed by the Nomination & Remuneration Committee and then made the subject of a recommendation to the BBP Board for approval. Fees paid to the Non-Executive Directors must fall within the aggregate fee pool approved by BBP security holders. The current maximum aggregate amount which may be paid to all Non-Executive Directors is $750,000 per annum.

The 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 paid to the Directors are in respect of their services provided to BBPL and Babcock and Brown Power Services Limited (BBPS), the Responsible Entity of Babcock & Brown Power Trust.

It is noted that each of the Independent Directors of BBP initiated and accepted a voluntary reduction to their director's fees during FY 2009.

Fees payable to Independent Directors during the year ended 30 June 2009 are set out below:

Board / Committee	Role	Fee
Board	Independent Chair	$218,000
	Member	$124,000
Audit & Risk Management Committee	Chair	$13,000
	Member	$6,500
Nomination & Remuneration Committee	Chair	$4,000
	Member	$2,000

DIRECTORS' MEETINGS

The number of meetings of Directors (including meetings of committees of Directors) held during the year ended 30 June 2009, and the number of meetings attended by each Director, are as follows:

Board or Committee	BBPL Board Meetings		BBPS Board Meetings		Audit, Risk & Compliance Committee Meetings for BBPL and BBPS		Nomination & Remuneration Committee Meetings for BBPL		Energy Trading & Risk Management Committee Meetings for BBPL[1]		Additional Committee Meetings [2]	
Held / Attended	H	A	H	A	H	A	H	A	H	A	H	A
Len Gill	52	52	52	52	3	3	6	5	4	4	6	6
John Fletcher	52	52	52	52	7	7	6	6	-	-	6	6
Peter Kinsey	52	51	-	-	7	7	6	6	-	-	1	1
Ross Rolfe	37	37	37	37	-	-	-	-	4	0	2	2
John Bowyer	8	7	8	7	1	0	-	-	-	-	-	-
Peter Hofbauer	7	6	7	6	-	-	3	2	-	-	-	-
Warren Murphy	7	7	7	7	3	3	3	3	-	-	-	-

Columns H – indicates the number of meetings held while the relevant director was a member of the Board / Committee
Columns A – indicates the number of those meetings attended by that director

1 The Energy Trading & Risk Management Committee is a committee comprising both members of the Board and of BBP senior management. Directors do not receive any additional remuneration for their attendance and participation in this Committee.

2 Additional Committees of the Board were constituted during the year in relation to the financial results or were separate meetings of the Independent Directors.

Remuneration of Non-Executive Directors for the years ended 30 June 2009 and 2008

Details of the nature and amount of each element of the emoluments of each Non-Executive Director of BBP for the years ended 30 June 2009 and 2008 are set out in the table below.

	Year	Short-term employee benefits Fees	Post-employment benefits Superannuation	Total
Independent Non-Executive Directors				
Mr L F Gill (Chairman) – from 1 July 2008	**2009**	**224,534**	**13,745**	**238,279**
	2008	127,001	11,430	138,431
Mr J A Fletcher	**2009**	**138,833**	**12,495**	**151,328**
	2008	140,000	12,600	152,600
Mr P M Kinsey	**2009**	**134,371**	**12,093**	**146,464**
	2008	145,500	13,095	158,595
Non-Executive Directors				
Mr P F Hofbauer*	**2009**	**-**	**-**	**-**
	2008	127,000	N/A	127,000
Mr W D Murphy*	**2009**	**-**	**-**	**-**
	2008	133,500	-	133,500
Total remuneration for Non-Executive Directors	**2009**	**497,738**	**38,333**	**536,071**
	2008	673,001	37,125	710,126

* In the 2008 financial year, Mr Hofbauer and Mr Murphy were allocated notional remuneration amounts for their services as directors of BBP. BBP did not directly pay these amounts to these directors as it was included in the management fee BBP paid to the Babcock & Brown in that year. Both directors resigned from BBP on 3 September 2008. Accordingly, no amount has been recorded as remuneration for these directors in the 2009 financial year. BBP did not pay any remuneration directly to Mr John Bowyer (who as an employee of Babcock & Brown served as a director of BBP between 3 September 2008 and 8 December 2008) and accordingly, no remuneration has been disclosed for Mr Bowyer.

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.

The terms of engagement of BBP's external auditor includes an indemnity in favour of the external auditor. This indemnity is in accordance with PricewaterhouseCoopers' standard Terms of Business and is conditional upon PricewaterhouseCoopers acting as external auditor. BBP has not otherwise indemnified or agreed to indemnify the external auditors 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 Company

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

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

Auditor's independence declaration

The auditor's independence declaration is included on page 16 and forms a part of the Directors' report.

Environmental regulation

BBP is subject to environmental regulations under both Commonwealth and State legislation including the reporting requirements of both the *Energy Efficiency Opportunities Act 2006* and the *National Greenhouse and Energy Reporting Act 2007.* 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 material breaches of these environmental requirements as they apply to BBP and to the best of their knowledge and enquiries all activities have been undertaken in compliance with environmental regulations.

Carbon Pollution Reduction Scheme

During the year there have been a number of developments in the Federal Governments proposed Carbon Pollution Reduction Scheme (CPRS). In December 2008 the Government released its White Paper in respect of the scheme and draft legislation on 10 March 2009.

On 4 May 2009 the Government announced its intention to:

- move the commencement date for the scheme out one year to 1 July 2011,
- introduce a fixed price for carbon permits for the first year of the scheme, and
- achieve a 5% target reduction in emissions on 2000 levels by 2020, increasing to 25% reductions dependent on reduction targets adopted by other countries.

On 25 June 2009, the Senate deferred its vote on the Governments legislation until August 2009. On 13 August 2009, the Senate voted down the Government's legislation. Legislation is not expected to re-enter the parliament until either later 2009 or early 2010. It is reasonably anticipated that amendments may be made to the legislation which was presented to the Senate in August 2009.

The Government conducted a series of consultations with industry during the year to which BBP was a contributor. BBP has a formal management committee and project team for assessing the impact of the CPRS and readying our business operations for its implementation.

Under the proposed Carbon Pollution Reduction Scheme (CPRS), BBP will need to acquire carbon permits for its generators, the cost of which will be proportionately higher for its coal fired plants. BBP may not be able to pass through the full cost of all carbon permits to its customers which is likely to have a significant impact on its coal fired generators. This would require a reassessment of the useful economic life of those plants which has the potential to result in valuation impairments in respect of those assets.

BBP's portfolio of assets includes both gas and coal-fired generators in various markets and regions. With the proposed CPRS having failed to pass both houses of the Commonwealth Parliament, uncertainty remains as to the final nature and timing of the planned CPRS. As a result the overall impact on BBP, (taking into account mitigating actions) could not be confidently determined at this point in time.

Accordingly, for the purpose of the annual financial report BBP has excluded from its valuation assessments the impacts of the introduction of an CPRS. Once there is sufficient certainty regarding the final arrangements under the CPRS, BBP will reflect its impacts in its valuations. This may result in impairment to certain BBP assets.

Rounding off of amounts

The Company 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.

L. F. Gill

Mr L F Gill
Director

Dated at Sydney this the 30th day of September 2009.

PRICEWATERHOUSECOOPERS

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Auditor's Independence Declaration

As lead auditor for the audit of Babcock & Brown Power Limited for the year ended 30 June 2009, 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 Limited and the entities it controlled during the period.

Marc Upcroft
Partner
PricewaterhouseCoopers

Sydney
30 September 2009

Babcock & Brown Power

Income statements

For the year ended 30 June 2009

	Note	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
Revenue	3	1,534,177	1,527,420	727	1,135
Other income	3	148,681	-	-	-
Gain on disposal of businesses	30	94,117	-	-	-
Financing income	3	28,873	34,035	133,349	392,631
Total income		1,805,848	1,561,455	134,076	393,766
Operating expenses	3	(1,355,328)	(1,171,270)	(13,055)	(9,749)
Depreciation and amortisation expense	3	(176,613)	(152,855)	-	-
Finance costs	3	(385,522)	(236,410)	(878,323)	(23,724)
Debt forgiveness	3	-	-	(124,715)	-
Share of profits of associates accounted for using the equity method	9	(559)	5,915	-	-
Management charges	3	(5,134)	(21,732)	(4,287)	(17,210)
Fair value (loss)/gain on derivatives	3	(68,905)	75,386	-	-
Incentive fee	3	-	23,400	-	23,400
Transition costs	3	(617)	(15,919)	450	-
Impairment loss	3	(56,700)	(452,000)	(791,000)	-
Total expense from ordinary activities		(2,049,378)	(1,945,485)	(1,810,930)	(27,283)
Profit/(loss) before income tax		(243,530)	(384,030)	(1,676,854)	366,483
Income tax benefit /(expense)	4	74,597	(42,485)	(56,225)	61,355
Profit/(loss) for the year		(168,933)	(426,515)	(1,733,079)	427,838

Profit/(loss) attributable to stapled security holders as:

	Note	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
Equity holders of the Company - BBPL		(166,926)	(427,401)	(1,733,079)	427,838
Equity holders of the Trust – BBPT (Minority interest)		(755)	1,424	-	-
	22	(167,681)	(425,977)	(1,733,079)	427,838
Subsidiary company minority interests		(1,252)	(538)	-	-
		(168,933)	(426,515)	(1,733,079)	427,838

	Note	Cents	Cents
Earnings per share of the parent based on earnings attributable to the equity holders of the parent			
Basic earnings per share	23	(23.09)	(65.08)
Diluted earnings per share	23	(23.09)	(65.08)

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The above income statements should be read in conjunction with the accompanying notes included in pages 22 to 101.

Babcock & Brown Power

Balance sheets

As at 30 June 2009

	Note	Consolidated		Company	
		2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current assets					
Cash and cash equivalents	25	185,316	290,571	13,124	13,939
Trade and other receivables	5	227,103	340,783	23,346	191,407
Derivative financial instruments	10	18,439	26,244	-	-
Inventories	6	38,724	35,958	-	-
Other assets	7	34,125	71,752	381	180
		503,707	765,308	36,851	205,526
Non-current assets classified as held for sale	8	-	590,455	-	-
Total current assets		503,707	1,355,763	36,851	205,526
Non-current assets					
Cash and cash equivalents	25	54,499	139,357	-	-
Trade and other receivables	5	86,925	126,321	152,347	1,689,092
Investments accounted for using the equity method	9	46,550	49,025	-	-
Investments in subsidiaries	28	-	-	667,004	667,004
Derivative financial instruments	10	99,996	323,292	-	-
Property, plant and equipment	11	2,144,808	2,531,415	-	-
Intangibles	12	1,998,000	2,331,444	-	-
Deferred tax assets	4	340,322	271,556	42,350	141,814
Other assets	7	22,424	21,731	-	-
Total non-current assets		4,793,524	5,794,141	861,701	2,497,910
Total assets		5,297,231	7,149,904	898,552	2,703,436
Current liabilities					
Trade and other payables	13	252,755	373,440	38,967	29,769
Current tax payables	4	(366)	12,486	-	-
Derivative financial instruments	18	127,887	12,612	333	-
Borrowings	16	2,956,270	592,276	397,610	229,169
Employee benefits	15	22,947	20,720	-	-
Provisions	14	100,361	57,495	-	450
		3,459,854	1,069,029	436,910	259,388
Borrowings directly associated with non-current assets held for sale	8	-	533,987	-	-
Total current liabilities		3,459,854	1,603,016	436,910	259,388
Non-current liabilities					
Borrowings	16	271,502	3,268,562	1,032,990	1,212,193
Deferred tax liabilities	4	324,328	446,222	26,341	95,465
Derivative financial instruments	18	8,950	10,642	-	1,000
Other payables	13	10,165	-	-	-
Employee benefits	15	47,896	14,859	-	-
Provisions	14	223,703	411,350	-	-
Total non-current liabilities		886,544	4,151,635	1,059,331	1,308,658
Total liabilities		4,346,398	5,754,651	1,496,241	1,568,046
Net assets		950,833	1,395,253	(597,689)	1,135,390

The above balance sheets should be read in conjunction with the accompanying notes included in pages 22 to 101.

Babcock & Brown Power

Balance sheets

As at 30 June 2009

	Note	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
Equity holders of the Company – BBPL					
Contributed equity	20	656,218	656,218	656,218	656,218
Reserves	21	(123,586)	67,887	-	-
Retained profits/(accumulated losses)	22	(698,921)	(503,572)	(1,253,907)	479,172
		(166,289)	220,533	(597,689)	1,135,390
Equity holders of the Trust – BBPT (Minority interest)					
Contributed equity	20	1,115,713	1,115,713		
Retained profits/(accumulated losses)	22	4,046	4,800		
		1,119,759	1,120,513		
Total equity holding of Stapled Security holders – BBP		953,470	1,341,046		
Subsidiary company minority interests		(2,637)	54,207		
Total equity		950,833	1,395,253		

The above balance sheets should be read in conjunction with the accompanying notes included in pages 22 to 101.

Babcock & Brown Power

Statements of recognised income and expense

For the year ended 30 June 2009

		Consolidated		Parent Entity	
		2009	**2008**	**2009**	**2008**
	Notes	**$'000**	**$'000**	**$'000**	**$'000**
Movement in foreign currency translation reserve	21	2,085	(2,800)	-	-
Changes in the fair value of cash flow hedges, net of tax	21	(194,200)	43,085	-	-
Actuarial (loss)/gains on retirement benefit obligations, net of tax	22	(24,345)	2,048	-	-
Prior period adjustments	22	(4,078)	-	-	-
Net income recognised directly in equity		(220,538)	42,333	-	-
Profit / (loss) for the period		(168,933)	(426,515)	(1,733,079)	427,838
Total recognised income and expense for the year		(389,471)	(384,182)	(1,733,079)	427,838
Total recognised income and expense for the year is attributable to:					
Equity holders of the Company - BBPL		(387,464)	(385,068)	(1,733,079)	427,838
Equity holders of the Trust – BBPT (Minority interest)		(755)	1,424	-	-
Sub-Total		(388,219)	(383,644)	(1,733,079)	427,838
Equity holders of the subsidiary company minority interests		(1,252)	(538)	-	-
Total		**(389,471)**	**(384,182)**	**(1,733,079)**	**427,838**

The above statements of recognised income and expense should be read in conjunction with the accompanying notes included in pages 22 to 101.

Babcock & Brown Power

Statements of cash flows

For the year ended 30 June 2009

	Note	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
Cash flows from operating activities					
Receipts from customers (inclusive of GST)		1,621,285	1,823,908	6,099	3,310
Payments to suppliers and employees (inclusive of GST)		(1,398,080)	(1,462,114)	(21,461)	(33,169)
Interest received		27,853	30,617	891	15,970
Interest and other costs of finance paid (including interest paid to minority interests)		(236,961)	(213,001)	(4,092)	(7,912)
Dividends received		2,583	3,088	-	-
Income/withholding tax paid		(9,007)	(10,950)	21	(21)
Net cash (outflow) inflow from operating activities	25	7,673	171,548	(18,542)	(21,822)
Cash flows from investing activities					
Payment for property, plant and equipment		(236,360)	(537,837)	-	(100)
Proceeds from sale of property, plant and equipment		-	17	-	-
Payment for purchase of subsidiaries (net of cash acquired from subsidiaries, inclusive of GST on transaction costs)	30	-	(1,932,663)	-	(32,022)
Proceeds from sale of subsidiaries (net of cash and cash equivalents disposed of)		355,872	-	-	-
Loan repaid by related party		-	10,814	-	-
Net cash outflow from investing activities		119,512	(2,459,669)	-	(32,122)
Cash flows from financing activities					
Distributions paid to security holders		-	(142,513)	-	-
Distribution reinvestment		-	30,300	-	30,030
Proceeds from issue of securities (net of transaction costs paid)		-	54,057	-	24,455
Proceeds from borrowings		339,581	5,455,832	132,751	593,880
Repayment of borrowings		(637,415)	(2,980,176)	(246,573)	(638,470)
Loans from/repaid by related party		112	-	131,549	-
Loan establishment costs		(19,302)	(41,031)	-	-
Net cash inflow from financing activities		(317,024)	2,376,469	17,727	9,895
Net increase in cash and cash equivalents		(189,839)	88,348	(815)	(44,049)
Cash and cash equivalents at the beginning of the year		429,928	341,580	13,939	57,988
Effect of exchange rate changes on cash and cash equivalents		(274)	-	-	-
Cash and cash equivalents at the end of the year	25	239,815	429,928	13,124	13,939

The above statements of cash flows should be read in conjunction with the accompanying notes included in pages 22 to 101.

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.

(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 report has been prepared on a going concern basis.

The financial statements were approved by the Board of Directors on 30 September 2009.

Going Concern

The financial information presented in the annual financial report of BBP and Babcock & Brown Power Limited (BBPL) has been prepared on the basis that the BBP Group and BBPL are a going concern.

BBP has several business critical issues that it is facing over the near term. These include the restructuring and or settlement of financing arrangements within the Group and the management of the impact of the North West Shelf Joint Venture (NWS) gas supply arbitration. The Directors acknowledge that there is significant uncertainty over the ability of BBP to continue as a going concern until these issues are finally resolved. With an understanding of status of the restructuring negotiations and BBP's expectations on the resolution of the NWS price dispute, the Directors are of the opinion that the accounts are correctly prepared on the basis that the Group is a going concern, If for any reason BBP was unable to successfully resolve its current negotiations on any of the above issues within the range of BBP's expectations, BBP may not be able to realise its assets in the ordinary course of business.

Throughout the course of the second half of the financial year, BBP has been constructively engaged with its two major finance providers to restructure their loan agreements. BBP has made substantial progress in the commercial negotiations in relation to the restructuring of the debt owed to the Babcock & Brown Group ("B&B") and a syndicate of banks that have lent to a subsidiary, BBP Finance Australia Pty Limited ("the BBPF Syndicate"). Further details of the finance arrangements are included at Note 16.

As at 30 June 2009, BBP's outstanding borrowing obligation with B&B was $398,700,000 (excluding deferred borrowing costs). B&B is seeking approval of its banking group to enter into transaction documents to implement the restructure. Details of the restructure will be released once the parties have legally committed to the terms. The Directors expect that the resolution of the B&B debt will require a security holder vote. The directors expect to be able to seek security holder approval at the AGM on 30 November 2009, subject to timely receipt of approval from B&B. In the event that a binding agreement is not reached, the loans are due March 2010. B&B currently has a right to accelerate the loan. Were B&B to call for the acceleration of its loans this would allow the Babcock & Brown Power Trust (BBPT) to call its loans and may precipitate the acceleration of the BBPF Syndicate debt.

BBP has made substantial progress in commercial negotiations in relation to the restructuring of the facility. The BBPF Syndicate Facility outstanding as at 30 June 2009 was $2,541,000,000. The 11 members of the BBPF Syndicate are seeking credit approval to restructure the debt. Details of this restructure will be announced to the market when approval is received and it would be expected that the restructure would be executed by 31 October 2009. Until the facility is reset, the BBPF Syndicate has had the effective right to accelerate the debt since 1 August 2009. The acceleration of the BBPF loan may precipitate the acceleration of the B&B and BBPT debts.

Based on discussions with the parties, the Directors reasonably believe that the necessary consents to enter into legally binding agreements to implement all restructures will be received in October and a security holder vote is expected to be held in respect of the B&B restructure, as soon as possible thereafter. Accordingly the directors do not expect any of B&B, BBPF Syndicate or BBPT to call for the acceleration of their respective loans. Nevertheless, as BBP does not have a unilateral right to defer settlement of the B&B and BBPF Syndicate loans beyond the 12 month period to 30 June 2010, the obligations have been classified as current liabilities. BBP has also classified as current liabilities, long term interest rate swap liabilities associated with the BBPF Syndicate debt. The BBP balance sheet presents a net current liability to current asset deficiency of $2,956,147,000 as at 30 June 2009. The current asset deficiency is a result of classifying BBP's two primary external borrowing obligations as current liabilities as at 30 June 2009. The borrowing obligations would be re classified as non-current liabilities if the restructures being negotiated are implemented.

BBP has been in arbitration with the NWS in respect to the contract price for the supply of a material volume of gas for its Alinta business. The formal arbitration hearing was concluded in September 2009. The Arbitrator is not expected to hand down his determination until late October 2009 at the earliest. BBP has made an accounting provision for the outcome that it reasonably expects from the overall resolution of the NWS price dispute. Further BBP expects to be able to meet its obligations that might result from the dispute on the basis of

1. Summary of accounting policies (continued)

(a) Basis of preparation (Continued)

the restructure of its financial arrangements as well as commercial discussions with both the NWS joint venture partners and BBP's commercial customers. A determination that is significantly outside of BBP's expectations may have a material impact on the Alinta business and at that time could result in a reassessment of the value of the Alinta business and the going concern assumptions.

The Directors regularly monitor and review the debt facilities, debt profile, the business operations and forecast cash flows which take into account the assumptions including but not limited to the forward pricing of electricity future gas tariffs, fuel supply costs and maintenance capital expenditure and the issues raised above.

As the financial report has been prepared on a going concern basis, no adjustments have been made relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should BBP not continue as a going concern.

Compliance with IFRS

The financial report of Babcock and Brown Power Limited complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Stapled security

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.

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.

This financial report consists of the consolidated financial statements of Babcock & Brown Power Limited and its controlled entities and the Babcock & Brown Power Trust.

Consolidated accounts

Australian Accounting Standards Board ("AASB") Interpretation 1002 *Post-Date-of-Transition Stapling Arrangements* requires one of the stapled entities of an existing stapled structure to be identified as the parent entity for the purpose of preparing consolidated financial reports. In accordance with this requirement, Babcock & Brown Power Limited has been identified as the parent entity of the consolidated Group comprising Babcock & Brown Power Limited and its controlled entities and Babcock & Brown Power Trust.

In accordance with AASB Interpretation 1002, consolidated financial statements have been prepared by Babcock & Brown Power Limited as the identified parent of the consolidated Group. As a consequence of the stapling arrangement involving no acquisition consideration and no ownership interest being acquired by the combining entities, no goodwill is recognised in relation to the stapling arrangement and the interests of the unit-holders in the Trust are treated as minority interests.

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 in conformity with AIFRS 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 Group's accounting policies. Certain areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements include estimates in respect of recognition of deferred tax assets (note 4), impairment testing of goodwill (Note 12), valuation of defined benefit obligations (Note 15), valuation of restoration provisions (Note 14), valuation of electricity derivatives (Note 10 and 18), valuation of provision for onerous contract losses (Note 14) and the present value of loans (the Company Note 31).

1. Summary of accounting policies (continued)

(a) Basis of preparation (Continued)

In the case of BBPL's inter-company loans receivable from, and investment in, Babcock & Brown Power Holdings Pty Ltd (BBPH) which has a combined carrying amount of $841.9 million, significant judgement has been applied in order to derive a value for its recoverability which included an impairment charge of $791 million based on various assumptions about the available equity within the BBPH group.

The assumptions used in calculating the above estimates are disclosed in the relevant accounting policies and notes to the financial statements. The actual results may differ from these estimates.

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements are those of the consolidated entity, comprising Babcock & Brown Power Limited (the "Company" or "parent entity") including all subsidiaries that Babcock & Brown Power Limited controlled from time to time during the period and at the reporting date and Babcock & Brown Power Trust. Babcock & Brown Power Limited, its subsidiaries and Babcock & Brown Power Trust together are referred to in this financial report as the Group or consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Where an entity either began or ceased to be controlled during the financial period, the results are included only from the date control commenced or up to the date control ceased.

All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The financial statements of subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies. Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

Associates

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

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the consolidated financial statements by reducing the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the investment.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

BBP applies a policy of treating transactions with minority interests as transactions with external parties to the Group.

1. Summary of accounting policies (continued)

(c) Business combinations

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

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

(d) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

(e) Foreign currency translation

Functional and presentation currency

The consolidated financial statements are presented in Australian dollars, which is the Group'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.

Group companies

The results and financial position of all Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentational currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date on that balance sheet
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

1. Summary of accounting policies (continued)

(f) Rounding

The Company 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.

(g) 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.

Cash assets are stated at nominal values. Bank overdrafts are shown within Borrowings in the Current Liabilities on the Balance Sheet and are carried at nominal values. 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 Group'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.

(h) 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 (allowance account) is established when sufficient reasonable doubt exists as to collection of all outstanding amounts. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows from short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the provision is recognised in the income statement within other expenses. When a trade receivable for which a provision has been recognised becomes uncollectible in a subsequent period, it is written off. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

(i) Inventories

Inventories are valued at the lower of cost and net realisable value. Where inventory is sold in the ordinary course of business net realisable value is the estimated selling price, less the estimated cost of completion and selling expenses.

Cost is measured in the following manner depending on the nature of inventory:

(i) Coal from production

Coal stocks which are produced are valued using unit cost of production and include direct material, labour, transportation costs and other fixed and variable overhead costs directly related to production.

(ii) Purchased fuel

Purchased fuel is valued at cost using the First In First Out (FIFO).

(iii) Inventory – gas

Take or pay prepaid gas is stated at the lower of cost and net realisable value. Cost comprises payments made under contract for quantities of gas which have been received. Costs are accounted for on a FIFO basis. Amounts paid for gas which have not been received at balance date are accounted for as prepayments. Prepaid gas is included in 'Other assets'.

(iv) Stores

All other inventory, including stores are valued on weighted average cost basis.

1. Summary of accounting policies (continued)

(j) Investments and other financial instruments

The Group classifies its investments in the following categories: derivatives, loans and receivables, and available-for-sale financial assets. Investments in subsidiaries are classified separately and are held at cost. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

(i) Derivatives

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in the income statement immediately unless the derivative is designated as a hedging instrument. In this case the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The consolidated entity designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges). Derivatives which are in a hedging relationship are classified as current if the maturity of the contract is within 12 months, or non-current where the contract maturity is greater than 12 months.

(ii) 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 Company 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.

(iii) Available for sale financial assets

Available for sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

1. Summary of accounting policies (continued)

(j) Investments and other financial instruments (continued)

Recognition and de-recognition

Regular purchases and sales of financial assets are recognised on the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Subsequent measurement

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

Available-for-sale financial assets are subsequently carried at fair value. Changes in the fair value of securities classified as available-for-sale are recognised in equity in the available for sale investments revaluation reserve.

Fair value

If the market for a financial asset or an unlisted security is not active, the Group 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.

Impairment

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant and prolonged decline in the fair value of a security below its cost is considered an as indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available for sale are not reversed through the income statement.

If there is any evidence of impairment of any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in the income statement.

(k) Hedge Accounting

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Cash flow hedges

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

Amounts deferred in equity are recycled in the income statement in revenue in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial cost or carrying amount of the asset or liability.

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

As at 30 June 2009, hedge accounting in relation to BBP's external debt obligations ceased in accordance with the policy outlined above. For further details refer to note 21 in this financial report.

1. Summary of accounting policies (continued)

(k) Hedge Accounting (continued)

Derivatives that do not qualify for hedge accounting

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

Embedded derivatives

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

(l) 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 Group 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 fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

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.

(m) Property, plant and equipment

Property, plant and equipment are initially measured at historical cost less depreciation. Land and buildings are shown at historical cost, less depreciation for buildings. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on non-land assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

Asset type	Depreciation term	Asset Class
Buildings	25 – 40 years	Land & buildings
Leasehold improvements	Remaining lease term	Land & buildings
Power generation plant	20 – 40 years	Plant & equipment
Railway infrastructure	Remaining lease term (15 years)	Plant & equipment
Plant, tools and equipment	5 – 20 years	Plant & equipment
Vehicles	3-10 years	Plant & equipment
Other mine assets	5-20 years	Plant & equipment
IT equipment	3 – 5 years	Plant & equipment
Furniture & fittings	5 years	Furniture, fittings and equipment

1. Summary of accounting policies (continued)

(m) Property, plant and equipment (continued)

The carrying value of Power Generation plant includes any capital work in progress.

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(v)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(n) Assets under construction

Costs incurred in relation to assets under construction are deferred to future periods. Deferred costs are transferred to plant and equipment from the time the asset is held ready for use on a commercial basis.

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

(o) Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill is allocated to each of the cash generating units expected to benefit from the Group's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Licences

Licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives. Depending on the individual trademark or licence, the estimated useful life ranges between 3 and 40 years.

Trademarks

Trademarks have an indefinite useful life, are carried at cost and will be subject to an annual impairment review.

Development costs

Costs incurred in relation to the development of a project, excluding the cost of construction, have been capitalised as development costs. Development costs are amortised over the period relevant to when the economic benefits arising from those expenditures are realised. Development costs may include legal fees, insurance costs, independent engineer costs, financing fees, environmental impact study fees and pre-commissioning operating costs. Development costs are initially recognised in intangibles and transferred to Property Plant & Equipment (PPE) once economic benefits commence being realised.

Customer contracts

Customer contracts acquired as part of a business combination are recognised separately from goodwill. The customer contracts are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated under the straight line method over their estimated useful lives, which currently vary from 4.5 to 6 years.

1. Summary of accounting policies (continued)

(o) Intangible assets (continued)

Customer relationships

Customer relationships acquired as part of a business combination are recognised separately from goodwill. Customer relationships are recorded at cost less accumulated amortisation and impairment losses. Amortisation is calculated under the straight line method over their estimated useful lives, which vary from 9.2 years for churn customers to 20 years for non-churn customers.

Other

Other intangibles include computer software and Gas Electricity Certificates ('GECs'). Computer software is either purchased or developed within the organisation and is recorded at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method over the estimated useful lives. Depending on the individual software, the estimated useful life ranges between 1 and 20 years.

A Gas Electricity Certificate (a 'GEC') is a certificate created by accredited generators for each whole MWh of eligible gas-fired electricity. GECs are a mechanism for providing an incentive to the power stations to generate electricity using eligible fuels (non fossil fuels). The accredited parties can trade GECs to other registered scheme participants (retailers). GECs are recognised when the generation and entitlement has occurred. They are measured at fair value.

(p) Leased assets

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases

(i) BBPL and its controlled entities as lessee

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis over the term of the lease. Lease incentives received are recognised in the income statements as part of the total lease expense.

(ii) BBPL and its controlled entities as lessor

The minimum lease payments of operating leases are recognised as income on a straight line basis over the term of the lease. Where long-term power supply agreements are treated as operating leases and BBP is the lessor, income is recognised on a straight line basis over the term of the supply agreement.

Finance leases

(i) BBPL and its controlled entities as lessor

Investment in direct finance leases consists of lease receivables, plus the estimated residual value of the equipment at the lease termination dates and initial direct costs incurred in acquiring the leases, less unearned income. Lease receivables represent the total rent to be received over the term of the lease reduced by rent already collected. Initial unearned income is the amount by which the original sum of the lease receivable and the estimated residual value exceeds the original cost of the leased equipment. Unearned income is amortised to lease income over the lease term in a manner that produces a constant rate of return on the net investment in the lease.

(q) Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction than through continuing use. They are measured at the lower of their carrying amount and fair value less costs to sell. Except for assets such as deferred tax assets, assets arising from employee benefits, financial assets, investment property and non-current biological assets that are carried at fair vale and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value loss costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

1. Summary of accounting policies (continued)

(q) Non-current assets held for sale and discontinued operations (continued)

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the income statement.

(r) Trade and other payables

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

(s) 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 Group 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 in other income or other expenses.

(t) Provisions

Provisions are recognised when the consolidated entity has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. The discount rate reflects current market assessments of the time value of money and the risks specific to the liability. The increase in provision due to the passage of time is recognised as interest expense.

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

Restoration / Rehabilitation and environmental expenditure

The estimated cost of dismantling and removing an asset and restoring the site are included in the cost of the asset as at the date the contractual or environmental obligation first arises and to the extent that it is first recognised as a provision.

The cost is capitalised where it gives rise to future benefits, whether rehabilitation is expected to occur over the life of the plant or at the time of closure. The capitalised cost is amortised over the life of the plant and the increase in the net present value of the provision, due to one less time period of discounting, is included in borrowing costs.

The provision is reviewed at each balance sheet date and the liability is measured at the amount required to settle the present obligation at the reporting date, discounted where material. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

Remediation costs associated with unforeseen circumstances, such as oil leakages are recognised as incurred.

1. Summary of accounting policies (continued)

(t) Provisions (continued)

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits from a contract are less than the unavoidable costs of meeting the obligations under the contract, and only after any impairment losses to assets dedicated to that contract have been recognised.

Expected financial losses of any such “onerous” commercial contracts are recognised at the present value of future cash flows using a risk adjusted discount rate that reflects the current market assessment of the time value of money and the risks specific to the liability.

(u) Employee benefits

Wages and salaries, annual leave, long service leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave, long service leave and accumulating sick leave are recognised in provision for employee entitlements in respect of employee’s services up to the reporting date when it is probable that settlement will be required and they are capable of being measured reliably. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Provisions made in respect of employee benefits that can be reasonably expected to be settled within 12 months, and reliably measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Group in respect of expected future wage and salary levels, experience of employee departure and the period of service provided by employees. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Bonus plans

A liability for employee benefits in the form of bonus plans is recognised in liabilities when it is probable that the liability will be settled and there are formal terms in place to determine the amount of the benefit, or the amount of the benefit has been determined before the time of completion of the annual report. Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

Retirement benefit obligation

All employees of the Group are entitled to benefits from various superannuation plans on retirement, disability or death. Within the retirement benefit plans in the subsidiaries in the Group there is both a defined benefit section and a defined contribution section within the plans. The defined benefit section provides defined lump sum benefits based on years of service and final average salary. The defined contribution section receives fixed contributions from the Group companies and the Group’s legal or constructive obligation is limited to these contributions. The parent does not have any employees.

(i) Defined contribution plan

Contributions to the defined contribution fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payment is available.

(ii) Defined benefit plan

Defined benefit superannuation plans determine the cost of providing benefits using the Projected Unit Credit Method, with actuarial valuations being carried out at each reporting date. Consideration is given to expected future wage and salary levels, experience of employee departure and periods of service. Actuarial gains and losses are recognised in full, directly in retained earnings, in the period in which they occur.

Past Service cost is the increase in the present value of the defined benefit obligation for employee services in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past Service Costs may either be positive (where the benefits are introduced or improved) or negative (where existing benefits are reduced). Past Service Costs are recognised immediately to the extent that the benefits are already vested, and otherwise are amortised on a straight-line basis over the average period until the benefits become vested.

1. Summary of accounting policies (continued)

(u) Employee benefits (continued)

A liability or asset in respect of defined benefit superannuation plan is recognised in the balance sheet, and is measured as the present value of the defined benefit obligation at the reporting date less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The discount rate is a government bond rate, refer to assumptions at Note 15.

Employee benefit on-costs

Employee benefit on-costs, including payroll tax are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

Termination benefits

Liabilities for termination benefits, not in connection with the acquisition of an entity or operation, are recognised when a detailed plan for the terminations has been developed and a valid expectation has been raised in those employees affected that the terminations will be carried out.

(v) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(w) Contributed equity

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

(x) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

- When revenues are generated by an asset under construction, to the extent they are earned before the asset is capable of being used in a manner intended by management, they are set off against the carrying value of that asset. Alternatively revenue is recognised in the income statement when the significant risks and rewards of the product have passed to the buyer and the entity attains the right to be compensated.
- Electricity Generation revenue is recognised on the delivery of energy and/or in accordance with individual contracts as appropriate. Revenue from rolling hedges is recognised as the underlying hedge transaction occurs. For further information refer to segment information at Note 29.
- Sale of Asset revenue is recognised at the time title is transferred or when an irrevocable contract to deliver the asset has been signed, the price is fixed and determinable, and collectability is highly probable. This occurs when the risks and rewards associated with the asset have been transferred and there is no longer effective control or continuing managerial involvement in the asset.
- Interest income is recognised using effective interest method. Dividend income is recognised when the dividend is received.
- Sales revenue is recognised on delivery which coincides with transfer of risks and rewards. Customers are billed for sales on a periodic and regular basis. However, as at each balance date, sales and receivables include an estimation of sales delivered to customers but not yet billed ("unread sales") and recognised as accrued income. This estimation is based on previous consumption patterns and meter reading dates.

1. Summary of accounting policies (continued)

(y) Repairs and maintenance

Generating plants are required to be overhauled on a regular basis. This is managed as part of a continuous major maintenance program. The cost of this maintenance is charged as an expense as incurred. Where significant parts are replaced the cost of these parts are capitalised and amortised in line with their useful life. Any residual carrying amounts of parts previously capitalised which are replaced are written off immediately.

(z) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs associated with the construction assets are expensed.

(aa) Dividends or distributions

Provision is only made for the amount of any dividend or distribution when they are declared by the Directors on or before balance date but which have not been distributed at balance date.

(ab) Tax

Income tax

The income tax expense or benefit for the period is the tax payable or receivable on the current period's taxable income or loss. It is calculated using the tax rates and tax laws that have been enacted (or substantively enacted) by the reporting date, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and for unused tax losses.

Deferred tax

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted by the reporting date. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences; no deferred tax asset or liability is recognised in relation to those temporary differences that arose in a transaction, other than business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary difference and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances which have arisen on amounts recognised directly in equity are also recognised directly in equity. Hence the equity transaction is shown net of tax.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Tax consolidation

BBPL and its wholly owned Australian controlled entities have implemented the tax consolidation legislation. Due to the existence of minority interests and the requirements of project debt facilities, there are four other tax groups within the overall BBP group structure in addition to the BBPL tax consolidation group.

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

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

1. Summary of accounting policies (continued)

(ab) Tax (continued)

Assets or liabilities arising under tax funding agreements with the tax-consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Details about the tax funding agreement are disclosed in note 4.

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

(ac) 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.

(ad) Earnings per security

Basic earnings per security is calculated by dividing the profit attributable to equity holders of the Company, 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 securities 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. New accounting standards and interpretations

Certain new accounting standards and Australian interpretations have been published that are not mandatory for 30 June 2009 reporting periods. BBP's assessment of the impact of these new standards and interpretations is set out below.

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

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 may result in a significant change in the approach to segment reporting, as it requires adoption of a "management approach" to reporting on the financial performance. The information being reported will be based on what the key decision-makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. Application of AASB 8 may result in different segments, segment results and different types of information being reported in the segment note of the financial report. However, it will not affect any of the amounts recognised in the financial statements.

(b) Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 **[AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]**

Revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and - when adopted - will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. This will not impact BBP because the current accounting policy is for all borrowing costs relating to qualifying assets to be capitalised.

BBP will apply the revised standard prospectively from 1 July 2009 in line with the standard's effective date.

(c) Revised AASB101 Presentation of Financial Statements and AASB 2007-8 amendments to Australian Accounting Standards arising from AASB 101

A revised AASB 101 was issued in September 2007 and is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but it will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Group intends to apply the revised standard from 1 July 2009**.**

(d)) AASB 2008-1 Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations

Revisions under this standard are effective for reporting periods commencing 1 January 2009. AASB 2008-1 clarifies that vesting conditions are service conditions and performance conditions only and that other features of a share based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. BBP will apply the revised standard from 1 July 2009 in line with the standards effective date, but is not expected to affect the accounting for the Group's share-based payments.

(e) AASB 3 Business Combinations, AASB 127 Consolidated and Separate Financial Statements and AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127.

The revised AASB 3 continues to apply the acquisition method to business combinations but with a number of other changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent consideration classified as debt subsequently remeasured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition costs must be expensed. This varies from the treatment outlined in note 1 (c) above.

The revised AASB 127 requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains or losses. The standard also specifies the accounting treatment when control is lost. Any remaining interest in the entity is remeasured to fair value, and the gain or loss is recognised in profit or loss. Under the group's current accounting policy, the retained interest in the carrying amount of the former subsidiary's assets and liabilities becomes the cost of investment.

BBP will apply the revised standards prospectively to all business combinations and transactions with non controlling interests from 1 July 2009 in line with the standard's effective date.

2. New accounting standards and interpretations (continued)

(f) AASB 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project.

The amendments to AASB 5 Discontinued Operations and AASB 1 First-Time Adoption of Australian-Equivalents to International Financial Reporting Standards are part of the IASB's annual improvements project published in May 2008. They clarify that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal plan results in loss of control. Relevant disclosures should be made for this subsidiary if the definition of a discontinued operation is met. BBP will apply the amendments prospectively from 1 July 2009 in line with the standard's effective date to all partial disposals of subsidiaries.

(g) AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate.

In July 2008, the AASB approved amendments to AASB 1 First-Time Adoption of International Financial Reporting and AASB 127 Consolidated and Separate Financial Statements so that effective 1 July 2009 all dividends received from investments in subsidiaries, jointly controlled entities or associates will be recognised as revenue, even if they are paid out of pre-acquisition profits, but the investments may need to be tested for impairment as a result of the dividend payment. Under the Group's current policy, these dividends are deducted from the cost of the investment. BBP will apply these amendments prospectively from 1 July 2009.

Furthermore, when a new intermediate parent entity is created in internal reorganisations and the new parent accounts for its investment in the original parent at cost, it will measure its investment in subsidiaries at the carrying amounts of the net assets of the subsidiary rather than the subsidiary's fair value.

(h) AASB 2008-8 Amendments to IAS 39 Financial Instruments: Recognition and Measurement (effective 1 July 2009)

AASB 2008-8 amends AASB 139 Financial Instruments: Recognition and Measurement and must be applied retrospectively in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. There are two primary changes. Firstly it prohibits designating inflation as a hedgeable component of a fixed rate debt. Secondly it also prohibits including time value in the one-sided hedged risk when designating options as hedges. The Group will apply the amended standard from 1 July 2009 and does not expect it to have a material consequence.

(i) AASB Interpretation 17 Distribution of Non-cash Assets to Owners and AASB 2008-13 Amendments to Australian Accounting Standards arising from AASB Interpretation 17

AASB-I 17 applies to situations where an entity pays dividends by distributing non-cash assets to its shareholders. These distributions will need to be measured at fair value and the entity will need to recognise the difference between the fair value and the carry amount of the distributed assets in the income statement on distribution. The interpretation further clarifies when a liability for the dividend must be recognised and that it is also measured as fair value. The Group will apply when applicable prospectively from 1 July 2009.

(j) AASB 2009-2 Amendments to Australian Accounting Standards - Improving Disclosures about Financial Instruments (effective for annual periods beginning on or after 1 January 2009)

In April 2009, the AASB published amendments to AASB 7 Financial Instruments: Disclosure to improve the information that entities report about their liquidity risk and the fair value of their financial instruments. The amendments require fair value measurement disclosures to be classified into a new three-level hierarchy and additional disclosures for items whose fair value is determined by valuation techniques rather than observable market values. The AASB also clarified and enhanced the existing requirements for the disclosure of liquidity risk of derivatives. The Group will apply the amendments in line with the standard's effective date. They will not affect any of the amounts recognised in the financial statements.

(k) AASB 2009-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective for annual periods beginning on or after 1 July 2009)

The AASB has made amendments to AASB 2 Share-based payment, AASB 138 Intangible Assets and AASB Interpretations 9 Reassessment of Embedded Derivatives and 16 Hedges of a Net Investment in a Foreign Operation as a result of the IASB's annual improvements project. The Group will apply the amendments from 1 July 2009 in line with the standard's effective date.. The Group does not expect that any adjustments will be necessary as a result of applying the revised rules.

2. New accounting standards and interpretations (continued)

(l) AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective for annual periods beginning on or after 1 January 2010)

In May 2009, the AASB issued a number of improvements to existing Australian Accounting Standards. The Group will apply the revised standards from 1 January 2010 in line with the standard's effective date. The Group does not expect that any adjustments will be necessary as the result of applying the revised rules.

(m) AASB 2009-3 Amendments to Australian Accounting Standards - Embedded Derivatives (effective for annual periods ending on or after 30 June 2009)

The amendments made by the AASB to Interpretation 9 and AASB 139 clarify that where a financial asset is reclassified out of the 'at fair value through profit or loss' category, all derivatives embedded in that asset have to be assessed and, if necessary, separately accounted for in financial statements. The Group will apply the amendments retrospectively for the financial half year ending 31 December 2009 and the year to 30 June 2010. There will be no impact on the Group's financial statements as at 31 December 2008 [or other date before 30 June 2009] as BBP has not reclassified any financial assets out of the 'at fair value through profit or loss' category.

(n) AASB 2009-8 Amendments to Australian Accounting Standards - Group Cash-Settled Share-based Payment Transactions [AASB 2] (effective for annual periods commencing on or after 1 January 2010)

The amendments made by the AASB to AASB 2 confirm that an entity receiving goods or services in a group share-based payment arrangement must recognise an expense for those goods or services regardless of which entity in the group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the group share-based payment arrangement should be measured, that is, whether it is measured as an equity or a cash-settled transaction. The Group will apply these amendments in line with the standards effective date. However, as the amendments only affect the accounting in the individual entities there will be no impact on the financial statements of the Group.

3. Profit/(loss) from operations

	Consolidated		Company	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
Revenue				
Revenue from the sale of energy products	1,408,005	1,456,940	-	-
Revenue from lease of plant and equipment	3,211	3,641	-	-
Other revenue	122,961	66,839	727	1,135
	1.534,177	1,527,420	727	1,135
Other income				
Release of onerous contracts	148,681	-	-	-
Financing Income				
Dividend income				
Related parties (i)	8,465	-	-	-
Interest income				
Bank deposits	20,408	34,035	246	7,821
Related parties – BBPT and wholly owned subsidiaries	-	-	27,116	33,906
Present value adjustment – Loan BBPT	-	-	-	205142
Interest revenue – Loan to subsidiaries (present value unwind)	-	-	105,987	145,762
	28,873	34,035	133,349	392,631

3. Profit/(loss) from operations (continued)

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
(Loss)/profit before income tax has been arrived at after charging the following expenses:				
Operating expenses:				
Operating costs	1,184,837	1,028,386	450	368
Corporate and administrative costs	30,386	36,095	12,470	9,381
Employee benefit expenses				
Salaries and wages	136,746	104,237	135	-
Defined benefit plan (note 15)	3,359	2,552	-	-
	1,355,328	1,171,270	13,055	9,749
Management charges (Note 31):				
Base fees	-	14,381	-	10,510
Manager expense amount	4,331	6,700	4,287	6,700
Custodian fee	197	93	-	-
Responsible Entity fees	606	558	-	-
	5,134	21,732	4,287	17,210
Impairment loss				
Intangibles (note 12) (ii)	56,700	410,000	-	-
Property, plant and equipment (note 11)	-	42,000	-	-
Impairment loss on loan receivable from wholly owned subsidiary	-	-	791,000	-
	56,700	452,000	791,000	-
Incentive fee (fair value movement) (Note 31)	-	(23,400)	-	(23,400)
Depreciation and amortisation				
Depreciation of property, plant and equipment	120,483	117,082	-	-
Amortisation of intangible assets	55,378	35,773	-	-
Amortisation of other assets	752	-	-	-
	176,613	152,855	-	-
Finance costs:				
Interest expense – External 3rd parties	258,317	215,271	2,069	4,599
Interest expense – related parties	47,277	8	869,354	15,658
Less: Interest expense capitalised (note 19)	(23,907)	(9,044)	-	-
Unwinding of discount on provisions	25,169	14,149	-	-
Other borrowing costs	33,452	3,776	6,900	3,467
Borrowing costs written off	45,214	12,250	-	-
	385,522	236,410	878,323	23,724
Debt Forgiveness	-	-	124,715	-
Transitional costs				
Compliance	-	8,975	-	-
Other transitional costs	617	6,944	(450)	-
	617	15,919	(450)	-
Derivative movement				
Fair value gains/(losses) on interest rate derivative taken to profit & loss	(1,704)	1,922	-	-
Fair value (loss)/gain on Redbank PPHA derivative (iii)	(37,523)	82,789	-	-
Fair value (loss)/gain on other electricity derivatives	(29,678)	(9,325)	-	-
	(68,905)	75,386	-	-

3. Profit/(loss) from operations (continued)

(i) BBP Holdings Pty Ltd, a subsidiary of BBP received a dividend from ERM prior to its disposal on 18 December 2008.

(ii) Impairment charge of $50.0 million has been recognised against the goodwill of the Alinta CGU. An impairment charge of $6.7 million has also been recognised against software development assets held in BBP's service company.

(iii) The non cash derivative movement reported in the accounts represents an assessment of the present value of the difference between the Energy Australia contract (Redbank PPHA) value and the projected value of the gross revenue Redbank could potentially achieve if they sold electricity on market over the theoretical whole of remaining life of the contract. The prices utilised for this calculation were based on projected future average pool prices to the year 2023.
This exercise is carried out on a semi-annual basis for accounting purposes only and has no impact on the operations or cash flows of the business. Any further increase in the assessment of pool prices from the projected future average pool prices used from balance sheet date will result in a non cash fluctuation in the income statement to the extent they have not been already recorded.
At no time can and will this derivative instrument calculation impact the cash position or underlying profits generated by the operations of BBP.

4. Income tax expense

(a) Income tax (benefit)/expense

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current tax (benefit)/expense	(60,817)	17,651	(9,907)	7,189
Deferred tax	(14,493)	24,903	69,894	(68,475)
Under/(over) provided in prior year	713	(69)	(3,762)	(69)
	(74,597)	42,485	56,225	(61,355)
Deferred income tax (revenue)/expense included in income tax expense comprises:				
Decrease/(increase) in deferred tax assets	6,726	(15,590)	139,018	(130,315)
(Decrease)/increase in deferred tax liabilities	(21,219)	40,493	(69,124)	61,840
	(14,493)	24,903	69,894	(68,475)

(b) Reconciliation of income tax expense to prima facie tax payable

Net profit / (loss) before income tax	(243,530)	(384,030)	(1,676,854)	366,483
Tax at the Australian tax rate of 30% (2008: 30%)	(73,059)	(115,209)	(503,056)	109,945
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Entertainment	34	21	-	-
Share of net profit of associates	(728)	(1,775)	-	-
Deferred tax asset on initial present value of loans receivable from wholly owned subsidiary	-	-	-	(185,487)
Write off of deferred tax assets in relation to loan to subsidiaries	-	-	138,885	-
Temporary difference not recognised on loans to subsidiaries			385,423	
Tax offset for franked dividends	(2,540)	-	-	-
Gain/(Loss) on debt forgiveness	(82,159)	-	37,415	-
Gain/(Loss) on disposal of investment	62,750	-	9	-
Impairment of goodwill	15,000	123,000	-	-
Other	5,392	36,517	1,311	14,256
Under/ (over) provision in prior years	713	(69)	(3,762)	(69)
Income tax expense	(74,597)	42,485	56,225	(61,355)

(c) Amounts recognised directly in equity

Revaluations of financial instruments treated as cash flow hedges	73,514	13,006	-	-
Others	10,469	(14,678)	-	362
	83,983	(1,672)	-	362

(d) Tax consolidation legislation

Babcock & Brown Power Limited and certain of its wholly owned Australian resident subsidiaries have formed a tax-consolidated group effective from 1 July 2006. The accounting policy in relation to this legislation is set out in note 1(ab).

On adoption of the tax consolidation legislation, the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly owned entities in the case of a default by the head entity, BBPL.

The entities have entered into a tax funding agreement under which the wholly owned entities fully compensate BBPL for any current tax payable assumed and are compensated by BBPL for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to BBPL under the tax

4. Income tax expense (continued)

(d) Tax consolidation legislation (continued)

consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities financial statements.

The amounts receivable/payable under the tax funding agreement is due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables see note 5 and 13.

Due to the existence of minority interests and the requirements of project debt facilities, there are two other tax groups within the overall BBP group structure as follows:

Flinders – Comprising all Australian resident entities in the Flinders group with the exception of Babcock & Brown Flinders Pty Ltd, Babcock & Brown Osborne Pty Limited, Flinders Operating Services Pty Ltd and Flinders Power Finance Pty Ltd.

BB Power Cat – comprising all Australian resident entities in the BB Power Cat group.

The Flinders and BB Power Cat tax consolidated groups have also entered into tax sharing and tax funding agreements which are on similar terms as the Babcock & Brown Power Limited tax group.

The Braemar and Redbank entities are not currently members of a tax consolidated group however their tax losses remain available.

(e) Current tax liabilities

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Income tax payable / (receivable)	(366)	12,486	-	-

(f) Deferred tax balances

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Deferred tax liabilities comprise:				
Loans payable to subsidiaries	-	-	26,341	95,465
Expenses capitalised	89	18,244	-	-
Accounts receivable	453	109	-	-
Cash flow hedges	(46,465)	72,222	-	-
Intangibles	155,633	58,427	-	-
Operating lease rent receivable	5,519	14,594	-	-
Borrowing costs	13,794	13,976	-	-
Land, plant and equipment	181,433	208,837	-	-
Inventory	5,184	6,204	-	-
Other	8,688	53,609	-	-
Total DTL	324,328	446,222	26,341	95,465
Offset against DTA	-	-	-	-
	324,328	446,222	26,341	95,465
Deferred tax assets comprise:				
Loans receivable from subsidiaries	-	-	-	138,885
Unused revenue tax losses – corporate	138,975	78,857	40,111	557
Deductible equity raising costs	1,107	1,617	1,088	1,617
Accruals	412	443	244	258
Expenses capitalised	807	12	807	12
Provisions	140,503	58,322	-	135
Borrowing costs	13,564	317	-	-
Incentive fee	-	342	-	-
Other	44,954	131,646	100	350
Total DTA	340,322	271,556	42,350	141,814
Offset against DTL	-	-	-	-
	340,322	271,556	42,350	141,814

4. Income tax expense (continued)

(f) Deferred tax balances (continued)

Taxable and deductible temporary differences arise from the following:

Consolidated	**Opening balance $'000**	**Charged to income $'000**	**Charged to equity $'000**	**Acquisitions/ disposals $'000**	**Purchase Price adjustments $'000**	**Closing balance $'000**
2009						
Gross deferred tax liabilities:						
Expenses capitalised	(18,244)	3,652	-	14,503	-	(89)
Accounts receivable	(109)	(344)	-	-	-	(453)
Cash flow hedges	(72,222)	38,295	73,514	6,661	-	46,248
Intangibles	(58,427)	(9,886)	-	5,450	(92,770)	(155,633)
Operating lease rent receivable	(14,594)	109	-	8,966	-	(5,519)
Borrowing costs	(13,977)	(1,251)	-	1,434	-	(13,794)
Land, plant and equipment	(208,837)	(54,857)	-	55,756	26,505	(181,433)
Inventory	(6,204)	1,020	-	-	-	(5,184)
Other	(53,608)	44,481	(496)	(647)	1,799	(8,471)
	(446,222)	21,219	73,018	92,123	(64,466)	(324,328)

Consolidated	**Opening balance $'000**	**Charged to income $'000**	**Charged to equity $'000**	**Acquisitions/ disposals $'000**	**Purchase Price adjustments $'000**	**Closing balance $'000**
2009						
Gross deferred tax assets:						
Unused revenue tax losses	78,857	66,907	-	(14,797)	8,009	138,976
Deductible equity raising costs	1,617	(511)	-	-	-	1,106
Accruals	443	130	-	(161)	-	412
Expenses capitalised	354	453	-	-	-	807
Provisions	58,321	72,706	-	(754)	10,230	140,503
Borrowing cost	317	13,247	-	-	-	13,564
Other	131,647	(98,883)	10,965	(126)	1,351	44,954
	271,556	54,049	10,965	(15,838)	19,590	340,322

4. Income tax expense (continued)

(f) Deferred tax balances (continued)

Consolidated 2008	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Acquisitions/ disposals $'000	Closing balance $'000
Gross deferred tax liabilities:					
Expenses capitalised	(3,043)	(13,254)	(1,947)	-	(18,244)
Investments in subsidiaries	(10)	10	-	-	-
Accounts receivable	(125)	20	-	(4)	(109)
Cash flow hedges	(9,519)	(64,379)	4,161	(2,485)	(72,222)
Intangibles	(13,819)	7,208	(11,877)	(39,939)	(58,427)
Operating lease rent receivable	(10,914)	(345)	-	(3,335)	(14,594)
Borrowing costs	(9,914)	(4,062)	-	-	(13,976)
Land, plant and equipment	(218,063)	39,005	(11,310)	(18,469)	(208,837)
Inventory	(4,309)	(1,616)	-	(279)	(6,204)
Other	(1,035)	(3,080)	-	(49,494)	(53,609)
	(270,751)	(40,493)	(20,973)	(114,005)	(446,222)

Consolidated 2008	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Acquisitions/ disposals $'000	Closing balance $'000
Gross deferred tax assets:					
Unused revenue tax losses	75,716	(5,182)	-	8,323	78,857
Deductible equity raising costs	2,148	(543)	12	-	1,617
Accruals	1,979	(1,536)	-	-	443
Expenses capitalised	12	342	-	-	354
Provisions	45,297	6,884	-	6,140	58,321
Borrowing cost	6,251	(5,934)	-	-	317
Incentive fee	7,020	(7,020)	-	-	-
Other	9,610	31,667	19,289	71,081	131,647
	148,033	18,678	19,301	85,544	271,556

Company 2009	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Acquisitions/ disposals $'000	Transfers Other Entities $'000	Closing balance $'000
Gross deferred tax liability:						
Loans payable to subsidiaries	95,465	(69,124)	-	-	-	26,341
	95,465	(69,124)	-	-	-	26,341

4. Income tax expense (continued)

(f) Deferred tax balances (continued)

Company	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Acquisitions/ disposals $'000	Transfers Other Entities $'000	Closing balance $'000
2009						
Gross deferred tax assets:						
Unused revenue tax losses	557	10,867	-	-	28,687	40,111
Deductible equity raising costs	1,617	(529)	-	-	-	1,088
Accruals	258	(14)	-	-	-	244
Expenses capitalised	147	660	-	-	-	807
Other	350	(250)	-	-	-	100
Loans receivable from subsidiaries	138,885	(138,885)	-	-	-	-
	141,814	(128,151)	-	-	28,687	42,350

Company	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Acquisitions/ disposals $'000	Transfers Other Entities $'000	Closing balance $'000
2008						
Gross deferred tax liabilities:						
Investments in subsidiaries	10	(10)	-	-	-	-
Loans payable to subsidiaries	33,615	61,850				95,465
	33,625	61,840	-	-	-	95,465
Gross deferred tax assets:						
Unused revenue tax losses	418	139	-	-	-	557
Deductible equity raising costs	2,148	(543)	12	-	-	1,617
Accruals	538	(280)	-	-	-	258
Expenses capitalised	12	135	-	-	-	147
Mezzanine debt expenses	862	(862)	-	-	-	-
Incentive fee	7,020	(7,020)	-	-	-	-
Other	(1)	1	350	-	-	350
Loans receivable from subsidiaries	-	138,885	-	-	-	138,885
	10,997	130,455	362	-	-	141,814

4. Income tax expense (continued)

(g) Correction of Prior Years

In previous years, the requirement under AASB 112 Income Tax to tax effect fair value adjustments on interest free loans has been omitted. The financial statements have been restated to reflect these requirements. The effect of the amendments are in the company only and have no effect on consolidated retained earnings.

	Company		
	2008 $'000	Error $'000	Restated 2008 $'000
Income Statement			
Tax (expense)/benefit	(15,680)	77,035	61,355
Profit After Tax	**350,803**	**77,035**	**427,838**
Balance Sheet			
Deferred Tax Asset	2,929	138,885	141,814
Deferred Tax Liability	-	95,465	95,465
Opening Retained Earnings 1 July 2007	84,949	(33,615)	51,334
Profit year ended June 2008	350,803	77,035	427,838
Retained Earnings 30 June 2008	**435,752**	**43,420**	**479,172**

5. Trade and other receivables

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current				
Trade receivables	185,979	203,499	56	25,895
Provision for doubtful debts	(4,818)	(106)	-	-
	181,161	203,393	56	25,895
Accrued income and unread sales				
External 3rd parties	30,023	93,663	-	-
Related parties (note 31)	-	175	-	175
Goods and services tax receivable	7,222	18,235	787	646
Other receivables				
External 3rd parties	3,453	17,627	-	-
Finance lease (note 27)	5,244	7,690	-	-
Loans to related parties (note 31)	-	-	22,503	164,691
	227,103	340,783	23,346	191,407
Non-current				
Trade receivables	1,432	-	-	-
Operating lease receivable (note 27)	13,384	40,021	-	-
Non-interest bearing loan within the wholly owned group	-	-	152,347	1,689,092
Other receivables				
Finance lease (note 27)	72,109	78,330	-	-
3rd Party	-	7,970	-	-
	86,925	126,321	152,347	1,689,092

Information on credit risk and interest rate risk exposure of the Group is provided at note 32.

Loans to related parties in the consolidated group include loans to associates. Loans to related parties in the Company include loans to subsidiaries and associates.

5. Trade and other receivables (continued)

Reconciliation of provision for doubtful debts

	Consolidated		Company	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Opening balance - 1 July	106	62	-	-
Charge for the year	4,818	176	-	-
Amounts written off	(106)	(132)	-	-
Closing balance – 30 June	**4,818**	**106**	**-**	**-**

6. Inventories

	Consolidated		Company	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Stores	19,438	21,581	-	-
Raw materials including:				
Coal	12,172	11,355	-	-
Fuel oil	2,846	644	-	-
Natural gas	2,976	45	-	-
Other	1,292	2,333	-	-
	38,724	35,958	-	-

The amount of purchased inventories recognised as cost of goods sold during the year was $279.4 million (2008: $203.8 million).

7. Other assets

	Consolidated		Company	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Current				
Prepayment of operations expenses	22,342	40,064	381	180
Fuel prepayment (i)	1,320	1,000	-	-
Deposits (ii)	10,463	30,688	-	-
	34,125	71,752	381	180
Non-current				
Prepayment of operations expenses	1,533	324	-	-
Fuel prepayment (i)	20,891	21,407	-	-
	22,424	21,731	-	-

(i) Prepayments were made to purchase part of the future fuel requirements of the Redbank plant for a thirty year period. The prepayment is being amortised on a straight line basis over that period being the eligible service period unless the actual amount of fuel delivered is less than the contractual amount.

(ii) Deposits represent down payments for parts for the Braemar Power Station. The parts are due to arrive September 2009.

8. Non current assets held for sale

BBP does not have any assets classified as held for sale as at 30 June 2009.

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Property, plant and equipment				
Ecogen	-	217,846	-	-
Uranquinty (i)	-	372,609	-	-
	-	590,455	-	-
Borrowings				
Ecogen bank loans (ii)	-	130,138	-	-
Uranquinty Construction Facility (iii)	-	403,849	-	-
	-	533,987	-	-

(i) At 30 June 2008, Uranquinty had $66.1 million of cash at bank representing amounts drawn under the construction facility yet to be utilised.

(ii) Bank loan – Ecogen Energy Pty Limited secured facilities with a total value of $130.1 million outstanding at 30 June 2008. This facility had a maturity date of 2015 and had an effective interest rate at 30 June 2008 of 7.58%. This loan was divested subsequent to 30 June 2008 as part of the sale of Ecogen.

(iii) Construction facility – Uranquinty construction facility was originally drawn down in July 2007 and continued to be drawn down to finance construction activity until its sale. The total facility available was $520.0 million and was drawn down to $403.9 million at 30 June 2008. The effective interest rate at 30 June 2008 was 8.03%. This loan was divested subsequent to 30 June 2008 as part of the sale of Uranquinty.

9. Investments accounted for using the equity method

	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
Investment in associates	46,550	49,025	-	-

Name of the entity	Principal activity	Ownership interest 2009 %	Ownership interest 2008 %	Share of net profit 2009 $'000	Share of net profit 2008 $'000	Equity accounted investment carrying amount 2009 $'000	Equity accounted investment carrying amount 2008 $'000
ERM Power Investments Pty Limited	Power generation	-	40	-	816	-	-
Oakey Power Holdings Pty Ltd	Power generation	50	50	2,202	5,099	46,550	49,025
BBP Kwinana Pty Ltd*	Power generation	-	70	(2,761)	-	-	-
				(559)	5,915	46,550	49,025

Each of the above associates is incorporated in Australia.

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the parent entity.

* BBP Kwinana Pty Ltd became an associate entity of BBP on 18 December 2008 following the sale of ERM Power Investments Pty Ltd. BBP's interest in BBP Kwinana Pty Ltd was sold on 19 March 2009. Refer to Note 30 for further detail on changes in composition of the consolidated group.

Movements in carrying amounts	**Oakey 2009 $'000**
Carrying amount at the beginning of the financial year	49,025
Dividend received/receivable	(4,677)
Share of profit	2,202
Carrying amount at the end of the financial year	46,550

Movements in carrying amounts	**Oakey 2008 $'000**	**ERM 2008 $'000**
Carrying amount at the beginning of the financial year	49,019	22,361
Dividend received/receivable	(3,088)	-
Share of profit	3,004	816
Reduction in investment in minority interest	-	(23,177)
Carrying amount at the end of the financial year	49,025	-

9. Investments accounted for using the equity method (continued)

	Consolidated 2009 $'000	Consolidated 2008 $'000
Shares of associates' profit or losses		
Profit before income tax	1,484	8,100
Income tax expense	(2,043)	(2,185)
Profit after income tax	(559)	5,915

Summarised financial information of associates:	Group's share of Assets $'000	Liabilities $'000	Revenues $'000	Profit/(loss) $'000
2009				
Oakey Power Holdings Pty Ltd	61,635	50,937	16,138	2,202
BBP Kwinana Power Pty Ltd	-	-	-	(2,761)
	61,635	50,937	16,138	(559)
2008				
ERM Power Investments Pty Limited	40,048	27,376	(9)	816
Oakey Power Holdings Pty Ltd	68,963	55,939	17,854	5,099
	109,011	83,315	17,845	5,915

	Consolidated 2009 $'000	Consolidated 2008 $'000
Share of associates' expenditure commitments		
Capital commitments	-	-
Lease commitments	-	-
	-	-

Restrictions on funds distributed to shareholders

Oakey Power Holdings Pty Ltd may only distribute to its shareholders proceeds in the form of cash dividends and repayment of shareholder loans when the required levels have been met in the Debt Service Reserve Account ("DSRA") and the Major Maintenance Reserve Account ("MMRA"), as required by the terms of its Credit Facility Agreement. The DSRA is an amount necessary to ensure it has a balance equal to the sum of the principal and interest amounts and the Bank Guarantee fees scheduled to be paid during the next six months. The MMRA is required to be maintained from financial close until the first major overhaul of the plant. As at 30 June 2009 the DSRA was $8.6 million (2008: $8.5 million), and the MMRA was $1.8 million (2008: $1.5 million). With these reserve accounts maintained in accordance with the Credit Facility Agreement, there are no restrictions on funds distributed to shareholders at 30 June 2009.

10. Derivative financial assets

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current				
Derivative financial instruments at fair value				
Interest rate derivatives	-	3,737	-	-
Foreign exchange derivatives	8	767	-	-
Electricity derivatives	18,431	21,740	-	-
	18,439	26,244	-	-

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Non-current				
Derivative financial instruments at fair value				
Interest rate derivatives	-	143,060	-	-
Foreign exchange derivatives	85	40	-	-
Electricity derivatives	99,911	180,192	-	-
	99,996	323,292	-	-

Electricity Derivatives

The hedge portfolio consists predominately of swaps, caps and option style contracts and non-derivative Power Purchase Agreements. Refer to note 32 for information on exposure and electricity price risk management.

Specifically, electricity derivatives include the PPHA derivative relating to Redbank Project. The Redbank Project has a long term power purchase agreement with Energy Australia for the sale of power for a period of 30 years from the commencement of the power station's operation. Under the terms of the contract, the fixed price per mega-watt hour is escalated annually using agreed CPI indices. There are contract provisions to ensure the supply of an agreed volume of energy into the grid with penalties should these conditions not be met. Under AASB 139, the Group recognises a derivative asset equal to the estimated fair value of the power purchase derivative. At 30 June 2009 the value of this derivative had decreased by $37.5 million to $98.2 million. At 30 June 2008 the value of this derivative had increased by $82.8 million to $135.7 million.

11. Property, plant and equipment

Consolidated	Land & Buildings	Plant and equipment	Assets under construction	Furniture, fittings and equipment	Total
	$'000	$'000	$'000	$'000	$'000
Cost					
Balance at 1 July 2007	23,719	1,283,740	283,370	1,651	1,592,480
Additions	-	62,333	668,219	322	730,874
Disposals	-	(14,200)	-	(422)	(14,622)
Impairment loss	-	-	(42,000)	-	(42,000)
Transfers	100	289,888	(289,988)	-	-
Acquisitions through business combinations	14,972	685,391	270,981	53,359	1,024,703
Assets held for sale	(22,180)	(204,593)	(377,926)	(317)	(605,016)
Balance at 30 June 2008	16,611	2,102,559	512,656	54,593	2,686,419

11. Property, plant and equipment (continued)

Consolidated	Land & Buildings	Plant and equipment	Assets under construction	Furniture, fittings and equipment	Total
Balance at 1 July 2008	16,611	2,102,559	512,656	54,593	2,686,419
Additions	1,122	86,301	212,360	537	300,320
Disposals	-	(3,065)	-	(522)	(3,587)
Decommissioning Costs	-	61,656	-	-	61,656
Transfers (to)/from intangibles	-	96,596	(7,202)	-	89,394
Adjustment on Alinta acquisition	29,546	23,824	(15,424)	332	38,278
Divestment	(350)	(30,652)	(668,525)	(53,137)	(752,664)
Balance at 30 June 2009	46,929	2,337,219	33,865	1,803	2,419,816
Accumulated depreciation					
Balance at 1 July 2007	-	(52,145)	-	(291)	(52,436)
Depreciation expense	-	(116,495)	-	(587)	(117,082)
Depreciation on assets held for sale	-	14,508	-	5	14,513
Balance at 30 June 2008	-	(154,132)	-	(873)	(155,005)
Depreciation expense	(835)	(118,970)	-	(678)	(120,483)
Disposals	-	306	-	523	829
Transfers to/(from) intangibles	-	(3,330)	-	-	(3,330)
Divestment	-	2,981	-	-	2,981
Balance at 30 June 2009	(835)	(273,145)	-	(1,028)	(275,008)
Net book value					
As at 30 June 2008	16,611	1,948,427	512,656	53,720	2,531,414
As at 30 June 2009	46,094	2,064,074	33,865	775	2,144,808

During the year, there was a net transfer into property, plant and equipment of $86.0 million from intangibles.

Prior period property, plant and equipment balances relating to Ecogen and Uranquinty have been separately disclosed in note 8 as non-current assets held for sale, as at 30 June 2008. The parent entity does not have property, plant and equipment.

12. Intangibles

Consolidated	Goodwill $'000	Development costs $'000	Software & Licences $'000	Customer Base $'000	Other $'000	Total $'000
Balance at 1 July 2007	138,380	86,433	62,347	-	18,268	305,428
Additions	-	-	-	-	-	-
Additions through business combinations	1,843,887	-	27,259	397,708	206,086	2,474,940
Balance at 30 June 2008	1,982,267	86,433	89,606	397,708	224,354	2,780,368
Additions	-	-	1,205	-	-	1,205
Acquisition accounting adjustments	5,355	-	-	64,971	(143,051)	(72,725)
Disposals	(45,615)	-	(18,168)	-	-	(63,783)
Reclassifications from/(to) Property, Plant & Equipment	-	(86,433)	7,202	-	(10,164)	(89,395)
Balance at 30 June 2009	1,942,007	-	79,847	462,679	71,139	2,555,672
Accumulated amortisation and impairment						
Balance at 1 July 2007	-	(1,336)	(1,623)	-	(192)	(3,151)
Amortisation expense	-	(1,994)	(6,450)	(27,329)	-	(35,773)
Impairment loss	(410,000)	-	-	-	-	(410,000)
Balance at 30 June 2008	(410,000)	(3,330)	(8,073)	(27,329)	(192)	(448,924)
Reclassifications to Property, Plant & Equipment	-	3,330	-	-	-	3,330
Amortisation expense	-	-	(4,886)	(50,397)	(95)	(55,378)
Impairment loss	(50,000)	-	(6,700)	-	-	(56,700)
Balance at 30 June 2009	(460,000)	-	(19,659)	(77,726)	(287)	(557,672)
Net book value						
As at 30 June 2008	1,572,267	83,103	81,533	370,379	224,162	2,331,444
As at 30 June 2009	**1,482,007**	**-**	**60,188**	**384,953**	**70,852** [1]	**1,998,000**

1. Included in other intangibles is $67.3 million of trademarks that have been allocated to the Alinta CGU. Alinta trademarks are considered to have indefinite useful lives given their brand characteristics and market position. Accordingly these trademarks are carried at unamortised cost and are subject to an annual impairment review.

12. Intangibles (continued)

Allocation of goodwill to cash generating units for the purpose of impairment testing

Goodwill has been allocated to operating divisions for impairment testing that represents the lowest level associated with cash generation and management reporting. Cash generating units and the aggregate carrying amount of goodwill allocated to each unit is as follows:

	Consolidated	
	2009	**2008**
	$'000	**$'000**
Braemar	55,926	55,926
Redbank (i)	28,379	37,630
Ecogen (ii)	-	20,596
Flinders	75,042	75,042
Uranquinty (ii)	-	25,018
Alinta (iii)	1,083,335	1,100,283
Bairnsdale	34,623	34,623
WA Power (iv)	204,702	223,149
Total	**1,482,007**	**1,572,267**

(i) Redbank goodwill movement due to correction of a prior period error which resulted in reclassification of an amount from payable to goodwill for $9.2 million , thus reducing the overall carrying amount of goodwill associated with Redbank.

(ii) Ecogen and Uranquinty assets disposed of during the current financial year.

(iii)The Alinta CGU includes the Alinta retail business, the integrated cogeneration Pinjarra and Wagerup power stations and the LPG joint venture. Goodwill movement is associated with finalisation of acquisition accounting during the financial year and an impairment of $50 million.

(iv) WA Power goodwill associated with the acquisition of the Alinta power generation assets on 31 August 2007. Goodwill movement is associated with finalisation of acquisition accounting during the financial year.

12. Intangibles (continued)

Key Assumptions used for value-in-use calculations

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on management approved annual financial budgets and forecasts.

Generation CGU's with Long Term Power Purchase Agreements (PPAs)

Cash flow projections for the 19 year forecast period for generation assets with long term PPAs are in accordance with the contractual provisions of the PPA and gas supply agreements, discounted using a pre-tax discount rate of 11.8% (2008: pre-tax rate 11.8%). This discount rate reflects the stable operating margins under these long term contracts. Cash flow projections beyond the 19 year period have been extrapolated using a steady 2-3% p.a. growth rate (2008: 2-3%) with terminal values that reflect the useful life of the assets. A reasonably possible increase in the pre-tax discount rate of 25 basis points would result in an impairment charge against the PPA assets of $38 million. A reasonably possible increase in the cost of debt assumption of an additional 20 basis points applied to the PPA assets would result in an impairment charge of $23 million. The Director's do not consider a detrimental change in any of the other key assumptions to be reasonably possible.

Generation CGU's with Merchant Pool Price Exposure

Cash flow projections for the 19 year forecast period for generation assets with merchant pool price exposure are based on forward electricity prices forecast with reference to independent market sources. These have been discounted using a pre-tax discount rate of 12.2% (2008: pre-tax rate 12.9%). This discount rate reflects the higher margin volatility of these "Merchant CGUs" relative to the PPA CGUs. Cash flow projections beyond the 19 year period have been extrapolated using a steady 2-3% p.a. growth rate (2008: 2-3%) with terminal values that reflect the useful life of the assets. The Director's believe that any reasonably possible change in the key assumptions on which they recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of these CGU's.

Alinta

Cash flow projections for the five-year budget period forecast for the Alinta CGU includes reasonable market pricing reviews on electricity contracts and tiered tariff increases on gas mass-market revenues. The cost of gas incorporates pricing in existing long-term contracts and management estimates of short term gas purchases, new contracts and price resets. These have been discounted using a pre-tax discount rate of 12.8% (2008: pre-tax rate 12.8%) reflecting the nature of the integrated retail business operating in the WA market (i.e. a bilateral gas market and a net pool electricity market model). Cash flow projections beyond the five year period have been extrapolated using a steady 2.5% p.a. growth rate (2008: 3%).

For the year ended 30 June 2009 an impairment charge of $50.0 million has been recognised against the goodwill of the Alinta CGU. The Alinta business has been impacted by weakened demand arising from depressed economic conditions and resource price volatility in the Western Australian economy as flow on effects of the recessionary conditions experienced globally. Further, changes to recontracting assumptions in respect of a major customer of the Alinta Energy LPG business has negatively impacted the value in use calculations for the Alinta CGU. Holding all other assumptions constant, a reasonably possible increase in the shortfall gas price paid by Alinta of $1/GJ could result in an additional impairment of $72 million. The Director's do not consider a detrimental change in any of the other key assumptions to be reasonably possible.

Goodwill impaired in respect of Alinta has been recognised in the Energy Markets segment disclosed in Note 29.

Value in use calculations performed to assess each CGU for impairment excluded the impacts of the Commonwealth Government's proposed Carbon Pollution Reduction Scheme (CPRS). Under the proposed CPRS, BBP will need to acquire carbon permits for its generators, the cost of which will be proportionately higher for its coal fired plants. BBP may not be able to pass through the full cost of all carbon permits to its customers which is likely to have a significant impact on its coal fired generators. This would require a reassessment of the useful economic life of those plants which has the potential to result in valuation impairments in respect of those assets.

BBP's portfolio of assets includes both gas and coal-fired generators in various markets and regions. With the proposed CPRS having failed to pass both houses of the Commonwealth Parliament, uncertainty remains as to the final nature and timing of the planned CPRS. As a result the overall impact on BBP's assets, (taking into account mitigating actions) could not be confidently determined at this point in time.

Accordingly, for the purpose of the annual financial report BBP has excluded from its valuation assessments the impacts of the introduction of the CPRS. Once there is sufficient certainty regarding the final arrangements under the CPRS, BBP will reflect its impacts in its valuations. This may result in impairment to certain BBP assets.

Care should be taken when interpreting the sensitivities discussed above which gave rise to impairment or potential impairments as movements in one assumption may have an offsetting or compounding effect on other variables within BBP's valuation models.

13. Trade and other payables

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current				
Trade payables	68,100	102,858	23,847	22,883
Accruals	144,080	177,274	8,024	9,621
GST payable	4,848	8,392	(6)	(2,735)
Accrued interest	21,835	5,203	2,743	-
Capital expenditure payables	-	27,508	-	-
Deferred income	6,496	16,565	-	-
Other payables	6,230	33,948	3,193	-
Management fee payable – related party (note 31)	1,166	1,692	1,166	-
	252,755	373,440	38,967	29,769
Non-current				
Other payables	10,165	-	-	-
	10,165	-	-	-

14. Provisions

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current				
Provision for onerous contracts (i)	88,600	41,997		
Others	11,761	15,498	-	450
	100,361	57,495	-	450
Non-current				
Provision for onerous contracts (i)	99,400	349,306		
Site restoration provision (ii)	124,303	56,640	-	-
Others	-	5,404	-	-
	223,703	411,350	-	-

The implementation of the Commonwealth Government's proposed CPRS may give rise to further onerous contracts depending on the impact that emissions trading will have on energy prices, in particular the cost of gas. Until further clarity is available as to the exact nature of the final scheme to be implemented, there is uncertainty as to the positive or negative impacts which a CPRS will have on the Group.

(i) Alinta Sales Pty Ltd (a subsidiary of BBP) has a number of onerous contracts in respect of its gas purchase and supply arrangements with fixed and variable price counterparties. These contracts run off between 2010 and 2015. Anticipated cashflows have been discounted using discount rates that most closely match the maturities of the underlying contracts in place less a risk premium factor of 1.5%. The range of pre-adjusted, pre-tax discount rates are 3.19% to 5.54%.

In addition, on 31 March 2009 BBP sold the Alinta EATM contracts and on 29 June 2009 sold the Flinders Osborne contracts both of which had previously given rise to provisions for onerous contracts. There are no remaining onerous contract commitments in respect of these as at 30 June 2009. The remaining balances on these onerous contract provisions were credited to the income statement on the date the contracts underlying the provision were sold.

(ii) Provision for site restoration

BBP has raised provisions for present obligations for future remediation of 12 operating sites occurring between 2016 and 2045. Estimates of future cash outflows have been derived by referring to external consultants and experts within the BBP group. Future cash outflows are discounted to their present value by using a pre-tax discount rate of 4.5%.

14. Provisions (continued)

Reconciliation of movement in provisions

Description	Onerous contract provision $'000	Site restoration provision $'000	Other provisions $'000
Carrying amount at 1 July 2007	124,140	26,763	124
Additions through business combinations	279,593	20,384	8,376
Additional provision recognised	22,100	12,432	13,707
Unused amounts reversed	(14,400)	(3,165)	-
Amount used during the period	(22,330)	-	(1,886)
Other	2,200	226	581
Total provisions at 30 June 2008	391,303	56,640	20,902

Description	Onerous contract provision $'000	Site restoration provision $'000	Other provisions $'000
Carrying amount at 1 July 2008	391,303	56,640	20,902
Additional provision – site restoration assets capitalised (note 11)	-	61,656	-
Additional provision recognised	112,390	3,241	4,374
Charge to income statement – unwind of discount	22,403	2,766	-
Decrease in provisions – sale of onerous contract (note 3)	(148,681)	-	-
Decrease in provisions – sale of Tamar (note 30)	(81,000)	-	-
Decrease in provisions – purchase price settlement	(66,273)		
Unused amounts reversed	-	-	(8,740)
Amount used during the period	(42,142)	-	(4,775)
Total provisions at 30 June 2009	188,000	124,303	11,761

15. Employee benefits

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current				
Provision for employee benefits	22,947	20,720	-	-
Non-current				
Provision for employee benefits	1,042	688	-	-
Defined benefit plan liability	46,854	14,171	-	-
	47,896	14,859	-	-

Disclosure on defined benefit superannuation plan

Scheme information

Defined benefit members receive lump sum benefits on retirement, death, disablement and withdrawal. Some defined benefit members are also eligible for pension benefits in some cases. The defined benefit section of the plan is closed to new members. All new members receive accumulation only benefits, under a defined contribution plan.

The following balances relate to the Flinders Power Electricity Industry Superannuation Scheme. An actuarial review of the Flinders Power Electricity Industry Superannuation Scheme was completed during 2009.

15. Employee benefits (continued)

Reconciliation of the present value of the defined benefit obligation

Period ending	30 June 2009 $'000	30 June 2008 $'000
Present value of defined benefit obligations at the beginning of the period	**112,346**	**113,433**
Current service cost	3,175	3,234
Interest cost	6,287	5,641
Contributions by Scheme participants	2,461	2,656
Actuarial (gains)/losses	14,287	(3,384)
Benefits paid	(5,126)	(4,603)
Taxes & premiums paid	(1,440)	(944)
Transfers in	27	190
Curtailments	-	231
Settlements	(24)	(4,108)
Present value of defined benefit obligations at end of the year	**131,993**	**112,346**

Reconciliation of the fair value of plan assets

Period ending	30 June 2009 $'000	30 June 2008 $'000
Fair value of plan assets at the beginning of the period	**98,175**	**100,020**
Expected return on plan assets	6,103	6,274
Actuarial gains/(losses)	(22,263)	(6,044)
Employer contributions	7,226	4,734
Contributions by Scheme participants	2,461	2,656
Benefits paid	(5,126)	(4,603)
Taxes & premiums paid	(1,440)	(944)
Transfers in	27	190
Settlements	(24)	(4,108)
Fair value of plan assets at end of the year	**85,139**	**98,175**

15. Employee benefits (continued)

Defined benefit superannuation plan (continued)

Reconciliation of the assets and liabilities recognised in the balance sheet

As at	30 June 2009 $'000	30 June 2008 $'000
Defined Benefit Obligation^	131,993	112,346
(-) Fair value of plan assets	85,139	98,175
Net superannuation liability/(asset)	**46,854**	**14,171**

^ includes contributions tax provision

Expense recognised in income statement

Financial year ending	30 June 2009 $'000	30 June 2008 $'000
Service cost	3,175	3,234
Interest cost	6,287	5,641
Expected return on assets	(6,103)	(6,274)
Effect of curtailments/settlements	-	231
Superannuation expense/(income)	**3,359**	**2,832**

Amounts recognised in the Statement of Recognised Income and Expense

Financial year ending	30 June 2009 $'000	30 June 2008 $'000
Actuarial gains/losses	(36,550)	(2,660)

Cumulative amount recognised in the Statement of Recognised Income and Expense

As at	30 June 2009 $'000	30 June 2008 $'000
Cumulative amount of actuarial gains/losses	(28,342)	8,208

Scheme assets

The percentage invested in each asset class at the balance sheet date was:

As at	30 June 2009	30 June 2008
Australian equities	29%	29%
International equities	21%	19%
Fixed income	19%	14%
Property	16%	16%
Alternatives	8%	17%
Cash	6%	5%

Fair value of scheme assets

The fair value of scheme assets includes no amounts relating to:

- any of BBP’s own financial instruments
- any property occupied by, or other assets used by BBP.

Expected rate of return on scheme assets

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each asset class and allowing for the correlations of the investment returns between asset classes. The returns used for each asset class are net of investment tax and investment fees. An allowance for administration expenses has also been deducted from the expected return.

15. Employee benefits (continued)

Defined benefit superannuation plan (continued)

Actual return on scheme assets

Period ending	30 June 2009 $'000	30 June 2008 $'000
Actual return on scheme assets	(16,160)	230

Principal actuarial assumptions at the balance sheet date

As at	30 June 2009	30 June 2008
Discount rate (active members)	5.00% pa	6.00% pa
Discount rate (pensioners)	5.50% pa	6.50% pa
Expected rate of return on scheme assets (active members)	6.50% pa	6.40% pa
Expected rate of return on scheme assets (pensioners)	8.00% pa	6.90% pa
Expected salary increase rate	5.00% pa	5.25% pa
Expected pension increase rate	3.00% pa	3.00% pa

Historical information

Period ending	30 June 2009 $'000	30 June 2008 $'000
Present value of defined benefit obligation	131,993	112,346
Fair value of scheme assets	85,139	98,175
(Surplus)/deficit in scheme	46,854	14,171
Experience adjustments (gain)/loss - scheme assets	22,263	6,044
Experience adjustments (gain)/loss - scheme liabilities	(4,078)	2,649

Expected Contributions

Period ending	30 June 2009 $'000	30 June 2008 $'000
Expected employer contributions	9,563	4,911

Inherent uncertainties in determination of the defined benefit obligation

The present value of the defined benefit pension obligation depends on a number of assumptions covering future salary increases, expected returns on assets, inflation rates, discount rates, mortality and the proportion of members who take benefits as lump sums. Any changes in these assumptions will impact the present value of the defined benefit pension obligations.

BBP determines the appropriate discount rate at the end of each year following advice from an independent firm of actuaries. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit pension obligations. In determining the appropriate discount rate, BBPL considers the interest rates of government bonds that are denominated in Australian dollars (the currency in which the benefits will be paid), and that have terms to maturity approximating the terms of the defined pension liability.

BBP engages a reputable actuarial firm to prepare six monthly updates to its defined benefit plan obligations. A full valuation is performed once every three years. The most recent valuation was performed as at 30 June 2008.

16. Borrowings

	Consolidated		Company	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
Current				
Secured				
Bank loans				
BBPL Syndicated Facility Agreement (i)	-	94,947	-	94,947
BBPH Syndicated Facility Agreement (ii)	-	352,593	-	-
Redbank Credit Facility Agreement (iii)	13,960	13,849	-	-
BBPF Syndicated Facility Agreement (iv)	2,541,477	-	-	-
Other loans	-	3,387	-	6,722
Total secured current borrowings	2,555,437	464,776	-	101,669
Unsecured				
Babcock & Brown Group Facility – related party (v)	397,610	127,500	397,610	127,100
Other related party loans (viii)	3,223	-	-	-
Total unsecured current borrowings (note 31 (d))	400,833	127,500	397,610	127,100
Total current borrowings	**2,956,270**	**592,276**	**397,610**	**229,169**

	Consolidated		Company	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
Non-current				
Secured				
At amortised cost				
Bank loans				
BBPF Syndicated Facility Agreement (iv)	-	2,365,591	-	-
Redbank Credit Facility Agreement (iii)	231,758	242,021	-	-
Kwinana Construction Facility (vi)	-	336,400	-	-
Neerabup Construction Facility (vii)	-	112,965	-	-
Other loans	-	11,308	-	-
Total secured non-current borrowings	231,758	3,068,285	-	-
Unsecured				
At amortised cost				
- Related parties (viii) (ix)	39,744	200,277	1,032,990	1,212,193
Total unsecured non-current borrowings (note 31 (d))	39,744	200,277	1,032,990	1,212,193
Total non-current borrowings	**271,502**	**3,268,562**	**1,032,990**	**1,212,193**

Information on credit risk, fair value and interest rate risk exposure of the group is provided at note 32.

(i) Corporate facility – BBP Limited Bridge Loan. This facility was repaid in September 2008.

(ii) Corporate facility – BBP Holdings Facility. This facility was repaid in March 2009.

(iii) Bank loan – Redbank Credit Facility Agreement. This facility consists of two tranches. Tranche 1, expiring in 2018 has $52.9 million outstanding as at 30 June 2009 (30 June 2008: $56.9 million). Tranche 2 expiring in 2023 had outstanding $189.1 million outstanding as at 30 June 2009 (30 June 2008: $194.4 million). In addition there is a working capital facility that is drawn to $3.7 million. The effective average interest rate was 8.04% as at 30 June 2009 (both tranches as at 30 June 2008 were 8.04%).

16. Borrowings (continued)

(iv) Corporate facility – BBPF Syndicated Facility Agreement. This facility currently consists of four tranches:

- Tranche A: $1,600 million
- Tranche B: $960 million
- Working Capital: $60 million revolving working capital facility
- Letter of Credit: $80 million revolving letter of credit facility

The amount outstanding as at 30 June 2009 was $2,531.5 million for Tranche A & B (30 June 2008: $2,424.9 million), $10 million for Working Capital (30 June 2008: $2 million). Letters of Credit amounting to $37.9 million were outstanding at 30 June 2009 (30 June 2008: $54.7 million). The effective interest rate on the debt as at 30 June 2009 was 8.54% (30 June 2008: 8.25%).

BBP has made substantial progress in commercial negotiations in relation to the restructuring of this facility. The 11 members of the BBPF Syndicate are in the process of seeking internal approval to implement the restructure. BBP expects to have entered legal agreements to implement the transaction by the end of October 2009.,The BBPF Syndicate members have the current right to accelerate repayment of the facility. The acceleration of the BBPF loan may precipitate the acceleration of the B&B and BBPT debts.

(v) Unsecured Related Party Loan (current) – BBP Facility. These facilities from B&B are currently due to mature on 31 March 2010. The principal outstanding as at 30 June 2009 was $397.6 million. The effective interest rate as at 30 June 2009 was 11.8%. BBP has made substantial progress in commercial negotiations in relation to the restructuring of the facility. B&B is seeking approval of its banking group to enter into transaction documents to implement the restructure. It is expected the restructure of the B&B loans will require a vote by security holders. B&B has a current right to accelerate the loans with the obligation otherwise due to mature in March 2010. Were B&B to call for the acceleration of its loans this would allow BBPT to call its loans and may precipitate the acceleration of the BBPF Syndicate debt.

(vi) Construction facility - Kwinana construction facility converted to a term facility upon project completion and was divested as part of the sale of the Kwinana power station in March 2009.

(vii) Construction and Equity Bridge facilities - Neerabup construction facility continued to be drawn down to finance construction activity until BBP divested its 50% equity ownership interest in February 2009.

(viii) Unsecured Related Party Loans – Loan payable to Oakey Power Holdings (Associate) and loan payable to Babcock & Brown Infrastructure (BBI). The loan from BBI is to be repaid by 2017, it has an effective interest rate of 11.3%.

(ix) Unsecured Related Party Loans: The borrowings amount in the Company column represents the present value the loan owing to BBPT.

17. Assets pledged as security

Bank loans of project-level subsidiaries are secured by a combination of fixed and floating charges over the assets of those entities. Corporate level debt is secured by the shares in the underlying subsidiary companies.

	Consolidated		Parent Entity	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current				
Cash and cash equivalents	105,540	429,928	-	-
Receivables	152,183	340,612	-	-
Total Current assets pledged as security	**257,723**	**770,540**	**-**	**-**
Non-current				
Investments in subsidiaries	-	-	-	618,290
Receivables	137,821	126,321	-	-
Property, plant and equipment	2,118,916	2,319,694	-	-
Total non-current assets pledged as security	**2,256,737**	**2,446,015**	**-**	**618,290**
Total assets pledged as security	**2,514,460**	**3,216,555**	**-**	**618,290**

18. Derivative financial instruments – liabilities

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Current				
Derivative financial instruments at fair value				
Interest rate derivatives	125,879	-	-	-
Foreign exchange derivatives	1,675	12,612	-	-
Other	333	-	333	-
Total current derivative financial instruments – liabilities	127,887	12,612	333	-
Non-current				
Derivative financial instruments at fair value				
Foreign exchange derivatives	-	133	-	-
Electricity derivatives	8,950	10,509	-	-
Other	-	-	-	1,000
Total non-current derivative financial instruments – liabilities	8,950	10,642	-	1,000
Total derivative financial instruments – liabilities	136,837	23,254	333	1,000

Refer note 32 for further information on derivative sensitivities.

19. Borrowing costs

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Borrowing costs capitalised during the financial year	23,907	9,044	-	-
Weighted average capitalisation rate on funds borrowed generally	8.48%	8.26%	-	-

20. Contributed equity

		Stapled Security in BBP			Units in BBPT			Parent - Shares in BBPL		
		Number ‘000	**Issue Price per Security ($)**	**$'000**	**Number ‘000**	**Issue Price ($) per Security**	**$'000**	**Number ‘000**	**Issue Price per Security ($)**	**$'000**
Balance as at 30 June 2007		**359,290**		**869,900**	**359,290**		**551,924**	**359,290**		**317,976**
Distribution				(142,512)			(142,512)			-
Securities issued on acquisition of Alinta	Various dates	334,887	2.90 [1]	971,173	334,887	1.97	658,067	334,887	0.93	313,106
Share purchase plan	05-Dec-07	15,145	2.88	43,592	15,145	1.95	29,538	15,145	0.93	14,054
Share issue under distribution reinvestment plan	31-Mar-08	17,007	1.76	30,030	17,007	1.11	18,886	17,007	0.65	11,144
		726,329		1,772,183	726,329		1,115,903	726,329		656,280
Less equity issuance costs				(252)			(190)			(62)
Balance 30 June 2008		**726,329**		**1,771,931**	**726,329**		**1,115,713**	**726,329**		**656,218**
30 June 2009 Movements		-		-	-		-	-		-
Balance 30 June 2009		**726,329**		**1,771,931**	**726,329**		**1,115,713**	**726,329**		**656,218**

Stapled securities attributable to Company - BBPL	**656,218**
Stapled securities attributable to Trust – BBPT	**1,115,713**
Total securities in consolidated group as at 30 June 2009	**1,771,931**

1. Represents market price of securities at the date of acquisition.

21. Reserves

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Hedge reserve	(122,954)	70,605	-	-
Foreign currency translation reserve	(715)	(2,800)	-	-
Other reserves	82	82	-	-
Total Reserves	(123,587)	67,887	-	-
Attributable to:				
Equity holders of the Company - BBPL	(123,587)	67,887	-	-
	(123,587)	67,887	-	-
Hedge reserve				
Balance at beginning of financial year	70,605	24,424	-	-
Gain/(loss) recognised	26,005	3,094	-	-
Cash flow hedges - movement in fair value of derivatives	(293,078)	61,553	-	-
Deferred tax arising on hedges	73,514	(18,466)	-	-
Balance at end of financial year	(122,954)	70,605	-	-
Foreign currency translation reserve				
Balance at beginning of financial year	(2,800)	-	-	-
Translation of foreign operations	2,085	(2,800)	-	-
Balance at end of financial year	(715)	(2,800)	-	-

Cessation of hedge accounting in relation to interest rate swaps

As at 30 June 2009 BBP was in negotiations with the BBPF banking syndicate members, and did not have a unilateral right to defer settlement of the BBPF Syndicated Debt facility for a 12 month period beyond 30 June 2010. As a consequence the debt was classified as a current liability. As part of these considerations, uncertainty arose as to whether the ongoing relationship between the debt (the hedged item) and interest rate swaps associated with the debt (the hedging instrument), would hold throughout their originally designated maturities.

Maintaining an effective accounting hedge relationship requires the transactions underpinning the arrangement to be highly probable. This is generally considered to require a degree of confidence in excess of 90%. While BBP remain confident that the tenor of the hedged item would be extended periodically to re-match the maturities of the hedging instruments, there existed at balance date a risk that the re-negotiated loan tenor and interest rate would be such that the originally designated accounting hedge relationship would be broken and there would be a mismatch in term and duration of the debt and the hedging instrument. As a consequence BBP ceased hedge accounting as at the balance date.

The impact of this decision has prospective implications for BBP. Going forward changes in the fair value of the underlying interest rate swaps will be recognised directly to the profit and loss account. The balance held in reserves as at 30 June 2009 relating to the interest rate swaps of $105 million will be amortised out of reserves and into the profit and loss account over the remaining life of the interest rate swaps. The interest rate swaps have a remaining life of between 5 to 12 years which is likely to exceed the term of the restructured facility currently being negotiated.

22. Retained earnings

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Balance at beginning of financial year	(498,772)	(74,843)	479,172	51,334
Prior period adjustments	(4,077)	-	-	-
Net (loss) / profit attributable to stapled security holders	(167,681)	(425,977)	(1,733,079)	427,838
Movement in Retirement Benefit Obligation (note 15)	(24,345)	2,048	-	-
Balance at end of financial year	(694,875)	(498,772)	(1,253,907)	479,172
Attributable to:				
Equity holders of the Company – BBPL	(698,921)	(503,572)	(1,253,907)	479,172
Equity holders of the Trust - BBPT	4,046	4,800	-	-
	(694,875)	(498,772)	(1,253,907)	479,172

23. Earnings per security

	Consolidated 2009 Cents per security	Consolidated 2008 Cents per security
Basic earnings per stapled security / parent entity share	(23.09)	(65.08)
Diluted earnings per stapled security / parent entity share	(23.09)	(65.08)

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

	2009	2008
Losses attributable to the parent entity share holders ($)	(167,680,940)	(425,977,294)
Weighted average number of securities/shares for the purposes of basic and diluted earnings per security/share	726,328,872	654,536,944

24. Distributions

	2009		2008	
	Cents per Security	Total $'000	Cents per Security	Total $'000
Recognised Amounts				
Fully paid Securities				
FY08 Final distribution				
- Paid from contributed equity (September 2008)	-	-	14	50,301
FY09 Interim distribution				
- Paid from contributed equity (March 2009)	-	-	13	92,212
		-	27	**142,513**

The Board of Directors of BBP have decided not to make distributions to unit holders as part of an overall plan to strengthen the Groups balance sheet. No distributions were paid in the year to 30 June 2009.

The parent entity, BBPL has a franking account credit balance of $9.1 million as at 30 June 2009 (30 June 2008: $3.5 million credit balance).

25. Notes to the cash flow statements

(a) Reconciliation of cash and cash equivalents

	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
Cash and cash equivalents including:				
Restricted cash (i)				
Current	33,084	125,289	-	-
Non-current	54,499	139,357	-	-
Unrestricted cash				
Cash at bank	149,419	165,282	13,124	13,939
Deposits	2,813	-	-	-
	239,815	429,928	13,124	13,939

(i) Cash held on restricted deposit is interest bearing and its use is mainly restricted as a requirement of the consolidated entities' financing agreements. Amounts may be released for defined purposes if specified requirements are met to facilitate establishing reserve accounts for debt repayments, meeting the cost of future interest payments and capital expenditure or as a deposit supporting a letter of credit or guarantee issued on behalf of the consolidated entity.

25. Notes to the cash flow statements (continued)

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

	Consolidated		Company	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
(Loss)/profit for the period	(168,933)	(426,515)	(1,733,079)	427,838
Share of associates' profit (less dividends)	559	(5,915)	-	(816)
Interest expense	-	-	-	-
Impairment loss	56,700	452,000	791,000	-
Depreciation and amortisation of non current assets	176,613	152,855	-	-
Decrement / (Increment) on revaluation of financial derivatives	31,382	9,325	-	-
Interest income – present value of interest free loans	-	-	724,161	(381,065)
Debt forgiveness	-	-	124,715	-
Decrement on revaluation of PPHA derivative	37,523	(82,789)	(667)	-
Profit on sale of non current assets	(94,117)	-	-	-
Fair value change on incentive fee	-	(23,400)		(23,400)
Amortisation of deferred borrowing costs	69,717	33,675	3,061	3,467
Foreign exchange gain/(loss)	418	4,727	-	-
(Increase)/ decrease in deferred tax assets	(54,049)	-	99,464	(138,885)
Increase/(decrease) in deferred tax liabilities	(21,219)	(15,864)	(69,124)	61,850
Increase/(decrease) in current tax liability	(12,852)	8,411	-	8,588
Changes in net assets and liabilities, net of effects from acquisition	-	80,035	-	-
(Increase)/decrease in assets	187,244	314,916	32,219	1,826
Increase/ (decrease) in liabilities	(201,313)	(329,913)	9,708	18,775
Net cash from operating activities	**7,673**	**171,548**	**(18,542)**	**(21,822)**

(c) Financing facilities

	Consolidated		Company	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
Working capital facility payable at call:				
Amount used	10,000	2,000	-	-
Amount unused	50,000	58,000	-	-
	60,000	60,000	-	-
Facilities with maturities between current to 20 years:				
Amount used	3,225,759	4,461,599	-	-
Amount unused	95,422	518,362	-	-
	3,321,181	4,979,961	-	-

(d) Non-cash financing activities

2009

No non cash financing activities took place in 2009.

2008

An amount of $971 million in BBP securities were issued to Alinta shareholders for the acquisition of certain Alinta businesses on 31 August 2007.

26. Commitments for expenditure

(a) Capital expenditure commitments

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Not longer than 1 year	68,454	547,595	-	-
Longer than 1 year and not longer than 5 years	34,815	93,336	-	-
Longer than 5 years	-	-	-	-
	103,269	637,931	-	-

Capital expenditure commitments are required for power plant maintenance and expansion.

(b) Lease commitments

BBP has non-cancellable operating lease commitments (note 27). At 30 June 2009 BBP did not have any commitments under finance leases.

(c) Other expenditure commitments

	Consolidated		Company	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Not longer than 1 year	72,142	65,087	-	-
Longer than 1 year and not longer than 5 years	284,694	151,804	-	-
Longer than 5 years	305,580	38,902	-	-
	662,416	255,793	-	-

Other expenditure commitments relate to significant commitments as a result of existing contracts such as purchase of gas, purchase of SRA's energy contracts, rail freight of coal and IT Infrastructure.

27. Leases

Operating leases as a lessee:

Certain BBP subsidiaries are lessees under operating leases relating to certain land, motor vehicles and roads.

	Consolidated		Company	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Non-cancellable operating lease payments				
Not longer than 1 year	2,261	2,214	-	-
Longer than 1 year and not longer than 5 years	3,752	5,637	-	-
Longer than 5 years	253	4,026	-	-
	6,266	11,877	-	-

Operating leases as a lessor:

At certain power stations the contracts for sale of electricity to another party have been assessed as meeting the definition of an operating lease.

Total contingent rents recognised as income in the period was $60.3 million (2008: $66.3 million).

Future minimum lease receipts under non-cancellable operating leases in the aggregate and for each of the following periods:

	Consolidated		Company	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
Non-cancellable operating lease				
Not longer than 1 year	29,284	21,712	-	-
Longer than 1 year and not longer than 5 years	146,593	186,179	-	-
Longer than 5 years	183,391	348,492	-	-
	359,268	556,383	-	-

Finance leases as a lessor:

At certain power stations the benefits and risks associated with ownership have been assessed as being passed to the lessee hence meeting the definition of finance leases.

	2009			2008		
	Total Future Payments	Unearned Interest Income	Present Value	Total Future Payments	Unearned Interest Income	Present Value
Finance lease receivable						
Not longer than 1 year	11,739	6,494	5,245	14,520	6,831	7,690
Longer than 1 year and not longer than 5 years	63,009	22,238	40,771	58,769	20,742	38,026
Longer than 5 years	34,366	3,029	31,337	46,615	6,311	40,304
	109,114	31,761	77,353	119,904	33,884	86,020

There are no finance leases recognised by the parent entity.

28. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with accounting policy described in note 1. Ownership interest is equal to the proportion of voting power held. All ownership interest is through ordinary shares.

Name of the entity	Country of incorporation	Ownership interest 2009 %	Ownership interest 2008 %
Parent entity			
Babcock & Brown Power Limited *	Australia		
Stapled entity			
Babcock & Brown Power Trust	Australia		
Subsidiaries of BBP			
BBP Holdings Pty Limited *	Australia	100	100
CMO Energy NZ Ltd	New Zealand	100	100
Babcock & Brown Power Advisory Pty Limited *	Australia	100	100
Newgen Partnership **	Australia	0	70
Babcock & Brown Kwinana Pty Limited **	Australia	0	100
BBP Kwinana Power Pty Limited **	Australia	0	100
BBP Braemar Power Pty Limited	Australia	100	100
Babcock & Brown Braemar 2 Pty Limited	Australia	100	100
Braemar Power Partners Pty Limited	Australia	100	100
Babcock & Brown Braemar 1 Pty Limited	Australia	100	100
Babcock & Brown Braemar 3 Pty Limited	Australia	100	100
Braemar Power Project Pty Limited	Australia	100	100
Braemar Power Finance Pty Limited	Australia	100	100
BBP Oakey Power Pty Limited*	Australia	100	100
Babcock & Brown Flinders Pty Limited	Australia	100	100
Flinders Operating Services Pty Limited	Australia	100	100
Flinders Power Finance Pty Limited	Australia	100	100
Flinders Power Partnership	Australia	100	100
Flinders Coal Pty Limited	Australia	100	100
Flinders Osborne Trading Pty Limited	Australia	100	100
Babcock & Brown Osborne Pty Limited	Australia	100	100
B&B Power Malta Holdings Ltd	Malta	100	100
B&B Power Malta (Flinders) Ltd	Malta	100	100
B&B Power Luxemburg SARL	Luxemburg	100	100
Flinders Power Holdings GmbH	Switzerland	100	100
Flinders Labuan (No.1) Ltd	Australia	100	100
Flinders Labuan (No.2) Ltd	Australia	100	100
NPP Redbank LLC*	USA	100	100
NPP Redbank 2 LLC*	USA	100	100
BBP Redbank Power Pty Limited	Australia	100	100
Redbank Project Pty Limited	Australia	100	100
Redbank Construction Pty Limited	Australia	100	100
BBP Ecogen Power Pty Limited*	Australia	100	100
Ecogen Holdings Pty Limited **	Australia	0	72.61
Ecogen Energy Pty Limited **	Australia	0	72.61
EcoHoldings Pty Limited **	Australia	0	72.61
Ecogen Investments Pty Limited **	Australia	0	72.61
Ecogen Power Pty Limited **	Australia	0	72.61
Ecogen Investments UK (UK tax resident) **	UK	0	72.61
Madison BV (Dutch tax resident) **	Netherlands	0	72.61
BB Power Cat Pty Ltd	Australia	100	100
BBP Uranquinty Pty Limited *	Australia	100	100
BBP ONE Pty Limited *	Australia	100	100
BBP Energy Trading Pty Ltd *	Australia	100	100
BBP Neerabup Holdings Pty Limited *	Australia	100	100
BBP Neerabup Power Pty Limited **	Australia	0	100
BBP Servco Pty Limited *	Australia	100	100
Our Neighbourhood Energy Pty Limited	Australia	65	65
BBP Uranquinty Power Pty Limited **	Australia	0	100
BBP Finance Australia Pty Limited *	Australia	100	100

28. Subsidiaries (continued)

Name of the entity	Country of incorporation	Ownership interest 2009 %	Ownership interest 2008 %
BBP Energy Markets Pty Limited *	Australia	100	100
BB Power Cat Sub 1 Pty Limited	Australia	100	100
BB Power Cat Sub 2 Pty Limited	Australia	100	100
BB Power Cat Sub 3 Pty Limited	Australia	100	100
BB Power Cat Sub 4 Pty Limited	Australia	100	100
BB Power Cat Sub 5 Pty Limited *	Australia	100	100
Alinta Energy Pty Ltd	Australia	100	100
Alinta Energy Power Generation Pty Limited *	Australia	100	100
Alinta Energy (Tamar Valley) Pty Limited **	Australia	0	100
Alinta EATM Pty Limited *	Australia	100	100
Alinta Energy (New Zealand) Ltd	New Zealand	100	100
Alinta Pty Limited	Australia	100	100
Alinta Sales Pty Limited	Australia	100	100
Alinta Cogeneration (Pinjarra) Pty Limited	Australia	100	100
Alinta Cogeneration (Wagerup) Pty Limited	Australia	100	100
Alinta Cogeneration Finance Pty Limited	Australia	100	100
Alinta APG Pty Limited	Australia	100	100
Alinta APGMW Pty Limited	Australia	100	100
Alinta ACP Pty Limited	Australia	100	100
Alinta ENZ Ltd	Bermuda Islands	100	100
Alinta ENZF Pty Limited	New Zealand	100	100
Alinta DVP Pty Limited	Australia	100	100
Alinta DEBH Pty Limited	Australia	100	100
Alinta DEBP Pty Limited	Australia	100	100
Alinta DEBO Pty Limited	Australia	100	100
BB Power Unit Trust No 1	Australia	100	100
Alinta ED Limited	Australia	100	100
Alinta Power Trust	Australia	100	100
Alinta DAPH Pty Limited	Australia	100	100
Alinta DAPF Pty Limited	Australia	100	100
Alinta DEWAH Pty Limited	Australia	100	100
Alinta DEWAP Pty Limited	Australia	100	100
Alinta DIC Pty Limited	Australia	100	100
Alinta Power Sub Pty Limited	Australia	100	100
Alinta Energy (LPG) Pty Limited	Australia	100	100
Alinta Electricity Trading Pty Limited	Australia	100	100

* These companies are members of the Babcock & Brown Power Limited tax consolidated group at 30 June 2009.

** These companies were sold during the year to 30 June 2009

29. Segment information

(a) Description of segments

Segment information is presented in respect of the Group's business and geographical segments.

Business segments

The Group comprises the following business segments:

- Generation:

  This segment includes the gas and coal fired power generation assets of the Group.

- Energy Markets:

  This segment includes the sale of natural gas and electricity to retail, industrial and commercial customers. The retail operations, comprising Alinta and Our Neighbourhood Energy (ONE) were acquired during the year ended 30 June 2008. Also included is merchant gas sales and transmission. The Alinta operations were acquired on 1 September 2007, and ONE was acquired on 3 July 2007 as a start up operation.

Geographical Segment

The Group operates in three principal geographical areas, the South/North West Interconnected System, National Electricity Market and New Zealand.

The table below allocates each of the Group's operations into the business and geographical segments.

Segment	South/North West Interconnected System	National Electricity Market	New Zealand
Power Generation	WA Power	Flinders	Glenbrook
	Cawse	Braemar	
	Kwinana *	Ecogen *	
	Neerabup *	Redbank	
	Power Projects	Tamar *	
		Oakey	
		Bairnsdale	
		Uranquinty *	
		Redbank	
Energy Markets	Alinta	AEATM **	
	LPG	ONE	

* Sold during the year to 30 June 2009
** Contracts sold during the year to 30 June 2009

29. Segment information (continued)

(b) Primary reporting format – business segments

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. The following information relates to the table below:

(i) Unallocated segment revenues represent parent entity fee revenue and consolidation eliminations. Unallocated segment EBITDA includes Parent entity overhead fees and costs, management fees and corporate expenses. Unallocated segment profit before tax includes Parent Entity interest charges.

(ii) Generation Revenue includes:

- Contract Revenue from electricity generation under an electricity supply agreement (PPA) including associated products such as GECs in the case of Braemar.
- Rolling hedge revenue from electricity generation covered by hedge contracts, generally with a term of less than five years, although a small portion of Flinders' Rolling Hedges have terms greater than five years.
- Movement in derivative financial contract valuations that occur as a result of reassessments throughout the period of the value of hedge contracts as a result of changes in pool prices. The charge to revenue is applicable to contracts realised during the period as well as future dated contracts.
- Unhedged revenue including pool revenue payments from NEMMCO where there is no hedge in place that covers the electricity sold to earn that pool revenue.
- PPA lease revenue
- Fly ash sales from generation assets

(iii) Energy Markets revenue includes:

- Retail, commercial and industrial gas and electricity sales
- Wholesale gas and electricity sales
- LPG sales

(iv) Total Assets for Unallocated and Eliminations include Osborne guarantee, ERM investment, Oakey Investment and other parent entity assets.

29. Segment information (continued)

(b) Primary reporting format – business segments (continued)

(i) Year ended 30 June 2009

Results	Generation Revenue $'000	Energy Markets $'000	Inter segment Revenue $'000	Intra Segment Revenue $'000	Corporate & Unallocated $'000	Total Revenue $'000	EBITDA $'000	Profit Before Tax $'000
Generation	590,409	74,383	13,317	3,402	-	681,511	315,013	216,877
Energy Markets	27,864	803,134	5,215	23,940	-	860,153	60,136	(60,559)
Corporate	-	-	7,318	-	(14,805)	(7,487)	(44,686)	(394,612)
Unallocated & Eliminations	-	-		-	-	-	(4,677)	(4,677)
Associates	-	-	-	-	-	-	(559)	(559)
Total	618,273	877,517	25,850	27,342	(14,805)	1,534,177	325,277	(243,530)

Other	Depreciation & Amortisation $'000	CAPEX (Maintenance) $'000	CAPEX (Construction) $'000	Share of Associate Profit $'000	Assets $'000	Liabilities $'000	Investment Accounting in Associates $'000
Generation	(104,461)	(15,973)	(201,678)	-	2,889,906	(1,734,355)	-
Energy Markets	(50,667)	(12,958)	(5,751)	-	1,735,810	(1,819,450)	-
Corporate	(21,485)	(34)	-	-	671,812	(792,593)	-
Unallocated & Eliminations	-	-	-	-	-	-	-
Associates	-	-	-	(559)	-	-	46,550
Total	(176,613)	(28,965)	(207,429)	(559)	5,297,231	(4,346,398)	46,550

29. Segment information (continued)

(b) Primary reporting format – business segments (continued)

(ii) Year ended 30 June 2008

Results	Generation Revenue $'000	Energy Markets $'000	Inter segment Revenue $'000	Intra Segment Revenue $'000	Corporate & Unallocated $'000	Total Revenue $'000	EBITDA $'000	Profit Before Tax $'000
Generation	819,778	38,612	9,838	1,552	123	869,903	241,412	106,745
Energy Markets	12,166	657,727	7,953	19,687	9,679	707,212	125,282	3,990
Corporate	-	-	-	-	3,275	3,275	(28,476)	(727,003)
Unallocated & Eliminations	-	-	-	-	(52,970)	(52,970)	(12,204)	228,829
Power Projects	-	-	-	-	-	-	(920)	275
Associates	-	-	-	-	-	-	5,915	3,134
Total	831,944	696,339	17,791	21,239	(39,893)	1,527,420	331,009	(384,030)

Other	Depreciation & Amortisation $'000	CAPEX (Maintenance) $'000	CAPEX (Construction) $'000	Share of Associate Profit $'000	Assets $'000	Liabilities $'000	Investment Accounting in Associates $'000
Generation	(112,949)	(160,533)	(292,393)	-	4,106,745	(3,113,289)	-
Energy Markets	(37,813)	-	(84,502)	-	1,705,893	(1,728,631)	-
Corporate	(88)	(409)	-	-	11,840,125	(10,754,596)	-
Unallocated & Eliminations	-	-	-	816	(10,556,833)	9,846,777	-
Power Projects	-	-	-	-	-	-	-
Associates	(2,005)	-	-	5,099	53,974	(4,912)	49,025
Total	(152,855)	(160,942)	(376,895)	5,915	7,149,904	(5,754,651)	49,025

29. Segment information (continued)

(c) Secondary reporting format – geographical segments

(i) Year ended 30 June 2009

	SWIS/NWIS $'000	NEM $'000	New Zealand $'000	Subtotal $'000	Unallocated and Eliminations $'000	Consolidated $'000
Segment revenue	836,317	682,271	23,019	1,541,607	(7,430)	1,534,177
Segment assets	2,654,793	2,372,075	64,446	5,091,314	205,917	5,297,231
Capital Expenditure	(176,917)	(59,023)	(420)	(236,360)	-	(236,360)

(ii) Year ended 30 June 2008

	SWIS/NWIS $'000	NEM $'000	New Zealand $'000	Subtotal $'000	Unallocated and Eliminations $'000	Consolidated $'000
Segment revenue	676,114	827,751	24,418	1,528,283	(862)	1,527,421
Segment assets	2,762,422	3,032,793	70,795	5,866,010	1,283,894	7,149,904
Capital Expenditure	(212,908)	(322,543)	(1,976)	(537,427)	(410)	(537,837)

30. Changes in the composition of the consolidated Group

(a) Disposal of business

The results of the disposed operations within the year to 30 June 2009 are presented below.

	Uranquinty $'000	Ecogen $'000	Tamar $'000	ERM $'000	Kwinana $'000	Neerabup $'000	Total $'000
Revenue	-	20,472	-	-	7,322	-	27,794
Expenses	-	(19,508)	(1,796)	-	(8,683)	-	(29,987)
Profit/(loss) before income tax		964	(1,796)	-	(1,361)	-	(2,193)
Income tax (expense)/income	-	1,422	(11,141)	-	292	-	(9,427)
Profit/(loss) after income tax of disposed operations	**-**	**2,386**	**(12,937)**	**-**	**(1,069)**	**-**	**(11,620)**

30. Changes in the composition of the consolidated Group (continued)

The following is a summary of the details of operations disposed of during the year to 30 June 2009.

	Uranquinty $'000	Ecogen $'000	Tamar $'000	ERM $'000	Kwinana $'000	Neerabup $'000	Total $'000
Net consideration received or receivable	168,121	79,000	100,000	21,197	58,150	1,672	**428,140**
Selling cost	(3,301)	(30)	(2,365)	-	(613)	(960)	**(7,269)**
Net disposal consideration	164,820	78,970	97,635	21,197	57,537	712	**420,871**
Carry amount of net assets sold	64,047	78,224	98,547	21,703	60,089	4,144	**326,754**
Gain/(Loss) on disposal before tax	**100,773**	**746**	**(912)**	**(506)**	**(2,552)**	**(3,432)**	**94,117**

There were no disposals for the year to 30 June 2008.

Disposed Operations

Uranquinty

On 4 July 2008 BBP sold its 100% interest in NewGen Power Uranquinty Pty Ltd ("Uranquinty") for a net consideration of $168 million to Origin. Uranquinty is a 640MW power station near Wagga Wagga in South Western NSW. Uranquinty was under construction at the date of sale. The net proceeds were used to repay part of the outstanding Babcock & Brown Power Holdings' (BBPH) corporate debt facility. In addition, the Uranquinty construction debt facility of $510 million (of which $404 million was drawn at date of sale) was assumed by Origin.

Ecogen

On 17 July 2008 BBP sold its 72.61% equity stake in Ecogen Holdings Pty Ltd ("Ecogen") for a net consideration of $79 million to Industry Funds Management (IFM). Ecogen is a 959MW Ecogen power generation business in Victoria. The net proceeds were used to repay part of the BBPH corporate debt facility. In addition, the Ecogen debt facility of $130 million was assumed by IFM.

Tamar

On 18 August 2008 BBP sold its 100% interest in Alinta Energy Tamar Valley Pty Ltd ("Tamar") for $100 million net consideration to Aurora Energy. At the date of sale Tamar was under construction. The net proceeds from sale were used to repay part of the BBPL corporate debt facility. In addition, the sale resulted in the release of onerous contracts within Alinta EATM valued at $81 million.

ERM

On 18 December 2008 BBP sold its 40% stake in ERM Power Investments Pty Ltd ("ERMPI"). ERMPI was a 50% stakeholder in the NewGen Kwinana Partnership of which BBP Kwinana Power (a subsidiary owned 100% by the BBP Group) owned the remaining 50%. The 40% stake was sold for $21 million consideration. The proceeds of the sale were used to repay part of the outstanding BBPH corporate debt facility.

Kwinana

On 19 March 2009 BBP sold its remaining interest in the NewGen Kwinana Partnership (Kwinana) via a 100% sale of its interest in BBP Kwinana Power Pty Ltd for a consideration of $58 million which was used to repay the BBPH corporate debt facility. Construction of the 320MW CCGT power station was completed in November 2008.

Neerabup

On 24 February 2009 BBP sold its 100% interest in BBP Neerabup Power Pty Ltd and its 50% stake in NewGen Power Neerabup Pty Ltd (Neerabup) for consideration of $45 million to ANZ Specialist Asset Management Limited. The sale resulted in the release of a $43.4 million letter of credit provided to BBP by BB Securities Pty Ltd resulting in net consideration of $1.7 million.

30. Changes in the composition of the consolidated Group (continued)

(b) Acquisition of business

During the year ended 30 June 2009, BBP did not acquire any businesses.

During the year ended 30 June 2008, BBP acquired the following businesses.

Name of business acquired in 2008 year	Note	Date of acquisition	Ownership interest in shares/ units %	Cost of acquisition $'000
Alinta	1 (page 81)	August 2007	100	2,855,002
BBP Uranquinty Power Pty Limited		July 2007	70	28,460
Our Neighbourhood Energy		July 2007	65	6,195
BBP Neerabup Holdings Pty Limited		May 2008	100	-

30. Changes in the composition of the consolidated Group (continued)

(c) Finalisation of Alinta provisional accounting

On 31 August 2007, BBP as part of a consortium including Babcock and Brown Infrastructure and Singapore Power International, acquired 100% of the issued capital of Alinta Limited, a company listed on the Australian Stock Exchange. The Alinta assets were consequently allocated between the consortium members in accordance with the Alinta Scheme Booklet.

During the year, BBP finalised the purchase price accounting in accordance with AASB 3 *Business Combinations*. The net assets and liabilities arising from the Alinta acquisition (which includes the assumption of shareholder loans relating to Alinta AGL) and the fair value attributable to the asset and liabilities are detailed below.

The below table represents the finalised purchase price accounting inclusive of the remaining minority interest in Alinta AGL Limited acquired on 12 December 2007.

	Carrying value $'000	Fair value $'000
Cash and cash equivalents	57,275	57,275
Receivables	415,886	1,294,196
Inventories	3,432	3,432
Derivative financial instruments	8,899	32,395
Property, plant and equipment & leasehold right	1,035,839	1,053,926
Deferred tax asset	85,423	124,306
Intangible assets – non-goodwill	533,747	663,025
Goodwill	326,360	1,797,134
Payables	(262,483)	(349,561)
Provisions	(310,902)	(310,902)
Deferred tax liabilities	(191,052)	(208,752)
Derivative financial instruments	(587)	(587)
Interest bearing liabilities	(1,300,885)	(1,300,885)
Net assets	400,952	2,855,002
Net identifiable assets acquired		2,855,002
Consideration		
Cash paid and payable		1,854,635
Stapled securities issued (note 20)		971,173
Cost associated with the acquisition		29,194
Total consideration		2,855,002
The cash outflow on acquisition is as follows:		
Net cash acquired with subsidiary		57,275
Cash paid		(1,883,829)
Net cash		(1,826,554)

The amount recognised as an adjustment to the purchase price provisional values made during the year mostly relate to the finalisation of Property Plant and Equipment (note 11) and Intangibles (note 12) valuations as well as the finalisation of tax balances in relation to the acquisition.

31. Related parties disclosures

(a) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage ownership held in subsidiaries are disclosed in note 28 to the financial statements.

Equity interests in associates

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

(b) Directors and key management personnel disclosures

Detailed remuneration disclosures are provided in the remuneration report section of the directors report on pages 7 to 13 of this annual financial report.

Details of directors key management personnel

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

Mr Len Gill (Chairman) – from 1 July 2008	
Mr Ross Rolfe (Chief Executive Officer)	appointed 8 December 2008
Mr John Fletcher	
Mr Peter M Kinsey	
Mr John Bowyer	appointed 3 September 2008, resigned 8 December 2008
Mr Warren D. Murphy	resigned 3 September 2008
Mr Peter F. Hofbauer	resigned 3 September 2008
Mr M Garland (Alternate for Mr W D Murphy)	role ceased 3 September 2008
Mr G W Denton (Alternate for Mr P F Hofbauer)	role ceased 3 September 2008

Senior executives of the business considered to be key management personnel (KMP) of BBP during the year were:

Mr Ross Rolfe	Chief Executive Officer	appointed 29 August 2008
Mr Peter Brook	Chief Financial Officer	appointed 7 October 2008
Mr Brian Green	Chief Operating Officer	
Mr Andrew Kremor	General Manager, Energy Markets	
Mr Victor Browner	General Manager (Acting), Alinta	
Mr Andrew Bills	General Manager, Investments	
Mr Paul Simshauser	Chief Executive Officer	resigned 29 August 2008
Mr James Brown	Chief Financial Officer	resigned 29 August 2008

31. Related parties disclosures (continued)

Key management personnel remuneration

The aggregate remuneration of the KMP of BBP for the year ended 30 June 2009 and 2008 is set out below:

	Consolidated		Company	
	2009 $	**2008 $**	**2009 $**	**2008 $**
Short-term employee benefits	4,426,057	3,144,230	-	-
Post-employment benefits	126,282	66,261	-	-
Other long-term benefits	135,015	21,913	-	-
Termination benefits	406,615	-	-	-
Share-based payments	(360,455)	1,026,083	-	-
Total	4,733,514	4,258,487	-	-

31. Related parties disclosures (continued)

(b) Directors and key management personnel disclosures (continued)

The KMP information below covers both the Company and the Consolidated Group.

Options held in BBP

The KMP did not hold any Options in BBP over the years ending 30 June 2009 and 30 June 2008.

Bonus deferral rights held in BBP

KMP held the following Bonus Deferral Rights (BDR) in BBP shares over the periods ending 30 June 2008 and 30 June 2009. Further details of the BDR are disclosed in the Remuneration Report forming part of the Directors Report.

	Opening balance	Forfeited	Closing balance	Cash Settled Value forfeited ($)
Mr Brian Green	18,903	(18,903)	-	3,629
Mr Andrew Kremor	12,557	(12,557)	-	2,411
Mr Paul Simshauser	68,660	(68,660)	-	13,183
Mr James Brown	15,249	(15,249)	-	2,928

Security holdings in BBP

Outlined below are the security holdings of the KMP over the years ending 30 June 2008 and 30 June 2009 in BBP:

	Balance 30 June 2007 Number	Acquired during the year Number	Sold during the year Number	Balance 30 June 2008 Number	Acquired during the year Number	Sold during the year Number	Balance 30 June 2009 Number
Directors							
Mr John Fletcher	80,000	28,767	-	108,767	-	-	108,767
Mr Len Gill	40,000	38,000	-	78,000	4,229[1]	-	82,229
Mr Peter Hofbauer	1,238,383	636,581	-	1,874,964	-	1,874,964	-
Mr Peter Kinsey	16,000	-	-	16,000	-	-	16,000
Mr Warren Murphy	931,162	674,294	-	1,605,456	-	954,294	651,162
KMP							
Mr Ross Rolfe	-		-	-	-	-	-
Mr Peter Brook	-	-	-	-	-	-	-
Mr Brian Green	-	300	-	300	-	-	300
Mr Andrew Kremor	-	-	-	-	-	-	-
Mr Victor Browner	N/A	-	-	6,978	-	-	6,978
Mr Andrew Bills	N/A	-	-	-	-	-	-
Mr Paul Simshauser	80,000	94,523	-	174,523	-	174,523	-
Mr James Brown	25,000	-	-	25,000	-	-	25,000

1. Acquired as a consequence of the closure of a financial product in which Mr Gill's superannuation fund had invested. Refer to ASX announcement dated 22 January 2009.

Securities granted as remuneration

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. Directors are not eligible for securities as remuneration.

31. Related parties disclosures (continued)

(b) Key management personnel disclosures (continued)

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

No loans have been made by BBP and Babcock & Brown Limited to Key Management Personnel over the years ending 30 June 2009 and 30 June 2008.

Loans to key management personnel and their personally related entities from BBP

No loans have been made by BBP to Key Management Personnel over the years ending 30 June 2009 and 30 June 2008.

(c) Other related party transactions

Transactions involving the parent entity

During the financial year, various subsidiaries and associates received management services from BBPL. The total value of the services received was $89,123 (2008: $271,724).

Transactions involving other related parties

Receivables from related parties are disclosed in note 5. Payables to related parties are disclosed in note 13. Transactions were made on normal commercial terms and conditions and under normal market rates.

There were no consultancy payments made to for the year ended 30 June 2009 (30 June 2008: $26,730). Payments made for the year ending 30 June 2008 were to Independent Director, Len Gill for the provision of management consultancy services. The terms of the consultancy arrangement, was on normal market terms and conditions, with a term of 12 months expiring on 30 June 2008. Fees were charged per hour.

Custodian, Responsible Entity and Manager fees and costs

Unless otherwise disclosed, the related party fee information below covers both the Company and the Consolidated Group.

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 2009, fees paid or payable to the Custodian by the Group were $197,125 (30 June 2008: $93,133).

Responsible entity fees

Under the terms of the BBPT 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 to 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 2009, fees paid or payable to the Responsible Entity by the Group were $583,402 (30 June 2008: $559,350).

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. In August 2008, BBPM agreed to waive these fees.

In addition, BBPM is entitled to a Manager Expense Amount of $6.7 million in respect of expenses. In accordance with the Amending Agreement dated 24 December 2008 – Babcock & Brown Power Management Agreements, the sum of $3.7 million was paid for the year ended 30 June 2009, as full settlement on that fee.

During the year ended 30 June 2009, fees paid or payable to the Manager by the Group (including Manager Expense Amount) were $4.3 million (30 June 2008: $21.1 million).

31. Related parties disclosures (continued)

(c) Other related party transactions (continued)

Incentive fee

The Manager may be entitled at the end of each calendar year to receive an Incentive Fee of up to 20% of the amount of the excess (if any) of the Stapled Security Return over the Benchmark Return for that year. An Incentive Fee for a particular year will only be payable where the Stapled Security return is greater than the Benchmark return for that year.

The Incentive Fee arrangement payable by BBP to Babcock & Brown Limited under the Management Agreement would be classified as a financial liability under AASB 139. This requires BBP to make an assessment of the fair value of the arrangement as at 30 June 2009 in respect of the potential fee payable as at 31 December 2009.

The Incentive Fee is based on the relative performance of the BBP unit price to the S&P/ASX 200 Accumulation Index with any incremental out-performance attracting a fee of 20% of that out-performance as disclosed in the PDS and Alinta Scheme booklet.

After considering the various valuation options to determine a balance date liability as required by Accounting Standards, BBP have used a statistical approach to model the correlation of BBP security price performance leading up to 30 June 2009 to the S&P/ASX 200 Accumulation Index over the reporting period. Using this approach determined a fair value of $Nil (30 June 2008: $Nil) for the Incentive Fee for the full 2009 year.

No incentive fee payments were paid/payable during the year ended 30 June 2009 (30 June 2008: $Nil). This approach adopted assumes that the same correlation of performance will be maintained to December 2009.

Financial and advisory fees

The Manager is entitled to a fee in relation to services provided in the successful arranging and delivery of financing, for the advisory and financial work performed in the acquisition or disposal of assets.

These fees are generally either capitalised and amortised over the life of the financing arranged, capitalised as part of the acquired assets cost base or is part of the determination in the profit or loss on the sale of an asset. Fees charged for advice in relation to the sale of assets in the current year totalled $3.8 million,

No fees were paid to the Manager in respect of finance advisory for the year to 30 June 2009.

During the financial year ending 30 June 2009, the Manager charged a $1.5 million fee for providing guarantees in relation to the Flinders Osborne contracts and site restoration costs. Fees outstanding at 30 June 2009 to the Manager in relation to the prior year include:

- a fee of $2.6 million for Braemar and $5.7 million Uranquinty for advice in relation to the buy out of the minority interests in the Braemar and Uranquinty Power project. These fees were capitalised into the cost base of the assets;
- a development and financial advisory fee of $8.6 million for the financial close of the Neerabup Power Project; and
- a development and financial advisory fee of $2.9 million for the financial close of the Newman expansion project.
    - other financing fees charged by the Manager totalled $3.4 million.

A settlement arrangement in respect of these outstanding balances is being negotiated with the Manager.

31. Related parties disclosures (continued)

(d) Balances outstanding arising from Related Party transactions

		Note	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
Trade and Other Receivables						
Current						
Accrued Income Related Parties	- Other		-	175	-	175
		5	**-**	**175**	**-**	**175**
Loans to Related Parties	- Subsidiaries		**-**	**-**	22,503[1]	164,961
		5	-	**-**	**22,503**	**164,961**
Non Current						
Loans to Related Parties	- Subsidiaries		**-**	**-**	152,346[1]	1,689,092
		5	**-**	**-**	**152,346**	**1,689,092**
Trade and Other Payables						
Current						
	- Subsidiaries		**-**	**-**	**3,193**	**-**
Trade Payables	- Other		32,366	24,962	31,164	24,643
		13	**32,366**	**24,962**	**34,357**	**24,643**
***Non Current* Payables**		**13**	**-**	**-**	**-**	**-**
Borrowings						
Current - Unsecured	- Other		400,833	127,500	397,610	127,100
		16	**400,833**	**127,500**	**397,610**	**127,100**
Non – Current Unsecured	- Subsidiaries		**-**	**-**	1,032,990[2]	1,011,916
	- Associates		2,905	**-**	**-**	
	- Other		36,839	200,277	-	200,277
		16	**39,744**	**200,277**	**1,032,990**	**1,212,193**

1. Loans receivable is made up of various loans to wholly owned subsidiaries with a total nominal value of $1,923 million of which a 10 year interest free loan receivable from wholly owned subsidiary BBPH with a nominal value of $1,776 million has been present valued to $818.2 million less a further impairment of $791 million to align its recoverable amount with the underlying available equity within the subsidiaries. The initial adjustment to state the loan receivable to present value from nominal value included the recognition of an additional investment in BBPH of $618.3 million.
2. Loans payable to BBPT are repayable at dates to be agreed between BBPL and BBPT but with a maximum loan term of 10 years from inception. The loans also contain terms for the repayment of debt on the provision of, variously, 14 or 60 days notice from BBPT. At 30 June 2009, BBPL understands from BBPT that it does not intend to call the loan or any part of the loan before 1 July 2010 except in the event that BBPL becomes insolvent, it seeks to distribute its assets or ceases to operate. BBPL has made substantial progress in the commercial negotiations of the restructuring of the debt owed to B&B and the BBPF Syndicate, such that BBPL does not expect any of the mentioned exceptions to become operative. On this basis the loans from BBPT have been classified as non current. This loan is interest free and has been present valued using a 8.5% discount for one year..

31. Related parties disclosures (continued)

(e) Revenue and expense arising from Related Party Transactions

			Consolidated		Company	
			2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
Revenue						
Interest Income	- Subsidiaries		**-**	**-**	133,103	384,810
		3	**-**	**-**	**133,103**	**384,810**
Dividend Income	- Associates		8,465	-	-	-
		3	**8,465**	**-**	**-**	**-**
Other Revenue	- Associates		89	102	89	102
		3	**89**	**102**	**89**	**102**
Expenses						
Management Charges	- Other		5,134	1,587	4,287	6,700
		3	**5,134**	**1,587**	**4,287**	**6,700**
Finance Costs	- Subsidiaries		-	-	830,147	-
	- Other		56,753	11,566	39,206	15,568
		3	**56,753**	**11,566**	**869,353**	**15,568**
Other Expenses	- Other		2,212	(9,117)*	1,337	(19,985)*
		3	**2,212**	**(9,117)***	**1,337**	**(19,985)***

* 2008 includes reversal of prior year incentive fee not required to be paid.

32. Financial risk management

(A) Financial risk management objectives

The Group's activities are exposed to a variety of financial risks, (including market risk, interest rate risk, equity price risk and currency risk), credit risk, and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures.

The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, and ageing analysis for credit risk.

The responsibility for operational risk management resides with the business units and is supported by a central risk group to ensure consistency and oversight in line with policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board has endorsed principles for overall risk management, as well as written policies covering specific areas, such as mitigating foreign exchange and interest rate risks.

There have been no significant changes in the types of financial risks; or the Group's risk management program (including methods used to measure the risks) since the prior year.

(a) Market risk

(i) Electricity Pool Price

Group

Exposure to fluctuations in wholesale market electricity prices is minimised through the use of various types of hedging contracts.

The BBP Energy Risk Management Policy prescribes active management of exposures arising from its forecast generation within prescribed limits. In doing so BBP has entered into various hedging contracts with individual market participants. Any unhedged position exposes BBP to variation in its revenue from variations in electricity pool prices.

The hedge portfolio consists predominantly of swaps, caps and option style contracts and non-derivative Power Purchase Agreements. Electricity derivatives are either entered into in separate agreements or arise as embedded derivatives.

The following table summarises the impact of increases/decreases of the relevant forward prices for wholesale market electricity prices for the Group, while all other variables were held constant:

2009	**Increase by 10%** **$'000**	**Decrease by 10%** **$'000**
Net profit/(loss)	(40,976)	(4,779)
Equity increase/(decrease)	(34,190)	10,601
2008		
Net profit/(loss)	10,909	131,297
Equity increase/(decrease)	(20,331)	16,348

Company

There would be no change in either net profit or equity at reporting date for the Company as the Company does not participate in the wholesale electricity market, thus has no exposure to pool prices.

(ii) Interest rate risk

All of the Group's corporate borrowings are on a variable rate bases, as such are exposed to interest rate volatility. Excess Interest Rate risk exposure is managed by maintaining an appropriate mix between fixed and floating rate borrowings, by entering into interest rate swap contracts. The quantum and tenor of these contracts fall within maximum and minimum exposure limits set as per the Group's Treasury Policy.

The sensitivity analysis to net profit, (being profit before tax), and equity, have been determined based on the exposure to interest rates at the reporting date and assumes that there are concurrent movements in interest rates and parallel shifts in the yield curves. A sensitivity of 100 basis points has been selected as this is considered reasonable given the current level of short term and long term interest rates.

32. Financial risk management (continued)

(A) Financial risk management objectives (continued)

Group

At reporting date, if interest rates had been 100 basis points higher/lower and all other variables were held constant, the impact of the Group would be:

2009	Increase by 1% $'000	Decrease by 1% $'000
Net profit/(loss)	(2,120)	2,098
Equity increase/(decrease)	112,494	(120,964)
2008		
Net profit/(loss)	4,596	(4,713)
Equity increase/(decrease)	125,085	(137,920)

The impact on net profit is largely due to the Group's exposure to interest rates on its non hedged variable rate borrowings. The impact on equity is due to the effective portion of the change in fair value of derivatives that are designated as cashflow hedges.

Company

At reporting date, if interest rates had been 100 basis points higher/lower and all other variables were held constant, the impact of the Company would be:

2009	Increase by 1% $'000	Decrease by 1% $'000
Net profit/(loss)	(3,697)	3,697
Equity increase/(decrease)	-	-
2008		
Net profit/(loss)	(7,137)	7,137
Equity increase/(decrease)	-	-

(iii) Equity price risk

The Manager may be entitled at the end of each calendar year to receive an Incentive Fee of up to 20% of the amount of the excess (if any) of the Stapled Security Return over the Benchmark Return for that year. An Incentive Fee for a particular year will only be payable where the Stapled Security return is greater than the Benchmark return for that year adjusted for any carry forward deficit.

The Incentive Fee is based on the relative performance of the BBP unit price to the S&P/ASX 200 Accumulation Index with any incremental out-performance attracting a fee of 20% of that out-performance.

Group

The incentive fee was in deficit at 30 June 2009. (In deficit: 30 June 2008). Any reasonably foreseeable change in the BBP stapled security price over the relevant calculation period would not have resulted in a financial liability being recognised at 30 June 2009 (Nil recognition: 30 June 2008).

Company

The impact to the net profit and equity of the Company would be the same as that for the Group.

32. Financial risk management (continued)

(A) Financial risk management objectives (continued)

(iv) Foreign exchange risk

BBP undertakes certain transactions denominated in foreign currencies, mainly related to capital expenditure and Long Term Services Agreements, which result in exposure to exchange rate fluctuations. Exchange rate exposures are managed utilising forward foreign exchange contracts transacted by Group Treasury.

For unhedged foreign exchange exposures, there would be no material impact on either the Group or Company net profit or equity as a result of a 10% change in the Australian dollar against the USD with all other variables held constant as at reporting date.

Group

2009	**Increase by 10% $'000**	**Decrease by 10% $'000**
Net profit/(loss)	-	-
Equity increase/(decrease)	(3,257)	4,195
2008		
Net profit/(loss)		
Equity increase/(decrease)	(14,435)	17,709

For unhedged foreign exchange exposures, there would be no material impact on the Company net profit or equity as a result of a 10% change in the Australian dollar against foreign currencies with all other variables held constant as at reporting date.

32. Financial risk management (continued)

(A) Financial risk management objectives (continued)

(b) Credit risk

Credit risk refers to the loss that BBP 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 represents the Group's and the Company's maximum exposure to credit risk at reporting date. BBP seeks to limit its exposure to credit risks as follows:

- conducting appropriate due diligence on counterparties before entering into arrangements with them
- depending on the outcome of the credit assessment, obtaining collateral with a value in excess of the counterparties' obligations to the Group – providing a 'margin of safety' against loss
- for derivative counterparties, using only high credit quality financial institutions. The Group also utilises ISDA agreements with all derivative counterparties in order to limit the exposure to credit risk.

The Group has no significant concentrations of credit risk. The credit of all financial assets is consistently monitored in order to identify any potential adverse changes in the credit quality.

Concentrations of credit risk

The Group minimises concentrations of credit risk in relation to trade receivables by undertaking transactions with a large number of customers from across the range of business segments in which the Group operates, such that there are no significant concentrations of credit risk within the Group at 30 June 2009 (No significant concentrations: 30 June 2008).

Credit risk in trade debtors is managed through setting normal payment terms of 14 days and through continual risk assessment of customers with material balances. Credit risk in retail trade debtors is managed through system driven credit management process. The process commences after day 14. There are four stages of customer contact resulting in disconnection as a last resort.

Group

The following financial assets are past due as at reporting date:

	Past Due Not Impaired					Past Due Impaired	Collateral Held
Loans and receivables	1-30 $'000	31-60 $'000	61-90 $'000	91-120 $'000	Over 120 $'000	$'000	$'000
2009	19,442	1,609	668	47	-	4,818	-
2008	19,083	2,840	1,394	428	5,588	-	-

There are no significant financial assets that have had renegotiated terms that would otherwise, without that renegotiation, have been past due or impaired.

Company

For the Company, there are no balances that are either overdue, or would be overdue if not renegotiated.

32. Financial risk management (continued)

(A) Financial risk management objectives (continued)

(c) Liquidity risk

The Group manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities to a minimum target level and by continuously monitoring forecast and actual cash flows.

The following tables detail the remaining contractual maturity for its financial liabilities, on an undiscounted basis.

Group

Financial Liabilities		Less than 1 year $'000	1 to 5 years $'000	5+ years $'000	Discount $'000	Total $'000
Trade payables	2009	68,100	-	-	-	68,100
	2008	102,858	-	-	-	102,858
Other payables	2009	184,655	10,165	-	-	194,820
	2008	254,017	-	-	-	254,017
Interest bearing liabilities	2009	2,969,792	130,332	400,178	(272,530)	3,227,772
	2008	1,620,346	3,597,717	585,325	(1,408,563)	4,394,825
Interest rate SWAPs (i)	2009	125,879	-	-	-	125,879
	2008	(42,984)	(126,848)	(7,273)	30,308	(146,797)
Electricity derivatives	2009	-	9,386	-	(436)	8,950
	2008	5,650	4,859	-	-	10,509
Call Option Derivatives	2009	333	-	-	-	333
	2008	666	333	-	-	1,000
Foreign exchange contracts	2009	1,675	-	-	-	1,675
	2008	12,612	134	-	-	12,746

Company

Financial Liabilities		Less than 1 year $'000	1 to 5 years $'000	5+ years $'000	Discount $'000	Total $'000
Trade payables	2009	23,847	-	-		23,847
	2008	22,883	-	-		22,883
Other payables	2009	15,120	-	-		15,120
	2008	6,886	-	-		6,886
Interest bearing liabilities	2009	397,610	1,120,894	-	(87,904)	1,430,600
	2008	621,211	797,911	414,514	(392,274)	1,441,362
Call Option Derivatives	2009	333	-	-	-	333
	2008	666	333	-	-	1,000

(i) Interest swap difference payments/(receipts) are included in the table about as they form an integral part of the Group's liquidity and interest rate risk management policies. Swap payments/ receipts are settled on a net basis.

32. Financial risk management (continued)

(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 (2008: fair value). In the case of BBPL's inter-company loans receivable from, and investment in, Babcock & Brown Power Holdings Pty Ltd (BBPH) which has a combined carrying amount of $841.9 million, significant judgement has been applied in order to derive a value for its recoverability which included an impairment charge of $791 million based on various assumptions about the available equity within the BBPH group.

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 Group would be required to pay or receive to terminate (or replace) the contracts at their current market rates at the reporting date.
- Valuation of electricity derivatives – Electricity derivatives are valued using a number of proprietary models which source short term price expectations from immediately observable market information. Medium to long term electricity price data is sourced from independent price modelling consultancies. Valuation models are constructed to suitably match the nature of the derivatives employed by BBP in managing its electricity price risk. Future price and variation expectations are discounted back to present day values. These amounts reflect the estimated amount which the Group would be required to pay or receive to terminate (or replace) the contracts at their current market rates as at each reporting date.

(D) Capital risk management

The Group manages its capital so that it will be able to continue as a going concern while maximising the return to stakeholders through an appropriate mix of debt and equity. The capital structure of the Group as at balance date consists of total corporate facilities, as listed in Note 25(c), and equity, comprising issued capital, reserves, and retained earnings as listed in Notes 20, 21 and 22. The quantitative analysis of each of these categories of capital is provided in their respective notes to these financial statements.

The Board of Directors and management of BBP are in negotiations with the major external financiers of BBP with a view to restructuring the terms associated with those facilities, as noted elsewhere in this report.

(E) Hedging instruments

(i) Electricity derivatives

While all derivatives are entered into for the purposes of hedging, only those derivatives that meet the strict criteria of effective hedges can be designated as cashflow hedges for accounting purposes. Gains and losses on cash flow hedges are recognised in the cash flow hedge reserve in equity on electricity derivatives and will be continuously released to the income statement in each period in which the underlying purchase or sale transactions are recognised in the income statement.

2009					Hedge maturity profile (years)			
Nature	Fair value of derivatives 30 June 2009 Asset / (Liability) $'000	Fair value in cash flow hedges $'000	Fair value not in hedge relationship $'000	Impact on income statement gain/(loss) $'000	Less than 1 year $'000	1 to 5 years $'000	5+ years $'000	Total $'000
Electricity derivatives	109,392	9,750	99,642	(60,075)	27,577	34,348	47,466	109,392

32. Financial risk management (continued)

(E) Hedging instruments (continued)

2008 Nature	Fair value of derivatives 30 June 2008 Asset / (Liability) $'000	Fair value in cash flow hedges $'000	Fair value not in hedge relationship $'000	Impact on income statement gain/(loss) $'000	Hedge maturity profile (years) Less than 1 year $'000	 1 to 5 years $'000	 5+ years $'000	Total $'000
Electricity derivatives	191,423	19,554	171,869	(125,243)	34,681	95,846	60,896	191,423

(ii) Interest rate swap contracts

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

Interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated and effective as cash flow hedges.

Fixed swaps	Average contract fixed rate 2009 %	 2008 %	Notional principal amount 2009 $'000	 2008 $'000	Fair value 2009 $'000	 2008 $'000
Less than 1 year	6.58	6.74	3,456,854	216,210	(125,879)	3,737
1-5 years	-	6.37	-	2,039,290	-	58,085
>5yrs	-	6.30	-	2,146,603	-	84,975
					(125,879)	146,797

(iii) Interest rate swaption contracts

Outstanding options over floating for fixed contracts	Average contract fixed rate 2009 %	 2008 %	Notional principal amount 2009 $'000	 2008 $'000	Fair value 2009 $'000	 2008 $'000
Less than 1 year	NIL	NIL	NIL	NIL	NIL	NIL

As at 30 June 2009, BBP did not have any purchased options over interest rate swaps (swaptions).

32. Financial risk management (continued)

(E) Hedging instruments (continued)

(iv) Foreign currency risk management

BBP undertakes certain transactions denominated in foreign currencies, related to capital expenditure, which result in exposure to exchange rate fluctuations. Exchange rate exposures are managed utilising forward foreign exchange contracts.

Outstanding forward exchange contracts as at 30 June 2009	Weighted average rate	Notional principal amount $'000	$'000	Fair value $'000
Contract to sell AUD, Buy USD		**AUD**	**USD**	
Less than 1 year	0.8522	811	691	49
From 1 to 5 years	0.8142	1,772	1,443	85
Contract to sell AUD, Buy EUR		**AUD**	**EUR**	
Less than 1 year	0.5657	32,613	18,450	(304)
From 1 to 5 years	0.5518	197	109	-
Contract to sell AUD, Buy JPY		**AUD**	**JPY**	
Less than 1 year	91.06	1,475	134,319	263
From 1 to 5 years	-	-	-	-

Outstanding forward exchange contracts as at 30 June 2008	Weighted average rate	Notional principal amount $'000	$'000	Fair value $'000
Contract to sell AUD, Buy USD		**AUD**	**USD**	
Less than 1 year	0.8727	(43,827)	38,248	(3,413)
From 1 to 5 years	0.8244	(2,455)	2,024	(128)
Contract to sell AUD, Buy EUR		**AUD**	**EUR**	
Less than 1 year	0.6147	(43,839)	26,946	767
From 1 to 5 years	0.5597	(268)	150	(5)
Contract to sell AUD, Buy JPY		**AUD**	**JPY**	
Less than 1 year	92.97	(118,108)	10,980,405	(9,199)
From 1 to 5 years	94.78	(13,260)	1,256,761	40

33. Material interests in entities which are not controlled entities

Name of equity accounted associates, joint ventures and other investments	Ownership interest held Year ended 30 June 2009 %	Contribution to net profit/(loss) after tax Year ended 30 June 2009 $'000	Ownership interest held Year ended 30 June 2008 %	Contribution to net profit/(loss) after tax Year ended 30 June 2008 $'000
Babcock & Brown Power Oakey Pty Ltd	50	2,202	50	5,099
ERM Power Investments Pty Ltd (1)	-	-	40	816
Babcock and Brown Kwinana Pty Ltd (2)	-	(2,761)	-	-
		(559)		5,915

(1) Refer to note 30 Changes in the composition of the consolidated Group for details on sale of ERM Power Investments Pty Ltd
(2) BBP's 40% interest in ERM Power Investments Pty Ltd (ERM) was sold on 18 December 2008. ERM held 50% of the Newgen Power Kwinana Partnership. BBP maintained a 50% interest in the Newgen Power Kwinana Partnership via its subsidiary Babcock and Brown Kwinana Pty Ltd, which was equity accounted until Babcock and Brown Kwinana Pty Ltd was disposed on 19 March 2009.

34. Remuneration of auditors

During the year the following fees were paid or payable for services relating to the respective years, provided by the auditor of the parent entity, its related practices and non-related audit firms.

(a) Audit services

	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
PricewaterhouseCoopers (PwC) Australian firm				
Audit and review of financial reports	2,214	2,171	2,214	2,171
Other audit work under the Corporations Act 2001	-	28	-	-
Non PwC audit firms for the audit or review of financial reports of any entity in the Group (i)	153	350	-	33
Total remuneration for audit services	2,367	2,549	2,214	2,204

(i) This amount includes the review of the completion accounts by Alinta's previous auditors as well as the statutory audit and review costs of subsidiaries not audited by PwC.

(b) Non-audit services

	Consolidated 2009 $'000	Consolidated 2008 $'000	Company 2009 $'000	Company 2008 $'000
PricewaterhouseCoopers Australian firm				
Due diligence services	977	792	977	491
Legal services (ii)	2,015	1,411	-	-
Tax services	-	101	-	104
Other	68	166	-	-
Non PricewaterhouseCoopers audit firms				
Due diligence services (iii)	-	2,260	-	2,260
Tax compliance services	579	867	186	834
Transition consulting and other services	2,002	1,304	833	1,287
Total remuneration for non-audit services	5,641	6,901	1,996	4,976

(ii) This amount represents fees paid to PwC for legal services in relation to Redbank. PwC was engaged by the previous owner of Redbank and does not perform the statutory audit of this asset in accordance with the Group's auditor independence policy. The fees are subsequently recovered from the previous owners.

(iii) This amount includes costs associated with the Alinta transaction including transitional and integration work, risk compliance reviews and provision of outsourced internal audit services.

35. Net assets per security

	30 June 2009	30 June 2008
Net tangible assets per stapled security	(1.48)	(1.05)
Net assets per stapled security	1.31	1.92

BBP has negative net tangible assets per security of -$1.48 (2008: -$1.05). This is primarily attributable to the acquisition of the Alinta retail business during the 2008 financial year. The nature, and value, of the retail business is in its brand position as the pre-eminent gas retailer and its customer base (both existing and potential future growth). This business inherently is different to the existing power generation business as it relies on these characteristics to produce cash flows as compared to tangible assets such as power plants that characterise the power generation business.

While the acquired intangibles and goodwill of the retail business in particular represent future economic value to the Group, they are deducted for the purposes of calculating net tangible assets per security. Net assets per security at 30 June 2009 was $1.31 (2008: $1.92).

36. Contingent assets and liabilities

Contingent liabilities

Reactive Capital

Discussions are continuing between Western Power and Alinta in respect to connection support relating to the co-generation plants. The key issue has been whether the responsibility hence cost for system stability and reliability is for the account of the developer and manager of new power plants (in this case Alinta) or is a network charge that should be reflected in the network tariffs which support the electricity SWIS network's operation. Alinta continues to work with Western Power to resolve this matter.

North West Shelf Gas Contract Arbitration

BBP has been in arbitration with the NWS in respect to the contract price for the supply of a material volume of gas for its Alinta business. The formal arbitration hearing was concluded in September 2009. The Arbitrator is not expected to hand down his determination until late October 2009 at the earliest. BBP has made an accounting provision for the outcome that it reasonably expects from the overall resolution of the NWS price dispute. Further BBP expects to be able to meet its obligations that might result from this dispute on the basis of the restructure of its financial arrangements as well as commercial discussions with both the NWS joint venture partners and BBP's commercial customers. A determination that is significantly outside of BBP's expectations may have a material impact on the Alinta business and at that time could result in a reassessment of the value of the Alinta business and the going concern assumptions. It is possible that the overall resolution of the NWS price dispute could result in an amount greater than the amount provided for. The information usually required by ***AASB 137 Provisions, Contingent Liabilities and Contingent Assets*** is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the arbitration and possible settlement.

Price Determinations

As part of the normal operations of an energy company, there are prescribed contractual price determinations at regular intervals. These price reviews are typical in gas contracts and any retrospective adjustments arising out of the process would immediately crystallise into a liability.

Contingent assets

Tamar Power Project

During the current financial year BBP sold its interest in the Tamar Power Station to the Tasmanian Government (Aurora Energy Tamar Valley). The asset was under construction at the date of sale and the contract for sale provided for BBP to continue to manage the construction to completion. Whilst BBP was to be paid (and has received) fees for its services, BBP was also entitled, as an incentive, to share in any unspent contingency. Until the contract is complete and all costs and charges discharged, there is uncertainty on the recoverability of this sum. At the date of this report BBP estimates that it is probable but not virtually certain to receive a share of the unspent contingency amounting to approximately $10 million to $14 million.

37. Subsequent events

There are no events subsequent to the balance date that have not been disclosed elsewhere in this report.

38. Additional information

Babcock & Brown Power Limited is a listed stapled security. Babcock & Brown Power Limited is incorporated and operates in Australia.

Registered Office of the Company

Level 7,
50 Pitt Street
Sydney NSW 2000
Telephone: +61 2 9372 2600

Principal place of business

Level 7,
50 Pitt Street
Sydney, NSW 2000
Telephone: +61 2 9372 2600

Babcock & Brown Power Limited

Directors' declaration

1 In the opinion of the directors of Babcock & Brown Power Limited ("the Company"):

(a) the financial statements and notes, set out on pages 17 to 101, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2009 and of their performance, for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company and the Group will be able to pay their debts as and when they become due and payable within the context of the disclosures of the Directors Report and the financial statements and notes.

2 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 2009.

Signed in accordance with a resolution of the directors:

Mr L F Gill
Director, Babcock & Brown Power Limited

Dated at Sydney this 30th day of September 2009

PricewaterhouseCoopers
Services Pty Ltd
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Independent auditor's report to the members of Babcock & Brown Power Limited

Report on the financial report

We have audited the accompanying financial report of Babcock and Brown Power Limited (the company), which comprises the balance sheet as at 30 June 2009, 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 both Babcock and Brown Power Limited and the Babcock and Brown Power Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company 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.

Independent auditor's report to the members of Babcock & Brown Power Limited (continued)

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.*

Auditor's opinion

In our opinion:

(a) the financial report of Babcock & Brown Power Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the company's and consolidated entity's financial position financial position as at 30 June 2009 and of their 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 consolidated financial statements and parent entity financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a).

Significant uncertainty regarding continuation as a going concern

Without qualification to our opinion expressed above, we draw attention to Note 1(a) to the financial statements which comments on the refinancing of financing arrangements within the group and the impact of the North West Shelf Joint Venture gas supply arbitration. These conditions indicate that there is a significant uncertainty as to whether Babcock & Brown Power Limited and its controlled entities will continue as a going concern and, therefore, whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial statements.

Significant uncertainty regarding the value of investments and loans to controlled entities (parent company only)

Without qualification to the opinion expressed above, we draw attention to Note 1(a) to the financial statements, which comments on the significant uncertainty regarding the carrying value of loans receivable from, and investment in, controlled entities with an aggregate carrying value at 30 June 2009 of $841.9 million.

PRICEWATERHOUSECOOPERS

Independent auditor's report to the members of Babcock & Brown Power Limited (continued)

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 13 of the directors' report for the period ended 30 June 2009. The directors of the company 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 Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Marc Upcroft
Partner

Sydney
30 September 2009

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

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Principal administration office
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Share registry
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