BABCOCK & BROWN

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ASX Release

21 February 2008

FULL YEAR RESULTS RELEASE – APPENDIX 4E

Please find attached Babcock & Brown's 2007 Appendix 4E and Management Discussion & Analysis for the full year ended 31 December 2007.

ENDS

For further information please contact:

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About Babcock & Brown

Babcock & Brown is an international investment and specialised fund and asset management group with longstanding capabilities in structured finance and the creation, syndication and management of asset and cash flow-based investments. Babcock & Brown was founded in 1977 and is listed on the Australian Securities Exchange.

Babcock & Brown operates from 30 offices across Australia, North America, Europe, Asia, United Arab Emirates and Africa and has in excess of 1,250 employees worldwide. Babcock & Brown has four operating divisions including real estate, infrastructure, operating leasing, corporate and structured finance. The company has established a funds management platform across the operating divisions that has resulted in the creation of a number of focused investment vehicles in areas including real estate, renewable energy and infrastructure.

For further information about Babcock & Brown please see our website: www.babcockbrown.com

Results Release 2007

Appendix 4E
Management Discussion & Analysis

31 December 2007

BABCOCK & BROWN

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ABBREVIATIONS USED THROUGHOUT THIS REPORT

Babcock & Brown Air	BBAIR
Babcock & Brown Aircraft Management	BBAM
Babcock & Brown Asian Infrastructure Fund	BBAIF
Babcock & Brown Capital	BCM
Babcock & Brown Communities	BBC
Babcock & Brown Direct Investment Fund	BBDIF
Babcock & Brown Environmental Investments	BEI
Babcock & Brown European Infrastructure Fund	BBEIF
Babcock & Brown Global Partners	BBGP
Babcock & Brown Infrastructure	BBI
Babcock & Brown Japan Property Trust	BJT
Babcock & Brown Power	BBP
Babcock & Brown Public Partnerships	BBPP
Babcock & Brown Rail Management	BBRM
Babcock & Brown Rail North America	BBRNA
Babcock & Brown Residential Land Partners	BLP
Babcock & Brown Structured Finance Fund	BBSFF
Babcock & Brown Wind Partners	BBW
Everest Babcock & Brown	EBB
General Property Trust	GPT

ANNOUNCEMENT TO THE MARKET

Name of the Company:	Babcock & Brown Limited ABN 53 108 614 955

Reported	Year ended 31 December 2007 $'000	Year ended 31 December 2006 $'000	Change %
Net revenue from ordinary activities[1]	1,944,778	1,292,980	50.4
Operating profit before tax attributable to Babcock & Brown Group[2]	792,995	474,863	67.0
Operating profit before tax	787,700	477,874	64.8
Profit after tax attributable to the Babcock & Brown Group[3]	643,046	406,811	58.1
Net profit after tax attributable to members	525,149	308,638	70.2

The Directors propose to pay a final dividend of 33¢ per share, 50% franked. The unfranked portion of the dividend is payable out of conduit foreign income.

Ex Date:	26 February 2008
Record Date:	3 March 2008
DRP[4] election notice due date:	2 March 2008
Payment Date:	9 April 2008

An interim dividend of 21.4¢ per share, 50% franked, was paid on 3 October 2007. The unfranked portion of the dividend was paid out of conduit foreign income.

The Company has established a Dividend Reinvestment Plan (DRP), under which dividends may be reinvested in new Babcock & Brown fully paid shares. Shareholders registered in the company's share register, whose recorded address is in Australia or New Zealand, and who hold shares on their own behalf or on behalf of another Australian or NZ resident, are eligible to participate in the DRP. Other shareholders may be eligible at the discretion of the Board.

Babcock & Brown shares issued under the DRP will be issued at an initial discount of 2% from the daily volume weighted average market price traded on ASX during the Pricing Period, as defined in the DRP Rules (for this dividend, the pricing period commences on 6 March 2008 and ends on 19 March 2008). Any change in the discount will be notified on the Babcock & Brown website (www.babcockbrown.com).

Key Dates (subject to change):

Annual General Meeting	30 May 2008
Interim Result - 2008	21 August 2008

All amounts are in Australian dollars unless otherwise stated. The information on which this announcement is based is in the process of being audited by the Company's auditor, Ernst & Young.

[1] Net revenue represents gross revenue less cost of sales and directly attributable expenses, plus net contribution from equity accounted and consolidated non-strategic investments.

[2] Operating profit before tax attributable to Babcock & Brown Group is calculated by adjusting operating profit before tax for gross external minority interests.

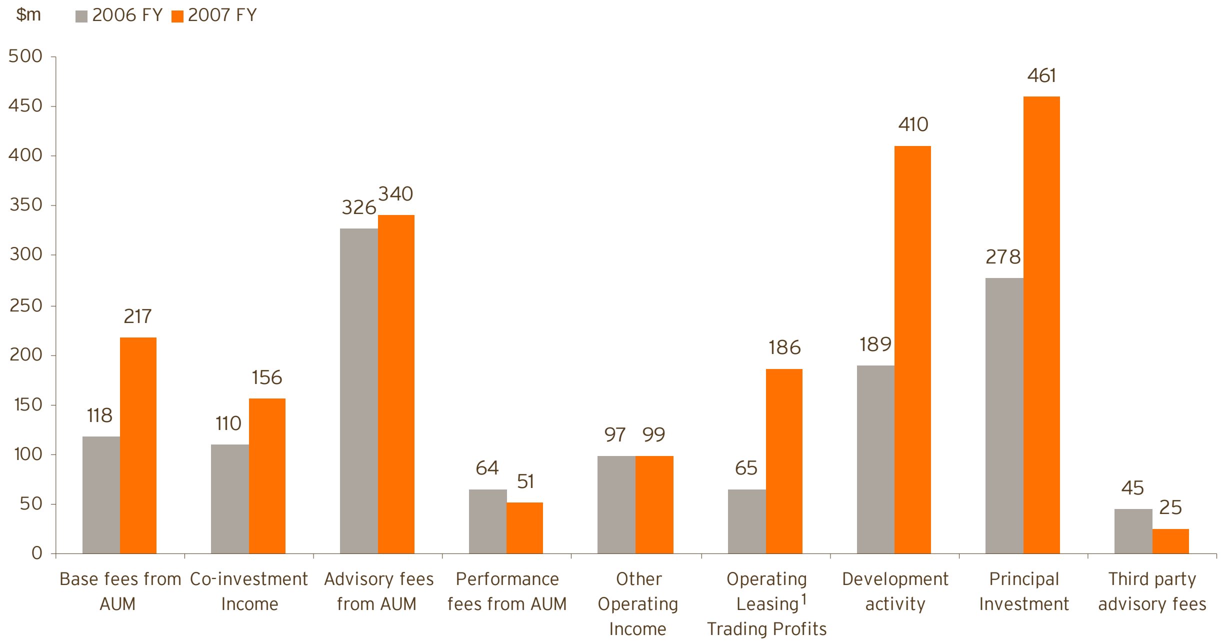
[3] Babcock & Brown Group comprises Babcock & Brown Limited, the company listed on the ASX, and Babcock & Brown International Pty Ltd, an 83.2% owned subsidiary (77.7% at 31 December 2006).

[4] Dividend Reinvestment Plan.

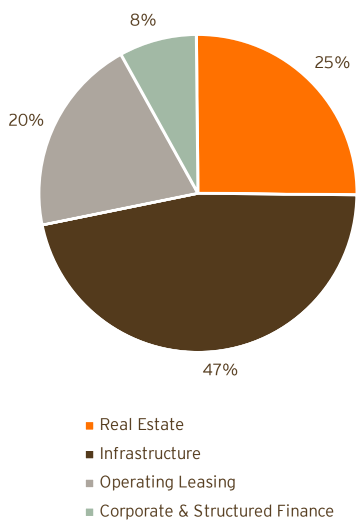
REVIEW OF OPERATING RESULTS

FINANCIAL HIGHLIGHTS

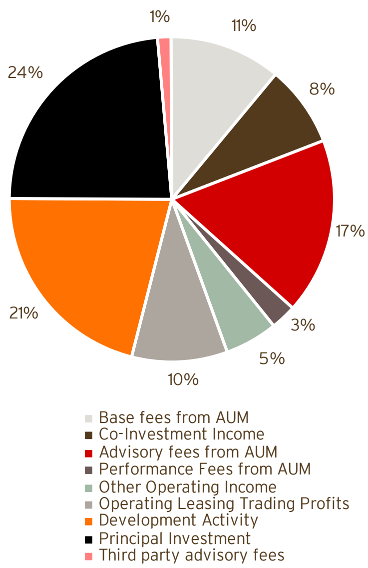
NET REVENUE BY TYPE - STRONG NET REVENUE GROWTH



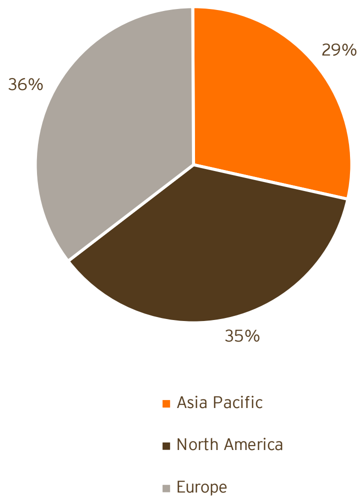
NET REVENUE BY DIVISION



NET REVENUE TYPE



NET REVENUE GEOGRAPHIC



AUM – Assets Under Management

1 Operating Leasing trading profits represent earnings associated with disposal of aircraft and rail assets on Babcock & Brown balance sheet and underwriting fees associated with this activity. Previously Net Revenue from this activity was aggregated under Principal Investment. However, due to the increasing scale of income from this activity and the expected future trading profits, we have separated the Net Revenue into a specific category.

SEGMENT INCOME STATEMENT

	Year ended 31 December 2007 $'000	Year ended 31 December 2006 $'000	Change %
Net Revenue by Division			
Real Estate	492,885	318,606	54.7
Infrastructure	902,848	470,517	91.9
Operating Leasing	394,452	177,468	122.3
Corporate & Structured Finance	154,593	326,389	(52.6)
Net Revenue	**1,944,778**	**1,292,980**	**50.4**
Net corporate interest expense[1]	(100,531)	(66,337)	51.5
Operating Costs			
Fixed Remuneration	(241,894)	(180,728)	33.8
Facilities	(63,156)	(39,070)	61.6
Other	(178,057)	(114,851)	55.0
Total Operating Costs	**(483,107)**	**(334,649)**	**44.4**
Operating Profit before bonuses and tax	**1,361,140**	**891,994**	**52.6**
Bonus expense (including amortisation of share options and bonus deferral rights)	(573,440)	(414,120)	38.5
Operating Profit before tax	**787,700**	**477,874**	**64.8**
Tax	(148,361)	(68,957)	115.2
Net Profit after tax (before deduction for outside minority interest)	**639,339**	**408,917**	**56.3**
Minority interest excluding BBIPL[2]	3,707	(2,106)	>100
Profit after tax attributable to the Babcock & Brown Group[3]	**643,046**	**406,811**	**58.1**
BBIPL minority interest[3]	(117,897)	(98,173)	20.1
Profit after tax attributable to members of Babcock & Brown Limited	**525,149**	**308,638**	**70.2**

SEGMENT RESTRUCTURE

During the year the company restructured the segment divisions, merging Corporate Finance and Structured Finance due to the complimentary nature of the skill sets within the two divisions and the decline in Babcock & Brown's traditional third party advisory activity in the Structured Finance area. Structured Finance's air and rail lease advisory services, however, were merged with the Operating Leasing Division. In addition one transaction was reclassified from the Real Estate to the Infrastructure Division.

Both the 2006 Net Revenues and Segment Net Assets have been restated throughout to reflect the restructure for comparison purposes.

1 Includes foreign exchange gains and losses on corporate borrowings.

2 Babcock & Brown International Pty Limited (BBIPL).

3 Babcock & Brown Group comprises Babcock & Brown Limited, the company listed on the ASX, and Babcock & Brown International Pty Ltd, an 83.2% owned subsidiary (77.7% at 31 December 2006).

REVIEW OF OPERATING RESULTS

SEGMENT BALANCE SHEET

The table below presents the net financial position of the Babcock & Brown Group. The statutory Financial Statements differ from the financial information presented below, as transaction specific assets and liabilities are netted within each of the four divisions to arrive at the Group's net Segment Balance Sheet.

Segment net assets include current and non-current assets and liabilities when they relate specifically to the segment. Fees receivable, accounts payable, and accrued current liabilities are included in working capital. Inventory and restricted cash balances are included in the segment net assets.

	Assets $'000	Liabilities $'000	2007 Net $'000	2006[3] Net $'000
Real Estate	5,447,051	3,667,014	1,780,037	936,222
Infrastructure	5,919,222	3,669,326	2,249,896	1,571,368
Operating Leasing	1,925,648	1,567,900	357,748	191,939
Corporate & Structured Finance	976,350	386,179	590,171	368,848
Segment Net Assets	**14,268,271**	**9,290,419**	**4,977,852**	**3,068,377**
Corporate debt	-	2,759,598	(2,759,598)	(1,384,909)
Net cash and cash equivalents[1]	363,482	-	363,482	315,994
Working capital (excluding cash)[2]	442,617	572,847	(130,230)	(195,597)
Deferred tax assets	462,731	-	462,731	363,300
Deferred tax liabilities	-	481,059	(481,059)	(493,318)
Property and equipment	65,337	-	65,337	26,642
Other	35,859	20,770	15,089	11,556
Total Net Assets	**15,638,297**	**13,124,693**	**2,513,604**	**1,712,045**

1 For December 2007, $2,188 million of restricted cash ($310m at December 2006) was allocated to the Segment Net Assets.
2 Excludes investments and assets held for trading included in Segment Net Assets.
3 2006 net segment assets have been restated to include goodwill referrable to each segment.

REVIEW OF SEGMENT BALANCE SHEET

The balance sheet reflects significantly unutilised capacity of the Group at 31 December 2007 from a combination of unrestricted cash of $363 million, undrawn capacity in our corporate facility of $240 million, and committed uninvested equity in our managed funds in excess of $5.0 billion.

The Group continues to recycle assets in all asset categories evidenced by strong real estate sales announced in the six months to 31 December 2007, the sale of infrastructure assets including the sale of 50% of Enersis Wind in November 2007, and the sale of the Enersis Hydro in December 2007.

The Group sold development assets into our infrastructure managed funds of $1,172 million during 2007 including developments in thermal power and wind power developments.

The co-investment in funds is equity accounted at the "net asset" value of the fund and is not subject to movement in equity markets but rather is valued based on the underlying value of the asset and liabilities of the fund. Net co-investments in our fund and asset management platform represent 29% of the segment net assets.

REVIEW OF SEGMENT BALANCE SHEET (CONTINUED)

Development activity of $1.8 billion includes the equity and mezzanine debt invested in development projects. Development assets are held at cost on the balance sheet. Net investment development activity relates 66% to infrastructure and 34% to real estate activities. In aggregate net development assets represent 36% of the segment net assets.

Power generation assets represent completed renewable energy developments held on balance sheet. All power generation assets have previously been developed by Babcock & Brown and are transferred from development assets to Power Generation Assets once completed.

The net segment balance sheet comprises:

	2007 Net $'000
Real Estate	
Joint Venture with GPT (including loans)	271,261
Other co-investment in funds/syndicates	114,875
Assets under development	599,319
Real Estate for sale/investment	665,087
Minority Interest	129,495
Total Real Estate	**1,780,037**
Infrastructure	
Co-investment in funds	337,211
Assets under development	1,188,376
Power generation assets	272,509
Strategic investments in listed securities	241,116
Other	68,246
Minority Interest	142,438
Total Infrastructure	**2,249,896**
Operating Leasing	
Co-investment in aircraft funds	160,729
Aircraft	63,231
Rail (including co-investment)	113,585
Other	20,203
Total Operating Leasing	**357,748**
Corporate & Structured Finance	
Co-investment in funds	424,771
Other	159,864
Minority Interest	5,536
Total Corporate & Structured Finance	**590,171**
Total	**4,977,852**

The analysis of the segment balance sheet above differs from the statutory balance sheet as project specific liabilities have been offset against the gross assets. Further, statutory balance sheet classifications have been aggregated to reflect the substance rather than the legal form of the investment. For example, equity and mezzanine debt positions in development projects have been aggregated under development activities and investments in equity accounted associates, and joint ventures have been reclassified to reflect the substance of the arrangements.

REVIEW OF OPERATING RESULTS

REVIEW OF COMPONENTS OF NET PROFIT

Revenue by Type	Year ended 31 December 2007 $'000	Year ended 31 December 2006 $'000	Change %
Base fees from AUM	217,162	117,560	84.7
Co-investment income	155,773	110,152	41.4
Advisory fees from AUM	339,840	326,453	4.1
Performance fees from AUM	51,445	64,244	(19.9)
Other operating income	98,605	97,401	1.2
Operating Leasing trading profits[1]	186,047	65,028	186.1
Development activity	410,141	189,016	117.0
Principal investment	460,833	278,075	65.7
Third party advisory fees	24,932	45,052	(44.7)
Net Revenue (before Minority Interest)	**1,944,778**	**1,292,980**	**50.4**
Segment Minority Interest	3,362	(2,687)	>100
Total Net Revenue (after Minority Interest)	**1,948,140**	**1,290,293**	**51.0**

AUM – Assets Under Management

"Net Revenue" differs from "Revenues from continuing operations" as disclosed in the Financial Statements as direct costs are netted off against gross revenues in arriving at "Net Revenue", whereas costs are disclosed separately in the Financial Statements in "Expenses from continuing operations". The use of "Net Revenue" provides a more meaningful basis of comparison of the Group's results between years and between business segments.

Revenue types are defined as follows:

- Base fees include fees from listed and unlisted assets under management. Base fees are earned for services provided, not connected with the performance of the fund or asset, and do not include fees associated with transactions.
- Co-investment income includes income earned from co-investment in Babcock and Brown assets under management.
- Advisory fees from assets under management include fees from listed and unlisted funds. Advisory fees are connected with the activity of the fund, including fees associated with transactions.
- Performance fees include performance fees from listed and unlisted funds and assets under management.
- Other operating income includes operating income from investments held on Babcock and Brown's balance sheet.
- Operating Leasing trading profits comprises earnings associated with disposal of aircraft and rail assets on Babcock & Brown balance sheet and underwriting fees associated with this activity.
- Income from development activity includes development profits, interest on loans provided as part of development activity transactions, and advisory fees associated with development activities.
- Principal investment includes income and earnings from investments or assets held for investment purposes.
- Third party advisory income includes only income from third party mandates.

1. Previously net revenue from Operating Leasing trading profits was aggregated under Principal Investment.

Review of Net Revenue

Consistent with the growth in AUM from $44.1 billion in 2006 to $71.7 billion in 2007, recurrent revenue represented by base fees from AUM and co-investment income increased 63% in 2007 following on from a 157% growth in recurrent revenue in 2006. Notably the growth in AUM occurred predominately in the second half of 2007 which further provides positive outlook for growth in 2008 recurrent revenue.

Other operating income arises mainly from the investment in operating infrastructure assets. Trading profits from Operating Leasing activity have been separately identified given the increased scale of Net Revenue derived from this activity and the expectation of the continued generation of Net Revenue from this activity.

Net Revenue from development activity increased 117% with the majority of Net Revenue being earned through infrastructure development activity. Principal investment Net Revenue grew 66% in 2007 and included Net Revenue from the sale of real estate and infrastructure investments.

Net Corporate Interest

Net corporate interest expense includes interest expense on corporate loan borrowings of $137 million and interest on the subordinated notes of $55 million. Included in net corporate interest expense is a $74 million gain on foreign exchange and interest rate hedges on the borrowings. Offsetting the expense is $17 million of interest income earned on unrestricted cash deposits.

Operating Costs

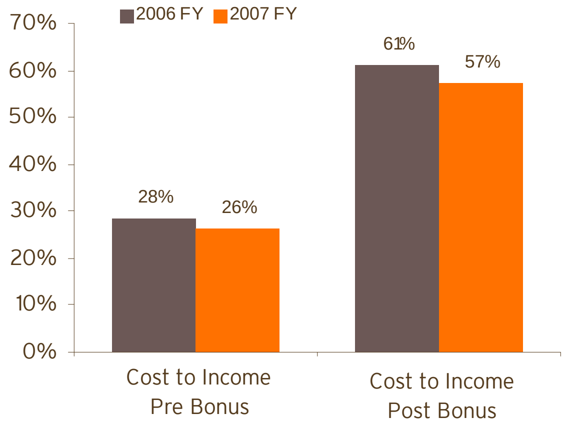
	Year ended 31 December 2007 $'000	Year ended 31 December 2006 $'000	Change %
Fixed Remuneration	241,894	180,728	33.8
Facilities	63,156	39,070	61.6
Other	178,057	114,851	55.0
Total Operating Costs	**483,107**	**334,649**	**44.4**

The increase in operating costs reflects the increase in employees from 1,019, at 31 December 2006, to 1,435, at 31 December 2007. Fixed remuneration includes salaries, wages, and benefits for employees. The 34% increase in fixed remuneration expenditure over 31 December 2006 reflects cost of living increases and growth in number of employees.

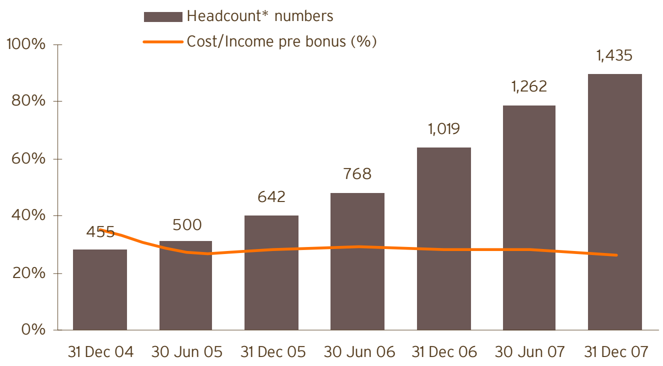
Other operating costs consist of payroll tax, IT expense, general and administrative costs, recruiting and travel and entertainment.

REVIEW OF OPERATING RESULTS

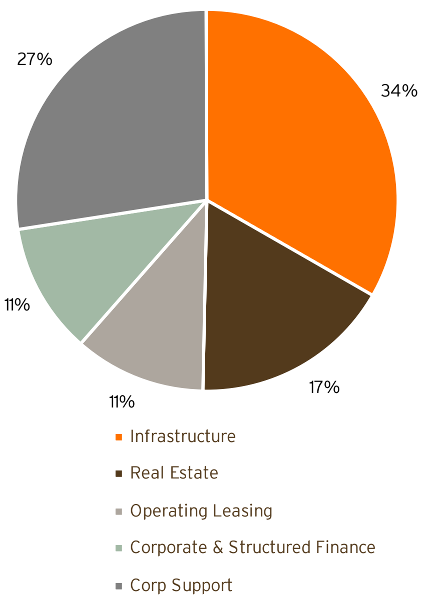
COST/INCOME RATIO DECREASED DESPITE RAPID GROWTH IN BUSINESS



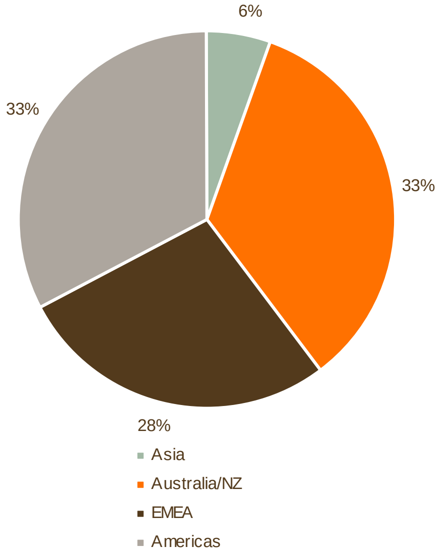
COSTS REMAIN UNDER CONTROL



HEADCOUNT NUMBERS BY DIVISION



HEADCOUNT NUMBERS BY REGION



* Headcount does not include consolidated investments.

Bonus

The bonus expense for the year is 31.1% of net revenue less net corporate interest expense (2006: 33.8%). The bonus expense plus fixed remuneration is 44.2% of net revenue less net corporate interest expense (2006: 48.5%). The bonus expense includes the impact of the amortisation of current and prior year compensation delivered in the form of bonus deferral rights and options.

Taxation

Tax expense for the period was 18.8%. The effective rate was impacted favourably by offshore income earned at lower effective tax rates than Australia and earnings from equity accounted investments included on an after tax basis.

KEY PERFORMANCE INDICATORS

	Year ended 31 December 2007	Year ended 31 December 2006
Earnings Per Share, Group plus Share Trusts – Basic	184.0¢	122.6¢
Earnings Per Share, Group plus Share Trusts – Diluted[1]	174.5¢	116.2¢
EBITDA Group ($million)[2]	971.4	567.7
Cost to Income pre-bonus Group	26%	28%
Cost to Income post-bonus Group	57%	61%
Interim Dividend	21.4¢	15.0¢
Final Dividend	33.0¢	21.0¢
Interim Ordinary Dividend Franking %	50%	50%
Final Ordinary Dividend Franking %	50%	50%
Dividend Payout ratio BBL Group plus Share Trusts - Basic	30.0%	28.8%
Dividend Payout ratio BBL Group plus Share Trusts- Diluted	31.2%	30.4%
Net Tangible Assets per Ordinary Share - Group[3] ($ per share)	8.12	4.10
Assets Under Management ($ million)	71,747	44,142
Return on Equity, Group	32.4%	31.0%

1 The comparative Group diluted EPS excludes the shares held by the Consolidated Employee Share Trusts (consistent with the statutory AIFRS methodology). For the calculation of EPS, management disregards the consolidation of the Share Trusts and includes the shares held by the Trusts in the total weighted average shares. Further detail on the calculation of EPS is provided at the end of the Results Review section.

2 EBITDA is calculated before corporate interest expense and corporate depreciation. Interest and depreciation on project assets funded by non-recourse debt, where the impact of interest expense and depreciation is quarantined within a special purpose vehicle, is included. EBITDA is calculated for the Group, including 100% of BBIPL.

3 Excludes goodwill, and is based on 353.5 million shares (345.4 million at December 2006) on issue by BBIPL.

Earnings per Share (EPS)

Basic EPS during the period was 184¢, representing growth of 50.1% over the corresponding prior period. Fully diluted EPS of 174.5¢ represents a 50.2% growth over the corresponding prior period.

Cost to Income Ratio (pre-bonus)

The Cost to Income Ratio of 26.2% reflects the growth in Net Revenue of 50% relative to growth in operating expenses of 44%.

Return on Equity

Return on Equity is calculated as profit after tax for the Group on average net assets and excludes the impact of minority interests.

The Return on Equity was 32.4% for 31 December 2007 compared to 31.0% for the corresponding prior period.

Dividend Policy

In line with our targeted payout ratio of 30%, the directors propose a final dividend of 33¢ per share, franked to 50%. The unfranked portion of the dividend is payable out of conduit foreign income.

REVIEW OF OPERATING RESULTS

CASH FLOW STATEMENTS

The Cash Flow Statements included in the Financial Statements have been prepared in accordance with AASB 107 "Cash Flow Statements", allocating cash flows to operating, investing, and financing activities. As a consequence, cash flows that relate to the profit on sale of investments and cash flows from return on investments are not included in "Cash Flows from Operating Activities".

Where income from principal investment activities is an integral part of the Group's total return, cash flows from the profit on investment and returns on investment should not be differentiated from operating cash flow. Investments are generally held for a short term prior to their subsequent disposal. The table below reallocates the profit and investment return component of investing cash flows to operating cash flows to provide a more appropriate measure of the "operating" cash flows of the Group.

RECONCILIATION OF NET PROFIT AFTER TAX TO NET CASH FLOWS FROM OPERATIONS

	Consolidated	
	2007 $'000	2006 $'000
Net Profit after Tax before Minority Interest	639,339	408,917
Less:		
Fees and income receivable	(261,978)	(71,297)
Equity accounted profits of associates	(252,879)	(140,949)
(Decrease)/increase in tax provisions	(13,218)	3,455
Deferred gain on sale of subsidiary, net of income support provision	-	(37,500)
Unrealised loss on investments	15,007	(9,148)
Gain on dilution of investment in associate	-	(54,088)
Add Back:		
Non-cash items (including depreciation and share-based payments)	224,401	182,827
Unrealised (gain)/loss on derivatives and foreign currency translation	26,175	(50,786)
Net accrued interest payable/(receivable)	7,346	(11,349)
Distributions received and deferred fees from associates	303,579	204,230
Movement in working capital	(15,189)	155,980
Net cash flow from Operating Activities	**672,583**	**580,292**

CASH FLOW STATEMENT

Year Ended	Consolidated	
	2007 $'000	2006 $'000
Cash Flows from Operating Activities per Financial Statements	**(506,773)**	**(75,734)**
Net cash flow from profit on investments	875,647	390,105
Net cash flow from return on investments	303,579	204,230
Net cash flow from reinvesting fees received in stock	130	61,691
Total Net Cash Flows from Operating Activities	**672,583**	**580,292**
Cash Flows used in Investing Activities per Financial Statements	**(4,704,710)**	**(4,424,582)**
Net cash flow from profit on investments	(875,647)	(390,105)
Net cash flow from return on investments	(303,579)	(204,230)
Net cash flow from reinvesting fees received in stock	(130)	(61,691)
Total Cash Flows used in Investing Activities	**(5,884,066)**	**(5,080,608)**
Net Cash Flows from Financing Activities per Financial Statements	**7,226,344**	**4,424,008**
Net increase/(decrease) in Cash Held	**2,014,861**	**(76,308)**
Cash brought forward	572,877	685,446
Effects of exchange rate changes on cash	(36,580)	(36,261)
Closing Cash Carried Forward	**2,551,158**	**572,877**

PERFORMANCE HISTORY

	Year ended 31 Dec 2007 $'000	Year ended 31 Dec 2006 $'000	Year ended 31 Dec 2005 $'000
Net Revenue by Type			
Base fees from AUM	217,162	117,560	54,838
Co-investment Income	155,773	110,152	33,882
Advisory fees from AUM	339,840	326,453	122,991
Performance fees from AUM	51,445	64,244	81,697
Other Operating Income	98,605	97,401	15,069
Operating Leasing trading profit	186,047	65,028	44,739
Development activity	410,141	189,016	121,899
Principal investment	460,833	278,075	276,635
Third party advisory fees	24,932	45,052	81,578
Total Net Revenue	**1,944,778**	**1,292,980**	**833,328**
Net Revenue by Division			
Real Estate	492,885	318,606	295,915
Infrastructure	902,848	470,517	243,074
Operating Leasing	394,452	177,468	121,089
Corporate & Structured Finance	154,593	326,389	173,250
Total Net Revenue	**1,944,778**	**1,292,980**	**833,328**
Net corporate interest expense	(100,531)	(66,337)	(5,676)
Total operating costs	(483,107)	(334,649)	(227,894)
Operating Profit before Bonus & Tax	**1,361,140**	**891,994**	**599,758**
Bonus expense (including amortisation of share options and bonus deferral rights)	(573,440)	(414,120)	(266,796)
Operating Profit before Tax	**787,700**	**477,874**	**332,962**
Tax	(148,361)	(68,957)	(59,897)
Net Profit after tax (before deduction for outside minority interest)	**639,339**	**408,917**	**273,065**
Minority interest excluding BBIPL	3,707	(2,106)	(21,428)
Profit after Tax attributable to the Babcock & Brown Group	**643,046**	**406,811**	**251,637**
BBIPL minority interest	(117,897)	(98,173)	(71,649)
Profit after Tax attributable to members of Babcock & Brown Limited	**525,149**	**308,638**	**179,988**

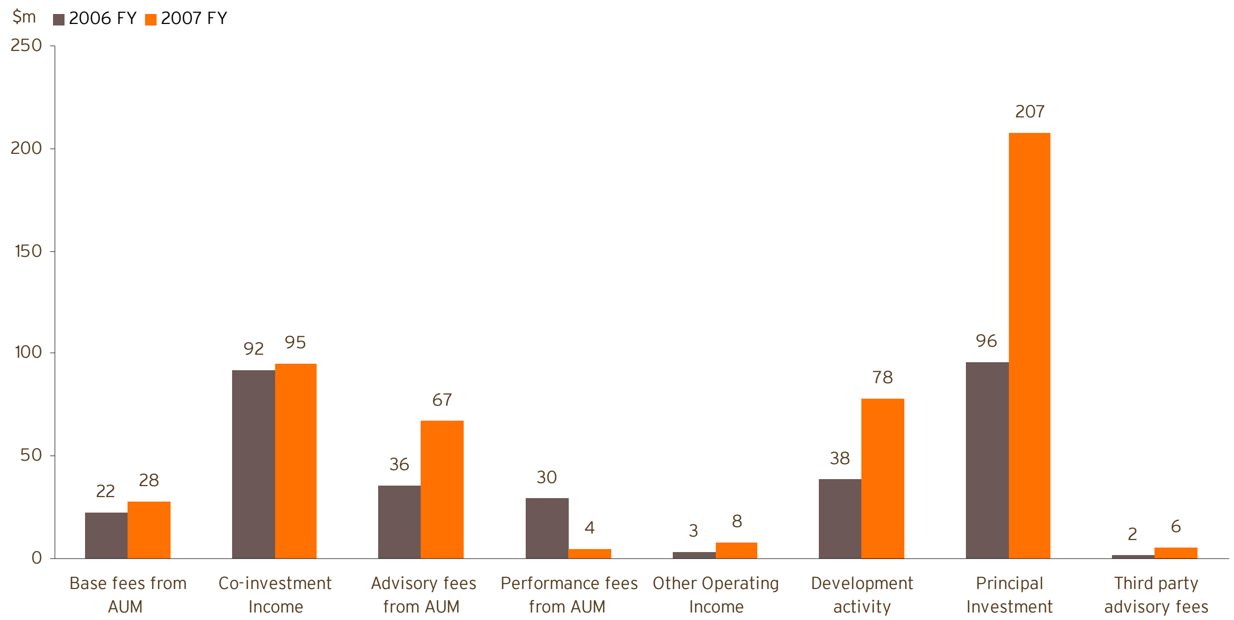
REVIEW OF OPERATING RESULTS

PERFORMANCE HISTORY

	Year ended 31 Dec 2007 $'000	Year ended 31 Dec 2006 $'000	Year ended 31 Dec 2005 $'000
Key Ratios			
Earnings per Share Group plus Share Trusts - Basic	184.0¢	122.6¢	77.4¢
Earnings per Share Group plus Share Trusts - Diluted	174.5¢	116.2¢	74.2¢
EBITDA Group ($m)	971.4	567.7	342.8
Cost to income pre-bonus, Group	26%	28%	28%
Cost to income post-bonus, Group	57%	61%	61%
Interim Dividend	21.4¢	15.0¢	8.75¢
Final Dividend	33.0¢	21.0¢	14.25¢
Interim Ordinary Dividend Franking %	50%	50%	50%
Final Ordinary Dividend Franking %	50%	50%	50%
Dividend Payout ratio Group plus Share Trusts - Basic	30.0%	28.8%	28.6%
Dividend Payout ratio Group plus Share Trusts - Diluted	31.2%	30.4%	29.9%
Net Tangible Assets per Ordinary Share ($ per Share)	8.12	4.10	2.71
Assets Under Management ($m)	71,747	44,142	21,743
Return on Equity, Group	32.4%	31.0%	28.8%
Headcount numbers	1,435	1,019	642
Segment Net Assets			
Real Estate	1,780,037	936,222	498,728
Infrastructure	2,249,896	1,571,368	927,747
Operating Leasing	357,748	191,939	202,097
Corporate & Structured Finance	590,171	368,848	212,384
Total Segment Net Assets	**4,977,852**	**3,068,377**	**1,840,956**
Corporate debt	(2,759,598)	(1,384,909)	(723,090)
Net cash and cash equivalents	363,482	315,994	288,373
Working capital (excluding cash)	(130,230)	(195,597)	(181,075)
Deferred tax assets	462,731	363,300	214,953
Deferred tax liabilities	(481,059)	(493,318)	(336,368)
Property and equipment	65,337	26,642	16,245
Other	15,089	11,556	(5,183)
Total Net Assets	**2,513,604**	**1,712,045**	**1,114,811**

REAL ESTATE

NET REVENUE



NET REVENUE BY TYPE

	Year ended 31 December 2007 $'000	Year ended 31 December 2006 $'000	Change %
Base fees from AUM	27,676	22,072	25.4
Co-investment income	94,844	92,119	3.0
Advisory fees from AUM	67,408	35,755	88.5
Performance fees from AUM	4,288	29,542	(85.5)
Other Operating Income	7,653	3,109	146.2
Development activity	77,983	38,466	102.7
Principal investment	207,325	95,931	116.1
Third party advisory fees	5,708	1,612	254.1
Net Revenue (before Minority Interest)	**492,885**	**318,606**	**54.7**
Segment Minority Interest[1]	4,478	(3,458)	>100
Total Net Revenue (after Minority Interest)	**497,363**	**315,148**	**57.8**

NET ASSETS

As at 31 December 2007	Assets $'000	Liabilities $'000	Net 2007 $'000	Net 2006 $'000
Real Estate	5,447,051	3,667,014	1,780,037	936,222

1 The minority interest of $4.5 million comprises outside equity holders' share of profits from certain German and Swiss properties of approximately $4.0 million offset by losses for start-up associates with UK properties of $8.5million.

REAL ESTATE

HIGHLIGHTS OF 2007

The Real Estate Division increased net revenue by 57.8% for the 12 months to 31 December 2007. Net revenue of $492.9 million for the year included:

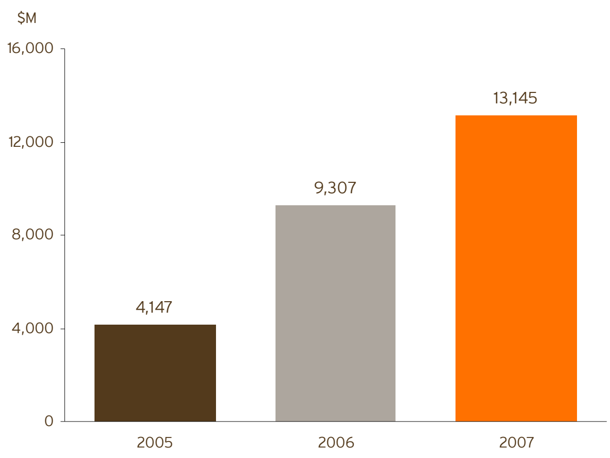
- Continuing revenue from the core real estate business in Australasia, Japan, Europe and North America.
- Principal investment revenue associated with the sale of real estate assets during the period, including a significant portion of the European retail portfolio.
- Principal investment revenue earned on the sale of Babcock & Brown's 50% interest in the Halverton platform, and a revaluation of the BNP Portfolio.
- Development revenue from the sell down of residential development portfolios in Italy and Australia.
- Co-investment income from Babcock & Brown's equity accounted interests in BJT, BLP and the GPT joint venture, including recovery of $25 million in income support provided to GPT in 2006.
- Base and advisory fees from BJT, BLP and the GPT joint venture.

OVERVIEW

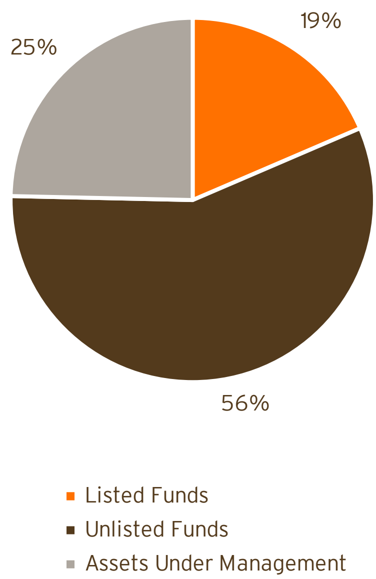
The Real Estate Division is an integrated asset management and funds management group operating across 22 countries around the world. Asset origination includes principal investments on Babcock & Brown's balance sheet where opportunities exist to develop, enhance or aggregate assets for new or existing funds. The specialised fund and asset management platform has undergone significant growth during 2007 reflected in the growth of AUM.

At 31 December 2007 AUM was $13.1 billion, representing 41% growth during the year. Growth in AUM was primarily driven by growth in AUM in BJT and a growing number of property mandates in Europe and North America which draw on Babcock & Brown's asset origination, asset management and funds management expertise.

GROWTH IN ASSETS UNDER MANAGEMENT

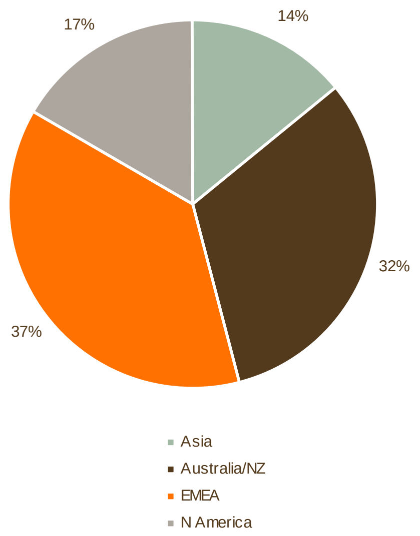


AUM BY TYPE

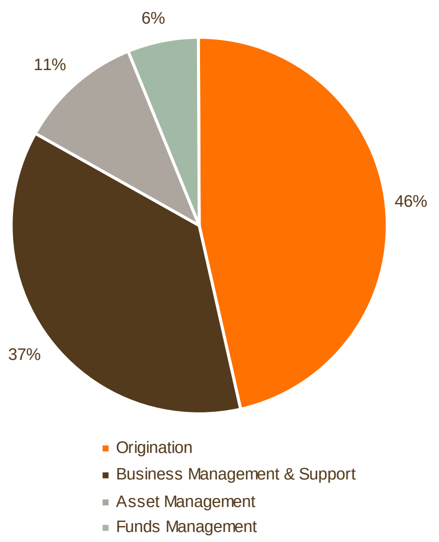


At 31 December 2007 employees working within the Real Estate Division had increased by 53% from 154 in 2006 to 236.

HEADCOUNT BY GEOGRAPHY



HEADCOUNT BY ACTIVITY



ORIGINATION

The key transactions that contributed to development fees, principal investment and other operating revenue included:

- Australia – principal investment, financing and advisory activities in development projects in Australia's key capital cities, typically in joint ventures with experienced partners.
- New Zealand – provision of mezzanine debt for residential developments.
- Southeast Asia – self-storage and commercial developments.
- Japan – commercial property investments.
- Germany – management and trading of retail and office assets and residential developments.
- Switzerland – recycling of retail portfolios.
- France – retail development and commercial property investments.
- Spain – industrial and residential developments and the provision of mezzanine debt.
- Italy – residential and commercial developments, predominantly in Milan.
- United Kingdom – sale of the Halverton platform, self storage and commercial property investments.
- North America – earnings from multi-family, retail, self-storage and mezzanine investments as well as multi-family and retail asset management platforms. Investments in retail and light industrial developments also initiated in this period.

REAL ESTATE

NORTH AMERICAN RETAIL AND RESIDENTIAL PLATFORMS

RESIDENTIAL

In March 2007, Babcock & Brown completed the acquisition of all of the common stock of BNP Residential Properties Inc (BNP) in a transaction valued at approximately US$833 million (approximately A$1,041 million). Following completion of the BNP acquisition, Babcock & Brown's multi-family property portfolio comprises in excess of 28,000 units across nine states in North America with a more diversified and strengthened presence in the south east and a maintained focus in the high employment growth Sunbelt states.

The BNP asset management platform, now rebranded Babcock & Brown Residential, is progressively assuming asset management responsibilities for the Alliance portfolio of multi-family dwellings which were acquired in 2006. The financing for the portfolio is ten years interest only fixed rate debt. The portfolio is performing well, benefiting from the current turmoil in the home mortgage market in North America. Two of the properties from the original Alliance portfolio were recently sold at a cap rate of 5.43% based on an in-place trailing 12 months NOI, compared to the cap rate the BNP portfolio is valued at in the Babcock & Brown books of approximately 5.75%.

RETAIL

During the 2007 year, Babcock & Brown acquired Gregory Greenfield & Associates, Ltd. (GG&A), a US-based regional mall owner and operator, as well as a portfolio of eight regional malls currently managed and controlled by GG&A. Included in the acquisition was the asset management role for six additional malls currently owned by third party investors. The transaction was completed on 10 August 2007, with the GPT joint venture acquiring a 51.1% stake in the retail portfolio and subsequently, Oxford Properties Group (Oxford) acquiring 48.9%.

Babcock & Brown has retained the asset management platform acquired as part of the GG&A acquisition and will continue to manage the GG&A property portfolio on behalf of the Joint Venture and Oxford. The management of the other retail properties owned by the GPT joint venture have been transferred across to the GG&A platform.

SPECIALISED FUND AND ASSET MANAGEMENT PLATFORM

THE GPT JOINT VENTURE

On 7 June 2007, Babcock & Brown and The GPT Group (GPT) outlined a number of changes to the Joint Venture to ensure it is well positioned to build on the success and positive momentum achieved to date. The changes resulted in the appointment of Babcock & Brown to manage the Joint Venture portfolio (Joint Venture Fund). The Joint Venture changes included the following key elements:

- A maximum eight year term from July 2007, comprising up to a five year investment term followed by a divestment period of up to three years.
- Babcock & Brown has assumed responsibility for the management of the Joint Venture Fund, in accordance with pre-agreed guidelines gained by the Joint Venture Committee. The Joint Venture Committee maintains its existing membership with equal representation from both partners.
- GPT acquired Babcock & Brown's interest in the UK based Halverton investment and asset management business and the Joint Venture's 60% interest in Hamburg Trust, a closed-end German funds management business. GPT-Halverton will be responsible for the asset management of the Joint Venture Fund's European light industrial and multi-tenanted shopping centre portfolios.
- Babcock & Brown will manage all other Joint Venture Fund owned assets.
- Babcock & Brown has the opportunity to create funds which it manages through the disposition of Joint Venture Fund assets, other than assets managed by GPT-Halverton.

- A revised fee structure, which reflects Babcock & Brown's management responsibilities towards the Joint Venture Fund going forward and is designed to achieve an even greater alignment of interests between the parties. The fee structure incorporates lower acquisition fees, and introduces a base management fee and incentive fees linked to the achievement of GPT's return on equity targets.

Babcock & Brown and GPT maintain a 50 per cent ownership in the Joint Venture Fund.

Over 2007 the Fund's total committed equity capital of $2.2 billion has been fully invested and the strategy of the Joint Venture Fund is now focused on the recycling capital and active asset management of existing portfolios.

Profit on sale of Babcock & Brown's interest in the Halverton platform has been recognised in the 2007 financial year as principal investment income.

At 31 December 2007, the book value of the portfolio was $7.4 billion. During the 12 month period, the Joint Venture Fund invested in or committed to acquire assets and projects in Australia, the Czech Republic, Denmark, France, Germany, Lithuania, the Netherlands, New Zealand, Poland, Spain, Sweden, the UK and North America. At 31 December 2007, the Joint Venture Fund had contracted and completed investments in Europe with a carrying value of €3.2 billion (A$5.4 billion), and in North America with a carrying value of US$1.4 billion (A$1.9 billion). At 31 December 2007, the composition of the European portfolio was 32.1% residential properties, 20.4% light industrial, 15.7% retail and 4.1% office. The portfolio in North America comprised 14.9% retail, 5.9% multi family and 4.9% mezzanine. The residual portfolio comprised 1.3% in Australian and New Zealand mezzanine loans and 0.7% in UK mezzanine loans. The GPT JV portfolio met its ROE targets in 2007 and the top up provision was recovered.

BABCOCK & BROWN JAPAN PROPERTY TRUST

During the 12 month period BJT's portfolio expanded through the acquisition of interests in twelve properties and divestment of two properties taking the portfolio to interests in 46 properties; 22 office, 19 retail and 5 residential with a portfolio value of ¥174.5 billion (A$1.77 billion) at 31 December 2007.

In August 2007, BJT successfully completed an institutional placement of 30 million new units at $1.73 per unit to partially fund the acquisition of four properties with a purchase price of ¥28 billion (A$295 million).

In 2007, Babcock & Brown earned total base fees from BJT of $8.0 million. Babcock & Brown also earned advisory fees in relation to the capital raising and expansion of the portfolio across the year.

At 31 December 2007 total assets under management for the Trust was $2.0 billion.

BABCOCK & BROWN RESIDENTIAL LAND PARTNERS

During 2007, BLP doubled its initial portfolio from 10 to 20 residential land projects and increased the portfolio's geographic diversification by acquiring two projects in New Zealand and four projects in Western Australia.

During the year, BLP announced the formation of a strategic partnership with Western Australian developer PRM Group. Under the terms of the arrangement BLP will acquire a 50 per cent interest in PRM Property Holdings Pty Ltd (PRM Holdings) which has joint venture interests in four residential land sub-division projects located in Western Australia (the Projects). In addition, BLP announced it has acquired a 60 per cent interest in PRM Property Group Pty Ltd (PRM Group), the development manager on the Projects.

Babcock & Brown earned advisory fees and base fees during the year. At 31 December 2007, assets under management for the Trust were $445 million.

REAL ESTATE

THAKRAL CORPORATION LIMITED

In April 2007, Babcock & Brown acquired a 9.5% stake in Thakral Corporation Limited, a listed Singaporean entity, with cash reserves of approximately S$150 million (A$119 million) and strategic shareholders, Hong Leong Group and the Thakral Family. Babcock & Brown has board representation and through this investment expects to obtain access and exposure to property investments and opportunities across Asia.

EUROPEAN PROPERTY MANDATES

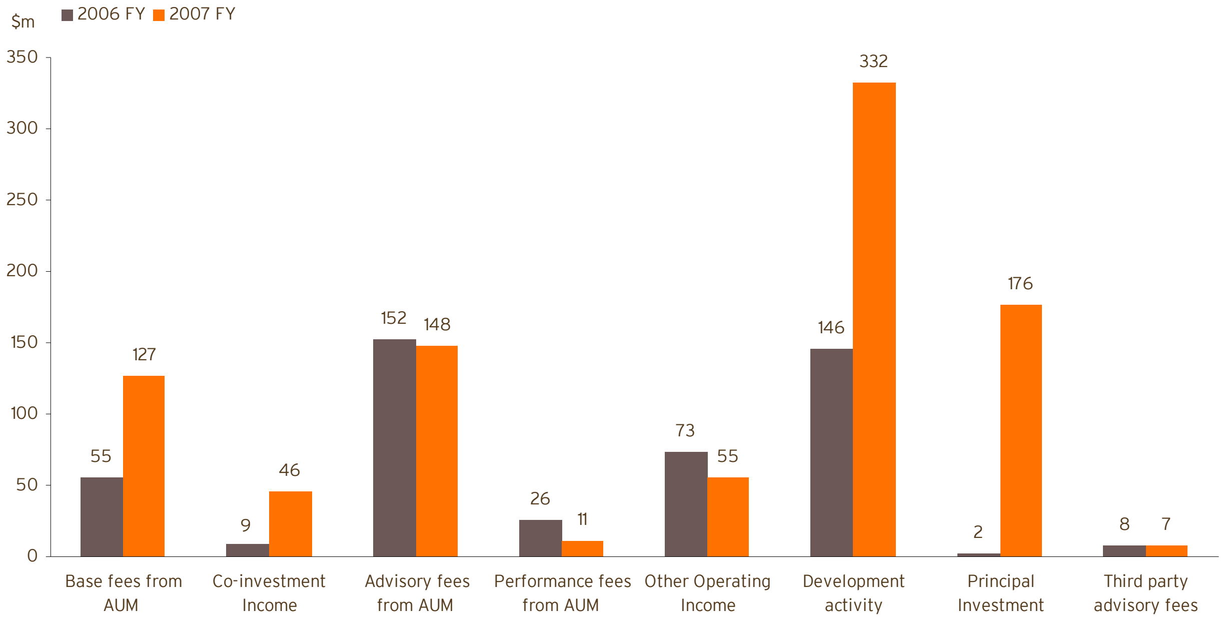
During 2007 Babcock & Brown established a number of joint ventures when interests in several existing retail, residential and office portfolios in Germany and Switzerland were syndicated to third party investors. Babcock & Brown which retains an ongoing co-investment interest, has entered into agreements to manage the portfolios on behalf of the investors. The third party interest in these properties at 31 December 2007 was $2.0 billion.

US PROPERTY MANDATES

During the year Babcock & Brown established significant residential and retail property management platforms in North America through the acquisition of BNP in March 2007 and GG&A in August 2007, respectively. Total third party assets under management at 31 December 2007 for these platforms was $1.3 billion.

INFRASTRUCTURE

NET REVENUE



NET REVENUE BY TYPE

	Year ended 31 December 2007 $'000	Year ended 31 December 2006 $'000	Change %
Base fees from AUM	127,075	55,361	129.5
Co-investment income	45,632	9,084	402.3
Advisory fees from AUM	147,706	151,755	(2.7)
Performance fees from AUM	11,487	25,631	(55.2)
Other Operating Income	55,338	72,952	(24.1)
Development activity	331,968	145,619	128.0
Principal investment	176,302	2,276	>1,000
Third party advisory fees	7,340	7,839	(6.4)
Net Revenue (before Minority Interest)	**902,848**	**470,517**	**91.9**
Segment Minority Interest[1]	9,306	2,944	216.1
Total Net Revenue (after Minority Interest)	**912,154**	**473,461**	**92.7**

NET ASSETS

As at 31 December 2007	Assets $'000	Liabilities $'000	Net 2007 $'000	Net 2006 $'000
Infrastructure	5,919,222	3,669,326	2,249,896	1,571,368

1 Minority interest on Infrastructure revenue primarily represents outside equity holders' share of loss related to Babcock & Brown GR Coogee Pty Ltd.

INFRASTRUCTURE

HIGHLIGHTS OF 2007

The Infrastructure Division increased net revenue by 92.7% during the 12 months to 31 December 2007. The key factors contributing to this increase were:

- Development revenue generated on the sale of wind energy projects in North America, Europe and Australia.
- Development revenue generated from the sale of Australian gas fired power generation projects and sale of wind farms.
- Advisory fees earned from BBW in relation to the acquisition of European wind farm projects from third parties.
- Operating income associated with the Enersis developed wind and hydro projects.
- Advisory fees from specialised funds in relation to the acquisition of an investment in Brisa.
- Advisory fees and development revenue in relation to a range of Public Private Partnerships (PPP)/Private Finance Initiatives (PFI) projects in Europe and Australia.
- Principal investment income from the sale of an investment in Alinta Limited and the sale of 50% of Enersis Wind and 100% of Enersis Hydro in December 2007.
- Base fees generated from listed and unlisted infrastructure funds.
- Co-investment income from equity accounted earnings of Babcock & Brown's investments in BBI, BBP, BBPP and BBW. This was offset to an extent by an equity accounted loss from BEI.

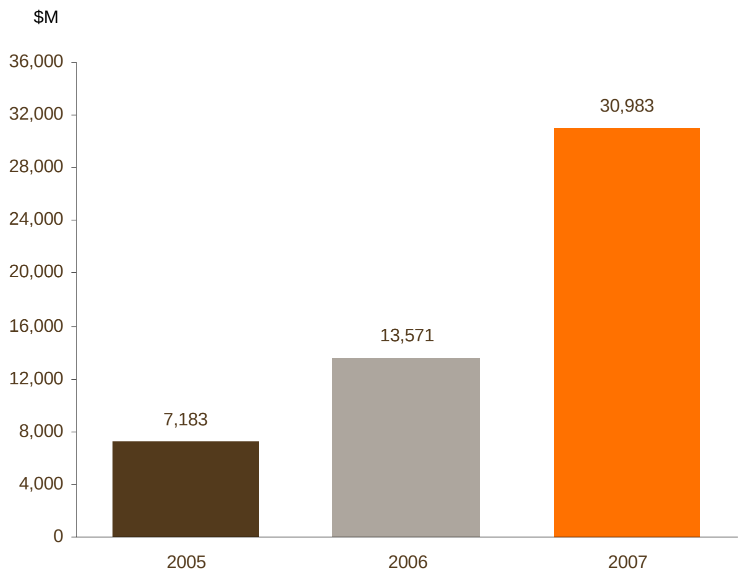
OVERVIEW

The Infrastructure Division has an integrated principal investment and long term fund and asset management model. Origination of assets for investment is either through development on Babcock & Brown's balance sheet, sometimes in conjunction with partners, or through the acquisition of existing assets in negotiated transactions or in some instances, competitive tenders.

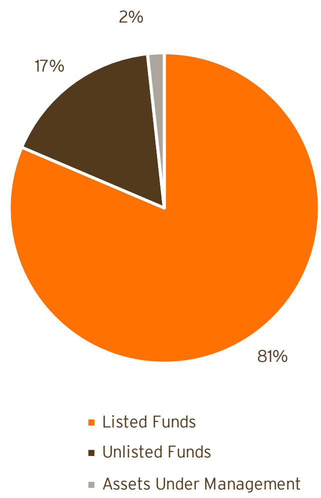
The Division has established a competitive advantage for its specialised fund and asset management platform through its development pipeline which is reflected on Babcock & Brown's balance sheet at cost and in some instances, where appropriate to the investment mandate, on the balance sheet of its externally managed funds. The book value of the Division's development pipeline at 31 December 2007 was $1.2 billion, an increase of 51% over the previous corresponding period.

At 31 December AUM was $31.0 billion representing 128% growth during 2007. Growth in AUM was primarily driven by the raising of wholesale infrastructure funds in Europe and Asia, wholesale capital committed for investment in North American infrastructure, capital raised to fund the acquisition of some of the assets of Alinta Limited by BBI, BBP and BBW and capital raisings by both BBW and BBI early in 2007.

GROWTH IN ASSETS UNDER MANAGEMENT

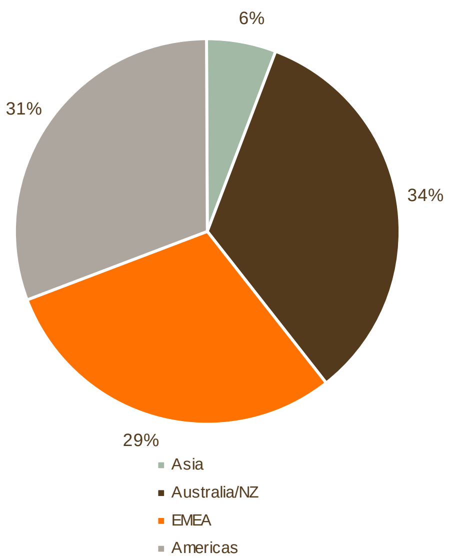


AUM BY TYPE

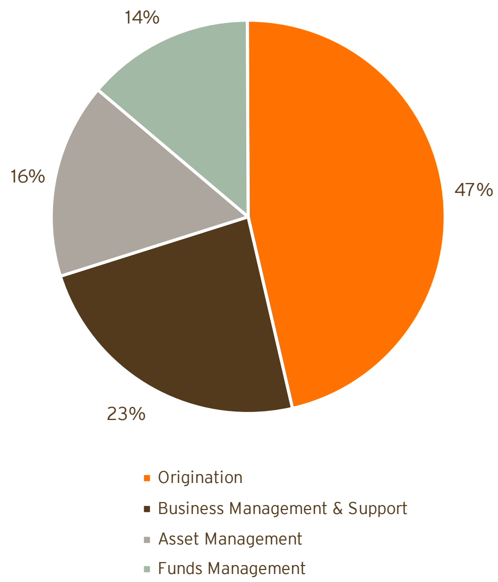


At 31 December 2007, employees working within the Infrastructure Division had increased by 59% from 293 to 465.

HEADCOUNT BY GEOGRAPHY



HEADCOUNT BY ACTIVITY



INFRASTRUCTURE

ORIGINATION

The key transactions that contributed to development, principal investment and other operating revenue included:

- Development revenue derived from the sale to BBW of wind energy projects developed on the Babcock & Brown balance sheet in Europe, North America and Australia.
- Development revenue associated with the sale of projects to BBPP.
- Development revenue recognised on the sale of a number of conventional power station developments in Australia and wind farms in US, Europe, and Australia.
- Operating revenue from assets on the balance sheet during the period, primarily related to the Enersis wind and hydro assets.
- Principal investment income includes net revenue generated from the sale of 50% of the Enersis wind energy portfolio and the sale of the Enersis hydro portfolio and net revenue generated from the sale of Babcock & Brown's investment in Alinta Limited.

RENEWABLE POWER GENERATION

During the 12 month period, Babcock & Brown arranged the acquisition of 13 wind farm projects for BBW from its own pipeline and from third parties in the US, Europe and Australia, with a total installed capacity of approximately 880MW.

In addition, Babcock & Brown sold BBW a 50% interest of a company that holds the Enersis operating wind farms in Portugal totalling 262MW (net for BBW). Babcock & Brown earned development revenue and/or other advisory fees in relation to the projects referred to above. Advisory fees were also earned on the refinancing of BBW's debt facility and the capital raising completed in April 2007.

Babcock & Brown now manages wind farm projects, on its own balance sheet or on behalf of BBW with an operating capacity of 2,879MW, projects under construction of 1,355MW, and has a pipeline of projects under development of in excess of 15,000MW expected to be delivered over the next five years.

During the year Babcock & Brown also sold five wind farms in France on market totalling 98MW to third parties and one wind farm in Sicily with a capacity of 66MW.

Operating income was primarily generated from the operating wind and hydro assets within the Enersis portfolio.

CONVENTIONAL ENERGY GENERATION AND DISTRIBUTION

During 2007 Babcock & Brown continued to focus on the development of projects in the conventional power generation industry. Development revenue was recognised on the Kwinana, Wagga, Wambo and Rocky Point power generation projects.

In September 2007, Babcock & Brown announced that it had reached financial close on a new 400MW, US$450 million (A$512 million) HVDC transmission line from East Bay to San Francisco, the Trans Bay Cable project. Construction of the project has now commenced.

During the period, Babcock & Brown acquired Celanese Corp's Pampa, Texas chemical plant site which is located near an existing Babcock & Brown wind site development area in Texas. This site has the potential to form a platform for the development of clean coal generation projects as well as additional wind energy projects in the region.

In December 2007, Babcock & Brown announced that it has, together with BBI and a syndicate of investors and Babcock & Brown managed accounts, acquired an 80% holding in MidCon LLC (MidCon), which owns the Natural Gas Pipeline Company of America (NGPL) and related businesses. This transaction reached financial close on 15 February 2008 with Babcock & Brown selling down its interest in the business while retaining management of the investment.

ALINTA SCHEME OF ARRANGEMENT

On 11 May 2007, Babcock & Brown in a consortium with Singapore Power and three of its infrastructure funds, BBI, BBP and BBW, announced that it had been advised by the Board of Alinta Limited (Alinta) that it would recommend to Alinta shareholders a proposal submitted by the consortium to acquire the whole of the share capital of Alinta by way of a Scheme of Arrangement (Scheme).

On 15 August 2007, Alinta shareholders voted in favour of the Scheme. Upon completion on 31 August 2007, the transaction added approximately $5.9 billion in AUM to Babcock & Brown's existing specialised funds and asset management platform.

As part of this acquisition BBI acquired interests in certain of Alinta's transmission and distribution assets and its Western Australian based operations and maintenance businesses.

BBP acquired the power generation assets, energy assets and the future power development projects in the Alinta portfolio. Subsequent to the transaction being completed BBP acquired AGL Energy's 33% stake in Alinta AGL, the end to end energy retail business in Western Australian increasing its ownership to 100% of the asset.

PRIVATE FINANCE INITIATIVES (PFI) AND PUBLIC PRIVATE PARTNERSHIPS (PPP)

During 2007 Babcock & Brown's activities in the PFI/PPP sector expanded significantly beyond its traditional markets of the UK, and more recently Australia, into a number of European countries and the North American region. BBPP, Babcock & Brown's London Stock Exchange listed social infrastructure fund, was a significant benefactor of this expansion. BBPP's portfolio of projects expanded from 22 when it listed in November 2006 to 30 at 31 December 2007.

During 2007 Babcock & Brown earned:

- Advisory fees on a range of projects acquired by BBPP during the period.
- A performance fee of $11 million from BBPP.
- Recurring income from AUM in BBPP.
- Development fees associated with the sale of projects to BBPP.

Projects announced this year include:

- On 2 March 2007, BBPP announced the acquisition of 100% of the equity in Access Durham Justice, the company developing the Durham Courthouse project in the City of Oshawa, Ontario, Canada. The development value of the courthouse is approximately CAN$262.4 million (A$292.1 million).
- On 4 May 2007, Babcock & Brown announced that a Babcock & Brown consortium, Miami Access Tunnel (MAT), had been selected under a Notice of Intent to Award to design, build, finance, operate and maintain the Port of Miami Tunnel (the Project). The value of the project on completion is estimated to be US$822 million (A$968 million). This project is expected to reach financial close in the first half of 2008.
- On 4 May 2007, Babcock & Brown also announced that it had been awarded the PPP contract to build Dublin's Criminal Courthouse Complex. The contract has been awarded by the Irish Court Services and is worth €120 million (A$190 million). This has been sold to BBPP.
- On 4 September 2007, Babcock & Brown, as part of a consortium, announced it had been selected to enter into exclusive negotiations with the Victorian Government for the construction and operation of the new Royal Children's Hospital in Parkville Melbourne. The contract has been awarded and the $850 million project is expected to be completed in 2011.

- On 2 October 2007, Babcock & Brown announced that, as part of a consortium, it had reached financial close on a 40 year PPP with Infrabel, the Belgian state owned rail infrastructure owner and operator. The project is to design, build, finance and maintain the upgrade of a section of rail infrastructure in Belgium that will improve links between the existing Brussels Airport railway station and the rest of the rail network.
- On 21 December 2007, the Australian PPP team in a consortium called Pinnacle Healthcare reached financial and contractual close on the Orange and Associated Health Services PPP Project with the New South Wales Department of Health. Babcock & Brown was the sponsor of the consortium and underwrote the equity which was placed with a wholesale investor.

Babcock & Brown's PPP team globally is currently bidding on a range of projects across North America, Europe, Australia and Asia and is well placed to continue the growth in projects under management secured in 2007.

TRANSPORT

In 2007 Babcock & Brown's ports team originated and advised on the acquisition of interests in a number of ports in Europe and one in the USA including:

- A 51% interest in Tarragona Port Services (TPS), Spain. TPS, based in the Port of Tarragona in the northeast of Spain, provides port terminal and maritime freight transport services via its five dry bulk concessions. BBI has a call option over the remaining 49% interest in TPS, exercisable within the next 18 months.
- A majority interest in the Manuport Group, a leading speciality bulk port group based in Antwerp, Belgium, which handles in excess of eight million tonnes of cargo per year.
- A 50.3% stake in an Italian concession port operator, Terminal Rinfuse Italia S.p.A (TRI). TRI is the largest dry bulk port operator in Italy; located in the ports of Genoa, Savona (Vado) and Venice. TRI handles approximately eight million tonnes per annum of dry bulk products.
- 100% of two Finnish concession port operators, Oy Rauma Stevedoring and Oy Botnia Shipping. The two ports together handle over seven million tonnes per annum of containers, forestry and dry bulk products.
- A 43% interest in Westerlund Group, a Belgian based port operator, which operates in Antwerp (Belgium), Rouen (France) and Changshu (China). An agreement has been reached with Westerlund shareholders to enter into exclusive and final negotiations concerning the sale of the final 57% in the company.
- A 50% interest in Seehafen Rostock Umschlagsgesellchaft GmbH (SR), the dominant port operator in the Port of Rostock, Germany. BBI has pre-emptive rights over the remaining shareholding in the company retained by the Vendor.
- A 50% interest in the Southeastern United States port operator ICS Logistics Inc (ICS), with the remaining 50% owned by a Babcock & Brown managed unlisted fund. ICS is a leading general cargo port operator in the United States.

In January 2008, Babcock & Brown advised BBEIF on the acquisition of a strategic stake in Forth Ports plc.

RENEWABLE FUELS

In June 2007 BNB expanded its US ethanol business with the acquisition of Iroquois Bio-Energy Company ("IBEC") which operates a 40 million gallons per year ("mgpy") ethanol plant in Rensselaer, Indiana. The IBEC facility has been in operation since January 2007 and consistently running at full operational capacity. In January 2008 the 50 mgpy Castle Rock Renewable Fuels development project in Necedah, Wisconsin ("Castle Rock") was successfully completed on schedule, and the 100 mgpy Marquis Energy project in Hennepin, Illinois ("Marquis") is currently on schedule to commence operation in April 2008. Each of IBEC, Castle Rock and Marquis are Fagen/ICM designed and built facilities. Following the completion of the Marquis project, BNB will have ethanol production capacity of over 200mgpy (at full operating capacity) providing a platform to maximize operating efficiencies and to pursue a number of strategic alternatives during the remainder of 2008.

On 30 June 2007, Babcock & Brown Global Partners and Babcock & Brown acquired the Marina Biodiesel GmbH & Co KG plant in Brunsbüttel, NW Germany. The plant has an existing capacity of 130,000 tons per annum (p.a.) of biodiesel and is now being upgraded to manufacture 230,000 tons p.a. The plant, now named 3B Biofuels GmbH & Co KG, uses state of the art technology and is strategically located at the confluence of the Elbe river and Kiel canal near Hamburg. The plant will remain mostly in operation until the expected completion of the upgrade in the first half of 2008.

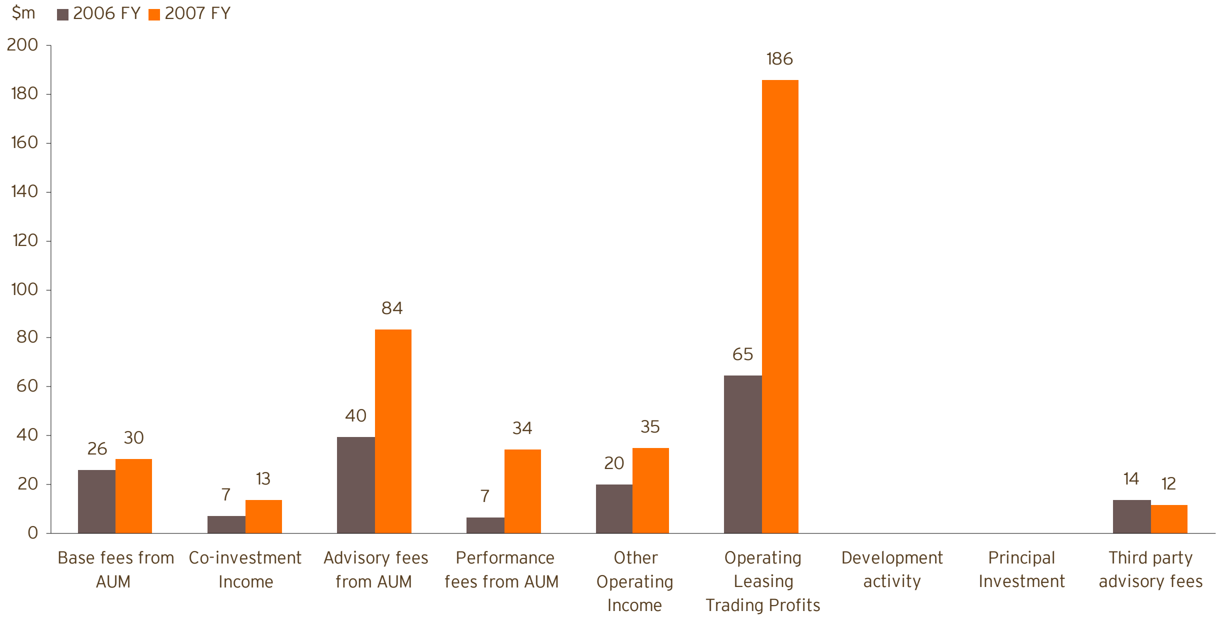
SPECIALISED FUND AND ASSET MANAGEMENT PLATFORM

The Infrastructure Division expanded its specialised fund and asset management platform during 2007, diversifying its capital sources and geographic focus, including the following events:

- In November 2007 the Division reached final close on a wholesale European Infrastructure Fund (BBEIF) with total equity commitments of €2.17 billion (A$3.8 billion). BBEIF made its first investment during the year co-investing with Babcock & Brown in the acquisition of a 10% shareholding in Brisa Auto-Estadas de Portugal S.A. (Brisa), a listed motorway and toll road company based in Portugal. Subsequent to year end the fund has acquired a strategic investment in Forth Ports plc.
- During the year in excess of US$1.0 billion (A$1.14 billion) of committed capital was raised primarily for investment in North American infrastructure. A portion of this capital was used to co-invest with a syndicate of investors and Babcock & Brown managed accounts, in the acquisition of an 80% holding in MidCon LLC (MidCon), which owns the Natural Gas Pipeline Company of America (NGPL) and related businesses. Subsequent to year end a close on further commitments of capital was reached, taking the total commitments to in excess of US$1.4 billion (A$1.5 billion).
- In November 2007 first close was reached on the Babcock & Brown Asia Infrastructure Fund (BBAIF), raising US$400 million (A$456 million) of capital. BBAIF is a fund set up by Babcock & Brown in partnership with The Bank of Tokyo-Mitsubishi UFJ, Ltd (BTMU) and has been established to focus on the growing number of infrastructure investment opportunities in the Asian region including China, Hong Kong, India, Japan, Malaysia, Republic of Korea, Singapore and Thailand. BBAIF made its first investment in November acquiring a stake in Don Muang Tollway PCL (DMT), Thailand.

OPERATING LEASING

NET REVENUE



NET REVENUE BY TYPE

	Year ended 31 December 2007 $'000	Year ended 31 December 2006 $'000	Change %
Base fees from AUM	30,239	25,767	17.4
Co-investment income	13,405	7,036	90.5
Advisory fees from AUM	83,759	39,590	111.6
Performance fees from AUM	34,060	6,576	417.9
Other Operating Income[2]	35,057	19,755	77.5
Operating Leasing trading profits	186,047	65,028	186.1
Development activity	-	-	-
Principal investment[2]	-	-	-
Third party advisory fees	11,885	13,716	(13.3)
Net Revenue (before Minority Interest)	**394,452**	**177,468**	**122.3**
Segment Minority Interest[1]	(9,506)	(2,449)	(288.2)
Total Net Revenue (after Minority Interest)	**384,946**	**175,019**	**119.9**

NET ASSETS

As at 31 December 2007	Assets $'000	Liabilities $'000	Net 2007 $'000	Net 2006 $'000
Operating Leasing	1,925,648	1,567,900	357,748	191,939

1 The minority interest deduction of $9.5 million primarily consists of $8.5 million of outside equity interest in BBAM.

2 Previously net revenue from Operating Leasing trading profits was aggregated under Principal Investment.

HIGHLIGHTS OF 2007

The Operating Division reported a 119.9% increase in Net Revenue for the 12 months to 31 December 2007. The key contributors included:

- Principal investment and advisory fees associated with the IPO of BBAir.
- Principal investment revenues due to a continuation of demand in the aircraft leasing sector.
- BBAM organically grew aircraft under management by 23% from 219 leased commercial jets to 270.
- BBAM generated base and management fees and co-investment income from aircraft syndicates it manages.
- BBRM grew rail cars under management by 23% from 16,745 to 20,597 during the 12 month period.

OVERVIEW

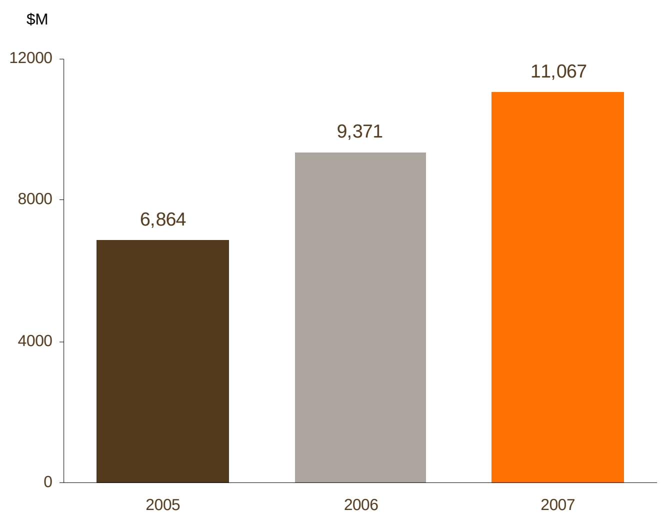
Babcock & Brown's Operating Leasing Division manages a portfolio of assets within four business units:

- Babcock & Brown Aircraft Management (BBAM) – aircraft.
- Babcock & Brown Rail Management (BBRM) – railcars.
- Eurorail – locomotives and railcars.
- Babcock & Brown Electronics Management (BBEM) – semiconductor manufacturing equipment.

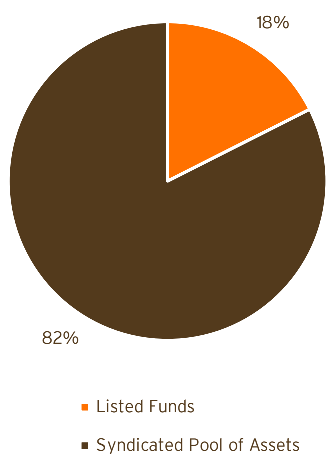
Within each of its operating leasing businesses, Babcock & Brown seeks to acquire portfolios of assets that can be placed with appropriate long-term investors, while maintaining an on-going management role. The assets are typically held under investment structures designed by Babcock & Brown to optimise financial returns which are shared between it and investors.

The Operating Leasing Division reported AUM of $11 billion at 31 December 2007, an increase of 18% over the 12 month period. This growth was driven by the growth in aircraft under management and the growth in rail under management in both North America and Europe.

GROWTH IN ASSETS UNDER MANAGEMENT



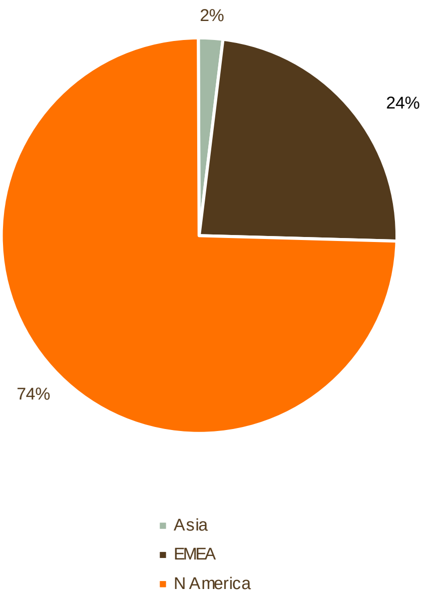
AUM BY TYPE



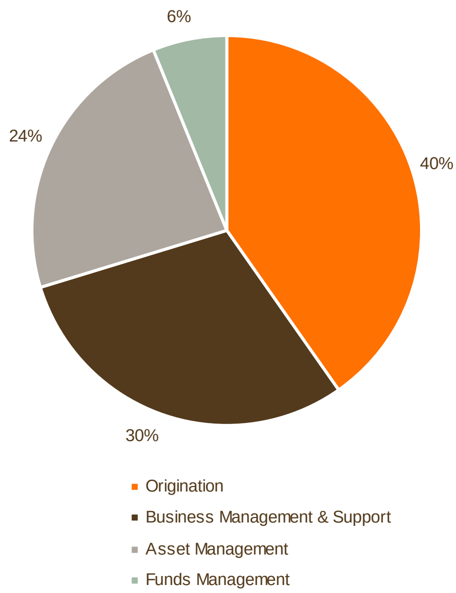
OPERATING LEASING

Employee numbers in the Operating Leasing Division at the end of the period were 161 primarily based in North America and Europe.

HEADCOUNT BY GEOGRAPHY



HEADCOUNT BY ACTIVITY



BABCOCK & BROWN AIRCRAFT MANAGEMENT

The scope of BBAM's primary activities includes:

- Fund and asset management – providing management and re-marketing services to investors.
- Advising on and arranging aircraft acquisitions and leases for aircraft under management.
- Principal investment – acquiring and selling aircraft both on its own account and on behalf of investors, to both trade and financial buyers.

BBAM typically holds aircraft only for as long as is necessary to reposition the asset before either selling it to trade buyers, syndicating, or completing a capital markets transaction. From time to time, BBAM may acquire an aircraft where there is either no lease in place or only a short lease term remaining. BBAM will then seek to reposition the asset, often by negotiating a new lease or reconfiguring the aircraft prior to resale.

On 27 September 2007, the Operating Leasing Division completed the IPO of Babcock & Brown Air Limited (NYSE: FLY) which listed on the New York Stock Exchange with a portfolio of 47 aircraft under management. At 31 December BBAir had increased its portfolio to 54 aircraft with total assets under management of $1.9 billion.

During the 12 month period aircraft under management increased 23% from 219 leased commercial jets to 270 a portfolio valued at $8.5 billion. The growth was driven by:

- A 32% increase in the number of aircraft Nomura Babcock & Brown syndicated into the Japanese market pursuant to the mutually exclusive joint marketing arrangement with BBAM. In 2007 a total of 33 aircraft was syndicated compared to 25 in 2006.
- 7 aircraft acquired under the existing Jet-I aircraft warehouse facility, valued at US$299 million (A$341 million) bringing the total portfolio to 44. This was transferred into the BBAir portfolio during 2007.

- 22 aircraft acquired under a new US$1 billion (A$1.1 billion) warehouse facility, established in 2007.

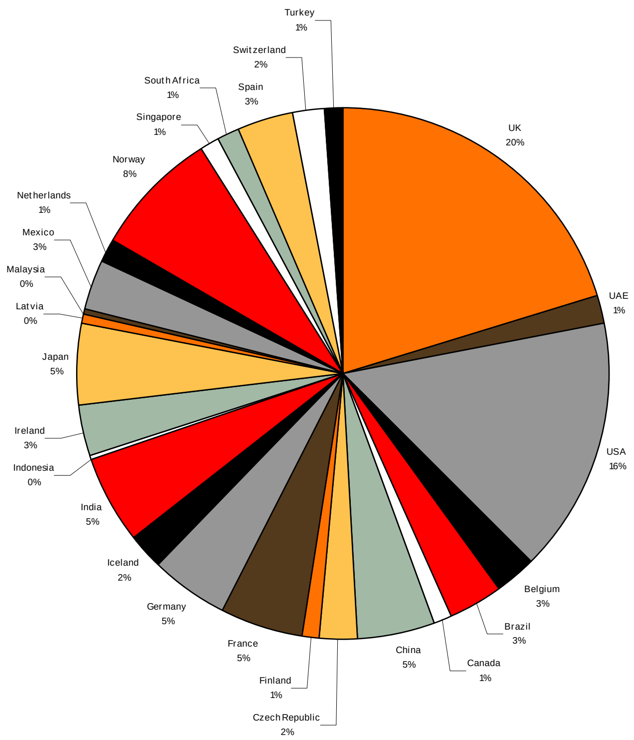
The BBAM fleet profile is well diversified by geography and lessee and is a high quality fleet with a weighted average age of 7.7 years versus North American market average of 14.1 years and a weighted average remaining lease term of 59.4 months.

Fleet Profile as of 31 December 2007	
Number of Lessees	72
Number of Aircraft	270
Weighted Average Age (years)	7.7
Weighted Average Remaining Lease terms (months)	59.4

LESSEE GEOGRAPHIC DIVERSIFICATION – AIRCRAFT UNDER MANAGEMENT

BABCOCK & BROWN RAIL MANAGEMENT

The scope of BBRM's business is:



- Principal investment – origination and acquisition of railcars through manufacturer orders and portfolio purchases utilising Babcock & Brown's balance sheet and Babcock & Brown Rail North America (BBRNA), BBRM's syndicated warehouse funding vehicle.
- The Division earns rental income from rail cars on the Babcock & Brown balance sheet and generates management fees when a railcar is in a wholesale fund. BBRM acts as both fleet and investment manager to BBRNA and receives a management fee for the services it provides, which include lease remarketing, equipment management and maintenance, and lease administration.
- Arranger/Structuring Agent – BBRM generates arranger and structuring fees when railcars are moved from the balance sheet into a wholesale fund.

OPERATING LEASING

During the period, BBRM grew its total managed freight railcar fleet by 23%, bringing total cars under management to 20,597 (16,745 at 31 December 2006). The value of AUM grew 23% to US$1.4 billion (A$1.6 billion). As a result of the growth in AUM, investment management fees earned in 2007 increased 25% compared with the prior year.

BBRNA wholesale syndicate grew by 106% from 6,752 to 13,935. The value of AUM in BBRNA grew 95% over the period.

BBRM has a well diversified fleet, with an average age of 6.0 years versus the North American average fleet age of 19.3 years. BBRM's fleet has been 97%-100% utilised over the last five years, and in 2007 the customer retention rate was 97%.

Fleet Profile as of 31 December 2007	
Number of Railcars	20,597
Number of Leases	156
Number of Lessees	71
Weighted Average Age (years)	5.8
Weighted Average Remaining Lease terms (years)	2.0

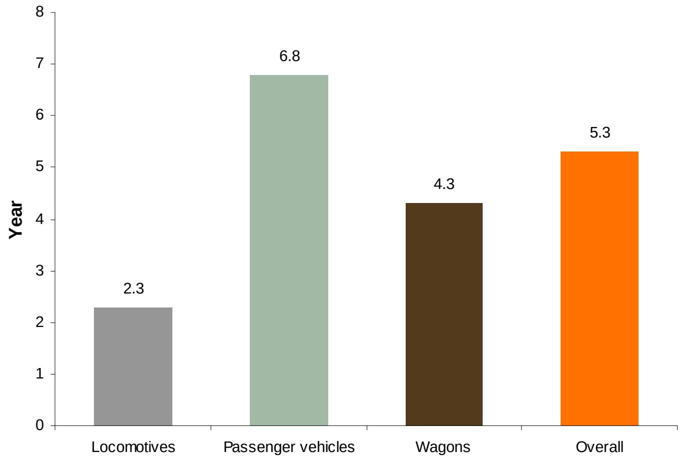
BBRM's focus over the next 12 months will be to continue to expand its specialised fund and asset management platform, reduce its reliance on Babcock & Brown's balance sheet, and increase its recurring revenue streams.

EURORAIL

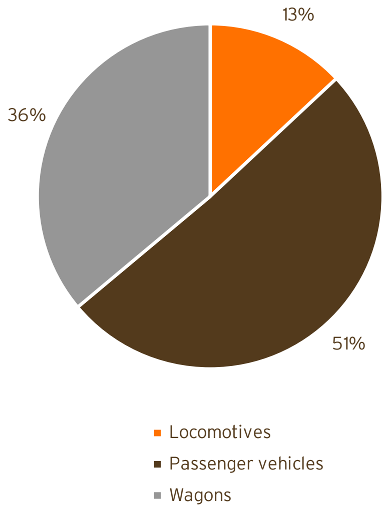
On 1 August 2007, Eurorail announced that it had established a new company, CBRail Leasing S.a.r.l. to facilitate the development of the Babcock & Brown and Bank of Scotland joint venture, CBRail. The ultimate owners of CBRail Leasing Sarl are Babcock & Brown 10%, HBOS 10%, Babcock & Brown Structured Finance Fund 35% and Everest Babcock & Brown 45% with debt facilities provided by nine banks. CBRail Leasing S.a.r.l. will be the principal leasing company of CBRail and has a €390 million (A$653 million) long-term financing platform. At the end of December 2007 CBRail Leasing Sarl's portfolio of AUM was $417million with a contract to acquire an additional $116 million in assets in early 2008.

CBRAIL LEASING SARL PORTFOLIO

OUTSTANDING LEASE DURATIONS



VEHICLE DIVERSIFICATION

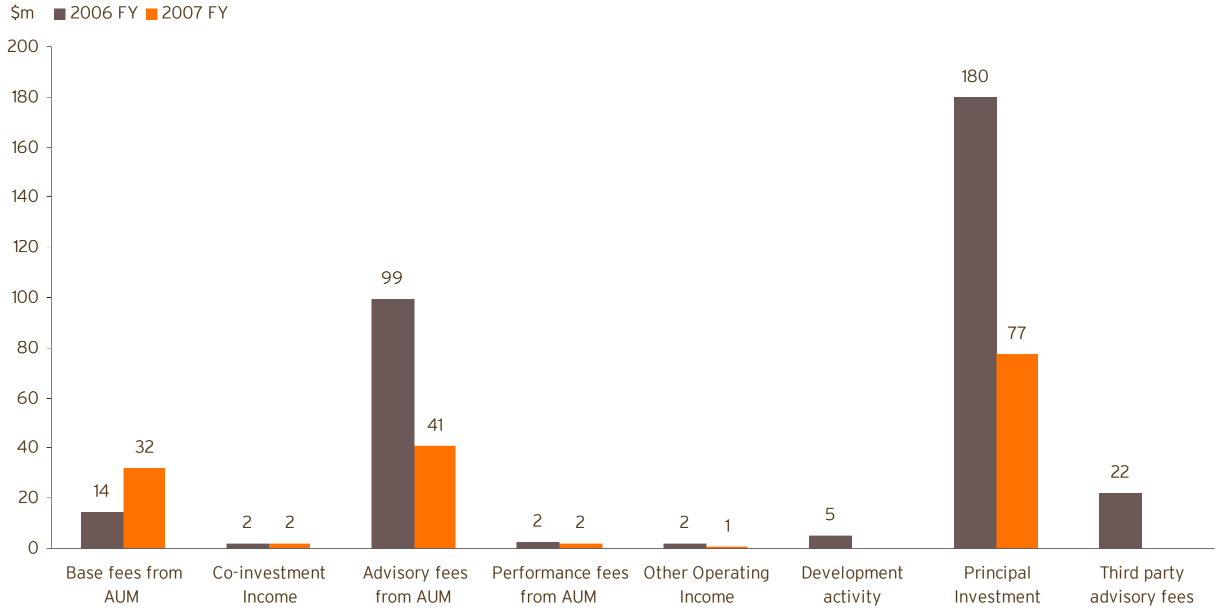


In addition, a new JV between Babcock & Brown and HBOS (CBRail Sarl) was established in Luxembourg to engage in new business activities ranging from procurement of regional passenger trains for franchises to freight locomotives or freight wagons with or without lease commitments and sale and leaseback transactions. Equity is provided by both shareholders equally and debt facilities are provided by HBOS. This is viewed as a "warehouse" company with assets once on lease to be sold to CBRail Leasing Sarl or another long-term hold vehicle.

The CBRail Sarl assets and order book currently stands at $730 million.

CORPORATE & STRUCTURED FINANCE

NET REVENUE



NET REVENUE BY TYPE

	Year ended 31 December 2007 $'000	Year ended 31 December 2006 $'000	Change %
Base fees from AUM	32,171	14,360	124.0
Co-investment income	1,892	1,913	(1.1)
Advisory fees from AUM	40,968	99,353	(58.8)
Performance fees from AUM	1,610	2,495	(35.5)
Other Operating Income	557	1,585	(64.9)
Development activity	190	4,931	(96.1)
Principal investment	77,206	179,867	(57.1)
Third party advisory fees	(1)	21,885	(100.0)
Net Revenue (before Minority Interest)	**154,593**	**326,389**	**(52.6)**
Segment Minority Interest	(916)	276	>(100)
Total Net Revenue (after Minority Interest)	**153,677**	**326,665**	**(53.0)**

NET ASSETS

As at 31 December 2007	Assets $'000	Liabilities $'000	Net 2007 $'000	Net 2006 $'000
Corporate & Structured Finance	976,350	386,179	590,171	368,848

HIGHLIGHTS OF 2007

The Corporate and Structured Finance (CSF) Division reported net revenue of $153.7 million for the 12 month period. The key contributors to the result included:

- Principal investment income and advisory fees generated from transactions associated with the restructure of Prime Life and listing of Babcock & Brown Communities.
- Advisory fees and equity accounted earnings from EBB.
- Advisory fees in relation to BCM's acquisition of Golden Pages and the restructure of eircom.
- Principal investment income on the sale of investment in FSP Group.
- Advisory fees in relation to the syndication of the Coinmach acquisition.
- An increase in recurring revenue streams from its expanding specialised funds and asset management platform.

OVERVIEW

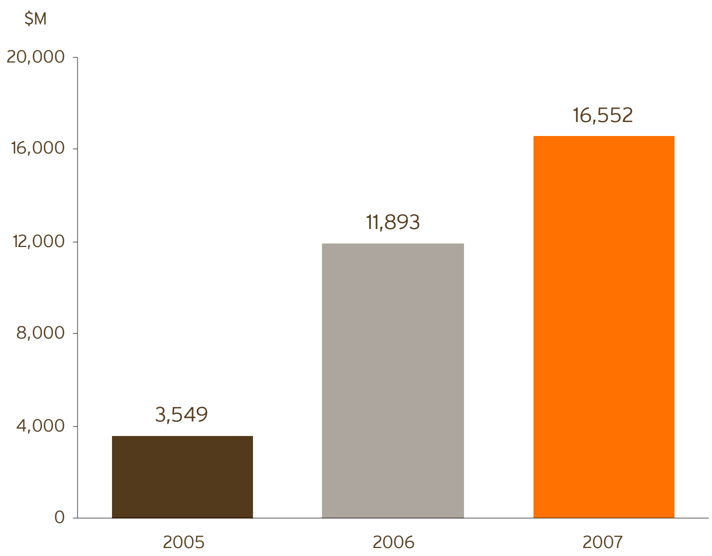
CSF originates, structures, participates in and manages equity and debt investments in both publicly listed and private enterprises primarily in areas not covered by the other Divisions of Babcock & Brown, often in sectors that can utilise and benefit from the core real estate and infrastructure skill sets within Babcock & Brown. The Division seeks to take an active role in working with management and other key stakeholders to realise value in its investments.

The four key sectors of focus are:

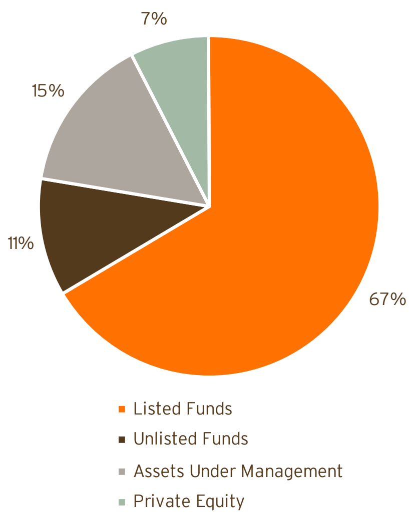
- Senior Living/Aged Care
- Telecommunications
- Essential Services
- Financial Services

Over the 2007 period CSF grew AUM by 39% from $11.9 billion to $16.6 billion.

GROWTH IN ASSETS UNDER MANAGEMENT



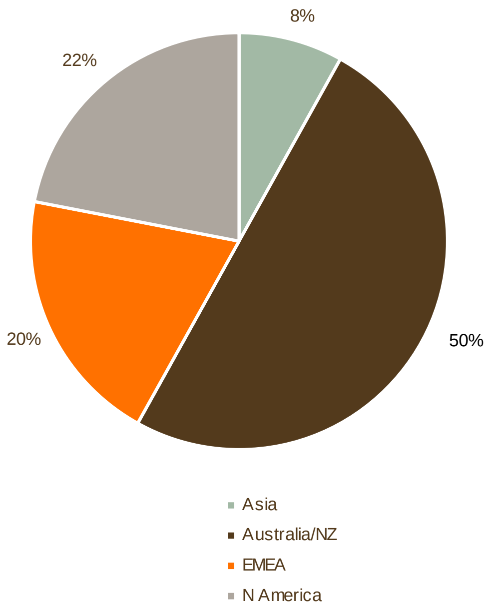
AUM BY TYPE



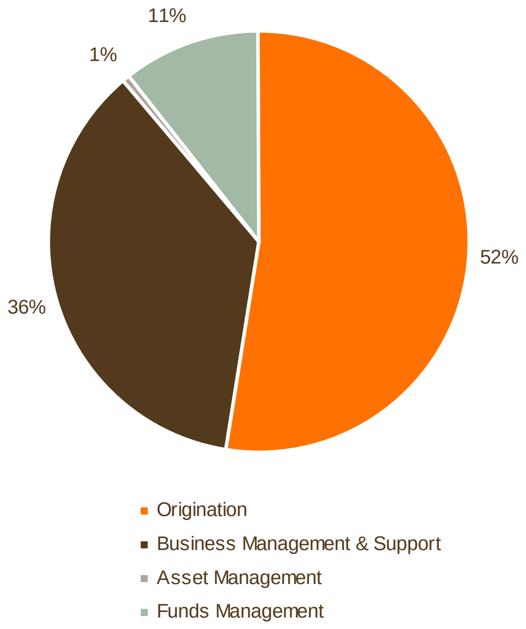
CORPORATE & STRUCTURED FINANCE

At 31 December 2007 the CSF Division had 127 employees globally.

HEADCOUNT BY GEOGRAPHY



HEADCOUNT BY ACTIVITY



BABCOCK & BROWN CAPITAL

In July 2007 BCM acquired Golden Pages, the leading Israeli directories and local search business for an enterprise value of $248 million. During the period the company's Irish telecommunications investment, eircom, sold its radio mast site business for a total cash consideration of $258 million at a 17.2x EBITDA multiple.

AUM at 31 December 2007 was $6.7 billion.

Babcock & Brown recognised base and advisory fees in relation to BCM over the year.

BABCOCK & BROWN GLOBAL PARTNERS

The fund exercised its right to co-invest on a range of Babcock & Brown originated transactions during the period. At 31 December 2007, BBGP had drawn capital from investors totalling €244.6 million (A$408.1 million), or 65% of the fund, and a further €111.9 million (A$189.9 million) of capital was committed to transactions.

Babcock & Brown earned base fees from BBGP during the period.

BABCOCK & BROWN DIRECT INVESTMENT FUND

As at 31 December 2007, DIF's three trusts, DIF I Equity Trust , DIF II Mezzanine Debt Trust and DIF III Global Co Investment Fund, held assets valued at $516.3 million. Since start-up in 2005, these Trusts have returned a combined $215 million to unitholders from successful asset realisations and income distributions. DIF I was closed to new commitments and assets from 30 June 2007.

BBDIF's third trust, the DIF III Global Co Investment Fund, reached first close during September 2007 with $115 million of investor commitments. This fund is now 76% invested in three assets. The Fund is seeking to raise an additional $200 million by final close at the end of May 2008.

Babcock & Brown earned base fees and co-investment income from BBDIF for the 2007 year.

EVEREST BABCOCK & BROWN ALTERNATIVE INVESTMENT TRUST

During the year EBI announced the successful completion of a non-renounceable Entitlement Offer, raising $253.2 million and a Placement Offer, raising $250.0 million.

AUM at 31 December 2007 was $1.5 billion.

Babcock & Brown earned advisory fees on the capital raising.

EVEREST BABCOCK & BROWN

On 9 January 2007, EBB announced the close of the Everest Babcock & Brown Opportunities Fund with capital commitments of approximately $179 million.

AUM at 31 December was $1.8 billion.

Babcock & Brown equity accounts the earnings of this investment.

BABCOCK & BROWN COMMUNITIES

During the year Babcock & Brown announced the restructure of its interests in the senior living sector to create BBC, ASX's largest pure play specialised investment vehicle for the senior living sector. Following the approval of a Scheme of Arrangement with Prime Life and a capital raising in BBC, which raised the maximum capital of $475 million, BBC listed on the ASX on 7 August 2007.

Since listing BBC has grown its portfolio from 44 to 56 retirement villages and has 17 aged care facilities across Australia and New Zealand.

AUM at 31 December 2007 was $2.4 billion.

Babcock & Brown recognised advisory fees in relation to BBC during the year.

BABCOCK & BROWN STRUCTURED FINANCE

BBSFF has a diversified portfolio of assets across three target sectors:

- Operating leasing assets.
- Loan portfolio and securitisation assets.
- Alternative assets.

During the year BBSFF made six new investments and increased its investment in three of the assets acquired at listing.

AUM at 31 December 2007 was $466 million.

BBSFF issued 5,854,253 new ordinary shares of par value S$0.01 per share to Babcock & Brown as payment of the base fee in respect of the year ending 31 December 2007. In addition Babcock & Brown earned advisory fees during 2007.

CORPORATE & STRUCTURED FINANCE

SPECIALITY FINANCE

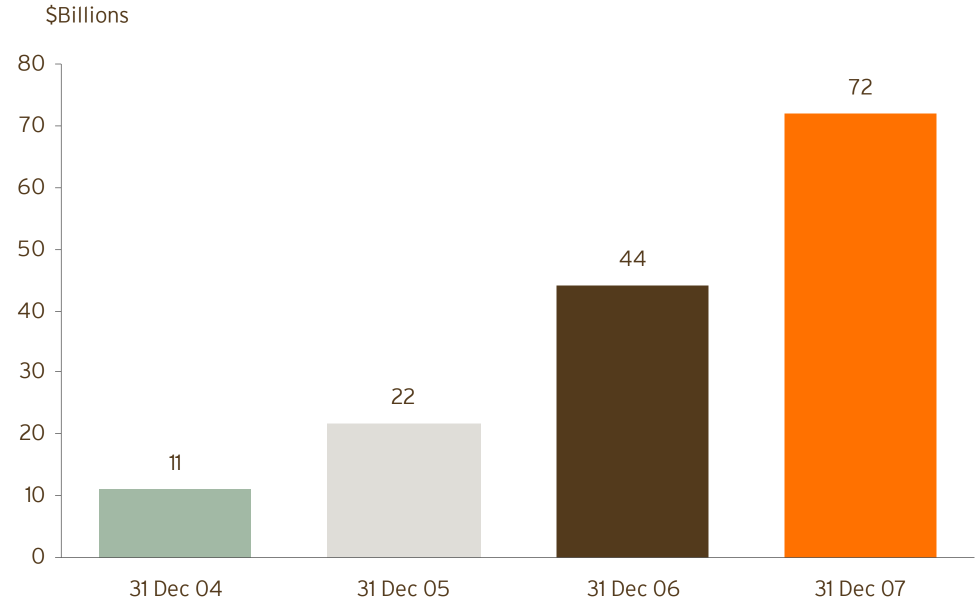
During the year the Specialty Products Division continued to focus on growing its niche, specialised asset based businesses.

COLLATERALISED DEBT OBLIGATIONS

Babcock & Brown manages three CDO's. The Group's exposure to these investments remains insignificant and investments are financed by long term non-recourse finance not exposed to margin calls.

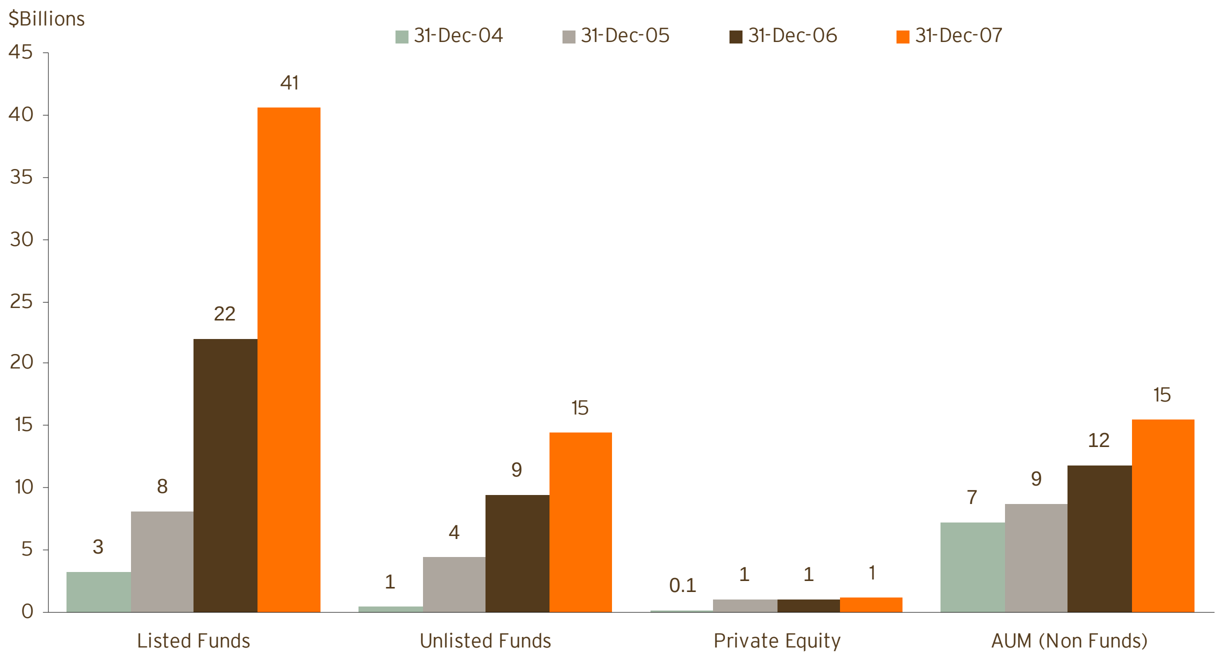
ASSETS UNDER MANAGEMENT

GROWTH IN TOTAL AUM*



* AUM - Assets Under Management

ASSET MANAGEMENT PLATFORM



REVIEW OF OPERATING RESULTS - BABCOCK & BROWN ANNUAL REPORT 2007

ASSETS UNDER MANAGEMENT

LISTED

BABCOCK & BROWN INFRASTRUCTURE

BBI is a leading ASX listed infrastructure fund with an international portfolio of quality infrastructure assets focused in the energy transmission and distribution and transportation sectors.

During the year BBI, in a consortium with Babcock & Brown, Singapore Power, BBP and BBW, acquired 100% of Alinta Limited which delivered BBI approximately $5.9 billion of gas transmission and distribution businesses located across Australia.

BBI also acquired seven European concession port operators and ICS, a US based port operator and confirmed its intention to excise its option to acquire the remaining 49% interest in WestNet Rail at the end of March 2008.

In December 2007, BBI announced the acquisition of a 32% stake in MidCon LLC (MidCon), as a part of a consortium of investors taking a combined 80% interest in MidCon. MidCon owns the Natural Gas Pipeline Company of America (NGPL) which is one of the largest natural gas transmission pipeline and storage systems in North America with a 100% enterprise value of $7.6 billion. This transaction reached financial close on 15 February 2008.

At 31 December 2007, BBI had AUM of $10.4 billion.

BBI provided distribution guidance to the market for the 2008 annual year of 15 cents per security, a 5% increase compared with 14.25 cents per security during the 2007 financial year.

BABCOCK & BROWN WIND PARTNERS

BBW is a globally diversified listed stapled entity investing in wind energy generation assets. BBW listed on the ASX on 28 October 2005.

The net proceeds of $201.5 million received in consideration for the issue of 130.1 million new BBW securities to Alinta shareholders as part of BBW's participation in the consortium to acquire Alinta, provided BBW with the enhanced capacity to pursue a range of identified accretive acquisition opportunities during the year.

During the year BBW acquired 50% interest in the Enersis operating wind portfolio from Babcock & Brown. It retains first right of refusal over the remaining 50%.

At 31 December 2007, BBW's portfolio had tripled from interests in 24 wind farms with total installed capacity of approximately 1,190MW at 31 December 2006 to interests in 76 wind farms with a total installed capacity of approximately 3,187MW which are diversified by wind resource, currency, equipment supplier, offtake arrangements and regulatory regime.

At 31 December 2007 BBW had AUM of $4 billion.

BBW provided distribution guidance to the market for the six months to 31 December 2007 of 7.25 cents per stapled security and 14.5 cents per security for the 2008 financial year representing an increase of 16% on the previous full year distribution.

BABCOCK & BROWN POWER

BBP is a power generation business with assets diversified by geographic location, fuel source, customers, contract types and operating mode. BBP listed on the ASX on 11 December 2006.

During the year BBP, in a consortium with Babcock & Brown, Singapore Power, BBI and BBW acquired 100% of Alinta Limited. By securing the Alinta power generation and energy market assets, BBP became the largest private power generator in Australia with the ability to further expand its gas-fired generation business through a portfolio of high quality assets.

BBP's current portfolio has almost doubled since December 2006 with interests in 13 operating power stations representing over 3,300MW of installed generation capacity and five power stations under construction at 31 December 2007.

At 31 December 2007 BBP had AUM of $7.0 billion.

BBP delivered distributions of 14 cents per security in the 2007 financial year, 11% higher than originally forecast at IPO. Current distribution guidance for 2008 is 26.1 cents per security.

BABCOCK & BROWN PUBLIC PARTNERSHIPS

Babcock & Brown Public Partnerships Limited is a Guernsey incorporated company which listed on the London Stock Exchange on 9 November 2006. The Company offers shareholders an exposure to investment in infrastructure assets, particularly those with a public or social character such as those developed under public bodies under private finance initiative or public private partnership procurements.

At 31 December 2007, the portfolio comprised 30 projects – 14 developed under the UK Private Finance Initiative; 6 under UK NHS Local Improvement Finance Trust procurement, 5 Australian PPP projects, and individual projects in Canada, Germany, France, Belgium and Ireland. The portfolio is diversified geographically as well as across several PPP/PFI sectors, including roads and tunnels, railways, schools, courthouses, police and custodial facilities, government offices and health facilities.

At 31 December 2007 BBPP had AUM of $3.6 billion.

BABCOCK & BROWN ENVIRONMENTAL INVESTMENTS LIMITED

BEI listed on the ASX in July 2005 where it invested in a diversified range of environmentally friendly businesses in the renewables sector both in Australia and overseas.

In November 2007, BEI advised that due to volatile commodity and currency markets, combined with delays and technical issues in commissioning the NFAL Darwin biodiesel plant, BEI's profitability and outlook had been adversely impacted and that the company did not have the financial resources to resolve these issues. In response Babcock & Brown announced a proposal to acquire the outstanding shares in BEI by offering BEI shareholders a choice of either $0.50 cash for every BEI share held or one Babcock & Brown Subordinated Note for every 200 BEI shares held.

BABCOCK & BROWN JAPAN PROPERTY TRUST

BJT listed on the ASX on 4 April 2005 and was established to invest in the real estate market in Japan. On listing, BJT had a portfolio of eight office properties and four retail properties with a value of approximately $610 million.

In August 2007, BJT successfully completed an institutional placement of 30 million new units at $1.73 per unit to partially fund the acquisition of properties with a purchase price of ¥28 billion (A$295 million).

As at 31 December 2007, the Trust held a portfolio comprising 46 properties, 22 office, 19 retail, and 5 residential, located throughout Japan. Twelve of these properties were acquired during 2007. BJT has a portfolio value at 31 December 2007 of ¥174.5 billion (A$1.77 billion).

At 31 December 2007, total AUM for the Trust was $2.0 billion.

ASSETS UNDER MANAGEMENT

BJT has provided distribution guidance of 6.72 cents per unit for the six months ending 30 June 2008 representing an increase of 6.2% compared with the six months ending 31 December 2007 forecast. Forecast distributions for the full year 2007 will represent an increase of 22% on the previous corresponding period.

BABCOCK & BROWN RESIDENTIAL LAND PARTNERS

BLP invests in a diversified portfolio of quality residential land projects which are developed by a range of Australia's leading private developers and listed on the ASX on 30 June 2006.

BLP offers securityholders liquidity, geographic, project and product diversity, access to quality private developers, long term potential for growth and, importantly, the benefit of access to Babcock & Brown's considerable investment and structuring experience in the real estate sector.

BLP listed with a portfolio of ten residential land projects at various stages of development, located down the eastern seaboard of Australia. The current portfolio comprises interests in 20 residential land development projects located in Australia and New Zealand with a total yield on acquisition of over 13,300 lots. These projects are being developed by an experienced group of partners in Australia including PRM Property Group (which BLP owns a 60% interest in), Urbex, The Metricon Group, Winten Property Group, Citta Property Group and Links Living, and in New Zealand Darby Partners.

BLP has reiterated its distribution for full year 2008 of 8.25 cents per stapled security.

At 31 December 2007, AUM for the Trust was $445 million.

EVEREST BABCOCK & BROWN LIMITED

EBB is listed on the ASX and is a manager of funds with an absolute return focus and other alternative investment strategies. Babcock & Brown has a direct holding of 26.3% in EBB and is its largest shareholder. EBB manages a listed fund Everest Babcock & Brown Alternative Investment Trust (EBI) and a number of unlisted funds.

At 31 December 2007, EBB had AUM of $1.8 billion.

EVEREST BABCOCK & BROWN ALTERNATIVE INVESTMENT TRUST

EBI is listed on the ASX and provides investors with exposure to a diversified portfolio of international absolute return funds. EBI aims to generate strong, risk adjusted absolute investment returns over the long term in all market conditions.

At 31 December 2007, EBI had AUM of $1.5 billion.

BABCOCK & BROWN CAPITAL LIMITED

BCM is an Australian-based investment company that focuses on a concentrated portfolio with a flexible investment horizon. BCM listed on the ASX in February 2005.

At 31 December 2007 BCM had $448 million invested in eircom Group plc, Ireland's incumbent telecommunications provider and $152 million invested in Golden Pages, the leading Israeli directories business. BCM has approximately $445 million which has been formally allocated to pursue specific identified investments.

At 31 December 2007 BCM had AUM of $6.7 billion.

BABCOCK & BROWN STRUCTURED FINANCE

BBSFF is a mutual fund company which listed on the Singapore Stock Exchange on 20 December 2006. The company provides investors access to a diversified portfolio of assets and economic exposures across three target sectors: operating lease assets, loan portfolio and securitisation assets, and alternative assets.

BBSFF declared a final dividend of 6.00 Singapore cents per share for the half year ended 31 December 2007 bringing the total 2007 dividend to 10.7 Singapore cents per share.

At 31 December 2007, BBSFF had AUM of $466 million.

BABCOCK & BROWN COMMUNITIES

BBC is an integrated owner, operator and developer of senior living communities which listed on ASX on 7 August 2007.

BBC owns and manages a portfolio of 56 retirement villages and 17 aged care facilities across Australia and New Zealand comprising c. 10,000 retirement units and c. 1,000 residential aged care beds. Within the retirement portfolio, BBC has full exposure to the deferred management fees of c. 7,000 units and receives management fees in relation to the remaining units.

BBC's growth is supported by its development pipeline of approximately 2,200 retirement units and 171 aged care beds which are expected to be delivered over the next six years. BBC also intends to pursue accretive acquisitions in the highly fragmented senior living market.

At 31 December 2007, total AUM was $2.4 billion.

BABCOCK & BROWN AIR

BBAir was formed on 3 May 2007 to acquire and lease commercial jet aircraft and other aviation assets and is headquartered in Dublin, Ireland.

BBAir listed on the New York Stock Exchange on 27 September 2007 trading under the symbol FLY. The proceeds of the initial public offering along with proceeds from a related debt offering were used to purchase the initial portfolio consisting of 47 commercial jet aircraft. The aircraft are leased under long-term contracts to a diverse group of airlines throughout the world.

BBAir's strategy is to grow its portfolio through accretive acquisitions of aircraft and to increase distributable cash flows, while paying regular quarterly dividends to shareholders.

At 31 December, BBAir had increased its portfolio to 54 aircraft with total AUM of $1.9 billion.

UNLISTED

GPT JOINT VENTURE (GPT JV)

In February 2005, Babcock & Brown and General Property Trust (GPT) announced a $1 billion strategic joint venture. The joint venture was formed to pursue real estate investment, trading, and development opportunities worldwide.

In November 2006, following the GPTJV reaching its initial investment target of $5.6 billion, the two parties agreed to the expansion of the GPT JV which included the commitment of a further $800 million in capital.

On 7 June 2007, a number of changes to the Joint Venture were outlined to ensure it is well positioned to build on the success and positive momentum achieved to date. The changes result in the appointment of Babcock & Brown to manage the Joint Venture portfolio (Joint Venture Fund).

ASSETS UNDER MANAGEMENT

During the year ended 31 December 2007, the Joint Venture Fund invested in or committed to acquire assets and projects in Australia, the Czech Republic, Denmark, France, Germany, Lithuania, the Netherlands, Poland, Spain, Sweden, the UK and North America.

The book value of investments held and contracted at 31 December 2007, was $7.4 billion.

At 31 December 2007, the Joint Venture Fund had contracted and completed investments in Europe with a carrying value of €3.2 billion (A$5.4 billion), and in the US with a carrying value of US$1.4 billion (A$1.9 billion).

At 31 December 2007 the composition of the European portfolio was 32.1% residential properties, 20.4% light industrial, 15.7% retail and 4.1% office. The portfolio in the US comprised 14.9% retail, 5.9% multifamily and 4.9% mezzanine. The residential portfolio comprised 1.3% in Australian mezzanine funding and 0.7% in UK mezzanine funding.

BABCOCK & BROWN EUROPEAN INFRASTRUCTURE FUND

On 25 May 2007 Babcock & Brown announced the first close on its wholesale European Infrastructure Fund, Babcock & Brown European Infrastructure Fund (BBEIF) with commitments of €1.6 billion (A$2.5 million).

BBEIF made its first investment in June 2007, co-investing with Babcock & Brown in acquiring a 10% shareholding in Brisa Auto-Estradas de Portugal S.A. (Brisa), the listed international motorway and toll road company based in Portugal.

On 3 December 2007 Babcock & Brown announced that it had reached final close on BBEIF with total commitments of €2.17 billion (A$3.8 billion) exceeding its initial target of €1.5 billion (A$6.4 billion).

In January 2008 BBEIF acquired a strategic 20% stake in Forth Ports plc.

BBEIF will target additional investments in the energy, water and transport sectors as well as other critical infrastructure assets.

BABCOCK & BROWN ASIAN INFRASTRUCTURE FUND

On 23 November 2007 Babcock & Brown announced the first close on its wholesale Asian Infrastructure Fund, Babcock & Brown Asia Infrastructure Fund (BBAIF), raising US$400 million (A$456 million) of capital.

BBAIF has been set up by Babcock & Brown in partnership with The Bank of Tokyo-Mitsubishi UFJ, Ltd (BTMU) and has been established to focus on the growing number of infrastructure investment opportunities in the Asian region including China, Hong Kong, India, Japan, Malaysia, Republic of Korea, Singapore and Thailand.

BBAIF used part of the committed capital to acquire a strategic stake in Don Muang Tollway PCL, Thailand.

CAPITAL COMMITMENTS FOR NORTH AMERICAN INFRASTRUCTURE

In October 2007, Babcock & Brown raised approximately US$800 million (A$911 million) of committed capital focused primarily on infrastructure investment opportunities in North America. A further US$230 million (A$262 million) of committed capital was raised in November 2007 increasing the total amount raised for acquiring North American infrastructure to over US$1 billion (A$1.1 billion). Some of the capital committed has been used to co-invest in the acquisition of Natural Gas Pipeline and ICS Logistics alongside BBI. Consistent with Babcock & Brown's philosophy of co-investment and alignment with investors, it will hold approximately 5% of overall capital commitments, capped at US$90 million (A$103 million).

Subsequent to year end a close on further commitments of capital was reached, taking the total commitments to in excess of US$1.4 billion (A$1.5 billion).

UK RETAIL PROPERTY SYNDICATES

The Division has two closed retail property syndicates in the UK.

Foundation Property Fund raised £8.7 million (A$21 million) from retail investors and reached close in May 2004. The fund's strategy is to invest in UK real estate assets in the office, retail and industrial sectors. The fund can borrow up to 80% of the portfolio's gross asset value. The fund's 10% return profile seeks to provide a balance between income and capital.

Viking Fund raised £5.2 million (A$12.5 million) from retail investors and reached close in July 2005. The fund can borrow up to 90% of the portfolio's gross asset value. The fund is able to invest into any property sector and can also invest in corporate entities, debt instruments secured against property or any other real estate related investment. It can invest in both the UK and the EU countries of Europe. The fund's 15% return profile focuses primarily on providing capital return to investors.

PRIVATE EQUITY

BABCOCK & BROWN GLOBAL PARTNERS

On 12 July 2005, Babcock & Brown announced the successful closing of its unlisted €370 million (A$620 million) co-investment fund BBGP. BBGP has been established to invest exclusively in transactions originated and structured by Babcock & Brown on a global basis. BBGP has the right to participate in equity opportunities that Babcock & Brown are seeking to syndicate to third party investors.

At 31 December 2007, BBGP had drawn capital from investors totalling €244.4 million (A$408.1 million) or 65% of the fund and had a further €111.9 million ($A198.9 million) of capital committed to transactions.

BABCOCK & BROWN DIRECT INVESTMENT FUND

BBDIF is structured to deliver superannuation funds and other institutional investors access as pari-passu partners with Babcock & Brown into a portfolio of direct investment opportunities sourced primarily, but not exclusively, out of Babcock & Brown's global deal stream.

As at 31 December 2007, DIF's three trusts, DIF I Equity Trust , DIF II Mezzanine Debt Trust and DIF III Global Co Investment Fund, held assets valued at $516.3 million. Since start-up in 2005, these Trusts have returned a combined $215 million to unitholders from successful asset realisations and income distributions. DIF I was closed to new commitments and assets from 30 June 2007.

BBDIF's third trust, the DIF III Global Co Investment Fund, reached first close during September 2007 with $115 million of investor commitments. This sum is now 76% invested in three assets. The Fund is seeking to raise an additional $200 million by final close at the end of May 2008.

ASSETS UNDER MANAGEMENT

AIRCRAFT WAREHOUSE SYNDICATE

The initial warehouse syndicate JET-i acquired a further 7 aircraft valued at US$299 million (A$341 million) over the twelve month period taking the total portfolio to 44. This portfolio was acquired by BBAir prior to its IPO.

During the year BBAM acquired 22 aircraft under a new US$1 billion (A$1.1 billion) warehouse facility, established in 2007. The value of total aircraft committed under the new facility to date is approximately $685 million.

BBAM acts as the servicer to the warehouse syndicate and earns origination, management and performance fees.

OTHER RAIL ASSETS UNDER MANAGEMENT

As of 31 December 2007, Other Rail Assets under Management consisted of 6,662 railcars, with an AUM value of $519 million. The decline on the previous period was due to cars being transferred out to BBRNA.

OTHER AIR ASSETS UNDER MANAGEMENT

As of 31 December 2007, Other Air Assets under Management consisted of 201 commercial jet aircraft valued in excess of $5.9 billion. BBAM provides a variety of on-going services for the portfolio including lease and sale remarketing, contracts administration, financial reporting and technical management services, and earns management, remarketing and performance fees.

BABCOCK & BROWN RAIL NORTH AMERICA

BBRNA was established in 2006 for the purpose of aggregating a number of BBRM's owned and managed railcar portfolios together with future railcar acquisitions with the intention of building a portfolio of sufficient size to allow BBRM to explore additional value enhancement alternatives.

At 31 December 2007 BBRNA's portfolio consists of 13,935 general purpose freight railcars on operating leases to a variety of industrial shippers and railroads in North America. BBRM acts as both fleet and investment manager to BBRNA and receives a management fee for the services it provides which include lease remarketing, equipment management and maintenance, lessee invoicing and collections, bank reporting, financial statement preparation, and federal and state tax compliance.

EURORAIL

Eurorail is a partnership between Babcock & Brown and Halifax Bank of Scotland (HBOS) providing operating leasing services in mainland Europe on regional passenger rolling stock and locomotives. Babcock & Brown provides a variety of origination and management services for Eurorail including building supervision, asset management and maintenance, lease administration and lease remarketing.

The partnership has recently been restructured to create a €390 million (A$653 million) long-term financing platform enabling the €330 million (A$553 million) acquisition of CBRail's existing rolling stock assets and providing a €60 million (A$101 million) facility for future acquisitions.

As at 31 December 2007, the European rail leasing business held assets under management of $923 million and in addition held a number of order positions for locomotives.

PFI ASSETS UNDER MANAGEMENT

Babcock & Brown, an active participant in the UK Pubic Private Partnership sector (PPP's) since 1997 and through one of its subsidiaries (BBIML) is the Investment Advisory, Manager and Operator of BBPP. Babcock & Brown currently has a number of PPP infrastructure deals at various stages of development. These projects may be offered under the investment advisory agreement to BBPP in which Babcock & Brown holds an 8.33% interest.

STRUCTURED FINANCE CDOs

Babcock & Brown manages three CDOs.

Babcock & Brown also manages a closed end CDO Investment Fund which has approximately US$80.2 million (A$91.3 million) of risk capital subscribed by sophisticated investors. Babcock & Brown owns 9.9% of the fund. Currently the CDO Investment Fund has investments in the three Babcock & Brown managed CDO's and one third party managed CDO which was sponsored by Babcock & Brown. Importantly, unlike many funds, the CDO Investment Fund is currently un-leveraged and has surplus cash awaiting investment. Equally important, the Fund is not exposed to margin calls. Its currently un-drawn leverage facility is committed for the term of the

Fund and has no provisions for market value based collateralisation. The Fund is closed end and is not subject to redemptions, and its returns are cash flow based rather than a function of market values.

EUROPEAN PROPERTY MANDATES

During 2007 Babcock & Brown established a number of joint ventures when interests in several existing retail, residential and office portfolios in Germany and Switzerland were syndicated to third party investors. Babcock & Brown which retains an ongoing co-investment interest, has entered into agreements to manage the portfolios on behalf of the investors. The third party interest in these properties at 31 December 2007 was $2.0 billion.

US PROPERTY MANDATES

During the year Babcock & Brown established significant residential and retail property management platforms in North America through the acquisition of BNP in March 2007 and GG&A in August 2007, respectively. Total third party assets under management at 31 December 2007 for these platforms was $1.3 billion.

ASSETS UNDER MANAGEMENT

Assets Under Management

	Ownership of Mgt Company (%)	ASX/LSE/ SGX/NYSE Code	Owner ship (%)	Mkt Cap Dec'07 ($m)	Mkt Cap Dec'06 ($m)	Assets Under Management Dec'07 ($'m)	Assets Under Management Dec '06 ($m)	Assets Under Management Dec '05 ($m)
Assets Under Management								
LISTED FUNDS								
B&B Infrastructure Limited	100	BBI	8.0	3,564	2,738	10,392	6,320	4,500
B&B Environmental Investments Ltd[1]	100	BEI	30.4	66	190	133	251	98
B&B Japan Property Trust	100	BJT	4.0	728	1,031	1,989	1,268	903
Everest Babcock & Brown Alternative Investments[2]	26	EBI	3.2	568	260	1,484	552	522
B&B Wind Partners	100	BBW	11.4	1,433	990	4,036	1,460	1,070
B&B Capital Limited	100	BCM	7.2	884	886	6,708	6,378	1,039
B&B Residential Land Partners	100	BLP	10.2	117	144	445	307	-
B&B Public Partnerships	100	BBPP	8.3	759	741	3,651	2,476	-
B&B Structured Finance Fund	100	BABB	11.0	279	370	466	446	-
B&B Power	100	BBP	9.4	1,816	959	7,031	2,503	-
B&B Communities Group	100	BBC	10.1	593	-	2,350	-	-
B&B Air Limited	100	FLY	13.4	689	-	1,952	-	-
Total Listed Funds				**11,496**	**8,309**	**40,637**	**21,961**	**8,132**
UNLISTED								
Everest Babcock & Brown[3]	26.3			382		1,838	1,648	1,150
GPT Joint Venture[4]	n/a		50.0			7,422	7,668	3,170
UK retail property syndicates	100		-			41	64	74
North American Infrastructure[5]	100		5.0			1,261	-	-
B&B European Infrastructure Fund[6]	100		3.8			3,485	-	-
B&B Asia Infrastructure Fund	100		50.0			455	-	-
Total Unlisted Funds						**14,502**	**9,380**	**4,394**
PRIVATE EQUITY								
B&B Global Partners[6]	100		11.2			623	618	600
B&B Direct Investment Fund	100		14.9			516	363	238
B&B CDO Investments	100		15.5			91	-	-
Total Private Equity Funds						**1,230**	**981**	**838**
Total for Assets Under Management (Funds)						**56,369**	**32,322**	**13,364**

1 Environmental Infrastructure Limited completed a restructure on 5 July 2005 and at that time changed its name to Babcock & Brown Environmental Investments Ltd.

2 Represents stapled market capitalisation at December 2005 and standalone trust market capitalisation as at December 2006.

3 Everest Babcock & Brown, an affiliate of Babcock & Brown, is listed on ASX and manages a series of unlisted funds as well as the listed fund Everest Babcock & Brown Alternative Investments.

4 Includes investments secured, contracted and committed to be acquired.

5 Represents commitments for investments in North American Infrastructure.

6 Includes capital committed.

			Assets Under Management as at		
	Ownership of Management Company (%)	Ownership (%)	Dec '07 ($m)	Dec '06 ($m)	Dec '05 ($m)
Assets Under Management					
Aircraft Warehouse Syndicate[1]	100	25.9	685	1,379	114
BBRNA	100		1,129	644	221
EuroRail	100	50.0	923	547	385
Other Operating Leasing AUMs					
- Rail			519	838	983
- Air			5,859	5,963	5,161
European PPP			539	561	1,515
Structure Finance CDO			2,476	1,888	-
European Property Mandates			1,989	-	-
US Property Mandates			1,259	-	-
Total Assets Under Management (non funds)			**15,378**	**11,820**	**8,379**
Total Assets Under Management			**71,747**	**44,142**	**21,743**

	Assets Under Management as at		
	Dec '07 ($m)	Dec '06 ($m)	Dec '05 ($m)
Segment Analysis			
Real Estate	13,145	9,307	4,147
Infrastructure	30,983	13,571	7,183
Operating Leasing	11,067	9,371	6,864
Corporate & Structured Finance	16,552	11,893	3,549
Total Assets Under Management	**71,747**	**44,142**	**21,743**

1 Assets are carried on the Group's balance sheet and minority interest eliminated.

EARNINGS PER SHARE

The diluted EPS for the Babcock and Brown Group plus Consolidated Share Trust[4] was 174.5¢ and 116.2¢ for the years ended 31 December for 2007 and 2006, respectively. The detail of the calculation of these figures is set out in the table below.

Amounts represent number of units unless specified otherwise	Year ended 31 December 2007 $ '000	Year ended 31 December 2006 $ '000
The diluted EPS is calculated as follows:		
Profit after tax attributable to the Babcock & Brown Group	643,046	406,811
Weighted Average[1] Diluted Shares	368,572	350,062
Diluted EPS	**174.5¢**	**116.2¢**
Total Weighted Average[1] Diluted Shares for the Babcock & Brown Group is comprised of the following:		
Weighted Average[1] Ordinary Shares	349,503	331,930
Weighted Average[1] Dilutive Options	19,069	18,132
Weighted Average[1] Diluted Shares	**368,572**	**350,062**
The dilutive options reconcile to the total outstanding options as follows:		
Dilutive options (weighted average[1])		
Dilutive component[2]	19,069	18,132
Non-dilutive component	8,740	10,383
Total	27,809	28,515
Anti-dilutive[3] options (weighted average[1])	3,411	-
Total all options (weighted average[1])	**31,220**	**28,515**
Average Weighting	98.0%	101.6%
Unweighted balance of options outstanding at end of period	**31,869**	**28,067**

* Refer to following page for footnotes

NOTES

1. The weighted average number of options and shares outstanding during the period is the number of options and shares outstanding at the beginning of the period, adjusted by the number redeemed, forfeited, or issued during the period multiplied by the number of days the options or shares were outstanding as a proportion of the total number of days in the period.

2. The dilutive component of options was calculated using a volume weighted average market share price of $27.67 for the twelve months ended December 2007 ($19.90 for 2006) and using an average option exercise price of $11.29 for 2007 ($7.23 for 2006).

3. Anti-dilutive options represent options issued where the exercise price is greater than the average market price for the period (i.e. they are not "in the money"). Anti-dilutive options are excluded from the total weighted average diluted shares.

4. In order to provide a more meaningful basis of analysis of the EPS compared to that under AIFRS guidelines, management adjusts the EPS calculation as described below:

   - Under AIFRS, the Share Trusts are consolidated and as such, their shares are excluded from the total weighted average diluted shares. For the calculation of EPS, management disregards the consolidation of the Share Trusts and includes the shares held by the trusts in the total weighted average shares. Revenue is adjusted to appropriately reflect dividend income earned in the Share Trusts.

   - BBSN's are not treated as potentially dilutive shares as the decision to convert the debt to shares is at the option of the Company and distributions are treated as interest expense in the accounts.

The statutory diluted earnings per share calculated under AIFRS was 172.0¢ for 2007 (115.4¢ for 2006) as disclosed in the Consolidated Income Statement of the Financial Statements. The basis of calculation can be found in Note 5 in the Notes to the Consolidated Financial Statements.

Financial Statements

CONSOLIDATED INCOME STATEMENT
CONSOLIDATED BALANCE SHEET
CONSOLIDATED CASHFLOW STATEMENT
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
NOTES TO THE FINANCIAL STATEMENTS

INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

	Note	Consolidated		Babcock & Brown Limited	
		2007	2006	2007	2006
		$'000	$'000	$'000	$'000
Revenue	2	2,019,341	1,420,798	177,551	109,115
Other Income	2	1,119,500	592,080	-	-
Expenses excluding finance costs and bonus expense	2	(1,368,069)	(900,028)	(1,259)	(1,595)
Finance costs	2	(662,511)	(361,799)	(54,199)	(32,987)
Share of net profits of associates and joint ventures		252,879	140,943	-	-
Bonus expense (including amortisation of share options and bonus deferral rights)		(573,440)	(414,120)	-	-
Profit before income tax		**787,700**	**477,874**	**122,093**	**74,533**
Income tax (expense)/benefit	4	(148,361)	(68,957)	(2,406)	900
Net profit for the period		**639,339**	**408,917**	**119,687**	**75,433**
Attributable to:					
Minority interest excluding BBIPL		(3,707)	2,106	-	-
BBIPL minority interest		117,897	98,173	-	-
Members of the Parent		525,149	308,638	119,687	75,433
Basic earnings per share (cents per share)	5	197.4¢	131.5¢		
Diluted earnings per share (cents per share)	5	172.0¢	115.4¢		

The accompanying notes form part of the financial report and should be read in conjunction with the above Income Statements

BALANCE SHEET
AS AT 31 DECEMBER 2007

	Note	Consolidated		Babcock & Brown Limited	
		2007 $'000	2006 $'000	2007 $'000	2006 $'000
ASSETS					
Cash and cash equivalents	7	2,551,158	572,877	221	409
Fees receivable from financing transactions	8	199,501	189,626	-	-
Other receivables	9	620,804	214,073	916	-
Notes receivable	10	1,093,448	669,464	631,920	628,716
Investments in financial assets	11	452,022	364,658	1,936,884	1,270,629
Finance lease receivable	12	130,608	150,681	-	-
Transportation equipment	13	1,025,637	749,911	-	-
Semiconductor equipment	14	101,510	78,359	-	-
Power generation assets	15	230,502	1,659,060	-	-
Biofuel assets	16	163,853	-	-	-
Assets under development	17	1,663,429	1,077,856	-	-
Real estate held for sale	18(a)	1,941,783	1,232,231	-	-
Real estate held as investment property	18(b)	1,665,251	265,554	-	-
Investments in associates	19	1,917,295	1,096,717	-	-
Investments in joint venture entities	20(a)	387,560	311,788	-	-
Property and equipment	21	98,045	46,210	-	-
Other assets	22	453,250	273,547	439	636
Derivative Financial Instruments	23	122,655	29,389	-	-
Deferred tax assets	24	462,731	363,300	4,270	6,920
Intangible assets and goodwill	25	357,255	295,305	-	-
Total Assets		**15,638,297**	**9,640,606**	**2,574,650**	**1,907,310**
LIABILITIES					
Accounts payable and accrued liabilities	26	1,019,012	649,962	349	589
Deposits held	27	164,778	123,319	-	-
Current tax liabilities	28	-	110,363	-	27
Deferred income	29	61,831	79,040	-	-
Interest bearing liabilities	30	11,357,567	6,427,731	613,498	614,125
Deferred tax liabilities	31	481,059	493,318	569	-
Other liabilities		40,446	44,828	-	-
Total Liabilities		**13,124,693**	**7,928,561**	**614,416**	**614,741**
Net Assets		**2,513,604**	**1,712,045**	**1,960,234**	**1,292,569**
EQUITY					
Contributed equity	32	1,590,478	1,079,488	1,948,282	1,281,904
Reserves	33	(586,429)	(215,502)	-	-
Retained earnings	33	818,455	403,658	11,952	10,665
Parent entity interest in equity		**1,822,504**	**1,267,644**	**1,960,234**	**1,292,569**
Minority interest (excluding BBIPL)	34	304,148	62,819	-	-
BBIPL Minority Interest	34	386,952	381,582	-	-
Total Equity		**2,513,604**	**1,712,045**	**1,960,234**	**1,292,569**

The accompanying notes form part of the financial report and should be read in conjunction with the above Balance Sheets.

CASH FLOW STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

	Note	Consolidated		Babcock & Brown Limited	
		2007 $'000	2006 $'000	2007 $'000	2006 $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Fees received		1,014,733	643,325	-	8
Investment income received		631,195	547,939	124,559	76,400
Payments to vendors and employees		(1,645,566)	(937,696)	(1,054)	(1,597)
Interest received		159,981	51,123	52,991	24,201
Interest paid		(505,536)	(314,922)	(52,170)	(23,601)
Income tax paid		(161,580)	(65,503)	-	(6)
Net Cash Flows from/(used in) Operating Activities	**35(a)**	**(506,773)**	**(75,734)**	**124,326**	**75,405**
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment assets					
- Proceeds from sale		1,070,905	1,633,956	-	-
- Purchases		(4,377,262)	(4,459,259)	-	-
- Receipts from finance lease		34,303	18,722	-	-
- Deposits for asset purchases		(82,432)	(142,747)	-	-
Financial assets					
- Proceeds from sale		309,680	156,549	-	-
- Dividends received		52,804	2,704	-	-
- Purchases		(692,173)	(315,440)	-	-
Notes receivable					
- Payments received		971,535	307,315	-	-
- Fundings		(1,335,723)	(549,389)	-	-
Subsidiaries and associates					
- Proceeds from sales of investment in associates, net of cash disposed		68,480	238,391	-	-
- Proceeds/(outflows) from sales of controlled subsidiaries, net of cash disposed	36(b)	701,511	(269,533)	-	
- Purchase of controlled subsidiaries, net of cash acquired	37(b)	(873,598)	(630,839)	-	-
- Investment in associates/subsidiaries		(806,207)	(718,094)	(671,950)	(604,438)
- Distributions received from associates		250,775	201,526	-	-
- Loans to subsidiaries		-	-	-	(356,895)
Property and equipment purchases		(54,914)	(22,951)	-	-
Maintenance reserves (deposits held)		57,606	124,507	-	-
Net Cash Flows used in Investing Activities		**(4,704,710)**	**(4,424,582)**	**(671,950)**	**(961,333)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds of borrowings		10,623,387	9,415,617	-	340,263
Repayments of borrowings		(3,543,539)	(5,225,831)	-	-
Financing costs		(8,506)	(30,489)	-	-
Proceeds from issuance of ordinary capital		441,133	609,445	591,567	609,125
Capital raising costs		(6)	(1,541)	-	(1,541)
Dividends paid		(40,868)	(58,543)	(44,131)	(61,703)
Minority interest capital contributions		200,495	66,137	-	-
Minority interest capital distributions		(445,752)	(350,787)	-	-
Net Cash Flows from Financing Activities		**7,226,344**	**4,424,008**	**547,436**	**886,144**
Net increase/(decrease) in Cash and Cash Equivalents		**2,014,861**	**(76,308)**	**(188)**	**216**
Cash and cash equivalents brought forward		572,877	685,446	409	193
Effects of exchange rate changes on cash and cash equivalents		(36,580)	(36,261)	-	-
Closing Cash & Cash Equivalents Carried Forward	**35(b)**	**2,551,158**	**572,877**	**221**	**409**

The accompanying notes form part of the financial report and should be read in conjunction with the above Cash Flow Statements.

STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2007

	Consolidated		Babcock & Brown Limited	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Total Equity at 1 January	**1,712,045**	**1,114,811**	**1,292,569**	**597,709**
Total recognised income and expense for the year:				
Available-for-sale financial assets, net of tax	(10,134)	8,158	-	-
Effective portion of changes in cash flow hedges, net of tax	(10,520)	19,358	-	-
Tax benefit from equity raising costs	453	3,224	453	3,224
Currency translation differences	(107,129)	(26,279)	-	-
Other reserves of associates	8,247	(5,671)	-	-
Net income/(expense) recognised directly in equity	**(119,083)**	**(1,210)**	**453**	**3,224**
Profit for the year	639,339	408,917	119,687	75,433
Total recognised income and expense for the year	**520,256**	**407,707**	**120,140**	**78,657**
Transactions with equity holders in their capacity as equity holders:				
Equity issued	510,537	620,199	665,925	732,461
Equity raising costs	-	(1,541)	-	(1,541)
Share based payments	124,949	69,500	-	(44,372)
Share acquisition reserve	(376,342)	(327,695)	-	-
Dividends paid	(110,352)	(66,086)	(118,400)	(70,345)
Change in minority interest	132,511	(104,850)	-	-
Total transactions with equity holders in their capacity as equity holders	**281,303**	**189,527**	**547,525**	**616,203**
Total Equity at 31 December	**2,513,604**	**1,712,045**	**1,960,234**	**1,292,569**
Total recognised income and expenses for the year is attributable to:				
Members of Babcock & Brown Limited	406,066	307,428	120,140	78,657
Minority interest	114,190	100,279	-	-
	520,256	**407,707**	**120,140**	**78,657**

The accompanying notes form part of the financial report and should be read in conjunction with the above Statements of Changes in Equity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) COMPANY STRUCTURE

The Babcock & Brown Group ("Group" or "Babcock & Brown") consists of Babcock & Brown Limited ("BBL" or "the Company"), a company limited by shares, incorporated in Australia, and listed on the ASX, and Babcock & Brown International Pty Ltd ("BBIPL"), a 83% (2006: 78%) owned subsidiary. BBIPL in turn owns the Babcock & Brown operating and investment subsidiaries located in Australia, North America, Europe and Asia Pacific. The nature of the operations and principal activities of the Group are described in the Directors' Report.

(B) BASIS OF PREPARATION

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards ("AIFRS"), other authoritative pronouncements of the Australian Accounting Standards Board, and the Corporations Act 2001. Compliance with AIFRS ensures that the financial report complies with International Financial Reporting Standards ("IFRS").

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

The financial report has been prepared on a historical cost basis, except for investment properties, derivative financial instruments held-for-trading and available-for-sale financial assets that have been measured at fair value.

Comparative Financial Information

Comparative financial information has been presented in respect of the year ended 31 December 2006 in accordance with the disclosure requirements of AASB 101, Presentation of Financial Statements ("AASB 101"). Specifically where required, comparative financial information has been provided in respect of each item in the Income Statements, Statements of Changes in Equity, Cash Flow Statements, Revenue and Expenses, Segment Information, Earnings per Share and Notes to the Financial Statements.

Rounding of amounts

The Company is a kind referred to in Class Order 98/0100, issued by the Australian Securities Investment Commission, relating to "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 dollar, or in certain cases, the nearest dollar.

(C) BASIS OF CONSOLIDATION

The consolidated financial statements are those of the consolidated entity, comprising Babcock & Brown Limited (the parent company) and all entities that Babcock & Brown Limited controlled from time to time during the period and at the reporting date. The financial statements of subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies.

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 intercompany balances and transactions, including unrealised profits and losses arising from intra-group transactions, have been eliminated in full. Minority interests in the equity and results of the entities that are controlled by Babcock & Brown Limited are shown as a separate item in the consolidated financial statements.

(D) FOREIGN CURRENCIES

(i) Functional and Presentation Currency

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

(ii) Transactions and Balances

Transactions in foreign currencies of entities within the consolidated entity are converted to local currency at the rate of exchange prevailing at the date of the transaction. Foreign currency monetary items that are outstanding at the reporting date are translated using the spot rate at the end of the financial period. All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign operation. These are taken to equity until the disposal of the net investment, at which time they are recognised in profit or loss. On disposal of a foreign operation, the cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss. Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-monetary items that are measured in terms of historical costs in a foreign currency are translated using the exchange rate as at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(iii) Group Companies

Assets and liabilities of overseas operations are translated at the closing rate at the date of balance sheet whilst income and expenses in the Income Statement are translated at exchange rates at the date of transactions. Any exchange differences are taken directly to the foreign currency translation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the spot rate at the end of the financial period.

(E) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash in banks and highly liquid investments with original maturities of three months or less. These assets are stated at nominal values.

For the purposes of the Cash Flow Statements, cash includes cash on hand and in banks, and money market investments readily convertible to cash within two working days, net of outstanding bank overdrafts.

Bank overdrafts are carried at the principal amount. Interest on bank overdrafts is recognised as an expense as it accrues.

(F) RECEIVABLES

Fees receivable from financing transactions are recognised and carried at original invoice amount less allowance for impairment for any uncollectible amounts. Fees receivable are non-interest bearing and are generally on 30 day terms, unless otherwise agreed with the customer. An estimate for doubtful debts is made when collection of the full amount is no longer probable.

Notes receivable are carried at amortised cost, using the effective interest method. All notes receivable are reviewed regularly for impairment. A note receivable is considered impaired when, based on current information and events, it is probable that Babcock & Brown will be unable to collect all amounts due. The amount of the specific impairment provision is equal to the difference between the current carrying amount of a receivable and the net present value of the expected cash flows from the borrower, discounted at the original effective interest rate of the transaction. Any impairment provisions are included in the Income Statement in the period in which the asset is impaired.

Receivables from related parties are carried at amortised cost, using the effective interest method.

(G) INVESTMENTS AND OTHER FINANCIAL ASSETS

Investments in Financial Assets

All investments are initially recognised at its fair value plus, in the case of investments not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition.

After initial recognition, investments which are classified as held for trading or available-for-sale are measured at fair value. Gains or losses on investments held for trading are recognised in the Income Statement. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the Income Statement.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. The cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

Net gains or losses on each category of financial instrument are determined excluding interest or dividend income. If a financial asset is not classified as fair value through profit and loss, and is not classified as loans and receivables or held to maturity, it will be classified as available for sale.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or calculated based on the expected cash flows of the underlying net asset base of the investment. Financial assets whose terms have been renegotiated are assessed for indicators of impairment at each balance sheet date.

Investments in equity instruments that do not have a quoted market price in an active market, or derivatives linked to such equity instruments are measured at cost in accordance with AASB 139 because its fair value cannot be measured reliably. Fair value cannot be reliably measured for such instruments due to either an un-established market existing, and/or infrequent trading activity. Details of such investments, including their carrying amount, are included in Note 11. The Group will assess whether and how the instruments are disposed of on a case by case basis dependent on various factors.

Other than those at fair value through profit & loss, financial assets, including those whose terms have been re-negotiated, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment has been impacted.

All regular way purchases or sales of financial assets are recognised on the settlement date i.e. the date that the asset is delivered to the Group. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

Investments Accounted for using the Equity Method

Investments in associates and joint venture entities are carried at the lower of the equity accounted amount and recoverable amount in the consolidated financial statements. Under the equity method of accounting, the investment is initially recorded at cost, subsequently adjusted for the Group's share of undistributed earnings or losses and changes in equity, and increased by additional investments in the associates and joint venture entities and reduced by cash distributions received. Any losses recognised under the equity method in excess of the equity investment in the associate or joint venture are applied to other components of Babcock & Brown's interest in the associate or joint venture, such as a note receivable, to the extent of those other interests. Fee income received from associates and joint venture entities is deferred when the associate or joint venture has capitalised the fee payment to the extent of the Group's equity investment in the associate or joint venture entity. Where there has been a change recognised in the associate's equity, the Group recognises its share of any changes and discloses this in the Statement of Changes in Equity. Associates accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Investments in Jointly Controlled Assets

Interests in jointly controlled assets are recognised by including in the respective classifications, the share of individual assets employed, revenue earned and share of liabilities and expenses incurred. Interests in joint venture operations are recognised by including in the respective classifications, the assets controlled, liabilities and expenses incurred and the share of income earned from the sale of goods and services by the joint venture.

Investments in Controlled Entities

Investments in controlled entities are carried at cost.

(H) TRANSPORTATION EQUIPMENT

Transportation equipment consists primarily of aircraft and railcars. Aircraft and railcars are recorded at cost and depreciated on a straight line basis over the asset's remaining useful life to residual value.

Depreciation periods are:

	New asset	Used asset
Aircraft	25 years	25 years less current age
Railcars	40 years	40 years less current age

The asset's residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate as at each financial year end.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) REAL ESTATE

Real Estate Held for Sale or Development

Real estate acquired for development and/or sale in the ordinary course of business is carried at cost incurred to date. The net realisable value of each holding is assessed at each reporting period and a provision for diminution in value is raised where cost (including costs required to complete developments) exceeds net realisable value.

Real Estate Held as Investment Property

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Fair value is based on active market prices, adjusted for any difference in the nature, location or condition of the specific asset or where that is not available, an appropriate valuation method which may include discounted cashflow projections and the capitalisation method. Discount rates and capitalisation rates are determined based on the Company's industry knowledge and expertise and where possible, direct comparison to third party rates for similar assets in a comparable location. The fair value reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions. It also reflects any cash outflows (excluding those relating to future capital expenditure) that could be expected in respect of the property. Gains or losses arising from changes in the fair values of investment properties are included in the Income Statement in the period in which they arise. Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on derecognition of an investment property are recognised in the Income Statement in the period of derecognition.

(J) SEMICONDUCTOR EQUIPMENT

Semiconductor equipment consists of assets that are purchased for the purposes of trading as well as equipment held for leasing to customers. Assets held for trading are recorded at the lower of cost or net realisable value. The leased equipment is held at cost and depreciated on a straight line basis over the equipment's lease term to its residual value.

The net realisable value is the estimated selling price in the ordinary course of business, less estimated selling costs.

(K) POWER GENERATION ASSETS

Power generation assets are carried at cost less accumulated depreciation and impairment. Historical costs includes expenditure that is directly attributable to the item. Power generation assets are depreciated over their useful life, typically 25 years, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at each annual reporting period.

(L) BIOFUEL ASSETS

Biofuel assets are carried at cost less accumulated depreciation and impairment. Historical costs includes expenditure that is directly attributable to the item. Biofuel assets are depreciated over their useful life, typically 25 years, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at each annual reporting period.

(M) NON-CURRENT ASSETS HELD FOR SALE

Non-current assets are classified as held for sale if their carrying value is to be recovered principally through a sale rather than continuing use.

The assets must be available for immediate sale or, if the assets are acquired with a view to their subsequent disposal, within a short period following the acquisition. The future sale must be highly probable, the appropriate level of management committed to a plan to sell the assets and the assets actively marketed at a reasonable price in relation to their current fair value. The sale should be completed within one year from initial classification as held for sale.

On initial classification, a non-current asset held for sale is measured at the lower of its carrying amount and fair value less costs to sell, unless acquired as part of a business combination when measurement is only based on fair value less costs to sell.

(N) PROPERTY AND EQUIPMENT

All classes of property and equipment are measured at cost and depreciated using the straight line method over the estimated useful life. The assets residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each annual reporting period.

Major depreciation periods are:

Furniture and Fixtures	7 years
Leasehold Improvements	The lease term
Computer Equipment	3 – 5 years

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(O) ASSETS UNDER DEVELOPMENT

Assets under development are recorded at the lower of cost or net realisable value and will be transferred to the appropriate class of asset when the development is completed and the asset is ready for use. Where the asset is a qualifying asset, cost will include any capitalised borrowing costs.

(P) INTANGIBLE ASSETS AND GOODWILL

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. The cost of an intangible asset acquired separately is the amount paid for the asset. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets are not capitalised and expenditure is recognised in profit or loss in the year in which expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are tested for impairment annually, and are not amortised. Amortisation expense is recognised in profit or loss in Asset Management expense.

A summary of the policies applied to the Group's intangible assets is as follows:

Management fee rights

Directly attributable costs that are incurred in respect of the acquisition or establishment of management fee rights are capitalised and amortised on a straight line basis over the remaining life of the respective management agreements (10 - 25 years).

Other Intangible Assets

Other intangible assets have a finite life and are amortised over their useful life (up to 25 years) and tested for impairment whenever there is an indication that the intangible asset may be impaired.

Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. 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 combination'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.

(Q) NEW BUSINESS AND PROJECT BIDDING COSTS

New business and project bidding costs (direct and external costs only) are capitalised and deferred to the extent that it is probable that a contract will be entered into and that the costs will be recoverable from future revenue. New business and project bidding costs are assessed for recoverability at the end of each reporting period to determine the amount, if any, which would require recognition as an expense in the Income Statement.

New business and project bidding costs, which have been capitalised and deferred, are recognised as an expense when the expected project revenue is recognised or the bid is unsuccessful.

(R) RECOVERABLE AMOUNT OF NON-CURRENT ASSETS

At the reporting date, the Group assesses whether there is any indication that non-current assets may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of a non-current asset exceeds its recoverable amount the non-current asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(S) LEASES

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.

Group as a Lessor

Assets held under a finance lease are recognised in the Balance Sheet as a receivable at an amount equal to the net investment in the lease. The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

Leases in which the Group retains substantially all the risks and rewards of ownership of the leased asset are classified as operating leases. Lease income from operating leases is recognised as income on a straight line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term.

Group as a Lessee

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense. Contingent rentals are recognised as an expense in the financial period in which they are incurred.

(T) PAYABLES

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity. The amounts are unsecured and are usually paid within 30 days of recognition.

Payables to related parties are carried at the principal amount. Interest is recognised as an expense on an accrual basis.

(U) DEPOSITS HELD

In the normal course of leasing aircraft to third parties under operating lease agreements, the Group receives deposits as rental security and monies to be applied against the future maintenance of aircraft.

(V) INTEREST-BEARING LOANS AND BORROWINGS

All loans and notes payable are initially recognised at fair value of the consideration received less issue costs directly associated with the borrowings.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

(W) PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

A provision for dividends is not recognised as a liability unless the dividends are declared, on or before the reporting date.

(X) CONTRIBUTED EQUITY AND RESERVES

Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by BBL. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments reserve

The share-based payments reserve is used to record the movement arising from the issue, conversion and lapsing of share options and bonus deferral rights.

Cashflow hedge reserve

The cashflow hedge reserve is used to record the changes in fair value, net of related taxes, of derivative financial instruments that are effective in hedging interest rate and foreign currency risk in forecasted future cashflows at balance date.

Available-for-sale financial assets reserve

The available-for-sale financial assets reserve is used to record the changes in fair value, net of related taxes, of available-for-sale financial assets held throughout the period.

(Y) REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised. Where amounts do not meet these recognition criteria, they are deferred and recognised in the period in which the recognition criteria are met.

Fees from financing transactions and management fees

Fees from financing transactions are recognised as revenue when the Group has provided all services necessary for a final closing of the transaction, the transaction has actually closed, the fee is payable, and the likelihood that any contingencies occurring that could result in a reduction of the fee is remote.

Fees from financing transactions include fees earned on asset sales that are payable to the Group on certain financings at the end of the financing term. On certain transactions, the fee earned on asset sales is equal to a share of the asset value above a specified minimum and such fees are recognised when the Group controls the right to receive the fee. Periodic management fees are received for management services provided for income producing assets owned by third parties. These fees are recognised as revenues as the management services are provided, and the Group controls the right to be compensated for the services provided.

Rental income

Rental income from aircraft, railcars and real estate leases, other than contingent rents, is recognised on a straight line basis over the respective lease terms. Contingent rents are recognised as revenue in the periods in which they are earned.

Sale of assets

Revenue from sales of assets is recognised at the time title is transferred or delivery has occurred, the price is fixed and determinable, and collectability is probable.

Interest

Interest income from loans and advances and other interest bearing assets is brought to account using the effective interest rate method. Accrued coupons, amortisation of premiums and accretion of discounts are brought to account as interest income on a yield to maturity basis in accordance with the terms of the security.

Dividends

Dividend revenue is recognised when the Group's right to receive the dividend is established.

(Z) TAXES

The income tax expense for the period is the tax payable on the current period's taxable income based on the notional tax rate for each jurisdiction 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 to unused tax losses.

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 rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and assessable temporary differences to measure the deferred tax asset or liability.

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 assets and liabilities 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 distributions from controlled entities and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred Income

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax liabilities are not recognised from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the account profit nor taxable profit or loss.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax Consolidation

A portion of the deferred tax liability that was established to account for the tax values of assets impacted by the entry into tax consolidation in the prior year continues to be recognised. BBIPL is the head entity of the tax consolidated group.

Members of the group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No additional amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. In accordance with UIG 1052, the Group has applied a modified stand-alone taxpayer basis for current and deferred tax. Application of this method has not resulted in any equity transactions.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

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

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(AA) EMPLOYEE BENEFITS

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date, in accordance with local statutory requirements. These benefits include wages and salaries, annual leave, long service leave, bonuses and share based payments.

Wages and Salaries, Annual Leave and Long Service Leave

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within 12 months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave benefits; and
- other types of employee benefits

are recognised against profits in their respective categories.

Bonuses

A liability for employee benefits in the form of bonus plans is recognised in accrued 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments

Share-based payments include:

- Options and shares contributed to employee Share Trusts pre-IPO and granted concurrently to employees;
- Options from pre-IPO employee Share Trust contribution granted to new employees as part of their employment package;
- Executive Share Options and Performance Rights both subject to performance hurdles;
- Bonus Deferral Rights.

The cost of the options and rights is measured by reference to the fair value at the date granted. The cost is recognised as an expense, together with a corresponding increase in an equity reserve over the period in which certain vesting conditions are fulfilled, ending on the date on which the relevant employee becomes fully entitled to the award.

The fair value of options at grant date is determined using an option pricing model with assumptions appropriate to each award at the time of grant. The fair value of Bonus Deferral Rights at grant date is calculated with reference to the actual dollar value of bonus allocated from the bonus pool to the individual for the service provided in the previous year.

At each balance sheet date, the Group revises its estimate of the number of options and rights that are expected to become exercisable. The cost recognised each period takes into account the most recent estimate. Upon the exercise of options and rights, the balance of the equity reserve (share-based payments reserve) relating to those options is transferred to contributed equity.

(AB) DERIVATIVE FINANCIAL INSTRUMENTS

Forward exchange contracts

Babcock & Brown enters into forward exchange contracts where it agrees to buy or sell specified amounts of foreign currencies in the future at a predetermined exchange rate. The objective is to match the contracts with anticipated future cash flows from sales and purchases in foreign currencies, to protect the consolidated entity against the possibility of loss from future exchange rate fluctuations. The forward exchange contracts are usually for no longer than 12 months.

Forward exchange contracts are recognised at fair value at the date the contract is entered into. Any gains or losses arising from changes in the fair value of exchange contracts are recorded through the Income Statement in the period they occur except those relating to cashflow hedges that are recorded in equity and included in the measurement of the sale or purchase when it occurs.

Interest rate swaps

Babcock & Brown enters into interest rate swap agreements that are used to hedge short-term corporate borrowings or, where specifically designated, to hedge project debt for certain real estate and infrastructure transactions. The interest rate swaps used for short-term borrowings convert the variable interest rate to medium-term fixed interest rates. The interest rate swaps specifically designated as hedges of project debt finance also convert variable interest rate debt to fixed interest rates. The swaps are entered into with the objective of reducing the risk of rising interest rates.

Interest rate swaps used to hedge general short term borrowings are carried at fair value, with movements in fair value recorded in the Income Statement. Interest rate swaps with a positive fair value are included as a component of Other Assets. Interest rate swaps with a negative fair value are included as a component of Other Liabilities.

Hedges of Net Investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to profit or loss.

(AC) EARNINGS PER SHARE (EPS)

Basic EPS is calculated as net profit attributable to members of the parent, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(AD) GOVERNMENT GRANTS

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the Income Statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the construction of wind and hydro assets are included in deferred income within non-current liabilities and are credited to the income statement on a straight line basis over the expected lives of the related assets.

(AE) BORROWING COSTS

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

(AF) ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLICABLE

As at the date of this financial report the following accounting standards have been issued, which will be applicable to the Group, but were not operative and as a consequence were not adopted in the preparation of the financial statements:

Accounting Standard Name		Issue Date	Operative Date
AASB 8	Operating Segments	February 2007	1 January 2009
AASB 2007-3	Amendments to Australian Accounting Standards arising from AASB 8	February 2007	1 January 2009
AASB 2007-6	Amendments to Australian Accounting Standards arising from AASB 123	June 2007	1 January 2009
AASB-2007-8	Amendments to Australian Accounting Standards arising from AASB 101	September 2007	1 January 2009

If these accounting standards, and others which are not applicable to the Group, had been adopted, we do not believe that there would have been a material impact to either the Income Statements for year ended 31 December 2007 or Balance Sheets as at 31 December 2007.

The Group has early adopted the amendments to Australian Accounting Standards as set out in AASB 2007-4 "Amendments to Australian Accounting Standards arising from ED151 and Other Amendments (AASB 1, 2, 3, 4, 5, 6, 7, 102, 107, 110, 112, 114, 116, 117, 118, 119, 120, 121, 127, 128, 129, 130, 131, 132, 133, 134, 136, 137, 138, 139, 141, 1023 and 1038)"

(AG) CRITICAL ACCOUNTING ESTIMATES AND SIGNIFICANT JUDGEMENTS

The preparation of the financial report in accordance with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The notes to the financial statements set out areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the financial report such as:

- fair value of financial instruments
- acquisitions and disposals of controlled entities, joint ventures and associates, and held for sale investments
- ability to realise deferred tax
- goodwill impairment
- impairment of non financial assets other than goodwill

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates used in preparing the financial report are reasonable. Actual results in the future may differ from those reported.

2. REVENUES AND EXPENSES

	Consolidated		Babcock & Brown Limited	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Profit before income tax expense includes the specific revenues and expenses whose disclosure is relevant in explaining the performance of the entity:				
(A) REVENUES				
Fee income	952,283	764,171	6,160	6,063
Asset management income	792,146	540,763	-	-
Distributions and dividends	51,794	14,968	118,400	70,345
Interest income	223,118	100,896	52,991	32,707
Total Revenue	**2,019,341**	**1,420,798**	**177,551**	**109,115**
(B) OTHER INCOME				
Net gain from sales of assets	766,099	452,460	-	-
Fair value movement on held for trading financial assets	(114)	4,661	-	-
Net gain on disposal of available for sale investments	96,140	43,768	-	-
Fair value movement on investment property	100,631	9,148	-	-
Net exchange (gains)/losses on foreign exchange and interest rate hedges	74,726	10,777	-	-
Other income	82,018	71,266	-	-
Total Other Income	**1,119,500**	**592,080**	**-**	**-**
(C) EXPENSES (EXCLUDING FINANCE COSTS & BONUS EXPENSE)				
Salaries and employee costs	302,098	218,671	-	-
Professional fees	41,027	27,511	-	-
Depreciation and amortisation	95,848	99,067	-	-
Occupancy	57,334	32,062	-	-
Asset management expense	535,070	289,666	-	-
Transaction and promotion	256,917	179,500	-	-
Travel	44,075	33,170	-	-
Net exchange (gains)/losses on foreign exchange and interest rate hedges	-	-	205	(2)
Other	35,700	20,381	1,054	1,597
Total Expenses (excluding Finance Costs and Bonus Expense)	**1,368,069**	**900,028**	**1,259**	**1,595**
(D) OTHER DISCLOSURE INFORMATION				
Finance Costs	662,511	361,799	54,199	32,987
Depreciation and Amortisation				
Investment Related Assets	77,969	90,402	-	-
Property and equipment	11,140	8,665	-	-
Management Fee Rights	4,324	-	-	-
Other Intangible Assets	2,415	-	-	-
Total Depreciation and Amortisation Expense	95,848	99,067	-	-
Foreign exchange (gain)/loss - realised	(75,662)	5,065	-	-
Foreign exchange (gain)/loss - unrealised	1,386	(9,824)	205	(2)
Realised and unrealised (gain)/loss on foreign exchange contracts	9,064	(10,362)	-	-
Realised loss/(gain) on interest rate derivatives	(9,514)	4,344	-	-
Total realised and unrealised (gain)/loss on foreign exchange and interest rate hedges	(74,726)	(10,777)	205	(2)
Total operating lease rental-minimum lease payments	35,641	18,895	-	-
Total share based payments	123,533	71,307	-	-
Total superannuation payments	10,673	7,005	-	-

3. SEGMENT INFORMATION

Primary Segment – Business Information

The business segments are defined by nature of activities engaged in by Babcock & Brown. These business activities include:

Real Estate

Principal investment and investment management activities in the real estate sector worldwide.

Infrastructure

Financial advisory, principal finance and funds management activities in the global infrastructure and project finance sector.

Corporate & Structured Finance

Origination, structuring and participation in and management of equity and debt investments.

Operating Leasing

Asset acquisition and syndication and ongoing management of portfolios of aircraft, railcars and semi-conductor equipment.

Segment Restructure

During the year the company restructured the segment divisions, merging Corporate Finance and Structured Finance due to the complimentary nature of the skill sets within the two divisions and the decline in Babcock & Brown's traditional third party advisory activity in the Structured Finance area. Structured Finance's air and rail lease advisory services, however, were merged with the Operating Leasing Division. In addition one transaction was reclassified from the Real Estate to the Infrastructure Business.

Both the 2006 Net Revenues and segment net assets have been restated throughout to reflect the restructure for comparison purposes.

	Revenue and other income from external parties		Share of net profit/(loss) of equity accounted investments		Total segment revenue and other income	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Real Estate	754,737	373,529	64,729	56,122	819,466	429,651
Infrastructure	1,499,811	817,613	81,309	69,445	1,581,120	887,058
Operating Leasing	588,575	425,649	76,853	5,699	665,428	431,348
Corporate & Structured Finance	222,728	383,122	27,273	10,080	250,001	393,202
Total Segment Revenue and Other Income	**3,065,851**	**1,999,913**	**250,164**	**141,346**	**3,316,015**	**2,141,259**
Unallocated revenue	72,990	12,965	2,715	(403)	75,705	12,562
Total Consolidated Revenue and other income	**3,138,841**	**2,012,878**	**252,879**	**140,943**	**3,391,720**	**2,153,821**

3. SEGMENT INFORMATION (CONTINUED)

	Segment Results	
	2007 $'000	2006 $'000
Real Estate	231,044	130,235
Infrastructure	420,761	204,052
Operating Leasing	214,812	68,292
Corporate & Structured Finance	20,687	141,632
Total Segment Results	**887,304**	**544,211**
Net interest expense	(100,531)	(66,337)
Net unallocated revenue and expense	927	-
Consolidated Entity Profit before Income Tax Expense	**787,700**	**477,874**
Income tax expense	(148,361)	(68,957)
Consolidated Entity Profit after Income Tax Expense	**639,339**	**408,917**
Minority interest	(114,190)	(100,279)
Net Profit	**525,149**	**308,638**

	Assets		Liabilities		Net Assets	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Real Estate	5,447,051	2,673,376	3,667,014	1,737,154	1,780,037	936,222
Infrastructure[1]	5,919,222	4,028,098	3,669,326	2,456,730	2,249,896	1,571,368
Operating Leasing	1,925,648	1,315,353	1,567,900	1,123,414	357,748	191,939
Corporate & Structured Finance[1]	976,350	500,138	386,179	131,290	590,171	368,848
Segment Assets & Liabilities	**14,268,271**	**8,516,965**	**9,290,419**	**5,448,588**	**4,977,852**	**3,068,377**
Corporate debt	-	-	2,759,598	1,384,909	(2,759,598)	(1,384,909)
Net cash & cash equivalents	363,482	315,994	-	-	363,482	315,994
Working capital (excluding cash)	442,617	387,612	572,847	583,209	(130,230)	(195,597)
Deferred tax assets	462,731	363,300	-	-	462,731	363,300
Deferred tax liabilities	-	-	481,059	493,318	(481,059)	(493,318)
Property and equipment	65,337	26,642	-	-	65,337	26,642
Other	35,859	30,093	20,770	18,537	15,089	11,556
Total Net Assets per Balance Sheet	**15,638,297**	**9,640,606**	**13,124,693**	**7,928,561**	**2,513,604**	**1,712,045**

1. Goodwill relates to Infrastructure $53.5 million (31 December 2006 $257.3 million), Real Estate ($74.7 million (31 Dec 2006 $38.0 million), Corporate & Structured Finance $11.3 million (31 Dec 2006: nil) and relates to Europe $79.5 million (31 Dec 2006: $287.0 million), North America $50.0 million (31 Dec 2006: $8.3 million) and Asia Pacific $4.9 million (31 Dec 2006: nil)

3. SEGMENT INFORMATION (CONTINUED)

Other Segment Information	Equity Accounted Investments included in Segment Assets		Acquisition of Property & Equipment, Intangible Assets, & Other Non-Current Assets		Depreciation and Amortisation	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Real Estate	431,332	364,958	419,889	233,248	1,345	892
Infrastructure & Project Finance	1,215,686	668,130	1,247,388	713,124	14,903	13,680
Operating Leasing	181,552	38,448	11,651	98,912	68,780	76,051
Corporate & Structured Finance	467,526	336,894	360,236	69,420	1,212	60
Total Segments	**2,296,096**	**1,408,430**	**2,039,164**	**1,114,704**	**86,240**	**90,683**
Unallocated	8,759	75	42,238	20,377	9,608	8,384
Consolidated	**2,304,855**	**1,408,505**	**2,081,402**	**1,135,081**	**95,848**	**99,067**

SECONDARY SEGMENT – GEOGRAPHIC INFORMATION

The geographic segmentation of revenue is based on the location of the customers, while segmentation of the assets is based on the location of the asset. Babcock & Brown operates in three principal geographical locations. While each of Babcock & Brown's business segments are conducted in the three geographical locations, the below information describes the most significant components of each region.

Asia Pacific – Primary businesses include Real Estate, Infrastructure, and Corporate & Structured Finance.

North America – Primary businesses include Infrastructure, Operating Leasing and Corporate & Structured Finance.

Europe – Primary businesses include Real Estate, Infrastructure, and Operating Leasing.

Geographic Segment Information	Segment Revenues and Other Income		Segment Assets		Acquisition of Property, Equipment, Intangible Assets, & Other Non-Current Assets	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Asia Pacific	826,469	857,349	4,548,356	1,810,543	677,066	407,631
North America	1,201,726	522,780	4,614,702	2,232,616	678,404	362,773
Europe	1,287,820	761,130	5,105,213	4,473,806	683,694	344,300
Total Regions	**3,316,015**	**2,141,259**	**14,268,271**	**8,516,965**	**2,039,164**	**1,114,704**

4. INCOME TAX

	Consolidated		Babcock & Brown Limited	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
(A) INCOME TAX EXPENSE				
Current income tax expense	23,129	135,330	714	32
Under/(Over) provision – prior year	(577)	(12,630)	442	-
Deferred income tax expense/(benefit)	125,809	(53,743)	1,250	(932)
	148,361	**68,957**	**2,406**	**(900)**
Deferred income tax expense/(benefit) included in income tax expense comprises:				
Increase/(decrease) in deferred tax assets	(144,936)	(149,075)	874	(932)
Increase in deferred tax liabilities	270,745	95,332	376	-
	125,809	**(53,743)**	**1,250**	**(932)**
(B) NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE				
The prima facie tax on profit differs from the income tax provided in the financial statements as follows:				
Prima facie tax on profit from ordinary activities at 30%, being the Australian tax rate	236,310	143,362	36,628	22,360
Tax effect of amounts which are not deductible/(assessable) in calculating taxable income:				
Equity accounted profits	(19,465)	(32,125)	-	-
Tax exempt income	-	(3,561)	-	-
Non assessable dividends	-	-	(35,520)	(21,104)
Non-deductible expenses	14,554	7,944	-	-
Under/(over) provision in prior year	(577)	(12,630)	442	-
Current year tax losses not recognised	9,033	-	-	-
Tax losses not previously recognised	(2,142)	-	-	-
Difference in overseas tax rates	(68,317)	(45,208)	-	-
Other items	(21,035)	11,175	856	(2,156)
Income Tax Expense/(Benefit)	**148,361**	**68,957**	**2,406**	**(900)**
(C) TAX LOSSES				
Gross unused tax losses for which no deferred tax asset has been recognised by jurisdiction:				
Austria	-	1,165	-	-
Czech Republic	5,286	-	-	-
Germany	22,951	1,342	-	-
Ireland	7,129	-	-	-
Netherlands	219	2,489	-	-
Switzerland	33,822	-	-	-
Other	4,778	7,757	-	-
	74,185	**12,753**	**-**	**-**

The deferred tax asset will only be obtained if:

1. Future assessable income is derived of a nature and amount sufficient to enable the benefit to be realised;
2. The conditions for deductibility imposed by tax legislation are complied with; and
3. No changes in tax legislation adversely affect the consolidated entity in realising the benefit.

Tax Consolidation

BBIPL elected to form a tax consolidated group during the year ended 31 December 2004. The accounting policy on implementation of the legislation is set out in note 1(z).

5. EARNINGS PER SHARE

	Consolidated 2007 $'000	Consolidated 2006 $'000
The following reflects the income and share data used in the calculations of basic and diluted earnings per share:		
Net profit	639,339	408,917
Net profit attributable to minority interest (including BBIPL)	(114,190)	(100,279)
Earnings used in calculating basic earnings per share	**525,149**	**308,638**
Interest on BBSNs (net of tax)	36,870	-
Earnings used in calculating Dilutive Earnings per Share	**562,019**	**308,638**

	Number of shares and options 2007	Number of shares and options 2006
Weighted average number of shares issued	285,617,061	249,284,562
Less shares held by consolidated employee Share Trusts	(19,650,029)	(14,623,871)
Weighted average number of ordinary shares used in calculating basic earnings per share	**265,967,032**	**234,660,691**
Effect of dilutive securities	60,827,627	32,755,652
Adjusted Weighted Average Number of Ordinary Shares used in calculating Diluted Earnings per Share	**326,794,659**	**267,416,343**

Babcock & Brown Subordinated Notes were not included in the calculation of diluted earnings per share in 2006 as they were not dilutive in 2006.

6. DIVIDENDS PAID AND PROPOSED

	Babcock & Brown Limited	
	2007 $'000	2006 $'000
Declared and paid during the year		
Dividends on ordinary shares:		
Final partially franked dividend for financial year 31 December 2006: 21.0 cents (2005: 14.25 cents)	56,420	32,964
Interim partially franked dividend for financial year 31 December 2007: 21.4 cents (2006: 15.0 cents partially franked)	61,979	37,379
Total declared and paid	118,399	70,343
Proposed (not recognised as a liability at year end)		
Dividends on ordinary shares:		
Final partially franked dividend for financial year ended 31 December 2007: 33.0 cents (2006: 21.0 cents partially franked)	96,995	56,420

The unfranked portion of the dividend is payable out of conduit foreign income.

Dividend Franking Credit Balance

	Babcock & Brown Limited	
	2007 $'000	2006 $'000
The amount of franking credits available for the subsequent financial period are:		
- Franking account balance as at the end of the financial period at 30%	88,025	38,973
- Franking credits/(debits) that will arise from the payment/(receipt) of income tax payable/(recoverable) as at the end of the financial year	(33,376)	50,062
	54,649	89,035
The amount of franking credits available for future reporting periods:		
- Franking debits of dividends proposed but not recognised as a liability at reporting date.	(20,785)	(12,082)

No franking credits will arise from the receipt of dividends recognised as receivables at reporting date.

7. CASH AND CASH EQUIVALENTS

	Consolidated		Babcock & Brown Limited	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Cash at bank	2,547,277	560,044	221	409
Short-term trading securities	3,881	12,833	-	-
Total cash and cash equivalents	**2,551,158**	**572,877**	**221**	**409**

Approximately $2,187 million (2006: $310 million) of Babcock & Brown's cash was restricted primarily for deposits held (Note 27) and amounts pledged as collateral against interest bearing liabilities (Note 30) under normal terms and conditions.

8. FEES RECEIVABLE FROM FINANCING TRANSACTIONS (CURRENT)

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Fees receivable	199,501	189,626	-	-
Total fees receivable from financing transactions	**199,501**	**189,626**	**-**	**-**

Fees receivable are non-interest bearing and generally on 30 day terms.

9. OTHER RECEIVABLES (CURRENT)

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Consumption taxes receivable	36,257	53,077	-	-
Amounts receivable from related parties	218,961	31,899	-	-
Receivable from sale of assets	151,563	11,871	-	-
Reimbursable expenses	17,489	12,310	-	-
Rent receivable on leased assets	40,212	25,169	-	-
Dividends receivable	35,768	15,845	-	-
Current tax receivable	33,401	-	916	-
Other	87,153	63,902	-	-
Total Other Receivables	**620,804**	**214,073**	**916**	**-**

Other receivables are non-interest bearing and due within less than one year.

10. NOTES RECEIVABLE

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Interest bearing notes:				
Third party	705,462	380,048	-	-
Provision	(32,395)	(8,390)	-	-
Loans receivable from employees	4,879	4,236	-	-
Related party receivables	351,921	219,990	631,920	628,716
Non-interest bearing notes:				
Third party	14,358	5,997	-	-
Related party receivables	49,223	67,583	-	-
Total Notes Receivable	**1,093,448**	**669,464**	**631,920**	**628,716**
Current	640,721	190,389	-	-
Non-current	452,727	479,075	631,920	628,716
Total Notes Receivable	**1,093,448**	**669,464**	**631,920**	**628,716**

11. INVESTMENTS IN FINANCIAL ASSETS

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Held-for-trading financial assets (current)	119,269	41,319	-	-
Available-for-sale financial assets - listed (non-current)	132,801	262,517	-	-
Available-for-sale financial assets - unlisted (non-current)	23,655	42,787	1,936,884	1,270,629
Financial Assets due under service concession arrangements (non-current)	77,591	18,035	-	-
Held to maturity Financial Assets (current)	98,706	-	-	-
Total Investments in Financial Assets	**452,022**	**364,658**	**1,936,884**	**1,270,629**

Individually significant investments included within available-for-sale financial assets at 31 December 2006 were investments in Alinta Limited $157.9m (2007: Nil) and Grand Hotel Group $28.9m (2007: Nil).

Analysis of investments in equity instruments that do not have a quoted market price and are measured at cost.

	Carrying amount			
Equity Instrument	Consolidated		Company	
	2007	2006	2007	2006
Sentient Global Resources	13,060	12,135	-	-
Babcock & Brown International Pty Limited	-	-	1,936,884	1,270,629
Other	10,595	30,652	-	-
Total	**23,655**	**42,787**	**1,936,884**	**1,270,629**

12. FINANCE LEASE RECEIVABLE

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Present value of minimum lease payments	96,452	115,043	-	-
Present value of guaranteed residual value	20,110	20,456	-	-
Present value of unguaranteed residual value	10,437	10,620	-	-
Present value of lease	**126,999**	**146,119**	**-**	**-**
Initial direct costs	3,609	4,562	-	-
Carrying value per balance sheet	**130,608**	**150,681**	**-**	**-**
Unearned finance income	80,892	102,236	-	-
Gross lease value	**211,500**	**252,917**	**-**	**-**

2007	<1 year	1-5 years	> 5 years	Total
Gross lease value (excluding initial direct costs)	15,727	61,160	131,004	207,891
Present value of minimum lease payments	14,342	45,347	60,482	120,171
2006				
Gross lease value (excluding initial direct costs)	17,634	68,668	162,054	248,356
Present value of minimum lease payments	16,096	50,982	72,983	140,061

The finance lease receivable relates to a single plane leased to May 2017. Included in interest bearing liabilities are loans of $122 million associated with this finance lease. The implicit interest rate in the finance lease is 7.71%.

13. TRANSPORTATION EQUIPMENT

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Aircraft				
- Current	294,157	146,067	-	-
- Non-current	314,341	429,800	-	-
Accumulated depreciation	(92,036)	(74,373)	-	-
	516,462	**501,494**	**-**	**-**
Rail				
- Non-Current	490,417	218,687	-	-
Accumulated depreciation	(3,118)	(1,241)	-	-
	487,299	**217,446**	**-**	**-**
Other				
- Non-Current	28,643	36,306	-	-
Accumulated depreciation	(6,767)	(5,335)	-	-
	21,876	**30,971**	**-**	**-**
Total Transportation Equipment	**1,025,637**	**749,911**	**-**	**-**

Babcock & Brown, through special purpose subsidiaries, owned a total of 36 aircraft, 5,841 rail cars and nil aircraft engines at 31 December 2007 (2006: 36 aircraft, 2,125 rail cars and 4 aircraft engines). The aircraft and rail cars are all pledged as collateral on notes payable.

Reconciliations of the carrying amounts of transportation equipment at the beginning and end of the current financial period:

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Aircraft				
Opening cost	575,867	464,235	-	-
Opening accumulated depreciation	(74,373)	(59,180)	-	-
Carrying amount at beginning of period	**501,494**	**405,055**	**-**	**-**
Additions	959,677	1,078,142	-	-
Disposals	(827,113)	(832,296)	-	-
Depreciation expense	(42,627)	(68,676)	-	-
Foreign exchange	(74,969)	(80,731)	-	-
	516,462	**501,494**	**-**	**-**
Rail				
Opening cost	218,687	151,731	-	-
Opening accumulated depreciation	(1,241)	(410)	-	-
Carrying amount at beginning of period	**217,446**	**151,321**	**-**	**-**
Additions	692,410	300,258	-	-
Disposals	(374,841)	(209,256)	-	-
Depreciation expense	(16,083)	(4,714)	-	-
Foreign exchange	(31,633)	(20,163)	-	-
	487,299	**217,446**	**-**	**-**

Transportation equipment is leased to various clients under non-cancellable operating leases. The minimum lease payments due under these contracts are:

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Not later than one year	106,905	103,210	-	-
Later than one year and not later than five years	157,021	168,195	-	-
Later than five years	56,591	-	-	-
	320,517	**271,405**	**-**	**-**

14. SEMICONDUCTOR EQUIPMENT

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Held for trading - current	**83,422**	**22,489**	**-**	**-**
Leased - non-current:	18,088	55,870	-	-
Opening cost	58,511	-	-	-
Opening accumulated depreciation	(2,641)	-	-	-
Carrying amount at beginning of period	55,870	-	-	-
Additions	1,418	58,511	-	-
Disposals	(21,841)	-	-	-
Depreciation expense	(14,430)	(2,641)	-	-
Foreign exchange	(2,929)	-	-	-
Total Leased	**18,088**	**55,870**	**-**	**-**
Total Semiconductor Equipment	**101,510**	**78,359**	**-**	**-**

Babcock & Brown purchases semiconductor equipment for trading. The equipment is typically held for less than one year and is sometimes refurbished prior to being offered for sale.

Semiconductor equipment is also purchased for lease to various clients under non-cancellable operating leases.

The minimum lease payments due under these contracts are:

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Not later than one year	5,197	18,564	-	-
Later than one year and not later than five years	-	5,604	-	-
	5,197	24,168	-	-

15. POWER GENERATION ASSETS

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Wind farm projects - current	126,968	1,405,118	-	-
Hydro electric generation projects - current	-	245,076	-	-
Wind farm projects - non current	103,534	-	-	-
Power plant - current	-	8,866	-	-
Total Power Generation Assets	**230,502**	**1,659,060**	**-**	**-**

The 2006 balance largely relates to assets acquired as part of the Enersis transaction that have been sold in 2007. On 7 December 2007, the Group completed the sale of a 50% interest in the Enersis portfolio of wind farms for approximately €130 million (approximately A$219 million). On 21 December 2007, the Group sold a portfolio of hydro electric generation projects for an enterprise value of approximately € 178 million (approximately A$295 million) excluding cash in the business.

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Non current wind farms:				
Opening cost/carrying value	-	-	-	-
Transfer from assets under development	107,400	-	-	-
Depreciation expense	(3,866)	-	-	-
	103,534	**-**	**-**	**-**

16. BIOFUEL ASSETS (NON-CURRENT)

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Carrying amount at beginning of period	-	-	-	-
Additions	176,724	-	-	-
Depreciation expense	(2,244)	-	-	-
Foreign exchange	(10,627)	-	-	-
Total Biofuel Assets	**163,853**	**-**	**-**	**-**

17. ASSETS UNDER DEVELOPMENT

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Power plant projects	16,092	6,452	-	-
Wind farm projects	655,392	567,762	-	-
Real estate projects	485,335	298,213	-	-
Aircraft refurbishment	17,124	39,536	-	-
Hydro electric generation development assets	-	45,163	-	-
Renewables including fuel, biomass/wave	356,955	101,001	-	-
Electricity transmission	130,364	19,729	-	-
Other	2,167	-	-	-
Total Assets under Development	**1,663,429**	**1,077,856**	**-**	**-**
Current	399,261	327,845	-	-
Non-current	1,264,168	750,011	-	-
Total Assets Under Development	**1,663,429**	**1,077,856**	**-**	**-**

18. REAL ESTATE
(A) REAL ESTATE HELD FOR SALE (CURRENT)

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Held for sale at cost	1,941,783	1,232,231	-	-
	1,941,783	**1,232,231**	**-**	**-**

Real Estate held for sale comprises properties predominately in Central and Eastern Europe, Switzerland, Germany, Italy and Japan.

18. REAL ESTATE (CONTINUED)

(B) REAL ESTATE HELD AS INVESTMENT PROPERTY (NON-CURRENT)

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
AT FAIR VALUE				
Opening balance at 1 January	265,554	87,937	-	-
Acquisitions	2,212,246	167,905	-	-
Capitalised expenditure	10,162	1,198	-	-
Deconsolidation	(738,556)	-	-	-
Transfer from assets under development	11,027	-	-	-
Net gain from fair value adjustments	100,631	9,147	-	-
Foreign exchange translation differences	(195,813)	(633)	-	-
Closing Balance at 31 December	**1,665,251**	**265,554**	**-**	**-**
As at balance date investment properties were valued as follows:				
Independent valuation	350,765	50,025	-	-
Director's valuation	1,314,486	215,529	-	-
	1,665,251	**265,554**	**-**	**-**
AMOUNTS RECOGNISED IN PROFIT & LOSS FOR INVESTMENT PROPERTY				
Rental income	119,936	14,039	-	-
Direct operating expenses from property that generated rental income	(74,140)	(3,742)	-	-
	45,796	**10,297**	**-**	**-**
LEASING ARRANGEMENTS				
Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statement are receivable as follows:				
Within one year	59,205	10,568	-	-
Later than one year but not later than 5 years	36,269	35,348	-	-
Later than 5 years	107,864	82,382	-	-
	203,338	**128,298**	**-**	**-**

19. INVESTMENTS IN ASSOCIATES (NON-CURRENT)

Name	Country of Incorporation	Principal Activity	Ownership interest by consolidated entity 2007 %	Ownership interest by consolidated entity 2006 %	Carrying Value 2007 $'000	Carrying Value 2006 $'000
REAL ESTATE						
Australian Real Estate						
Babcock & Brown Apartment Investment Group	Australia	(i)	50.0	-	23,088	-
Babcock & Brown Residential Land Partners	Australia	(i)	10.2	10.2	13,923	15,340
BGA Real Estate Finance Trust	Australia	(i)	50.0	50.0	10,810	1,805
BRIC Holdings Pty Ltd	Australia	(i)	50.0	50.0	3,436	5,120
Digital Harbour Holdings Pty Ltd	Australia	(i)	25.0	25.0	3,133	(56)
Ecopoint Management Pty Ltd	Australia	(i)	50.0	50.0	1,340	971
Felix Apartments Partnership*	Australia	(i)	-	18.6	-	-
Lonsdale Unit Trust	Australia	(i)	20.0	20.0	961	844
Mango Boulevard Unit Trust#	Australia	(i)	50.0	50.0	(3,907)	(2,123)
PRM Property Holdings Pty Ltd*	Australia	(i)	-	14.9	-	15
Ramsay Bourne Holdings Pty Ltd	Australia	(i)	33.0	33.0	-	-
Turnstone Nominees Pty Ltd	Australia	(i)	33.3	33.3	3,108	7,339
Watpac Capital Pty Ltd	Australia	(i)	50.0	50.0	1	1
US Real Estate						
B&B Greenfield Holdings LP	US	(iv)	0.1	-	197	-
Eagle III Syndicate LLC	US	(iv)	0.4	0.4	-	-
European Real Estate						
Auctor Vermietung GmbH	Germany	(ii)	52.0	52.0	167	166
B&B Broni Srl	Italy	(ii)	50.0	50.0	13	(30)
B&B Retail Portfolio 1 Sarl	Germany	(ii)	30.0	-	22,190	-
Babcock & Brown Development Fund	Italy	(ii)	33.0	-	483	-
Babcock & Brown Montipo Srl	Italy	(ii)	50.0	50.0	6,161	350
Barg Holding GmbH	Germany	(ii)	50.0	50.0	5,533	8,073
Bleckholmen A.B.	Sweden	(ii)	50.0	-	3,979	-
Broadstone Limited#	UK	(ii)	50.0	50.0	(63)	(98)
Eaglet III Ltd	UK	(ii)	50.0	50.0	325	448
El Pueblo de Monte Mayor SL	Spain	(ii)	50.0	50.0	914	901
Las Terrazas delstan, S.L. (formerly Bellavista del Lago SL)*	Spain	(ii)	-	50.0	-	(235)
Monte Major Real Estate SL*	Spain	(ii)	-	50.0	-	(420)
Odense Havneudvikling A/S#	Denmark	(ii)	33.0	-	(364)	-
Saxon Land BV	Netherlands	(ii)	32.5	32.5	3,482	7,782
Japanese Real Estate						
B&B Japan Property Trust	Australia	(iii)	4.0	4.2	26,903	20,635
Duplex Eighteen*	Australia	(iii)	-	50.0	-	415
Evol TK*	Japan	(iii)	-	64.8	-	882
Tamaya TK	Japan	(iii)	6.0	6.0	-	603
The Japan Trust*	Australia	(iii)	-	50.0	-	-
Total Real Estate					**125,813**	**68,728**
OPERATING LEASING						
Babcock & Brown Air Limited	Bermuda	(xiii)	13.2	-	105,260	-
Babcock & Brown Rail North America LLC#	US	(xii)	12.2	12.2	(1,080)	(1,919)
BBRX Rail Syndicate One LLC*	US	(xii)	-	1.4	-	-
BBRX Two Holdings LLC	US	(xii)	22.4	31.9	2,481	3,959
CBRail Sarl#	Luxembourg	(xii)	50.0	50.0	(230)	416

19. INVESTMENTS IN ASSOCIATES (NON-CURRENT) (CONTINUED)

Name	Country of Incorporation	Principal Activity	Ownership interest by consolidated entity		Carrying Value	
			2007	2006	2007	2006
			%	%	$'000	$'000
CBRail Ltd	UK	(xii)	50.0	50.0	4,265	(2,287)
Double Black Diamond Partners LLC	US	(xiii)	26.0	26.0	3,028	1,429
Investments in TK's - various*	Cayman Is.	(xiii)	-	67.0	378	426
Jet-i Holdings LLC	Cayman Is.	(xiii)	25.9	25.9	850	30,467
Minority Interest Trust	Australia	(xii)	7.3	7.3	7,191	6,463
Pace Cargo Enterprises II LLC	US	(xiii)	50.0	50.0	-	-
Pace Cargo Enterprises III LLC	US	(xiii)	50.0	50.0	-	-
ZS-SNA Leasing Pty Ltd	South Africa	(xiii)	50.0	50.0	4,889	3,782
ZS-SNB Leasing Pty Ltd	South Africa	(xiii)	50.0	50.0	4,905	3,821
Total Operating Leasing					**131,937**	**46,557**
STRUCTURED FINANCE						
APVC Finance Pty Ltd	Australia	(vi)	45.0	5.0	9,454	-
Babcock & Brown Structured Finance Fund	Australia	(vi)	11.0	10.0	24,350	25,116
BCH Investments Company LLC	US	(x)	50.0	50.0	-	-
ITS Music Publishing BV	Netherlands	(viii)	25.0	-	209	-
Lease Receivables I, LLC	US	(x)	1.0	1.0	-	-
Life Receivables Euro, LLC	US	(vii)	50.0	50.0	-	-
Life Receivables Euro II LLC	US	(vii)	50.0	50.0	-	-
Life Receivables Holdings LLC	US	(vii)	50.0	50.0	-	-
Nibbiano Pty Ltd	Australia	(vi)	33.0	-	-	-
Total Structured Finance					**34,013**	**25,116**
INFRASTRUCTURE						
AUSTRALIAN AND ASIAN INFRASTRUCTURE						
Babcock & Brown Asia Infrastructure Fund	Australia	(v)	50.0	-	65,654	-
Babcock & Brown Wind Partners	Australia	(v)	11.4	14.0	73,928	59,337
Babcock & Brown Environmental Investments Ltd	Australia	(v)	30.4	30.4	21,380	56,230
Babcock & Brown European Port Investments Pty Ltd#	Australia	(v)	20.0	50.0	(722)	-
Babcock & Brown Infrastructure Group	Australia	(v)	8.0	8.0	242,809	134,775
Babcock & Brown Power Limited	Australia	(v)	9.4	10.0	172,625	81,961
Babcock & Brown Renewable Power Investment Pty Ltd atf Babcock & Brown Renewable Power Investment Trust*	Australia	(v)	-	50.0	-	(635)
China Worldhealth#	China	(v)	25.0	25.0	(569)	1,215
Coogee Resources Limited	Australia	(v)	7.4	-	221,297	-
International Infrastructure Fund#	Australia	(v)	50.0	50.0	0	906
Jackgreen Ltd	Australia	(v)	20.8	-	7,824	-
NEPNZ Pty Ltd#	New Zealand	(v)	33.0	33.3	(200)	(126)
NSW Schools 2 Investment Pty Ltd*	Australia	(v)	-	25.0	-	1,855
Rocky Point Power Project Pty Ltd [b]	Australia	(v)	51.0	-	5,441	-
Sydney Gas Limited	Australia	(v)	7.5	-	6,967	-

19. INVESTMENTS IN ASSOCIATES (NON-CURRENT) (CONTINUED)

Name	Country of Incorporation	Principal Activity	Ownership interest by consolidated entity		Carrying Value	
			2007	2006	2007	2006
			%	%	$'000	$'000
EUROPEAN INFRASTRUCTURE & PROJECT FINANCE						
B&B Apollo Sarl	Luxembourg	(v)	10.0	-	19,873	-
B&B European Infrastructure Fund (BBEIF)	UK	(v)	2.8	-	3,544	-
B&B Turkish Airports LLC	US	(v)	19.9	16.7	21,887	19,150
Babcock & Brown PFI Partners LP	US	(v)	33.0	33.0	1,021	42,042
Babcock & Brown Public Partnerships Ltd	UK	(v)	8.3	8.3	57,083	55,026
Babcock & Brown Riva Holdings Sarl	Lux	(v)	50.0	-	198,766	-
BBI Port Acquisitions Luxembourg Sarl	Lux	(v)	20.0	49.0	-	5,769
Catalyst Brescia Srl	Italy	(v)	24.0	-	1,327	-
Daneco Windpower Spa	Italy	(v)	49.0	49.0	5,362	5,326
Earthlease Limited	UK	(v)	50.0	50.0	-	-
Finven Srl	Italy	(v)	50.0	50.0	20,121	6,353
Infinivent S.A	France	(v)	50.0	50.0	21,154	32,137
Infracare Midlands Ltd	UK	(v)	47.7	44.5	-	2
Infracare South West	UK	(v)	45.9	36.2	-	221
Minerva Eolica Srl	Italy	(v)	50.0	50.0	2	2
Parchi Eolici Ulassai Srl	Italy	(v)	30.0	30.0	8,831	5,383
Ribeira da Teja – Producto De Energia Electrica, Lda	Portugal	(v)	44.0	44.0	1,466	1,540
SES Srl	Italy	(v)	50.0	50.0	2	2
Windco Srl*	Italy	(v)	-	50.0	-	2
US INFRASTRUCTURE & PROJECT FINANCE						
Aragonne Wind LLC	US	(v)	5.0	-	7,691	-
B&B Parking Management Fund 1, LP	US	(v)	27.0	27.0	4,595	8,520
B&B PMF Advisor LLC	US	(v)	13.6	50.0	38	63
Babcock & Brown Caprock LLC[a]	US	(v)	20.0	20.0	3,752	4,230
Babcock & Brown Infrastructure Fund North America LP	US	(v)	5.0	-	2	-
Babcock & Brown Wind Portfolio Holdings 1 LLC*	US	(v)	-	47.0	-	142,434
Cedar Creek Wind Energy LLC*	US	(v)	-	49.0	-	-
Cholla Wind Energy LLC	US	(v)	50.0	50.0	305	315
Ecogen Wind Holdings LLC	US	(v)	2.0	2.0	2,434	-
Ecogen Wind LLC	US	(v)	49.0	49.0	4,081	2,633
Rock Run Wind Park LLC	US	(v)	50.0	50.0	2,145	1,821
Spring Valley Wind Energy LLC	US	(v)	75.0	75.0	1,047	833
Sweetwater Development LLC	US	(v)	50.0	50.0	-	-
Sweetwater Wind 4 LLC*	US	(v)	-	52.0	-	43
Sweetwater Wind 5 LLC*	US	(v)	-	55.0	-	-
Sweetwater Wind 6 LLC[b]	US	(v)	55.0	55.0	-	-
Sweetwater Wind Power LLC	US	(v)	50.0	50.0	-	-
Vents Du Kempts Inc	Canada	(v)	33.0	33.0	1,023	758
TOTAL INFRASTRUCTURE & PROJECT FINANCE					**1,203,986**	**670,123**

19. INVESTMENTS IN ASSOCIATES (NON-CURRENT) (CONTINUED)

Name	Country of Incorporation	Principal Activity	Ownership interest by consolidated entity 2007 %	2006 %	Carrying Value 2007 $'000	2006 $'000
CORPORATE FINANCE						
185 West St Mount Isa Unit Pty Ltd	Australia	(x)	50.0	-	10	-
2 McIlwraith St Cloncurry Pty Ltd	Australia	(x)	50.0	-	20	-
B&B Communities Group	Australia	(xi)	10.1	-	69,967	-
AIT Investment Trust	Australia	(vi)	49.4	-	1,079	-
AIT Management Pty Ltd	Australia	(x)	49.4	-	-	-
Babcock & Brown Spinco LLC	US	(vi)	47.2	-	74,692	-
AssetInsure Holdings Pty Ltd[b]	Australia	(viii)	16.7	16.7	21,785	21,517
Babcock & Brown Capital Limited	Australia	(x)	7.2	7.2	66,550	69,448
Babcock & Brown Direct Investment Fund	Australia	(x)	14.9	14.9	16,220	14,848
Babcock & Brown Global Partners	UK	(x)	11.1	11.1	42,570	17,932
Brightmoor Pty Ltd (Alpha Investment Trust)	Australia	(x)	24.0	24.0	793	945
Everest Babcock & Brown Ltd	Australia	(x)	26.3	29.0	116,409	112,210
Financial Services Partners Pty Ltd*	Australia	(x)	-	29.0	-	4,030
Golden Circle Note Trust*	Australia	(x)	-	10.0	-	2,568
Harrison Street Partners LP	US	(x)	1.0	1.0	12	14
Interrisk Australia Pty Ltd	Australia	(x)	20.0	20.0	429	511
LFH Holdings Pty Ltd	Australia	(x)	43.0	43.0	5,531	4,158
Mitchell's Holdings (Asia) Pte Ltd	Singapore	(x)	36.3	36.3	1,590	1,300
MFS Pacific Holdings Limited**	Australia	(x)	-	10.0	-	2,800
Momentum Fund Management Pty Ltd	Australia	(x)	25.0	25.0	377	-
Momentum Ventures Pty Ltd atf Momentum Ventures Unit Trust	Australia	(viii)	10.0	10.0	3,631	2,284
PLT Management Pty Ltd atf Prime Living Trust*	Australia	(xi)	-	50.0	-	8,424
Primelife Corporation Limited*	Australia	(xi)	-	6.4	-	23,204
World of Learning Pty Ltd[#]	Australia	(viii)	37.5	-	(119)	-
TOTAL CORPORATE FINANCE					**421,546**	**286,193**
TOTAL INVESTMENTS IN ASSOCIATES (NON-CURRENT)					**1,917,295**	**1,096,717**

Principal Activity

(i)	Australia real estate	(vii)	Purchaser of life insurance policies or investor in insurance companies
(ii)	Europe real estate	(viii)	Miscellaneous service business
(iii)	Japan real estate	(ix)	Natural resources
(iv)	US Real Estate	(x)	Investment management
(v)	Infrastructure assets	(xi)	Retirement village development company
(vi)	Special purpose financing entity	(xii)	Rail operating leasing
		(xiii)	Aircraft operating leasing

19. INVESTMENTS IN ASSOCIATES (NON-CURRENT) (CONTINUED)

Equity Interest

For entities where the equity interest is greater than 50%, Babcock & Brown does not control the financial & operating decisions of the entities due to the contractual arrangements existing with unrelated third parties. For entities where the equity interest is less than 20%, Babcock & Brown have significant influence over the financial and operating decisions of the entities as a result of Babcock & Brown having board representation and/or Babcock & Brown acting as fund manager. The consolidated entity's share of associates' contingent assets and liabilities is disclosed in Note 38.

Voting Power (if different from equity interest)

a Babcock & Brown control 36.0% of the voting power in the company.

b Babcock & Brown control 50% of the voting power in the company.

Changes to Classification

* Investment sold.

** No longer accounted for using the equity method.

Investments in associates with a carrying value below zero continue to recognise equity accounted losses to the extent of other interests, such as note receivables, Babcock & Brown has in the associate.

19. INVESTMENTS IN ASSOCIATES (NON-CURRENT) (CONTINUED)

	Consolidated	
	2007	2006
	$'000	$'000
(A) SHARE OF ASSOCIATES' PROFITS		
Share of associates:		
- Net profit before income tax	209,182	91,115
- Income tax expense attributable to net profit[1]	(6,723)	(273)
Total Share of Associates' Net Profits after tax	**202,459**	**90,842**
(B) CONTRIBUTION BY ASSOCIATES TO NET PROFIT		
The material individual associate contributions to net profit were Babcock & Brown Infrastructure, Babcock & Brown Wind Partners, Finven Srl, Jet-i Holdings LLC, Prime Living Trust, Babcock & Brown Power Limited, Babcock & Brown Japan Property Trust, Babcock & Brown Environmental Investments Ltd, Coogee Resources Limited and CB Rail Ltd		
(C) SUMMARISED FINANCIAL INFORMATION OF ASSOCIATES		
Assets	5,434,539	4,324,423
Liabilities	3,973,935	(3,333,792)
Revenues	734,845	354,868
(D) FAIR VALUE OF LISTED INVESTMENTS IN ASSOCIATES AT 31 DECEMBER 2007		
Babcock & Brown Air Limited	92,552	-
Babcock & Brown Capital Limited	63,910	64,055
Babcock & Brown Communities	59,919	-
Babcock & Brown Environmental Investments Limited	19,990	61,192
Babcock & Brown Power Limited	171,382	96,120
Babcock & Brown Structured Finance Fund	30,474	30,507
Babcock & Brown Public Partnerships	63,174	61,755
Everest Babcock & Brown Ltd	100,607	131,044
Babcock & Brown Residential Land Partners	11,996	14,681
Babcock & Brown Wind Partners	163,466	139,598
Babcock & Brown Infrastructure	283,922	222,940
Babcock & Brown Japan Property Trust	28,877	43,419
Jackgreen Limited	5,280	-
Primelife Corporation Limited	-	26,135
Sydney Gas Ltd	9,895	-
Total Fair Value	**1,105,444**	**891,446**
Total Carrying Value	**1,005,824**	**653,278**

The consolidated entity's share of the associate's contingent liabilities are disclosed in Note 38.

In November 2007 Babcock & Brown made an offer to Babcock & Brown Environmental Investments Limited (ASX: BEI) Shareholders of either 50.0c cash for every BEI share held, or one Babcock & Brown Subordinated Note for every 200 BEI shares held. If supported by BEI Shareholders this represents a value of 50.8c per share based on the closing price of the Babcock & Brown Subordinated Notes on 13 November 2007 of $101.55. Consistent with such an offer, Babcock & Brown has written down the carrying value of its investment in BEI to its fair value less costs to sell of 50.0c per share with a resultant impairment provision of $25.6m being reflected within the Infrastructure segment of the 31 December 2007 financial statements.

[1] The interest in some associates incorporates profit after tax, including tax paid at the entity level.

20. INVESTMENT IN JOINT VENTURES (NON-CURRENT)

(A) JOINT VENTURES ENTITIES

Name & Principal Activity	Country of Incorporation	Ownership interest by consolidated entity		Carrying Value	
		2007	2006	2007	2006
		%	%	$'000	$'000
AUSTRALIA REAL ESTATE					
Angourie Rainforest Living Co Pty Ltd[a]	Australia	60.0	60.0	7,795	6,793
Ascot Vale (Victoria) Property Trust*	Australia	-	40.0	-	-
Bellagio Homebush Bay Trust	Australia	50.0	50.0	3,171	5,764
Carmona Drive Investment Consortium[b]	Australia	54.6	54.6	479	370
Chiswick JV	Australia	50.0	50.0	5,130	4,950
Citta Property Group Pty Ltd#	Australia	40.0	40.0	(1,723)	(2,152)
Coburg (Victoria) Pty Ltd	Australia	40.0	40.0	7,024	4,891
CTI Residential Pty Ltd	Australia	50.0	50.0	-	-
Diamond Beach Investment Consortium[b]	Australia	60.3	60.3	2,619	2,614
Dongara Development JV#	Australia	50.0	50.0	31	(263)
Gateway Victoria (Coomera) Unit Trust	Australia	42.5	42.5	2,558	3,083
Jan Juc Developments Pty Ltd	Australia	50.0	50.0	3,013	2,854
Laurieton Investment Consortium[b]	Australia	56.0	56.0	1,380	1,251
Little Street Investment Consortium[b]	Australia	60.3	60.3	953	957
Pacific Paradise JV*	Australia	-	40.0	-	1,327
Palm Cove Development Nominees Pty Ltd	Australia	25.0	25.0	8,135	8,462
Pottsville Residential Developments Pty Ltd	Australia	50.0	50.0	48	48
Sayers Road Developments Pty Ltd*	Australia	-	50.0	-	-
Seven Mile Beach Joint Venture	Australia	50.0	50.0	2,121	2,121
Seven Mile Beach Unit Trust#	Australia	50.0	50.0	(98)	(294)
Showgrounds Retail Developments JV*	Australia	-	50.0	-	550
Site 3 Sydney Olympic Partnership	Australia	20.0	50.0	3,049	2,444
Tank Street Joint Venture	Australia	50.0	50.0	3,489	3,492
Torquay Developments Unit Trust	Australia	44.7	44.7	-	(1)
Torquay Investment Consortium	Australia	25.0	25.0	-	1,622
Yennora Industrial JV	Australia	50.0	-	1,656	-
EUROPE REAL ESTATE					
BGP Investment Sarl	Luxembourg	50.0	50.0	204,893	200,500
BGP UK Investments Ltd*	UK	-	50.0	-	3,251
IPI Agrupacion Baco S.L. (JV)	Spain	50.0	-	2,427	-
UBM Hotel Gdansk#	Poland	50.0	-	(142)	-
US REAL ESTATE					
B&B Alliance Investor LLC	US	25.6	25.6	8,661	8,756
B&B GPT Alliance I LLC#	US	50.0	50.0	(3,110)	(2,189)
B&B GPT Alliance II LLC	US	50.0	50.0	7,223	6,985
B&B GPT Holding (No. 1) LLC	US	50.0	-	387	-
Babcock & Brown GPT REIT, Inc	US	50.0	50.0	7,898	6,995
LVMB/B&B Holdings LLC	US	50.0	50.0	9,082	18,154
Sterling/B&B LP[a]	US	75.0	50.0	10,968	8,046
Sterling/B&B GP LLC[a]	US	75.0	50.0	110	81
WDC/Babcock Fairways LLC#	US	50.0	50.0	(768)	10,903

20. INVESTMENT IN JOINT VENTURES (NON-CURRENT) (CONTINUED)

Name & Principal Activity	Country of Incorporation	Ownership interest by consolidated entity		Carrying Value	
		2007	2006	2007	2006
		%	%	$'000	$'000
AUSTRALIA INFRASTRUCTURE & PROJECT FINANCE					
NPBB Pty Ltd#	New Zealand	50.0	50.0	(95)	-
Newgen Power Pty Ltd	Australia	50.0	-	7,117	-
Cooma Windpower Pty Ltd**	Australia	50.0	50.0	-	-
Glen Innes Windpower Pty Ltd**	Australia	50.0	50.0	-	-
International Infrastructure Management Pty Ltd**	Australia	50.0	50.0	7,273	-
Western Australia Southern Biomass Pty Ltd**	Australia	50.0	-	-	-
EUROPEAN INFRASTRUCTURE & PROJECT FINANCE					
LIFT Healthcare Investments Limited	UK	49.8	49.8	-	(1,711)
US INFRASTRUCTURE & PROJECT FINANCE					
BWP Wind GP Inc	Canada	50.0	-	-	-
BWP Wind LP	Canada	50.0	-	1	-
STRUCTURED FINANCE					
B Squared Trading Advisors (Delray Capital)	US	30.0	78.3	114	1,134
Life Trading Holdco LLC	US	50.0	-	17,078	-
OPERATING LEASING					
MV Technical Sales LLC	US	50.0	-	2,994	-
Top Flight Holdings LLC	US	50.0	-	54,619	-
TOTAL INVESTMENT IN JOINT VENTURES				**387,560**	**311,788**

Investments in joint ventures with a carrying value below zero continue to recognise equity accounted losses to the extent of other interests held by Babcock & Brown that in substance form part of the net investment, such as notes receivable. The consolidated entity's share of the joint ventures contingent assets and liabilities are disclosed in Note 38.

** Accounted for as an associate during 2006

* Investment sold

a Babcock & Brown control 50% of the voting power of the company

b Babcock & Brown control 33.3% of the voting power of the company

	Consolidated	
	2007	2006
	$'000	$'000
(I) SHARE OF JOINT VENTURE ENTITIES REVENUES, EXPENSES AND PROFIT		
Revenues	385,579	329,455
Expenses	(296,430)	(243,228)
Profit before tax	**89,149**	**86,227**
Income tax expense	(38,729)	(36,126)
Profit after tax	**50,420**	**50,101**
(II) CONTRIBUTION BY JOINT VENTURE ENTITIES TO NET PROFIT		
The material individual joint venture entity contributions to net profit were:		
BGP Investment Sarl	50,418	47,455
NewGen Power Pty Ltd	7,117	-

20. INVESTMENT IN JOINT VENTURES (NON-CURRENT) (CONTINUED)

	Aggregate		Babcock & Brown Share	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
(III) JOINT VENTURE ENTITIES ASSETS AND LIABILITIES				
Current assets	1,119,307	905,399	532,888	434,529
Non-current assets	8,720,729	7,889,203	4,110,230	3,650,297
Current liabilities	(589,242)	(420,853)	(285,512)	(194,908)
Non-current liabilities	(8,362,183)	(7,633,986)	(3,931,879)	(3,528,095)
Net Assets	**888,611**	**739,763**	**425,727**	**361,823**
Income	851,632	728,995	385,579	329,455
Expense	659,807	555,652	296,430	243,228

(B) JOINT VENTURE ASSETS

Name	Principal Activity	Interest in Output	
		2007	2006
		%	%
Babcock & Brown Camden Joint Venture	Property developer	50.0	50.0
Coomera Constructions Joint Venture	Property developer	42.5	42.5
Palm Cove Developments	Property developer	25.0	25.0
Schofield Joint Venture	Property developer	50.0	50.0
Tribeca Developments Joint Venture	Property developer	50.0	50.0
Tribeca Finance Joint Venture	Provide financing to property development joint venture	50.0	50.0
Tribeca Joint Venture	Land holder and property developer	50.0	50.0

	Consolidated	
	2007	2006
	$'000	$'000
CURRENT ASSETS		
Cash	1,356	761
Other	28,072	24,506
	29,428	25,267
NON-CURRENT ASSETS		
Assets under development	41,411	9,018
Share of Assets employed in joint ventures included in consolidated balance sheet	**70,839**	**34,285**

21. PROPERTY AND EQUIPMENT (NON-CURRENT)

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
FURNITURE AND EQUIPMENT				
- At cost	65,649	38,455	-	-
- Accumulated depreciation	(27,740)	(16,579)	-	-
	37,909	**21,876**	**-**	**-**
LEASEHOLD IMPROVEMENTS				
- At cost	57,657	28,728	-	-
- Accumulated depreciation	(8,829)	(11,429)	-	-
	48,828	**17,299**	-	-
COMPUTER EQUIPMENT AND SOFTWARE				
- At cost	22,509	24,325	-	-
- Accumulated depreciation	(11,201)	(17,290)	-	-
	11,308	**7,035**	-	-
Total Property and Equipment	**98,045**	**46,210**	**-**	**-**
Reconciliations of the carrying amounts of property and equipment at the beginning and end of the current financial period:				
FURNITURE AND EQUIPMENT				
- Opening cost	38,455	35,433	-	-
- Opening accumulated depreciation	(16,579)	(17,008)	-	-
- Carrying amount at beginning of period	**21,876**	**18,425**	**-**	**-**
- Additions	17,793	4,128	-	-
- Acquired in acquisition of controlled entity	3,885	4,060	-	-
- Disposals	(43)	(3,078)	-	-
- Depreciation expense	(4,695)	(1,749)	-	-
- Foreign exchange	(907)	90	-	-
	37,909	**21,876**	**-**	**-**
LEASEHOLD IMPROVEMENT				
- Opening cost	28,728	21,914	-	-
- Opening accumulated depreciation	(11,429)	(10,424)	-	-
- Carrying amount at beginning of period	**17,299**	**11,490**	**-**	**-**
- Additions	35,663	11,732	-	-
- Disposals	-	-	-	-
- Depreciation expense	(2,883)	(5,386)	-	-
- Foreign exchange	(1,251)	(537)	-	-
	48,828	**17,299**	**-**	**-**
COMPUTER EQUIPMENT AND SOFTWARE				
- Opening cost	24,325	20,073	-	-
- Opening accumulated depreciation	(17,290)	(17,417)	-	-
- Carrying amount at beginning of period	**7,035**	**2,656**	**-**	**-**
- Additions	8,092	6,205	-	-
- Disposals	-	-	-	-
- Depreciation expense	(3,562)	(1,758)	-	-
- Foreign exchange	(257)	(68)	-	-
	11,308	**7,035**	**-**	**-**

22. OTHER ASSETS

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Prepaid expenses	86,170	79,568	439	636
Deposits for aircraft acquisitions	202,184	133,907	-	-
Deposits for other asset acquisitions	85,358	19,604	-	-
Rental and other disposals	11,831	5,277	-	-
Inventory	24,023	11,807	-	-
Other	43,684	23,384	-	-
Total Other Assets	**453,250**	**273,547**	**439**	**636**
Current	192,059	152,877	439	636
Non-current	261,191	120,670	-	-
Total Other Assets	**453,250**	**273,547**	**439**	**636**

23. DERIVATIVE FINANCIAL INSTRUMENTS (CURRENT)

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Interest rate swap contacts				
- Cashflow hedges	12,659	2,405	-	-
Forward foreign exchange contracts				
- Fair value hedges	6,290	26,984	-	-
Equity contracts	101,721	-	-	-
Other derivatives at fair value	1,985	-	-	-
Total Derivative Financial Instruments	**122,655**	**29,389**	**-**	**-**

24. DEFERRED TAX ASSETS

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
The balance comprises temporary differences attributable to				
Receivables	639	8,019	-	-
Accrued expenses	69,358	62,561	-	-
Income tax losses	83,204	70,167	-	-
Foreign withholding tax	-	6,051	-	-
Property and equipment	2,386	-	-	-
Deferred income	184,765	127,043	-	-
Provisions	9,980	7,060	-	-
Investment in associates	76,424	35,561	-	-
Power generating assets	-	16,579	-	-
IPO costs	1,561	3,378	1,561	3,365
Borrowing costs	349	-	2,709	3,555
Other	34,065	26,881	-	-
Total Deferred Tax Assets	**462,731**	**363,300**	**4,270**	**6,920**
The deferred tax expense/(income) included in income tax expense in respect of the above temporary differences resulted from the following movements:				
Balance at the beginning of the financial period	363,300	214,953	6,920	2,764
Deferred tax assets taken to/(from) balance sheet	(23,437)	(1,752)	(1,655)	-
Deferred tax assets acquired/(disposed) through acquisition/(deconsolidation) of controlled entities	(30,910)	-	-	-
Deferred tax recognised directly in equity	6,733	2,293	128	3,224
(Under)/over provision in prior year	-	-	(249)	-
	315,686	**215,494**	**5,144**	**5,988**
Unrealised foreign exchange gain/(loss)	2,109	(1,269)	-	-
Less deferred tax assets at end of the financial period	(462,731)	(363,300)	(4,270)	(6,920)
(Increase)/decrease in Deferred Tax Assets included in Income Tax Expense	**(144,936)**	**(149,075)**	**874**	**(932)**

25. INTANGIBLE ASSETS AND GOODWILL (NON-CURRENT)

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Goodwill	139,470	295,305	-	-
Management fee rights	188,740	-	-	-
Other Intangibles	29,045	-	-	-
Total Intangible Assets and Goodwill	**357,255**	**295,305**	-	**-**

25. INTANGIBLE ASSETS & GOODWILL (NON-CURRENT)

(A) MOVEMENT IN NET BOOK VALUE OF GOODWILL

	Consolidated	
	2007	2006
	$'000	$'000
Opening net book value	295,305	233,113
Acquired goodwill via business combinations (refer Note 37)	92,481	84,502
Goodwill de-recognised on deconsolidation of subsidiaries (refer Note 36)	(240,872)	(36,336)
Goodwill acquired on acquisition of Minority Interests	-	4,220
Net exchange differences arising on translation to presentation currency	(7,444)	9,806
Closing net book value	**139,470**	**295,305**

(B) MOVEMENT IN NET BOOK VALUE OF MANAGEMENT FEE RIGHTS

	Consolidated	
	2007	2006
	$'000	$'000
Opening net book value	-	-
Acquisitions	193,064	-
Amortisation	(4,324)	-
Closing net book value	**188,740**	**-**

(C) MOVEMENT IN NET BOOK VALUE OF OTHER INTANGIBLES

	Consolidated	
	2007	2006
	$'000	$'000
Opening net book value	-	-
Acquisitions	31,460	-
Amortisation	(2,415)	-
Closing net book value	**29,045**	**-**

(D) IMPAIRMENT TESTS FOR GOODWILL

Goodwill relates to a number of different companies and cash generating units. Goodwill is reviewed annually as at 30 September for impairment or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount for the cash generating units that include goodwill is determined by reference to each cash generating unit's fair value less the costs to sell. In the majority of cases, there is an active market, in cases where there is no active market it is possible to make a reliable estimate of the amount obtainable from the sale of assets in arm's length transactions between knowledgeable and willing parties, based on external sources of information and past experience.

No impairment has been recorded in either 2007 or 2006. Management believes that any reasonably possible change in the key assumptions on which their recoverable amounts is based would not cause amounts to exceed their recoverable amounts.

26. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Trade creditors	507,128	287,123	24	-
Accrued benefits payable to employees	490,382	352,682	-	-
Employee provisions	14,326	8,616	-	-
Withholding tax payable	7,176	1,541	-	151
Goods and services tax payable	-	-	325	438
Total Accounts Payable and Accrued Liabilities	**1,019,012**	**649,962**	**349**	**589**

27. DEPOSITS HELD (CURRENT)

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Aircraft operating lease maintenance deposits	158,189	119,879	-	-
Security deposits	6,589	3,440	-	-
Total Deposits Held	**164,778**	**123,319**	**-**	**-**

The deposits held above form part of the restricted cash of $2,187 million (2006: $310.0 million) disclosed in Note 7. In the normal course of leasing aircraft under operating lease agreements, Babcock & Brown receives deposits as rental security and monies to be applied against future maintenance of the aircraft. These deposits are generally refundable if unapplied and are recorded as deposits held.

28. CURRENT TAX LIABILITIES

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Income tax payable	-	110,363	-	27
Total Current Tax Liabilities	**-**	**110,363**	**-**	**27**

29. DEFERRED INCOME

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Unearned rental income	13,256	9,495	-	-
Unearned fees	18,466	18,328	-	-
Government grants	16,670	45,414	-	-
Deferred gain on sale	13,439	5,803	-	-
Total Deferred Income	**61,831**	**79,040**	**-**	**-**
Current	35,023	19,044	-	-
Non-current	26,808	59,996	-	-
Total Deferred Income	**61,831**	**79,040**	**-**	**-**

Unearned rental income
Babcock & Brown, in conjunction with its operating leasing business, receives certain rental payments in advance of the period for which they are earned. The income is recognised using the straight-line method over the applicable lease term.

Unearned fees
Babcock & Brown has received fee payments or recorded fees receivable for financing transactions that have contingencies that may result in Babcock & Brown returning fee payments received or cancelling receivables recorded in its financial statements. These items have been recorded as unearned fee income.

Babcock & Brown received certain management fees in advance of providing management services. These fees will be recorded as income as Babcock & Brown provides the related management services provided with this notice.

Government grants
Babcock & Brown has received government grants to assist in the financing of power generation assets and transportation assets. These grants are deferred and recognised over the useful lives of the assets they financed.

Deferred gain on sale
Babcock & Brown has received payments associated with the sale of shares of entities on which the recognition of the gain is contingent on certain future events. The gains are recognised in the period the contingency is resolved.

30. INTEREST BEARING LIABILITIES

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
CORPORATE FACILITIES:				
BBIPL Corporate Facility	1,918,820	770,953	-	-
BBSN (ASX Code BNBG)	414,450	412,782	414,450	412,782
BBSN2 (NZX Code BNB010)	199,048	201,333	199,048	201,333
US Private Placement Facility	227,036	-	-	-
Total Corporate Facilities	**2,759,354**	**1,385,068**	**613,498**	**614,115**
TRANSPORTATION EQUIPMENT				
Aircraft notes payable - secured against finance leases	121,942	142,694	-	-
Aircraft notes payable - secured against planes	707,167	601,723	-	-
Rail notes payable	403,555	175,240	-	-
Other transportation equipment notes payable	17,652	18,698	-	-
Total Transportation Equipment Notes Payable	**1,250,316**	**938,355**	**-**	**-**
REAL ESTATE				
Secured by mortgage over real estate	3,256,792	1,573,127	-	-
Secured by notes receivable	163,872	66,633	-	-
Other real estate notes payable	149,570	-	-	-
Total Real Estate Notes Payable	**3,570,234**	**1,639,760**	**-**	**-**
INFRASTRUCTURE				
Secured against infrastructure assets	1,045,589	1,981,619	-	-
Finance leases	-	497	-	-
Secured over infrastructure assets and cash	1,439,722	-		
Total Infrastructure Notes Payable	**2,485,311**	**1,982,116**	**-**	**-**
OTHER				
Secured by marketable securities	631,078	328,189	-	-
Corporate & Structured finance notes payable	215,904	32,594	-	-
Secured by renewable assets	306,919	41,119	-	-
Secured by semi conductor equipment	83,879	38,919	-	-
Other	54,572	41,611	-	10
Total Other Notes Payable	**1,292,352**	**482,432**	**-**	**10**
Total Notes Payable	**11,357,567**	**6,427,731**	**613,498**	**614,125**
Current	2,902,014	1,723,546	-	-
Non-current	8,455,553	4,704,185	613,498	614,125
Total Notes Payable	**11,357,567**	**6,427,731**	**613,498**	**614,125**

30. INTEREST BEARING LIABILITIES (CONTINUED)

CORPORATE FACILITIES

BBIPL Corporate

Babcock & Brown has a $2.35 billion revolving line of credit of which $2,109.8 million (2006: $798.5 million) was drawn at 31 December 2007. Babcock & Brown can draw in several currencies. Interest on borrowings accrues at a base rate plus a 1.3% margin.

Babcock & Brown Subordinated Notes

Babcock & Brown has issued a number of subordinated notes which are listed on either the ASX or NZDX. The key terms of the Notes are:

	BBSN	BBSN 2
Date of issue - original issue	21/12/2005	15/6/2006
Date of issue - supplementary issue	16/11/2006	-
Maturity	November 2015	June 2016
Interest rate	220 bps above BBSY	220 bps above fixed Synd NZ swap rate
Interest paid	Semi-annual	Semi-annual
Minimum interest rate until 1st reset date	n/a	9.01%
Face value per note	A$100	NZ$1
Units on issue - original issue	2,658,160	225,000,000
Units on issue - supplementary issue	1,500,000	-
Gross amount outstanding ($million)	A$415.8m	NZ$225m
Reset date	November 2010	September 2011

All the Notes are subordinated to the BBIPL Corporate facility.

On reset date, the terms of the Notes may be changed and note holders (at Babcock & Brown's option) have the opportunity to ask for repayment or exchange.

US PRIVATE PLACEMENT FACILITY

On 15 November 2007, Babcock & Brown entered into a US $200 million facility, which was fully drawn at 31 December 2007 and matures on 29 April 2010. Interest on borrowings accrues at 1 month LIBOR plus 130 bps.

TRANSPORTATION EQUIPMENT

Babcock & Brown finances aircraft and rail car purchases with short-term and long-term borrowings from various banks. $829.1 million (2006: $744.0 million) and $421.2 million (2006: $193.9 million) of notes payable are obligations of special purpose subsidiaries established to own aircraft and rail cars, respectively. The lenders have recourse to the assets of the subsidiaries and, in some cases, these notes are guaranteed by Nomura Babcock & Brown, a third party guarantor formerly owned by Babcock & Brown. In addition BBIPL has provided certain performance undertakings in relation to the borrowers.

REAL ESTATE

Babcock & Brown finances real estate purchases with short, medium and long-term borrowings. The real estate notes payable are secured by various Babcock & Brown real estate properties. The lenders have recourse to the individual real estate assets and entities relating to the specific transaction. BBIPL has also given undertakings to inject equity into the project specific entities in certain circumstances.

INFRASTRUCTURE

Infrastructure notes payable are secured by operational and construction related wind farm, hydro, and public private partnerships projects and assets in US, Europe and Australia. The lenders have recourse to the individual assets and entities relating to the transaction. BBIPL has also given undertakings to inject equity into the project specific entities in certain circumstances and in addition BBIPL has given performance undertakings in relation to a limited number of project specific entities. Included with notes payable are loans in respect of $1,439 million for public partnership projects in Australia which are fully drawn at 31 December 2007 and have associated restricted cash of $1,415 million.

OTHER

Babcock & Brown has short term loans that are secured by marketable securities. Several of the marketable securities are accounted for using the equity method because of the size of Babcock & Brown's ownership interest. The loans are repayable within one year.

31. DEFERRED TAX LIABILITIES

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
The balance comprises temporary differences attributable to:				
Property and equipment	3,707	10,823	-	-
Assets under development	16,264	4,585	-	-
Investments in associates	243,367	118,660	-	-
Investment property	61,132	67,222	-	-
Intangible Assets	45,319	-	-	-
Accrued income	10,061	14,021	-	-
Power generating assets	4,851	217,381	-	-
Available-for-sale financial assets	7,448	13,601	-	-
Other	88,910	47,025	569	-
Total Deferred Tax Liabilities	**481,059**	**493,318**	**569**	**-**
The deferred tax expense/(income) included in income tax expense in respect of the above temporary differences resulted from the following movements:				
Balance at the beginning of the financial period	493,318	336,367	-	-
Deferred tax liabilities acquired/(disposed) through acquisition/(de-consolidation) of controlled entities	(261,801)	61,076	-	-
Deferred tax liabilities taken to equity	(23,271)	(3,797)	-	-
Under/(over) provision in prior year	-	-	193	-
	208,246	**393,646**	**193**	**-**
Unrealised foreign exchange gain	2,068	4,340	-	-
Less: deferred tax liability at the end of the financial period	(481,059)	(493,318)	(569)	-
Increase in Deferred Tax Liabilities included in Income Tax Expense	**(270,745)**	**(95,332)**	**(376)**	**-**

The aggregate amount of temporary differences in relation to retained earnings available for distribution by non-tax group entities for which deferred tax liabilities have not been recognised is $63.5 million (2006: $48.3 million). No deferred tax liability has been recognised in relation to these retained earnings as the Group is able to control the timing of these distributions, and it is probable that the temporary differences will not reverse in the foreseeable future.

32. CONTRIBUTED EQUITY

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
(A) ISSUED, PAID UP AND AUTHORISED CAPITAL				
Ordinary shares fully paid	1,590,478	1,079,488	1,948,282	1,281,904

(B) MOVEMENT IN SHARES ON ISSUE

	Date	No. of Shares	Consolidated $'000	Babcock & Brown Limited $'000
As at 31 December 2005		**230,931,342**	**457,608**	**547,760**
Exercise of options	23 Feb 2006	220,000	1,100	1,100
Exercise of options	28 Feb 2006	180,582	903	903
Shares issued	23 Mar 2006	13,395,989	231,081	231,081
Issue of shares to Employee Trusts	22 Jun 2006	4,471,552	-	77,135
Issue of options to Employee Trusts	22 Jun 2006	-	-	37,052
Exercise of options	12 Sep 2006	70,000	350	350
Shares issued	22 Sep 2006	18,784,538	375,691	375,691
Shares issued in respect of Dividend Re-investment Plan	3 Oct 2006	443,704	8,642	8,642
Options issued	16 Oct 2006	-	-	507
Transfer from share based payment reserve on exercise of options		-	2,430	-
Adjustment for tax benefit recognised on initial equity raising costs		-	3,224	3,224
Equity raising costs		-	(1,541)	(1,541)
As at 31 December 2006		**268,497,707**	**1,079,488**	**1,281,904**
Exercise of options	2 Mar 2007	170,528	853	853
Shares issued	15 Mar 2007	15,714,932	396,016	396,016
Shares issued in respect of Dividend Re-investment Plan	11 Apr 2007	479,666	12,339	12,339
Issue of shares to Employee Trusts	17 May 2007	4,169,139	-	105,062
Issue of options to Employee Trusts	17 May 2007	-	-	31,662
Issue of shares to Employee Trusts	20 June 2007	590,471	-	18,664
Shares issued	17 Sep 2007	1,185,100	28,205	28,205
Shares issued	19 Sep 2007	470,000	11,195	11,195
Shares issued in respect of the dividend re-investment plan	3 Oct 2007	494,897	11,472	11,472
Shares issued in respect of underwriting of the dividend re-investment plan	9 Oct 2007	2,152,138	50,457	50,457
Adjustment for tax benefit recognised on initial equity raising costs		-	453	453
As at 31 December 2007		**293,924,578**	**1,590,478**	**1,948,282**

(C) TERMS AND CONDITIONS OF CONTRIBUTED EQUITY

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company. The ordinary shares have no par value.

(D) SHARES HELD BY THE COMPANY

As at 31 December 2007, 21,466,988 (2006: 16,647,530) shares on issue in the company are held by the Executive Achievement Share and Incentive Executive Trusts. These shares are held for use in employee share based payment arrangements, and are not included within consolidated equity.

33. RESERVES AND RETAINED EARNINGS

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Retained earnings	**818,455**	**403,658**	**11,952**	**10,665**
Foreign currency translation reserve	(133,366)	(26,236)	-	-
Share based payments reserve	238,824	113,872	-	-
Cash flow hedge reserve	5,579	16,099	-	-
Available-for-sale financial assets reserve	3,994	14,128	-	-
Share acquisition reserve	(704,037)	(327,695)	-	-
Other reserves of associates	2,577	(5,670)	-	-
Total Reserves	**(586,429)**	**(215,502)**	**-**	**-**
MOVEMENTS:				
(A) RETAINED EARNINGS				
Balance at beginning of the financial period	403,658	161,106	10,665	5,577
Net profit attributable to members of Babcock & Brown Limited	525,149	308,638	119,687	75,433
Dividends paid	(110,352)	(66,086)	(118,400)	(70,345)
Balance at end of the financial period	**818,455**	**403,658**	**11,952**	**10,665**
(B) FOREIGN CURRENCY TRANSLATION RESERVE				
Balance at beginning of the financial period	(26,236)	42	-	-
Gain/(loss) on translation of overseas controlled entities	(107,129)	(26,278)	-	-
Balance at end of the financial period	**(133,365)**	**(26,236)**	**-**	**-**
(C) SHARE-BASED PAYMENTS RESERVE				
Balance at beginning of the financial period	113,872	44,372	-	44,372
Share options expense	30,128	30,672	-	-
Bonus deferral rights expense	93,405	40,635	-	-
Transfer to contributed equity on exercise of options	-	(2,430)	-	-
Transfer to intercompany on recharging to subsidiaries	-	-	-	(44,372)
Adjustment for tax and accounting value differences	1,419	623	-	-
Balance at end of the financial period	**238,824**	**113,872**	**-**	**-**
(D) CASH FLOW HEDGE RESERVE				
Balance at beginning of the financial period	16,099	(3,259)	-	-
Net gain/(loss) on cashflow hedges, net of tax	(1,006)	15,014	-	-
Transfer to net profit	(9,514)	4,344	-	-
Balance at end of the financial period	**5,579**	**16,099**	**-**	**-**

33. RESERVES AND RETAINED EARNINGS (CONTINUED)

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
(E) AVAILABLE-FOR-SALE FINANCIAL ASSETS RESERVE				
Balance at beginning of the financial period	14,128	5,971	-	-
Unrealised gain/(loss), net of tax	(10,134)	8,157	-	-
Balance at end of the financial period	**3,994**	**14,128**	**-**	**-**
(F) SHARE ACQUISITION RESERVE				
Balance at beginning of the financial period	(327,695)	-	-	-
Premium paid for acquisition of BBIPL shares	(376,342)	(327,695)	-	-
Balance at end of the financial period	**(704,037)**	**(327,695)**	**-**	**-**

As the initial consolidation of BBL and BBIPL was affected by the reverse acquisition of Babcock & Brown Holdings LLC ("BBH"), no goodwill was recognised in relation to this acquisition. The acquisition of the BBIPL minority interests is not a business combination under Accounting Standard AASB 3 Business Combinations (AASB 3). Accordingly, the premium paid for purchases from Class B minority shareholders and subscriptions for new BBIPL equity are recognised directly in equity.

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
(G) OTHER RESERVES OF ASSOCIATES				
Balance at beginning of the financial period	(5,670)	-	-	-
Unrealised gain/(loss), net of tax	8,247	(5,670)	-	-
Balance at end of the financial period	**2,577**	**(5,670)**	**-**	**-**

34. MINORITY INTEREST

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
Interest in:				
Share Capital (including BBIPL share redemption reserve)	536,008	354,060	-	-
Reserves	15,497	(3,591)	-	-
Retained profits	139,595	93,932	-	-
Total minority interest in balance sheet	**691,100**	**444,401**	**-**	**-**
Minority interest in balance sheet consists of:				
BBIPL Minority Interest	386,952	381,582	-	-
Other	304,148	62,819	-	-
	691,100	**444,401**	**-**	**-**

35. NOTES TO THE STATEMENTS OF CASHFLOWS

	Consolidated		Babcock & Brown Limited	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
(A)RECONCILIATION OF THE NET PROFIT AFTER TAX TO THE NET CASH FLOWS FROM OPERATIONS				
Net profit after tax	639,339	408,917	119,687	75,433
NON-CASH ITEMS				
Depreciation and amortisation expense	95,848	99,067	-	-
Amortisation of loan fees	10,287	8,934	1,326	880
Net profit on sale of investment and trading assets	(326,762)	(223,969)	-	-
Net profit on sale of subsidiaries and associates	(548,885)	(251,228)	-	-
Deferred gain on sale of subsidiary	-	(49,900)	-	-
Share of associates' net profits	(252,879)	(140,943)	-	-
Negative goodwill	(263)	(10,624)	-	-
Unrealised (gain)/loss on financial assets	115	(4,661)	-	-
Deferred income	8,062	10,068	-	-
Net foreign currency (gain)/loss	15,849	(15,121)	205	-
Unrealised loss on interest rate swaps	10,211	-	-	-
Unrealised gain on investment property	(100,631)	(9,148)	-	-
Amortisation of finance lease income	(11,229)	(15,302)	-	-
Provision for impairment	115,638	18,177	-	-
Non-cash fee income received in exchange for investment in associate	(130)	(61,691)	-	-
Share option expenses	121,696	71,308	-	-
CHANGES IN ASSETS AND LIABILITIES			-	
Fees from financing transactions	(19,209)	(59,156)	-	-
Other receivables	(242,769)	(12,141)	-	-
Deferred income tax receivable	(128,010)	(39,698)	2,651	(908)
Accrued interest added to note receivable	(63,137)	(49,773)	507	-
Other assets	(360,682)	(73,825)	197	-
Accounts payable and accrued liabilities	336,556	261,202	696	-
Current income tax payable	(110,363)	14,507	(943)	-
Deferred income tax payable	225,155	28,646	-	-
Other liabilities	8,937	(17,804)	-	-
Accrued interest added to notes payable	70,483	38,424	-	-
Net Cash Flow (used in)/from Operating Activities	**(506,773)**	**(75,734)**	**124,326**	**75,405**
(B) RECONCILIATION OF CASH AND CASH EQUIVALENTS				
Cash balance comprises:				
Cash assets	2,547,277	560,044	221	409
Short term trading securities	3,881	12,833	-	-
Closing cash and cash equivalents	**2,551,158**	**572,877**	**221**	**409**
(C) FINANCING FACILITIES AVAILABLE				
At reporting date, the following financing facilities had been negotiated and were available:				
Total bank facilities[1]	2,350,000	1,320,000	-	-
Bank facilities used at reporting date	(2,109,842)	(798,465)	-	-
Bank facilities unused at reporting date	**240,158**	**521,535**	**-**	**-**

1. Financing facilities exclude limited recourse financing facilities secured against single assets or special purpose subsidiaries.

36. SIGNIFICANT SUBSIDIARIES

BBL's significant investments in subsidiaries are in legal entities that are:

- the key holding companies within the business segments and sub-segments for Babcock & Brown investments.
- the main operating companies in each of the countries in which Babcock & Brown have a significant presence.
- the entities that hold licences allowing Babcock & Brown to carry out certain specified investing activities and management functions.

The significant subsidiaries are shown below:

	Country of incorporation	Equity Holding 2007 %	2006 %
Babcock & Brown International Pty Limited	Australia	83	78
Babcock & Brown Australia Group Pty Limited	Australia	100	100
Babcock & Brown Asset Holdings Pty Limited	Australia	100	100
Babcock & Brown Australia Pty Limited	Australia	100	100
Babcock & Brown Capital Management Pty Limited	Australia	100	100
Babcock & Brown Direct Investment Fund Limited	Australia	100	100
Babcock & Brown Investor Services Limited	Australia	100	100
Babcock & Brown Japan Property Management Limited	Australia	100	100
Babcock & Brown Securities Pty Limited	Australia	100	100
Babcock & Brown Residential Land Partners Ltd	Australia	100	100
Babcock & Brown Structured Finance Management Ltd	Australia	100	100
Babcock & Brown Wind Partner Services Limited	Australia	100	100
Babcock & Brown Australia CPI Pty Limited	Australia	100	100
Babcock & Brown Australia Infrastructure Pty Limited	Australia	100	100
Babcock & Brown Power Services Ltd	Australia	100	100
Babcock & Brown Australia Real Estate Pty Limited	Australia	100	100
Babcock & Brown Investment Holdings Pty Limited	Australia	100	100
Babcock & Brown Communities Management Pty Limited	Australia	100	-
Babcock & Brown Real Estate Holdings Pty Limited	Australia	100	100
Babcock & Brown Infrastructure Management Pty Limited	Australia	100	100
Babcock & Brown Limited	Hong Kong	100	100
Babcock & Brown Japan Holdings Co Limited	Japan	100	100
Veryotherco SA	Portugal	100	100
Babcock & Brown Europe Holdings Limited	United Kingdom	100	100
Babcock & Brown European Investments Sarl	Luxembourg	100	100
Babcock & Brown SL	Spain	100	100
Babcock & Brown SARL	France	100	100
Babcock & Brown GmbH	Germany	100	100
Babcock & Brown Holdings Inc.	United States	100	100
Babcock & Brown LP	United States	100	100
Babcock & Brown Aircraft Management LLC	United States	100	100
Babcock & Brown Electronics Management LLC	United States	100	100
Babcock & Brown Financial Co. LLC	United States	100	100
Babcock & Brown Power Operating Partners LLC	United States	100	100
Babcock & Brown Rail Management LLC	United States	100	100
Babcock & Brown Residential Holdings LLC	United States	100	100
Babcock & Brown Srl	Italy	100	100
Babcock & Brown (UK) Holdings Limited	United Kingdom	100	100
Babcock & Brown Ireland Holdings LLC	United States	100	100
Babcock & Brown Ireland Limited	Ireland	100	100
Babcock & Brown Real Estate Holdings LLC	United States	100	100
Babcock & Brown Investment Management Limited	United Kingdom	100	100

36. SIGNIFICANT SUBSIDIARIES (CONTINUED)

36 (B) SIGNIFICANT SUBSIDIARIES DECONSOLIDATED DURING THE YEAR

The following significant subsidiaries were deconsolidated during the year.

Name of Subsidiary	Date of Deconsolidation
Babcock & Brown Wind Portfolio 1 LLC	8 March 2007
Babcock & Brown European Port Investments Pty Limited	31 May 2007
EOF Muenchen GmbH	30 June 2007
KD Properties GmbH	30 June 2007
BB Retail Property 22 Sarl & Co KG	30 June 2007
BB Retail Property 26 Sarl & Co KG	30 June 2007
GSG LLC	29 June 2007
Allengheny Ridge Wind Farm LLC	29 June 2007
Babcock & Brown Residential Property 26 Sarl and Co KG	27 June 2007
Babcock & Brown Residential Property 22 Sarl and Co KG	27 June 2007
KPI Residential Property 22 Sarl	27 June 2007
Babcock & Brown Retirement Trust	11 July 2007
Newgen Power Uranquinty Pty Ltd	13 July 2007
Babcock & Brown Office Portfolio 4 Sarl	19 September 2007
B&B Development Fund	30 September 2007
Babcock & Brown France (Fruges II) SAS	11 October 2007
Babcock & Brown Greenfield Holdings LP	11 October 2007
Amarillo Mall LLC	11 October 2007
B&B Santa Fe Mall LLC	11 October 2007
B&B South Park Mall LLC	11 October 2007
B&B Westland Centre Mall LLC	11 October 2007
Fort Smith Mall LLC	11 October 2007
Killeen Mall LLC	11 October 2007
Mesilla Valley Mall LLC	11 October 2007
Westgate Brockton Mall LLC	11 October 2007
Babcock & Brown Retail Portfolio 1 Sarl	30 November 2007
Babcock & Brown Riva Holdings Sarl	6 December 2007
Babcock & Brown Sweetwater 4-5 LLC	18 December 2007
Medicaste Amiens SAS	20 December 2007
BB CCC Holdings Limited	20 December 2007
Pebble Hydro Consultoria Invest E Servicos Lda	21 December 2007
Rocky Point Power Project Pty Ltd	24 December 2007
Babcock & Brown Rail Investments Limited	31 December 2007

The results of the subsidiaries above did not have a material impact to results of the Group in either the current or prior year.

36. SIGNIFICANT SUBSIDIARIES (CONTINUED)

36 (B) SIGNIFICANT SUBSIDIARIES DECONSOLIDATED DURING THE YEAR

Details of aggregate assets and liabilities for entities deconsolidated or disposed of in the current year were:	Deconsolidated carrying amount $'000
Cash	102,757
Trade and other receivables	332,508
Real estate	1,554,100
Investment in financial assets	6,825
Power generation assets	1,639,803
Assets under development	761,699
Investments in associates and joint venture entities	265,700
Deferred tax assets	30,910
Goodwill	240,872
Other assets	78,197
Accounts payable and accrued liabilities	(110,715)
Deferred income	(23,261)
Interest bearing facilities	(3,760,288)
Deferred tax liabilities	(258,832)
Provision and other liabilities	(41,360)
Minority interest	(73,452)
Total carrying value of assets and liabilities disposed of or deconsolidated	**745,463**
Cash received	804,268
Deferred consideration	122,341
Investment retained	215,758
Total consideration	**1,142,367**
Net Cash received (net of cash disposed)	**701,511**

37. BUSINESS COMBINATION

(A) SUMMARY OF ACQUISITIONS

	BNP[1] $'000	Other Acquisitions $'000	Total $'000
Details of the fair value of the assets and liabilities and goodwill are as follows:			
Purchase consideration (refer to (B) below):			
Cash paid	424,393	494,996	919,389
Deferred consideration	-	71,771	71,771
Direct costs relating to acquisition	13,581	-	13,581
Cost of business combinations	437,974	566,767	1,004,741
Fair value of net identifiable assets acquired (refer to (C) below)	437,974	474,286	912,260
Acquired goodwill in business combination (Note 25)	**-**	**92,481**	**92,481**

[1] BNP Residential Properties Inc

(B) PURCHASE CONSIDERATION OF ACQUISITIONS

	BNP $'000	Other Acquisitions $'000	Total $'000
Outflow of cash to acquire subsidiary, net of cash acquired			
Cash consideration	424,393	494,996	919,389
Less: Cash balances acquired	(6,472)	(52,900)	(59,372)
Plus: Direct costs relating to acquisition	13,581	-	13,581
Outflow of Cash	**431,502**	**442,096**	**873,598**

37. BUSINESS COMBINATION (CONTINUED)

(C) NET IDENTIFIABLE ASSETS ACQUIRED

	BNP		Other	
	Acquired carrying amount	Fair Value	Acquired carrying amount	Fair Value
	$'000	$'000	$'000	$'000
Cash	6,472	6,472	52,900	52,900
Trade and other receivables	542	542	37,421	42,801
Notes receivable	-	-	82,089	82,089
Investment in associates	-	-	21,010	21,893
Assets under development	-	-	8,881	34,476
Real estate held for sale	-	-	190,011	202,026
Investment property	628,472	1,017,533	965,114	1,058,400
Biofuel assets	-	-	109,167	176,724
Property and equipment	1,188	1,188	1,035	1,756
Deferred tax assets	464	662	2,795	2,919
Other assets	3,911	481	37,513	37,549
Accounts payable and accrued liabilities	(2,472)	(2,833)	(35,428)	(44,030)
Interest bearing liabilities	(566,181)	(566,181)	(1,047,857)	(1,048,002)
Deferred income	-	-	(2,175)	(2,231)
Current tax liability	-	-	(671)	(1,224)
Deferred tax liability	-	-	(1,144)	(7,306)
Other liabilities	(15,095)	(17,645)	(22,273)	(12,315)
Net Assets	**57,301**	**440,219**	**398,388**	**598,425**
Minority interest	-	(2,245)	(104,830)	(124,139)
Net identifiable assets acquired	**57,301**	**437,974**	**293,558**	**474,286**

37. BUSINESS COMBINATION (CONTINUED)

(D) OTHER ACQUISITION DETAILS

Entity Name**	Business Activity	Acquisition date	Percentage acquired	Net Profit/(loss) since acquisition
			%	$'000*
Windpark Briesensee GmbH	Infrastructure	19 January 2007	100	(5)
B&B Residential Holdings Inc (BNP)	Property Company	28 February 2007	100	62,398
Spirit Music Holdings Inc	Holding Company	30 March 2007	62.0	71
Spirit Music Group Inc	Music Publishing	30 March 2007	62.0	(45)
Tres Vaqueros	Infrastructure	16 May 2007	100	(426)
Ecolica Valdi Vara Srl	Infrastructure	16 May 2007	100	273
Babcock & Brown Arkadia	Infrastructure	25 May 2007	100	(2,036)
Iroquois Bio-Energy Company LLC	Ethanol Plant	13 June 2007	100	4,023
Energy Initiative Japan Marina	Carbon Trading	25 June 2007	69.12	(689)
Etruria Energy Srl	Infrastructure	14 March 2007	100	(25)
Tuscania Energy Srl	Infrastructure	14 March 2007	100	(14)
St Josephs Wind Farm	Infrastructure	27 June 2007	100	-
3B Biofuels GmbH & Co KG	Ethanol Plant	30 June 2007	44.0	293
Babcock & Brown Greenfield Holding LP	Property	9 August 2007	49.0	2,503
Amarillo Mall LLC	Property	9 August 2007	49.0	-
B&B Santa Fe Mall LLC	Property	9 August 2007	49.0	-
B&B South Park Mall LLC	Property	9 August 2007	49.0	-
B&B Westland Centre Mall LLC	Property	9 August 2007	49.0	-
Fort Smith Mall LLC	Property	9 August 2007	49.0	-
Killeen Mall LLC	Property	9 August 2007	49.0	-
Mesilla Valley Mall LLC	Property	9 August 2007	49.0	-
Westgate Brockton Mall LLC	Property	9 August 2007	49.0	-
South Trent Wind LLC	Infrastructure	17 August 2007	100	-
Spacemaker Property Holdings LLC	Property	28 August 2007	100	997
Petroleum & Franchise Capital LLC	Speciality Commercial Finance	31 August 2007	45.0	1,673
Safeland Active Management Unit Trust	Property	6 September 2007	70.4	(1,696)
Gregory Greenfield & Associates Ltd	Property	8 September 2007	100	(829)
Bluewater Offshore Holdings LLC	Infrastructure	21 September 2007	99	(1,687)
SZRT Real Invest Kft	Property	28 September 2007	100	674
PS WM Invest Kft	Property	28 September 2007	100	126
MM Nepremicnine d.o.o.	Property	28 September 2007	100	159
Pomeroy Wind Farm LLC	Infrastructure	28 December 2007	100	-
Minonk Wind LLC	Infrastructure	28 December 2007	100	-
El Paso Wind LLC	Infrastructure	28 December 2007	100	-
Landcaster Wind Farm LLC	Infrastructure	28 December 2007	100	-
Twin Creeks Wind LLC	Infrastructure	28 December 2007	100	-
Clemington Sarl	Property	31 December 2007	100	-

* Due to many of these entities not preparing financial statements in accordance with AIFRS, it is not possible to accurately calculate the revenue and net profit that would be attributable to these acquisitions for the year ended 31 December 2007.

** The accounting for acquisitions is provisional due to conversion of local financial statements into AIFRS and finalisation of purchase price allocations.

(E) MATERIAL ACQUISITIONS SUBSEQUENT TO BALANCE DATE

There have been no acquisitions subsequent to balance date which have a material impact to the balance sheet of the Group.

38. CONTINGENT ASSETS AND LIABILITIES

FEE INCOME
Babcock & Brown has completed financing transactions that may result in future fee or income payments to Babcock & Brown in addition to those received at the financing closing. Because the future payments are contingent with a risk that no additional payments will be received by Babcock & Brown, such payments are not recorded in Babcock & Brown's financial statements until they are received.

CLAIMS
Because of the nature of its business activities, Babcock & Brown is from time to time subjected to legal actions, contractual disputes, employment claims, and assessments of tax deficiencies. The contingencies typically arise in the normal course of Babcock & Brown's business and as a result of regular, periodic reviews by taxing authorities. In the opinion of management, after consultation with legal counsel, the ultimate resolution of these matters will not have a material adverse effect on the consolidated financial statements.

TAX
The United States Internal Revenue Service ("IRS") is currently conducting an examination in connection with Babcock & Brown's advisory business during 1993 to 1999 to determine whether Babcock & Brown should have made certain filings and registrations under United States tax law in relation to lease investments entered into by Babcock & Brown clients. In August 2007 the IRS issued a Notice of Proposed Adjustment taking the position that Babcock & Brown is liable for a penalty of US$135 million for failure to register certain of these transactions. Babcock & Brown strongly disagrees with the IRS's position and considers the IRS to be incorrect at law. Babcock & Brown intends to vigorously defend its position. After consultation with its legal advisers, Babcock & Brown does not believe that any finally determined adjustment amount will have a material adverse effect on its financial position and has made such provisions as it considers appropriate in its financial statements in respect of this matter. The amount of the provision provided within the financial statements has not been disclosed as in the opinion of Babcock & Brown disclosure of the amount could seriously prejudice Babcock & Brown's position in relation to this matter.

INDEMNITIES
In certain transactions in which Babcock & Brown acted as a sponsor or principal, Babcock & Brown has agreed to indemnify other parties to the transactions should certain events occur, based on representations and covenants made by Babcock & Brown. Management believes that the probability of Babcock & Brown incurring a material loss as a result of the indemnifications is remote and that any potential liability is not material.

GUARANTEES
Babcock & Brown and its related parties have entered into a number of performance and financial guarantees in relation to transactions that they are undertaking. Babcock & Brown and its related parties have obligations to pay amounts or otherwise fulfil obligations to unrelated third parties under these guarantees should conditions not be met or specified events occur.

The total amount guaranteed by Babcock & Brown and its related parties under the financial guarantees is $26.7 million (2006: $51.9 million). Of this amount, $nil (2006: $6.4 million) could be recovered from other transaction parties. As at the date of this report, no matter or circumstance has come to the attention of directors which would indicate that the financial guarantee obligations of Babcock & Brown or its related parties will be called upon.

LETTERS OF CREDIT
As at 31 December 2007 Babcock & Brown had provided letters of credit totalling $349.2 million (2006: $53.3 million). No amounts had been drawn against these letters of credit.

BANK GUARANTEES
At 31 December 2007 Babcock & Brown had bank guarantees outstanding to third parties totalling $15.1 million (2006: $8.2 million). These guarantees are supported by cash on deposit with banks.

SHARE OF ASSOCIATES' AND JOINT VENTURES' CONTINGENT ASSETS AND LIABILITIES
A number of Babcock & Brown's associates and joint ventures have entered into financial and performance guarantees. They are also occasionally subjected to legal actions, contractual disputes, employment claims, and assessments of tax deficiencies. The contingencies typically arise in the normal course of the associates' and joint ventures' businesses.

In the opinion of management, after consultation with legal counsel, the ultimate resolution of these matters will not have a material adverse effect on the consolidated financial statements of Babcock & Brown.

39. EVENTS OCCURRING AFTER REPORTING DATE

The directors proposed an interim dividend of 33¢ per share, partially franked on 20 February 2008. The total amount of the dividend is $97.0 million and it has not been provided for in the financial statements.

Babcock & Brown has made an on-market offer for the ordinary share capital of Babcock & Brown Environmental Investments Limited (BEI) and as at the date of this report Babcock & Brown and its associates had received acceptances of 71.89% of the ordinary share of BEI.

Other than the matters above, there have been no significant events or transactions that have arisen since 31 December 2007 which would significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity.