

**BABCOCK & BROWN  
CAPITAL LIMITED**

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**ASX Release**

28 October 2008

**BABCOCK & BROWN CAPITAL - 2008 ANNUAL REPORT AND  
NOTICE OF MEETING**

Please find attached the Babcock & Brown Capital 2008 Annual Report and Notice of Meeting which has been despatched to shareholders.

**ENDS**

**Further Information:**

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**About Babcock & Brown Capital Limited**

Babcock & Brown Capital is an Australian-based investment company that focuses on a concentrated portfolio with a flexible investment horizon. Babcock & Brown Capital concentrates on growing the value of its investments over time. Investments are held while they continue to meet the Company's investment objectives. Babcock & Brown Capital listed on the Australian Securities Exchange in February 2005.

**eircom**

BCM holds a 57.1% interest in eircom representing an investment of approximately \$448 million. Associates of Babcock & Brown hold an additional 7.9% and existing and former employees hold the remaining 35% through their share ownership trust, the ESOT.

eircom owns Ireland's copper and fibre backbone telecommunications network. It is the largest provider of fixed line wholesale and retail telecommunication services in Ireland and has 69% of the fast growing retail DSL broadband market. eircom's mobile business has a growing 19% share of the mobile market.

**Golden Pages**

BCM acquired Golden Pages in July 2007. Golden Pages is the leading Israeli directories business with portfolio of complementary directory and search businesses operating across four distribution platforms.

For further information please see our website: [www.babcockbrowncapital.com](http://www.babcockbrowncapital.com)

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ANNUAL REPORT 2008



# Financial Highlights

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## NPAT

CONSOLIDATED  
PROFIT OF  
A\$101.2 MILLION  
UP FROM A PRIOR  
YEAR LOSS OF  
A\$131.7 MILLION  
AT 30 JUNE 2007

## EBITDA

BCM CONSOLIDATED  
EBITDA OF  
A\$1,281.7<sup>1</sup> MILLION,  
AN INCREASE  
OF 32% FROM  
A\$973.8 MILLION  
AT 30 JUNE 2007

## EPS

GROUP EPS OF 52.3¢  
UP FROM A PRIOR  
YEAR LOSS OF 65.8¢

## NAV

NAV OF A\$5.58<sup>2</sup>  
PER SHARE, AN  
INCREASE OF 20%  
FROM A\$4.66  
PER SHARE AT  
30 JUNE 2007

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## AGM INFORMATION

BCM's 2008 Annual General Meeting will be held at Museum of Sydney, corner of Bridge and Phillip Streets, Sydney at 2.00pm on 28 November 2008.

- 1 Figure is pre-goodwill impairment provision on Golden Pages of A\$4.3 million.
- 2 A\$5.32 excludes the impact of the buyback.

# Babcock & Brown Capital

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Babcock & Brown Capital ("BCM") listed on the Australian Securities Exchange in February 2005 as an Australian-based investment company that would focus on a concentrated portfolio with a flexible investment horizon.

At 30 June 2008, BCM had A\$448 million invested in eircom Group plc, Ireland's incumbent telecommunications provider, A\$107 million invested in Golden Pages, the leading Israeli directories business and approximately A\$367 million in available cash resources.

BCM has no current plans or specific timeframe to exit its existing investments, however when these investments are realised, a strategic plan for the future of the Company will be outlined and all BCM shareholders will be consulted in the development of that plan. The Board has announced that it has no intention to make further acquisitions until that process has been completed.

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# Our Portfolio

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**eircom** BCM holds a 57.1% interest in eircom representing an investment of approximately A\$448 million. Associates of Babcock & Brown hold an additional 7.9% and existing and former employees hold the remaining 35% through their share ownership trust, the ESOT.

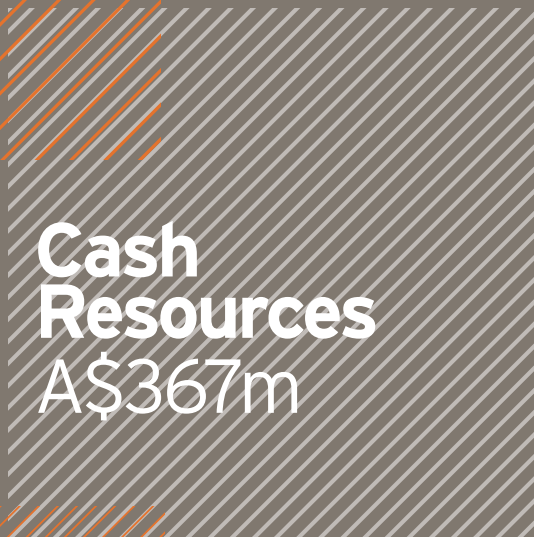
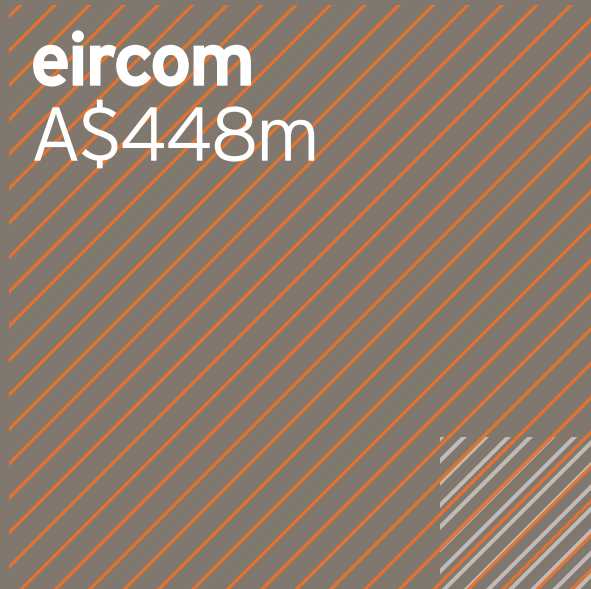
eircom owns Ireland's copper and fibre backbone telecommunications network. It is the largest provider of fixed line wholesale and retail telecommunication services in Ireland and has 69% of the fast growing retail DSL broadband market. eircom's mobile business has a growing 19% share of the mobile market.

**Golden Pages** BCM acquired 100% of Golden Pages in July 2007. Golden Pages is the leading Israeli directories business with a portfolio of complementary directory and internet search businesses operating across four distribution platforms.

Golden Pages was acquired for an enterprise value of A\$248 million, requiring an equity investment of A\$150 million. Following a refinance in February 2008 the equity investment at 30 June 2008 was A\$107 million.

**Cash Resources** As at 30 June 2008 BCM held A\$367 million in available cash reserves. During the year BCM has bought back 32.1 million shares at an average cost of A\$3.80 per share and a total cost of approximately A\$122 million pursuant to the on-market buy-back program.

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# Highlights

## eircom

### eircom EBITDA

//////  
EIRCOM EBITDA OF €712 MILLION, REPRESENTING AN INCREASE OF 7% ON THE PREVIOUS CORRESPONDING PERIOD

### Fixed Line EBITDA

//////  
FIXED LINE EBITDA OF €594 MILLION IN LINE WITH THE PRIOR YEAR AND BCM'S STATED KPI OBJECTIVES

### Meteor EBITDA

//////  
METEOR EBITDA INCREASE OF 57% TO €118 MILLION FROM €75 MILLION AT 30 JUNE 2007

//////  
eircom's strong operating results continue to be underpinned by resilient fixed line revenues and a robust mobile EBITDA performance.

# Golden Pages

## EBITDA

CONSOLIDATED EBITDA FOR THE SIX MONTHS TO 30 JUNE 2008 INCREASED BY 15% FROM NIS33.6 MILLION TO 30 JUNE 2007 TO NIS38.8 MILLION

## Net Revenue

CONSOLIDATED NET REVENUE INCREASE FOR SIX MONTHS OF 9% FROM NIS144.9 MILLION TO 30 JUNE 2007 TO NIS157.8 MILLION TO 30 JUNE 2008

## Local Search & Information Businesses

EBITDA GROWTH OF 68% FOR SIX MONTH PERIOD PRIMARILY AS A RESULT OF ACQUISITIONS AND GROWTH IN UNDERLYING BUSINESSES

The Golden Pages business continues to perform in line with expectations with growth in the online and directories businesses offsetting the global trend in print decline.

# Chairman's Report

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**KERRY ROXBURGH**  
Chairman of Babcock & Brown  
Capital Limited

## Fellow Shareholders

Babcock & Brown Capital Limited's ("BCM") financial performance this year was strong. The Company recorded consolidated operating revenue of \$3.52 billion, up 21% on last year. Consolidated earnings before interest, tax, depreciation and amortisation (EBITDA) was \$1.28 billion, an increase of 31% on the prior year, largely attributed to the strong operating performance of eircom.

The consolidated net profit after tax of \$101.2 million represents a pleasing recovery from the loss of \$131.7 million reported last year. This turnaround is largely attributed to the one off charge recorded in 2007, for the voluntary leaving program at eircom.

BCM's profit this year translates into earnings per share of 52.3 cents and a net asset value of \$5.58 per share at 30 June 2008, a 19.7% increase on \$4.66 we reported at the end of the last financial year.

During the course of the 2008 financial year we reviewed and initiated a number of actions aimed at delivering shareholder value and in response to the meltdown in the financial markets that gathered pace as the year progressed and beyond.

In July 2008, capitalising on its telecommunications, media and technology expertise, BCM completed its second acquisition, G.P.M. Classified Directories (Management and Marketing) Ltd ("Golden Pages"), the leading directories and local search business in Israel. To reflect exchange rate variations and deteriorating financial market conditions since this acquisition, towards the end of the financial year the Directors reviewed the carrying value of this investment. This resulted in a small impairment charge of \$4.3 million which is incorporated in this year's results.

In September 2007, eircom sold its radio mast site business to Towercom Holdings Limited, an Irish investment group, for a total cash consideration of €155 million (A\$258 million) representing a very attractive standalone multiple of 17.2 times full year March 2007 EBITDA. The transaction released capital for eircom, utilised to fund network investment commitments to service growing customer broadband and data requirements in Ireland.

## **BCM'S CAPITAL MANAGEMENT PROGRAM**

With the objective of applying excess capital and recognising the difference between BCM's share price and the Company's underlying assets value, the Board applied part of its liquid reserves to an on-market share buy-back announced in August 2007 for up to 5% of BCM's issued capital. The buy-back was subsequently expanded in January 2008 to enable BCM to purchase up to 19.98 million shares or 9.99% of its initial issued capital.

This capital management program was further extended with approval granted for a buy back of up to 50% of the original issued capital with both an on-market and off-market component, following a favourable shareholder vote in April 2008. This expanded capital management program was in response to the findings of a comprehensive investment review undertaken by the Board, Independent Adviser UBS and Babcock & Brown as Manager of BCM.

By 28 August 2008, 32.1 million shares (16.05% of the company's original share capital) had been bought back via the on-market share buy-back. This represents a total cost to date of \$122 million at an average price of \$3.80 per share.

During the year, preparations were made for the off-market component of the share buy-back program. This included the issue in July 2008 to all shareholders, of a comprehensive Off Market Share BuyBack Booklet. The Booklet reproduced an Independent Report from KPMG Corporate Finance prepared for the purpose of the buy-back. The Independent Report recorded a valuation range of \$5.06 to \$6.91 for the Company's shares.

#### **REVIEW OF THE MANAGEMENT ARRANGEMENTS**

In August 2008, the Independent Directors advised exclusively by UBS Investment Banking and by Gilbert + Tobin, held discussions with Babcock & Brown (the Manager) about the Company's ongoing management. This resulted in the Company signing protocols with the Manager allowing for negotiations that may lead to internalisation of management.

If the Company were to reach any agreement with the Manager to buy the management rights, any consideration to be paid to Babcock & Brown may need to be approved by BCM shareholders. The Independent Directors note the Company is currently committed to Babcock & Brown as Manager pursuant to a 25 year management agreement expiring in December 2029. They are of the firm belief that if appropriate terms can be agreed, internalised management is likely to be in the best interests of all shareholders. However, the Independent Directors are not in a position to provide any assurance that internalisation of management will be the outcome.

Should the Company reach agreement with the Manager for internalisation of its management, there may be implications for the capital management plan. Therefore until the outcome of these negotiations is clear the BCM Board resolved to postpone the proposed Off-Market Share Buy-Back that was scheduled to commence on 29 August 2008.

The Board took the view that shareholders should be aware of the outcome of these negotiations before making any decision about participation in the Off-Market Share Buy-Back.

While negotiations are continuing, adequate arrangements are in place with the Manager for the ongoing management of the Company and of its current investments in eircom and Golden Pages.

While there are no current plans or specific timeframes to exit our investments in eircom and Golden Pages, when those investments are realised, the Company has already advised shareholders it will communicate its strategic plan for the future of the Company. Shareholders will be consulted in the development of that plan.

#### **BOARD COMPOSITION**

The BCM Board has a majority of Independent Directors. Following the changes in Babcock & Brown executive announced on 21 August 2008, both Phil Green and Rob Topfer have now retired from the Board. Babcock & Brown are expected to soon nominate suitable replacements. On behalf of the Board of BCM and its shareholders, I thank both Phil Green and Rob Topfer for their contribution to BCM and we wish them well.

On behalf of the Board I also thank the executive at the Manager, eircom and Golden Pages and their employees for delivering what is, an outstanding financial result this year.

Finally I wish to express the Board's appreciation to you, our Shareholders. You have provided the capital that is invested on your behalf and so many of you have provided us with feedback and suggestions that are appreciated. Thank you!



#### **KERRY ROXBURGH**

Chairman of Babcock & Brown Capital Limited

# Manager's Investment Report

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We are very pleased with the performance of both eircom and Golden Pages. Despite the adverse market conditions we are particularly encouraged by the strong performance of eircom's "Meteor" business and the resilience of eircom's Fixed Line business. The Golden Pages business continues to perform in line with expectations with growth in the online and directories segments offsetting the gradual decline in the print business.

We are particularly pleased with the executive performances at both eircom and at Golden Pages.

## **EIRCOM**

eircom's solid operational performance delivered an EBITDA for the full year of €712.0 million, a 7% increase on the previous corresponding period. This achievement comprised EBITDA in Meteor of €118 million, a 57% increase over the prior year and Fixed Line EBITDA of €594 million, in line with both the prior year and eircom's stated KPI objectives.

Higher access revenues have again offset the impact of a decline in fixed line traffic volumes. In order to address the effects of an easing in broadband revenue growth due to a general slow down in demand for fixed line broadband and increasing competition from mobile broadband, eircom successfully introduced bundled broadband packages as an effective acquisition and retention proposition. eircom fixed line broadband subscribers increased by 30% from 455,000 to 593,000.

Meteor's contribution to the Group's EBITDA is supported by a 12% increase in subscriber numbers to 983,000 at year end. This, along with higher subscriber activity, increased operating revenue by 24% to €480 million. Meteor's mobile market share now stands at 19% however growth is expected to slow with increased competition.

eircom's capex spend was €331 million for the 12 months to 30 June 2008, equivalent to 16% of revenue being invested in telecommunications infrastructure. This is eircom's second year of increased capital expenditure, aggregating to approximately €1 billion over three years.

eircom's cash balance at 30 June 2008 was strong at €352 million. In addition its long dated debt profile has a weighted average term to maturity of eight years. Whilst Irish economic conditions in the forthcoming year are

expected to be more challenging than previously, eircom is well placed to build upon these strong results.

The voluntary leaving program at eircom remains on track to achieve 900 leavers by 2009/2010, with over 600 voluntary leavers or 67% of the target reached by the end of June 2008.

eircom has made good progress with its search for a new Chairman. The selection process is being carried out with the Employee Share Ownership Trust, the other principal shareholder in eircom. Current Chairman, Pierre Danon, who has accepted a full time executive appointment elsewhere, will continue in office until the end of 2008, or until such time as his successor is appointed.

## **GOLDEN PAGES**

The Golden Pages acquisition was completed on 31 July 2007 for an enterprise value of \$248 million, requiring an equity investment by BCM of \$150 million. Following its refinancing in February 2008, BCM's equity investment was reduced to \$107 million. Since 30 June 2008, BCM remitted NIS120 million (A\$38 million) to Golden Pages that will be used to repay existing debt facilities, reducing the effective interest rate of ~5.8% plus CPI on the Golden Pages debt.

Golden Pages achieved a NIS38.8 million consolidated EBITDA for the six months to June 2008, an increase of 15% over the previous corresponding period. The increase in EBITDA from the Online and Local Search & Information Businesses offset the decline in the print business EBITDA.

Golden Pages is implementing a number of strategies to mitigate the expected global decline in print revenues including utilising its print customer base to gain critical mass across all distribution platforms and further developing bundled advertising offerings across multiple distribution platforms.

To reflect exchange rate variations and deteriorating financial market conditions since acquisition, an impairment charge of \$4.3 million was booked in BCM's consolidated financial statements in the year ended 30 June 2008. The revised carrying value at 30 June 2008 of \$108.4 million is in line with a fit-for-purpose independent valuation commissioned by the Company.



**GROUP DEBT POSITION**

Despite the current tight and volatile credit conditions the Company has strong liquidity. It had a cash position of approximately \$367 million at 30 June 2008 and the Group has secure, long-dated debt packages in place for both eircom and Golden Pages, all of it non-recourse to BCM. eircom's debt has a weighted average term to maturity of eight years and Golden Pages has a seven year weighted average term. Both eircom and Golden Pages continue to comfortably meet their quarterly covenants.

If internalisation of management of the Company were to occur, no change in the debt position of eircom is expected as no change of control provisions are triggered while BCM continues to hold over 50% of eircom. Internalisation of management would necessitate renegotiation of Golden Pages' bank debt, but would be unlikely to result in any change in the position of the Golden Pages' bonds.

The Company has no cross holdings or cross loans with Babcock & Brown or any of its satellite funds.

**SHARE PRICE**

It is not normal for comment to be made in an Annual Report about a company's share price. However we are currently operating in unusual times.

Despite the dislocation this past financial year in the global financial markets, the Manager certainly understands, is listening and responding to shareholder concerns about the Company's share price performance. Despite an active capital management plan recommended to the Board involving substantial on-market share buy-backs and an Investment Review that resulted in the announcement on 28 February 2008 that the Company would be concentrating its efforts on its investments in eircom and Golden Pages, the Company's share price performance is disappointing.

It continues to trade at a significant discount to both the net assets of \$5.58 reported at 30 June 2008 and to the range of \$5.06 to \$6.91 determined by KPMG Corporate Finance in their Independent Expert's Report for the Off-Market Share Buy-Back. The Manager will review the capital management plan once discussions with the Independent Directors on internalisation of management are resolved.

The Manager confirms it has no current intention to make any further acquisitions other than value enhancing bolt-on acquisitions that would compliment both eircom and Golden Pages.

**JOHN FANNING**  
Babcock & Brown Capital Management Pty Ltd

# Board of Directors

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**KERRY ROXBURGH<sup>2, A</sup>**  
Independent Chairman

Kerry Roxburgh was appointed Chairman of Babcock & Brown Capital Limited in July 2006 and has been a Non-Executive Director since February 2006. Kerry was one of the founders of E\*Trade Australia (E\*Trade) and was the Chief Executive prior to becoming Chairman, a position he held from 2000 to 2007. Prior to E\*Trade, Kerry spent ten years as an Executive Director of the Hong Kong Bank of Australia Group including five years as Managing Director of the Bank's corporate finance subsidiary. Kerry also has experience in the financial management of the insurance, healthcare, technology, property and resource sectors. Kerry is Non-Executive Chairman of the Charter Hall Group and Asian Express Airlines Pty Ltd and has been a Non-Executive Director of Ramsay Health Care Ltd since July 1997, the Everest Babcock & Brown Group since April 2005, the Medical Indemnity Protection Society Group, the Lawcover Group, Money Switch Ltd and Professional Insurance Australia Pty Ltd. He is based in Sydney.



**ANDREW LOVE<sup>B</sup>**  
Independent Director

Andrew Love has over 30 years of experience in corporate recovery, reconstruction and insolvency practice in Australia. Andrew is a Chartered Accountant and has extensive public company experience including that of Chairman in other listed entities. He is currently a Non-Executive Director of Babcock & Brown Communities Limited, Chairman of ROC Oil Limited, Deputy Chairman of Riversdale Mining Limited and a Director of the Museum of Contemporary Art. Andrew is independent of Babcock & Brown and has recently retired from Ferrier Hodgson. He is based in Sydney.



**DR GREGORY CLARK<sup>1</sup>**  
Independent Director

Gregory Clark was appointed an Independent Director of Babcock & Brown Capital Limited in August 2006. Gregory is a Principal of Clark Capital Partners, a US based firm that advises internationally on technology and the technology marketplace. Prior to this, Gregory held senior executive positions in IBM, News Corporation and Loral Space and Communications. Gregory is currently a non-executive director of ANZ Banking Group Limited and was a Director of James Hardie from April 2002 to May 2006. He is based in New York and Sydney.



**PHILLIP GREEN**  
Non-Executive Director

Phillip Green was the former Chief Executive Officer of Babcock & Brown Limited. He was a Director of a number of companies including Everest Babcock & Brown, Babcock & Brown Capital Limited and of the Responsible Entity of Babcock & Brown Japan Property Trust. He is also a Trustee of the SCG Trust. Phillip holds Bachelor of Commerce and Bachelor of Law degrees from the University of New South Wales. Prior to joining Babcock & Brown, Phillip worked as a senior manager with Arthur Andersen where he specialised in taxation. He qualified as a Chartered Accountant in 1981 and was admitted as a solicitor in NSW in 1978. Phillip resigned from the BCM Board on 13 September 2008.



**ROBERT TOPFER<sup>1,2</sup>**  
Non-Executive Director

Robert Topfer joined the Babcock & Brown Group in 2000. Prior to this, Robert was a founding partner of the law firm Atanaskovic Hartnell and prior to that a partner of Allen Allen & Hemsley. Robert is also a Director of Assetinsure Limited and Babcock & Brown Communities Group. Robert holds a Bachelor of Law and Arts from the Australian National University. Robert has over 20 years of specialist structured and corporate finance experience across many industry sectors. He is based in Sydney. Robert resigned from the BCM Board on 17 September 2008.



**KEY**

- 1 Member of Nomination, Governance & Remuneration Committee.
- 2 Member of the Audit, Risk & Compliance Committee.
- A Chairman of the Nomination, Governance & Remuneration Committee.
- B Chairman of the Audit, Risk & Compliance Committee.





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**BABCOCK & BROWN CAPITAL LIMITED ("BCM") CONSOLIDATED ABN 31 112 119 203**

	Year ended 30 June 2008 \$'000 <sup>1</sup>	Year ended 30 June 2007 \$'000
Operating revenue	3,519,504	2,903,704
Operating expenses (excluding restructuring costs, depreciation, amortisation and finance costs)	(2,237,780)	(1,929,862)
<b>Earnings before interest, tax, depreciation and amortisation expense ("EBITDA") and restructuring costs</b>	<b>1,281,724</b>	<b>973,842</b>
Net gain on disposal of eircom masts business	130,581	-
Restructuring costs	-	(269,688)
Depreciation and amortisation	(660,229)	(580,085)
Impairment of goodwill	(4,273)	-
Net finance costs	(510,965)	(378,178)
Share of net gains of associates accounted for using the equity method	329	1,933
<b>Profit/(loss) before tax</b>	<b>237,167</b>	<b>(252,176)</b>
Income tax (expense)/benefit	(52,880)	4,600
<b>Profit/(loss) for the year</b>	<b>184,287</b>	<b>(247,576)</b>
(Profit)/loss attributable to minority interest	(83,052)	115,899
<b>Profit/(loss) for the year attributable to members</b>	<b>101,235</b>	<b>(131,677)</b>
Basic and diluted profits/(losses) per share	52.3 cents	(65.8) cents
Net tangible asset ("NTA") Backing		
Net asset value per Security <sup>2</sup>	\$5.58	\$4.66

1 The current year's results consolidate Golden Pages results from 31 July 2007.

2 Net tangible asset backing per security is nil (2007: nil). The Babcock & Brown Capital Group ("the Group") has recognised significant intangibles, including goodwill, brand names and licences from the eircom and Golden Pages acquisitions.

BCM's results were significantly impacted by a number of accounting adjustments and non-recurring items from the acquisition of Golden Pages. These are discussed below.

**DIVIDENDS**

The Directors have not proposed a dividend for the year ended 30 June 2008.

All amounts are in Australian dollars unless otherwise stated.

## REVIEW OF CONSOLIDATED OPERATING RESULTS

### RESULTS REVIEW

#### REVENUE

The Group generated revenue of \$3,704.2 million for the year. This included:

- eircom telecommunications revenue from operations of \$3,452.5 million;
- profit on disposal of eircom masts of \$130.6 million;
- GP directories revenue of \$84.8 million;
- corporate investment income of \$36.0 million; and
- equity accounted profits of \$0.3 million.

#### OPERATING EXPENSES

The Group incurred total expenses, including income tax, of \$3,519.9 million. This included:

- eircom operating expenses of \$3,386.2 million for the period. This consisted of \$2,141.5 million in operating expenses, depreciation and amortisation of \$652.5 million, finance costs of \$544.3 million and tax expense of \$47.9 million;
- Golden Pages operating expenses of \$102.7 million for the period. This consisted of \$69.9 million in operating expenses, depreciation and amortisation of \$12.0 million, finance costs of \$20.4 million and tax expense of \$0.4 million; and
- operating costs from local operations of \$31.0 million, consisting of \$19.4 million in management fees to Babcock & Brown Capital Management Pty Limited, \$1.4 million net losses from derivatives not qualifying as hedges, \$2.2 million in mark-to-market losses on investments held at fair value through profit or loss, \$4.6 million in tax expense and \$3.4 million of other expenses.

#### ACCOUNTING IMPACTS OF ACQUISITION

##### Acquisition accounting

The Group has accounted for the acquisition of G.P.M. Classified Directories (Management & Marketing) Limited Israel ("Golden Pages" or "GPM") in accordance with AASB 3 *Business Combinations*. As a result of applying this standard a significant number of accounting adjustments have been derived from the fair value exercise including:

- the purchase price allocation exercise resulted in materially higher levels of depreciation and amortisation in the Group accounts. This reduced BCM's consolidated reported accounting profits, due to increased depreciation and amortisation from the fair value uplifts to tangible and intangible assets. The increased level of depreciation and amortisation, which totals approximately \$6.2 million per annum, will continue to apply in future years. These results do not reduce cash flow or EBITDA; and
- loss of deferred revenue from the directories businesses. The revenue recorded in the Golden Pages accounts for directories published prior to the acquisition date is treated as a fair value adjustment on consolidation. As a result, no revenue is recognised in respect of these amounts, which total approximately \$7.1 million.

#### EIRCOM GROUP LIMITED

##### FIXED LINE

Fixed line has performed well for the year delivering solid EBITDA results for the period. For the 12 months ended 30 June 2008, fixed line produced an EBITDA before fair value adjustments, restructuring costs, MASTCO sale and incentives of €594 million (2007: €590 million).

The fixed line resilience stems from strong broadband revenue growth and retail gross margin due to higher access line rentals and continued cost savings across the business.

##### MOBILE

eircom operates in the Irish mobile market through its subsidiary, Meteor. According to the latest management estimates Meteor (including eircom mobile) has a market share of 19% representing an increase of 5.0% for the year. At 30 June 2008, Meteor had approximately 983,000 subscribers, representing a 12.3% increase over 30 June 2007 when the subscriber levels approximated 875,000.

Meteor's operating revenue increased 24% to €480 million from €387 million for the year to 30 June 2007, driven by increased subscriber numbers and increased ARPU (average revenue per user). The EBITDA margin has increased significantly from 17% in the prior year to 24% for the year ended 30 June 2008. As a result EBITDA for the 12 months totalled €118.4 million, an increase of 57% over the prior year's figure of €75.4 million.

##### OTHER

In September 2007, eircom disposed of its radio mast site business for a cash consideration of €155 million with a corresponding net profit contribution of €78.2 million, whilst securing the long-term access to the masts to support its future operational requirements.

## GOLDEN PAGES

On 31 July 2007, the Group completed its second major investment, with the acquisition of the leading Israeli directories business, Golden Pages.

The Group acquired 100% of GPM from Markstone Capital Partners and other Israeli-based institutional investors. The acquisition enterprise value was \$248.1 million, requiring \$143.3 million of equity from BCM. Inclusive of transaction costs, the total acquisition price was \$149.9 million.

On 22 February 2008, BCM announced a refinancing of the GPM debt package and a return of capital of \$43.0 million, reducing the investment in GPM to \$106.9 million.

At 30 June 2008, the consolidated Group recorded an impairment loss against goodwill of \$4.3 million based on a revised equity value of \$108 million. This amount is less than total acquisition costs of \$6.3 million.

The results of GPM for the 11 months ended 30 June 2008 are summarised below:

	A\$m
Reported loss of GPM	(17.9)
Profits of minority interests (mainly Dun & Bradstreet)	(1.0)
<b>Loss attributable to BCM</b>	<b>(18.9)</b>
Add back:	
Revenue carve-out from deferred revenue lost on fair value accounting on acquisition	7.1
Amortisation costs from intangibles created on acquisition	6.2
CPI linkage costs	5.3
Refinancing costs and costs from the close-out of foreign exchange contracts	4.9
<b>Adjusted profit, after excluding non-cash acquisition costs, refinancing costs and abnormal CPI linkage</b>	<b>4.6</b>

The GPM Group includes:

- Golden Pages, Israel's yellow pages business, which is the largest directory franchise in the country. This business publishes approximately 77 directories annually (national, regional and specialist);
- "D", an online directory business;
- Golden Pages and D branded directory offerings across cellular and television platforms; and
- A suite of directory-related print and online businesses including:
  - ZAP, Israel's number one comparative shopping website;
  - REST, Israel's number one restaurant directory business;
  - ProGroup, Israel's premier student portal;
  - 55% of Dun & Bradstreet Israel, a business directory and business information service;
  - Doctors, Israel's number one professional website for the medical industry;
  - Michatnim, Israel's number one wedding directory business;
  - Weekends, Israel's number one last-minute holiday website; and
  - D-Media, a business unit focused on marketing and advertising sales across the entire GPM portfolio.

## CORPORATE

### BUY-BACK

- On 28 August 2007, BCM announced an on-market share buy-back of up to 5% of its issued capital.
- On 25 January 2008, the Company announced an extension of the on-market buy-back program to 9.99%.
- On 21 April 2008, the Company received shareholder approval to extend the buy-back program (on and off-market) to 50% of original capital (100 million shares).

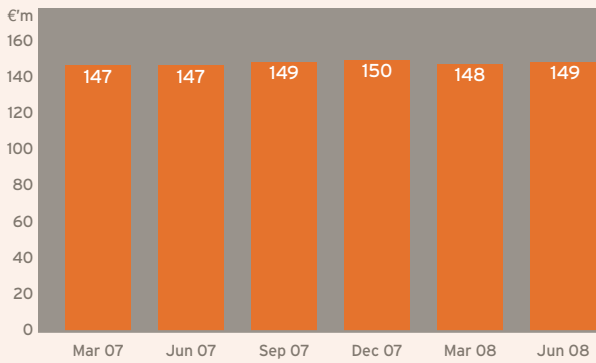
As at the date of this report, a total of 32,095,086 (16% of the original issued equity) shares have been bought back at a total cost of approximately \$122.0 million and an average price of \$3.80. The share buy-back program has been accretive to the net asset value ("NAV") of the Company, contributing approximately \$0.26 to the increase in NAV from 31 December 2007 of \$5.19 to 30 June 2008 of \$5.58.



# INVESTMENT SCORECARD

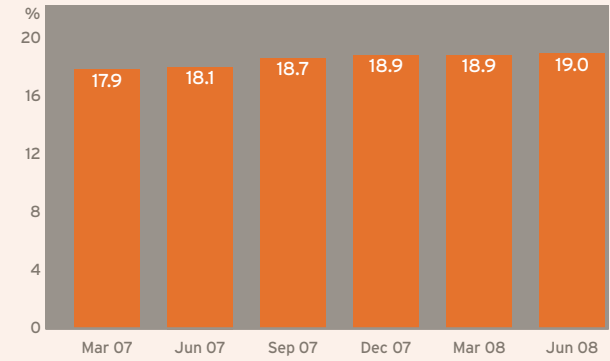
## FIXED LINE - Actual EBITDA<sup>1</sup> per quarter

**KPI:** Maintain Fixed Line EBITDA at ~€150 million per qtr, ~€600 million p.a.



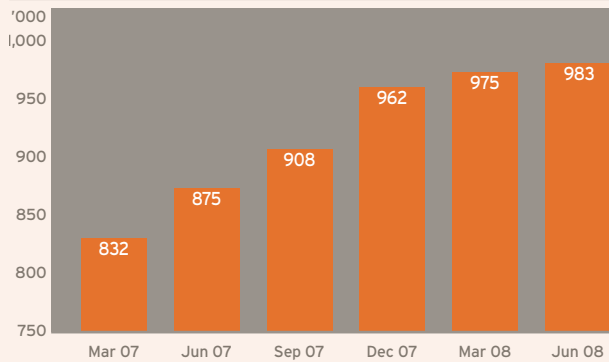
## MOBILE - Actual Subscriber Market Share per quarter<sup>2</sup>

**KPI:** Attain historical European average 3rd player market share of 20%<sup>3</sup>



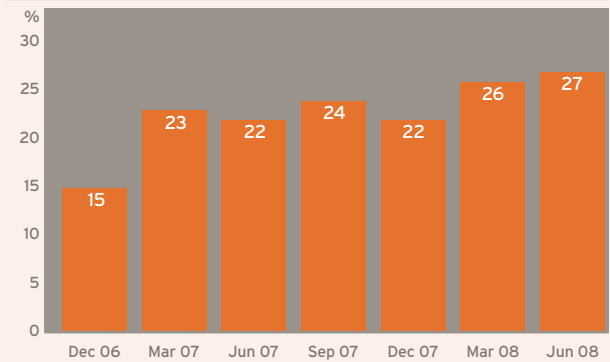
## MOBILE - Actual Subscribers per quarter<sup>2</sup>

**KPI:** Grow mobile phone subscribers



## MOBILE - Actual EBITDA Margin % per quarter<sup>4</sup>

**KPI:** Attain historical European average 3rd player market share of 30%<sup>4</sup>



December quarter returns lower EBITDA margin due to heavy subscriber upgrade and steady acquisition at Christmas.

In a growth phase, more EBITDA is spent on customer acquisition than in a mature business. EBITDA margins also improve with scale.

1 Pre: MASTCO sale, management fee, fair value adjustments and restructuring costs and management incentive costs.

2 Source: ComReg Quarterly reports and company estimates. December 2007 number has been adjusted to include mobile broadband estimates.

3 JPMorgan.

4 Before management incentive costs.

## OVERVIEW OF EIRCOM

### VALUE ENHANCING INITIATIVES AND KEY UPDATES

#### MOBILE

<b>3G</b>	<ul style="list-style-type: none"> <li>Meteor has already achieved 10% 3G population coverage</li> <li>On track for 33% population coverage by the end of September 2008 with commercial launch soon after</li> </ul>
<b>Meteor billing system</b>	<ul style="list-style-type: none"> <li>Launch of new billing system within 12 months to enable improved customer service and retention</li> </ul>

#### BROADBAND

<b>NGN Core</b>	<ul style="list-style-type: none"> <li>Extensive build to 240 towns nationwide</li> <li>Will deliver faster broadband speeds, as well as affordable e-Services for Business customers throughout the country</li> </ul>
<b>Broadband Rollout</b>	<ul style="list-style-type: none"> <li>Extended broadband rollout plan to 917 exchanges underway – 590 sites enabled as at 30 June 2008, connecting more than 1.4 million lines pre-qualifying for broadband</li> <li>Broadband penetration in Ireland, including mobile broadband estimated at 26% (company estimate)</li> </ul>
<b>National Broadband Scheme</b>	<ul style="list-style-type: none"> <li>One of two bidders shortlisted for National Broadband Scheme to build and operate broadband network in rural areas in Ireland with Government subvention</li> <li>Contract expected to be announced in November 2008</li> </ul>

#### FIXED LINE

<b>Call Set Up Charging</b>	<ul style="list-style-type: none"> <li>From 2 September 2008, changes to call charges implemented which reduce call connection but rebalance call time cost</li> </ul>
<b>Northern Ireland Business</b>	<ul style="list-style-type: none"> <li>Signed six to ten-year €100 million contract for provision of connectivity to Northern Irish Civil Service</li> <li>Network buildout underway and first phase complete with most Government departments now connected</li> </ul>
<b>Tetra</b>	<ul style="list-style-type: none"> <li>56% shareholder in consortium awarded eight-year contract to design and build secure radio network in Ireland for emergency services</li> </ul>

#### REGULATORY

<b>Line Shares</b>	<ul style="list-style-type: none"> <li>ComReg had reduced monthly rental to €2.94 from €8.41</li> <li>This reduction has now been withdrawn</li> </ul>
<b>Local Loop Unbundling</b>	<ul style="list-style-type: none"> <li>Current price of €16.43 per month – the present regime due to expire end November 2008</li> <li>Submission being made by eircom</li> </ul>
<b>Universal Service Obligation</b>	<ul style="list-style-type: none"> <li>Binding performance targets introduced by ComReg on line faults measure</li> </ul>
<b>Weighted Average Cost of Capital</b>	<ul style="list-style-type: none"> <li>Revised WACC agreed with ComReg at 10.21% vs 11.5%</li> <li>No current material impact on EBITDA</li> </ul>

#### GENERAL

<b>Restructuring Program</b>	<ul style="list-style-type: none"> <li>Fixed Line headcount reduced by 621 in the year to 30 June 2008</li> <li>Voluntary leaving restructuring program on track to achieve 900 full-time employee reduction by 2010</li> </ul>
<b>Real Estate Development</b>	<ul style="list-style-type: none"> <li>Approximately €50 million cash received in July 2008 in respect of new office building</li> <li>Further property sales planned in the next 12 months</li> </ul>

**OVERVIEW**

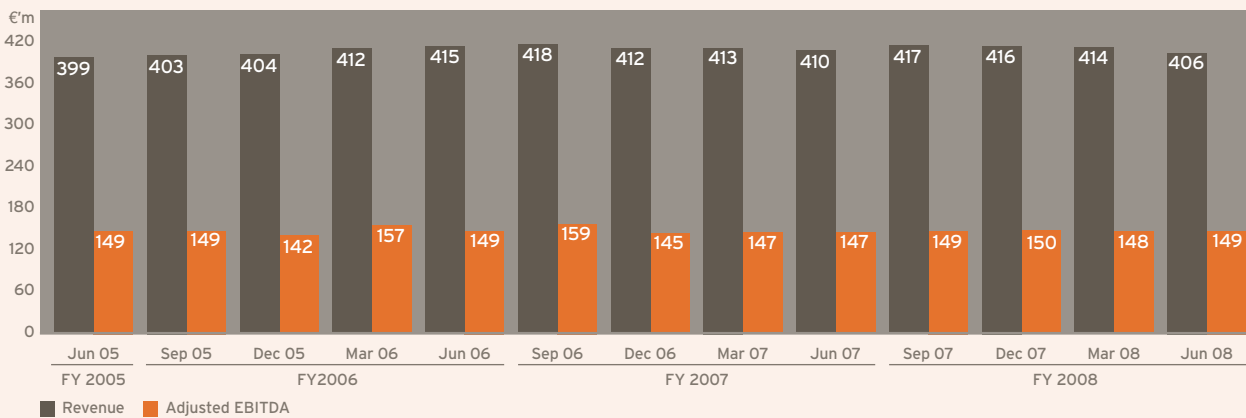
eircom is the incumbent provider of fixed line (fixed voice and broadband) wholesale and retail telecommunications services and mobile services in Ireland and the owner of Ireland's copper and fibre backbone telecommunications network. eircom currently has a market share of 68% of the Irish fixed line market by revenues and is also the leading broadband provider in Ireland, with approximately 593,000 total subscribers at 30 June 2008, and a retail share of the total DSL market of 69%. eircom's mobile business, Meteor, is the third largest operator in Ireland based on subscriber numbers.

**FIXED LINE**

As the incumbent fixed line telecommunications provider, eircom has the most extensive fixed line telecommunications network in Ireland in terms of both capacity and geographic reach, with the majority of its competitors relying heavily on its infrastructure.

The Fixed Line business achieved an EBITDA of €594 million which remains in line with the prior year and BCM's stated KPI objectives. Higher access charges for line rental continue to offset the decline in fixed line traffic volumes.

**Quarterly Revenue and Adjusted EBITDA<sup>1</sup> (June 2005 to June 2008)**



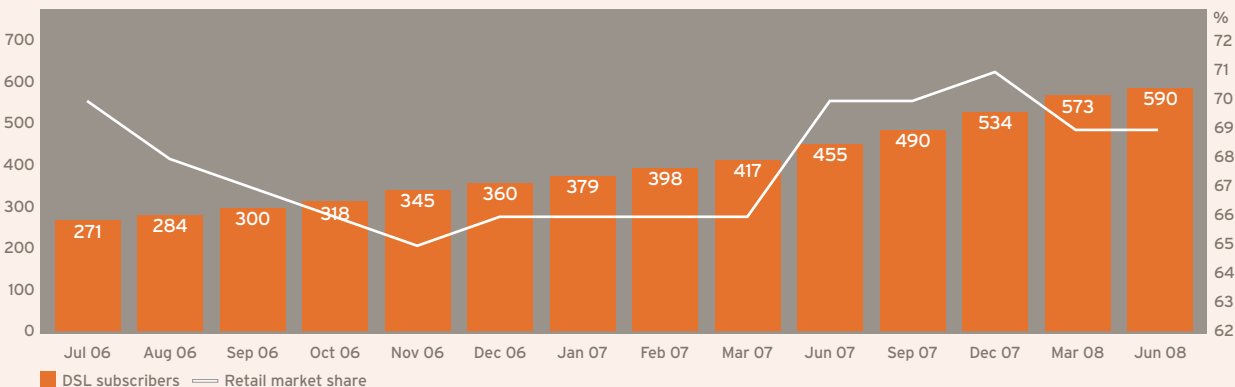
Source: eircom annual and interim reports.

<sup>1</sup> Pre: MASTCO sale, management fee, fair value adjustments, restructuring costs and management incentive costs.

To address the affects of an easing in broadband revenue growth due to a general slow-down in the fixed line broadband market and increased penetration by mobile broadband, eircom has successfully utilised bundled broadband packages as an effective acquisition and retention tool. New developments, such as speed increases across the portfolio (other than 1MB) and improved bundles, as well as promotions, are being considered to continue to drive the market and ensure competitiveness.

Fixed line broadband subscribers increased by 30% from 455,000 to 593,000 over the course of the year. By 15 August 2008 this number had increased to 608,000, of which retail subscribers accounted for 434,000.

**DSL Market Trends**



A total of 590 exchange sites were enabled at 30 June 2008, connecting more than 1.4 million lines pre-qualifying for broadband. eircom estimates that broadband penetration in Ireland now stands at approximately 26% of the population, up from 13% in January 2007.

eircom continues to make good progress on its target to reduce headcount in the Fixed Line business by 900 by 2010 through a voluntary leaver program. Headcount has fallen by 621 since June 2007.

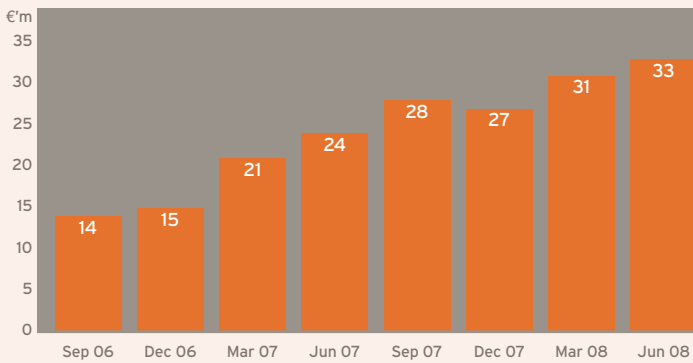
## OVERVIEW OF EIRCOM

### MOBILE

Meteor, eircom's mobile business, is currently the third largest operator in Ireland. Meteor has network infrastructure consisting of over 930 base stations covering the vast majority of the Irish population including Dublin and other main metropolitan areas. National coverage is currently achieved through an agreement with Vodafone providing roaming coverage for areas across the western seaboard of Ireland. Meteor's network enables it to offer a full suite of high speed data services.

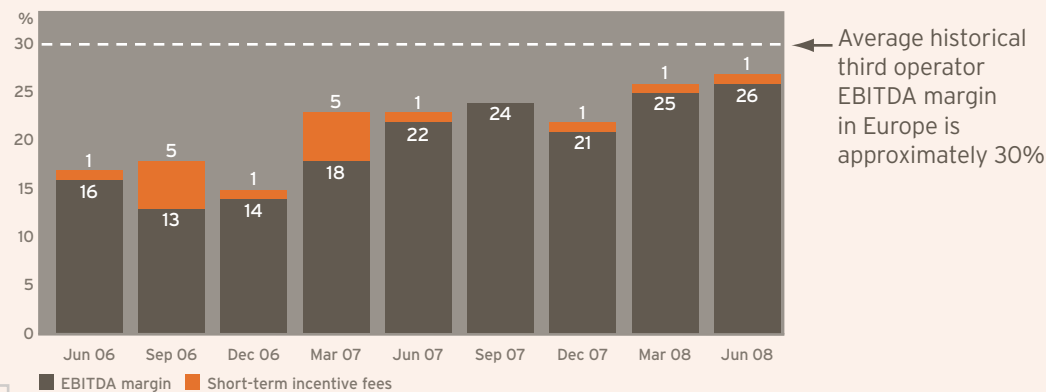
Meteor's EBITDA contribution of €118 million to eircom's results represents an increase of 57% over the prior year.

### EBITDA



Meteor's quarterly EBITDA margins (pre-management incentive costs) continue to perform strongly. The June 2008 quarter of 27% was up from 23% in June 2007 quarter on the back of increased subscriber numbers and greater subscriber activity.

### Quarterly EBITDA Margin

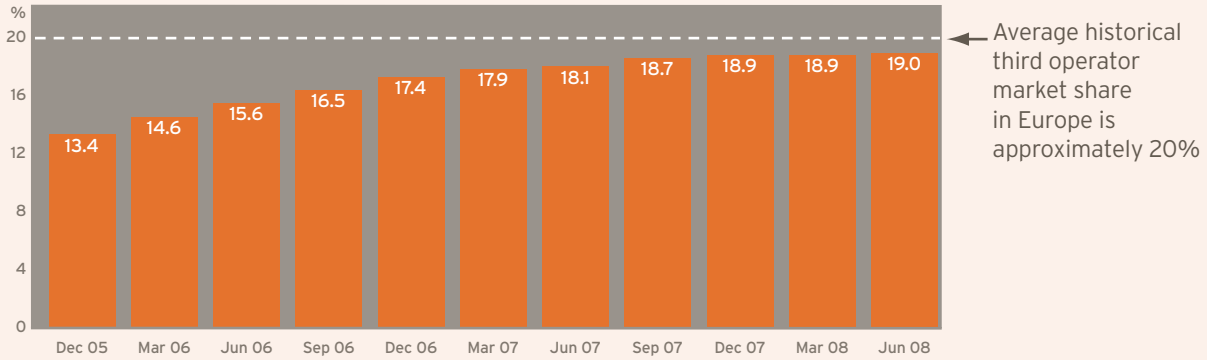


Source: eircom management results, JPMorgan for average historical third operator margin.

This strong performance is largely due to a 12% increase in subscriber numbers to 983,000 over the previous corresponding period, as well as economies of scale. Post-paid subscribers increased by 23% year-on-year and to 12.5% of the total subscriber base up from 11% at 30 June 2007. eircom's mobile market penetration is expected to slow down going forward, largely due to increased competition. The Irish mobile market continues to grow strongly at 9% year-on-year with Meteor taking 26% of net adds (management estimate).

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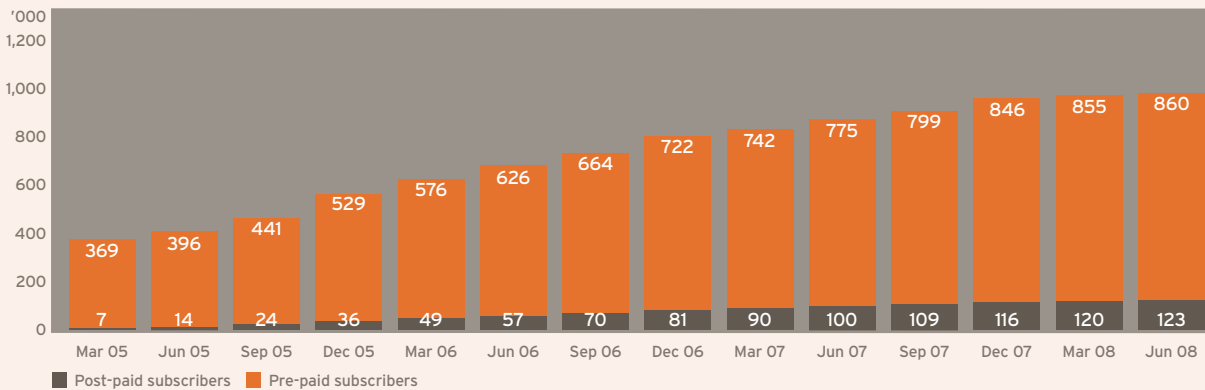
### Meteor Subscriber Market Share



Source: ComReg and Company estimates for market share. December 2007 number has been adjusted to include broadband estimates. JPMorgan for average third operator market share.

Meteor's blended ARPU increased by 4% to €40.22 for the 12 months ending 30 June 2008. The increase in blended ARPU is a result of increased usage combined with a slightly higher proportion of post-paid subscribers for the period.

### Meteor Pre and Post-paid Subscribers



Source: eircom management results.

Meteor's ability to retain the majority of its subscribers is a key factor in the sustainable growth of overall subscriber numbers. In order to further improve its current churn levels, a new IT and billing system is expected to be launched by the end of 2008 which will enable Meteor to improve customer service and retention.

On 18 September 2007, eircom announced the sale and leaseback of MASTCO Finance No 1 Limited (MASTCO), a wholly owned eircom subsidiary which operated eircom's portfolio of approximately 340 radio masts, to Towercom Holdings Limited, an Irish investment group, for a total cash consideration of €155 million. The transaction represented an implied historical EBITDA multiple of 17.2 times. The sale was consistent with eircom's business strategy of focusing on core business interests, allowing for additional capital expenditures in its broadband, mobile and Next Generation technology, while ensuring long-term access to the radio masts to support future operational requirements.

### CAPITAL EXPENDITURE

One of eircom's key drivers is the need for ongoing capital expenditure to maintain and further upgrade the fixed line, as well as Meteor's wireless, telecommunication networks in order to fulfil regulatory requirements and to maintain a network that enables competitive product offerings. In this regard eircom had a cash spend during the 12 months to 30 June 2008 of €331 million, equating to 16% of revenue being invested in capital expenditure.

Apart from ongoing capital expenditure in relation to maintenance, capacity and quality improvements, eircom's main capital expenditure for its fixed line business relates to its further DSL rollout as well as its upgrade to next generation core and access network technology. eircom's mobile business requires capital expenditure primarily in relation to its 3G network rollout following its purchase of a 3G licence in 2007.

## OVERVIEW OF EIRCOM

### CORPORATE & SOCIAL RESPONSIBILITY

Corporate & social responsibility forms an integral role in eircom's commitment to the environment, its customers, its employees and the community. eircom's corporate & social responsibility has a strong focus on the key areas of environment, marketplace, workplace, health & safety and community.

#### ENVIRONMENT

eircom is committed to achieving environmental best practice aimed at developing comprehensive systems to deal with office and industrial waste, from packaging, office paper and office consumables, to materials such as fibre optics, chemicals and electronic waste, including IT equipment.

eircom is a member of the European Telecommunications Network Operators sustainability and energy working groups which facilitates eircom benchmarking its performance and identifying best environmental practice within the European telecommunications industry.

#### Key Statistics

- 45.6% of waste arising is recycled during the year.
- 237.13 tonnes of packaging is recycled instead of being sent to landfill.
- Meteor mobile packaging project in conjunction with EPA and Repak (packaging compliance scheme) resulted in reduction in cost and quantity of packaging on mobiles supplied. Packaging reduced by 14.7% per telephone unit.
- eircom drivers who have completed the Eco driving course show a reduction of over 7% in fuel use.

#### MARKETPLACE

eircom continues to lead the way in broadband. With 593,000 broadband customers currently signed up, eircom continues to bring broadband availability in Ireland in line with other EU countries. eircom is currently one of two bidders shortlisted for the National Broadband Scheme to build and operate a broadband network in rural areas in Ireland with Government subvention.

eircom's Procurement Policy Framework ensures that suppliers are selected on merit and their ability to produce quality goods and services at acceptable commercial rates. Suppliers are expected to conform to internationally recognised quality standards, and where necessary they are expected to show evidence of their environmental and fair-trading standards.

#### Key Statistics

- Extended broadband rollout plan to 917 exchanges underway with 590 sites enabled as at 30 June 2008, connecting more than 1.4 million lines pre-qualifying.
- Broadband penetration in Ireland, including mobile broadband now estimated at 26% (company estimate).

#### WORKPLACE

eircom offers its 7,000 employees a range of flexible working options through development and training opportunities and addressing any matters raised through employee feedback.

#### Key Statistics

- O2 Ability Awards – eircom recognised for excellence in providing learning and development opportunities for employees.

**COMMUNITY**

eircom has been committed to supporting the community at all levels for many years. eircom's long-term support to many organisations enables the provision of crucial services to help many communities throughout Ireland. eircom is the official sponsor of Irish soccer at National and International levels and in addition has been the official partner of Special Olympics Ireland for 24 years. eircom has recently signed an extension of the Special Olympics partnership to the end of 2011.

eircom has offered freefone lines to national charities since 1990, connecting people with vital services such as Childline, the Samaritans and the Irish Cancer Society.

**Key Statistics**

- 11,000 Special Olympic Athletes, 18,000 volunteers, 30,000 families and friends and 402 clubs supported by eircom, Games Partner to the Special Olympics Ireland National Games 2008.
- Supported nine People in Need telethons since 1988 raising up to €35 million.
- Provision and funding of Broadband for eircom League Clubs.
- Sponsors eircom/FAI International awards along with Soccer Writers Association of Ireland and SWAI player of the month.
- Sponsor work of Ireland Funds which is dedicated to supporting programs of peace, reconciliation, arts and culture, education and community development.

**HEALTH & SAFETY**

eircom enforces policies and practices to protect the health and safety of employees, contractors, customers and everyone with whom it interacts through the normal course of business. eircom has developed a management system, which includes a wide range of policies and procedures specific to its operations.

**Key Statistics**

- 648 worksite safety audits carried out by eircom health & safety managers.
- 2,351 employees attended safety specific training courses.
- 8% reduction in the number of road traffic accidents compared to the previous year.

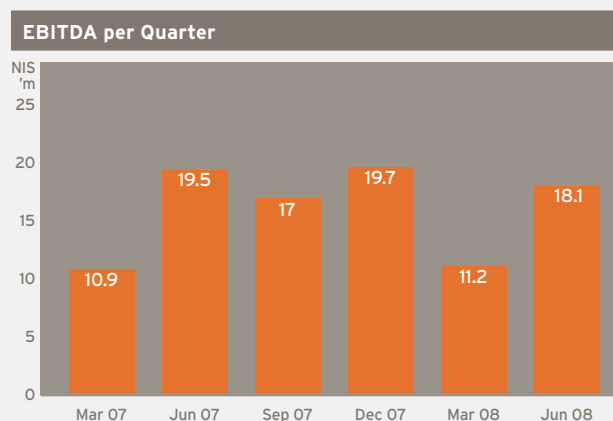
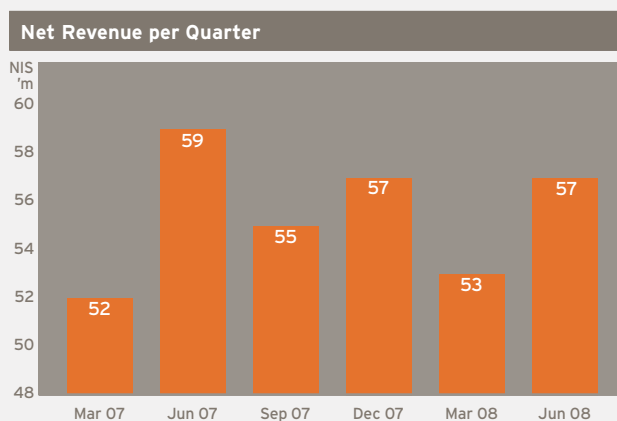


eircom is the premier sponsor of Special Olympics Ireland since 1985. Irish athletes celebrate at a rally before leaving for the 2007 Special Olympic World Games in China.



# Investment Scorecard

## PRINT & ONLINE



**Strategic Focus:** Maintain stable print and online earnings.

## LOCAL SEARCH & INFORMATION BUSINESSES

Revenue (unaudited) NIS 'm	Jun 08 Quarter	Mar 08 Quarter	Dec 07 Quarter	Sep 07 Quarter <sup>1</sup>	Jun 07 Quarter
Zap	4.6	4.1	4.9	3.8	3.8
Rest	3.7	2.9	3.9	3.1	2.9
ProGroup	3.3	2.9	3.8	3.1	3.6
Dun & Bradstreet	10.5	7.6	7.1	15.5	5.7
Weekend, Mitchatnim & Doctors <sup>2</sup>	4.1	3.8	2.8	N/A	N/A
EBITDA (unaudited) NIS 'm	Jun 08 Quarter	Mar 08 Quarter	Dec 07 Quarter <sup>1</sup>	Sep 07 Quarter	Jun 07 Quarter
Zap	3.1	2.0	1.9	2.3	2.1
Rest	1.1	0.6	1.0	0.9	1.0
ProGroup	(0.2)	(0.5)	1.5	(0.8)	0.5
Dun & Bradstreet	1.2	(0.8)	(0.1)	6.5	1.6
Weekend, Mitchatnim & Doctors <sup>2</sup>	1.5	1.0	1.1	N/A	N/A

1 Adjusted to reflect post acquisition earnings only, in particular Dun & Bradstreet acquired in May 2007 and the remaining 30% of ZAP acquired in September 2007.

2 Mitchatnim, Weekend and Doctors businesses acquired in September 2007.

**Strategic Focus:** Growth through cross-selling opportunities between Online and Local Search & Information Businesses.

## OVERVIEW OF GOLDEN PAGES

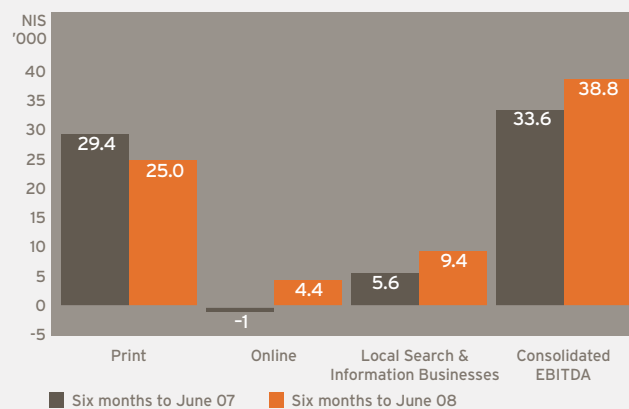
### OVERVIEW

Golden Pages is the leading directories business in Israel, with a portfolio of complementary directory and search businesses operating across print, online, television and mobile distribution platforms. Golden Pages conducts its operations via a portfolio of separate businesses, either wholly or partly owned, which combined, offer the third largest advertising reach of any online company in Israel and the largest in business information search.

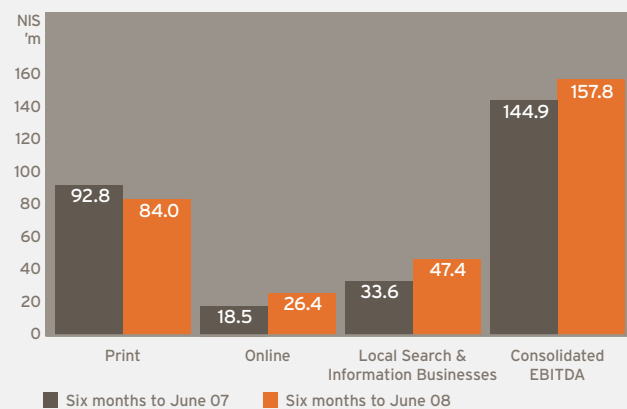
BCM acquired Golden Pages from Markstone Capital Partners in July 2007 for an enterprise value of A\$248.1 million which consisted of A\$150 million in equity. In February 2008, Golden Pages conducted a NIS400 million debt refinancing which allowed for a capital return of NIS140 million (approximately A\$43 million) to BCM and a NIS150 million new facility available for future investments. Subsequent to 30 June 2008, BCM remitted NIS120 million (A\$38 million) to Golden Pages to be used to repay existing debt facilities. The main reason for the repayment was that the effective interest rate of approximately 5.8% plus CPI on the Golden Pages debt facility was viewed as being too high. The long term view on inflation is for 2-3% in Israel and it has been at 0-1% in recent years.

Golden Pages achieved a NIS38.8 million consolidated EBITDA for the six months to 30 June 2008, an increase of 15% over the previous corresponding period. The increase in EBITDA from the Online and Local Search & Information Businesses offset the decline in Print EBITDA.

#### EBITDA



#### Net Revenue



Since acquisition, the Golden Pages strategy has evolved to focus on longer term growth. While the majority of its revenue is derived from its print directory, Golden Pages recognises the growth potential in the Israeli online market. Golden Pages is implementing a number of strategies to mitigate the decline in print revenues including utilising its print customer base to gain critical mass across all distribution platforms and further developing bundled advertising alternatives across its four distribution platforms of print, online, mobile and television.

An impairment charge of A\$4.3 million has been reflected in BCM's consolidated financial statements for the year ended 30 June 2008 to adjust the carrying value of Golden Pages to reflect exchange rate and other movements since acquisition. The revised carrying value at 30 June 2008 of A\$108.4 million is in line with the independent valuation commissioned by BCM.

#### CORPORATE & SOCIAL RESPONSIBILITY

- Golden Pages purchases the paper for the printed directories from suppliers that are the leaders in environmental awareness.
- All paper waste is recycled.
- 30% of old directories are recycled by the consumer (Company estimate).
- Decrease of approximately 30% in photocopying paper compared to previous year (Company estimate).
- All premises contain a device for gathering recycled paper and for gathering and recycling batteries and bottles.

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**BUSINESS OPERATIONS**

Business	Current Stake	Description/Comments
 <b>GOLDEN PAGES</b> www.d.co.il	100%	<b>Golden Pages directories (print).</b> The print directory is the largest contributor of revenue for GPM. It is the sole national directories business in Israel, holding over 70 directories with a combined annual circulation of approximately four million copies which are distributed free of charge. These include regional directories covering the largest areas of Israel, local directories for smaller population areas and various niche directories covering specific categories. 77% of potential buyers use the printed directory an average of 3.5 times per month.
 www.d.co.il	100%	<b>Golden Pages directories (online).</b> As customers shift from print to digital, growth in the online directory is expected to remain high. GPM has established partnerships with leading Israeli internet operators, which will enable it to continually achieve high growth.
	100%	<b>Golden Pages directories (mobile and television).</b> The mobile and TV operations relate to the provisions of SMS search via mobiles and web-based search via interactive channels on Israel's cable television. Both of these operations are relatively new but expect to increase in importance in the future.
 פורטל התיירות הכפרית	100%	<b>Weekend.</b> Weekend was established in 1997 as an online weekend directory listing hotel chains, boutique hotels, farm houses and cabins. Weekend has a monthly exposure rate of 280,000 visits.
 מתחתנים	100%	<b>Mitchatnim.</b> Mitchatnim originated as a print wedding directory distributed in Tel Aviv in 1989 with circulation reaching 12,000 in 2007. In 2000, Mitchatnim entered the online market and currently has a monthly exposure rate of 400,000 visits.
 zap.co.il השוואת מחירים	100%	<b>Zap.</b> Zap is Israel's leading comparative shopping portal, with more than 1.5 million unique users per month. It is the eighth most visited website in Israel. In September 2007, GPM acquired the remaining 30% interest in Zap.
 rest.co.il אתר המסעדות של ישראל	100%	<b>Rest.</b> Israel's leading restaurant portal has more than 6,000 business listings and more than 400,000 unique users per month. It recently developed a Rest printed "chapter" in Tel Aviv directories and is developing an online delivery function called Rest Away. In June 2006, GPM acquired a 50.1% interest and in June 2007, exercised a call option to acquire the remaining shares.
 pro group	75.3%	<b>ProGroup.</b> ProGroup contains various student and youth orientated information sites, including: <ul style="list-style-type: none"> <li>• Professor: Israel's leading student portal</li> <li>• Madas: Israel's third largest classified site</li> <li>• Bona: Youth based networking portal</li> </ul>
 Decide with Confidence	55%	<b>Dun &amp; Bradstreet Israel.</b> The leading business information company in Israel, providing business information directory services and credit information to banks, businesses and consumers. Business directories include Dun's 100 and Dun's Guide. Given the seasonality of its major directories, Dun & Bradstreet generates the majority of its earnings in the June, September and December quarters.
 dmedia	100%	<b>dmedia.</b> dmedia is a business unit of GPM and oversees the marketing and advertising across the entire GPM online portfolio.



The Directors of Babcock & Brown Capital Limited ("the Company" or "BCM") submit their report on the Babcock & Brown Capital Group ("the Group") consisting of the Company, and its controlled entities, for the year ended 30 June 2008.

## DIRECTORS

The Directors of the Company who held office during the year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Kerry Roxburgh	Independent Non-Executive Chairman
Gregory Clark	Independent Non-Executive Director
Andrew Love	Independent Non-Executive Director (appointed 21 April 2008)
Phillip Green	Non-Executive Director
Robert Topfer	Managing Director of the Management Company

William Wavish was a Non-Executive Director from the beginning of the financial year until his resignation on 21 April 2008.

## CORPORATE INFORMATION AND STRUCTURE

Babcock & Brown Capital Limited is a company limited by shares that is incorporated and domiciled in Australia. The Company was incorporated on 8 December 2004 and was listed on the Australian Securities Exchange on 14 February 2005.

Since incorporation, the Company has established a number of subsidiary companies. These are set out in Note 33 of the Financial Statements.

## NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

The Company is an investment company which focuses on a concentrated portfolio with a flexible investment horizon. Once its existing investments are realised, BCM will outline a strategic plan for the future of the Company after consultation with BCM Shareholders. Other than bolt-on acquisitions to support existing investments the Board has no intention of making further acquisitions until that process has been completed.

During the year, the Company gained control of GPM Classified Directories (Management & Marketing) Ltd ("Golden Pages"), an Israeli printed and online directories business. Further details of this investment are set out in the Review of Operating Results below and Note 32 of the Financial Statements.

## DIVIDENDS

The Directors, in accordance with the dividend policy outlined in the Initial Public Offering ("IPO") Prospectus, do not propose a dividend for the year to 30 June 2008 (2007: nil).

## REVIEW OF OPERATIONS AND RESULTS REVIEW

### REVENUE

The Group generated revenue of \$3,704.2 million for the year. This included:

- eircom telecommunications revenue from operations of \$3,452.5 million;
- profit on disposal of eircom masts of \$130.6 million;
- Golden Pages directories revenue of \$84.8 million;
- corporate investment income of \$36.0 million; and
- equity accounted profits of \$0.3 million.

### OPERATING EXPENSES

The Group incurred total expenses, including income tax, of \$3,519.9 million. This included:

- eircom operating expenses of \$3,386.2 million for the period. This consisted of \$2,141.5 million in operating expenses, depreciation and amortisation of \$652.5 million, finance costs of \$544.3 million and tax expense of \$47.9 million;
- GP operating expenses of \$102.7 million for the period. This consisted of \$69.9 million in operating expenses, depreciation and amortisation of \$12.0 million, finance costs of \$20.4 million and tax expense of \$0.4 million; and
- operating costs from local operations of \$31.0 million, consisting of \$19.4 million in management fees to Babcock & Brown Capital Management Pty Limited, \$1.4 million net losses from derivatives not qualifying as hedges, \$2.2 million in mark-to-market losses on investments held at fair value through profit or loss, \$4.6 million in tax expense and \$3.4 million of other expenses.

## DIRECTORS' REPORT

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the Group during the financial year were as follows:

- during the year, the Company gained control of Golden Pages. Further details of this investment are set out in Note 32 of the Financial Statements; and
- on 28 August 2007, the Company announced an on-market buy-back program. This program has been expanded with Shareholders' approval on 21 April 2008 and the Company is now authorised to buy-back up to 50% of its original issued capital (or 100 million shares). As at the date of this report, 16% of the original issued capital (32,095,086 shares) had been bought back at a total cost of approximately \$122 million.

### MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 28 August 2008 the Independent Directors of BCM deferred the off-market buy-back program, pending completion of discussions with Babcock & Brown Limited regarding the potential internalisation of management of BCM.

### FUTURE DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

In the opinion of the Directors, disclosure of other information regarding likely developments in the operations of the Group and the expected results of those operations would prejudice the interests of the Company. Accordingly, this information has not been included in this report.

### ENVIRONMENTAL REGULATION AND PERFORMANCE

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

### INFORMATION ON DIRECTORS

Name, independence status and special responsibilities

Qualifications and experience

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#### **KERRY C D ROXBURGH**

**Non-Executive Chairman.** Age 66.

BComm, MBA, SDIAM

Chairman of the Board

Chairman of the Nomination,  
Governance & Remuneration Committee

Member of the Audit, Risk & Compliance  
Committee

#### **Experience and expertise**

Independent Non-Executive Director since February 2006. Mr Roxburgh has extensive experience on the boards of listed and unlisted companies. SDIA Practitioner Member.

#### **Other current listed company directorships**

Non-Executive Chairman of Charter Hall Group (since April 2005).

Non-Executive Director of Ramsay Health Care Ltd (since July 1997) and Everest Babcock & Brown Group (since April 2005).

#### **Former listed company directorships in last three years**

E\*Trade Australia Limited (February 1996 to June 2007).

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#### **DR GREGORY J CLARK**

**Non-Executive Director.** Age 65.

PHD, BSC(HONS), FAP, FTSE

Member of the Nomination,  
Governance & Remuneration Committee

#### **Experience and expertise**

Independent Non-Executive Director since August 2006. Dr Clark is Principal of Clark Capital Partners, a US-based firm that advises internationally on technology and the technology marketplace. Previously he held senior executive positions in IBM, News Corporation and Loral Space and Communications.

#### **Other current listed company directorships**

Non-Executive Director of ANZ Banking Group Limited.

#### **Former listed company directorships in last three years**

Non-Executive Director of James Hardie Industries N.V. (April 2002 to May 2006).

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Name, independence status and special responsibilities	Qualifications and experience
<b>ANDREW LOVE</b> <b>Non-Executive Director.</b> Age 54. BCOM, FCA, MAIDC Chairman of the Audit, Risk & Compliance Committee	<b>Experience and expertise</b> Independent Non-Executive Director since April 2008. Mr Love was a Senior Partner with Ferrier Hodgson. Mr Love has had over 30 years of experience in corporate recovery and reconstruction. He has had experience at the public company level in the energy, mining and exploration, mortgage securitisation and international property sectors. <b>Other current listed company directorships</b> Non-Executive Director of ROC Oil Company Limited. Non-Executive Director of Riversdale Mining Limited. Non-Executive Director of Babcock & Brown Communities Group. <b>Former listed company directorships in last three years</b> Non-Executive Director of Principal Real Estate Investors (Australia) Limited.
<b>PHILLIP H GREEN</b> <b>Non-Executive Director.</b> Age 54. BCOM, LLB Member of the Nomination, Governance & Remuneration Committee (ceased 30 May 2008)	<b>Experience and expertise</b> Director since December 2004. Mr Green is the former Chief Executive Officer of Babcock & Brown Limited and has held numerous listed and unlisted board positions. <b>Other current listed company directorships</b> Non-Executive Director of Babcock & Brown Infrastructure Limited, Everest Babcock & Brown Group and of the responsible entity of Babcock & Brown Japan Property Trust. <b>Former listed company directorships in last three years</b> Non-Executive Director of Thakral Holdings Group (February 2004 to July 2007), Abacus Property Group (October 2002 to September 2006), Primelife Corporation Limited (February 2004 to April 2005) and of the responsible entity of the MTM Entertainment Trust (July 2001 to July 2007), Chairman of Babcock & Brown Environmental Investments Limited until June 2008.
<b>ROBERT N TOPFER</b> <b>Non-Executive Director</b> Age 48. BA, LLB Member of the Nomination, Governance & Remuneration Committee	<b>Experience and expertise</b> Director since December 2004. Mr Topfer has over 20 years of specialist structured and corporate finance experience across many industry sectors. <b>Other current listed company directorships</b> Non-Executive Director of Babcock & Brown Communities Group and Assetinsure Limited. <b>Former listed company directorships in last three years</b> Non-Executive Director of ERG Limited (October 2002 to January 2005), Commander Communications Limited (August 2003 to September 2005) and the responsible entity of the MTM Entertainment Trust (July 2005 to July 2007).

## DIRECTORS' REPORT

### INFORMATION ON SECRETARIES

Name, independence status and special responsibilities

Qualifications and experience

#### SIMONE LANDER Company Secretary

Simone Lander was appointed Company Secretary on 11 August 2006.

#### Experience and expertise

Simone joined Babcock & Brown in August 2006 as Company Secretary for a number of the Group's listed and unlisted specialised funds and is responsible for the Company Secretarial function and corporate governance for the boards and committees of these Group entities. Prior to joining Babcock & Brown, Simone held Company Secretarial positions within the Investa Property Group from August 2001 and the position of Assistant Company Secretary of the Mirvac Group from 1998.

Simone studied a Bachelor of Economics and is an Affiliate of Chartered Secretaries Australia.

#### DAVID RICHARDSON Company Secretary

David Richardson was appointed Company Secretary on 25 July 2006.

#### Experience and expertise

David joined Babcock & Brown in 2005 as Company Secretary for a number of the Group's listed and unlisted specialised funds and is responsible for the Company Secretarial function and corporate governance for the boards and committees of these Group entities. Prior to joining Babcock & Brown, David was a Company Secretary within the AMP Group, and at various stages was appointed Company Secretary for the AMP Capital Investors, Financial Services and Insurance Divisions.

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

### DIRECTORS' MEETINGS

	Meetings of Committees		
	Scheduled Directors' Meetings	Audit, Risk & Compliance <sup>1</sup>	Nomination, Governance & Remuneration <sup>2</sup>
<b>Number of meetings held:</b>	14	6	3
<b>Number of meetings attended:</b>			
Andrew Love <sup>3</sup>	2	1	*
William Wavish <sup>4</sup>	10	5	*
Gregory Clark	14	*	3
Kerry Roxburgh	14	6	3
Phillip Green <sup>6</sup>	12	*	1
Robert Topfer	14	*	-
William Stevens <sup>5</sup> (resigned 30 June 2008)	*	6	*
John Fanning <sup>5</sup> (appointed 30 June 2008)	*	1	*

\* Not a member of that committee.

1 The Audit & Risk Management Committee changed its name to the Audit, Risk & Compliance Committee on 30 May 2008.

2 The Remuneration Committee and the Nomination & Governance Committee merged to form the Nomination, Governance & Remuneration Committee on 30 May 2008.

3 Andrew Love was appointed a member of the Board on 21 April 2008 and as Chairman of the Audit Risk & Compliance Committee on 21 April 2008.

4 William Wavish resigned as a member of the Board and as Chairman of the Audit Committee on 21 April 2008.

5 William Stevens was an independent committee member of the Audit, Risk & Compliance Committee, but was not a Director of the Company. John Fanning is a committee member supplied by the Management Company but is not a Director of the Company.

6 Phillip Green ceased to be a member of the Nomination & Governance Committee on 30 May 2008.

Independent Non-Executive Directors frequently attended general business and transaction-specific updates to maintain an understanding of business progress and activities.

## REMUNERATION REPORT

The Remuneration Report for the Group details the remuneration policies and arrangements of the Company's ("BCM") Directors and the BCM Group's Executives. It also covers remuneration arrangements for executives provided by the Management Company (Babcock & Brown Capital Management Pty Ltd ("BBCM")). The Company's Non-Executive Directors are paid a fee, details of which are shown under the heading, "Non-Executive Directors".

## SPECIALISED FUND PLATFORM

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

Although BCM's Directors are remunerated by the Company, BCM does not employ its Company Secretary or any executives and therefore does not directly remunerate its executives. This is a consequence of the Management Agreements that have been entered into with Babcock & Brown Management Pty Ltd ("the Manager") in December 2004.

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

The Babcock & Brown remuneration philosophy seeks to focus on:

- driving performance over and above securityholder and market expectations; and
- ensuring incentive remuneration is directly linked to performance and that individuals who contribute to this performance are rewarded.

Babcock & Brown remunerate its employees on a calendar year basis with annual incentive remuneration payments made in March each year following the previous 31 December financial year-end of Babcock & Brown.

The Babcock & Brown Board (B&B Board) decided to include the value of Long Term Incentive ("LTI") grants as a formal part of total annual remuneration for qualifying employees. In previous years, allocations were generally made to new hires and not widely awarded as a number of the more longstanding employees had received Babcock & Brown pre-IPO Options which vest in August 2008. With those due to vest shortly, the Babcock & Brown Board decided to introduce the allocation on a formal and more systematic basis.

The Babcock & Brown Board also restructured the composition of incentive remuneration for 2007/2008. As part of its commitment to the ongoing development of the remuneration structure it made some more permanent changes and refinements as well as introducing some one-time components for 2007/2008. The one-time components were designed to take account of the current volatility in capital markets which, particularly since 31 December 2007, have significantly impacted the share price of Babcock & Brown and the security prices of the Babcock & Brown Listed Managed Funds including Babcock & Brown Capital Limited. The restructure aimed to balance the further alignment between employees and securityholders with the ongoing motivation and retention of employees. The Babcock & Brown Board believes that the remuneration structure in 2007/2008 should give Babcock & Brown shareholders and Babcock & Brown Capital Limited securityholders added comfort that employees will be focused and rewarded for improving share and security price performance.

The one-time changes for 2007/2008 include:

- a significant portion of what otherwise would have been immediate Short Term Incentive ("STI") cash bonus delivered as fully vested Share Awards<sup>1</sup> in Babcock & Brown. This is to further align the interests of certain senior Executives<sup>2</sup> with those of securityholders in the more volatile capital markets; and
- the delivery of a portion of incentive remuneration as Fund Appreciation Rights to certain senior Executives. For certain senior Executives dedicated full time to the management of BCM, these represent a notional investment in BCM's shares to further align these individuals with the securityholders in BCM in the more volatile capital markets.

1 A fully vested Share Award entitles a participant to a share in the Company at no cost.

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

## DIRECTORS' REPORT

The more permanent changes introduced during the year included:

- the further refinement of the Executive Key Performance Indicator ("KPI") framework: This provides a robust link between Executives' total annual remuneration and the achievement of BCM's strategic objectives;
- the inclusion of the LTI<sup>1</sup> plan as a formal part of total annual remuneration for Executives. The LTI takes the form of performance-based options which represent 10% of a qualifying employee's total annual remuneration; and
- the introduction of Fund Bonus Deferral Rights (Fund BDRs)<sup>2</sup> for eligible employees who contribute to the performance of Babcock & Brown Capital Limited. These are in addition to Babcock & Brown Bonus Deferral Rights (Babcock & Brown BDRs) which have been awarded since Babcock & Brown's IPO in October 2004.

As a consequence of the above changes, the structure of total annual remuneration for 2007 results in a greater percentage of Executive total incentive remuneration being deferred and/or aligned with the securityholders of BCM. In 2007, 50% of total incentive remuneration (i.e. the combination of STI (Babcock & Brown and Fund BDRs and Fund Appreciation Rights) and LTI (performance-based Options) was delivered as deferred remuneration, compared to 35% in 2006. Please see page 35 for a diagram explaining Babcock & Brown's remuneration structure for Executives.

The Babcock & Brown Board believes the increase in the deferred component of Executives' total incentive remuneration, and the greater alignment with the interests of the Shareholders of Babcock & Brown Capital Limited, further strengthens the executive remuneration framework.

### REMUNERATION COMMITTEE

#### Role of the Babcock & Brown Remuneration Committee

The Babcock & Brown Limited Remuneration Committee assists the Babcock & Brown Limited Board in achieving fairness and transparency in relation to remuneration issues while overseeing the remuneration and human resources policies and practices of the Babcock & Brown Limited Group including those employees allocated to the Specialised Funds Platform.

The Babcock & Brown Limited Remuneration Committee endeavours to ensure Babcock & Brown Group's remuneration outcomes strike an appropriate balance between the interests of BCM's securityholders and rewarding and motivating the Executives and employees.

#### Membership of the Babcock & Brown Limited Remuneration Committee

The Babcock & Brown Limited Remuneration Committee consists of five Directors, of whom three are Independent Non-Executive Directors. Its members throughout 2007/2008 were:

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

#### Executives

The following persons were Executives of BCM during the financial year:

John Fanning	Chief Investment Officer (appointed 1 November 2007)
Deborah Kelly	Chief Operating Officer (resigned 1 November 2007)
Haydn Vella	Group Financial Controller

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

### REMUNERATION POLICY

The Babcock & Brown Board recognises that Babcock & Brown operates in a global marketplace and its success is ultimately dependent on its people. In light of this, Babcock & Brown aims to attract, retain and motivate highly specialised and skilled employees from a global pool of talent who have the expertise to manage BCM in the best interests of the securityholders of BCM. Babcock & Brown Executives who are Directors of BCM have significant shareholdings in BCM.

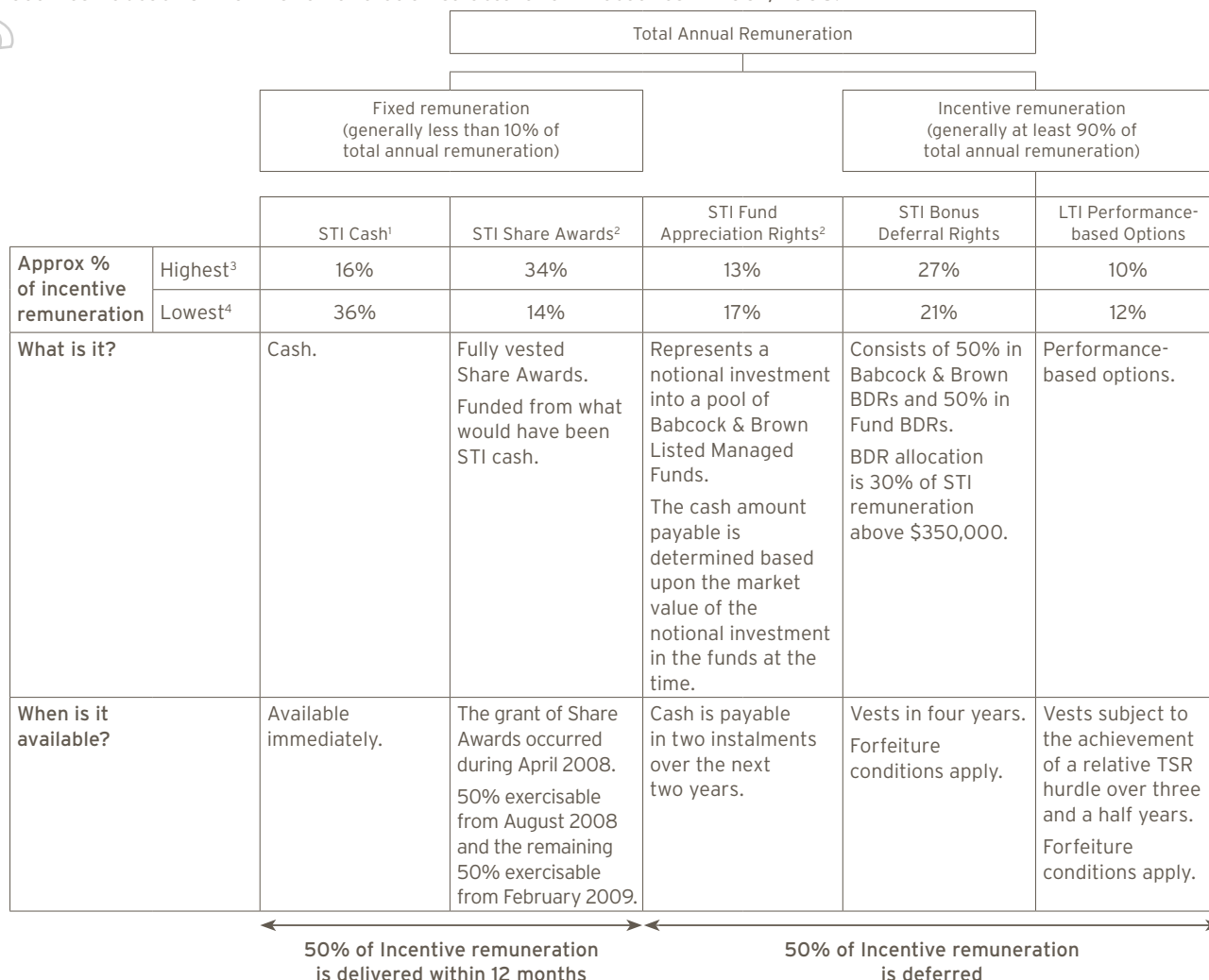
1 The LTI Plan comprises performance-based options whereby each Option entitles the participant to one share in Babcock & Brown upon vesting subject to achieving a performance hurdle and the payment of an exercise option.

2 Fund BDRs entitle the participant to a cash payment linked to the performance of Babcock & Brown Capital at the end of a four year vesting period.

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## REMUNERATION STRUCTURE

During 2007, the Babcock & Brown Board determined that remuneration would be assessed under a total annual remuneration model consisting of fixed remuneration and incentive remuneration (STI and LTI). The diagram below outlines Babcock & Brown's remuneration structure for Executives in 2007/2008:



1 This amount includes a deferred cash payment which is subject to the achievement of a Company and/or personal objective which is a critical driver or measure of performance for Babcock & Brown in 2008. It represents approximately 5% of Executives' total incentive remuneration.

2 These are one-time components in the 2007 STI structure for Executives.

3 Highest remunerated Executive of Babcock & Brown.

4 Lowest remunerated Executive of Babcock & Brown.

Note: The above remuneration mix is reflective of 2007 remuneration before amortisation (and excludes prior year amortisation used for accounting purposes).

As seen, the remuneration structure for Executives is predominantly "at-risk", with 50% of 2007/2008 incentive remuneration being deferred over a one to four year period. The amount of incentive remuneration is determined after Babcock & Brown's year-end and is calculated as total annual remuneration approved by the Babcock & Brown Board less fixed remuneration. Incentive remuneration is then allocated between the components outlined in the diagram above in accordance with the criteria set out in further detail in this report.

## OPERATION OF TOTAL ANNUAL REMUNERATION IN 2008

The process for determining the 2007/2008 total annual remuneration allocation for BCM Executives is outlined below:

**Step 1: Independent members of the BCM Nomination, Governance & Remuneration Committee provided input to Babcock & Brown on the performance of Executives to assist in determining the preliminary total annual remuneration allocation amount.**

The preliminary Babcock & Brown Group 2007 year-end results and the preliminary Return on Net Equity (ROE), Earnings per Share (EPS) growth and Profit before Bonus & Tax (PBBT) for the year were established. Subject to final results, a preliminary total annual remuneration amount was determined by reference to the target measures and with regard taken for the total annual remuneration as a proportion of net revenue guideline.

## DIRECTORS' REPORT

**Step 2: The Babcock & Brown Corporate Management Committee established individual allocations from the total incentive remuneration allocation amount and made recommendations to the Babcock & Brown Remuneration Committee.**

Allocations to individuals were determined by the Babcock & Brown Corporate Management Committee, and then recommended to the Babcock & Brown Remuneration Committee.

The recommendations for the Executive were determined based upon their relative performance assessed in accordance with the KPIs outlined above in Step 1. The objective of the KPI approach is not only to incentivise the Executives to achieve their own KPIs which are aligned to BCM's objectives, but also to provide a basis for a rigorous discussion around their performance and relative ranking. A 360 degree performance review feedback process was also introduced for senior Babcock & Brown Executives for the purposes of personal development and to assess performance against the KPIs relating to the role modelling of the core values of Babcock & Brown. It is the intention to expand this to a broader group of senior executives during 2008, including Fund Executives.

**Step 3: Independent members of the Babcock & Brown Remuneration Committee established recommendations to the Babcock & Brown Board for the total annual remuneration allocation amount and total annual remuneration recommendations for Executives.**

The independent members of the Babcock & Brown Remuneration Committee recommended to the Babcock & Brown Board the total annual remuneration amount after the Babcock & Brown Group 2007 year-end results were finalised and the ROE, EPS growth and PBBT for the year were established. The recommendations for Executives were established after reviewing their performance against their KPIs as set out in Step 1 and taking into account the views of the Babcock & Brown Corporate Management Committee.

### **FIXED REMUNERATION**

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

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

### **SUMMARY OF INCENTIVE PLANS**

#### **Short-term incentive plan ("STIP") - delivered as cash and deferred equity (Bonus Deferral Rights)**

All employees are eligible to participate in the STIP. The Babcock & Brown Board's policy is to allocate at least 25% of an employee's STI award above a threshold level, to a grant of Bonus Deferral Rights (BDRs), with the balance paid in cash. In 2007/2008, the Babcock & Brown Board allocated 30% of an employee's STI award above A\$350,000 to a grant of BDRs. BDRs take the form of Babcock & Brown BDRs and Fund BDRs (each further described below). The threshold level and allocation percentage are subject to annual review.

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

Given the significant impact, particularly since 31 December 2007, of the recent volatile equity markets on the market price of Babcock & Brown shares and a number of Babcock & Brown Listed Managed Funds securities, the Babcock & Brown Board considered that increased alignment and incentives would give Shareholders in Babcock & Brown and Shareholders in the Babcock & Brown Listed Managed Funds added comfort that Executives would be focused and rewarded for achieving improved Babcock & Brown share and BCM security price performance. Therefore, the Babcock & Brown Board introduced some one-time components into the 2007/2008 STI structure for these employees. A significant portion of what would have been an immediate STI cash payment was allocated into forms of remuneration designed to further increase alignment. These new one-time components are:

- Fully vested Share Awards which entitle the participant to a share in Babcock & Brown Limited when exercised. The grant of Share Awards occurred in April 2008, with half of the Share Awards exercisable from August 2008 and the remaining half exercisable from February 2009.
- Fund Appreciation Rights which are fully vested and represent a notional investment in a pool of Babcock & Brown Listed Managed Funds, the value of which is payable in cash in two equal tranches over each of the next two years. The actual cash payments will be determined based on the market value of the Fund Appreciation Rights at the time. Notional returns on these amounts may be paid periodically to participants. Executives who are dedicated to the management of BCM were allocated BCM Fund Appreciation Rights.

Senior executives who are dedicated to the management of a Babcock & Brown Fund(s) may have a portion of their incentive remuneration deferred and linked to the performance of that particular fund(s).

#### Share Awards

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

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

#### Fund Appreciation Rights

The nature, eligibility and general terms of the Fund Appreciation Rights are outlined in the table below:

<b>Nature</b>	Each Fund Appreciation Right is fully vested and entitles the participant to a notional investment into a pool of Babcock & Brown Listed Managed Funds ("Funds"). Executives who are dedicated to the management of BCM were allocated BCM Fund Appreciation Rights. The value of the Fund Appreciation Rights will be payable in cash in two equal tranches over the next two years. The cash payment will be determined based on the market value of the Fund Appreciation Rights in the Fund(s) at the time of payment.
<b>Eligibility</b>	Applies to Executives.
<b>Composition and weighting of pool</b>	All Babcock & Brown Listed Managed Funds at the date of grant. Each Fund's weighting in the pool is determined by its net asset value as a proportion of the pool's total net asset value.
<b>Quantum of Fund Appreciation Rights to be allocated</b>	The number of Fund Appreciation Rights is determined by dividing the amount of the Fund Appreciation Rights allocation from the STI by the weighted market price of Funds in the pool at the time the Fund Appreciation Rights are granted. The number of BCM Fund Appreciation Rights is determined by dividing the amount of the Fund Appreciation Rights allocation from the STI by the market price of BCM securities at the time the Fund Appreciation Rights are granted. The Fund Appreciation Rights were granted during April 2008.
<b>Entitlement and treatment of dividends</b>	A dividend/distribution equivalent (less any applicable deductions and withholdings) based on the Funds in the notional investment will be paid periodically to participants.

## DIRECTORS' REPORT

### Babcock & Brown Bonus Deferral Rights ("Babcock & Brown BDRs")

Babcock & Brown BDRs are designed to further align the interests of employees, Babcock & Brown Shareholders and BCM Shareholders and act as a retention mechanism. The nature and general terms of the Babcock & Brown BDRs are outlined in the table below:

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

### Fund Bonus Deferral Rights ("Fund BDRs")

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

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

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

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**Long-term incentive plan (“LTIP”)**

Prior to 2007, the LTIP was not used as a formal part of employee total annual remuneration due to the Babcock & Brown equity that was issued subject to escrow and the Babcock & Brown pre-IPO options that were granted. Given that all Babcock & Brown equity subject to escrow was released from escrow in February 2008 and the Babcock & Brown pre-IPO options vest in August 2008, the Babcock & Brown Board introduced the LTIP as a formal component of total annual remuneration for Executives.

This change was introduced to maintain the long-term alignment with Babcock & Brown Shareholders and the Shareholders in the Babcock & Brown Listed Managed Funds and provide a mechanism for these individuals to share in the growth of Babcock & Brown. While LTI existed in previous years, it was allocated to a more limited number of Executives and employees. Typically, 10% of total annual remuneration will be delivered as LTI awards to eligible employees in 2007. LTI awards will generally take the form of performance-based Options.

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

<b>Nature</b>	Each performance-based Option entitles the participant to one share in Babcock & Brown upon vesting subject to the payment of an exercise price. The exercise price of each Option will generally be based on the market value of shares at the time of grant.								
<b>Eligibility</b>	All employees who have total annual remuneration which is more than double fixed remuneration and have total annual remuneration which is in excess of \$250,000.								
<b>Quantum of performance-based Options to be granted</b>	The number of performance-based Options to be granted is determined by dividing the amount of the LTI allocation by the value of the performance-based Option at the time they are granted. The performance-based Options were granted to Executives and other employees during April 2008.								
<b>Vesting and performance period</b>	The Babcock & Brown Board’s policy on the terms of vesting of LTI awards will typically include vesting at least three years after grant subject to the achievement of a performance hurdle. Performance-based Options to be granted for 2007 will have a three and a half-year vesting period, subject to achievement of a relative TSR hurdle.								
<b>Performance hurdle</b>	<p>The relative TSR hurdle set by the Board measures Babcock &amp; Brown’s TSR performance against all other ASX 100 Index companies as at the date of grant measured over the three and a half-year vesting period. The Babcock &amp; Brown Board has chosen Relative TSR ranking as the performance hurdle for the LTI awards because this hurdle ensures the greatest alignment between executive reward and the creation of shareholder value. By using ASX 100 index companies as the peer group, Babcock &amp; Brown ensures that Executives and other senior Executives will only be rewarded when Babcock &amp; Brown’s TSR has exceeded the median of the broader Australian market. LTI awards will vest in accordance with the table below:</p> <table border="1"> <thead> <tr> <th>Percentile</th> <th>% of Options that vests</th> </tr> </thead> <tbody> <tr> <td>Below 51st percentile</td> <td>Nil</td> </tr> <tr> <td>51st to 74th percentile</td> <td>Progressive vesting on a straight line basis from 50% to 99%</td> </tr> <tr> <td>At or above 75th percentile</td> <td>100%</td> </tr> </tbody> </table> <p>The Babcock &amp; Brown Remuneration Committee has determined that it is appropriate to retest performance 12 months after the initial test date (i.e. after four and a half years) for the 2008 grants if they are not fully vested at the initial test date (i.e. after three and a half years).</p> <p>The Babcock &amp; Brown Remuneration Committee understands that some stakeholder and shareholder bodies are against more than one test date and conducted a review of the testing mechanism during 2006. After this review, and also because of the recent market volatility, the Remuneration Committee determined that it was appropriate to keep two test dates in place.</p>	Percentile	% of Options that vests	Below 51st percentile	Nil	51st to 74th percentile	Progressive vesting on a straight line basis from 50% to 99%	At or above 75th percentile	100%
Percentile	% of Options that vests								
Below 51st percentile	Nil								
51st to 74th percentile	Progressive vesting on a straight line basis from 50% to 99%								
At or above 75th percentile	100%								

## DIRECTORS' REPORT

### Performance hurdle (continued)

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

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

### Forfeiture conditions

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

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

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Independent Non-Executive Directors' fees, including committee fees and subsidiary Board membership fees, are determined by the BCM Board within the aggregate amount approved by Shareholders. The current maximum aggregate amount which may be paid to all Independent Non-Executive Directors is \$1,000,000 per annum as approved by Shareholders. Babcock & Brown senior executives who are Directors of BCM are allocated the same amount of remuneration as the Independent Directors, however, these senior Executives do not directly receive any remuneration for their role as Director as these amounts are included as part of the fee paid to the Manager.

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

Fees payable to Non-Executive Directors during the year ended 30 June 2008 are set out below:

Board/Committee	Role	Fee \$
Board	Chair	187,500
	Deputy Chair	125,000
	Member	125,000
	Member of investment company board	105,000

The fees payable to the Independent Non-Executive Directors include their services on the Audit, Risk & Compliance and Nomination, Governance & Remuneration Committees and subsidiary Board memberships.

**Table 1: Independent Non-Executive Option holdings - as at 30 June 2008**

	Granted number	Grant date	Forfeited number	Terms and conditions for each grant				
				Value per Option (average) \$	Total value \$	Exercise price per share \$	First exercise date	Last exercise date
Kerry Roxburgh	1,000,000	9 Feb 2006	-	0.389	388,466	5.00	28 Aug 2007	14 Feb 2012
William Wavish <sup>1</sup>	1,000,000	14 Feb 2005	-	-	-	5.00	28 Aug 2007	14 Feb 2012
Gregory Clark	1,000,000	8 Nov 2006	-	0.135	135,167	5.00	28 Aug 2007	14 Feb 2012
<b>Total</b>	<b>3,000,000</b>		<b>-</b>		<b>523,633</b>			

<sup>1</sup> William Wavish resigned as a Director on 21 April 2008. Mr Wavish's options lapsed 90 days after his resignation on 19 July 2008.

**Table 2: Remuneration of the Directors for the year ended 30 June 2008**

Details of the nature and amount of each element of the emoluments of each Director of BCM and of the consolidated entity for the year ended 30 June 2008 are set out in the table below.

	Year	Short-term employee benefits			Non-monetary benefits \$	Post-employment benefits	Long-term employee benefits	Total \$
		Salary \$	STIP relating to current period \$	STIP relating to prior years \$		Super-annuation \$	Share based payments <sup>2</sup> \$	
<b>Independent Non-Executive Directors</b>								
Kerry Roxburgh (Chairman)	2008	262,275	-	-	-	13,129	41,787	317,191
	2007	150,000	-	-	-	12,686	250,076	412,762
William Wavish <sup>3</sup>	2008	80,601	-	-	-	7,500	59,083	147,184
	2007	100,000	-	-	-	9,000	359,694	468,694
Gregory Clark	2008	201,100	-	-	-	13,129	27,946	242,175
	2007	90,580	-	-	-	-	107,221	197,801
Andrew Love <sup>4</sup>	2008	33,948	-	-	-	3,055	-	37,003
	2007	-	-	-	-	-	-	-
Robert Champion de Crespigny AC <sup>5</sup>	2008	-	-	-	-	-	-	-
	2007	25,000	-	-	-	-	-	25,000
<b>Total remuneration for Independent Non-Executive Directors</b>	2008	<b>577,924</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>36,813</b>	<b>128,816</b>	<b>743,553</b>
	2007	365,580	-	-	-	21,686	716,991	1,104,257
<b>Other Non-Executive Directors</b>								
Phillip Green <sup>6</sup>	2008	104,850	-	-	-	-	-	104,850
	2007	100,000	-	-	-	-	-	100,000
Robert Topfer <sup>6</sup>	2008	104,850	-	-	-	-	-	104,850
	2007	100,000	-	-	-	-	-	100,000
Rex Comb	2008	-	-	-	-	-	-	-
	2007	353,756	-	-	-	1,737,138	-	2,090,894
<b>Total remuneration for other Non-Executive Directors</b>	2008	<b>209,700</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>209,700</b>
	2007	553,756	-	-	-	1,737,138	-	2,290,894
<b>Total remuneration for Directors</b>	2008	<b>787,624</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>36,813</b>	<b>128,816</b>	<b>953,253</b>
	2007	919,336	-	-	-	1,758,824	716,991	3,395,151

<sup>2</sup> Equity options have been valued using a Binomial pricing model. Option values for Independent Non-Executive Directors Kerry Roxburgh and Gregory Clark represent Options granted in BCM. Options granted to Non-Executive Directors of the Management Company relate to Babcock & Brown Limited.

<sup>3</sup> William Wavish resigned on 21 April 2008.

<sup>4</sup> Andrew Love was appointed on 21 April 2008.

<sup>5</sup> Robert Champion de Crespigny AC resigned as Chairman on 25 July 2006 and was a Non-Executive Director until 4 August 2006.

<sup>6</sup> Remuneration paid to Directors supplied by the management company (Robert Topfer and Phillip Green) is not paid by the Company. This remuneration is paid in respect of their wider responsibilities relating to the Babcock & Brown Group, of which the directorship of BCM is a part. It is not practicable or meaningful to apportion the remuneration to the time spent directly on the Non-Executive Directorship supplied by the Management Company, for Robert Topfer and Phillip Green. The figure presented for Phillip Green and Robert Topfer is based on the independent non-executive fee paid by the Group to other Non-Executive Directors.

## DIRECTORS' REPORT

**Table 3: Remuneration of the Executives for the year ended 30 June 2008**

	Year	Short-term employee benefits			Post-employment benefits		Long-term employee benefits	Total \$
		Salary \$	Cash bonus \$	Non-monetary benefits \$	Long service leave \$	Super-annuation \$	Share-based payments \$	
<b>BCM Group Executives</b>								
John Fanning <sup>1</sup> (Chief Investment Officer)	2008	333,333	-	-	-	-	-	333,333
Deborah Kelly <sup>1</sup> (Chief Operating Officer)	2008	166,667	-	-	-	-	-	166,667
Haydn Vella <sup>2</sup> (Group Financial Controller)	2008	165,000	160,000	3,738	2,750	13,129	15,980 <sup>1</sup>	360,597
<b>Total remuneration for Group Executives</b>	<b>2008</b>	<b>665,000</b>	<b>160,000</b>	<b>3,738</b>	<b>2,750</b>	<b>13,129</b>	<b>15,980</b>	<b>860,597</b>

1 Executive fees paid for their service to BCM cannot be determined due to other commitments within Babcock & Brown Limited Group. The remuneration has been based on an assessment by management of BCM of the services performed directly for BCM.

2 Options issued to Haydn Vella were issued in Babcock & Brown Ltd shares in 2006.

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

	Year	Short-term employee benefits			Post-employment benefits		Long-term employee benefits	Total \$
		Salary \$	Cash bonus \$	Non-monetary benefits \$	Long service leave \$	Super-annuation \$	Share-based payments \$	
<b>BCM Group Executives<sup>3</sup></b>								
Philip Nolan <sup>4, 5</sup> (former eircom Chief Executive Officer)	2007	479,429	531,531	61,638	2,934,047	227,474	-	4,234,119
Peter Lynch <sup>4, 5</sup> (former eircom Chief Financial Officer)	2007	316,238	378,172	22,681	2,487,975	47,436	-	3,252,502
Rex Comb <sup>4</sup> (Chief Executive Officer - eircom)	2007	822,945	544,037	355,500	-	123,442	-	1,845,924
Andrew MacLeod <sup>4</sup> (Chief Operating Officer - eircom)	2007	737,023	583,881	155,423	-	110,555	-	1,586,882
Cathal Magee <sup>4</sup> (Managing Director of Retail - eircom)	2007	745,055	530,113	54,200	-	96,732	-	1,426,100
<b>Total remuneration for Group Executives</b>	<b>2007</b>	<b>3,100,690</b>	<b>2,567,734</b>	<b>649,442</b>	<b>5,422,022</b>	<b>605,639</b>	<b>-</b>	<b>12,345,527</b>

3 The Executives presented above for the financial year ended 30 June 2007 were the five highest paid BCM Group Executives and who were all paid by eircom. In the prior year, the BCM Group did not employ any Executives. Disclosures on KMP for the Company are shown in Note 27 of the Financial Statements. In the current year eircom executives are not considered BCM Group Executives, as determined by the Board.

4 eircom executives' remuneration has been included from the acquisition date of 18 August 2006. Rex Comb and Andrew MacLeod were appointed on 18 August 2006.

5 Philip Nolan and Peter Lynch left eircom during the year. Philip Nolan resigned on 18 August 2006 and Peter Lynch on 30 October 2006. Payments to Philip Nolan and Peter Lynch, including termination payments, were made in accordance with their existing contracts prior to BCM's acquisition of eircom.

**Table 5: Remuneration of the Secretary for the year ended 30 June 2008**

Year	Short-term employee benefits			Post-employment benefits		Long-term employee benefits		Total \$
	Salary \$	Cash bonus \$	Non-monetary benefits \$	Long service leave \$	Super-annuation \$	Share-based payments \$		
<b>Secretary</b>								
Simone Lander	2008	51,180	47,340	-	853	3,939	2,648	105,960
	2007	60,000	-	-	-	5,400	-	65,400
<b>Total remuneration for secretary</b>	2008	51,180	47,340	-	853	3,939	2,648	105,960
	2007	60,000	-	-	-	5,400	-	65,400

**Table 6: Remuneration components as a proportion of total remuneration**

2008	Performance-based remuneration			Total %
	Fixed remuneration %	Cash STIP %	Share-based payments <sup>1</sup> %	
<b>Directors</b>				
Kerry Roxburgh	86.8	-	13.2	100.0
William Wavish	59.9	-	40.1	100.0
Gregory Clark	88.5	-	11.5	100.0
Phillip Green	100.0	-	-	100.0
Andrew Love	100.0	-	-	100.0
Robert Topfer	100.0	-	-	100.0
<b>BCM Group Executives</b>				
John Fanning	100.0	-	-	100.0
Deborah Kelly	100.0	-	-	100.0
Haydn Vella	51.2	44.4	4.4	100.0

1 Share-based payments include options.

**Table 7: Value of remuneration that vests in future years**

	Remuneration subject to vesting <sup>2</sup>			
	2008	2009	2010	2011
<b>Executives</b>				
John Fanning	-	-	-	-
Deborah Kelly	-	-	-	-
Haydn Vella	15,980	15,980	1,998	-

2 Remuneration amounts disclosed in the above table refer to the maximum value of Options, Babcock & Brown BDRs and Fund BDRs, where relevant. These amounts have been determined at grant date by using an appropriate pricing model and amortised in accordance with AASB 2 *Share Based Payment*. The minimum value that may vest is \$nil and no remuneration currently granted vests after August 2011.

## DIRECTORS' REPORT

### EXECUTIVE EMPLOYMENT CONTRACTS

The employment contracts of Group Executives and Non-Executive Directors supplied by the Management Company contain the conditions below:

Length of contract	Open-ended.
Frequency of base remuneration review	Annual.
Benefits	Executives are entitled to participate in Babcock & Brown Limited Group benefit plans that are made available. eircom executives are entitled to participate in BCM Group benefit plans that are made available.
STIP participation	Executives are eligible for an award of STIP remuneration from the STIP pool available (if any).
Non-compete clauses	If Phillip Green or Robert Topfer leaves the Babcock & Brown Limited Group within three years of the IPO, they will (other than in limited circumstances) be prohibited from competing with the Babcock & Brown Limited Group for 12 months from the date of such departure.
Notice period	Employment of Phillip Green and Robert Topfer can be terminated by either party on three months' written notice and the Babcock & Brown Limited Group may elect to pay the Executive three months' salary in lieu of notice.

### SHARE HOLDINGS

Refer to Note 27 in the Financial Statements for the further information regarding Option and shareholdings for BCM Directors and KMP.

### INDEMNIFICATION AND INSURANCE OF OFFICERS

On a full indemnity basis and to the full extent permitted by law, the Company indemnifies each person (an "Indemnitee") who is or has been a Director or Company Secretary of the Company or any of its subsidiaries, and each Director who acts or has acted as a representative of the Company serving as an officer of another entity at the request of the Company. An Indemnitee is indemnified against any liability (other than legal costs) incurred in the discharge of their duties as an officer of the Company or such other entity except where the liability is a liability owed to the Company or a related body corporate or the liability arises out of conduct involving a lack of good faith on the part of the indemnitee or conduct attracting the civil penalty provisions of the *Corporations Act 2001*.

Indemnitees are also indemnified by the Company for costs (including legal costs) and expenses incurred in defending an action for a liability incurred in acting as an officer of the Company or any of its subsidiaries or such other entities. In addition, the Company may indemnify any other officer or former officer of the Company against those liabilities and costs on the same basis.

The Company has agreed to pay a premium for a policy of insurance designed to indemnify the Company's Directors and officers and those of its subsidiaries.

### NON-AUDIT SERVICES

During the year, the Company had in place a policy to maintain perceived as well as actual independence of the auditor. Under this policy, non-audit services are sought from other service providers in preference to PricewaterhouseCoopers unless there is a compelling reason to engage PricewaterhouseCoopers on a particular assignment. In the situation where PricewaterhouseCoopers remains preferred adviser, the Audit, Risk & Compliance Committee will be required to approve the appointment.

The Directors were satisfied that the provision of this non-audit service by PricewaterhouseCoopers was compatible with, and did not compromise, the general standards of independence imposed by the *Corporations Act 2001*, for the following reasons:

- the non-audit service was subject to the corporate governance procedures adopted by the Company and was reviewed by the Audit, Risk & Compliance Committee in terms of the Audit Independence and Provision of Non-Audit Services by the External Auditor Policy to ensure that it did not impact the integrity and objectivity of the Auditor and was not in conflict with the Auditor's role as statutory auditor; and
- the non-audit service provided did not involve reviewing or auditing the Auditor's own work, acting in a management or decision making capacity for the Company or the Group, acting as an advocate for the Company or jointly sharing risks and rewards.

PricewaterhouseCoopers received the following for the provision of non-audit services:

Consolidated

2008  
\$'000

**1. Other audit-related services**

**Related practices of PricewaterhouseCoopers Australian firm**

Audit of regulatory returns	2,096
Other audit-related services	810
<b>Total remuneration for other audit-related services</b>	<b>2,906</b>

**2. Taxation services**

**Related practices of PricewaterhouseCoopers**

Tax compliance services	82
<b>Total remuneration for taxation services</b>	<b>82</b>

**3. Other advisory services**

**Related practices of PricewaterhouseCoopers**

Other advisory services	488
<b>Total remuneration for other advisory services</b>	<b>488</b>
<b>Total remuneration for non-audit services</b>	<b>3,476</b>

**ROUNDING OF AMOUNTS**

The Company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission relating to the "rounding-off" of amounts in the Directors' Report and Financial Report. In accordance with the Class Order, reported amounts have been rounded to the nearest \$1,000, unless otherwise indicated.

**CORPORATE GOVERNANCE**

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of the Company support, and have adhered to, the principles of corporate governance set out in the Company's Corporate Governance Statement.

**AUDITOR'S INDEPENDENCE DECLARATION**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 60 and forms part of this report for the year ended 30 June 2008.

**RESOLUTION OF DIRECTORS**

This report is made in accordance with a resolution of the Directors.



Kerry Roxburgh  
Chairman

Sydney, 28 August 2008



## INTRODUCTION

This statement reflects Babcock & Brown Capital's ("BCM") corporate governance framework as at 27 August 2008. A copy of this statement and other documents (or summaries thereof) can be accessed and downloaded from the Corporate Governance section on our website at [www.babcockbrowncapital.com](http://www.babcockbrowncapital.com).

The BCM Board is responsible for overseeing the rights and interests of all investors and is accountable to them for the overall governance and management of BCM. The BCM Board formulates and approves the strategic direction, investment objectives and goals of BCM.

The establishment of a sound framework of corporate governance and the implementation of the corresponding governance culture and processes throughout BCM is one of the primary responsibilities of the Board. The Board recognises it is accountable to Shareholders for the performance of BCM and, to that end, are responsible for instituting and ensuring BCM maintains a system of corporate governance that operates in the best interests of Shareholders while also addressing the interests of other key stakeholders. A comprehensive corporate governance framework and good governance policies and procedures can add to the performance of BCM, the creation of Shareholder value and engender the confidence of the investment community.

The ASX Limited's Corporate Governance Council issued in August 2007 a revised set of guidelines entitled *Corporate Governance Principles and Recommendations*. These guidelines articulate eight core principles ("ASX Principles") the Council believes underlie good corporate governance, together with 27 recommendations ("ASX Recommendations") for implementing effective corporate governance.

The ASX Listing Rules require listed entities such as BCM to include a statement in their annual report disclosing the extent to which they have followed the eight ASX Principles and 27 ASX Recommendations during the reporting period, identifying any ASX Recommendations that have not been followed and giving reasons for that variance. BCM's Corporate Governance Statement is structured with reference to the ASX Recommendations. Areas not fully complied with are disclosed under the relevant principle. All of the corporate governance practices referred to herein were in place for the entire year ended 30 June 2008 unless otherwise indicated.

In addition, the Babcock & Brown Group, of which the Manager is a member, recognises that effective and transparent governance practices within the funds which it manages are essential to the preservation of shareholders' and stakeholders' interests and the continued success of those funds. To this end, Babcock & Brown Limited has established a robust corporate governance framework for the management of the Babcock & Brown specialised funds. This framework includes a number of key principles for the governance of those funds with a view to protecting the interests of each fund's shareholders and other stakeholders. A summary of the corporate governance framework adopted by Babcock & Brown can be found on pages 108 to 111 of the Babcock & Brown Limited 2007 Annual Report. The Manager has had close regard to this framework in assisting the BCM Board to formulate its respective corporate governance practices.

## COMPLIANCE WITH THE ASX RECOMMENDATIONS

As at the date of this Corporate Governance Statement, the Boards of BCM advise that its corporate governance practices are in compliance with the Recommendations, except where specifically noted in this Corporate Governance Statement.

### ACHIEVEMENTS IN 2007/2008:

- The BCM Board undertook a detailed review of the BCM corporate governance framework and has revised a number of its Charters and Policies.
- The BCM Board has elected to "adopt early" the ASX's revised Corporate Governance Principles and Recommendations which took effect from 1 January 2008.

## ASX PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Companies should establish and disclose the respective roles and responsibilities of board and management.

### Role of the BCM Boards and Management

**ASX Recommendation 1.1: Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.**

The BCM Board is assisted in its management of the affairs of BCM by the Manager, Babcock & Brown Capital Management Pty Ltd ("BBCM"). In accordance with the Management Agreements with BCM, the Manager provides comprehensive management services to BCM. These services include identifying and recommending investment opportunities for BCM, managing BCM's investments and advising in respect of any exit from those investments. In addition to these more strategic services, the Manager has specific operational management duties and carries out management services of BCM on a day-to-day basis. The Manager's appointment by BCM is exclusive and is for a term of 25 years from its appointment in 2005. This arrangement is commonly referred to as an "externally managed" fund.

## CORPORATE GOVERNANCE STATEMENT

Under the Management Agreement, BBCM as Manager has established a Dedicated Management Team comprising individuals performing the following functions: chief investment officer, chief financial officer and other accounting, tax and treasury personnel; chief operating officer and other operations management personnel; corporate counsel; company secretary; investor relations; and risk and compliance personnel. The CEO or equivalent leads the management team which reports to the Board of BCM. As an externally managed entity, the management team also effectively acts in the same capacity for BCM as in its appointed functional role for BBCM as Manager.

The Management Agreement contains provisions which require the Manager, as a primary obligation, to give priority to the interests of BCM and, consequently, the BCM Shareholders. In accordance with the terms of the Management Agreement, the BCM Board must consider any recommendations put to it by the Manager and determine whether the recommended action is in the best interests of BCM Shareholders.

The BCM Board has adopted a formal *Board Charter* which details the functions and responsibilities of the Board and distinguishes such functions and responsibilities from those which have been delegated to the Manager. A summary of the Board Charter is available in the Corporate Governance section on BCM's website at [www.babcockbrowncapital.com](http://www.babcockbrowncapital.com).

As outlined in the Board Charter, the Board is responsible for the management of the affairs of the Company, including:

- developing, approving and monitoring the corporate strategy, financial plans and objectives of BCM;
- evaluating, approving and monitoring the annual budgets and business plans;
- determining BCM's dividend policy and approving major capital expenditure, capital management and all major acquisitions, divestitures and corporate transactions of BCM;
- approving all accounting policies, financial reports and material reporting of BCM;
- appointing, monitoring and removing the Chairman and other members of the Board, the CEO or equivalent and the Company Secretary;
- reviewing and evaluating the performance of the Board, each Board Committee, and each individual Director against the relevant Charters, corporate governance policies and agreed goals and objectives;
- approving and monitoring delegations of authority;
- reviewing the performance of the Board, each Board Committee and each individual Director against the relevant Charters, corporate governance policies and agreed goals and objectives;
- ensuring that effective audit, risk management and regulatory compliance programs are in place to protect the Company's assets and shareholder value; and
- reviewing the performance and effectiveness of the Company's corporate governance policies and procedures.

The Board Charter also establishes the specific powers and responsibilities of the Chairman and the CEO or equivalent of the Management Company. The CEO or equivalent of the Management Company's powers are subject to the specific powers and authorities delegated to the Chairman and to the various Board committees and the following powers which are retained by the Board:

- contracts, commitments and capital expenditure above specified thresholds and limits determined by the Board from time to time;
- expenditure outside the ordinary course of business in excess of thresholds or limits specified by the Board for this purpose;
- major strategic decisions;
- adoption of the Company's annual budget;
- approval of financial reports and accounts which are to be lodged with any regulator, including the ASX;
- the issue of any equity securities by the Company, except under a program previously approved by the Board; and
- commencing or taking a significant step in major litigation.

The Board has delegated a number of these responsibilities to its Committees. The responsibilities of these Committees are detailed in Principle 2 below.

The Board Charter also sets out the specific powers and responsibilities of the Chairman and the CEO or equivalent (see Principle 2 below).

The Board Charter also includes a summary of the responsibilities of each Director. To assist Directors to understand BCM's expectations of them, all Independent Directors have been provided with copies of the Board Charter and policies. Non-Independent Directors have formal letters governing their employment through the Babcock & Brown Group.

**ASX Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives.**

The Nomination, Governance & Remuneration Committee of the BCM Board has responsibilities relating to the review and monitoring of the performance of the BCM Board, the Chairman, the Managing Director and other individual members of the BCM Board.

The review of the performance of the BBCM Fund Management teams is undertaken by the Manager. In respect of the most senior executives, the outcome of such review is also discussed with the Nomination, Governance & Remuneration Committee.

The Remuneration Report contains details of Babcock & Brown's remuneration philosophy and policies including other key performance conditions that are assessed in determining the total remuneration of the Chief Executive Officer and other key management personnel in the BBCM Fund Management Team.

A performance evaluation for the CEO or equivalent and other key management personnel in the BBCM Fund Management team was undertaken in relation to the year ended 30 June 2008 and details of their total remuneration including bonuses are set out in the Remuneration Report.

**ASX PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE**

Companies should have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

**Structure of the Board**

**ASX Recommendation 2.1: A majority of the board should be independent directors.**

The size and composition of the BCM Board is determined in accordance with the Constitution of BCM and the governance framework applied by Babcock & Brown to its specialised fund activities, as in force from time to time. It is intended that the BCM Board will comprise Directors with a broad range of skills, expertise and experience from a diverse range of backgrounds, and will comprise either a majority of Independent Directors or, at a minimum, an equal number of Independent and Non-Independent Directors.

The BCM Board is comprised of Directors with a broad range of skills, expertise and experience from a diverse range of backgrounds. The BCM Board considers that collectively, the Directors have the range of skills, experience and expertise necessary to appropriately govern BCM.

Details of the Directors' skills, experience and expertise relevant to their position and their term in office and details of their attendance at Board and/or Committee meetings are set out in the Directors' Report on pages 30 to 32.

The Directors appointed to the BCM Board, along with their appointment dates, are set out below:

Name	Position	Appointed	Resigned
Kerry Roxburgh	Independent Non-Executive Chairman	9 Feb 2006	
Gregory Clark	Independent Non-Executive Director	4 Aug 2006	
Andrew Love	Independent Non-Executive Director	21 Apr 2008	
Phillip Green	Non-Executive Director	8 Dec 2004	
Robert Topfer	Non-Executive Director	8 Dec 2004	
William Wavish	Independent Non-Executive Director	17 Dec 2004	21 Apr 2008

The continued tenure of each individual Director is subject to re-election from time to time in accordance with the Constitution of BCM.

The BCM Board has determined the independent status of each Director utilising the criteria set out in Recommendation 2.1. As shown in the table above, the BCM Board comprised a majority of Independent Non-Executive Directors during the 2008 Financial Year.

## CORPORATE GOVERNANCE STATEMENT

### Board committees and membership

The BCM Board has established committees to support an effective governance framework and to advise and support the BCM Board in carrying out its respective duties. The Chairman of each committee reports on any matters of substance at the next full Board meeting and all committee minutes are provided to the Board. The committees in existence at the date of this report are as follows:

- The BCM Audit, Risk & Compliance Committee.
- The BCM Nomination, Governance & Remuneration Committee.

Each committee has its own Charter setting out the authority under which each committee operates and the responsibilities as delegated by the BCM Board. Charters are reviewed annually and membership criteria are based on a Director's skills and experience as well as their ability to add value to the Committee.

The Board committees and their membership as at 28 August 2008 are set out in the following table:

	Audit, Risk & Compliance Committee	Nomination, Governance & Remuneration Committee
Kerry Roxburgh	✓	Chair
Andrew Love	Chair	-
Gregory Clark	-	✓
Phillip Green	-	-
Rob Topfer	-	✓
John Fanning <sup>1</sup>	✓	-

<sup>1</sup> John Fanning is not a Director of the Company. Mr Fanning is a Committee member supplied by the Management Company.

### ASX Recommendation 2.2: The chairperson should be an independent director.

Mr Kerry Roxburgh was appointed Independent Chairman on 26 July 2006.

To ensure that there is an appropriate balance in the manner in which the Directors discharge their responsibilities and an independent review of the performance of management, the BCM Board has:

- established an Audit, Risk & Compliance Committee comprising of a majority of Independent Directors and a Nomination, Governance & Remuneration Committee comprising of a majority of Independent Directors;
- established protocols for dealing with conflicts of interest. In particular, the BCM Board has put in place a range of internal policies designed to ensure that the interests of Shareholders are at all times preferred to those of Directors and that any actual or potential conflicts of interest are promptly disclosed and dealt with by the Directors. These include the Board Charter, the Code of Conduct, the Security Trading Policy and the Employee Investment Policy;
- ensured that significant matters affecting BCM are reserved for consideration by the full Board, for example major strategic decisions, capital expenditure above specified thresholds and expenditure outside the ordinary course of business; and
- any Director is entitled to seek independent professional advice (including, but not limited to, legal, accounting and financial advice) at the Company's expense on any matter connected with the discharge of his or her responsibilities, in accordance with the procedures set out in the Board Charter. No Director availed himself of this right during the year.

### ASX Recommendation 2.3: The roles of chair and chief executive officer should not be exercised by the same individual.

The roles of Chairman and CEO or equivalent are not exercised by the same individual for BCM. The Board Charters provide that the roles of the Chairman and CEO or equivalent must not be exercised by the same person. The respective roles and responsibilities of the Chairman and the CEO or equivalent are described in the Board Charter.

### ASX Recommendation 2.4: The board should establish a nomination committee.

The BCM Board has established a Nomination, Governance & Remuneration Committee which is responsible for advising the BCM Board on the composition of the Board and its Committees, reviewing the performance of the Board, its Committees and individual Directors and advising the Board on appropriate corporate governance standards and policies. In making recommendations to the BCM Board regarding the appointment of Directors, the Nomination, Governance & Remuneration Committee periodically assesses the appropriate mix of skills, experience and expertise required on the relevant Board and assesses the extent to which those skills and experience are represented. The Nomination, Governance & Remuneration Committee will review the composition of the BCM Board to ensure it remains appropriate.

The Nomination, Governance & Remuneration Committee is comprised of three members and has a majority of Independent Non-Executive Directors. The Committee is chaired by an Independent Non-Executive Director.

The attendance of the Committee members at Committee meetings is disclosed in the Directors' Report.

The Nomination, Governance & Remuneration Committee was established on 30 May 2008 (it was previously two Committees: Nomination & Governance Committee and the Remuneration Committee). The Nomination & Governance Committee met once during the 2008 Financial Year and the Remuneration Committee met twice during the 2008 Financial Year.

The Nomination, Governance & Remuneration Committee has adopted a Charter, a summary of which is available on BCM's website. The responsibilities of the Committee pursuant to its Charter include:

#### **Nomination**

In relation to its nomination function the Committee will:

- critically review the performance and effectiveness of the Chairman of the Board, the Board and the permanent Committees of the Board and their individual members;
- have oversight of the BCM Board's annual performance evaluation process;
- regularly review the time required from an Independent Non-Executive Director and whether Directors are meeting this requirement. An Independent Non-Executive Director should inform the Chairman and Committee before accepting any new directorships;
- establish eligibility and appointment criteria for Board membership;
- review and make recommendations to the BCM Boards as appropriate on the composition, strategic function and size of the BCM Boards;
- having regard to desired composition of and the skills represented on the Board, identify and make recommendations to the BCM Board on candidates considered appropriate for appointment as Directors, and make recommendations to the BCM Boards on whether the Board should support the re-appointment of any retiring Director;
- periodically assess the skills required to competently discharge the BCM Board's duties and obligations, and make recommendations to the Chairman about how those skill levels could be enhanced;
- maintain an appropriate induction program for new Directors and a plan for identifying, assessing and enhancing Director competencies;
- provide confirmation of the Directors to retire annually by rotation in accordance with the provisions of the Constitution of BCM;
- identify any specific responsibilities of individual BCM Board members, including the Chairman of the Board; and
- provide input to the Manager with regard to succession planning for the CEO and other key management personnel in the BBCM Fund Management Team.

#### **Governance**

- review development in corporate governance in Australia and internationally that may be relevant to the Group and to the expectations of the investor market and other stakeholders;
- monitor the corporate governance requirements of regulators, including the Australian Securities and Investments Commission and the Australian Securities Exchange;
- review ethical guidelines and standards for Directors;
- advise the Board on corporate governance standards, and on the adoption or amendment of corporate governance policies that would be appropriate for the Group;
- review annually the Group's compliance with its corporate governance policies and procedures, and report to the Board on the results of the review together with any recommendations of the Committee; and
- assist the Board to prepare the Group's corporate governance disclosure statements in its Annual Report.

#### **Remuneration**

- consult with the Manager in respect of the key performance indicators for the CEO and other key management personnel in the BBCM Fund Management Team, and provide input and advice about their remuneration;
- approve BCM's remuneration disclosures; and
- make recommendations to the BCM Board in relation to the level of remuneration to be paid to Independent Directors.

## CORPORATE GOVERNANCE STATEMENT

### **ASX Recommendation 2.5: Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.**

The Nomination, Governance & Remuneration Committee informs the BCM Board of the names of Directors who are retiring in accordance with the provisions of the Constitution of the Company and makes recommendations to the Board as to whether it should support the re-nomination of such retiring Directors. In order to make such recommendations, that Committee first reviews the retiring Director's performance during the period in which the Director has been a member of the BCM Board.

The Nomination, Governance & Remuneration Committee also reviews the membership and performance of the various committees established by the Board and makes recommendations to the BCM Board in that regard. A member of the Committee will not participate in the review of their own performance and must not be present for discussions at a Committee meeting on, or vote on a matter regarding, his or her election, re-election or removal.

The Nomination, Governance & Remuneration Committee will undertake a performance evaluation of the Board as a whole, its committees and individual members for the 2008 financial year. Each Director will complete a detailed questionnaire that will be consolidated by the Company Secretary and the BCM Board as a whole reviewed the findings.

The Nomination, Governance & Remuneration Committee is also responsible for establishing and facilitating an induction program for new Directors and making available to them sufficient information and advice to allow them to participate fully and actively in Board decision-making at the earliest opportunity.

The BCM Board and its Committees may seek advice from independent experts whenever it is considered appropriate. As noted above, individual Directors, with the consent of the Chairman, may seek independent professional advice on any matter connected with the discharge of their responsibilities, at the Group's expense.

### **ASX PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING**

Companies should actively promote ethical and responsible decision-making.

#### **Code of Conduct**

#### **ASX Recommendation 3.1: Companies should establish a code of conduct and disclose the code or a summary of the code.**

The BCM Board is committed to delivering strong returns and Shareholder value while also promoting Shareholder and general market confidence in BCM and to fostering an ethical and transparent culture within BCM.

To this end, the BCM Board has adopted a formal Code of Conduct which is designed to ensure that:

- high standards of corporate and individual behaviour are observed by all Directors and Babcock & Brown employees seconded to the Manager in the context of their employment and in relation to all of BCM's activities; and
- Babcock & Brown employees seconded to the Manager are aware of their responsibilities to BCM under their contract of employment with Babcock & Brown and always act in an ethical and professional manner and in the best interests of BCM Shareholders.

The Code of Conduct requires Directors and Babcock & Brown employees seconded to the Manager, among other things, to:

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

The Code of Conduct requires Directors, the Manager and Babcock & Brown employees seconded to the Manager, to report any actual or potential breach of the law, the Code of Conduct or other BCM policies. In accordance with Babcock & Brown's Whistleblowing Policy, BCM promotes and encourages ethical behaviour and provides protection for those who report violations. A copy of the Code of Conduct is available on BCM's website.

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

BCM recognises that it has a number of legal and other obligations to its non-shareholder stakeholders, including employees, clients and the wider community.

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

In accordance with its Code of Conduct, Babcock & Brown aims to provide a work environment in which all employees (including those seconded to the Manager entities of each of its managed funds) can excel regardless of race, religion, age, disability, gender, sexual preference or marital status. In this regard, Babcock & Brown maintains various policies relating to the workplace, including in respect of non-discrimination and occupational health and safety issues.

These principles of fairness, honesty and propriety are essential elements of the various policies which have been adopted by BCM.

### **Security Trading Policy**

**ASX Recommendation 3.2: Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.**

BCM has implemented a formal Securities Trading Policy which regulates the manner in which Directors and employees seconded to the Manager can buy or sell BCM securities, and requires they conduct their personal investment activities in a manner that is lawful and avoids conflicts between their own interests and those of BCM.

The policy is specifically designed to raise awareness and minimise any potential for breach of regulations relating to insider trading contained in the Corporations Act. The policy is also designed to minimise the chance that misunderstandings or suspicions arise regarding employees seconded to the Manager trading while in possession of non-public price-sensitive information. The policy is applicable to all BCM Directors and employees seconded to the Manager, as well as key Executives of BCM's subsidiary companies.

The policy specifies trading windows as the periods during which trading in BCM securities can occur. These trading windows will generally be for a period of up to eight weeks following the release of BCM's full-year or half-year results, up to eight weeks following BCM's Annual General Meeting, and the offer period under any prospectus or similar offer document. Trading is prohibited despite a window being open if the relevant person is in possession of non-public price-sensitive information regarding BCM. The BCM Board may authorise the opening of trading windows at other times. The CEO or equivalent and other key management personnel of the Manager are required to notify the Company Secretary (who in turn notifies the Chairman) of any proposed trading by them in securities issued by BCM and the details of any completed trades.

Further, Babcock & Brown also has a policy which regulates the manner in which its Directors and employees may buy or sell shares in other companies, which may be affected by the activities of Babcock & Brown (including BCM). This policy is called the Employee Investment Policy.

A copy of BCM's Securities Trading Policy is available on BCM's website.

### **ASX PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING**

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

#### **Audit, Risk & Compliance Committee**

**ASX Recommendation 4.1: The board should establish an audit committee.**

The BCM Board is committed to the basic principle that BCM's Financial Reports are true and fair and comply with the relevant accounting standards. To assist the BCM Board with this commitment, an Audit, Risk & Compliance Committee of the BCM Board has been established which is responsible for advising the BCM Board on internal controls and appropriate standards for the financial management of BCM. It is the BCM Board's responsibility to ensure that an effective internal control system is in place across BCM. This includes internal controls to deal with both the effectiveness and the efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information. The BCM Board has delegated the responsibility for the establishment and maintenance of the Company's system of internal control to the Audit, Risk & Compliance Committee.

The Committee oversees the financial reporting process, the systems of internal control and risk management, the audit process and the Company's processes for monitoring compliance with laws and regulations.

The Audit, Risk & Compliance Committee provides advice to the BCM Board and reports on the status of the business risks to BCM through its risk management processes aimed at ensuring risks are identified, assessed and properly managed.

The Committee works on behalf of the BCM Board with the external auditor and reviews non-audit services provided by the external auditor to confirm that they are consistent with maintaining external audit independence.

## CORPORATE GOVERNANCE STATEMENT

### **ASX Recommendation 4.2: The audit committee should be structured so that it:**

- consists only of non-executive directors;
- consists of a majority of independent directors;
- is chaired by an independent chair, who is not the chair of the board; and
- has at least three members.

The Audit, Risk & Compliance Committee is comprised of a majority of Independent Non-Executive Directors.

The attendance of the Committee members at Committee Meetings is disclosed in the Directors' Report.

For the period 1 July 2007 to 21 April 2008, the BCM Audit, Risk & Compliance Committee comprised William Wavish (Independent Non-Executive Committee Chairman), Kerry Roxburgh (Independent Non-Executive Committee Member) and William Stevens (independent audit professional). On 21 April 2008, Andrew Love replaced William Wavish as the Independent Non-Executive Committee Chairman and on 30 June 2008, John Fanning replaced William Stevens. All members possess the requisite financial expertise.

The structure of BCM's Audit, Risk & Compliance Committee accords with ASX Recommendation 4.2 in all matters (except that it contains an executive) that the Committee comprises a majority of Independent Directors, has an Independent Chairman who is not the Chairman of the BCM Board and has at least three members. Mr Fanning is not a Director of BCM. He is an employee of Babcock & Brown Limited and Chairman of the eircom and Golden Pages Audit Committees. The Board believes he is an appropriate appointment to the BCM Audit, Risk & Compliance Committee on this basis.

The BCM Audit, Risk & Compliance Committee generally meets as required but normally meets not less than four times per year. The BCM Audit, Risk & Compliance Committee reports to the full BCM Board following each Committee meeting, including making any recommendations that require Board approval or action.

### **ASX Recommendation 4.3: The audit committee should have a formal charter.**

The BCM Audit, Risk & Compliance Committee has adopted a Charter. The responsibilities of the Committee pursuant to its Charter include:

#### **Financial reports for the half-year and full year**

- review and consider the financial reports for the half-year and full year;
- consider in connection with the half-year and full year financial reports the CEO and CFO (or equivalents) letter of representation to the BCM Board;
- review the financial sections of the Annual Report and related regulatory filings before release; and
- review with management and the external auditors the results of the audit.

#### **Internal control**

- review the effectiveness of BCM's internal controls regarding all matters affecting BCM's financial performance and financial reporting, including information technology security and control; and
- review the scope of internal and external auditor's review of internal control, review reports on significant findings and recommendations, together with Management's responses, and recommend changes from time to time as appropriate.

#### **Internal audit**

- review with the Manager and the internal auditor, the charter, plans and activities of the internal audit activity;
- meet with the internal auditor to review reports and monitor management response;
- meet separately, at least once a year, to discuss any matters that the Committee or internal audit believes should be discussed privately;
- review the effectiveness of the internal audit activity; and
- ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement or dismissal of the internal auditor by management.

#### **External audit**

- review the external auditors' proposed audit scope and approach;
- meet with the external auditors to review reports, and meet separately, at least once a year, to discuss any matters that the Committee or auditors believe should be discussed privately;
- recommend to the BCM Board policies regarding independence of the external auditor;
- review and confirm the independence of the external auditors; and
- review the performance of the external auditors, and consider the re-appointment and proposed fees of the external auditor and, if appropriate, conduct a tender of the audit for the review of the BCM Board. Any subsequent recommendation following the tender for the appointment of an external auditor will be put to the BCM Board.

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#### Compliance

- consider the work plan for BCM compliance activities;
- obtain regular updates from the Compliance Manager and the Legal Counsel regarding compliance matters;
- review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance;
- review the findings of any examinations by regulatory agencies; and
- review the process for communicating to BCM personnel, and for monitoring compliance with the BCM Code of Conduct.

#### Risk management

- oversee the development of risk management policies and review BCM's overall risk management framework and its effectiveness in meeting sound corporate governance principles and keep the BCM Board informed of all significant business risks;
- review with the Manager the system for identifying, managing and monitoring the key risks of BCM;
- obtain reports from management on the status of any key risk exposures or incidents; and
- obtain annually a report from management on the status and coverage of the insurance policies for BCM.

#### Reporting responsibilities

- regularly report to the BCM Board about Committee activities, issues and related recommendations;
- provide an open avenue of communication between internal audit, the external auditors and the BCM Board. For the purpose of supporting the independence of their function, the external auditor and the internal auditor have a direct line of reporting access to the Committee;
- report annually to the Shareholders on matters relating to Committee responsibilities as required by law or the ASX Listing Rules; and
- review any other reports the Company issues that relate to Committee responsibilities.

The Committee meets at least four times a year and reports to the full Board following each meeting, including in respect of recommendations of the Committee that require BCM Board approval or action.

#### Internal audit

The BCM Board has overall responsibility for BCM's systems of internal control, supported by the Audit, Risk & Compliance Committee and the Manager.

BCM did not have an internal audit function during the period to 30 June 2008. However, at the investment level, eircom, BCM's largest investment does have an in-house central corporate internal audit function. For all other investments, BCM assesses the requirement for internal audit on a case-by-case basis.

BCM has compared its Risk Management Framework to the ASX Corporate Governance Guidelines and is satisfied that it is achieving the structure outlined in the guidelines. Following this review the BCM Audit, Risk & Compliance Committee has determined that BCM would not benefit from an internal audit function. Under the oversight of the BCM Risk Manager, BCM continued to enhance the BCM Risk Management Framework during the year, with each of BCM's subsidiary companies further developing a Risk Management Plan to further strengthen its control framework (refer to Principle 7 below).

To assist the BCM Board and the Audit, Risk & Compliance Committee to discharge their respective responsibilities, the CEO and the CFO or equivalents of both eircom and Golden Pages are required to provide the BCM Board with a letter of representation in connection with the half-year and full-year Financial Statements of BCM. Such letter of representation confirms to the BCM Board that BCM's financial reports present a true and fair view, in all material respects, of BCM's financial condition and operational results and are in accordance with relevant accounting standards. The letter describes the process and evidence that the CEO and CFO or equivalent have adopted to satisfy themselves on these matters.

In respect of the 12 months ended 30 June 2008, the CEO and CFO provided such a letter to the Board (refer to "CEO's and CFO's Declaration" in the Directors' Report).

A summary of the Audit, Risk & Compliance Committee Charter is available in the Corporate Governance section on BCM's website.

#### Achievements in 2007/2008:

- The BCM Board undertook a detailed review of the Audit, Risk & Compliance Committee Charter; and
- A detailed review of BCM's Risk Management Framework.

## CORPORATE GOVERNANCE STATEMENT

### **ASX PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE**

Companies should promote timely and balanced disclosure of all material matters concerning the company.

#### **Continuous Disclosure Policy**

**ASX Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.**

BCM is committed to complying with its continuous disclosure obligations pursuant to the Corporations Act and the ASX Listing Rules. BCM's Continuous Disclosure & Communications Policy is designed to ensure that all investors have equal and timely access to material information concerning the Company. BCM has complied at all times with the ASX Listing Rules on continuous disclosure.

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

A Continuous Disclosure & Communications Committee comprised of the Chairman, Directors and senior Executives operates pursuant to the Continuous Disclosure & Communications Policy. The Continuous Disclosure & Communications Committee is responsible for reviewing information which is or may be material, making disclosures to the ASX and issuing media releases and other written public statements on behalf of BCM.

In addition, the BCM Board is actively and regularly involved in discussing disclosure obligations in respect of all major matters that come before it.

The Company Secretary is primarily responsible for communications with the ASX and for overseeing and maintaining the Continuous Disclosure & Communications Policy.

A summary of the Continuous Disclosure & Communications Policy is available in the Corporate Governance section on BCM's website.

#### **Continuous disclosure processes**

The specific processes adopted by BCM in relation to its continuous disclosure responsibilities are as follows:

- website: all information released to the ASX is posted on the Investor Information section of BCM's website as soon as practicable;
- authorised spokespersons: communication with the media, share analysts and the market generally in relation to BCM activities will normally be undertaken only by the Chairman, CEO or Head of Investor Relations;
- media releases: no media release of a material nature is to be issued unless it has first been sent to the ASX; and
- analyst and investor briefings: BCM recognises the importance of the relationship between BCM, investors and analysts. From time to time BCM conducts analyst and investor briefings and in these situations the following protocols apply:
  - no price-sensitive information will be disclosed at these briefings unless it has been previously, or is simultaneously, released to the market;
  - questions at these briefings that relate to price-sensitive information not previously disclosed will not be answered; and
  - if any price-sensitive information is inadvertently disclosed, it will immediately be released to the ASX and placed on BCM's website.

#### **Achievements in 2007/2008:**

- BCM made 149 ASX announcements in the 2008 financial year; and
- An email alert system was introduced to notify retail investors when an announcement was released to the ASX.

### **ASX PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS**

Companies should respect the rights of Shareholders and facilitate the effective exercise of those rights.

#### **Communications with Shareholders**

**ASX Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.**

Consistent with our Continuous Disclosure & Communications Policy, BCM is committed to communicating with its Shareholders in an effective and timely manner to provide them with ready access to information relating to BCM. In this regard, BCM maintains a website ([www.babcockbrowncapital.com](http://www.babcockbrowncapital.com)) which provides access to the following information of interest to BCM Shareholders:

- detailed information regarding the Board, Executive Management and the business groups and activities of BCM;
- all BCM announcements and media releases, which are posted to the website promptly following release;
- copies of full-year and half-year financial reports;

- summaries of Board and Committee Charters and relevant corporate governance policies;
- copies of BCM's Annual Reports;
- copies of disclosure documents relating to BCM's capital raisings; and
- the website of BCM's Share Registry, Link Market Services, including a facility for Shareholders to amend their particulars.

BCM encourages Shareholders to utilise its website as their primary tool to access shareholder information and disclosures. In addition, the Annual Report facilitates the provision to Shareholders by BCM on a yearly basis of detailed information in respect of the major achievements, financial results and strategic direction of BCM.

BCM has a practice that information to be given by BCM at analyst briefings is first released to the ASX to ensure that the market operates on a fully informed and equal basis.

Shareholders are strongly encouraged to attend and participate in general meetings of BCM, especially the Annual General Meeting. BCM provides Shareholders with details of any proposed meetings well in advance of the relevant dates.

BCM's external auditor is always requested to attend the Annual General Meeting and be available to answer Shareholder questions about the conduct of the audit and the preparation and content of the Auditor's Report. This allows Shareholders an opportunity to ask questions of the auditor and reinforces the auditor's accountability to Shareholders.

**Achievements in 2007/2008:**

- BCM adopted the policy of electronic distribution of Shareholder communications unless a Shareholder requests hard copy.

**ASX PRINCIPLE 7: RECOGNISE AND MANAGE RISK**

Companies should establish a sound system of risk oversight and management and internal control.

**Risk Management Policy**

**ASX Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.**

Management of risk, particularly preservation of capital, continues to be a primary objective of BCM in all its business activities. BCM is committed to ensuring that its system of risk oversight, management and internal control complies with the ASX Principles and that its culture, processes and structures facilitate realisation of BCM's business objectives, including potential opportunities, while managing adverse effects and preserving capital.

The BCM Board is ultimately responsible for overseeing and managing the material risks of BCM. The BCM Audit, Risk & Compliance Committee assists them in this role. In accordance with its Charter, the role of the BCM Audit, Risk & Compliance Committee includes reviewing and managing the system for identifying, managing and monitoring the key risks of BCM and obtaining reports from the Manager on the status of any key risk exposures or incidents. In undertaking these responsibilities, the Committee principally relies on the resources and expertise of the Manager to implement and report upon the risk management systems and procedures implemented, such that the Committee is able to keep the BCM Board informed of all material business risks.

BCM undertakes regular reviews of its risk management framework and has adopted a Risk Management Policy consistent with Australia/New Zealand Standard 4360, which clearly defines responsibilities for managing risk under BCM's risk management process. The material risks of BCM's business, including operational, financial, market and regulatory compliance risks have been identified and are required to be regularly managed, monitored and reported. Methods for treating and mitigating risks include transferring, reducing, accepting or passing on risk following assessment using a variety of methods. A summary of the Risk Management Policy is available on BCM's website.

The BCM Audit, Risk & Compliance Committee includes among its responsibilities:

- consideration of the overall risk management framework of BCM and the review of its effectiveness in meeting sound corporate governance principles;
- keeping the BCM Board informed of all significant business risks;
- reviewing in conjunction with the Manager the system for identifying, managing and monitoring the key risks of BCM; and
- obtaining reports from the Manager on the status of any key risk exposures or incidents.

The role of the Manager also plays an important part in the management of risk. In accordance with the Management Agreement, the Manager first reviews, evaluates and recommends substantial investments before they are considered by the BCM Board.

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## CORPORATE GOVERNANCE STATEMENT

One of the cornerstones of BCM's risk management approach is a well defined system of delegated authorities with respect to the commitment of capital and an investment approval process which brings rigour to the selection, assessment and approval of investment risks assumed under BCM's principal investment activities. Matters such as legal, accounting, tax and general risk assessment issues are considered in each case. In addition to requiring a recommendation from the Manager for all investment decisions, the Manager's most senior Executives are involved in major investment decisions, and all capital investments above specified thresholds require approval of the BCM Board.

**ASX Recommendation 7.2: The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.**

Under the direction of BCM's Risk Manager, BCM has continued to enhance its risk management framework. BCM's risk function plays a key role in developing and building an approach to assist the BCM Board and subsidiary companies in identifying, monitoring and treating risk and in reporting material risks to the Audit, Risk & Compliance Committee.

BCM's Compliance Manager promotes a compliance conscious culture while ensuring BCM complies with regulatory requirements across its businesses, functions and Group entities.

To facilitate monitoring and evaluation of the effectiveness of internal controls, BCM has established accounting policies, reporting and risk management and compliance systems to keep the Audit, Risk & Compliance Committee informed of strategic, reputational, financial and operational risks facing the Group.

**ASX Recommendation 7.3: The board should disclose whether it has received assurance from the CEO (or equivalent) and the CFO (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.**

As outlined above, and in accordance with Recommendation 7.3, the CEO or equivalent and CFO or equivalent have stated to the Board in writing that internal compliance and control systems applicable to the Group's business lines and functional groups were operating efficiently and effectively in all material respects during the period to 30 June 2008 (see the "Chief Executive Officer's and Chief Financial Officer's Declaration" in the Directors' Report).

### **ASX PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY**

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

#### **Remuneration Policy**

The remuneration policies of BCM have been structured to be competitive in the industry and global marketplace and to ensure that BCM can attract and retain the talent needed to achieve both short and long-term success, while maintaining a strong focus on teamwork, individual performance and the interests of Shareholders.

The Non-Independent Directors of BCM, Mr Green and Mr Topfer, were employees of the Babcock & Brown Group. Similarly, employees who are secondees to the Manager are also employees of the Babcock & Brown Group. As such, all of these people are remunerated not by BCM but rather by the Babcock & Brown Group.

The policies and principles which are applied to determine the nature and amount of remuneration paid to the Directors and Key Management Personnel of BCM are set out in detail in the Remuneration Report.

Total remuneration of Non-Independent Directors and Manager secondees by the Babcock & Brown Group is delivered through a combination of base salary, an annual performance bonus and for some Executives, through an equity incentive plan of Babcock & Brown Limited. Babcock & Brown continually reviews the remuneration philosophy and framework as it applies to BCM to ensure alignment of the interests of the Manager with those of BCM Shareholders.

The BCM Board acknowledges that the remuneration of the Non-Independent Directors by the Babcock & Brown Group is also partly determined by reference to the performance of that group and their individual performance in connection with that group. In this regard, the Board recognises that there is scope for potential conflicts of interest to arise, both in terms of the Babcock & Brown Group's dealings with BCM and in terms of the dual roles of the Non-Independent Directors and certain staff. For instance, the Babcock & Brown Group is expected to earn fees and other income from its management of and other dealings with BCM, and the remuneration of the Non-Independent Directors by the Babcock & Brown Group may be partly determined by reference to the level of such fees and income.

In such cases, the BCM Board implements steps to ensure that such conflicts of interest are declared, managed and, where practicable, removed. Such steps include ensuring that Non-Independent Directors declare an interest in circumstances where there are dealings between the Babcock & Brown Group and BCM and that, in those cases, Non-Independent Directors abstain from voting on all such matters. Other steps may include seeking independent third party advice in some cases or having matters considered by a Committee of the Board comprising solely the Independent Directors. These measures are designed to ensure that, in the event of a conflict of interest, the interests of Shareholders are given priority over the interests of the Babcock & Brown Group and the Non-Independent Directors.

### **Remuneration Committee**

#### **ASX Recommendation 8.1: The board should establish a remuneration committee.**

As noted above in relation to ASX Recommendation 2.4, in order to assist the Board in achieving fairness and transparency in relation to remuneration issues and overseeing the remuneration and human resources policies and practices of BCM, the BCM Board has established a Nomination, Governance & Remuneration Committee.

The BCM Nomination, Governance & Remuneration Committee has adopted a Charter which is available on BCM's website. The responsibilities of the Committee pursuant to the Charter in relation to remuneration include:

- making recommendations to the relevant Board for determining the level of remuneration to be applied to Non-Executive Directors of BCM. The Committee may engage external advisers to provide information to the Boards to be considered in its deliberations for the purpose of recommending an appropriate level of remuneration for Non-Executive Directors. All fees paid to Non-Executive Directors are disclosed in BCM's annual Financial Statements to the extent required by law; and
- in order to discharge its duties and responsibilities to Shareholders in respect of matters relevant to remuneration of Key Management Personnel of the Manager, the Committee will, taking into account the fact that the Manager bears ultimate responsibility for meeting its obligations under the Management Agreement and that the Key Management Personnel's remuneration is set by the Manager under Babcock & Brown Group's remuneration principles and practices:
  - a) consult with the Manager in respect of the KPIs for each of the Manager's Key Management Personnel as determined by the Manager and provide feedback to the Manager about their respective performance against such KPIs;
  - b) provide input and advice to the Manager about remuneration of Key Management Personnel or other individuals, as requested by the Manager, based on the Babcock & Brown Group's remuneration principles and practices;
  - c) approve the Remuneration Report to be disclosed in the BCM annual Directors' Report;
  - d) monitor any amendments to the Babcock & Brown Group's remuneration principles and practices to the extent that they affect BCM and report such amendments to the BCM Board as appropriate;
  - e) consider for approval the formulation of any LTIP recommended by the Manager involving the issue of BCM Securities; and
  - f) monitor and review any LTIP for compliance with changes to legislation, regulation and market expectations or practices.

The BCM Nomination & Remuneration Committee consists of three members, a majority of whom are Independent Directors of BCM. The members of the Committee as at the date of this statement are Kerry Roxburgh (Chairman), Gregory Clark and Robert Topfer.

### **Non-Executive Director Remuneration**

#### **ASX Recommendation 8.2: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executives.**

The total remuneration paid to the Independent Non-Executive Directors to 30 June 2008 is set out in the Remuneration Report. Independent Non-Executive Directors are paid an annual fee according to which Board they sit on. Non-Executive Directors' fees for BCM are determined within a Non-Executive Directors' aggregate fee pool limit which has been approved by Shareholders. The maximum aggregate sum for BCM has been set at \$1,000,000 annually.

Non-Executive Directors are not provided with retirement benefits other than statutory superannuation and did not receive options or other equity incentives, or bonus payments.

Payment of Non-Independent Directors' fees is paid to the Manager and not to Mr Green or Mr Topfer. These form part of the base management fees payable to the Manager. Mr Green and Mr Topfer were employees of Babcock & Brown and are separately remunerated by Babcock & Brown.

# AUDITOR'S INDEPENDENCE DECLARATION



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## Auditor's Independence Declaration

As lead auditor for the audit of Babcock & Brown Capital Limited for the year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Babcock & Brown Capital Limited and the entities it controlled during the period.

VJ Clarke  
Partner  
PricewaterhouseCoopers

Sydney  
28 August 2008

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# Financial Statements

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## INCOME STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated		Parent	
		30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	30 June 2007 \$'000
Revenues from continuing operations	4	3,568,716	2,936,598	47,581	32,358
Other income	5	135,128	18,339	1,315	4,549
Expenses from continuing operations (excluding finance costs)	6(A)	(2,237,780)	(2,199,550)	(28,438)	(16,129)
Depreciation and amortisation expense		(660,229)	(580,085)	-	-
Impairment of goodwill		(4,273)	-	-	-
Finance costs	6(B)	(564,724)	(429,411)	-	-
Share of net profits of associates and joint venture partnerships accounted for using the equity method	14	329	1,933	-	-
<b>Profit/(Loss) before income tax</b>		<b>237,167</b>	<b>(252,176)</b>	<b>20,458</b>	<b>20,778</b>
Income tax (expense)/benefit	8	(52,880)	4,600	(6,031)	(4,480)
<b>Profit/(Loss) for the year</b>		<b>184,287</b>	<b>(247,576)</b>	<b>14,427</b>	<b>16,298</b>
(Profit)/Loss attributable to minority interest		(83,052)	115,899	-	-
<b>Profit/(Loss) attributable to members of Babcock &amp; Brown Capital Limited</b>		<b>101,235</b>	<b>(131,677)</b>	<b>14,427</b>	<b>16,298</b>
Earnings per Share for profit/(loss) attributable to the members of Babcock & Brown Capital Limited					
Basic earnings/(losses) per Share	35	52.3 cents	(65.8 cents)		
Diluted earnings/(losses) per Share	35	52.3 cents	(65.8 cents)		

The above Income Statements should be read in conjunction with the accompanying notes.

## BALANCE SHEETS

### AS AT 30 JUNE 2008

	Note	Consolidated		Parent	
		30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	30 June 2007 \$'000
<b>Current Assets</b>					
Cash and cash equivalents	9	965,943	843,636	344,023	506,941
Trade and other receivables	10	866,172	652,000	28,422	24,642
Inventories	11	22,513	23,913	-	-
Financial assets at fair value through profit or loss	12	48,392	95,849	-	-
Derivative financial instruments	13	7,522	7,839	9,409	10,840
Other assets	17	47,746	58,926	-	-
<b>Total Current Assets</b>		<b>1,958,288</b>	<b>1,682,163</b>	<b>381,854</b>	<b>542,423</b>
<b>Non-Current Assets</b>					
Trade and other receivables	10	1,867	-	-	-
Investments accounted for using the equity method	14	711	134	-	-
Derivative financial instruments	13	147,325	87,185	-	-
Property, plant and equipment	16	3,551,739	3,471,964	-	-
Deferred tax assets	18	41,376	46,496	3,277	4,956
Intangible assets	19	5,402,236	5,045,399	-	-
Other assets	17	41,477	90,335	522,000	628,585
<b>Total Non-Current Assets</b>		<b>9,186,731</b>	<b>8,741,513</b>	<b>525,277</b>	<b>633,541</b>
<b>Total Assets</b>		<b>11,145,019</b>	<b>10,423,676</b>	<b>907,131</b>	<b>1,175,964</b>
<b>Current Liabilities</b>					
Trade and other payables	20	1,349,357	1,130,164	1,631	160,702
Borrowings	21	442,656	144,003	-	-
Derivative financial instruments	13	7,910	8,748	-	-
Current tax liabilities		76,246	43,463	2,422	3,250
Provisions	22	129,892	230,640	-	-
<b>Total Current Liabilities</b>		<b>2,006,061</b>	<b>1,557,018</b>	<b>4,053</b>	<b>163,952</b>
<b>Non-Current Liabilities</b>					
Borrowings	21	6,846,544	6,658,748	-	-
Derivative financial instruments	13	2,071	-	-	-
Deferred tax liabilities	24	428,140	378,854	1,298	1,289
Provisions	22	393,725	415,931	-	-
Retirement benefit obligations	23	185,758	245,009	-	-
<b>Total Non-Current Liabilities</b>		<b>7,856,238</b>	<b>7,698,542</b>	<b>1,298</b>	<b>1,289</b>
<b>Total Liabilities</b>		<b>9,862,299</b>	<b>9,255,560</b>	<b>5,351</b>	<b>165,241</b>
<b>Net Assets</b>		<b>1,282,720</b>	<b>1,168,116</b>	<b>901,780</b>	<b>1,010,723</b>
<b>Equity</b>					
Contributed equity	25	834,450	957,026	834,450	957,026
Reserves	26(B)	101,271	74,741	26,763	27,557
Retained profits/(losses)	26(A)	1,759	(99,476)	40,567	26,140
<b>Parent entity interest</b>		<b>937,480</b>	<b>932,291</b>	<b>901,780</b>	<b>1,010,723</b>
Minority interest		345,240	235,825	-	-
<b>Total Equity</b>		<b>1,282,720</b>	<b>1,168,116</b>	<b>901,780</b>	<b>1,010,723</b>

The above Balance Sheets should be read in conjunction with the accompanying notes.

## STATEMENT OF CHANGES IN EQUITY

### FOR THE YEAR ENDED 30 JUNE 2008

Attributable to members of Babcock & Brown Capital Limited							
Consolidated	Note	Contributed equity \$'000	Reserves \$'000	Retained earnings/ (losses) \$'000	Total \$'000	Minority interest \$'000	Total equity \$'000
<b>Balance at 1 July 2006</b>		<b>957,026</b>	<b>100,445</b>	<b>(50,232)</b>	<b>1,007,239</b>	<b>-</b>	<b>1,007,239</b>
Arising on acquisition of subsidiary		-	-	-	-	350,733	350,733
Changes in the fair value of available-for-sale financial assets, net of tax	26(B)	-	4,087	-	4,087	-	4,087
Changes in the fair value of cash flow hedges, net of tax	26(B)	-	23,402	-	23,402	25,286	48,688
Changes in the fair value of net investment hedges, net of tax	26(B)	-	2,515	-	2,515	-	2,515
Adjustments resulting from the step-up acquisition entries	26(A)	-	-	82,433	82,433	-	82,433
Changes in the investment valuation reserve, net of tax	26(B)	-	(13,741)	-	(13,741)	-	(13,741)
Exchange differences on translation of foreign operation	26(B)	-	(42,684)	-	(42,684)	(24,295)	(66,979)
<b>Net (expense)/income recognised directly in equity</b>		<b>-</b>	<b>(26,421)</b>	<b>82,433</b>	<b>56,012</b>	<b>351,724</b>	<b>407,736</b>
(Loss) for year		-	-	(131,677)	(131,677)	(115,899)	(247,576)
<b>Total recognised income and expense for the year</b>		<b>-</b>	<b>(26,421)</b>	<b>(49,244)</b>	<b>(75,665)</b>	<b>235,825</b>	<b>160,160</b>
Changes in share-based payments reserve	26(B)	-	717	-	717	-	717
		-	717	-	717	-	717
<b>Balance at 30 June 2007</b>		<b>957,026</b>	<b>74,741</b>	<b>(99,476)</b>	<b>932,291</b>	<b>235,825</b>	<b>1,168,116</b>
<b>Balance at 1 July 2007</b>		<b>957,026</b>	<b>74,741</b>	<b>(99,476)</b>	<b>932,291</b>	<b>235,825</b>	<b>1,168,116</b>
Arising on acquisition of subsidiary		-	-	-	-	654	654
Changes in the fair value of cash flow hedges, net of tax	26(B)	-	25,310	-	25,310	19,023	44,333
Changes in the fair value of net investment hedges, net of tax	26(B)	-	(8,196)	-	(8,196)	-	(8,196)
Changes in the investment valuation reserve, net of tax	26(B)	-	393	-	393	-	393
Exchange differences on translation of foreign operation	26(B)	-	8,460	-	8,460	6,686	15,146
<b>Net income recognised directly in equity</b>		<b>-</b>	<b>25,967</b>	<b>-</b>	<b>25,967</b>	<b>26,363</b>	<b>52,330</b>
Profit for year		-	-	101,235	101,235	83,052	184,287
<b>Total recognised expense and income for the year</b>		<b>-</b>	<b>25,967</b>	<b>101,235</b>	<b>127,202</b>	<b>109,415</b>	<b>236,617</b>
Changes in share-based payments reserve	26(B)	-	563	-	563	-	563
Share buy-back ordinary shares		(122,576)	-	-	(122,576)	-	(122,576)
		(122,576)	563	-	(122,013)	-	(122,013)
<b>Balance at 30 June 2008</b>		<b>834,450</b>	<b>101,271</b>	<b>1,759</b>	<b>937,480</b>	<b>345,240</b>	<b>1,282,720</b>

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2008

Parent	Note	Contributed equity \$'000	Reserves \$'000	Retained earnings/ (losses) \$'000	Total equity \$'000
<b>Balance at 1 July 2006</b>		<b>957,026</b>	<b>26,836</b>	<b>9,842</b>	<b>993,704</b>
Exchange differences on translation of foreign operation	26(B)	-	4	-	4
<b>Net income recognised directly in equity</b>		<b>-</b>	<b>4</b>	<b>-</b>	<b>4</b>
Profit for year		-	-	16,298	16,298
<b>Total recognised income and expense for the year</b>		<b>-</b>	<b>-</b>	<b>16,298</b>	<b>16,298</b>
Changes in share-based payments reserve	26(B)	-	717	-	717
		-	<b>717</b>	-	<b>717</b>
<b>Balance at 30 June 2007</b>		<b>957,026</b>	<b>27,557</b>	<b>26,140</b>	<b>1,010,723</b>
<b>Balance at 1 July 2007</b>		<b>957,026</b>	<b>27,557</b>	<b>26,140</b>	<b>1,010,723</b>
Exchange differences on translation of foreign operation	26(B)	-	-	-	-
<b>Net income recognised directly in equity</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Changes in contributed equity resulting from share buy-back	25(B)	(122,576)	-	-	(122,576)
Profit for year		-	-	14,427	14,427
<b>Total recognised income and expense for the year</b>		<b>(122,576)</b>	<b>-</b>	<b>14,427</b>	<b>(108,149)</b>
Changes in share-based payments reserve	26(B)	-	(794)	-	(794)
		-	<b>(794)</b>	-	<b>(794)</b>
<b>Balance at 30 June 2008</b>		<b>834,450</b>	<b>26,763</b>	<b>40,567</b>	<b>901,780</b>

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

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## CASH FLOW STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated		Parent	
		30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	30 June 2007 \$'000
<b>Cash Flows from Operating Activities</b>					
Cash flows from operations	34	1,138,906	1,013,504	(15,957)	(8,443)
Interest received		53,491	35,563	30,284	18,314
Restructuring cost payments		(128,747)	(30,733)	-	-
Income tax paid		(1,419)	(88,805)	(899)	(3,104)
<b>Net cash inflows from operating activities</b>		<b>1,062,231</b>	<b>929,529</b>	<b>13,428</b>	<b>6,767</b>
<b>Cash Flows from Investing Activities</b>					
Payments for investments in subsidiaries		(117,624)	(2,485,013)	-	-
Payments for held-for-trading investments		-	(4,848)	-	-
Purchase of property, plant and equipment		(448,424)	(438,342)	-	-
Proceeds from sale of property, plant and equipment		-	87,850	-	-
Proceeds from sale of masts		257,925	-	-	-
Purchase of intangible assets		(96,301)	(128,940)	-	-
Proceeds from held-for-trading investments		1,869	-	-	-
Payments for available-for-sale financial assets		(31,861)	(156,526)	-	-
Proceeds received from investments in associates		49	-	-	-
Proceeds from sale of available-for-sale financial assets		31,499	196,908	-	-
Payments for derivative financial instruments		(9,333)	(9,781)	-	-
Proceeds from derivative financial instruments		4,666	17,936	-	3,308
Proceeds from repayment of intercompany borrowings		-	-	153,755	543,179
Repayment of intercompany borrowings		-	-	(214,300)	(261,529)
Withdrawal from term deposits		-	59,267	-	59,267
Dividends received		420	4,859	7,042	3,761
Payments made to investor partners		-	(1,304)	-	-
<b>Net cash outflows from investing activities</b>		<b>(407,115)</b>	<b>(2,857,934)</b>	<b>(53,503)</b>	<b>347,986</b>

The above Cash Flow Statements should be read in conjunction with the accompanying notes.

## CASH FLOW STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated		Parent	
		30 June 2008 \$'000	30 June 2007 \$'000	30 June 2008 \$'000	30 June 2007 \$'000
<b>Cash Flows from Financing Activities</b>					
Payments for share buy-back		(122,576)	-	(122,576)	-
Proceeds from borrowings		246,460	6,887,264	-	-
Repayment of borrowings		(120,964)	(3,845,468)	-	-
Redemption of preference shares		(116,885)	(137,312)	-	-
Preference share dividends paid		(10,281)	(15,438)	-	-
Payments of loan establishment and redemption fees		-	(344,857)	-	-
Lease payments		(7,888)	(8,064)	-	-
Proceeds from equity injection of minority interests		-	724,331	-	-
Payments made to investors from investment refinancing		-	(322,196)	-	-
Interest paid		(419,226)	(341,050)	-	-
<b>Net cash (outflows)/inflows from financing activities</b>		<b>(551,360)</b>	<b>2,597,210</b>	<b>(122,576)</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>103,756</b>	<b>668,805</b>	<b>(162,651)</b>	<b>354,753</b>
Cash and cash equivalents at the beginning of the financial year		843,534	188,114	506,941	151,996
Effects of exchange rate changes on cash and cash equivalents		8,529	(13,385)	(267)	192
<b>Cash at the end of financial year</b>	<b>9</b>	<b>955,819</b>	<b>843,534</b>	<b>344,023</b>	<b>506,941</b>

The above Cash Flow Statements should be read in conjunction with the accompanying notes.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (A) COMPANY STRUCTURE

The Babcock & Brown Capital Group ("the Group") consists of Babcock & Brown Capital Limited ("the Company") and its subsidiaries. The Company was listed on the Australian Stock Exchange ("ASX") on 14 February 2005. On 31 July 2007, the Group completed the acquisition of G.P.M. Classified Directories (Management & Marketing) Ltd ("GPM"). The results of GPM have been consolidated from that date in accordance with Note 1(C)(i).

The principal accounting policies adopted in the preparation of the financial report are set out below. The accounting policies adopted are consistent with those of the previous financial year and the corresponding interim reporting period with the exception of the following additional accounting policies from the acquisition of GPM. The financial report includes separate Financial Statements for BCM as an individual entity and the consolidated entity consisting of the Company and its subsidiaries.

#### (B) BASIS OF PREPARATION

This general purpose financial report presented in this report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

#### (i) Compliance with International Financial Reporting Standards ("IFRS")

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the consolidated Financial Statements and notes of the Company comply with International Financial Reporting Standards (IFRS).

#### (ii) Historical cost convention

These Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

#### (iii) Critical accounting estimates and judgements

The preparation of Financial Statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements, are disclosed in Note 3.

#### (C) PRINCIPLES OF CONSOLIDATION

##### (i) Subsidiaries

The consolidated Financial Statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2008 and the results of all subsidiaries for the year then ended. The Company and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to Note 1(H)).

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the Income Statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of identifiable net assets of the subsidiary. Minority interests in the results and equity of subsidiaries are shown separately in the Consolidated Income Statement and Balance Sheet respectively.

Intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual Financial Statements of the Company.

**(ii) Associates**

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity Financial Statements using the cost method and in the Consolidated Financial Statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (refer to Note 32).

The Group's share of its associates' post acquisition profits or losses is recognised in the Income Statement, and its share of post acquisition movements in reserves is recognised in reserves. The cumulative post acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's Income Statement, while in the consolidated financial results they reduce the carrying amount of the investment.

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

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

**(D) SEGMENT REPORTING**

A business segment is identified as a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments. The Group's primary segments are Telecommunications and Directories.

**(E) FOREIGN CURRENCY TRANSLATION****(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"). The Consolidated Financial Statements are presented in Australian dollars, which is the Company's functional and presentation currency.

**(ii) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

**(iii) Group companies**

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (F) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of rebates, duties and taxes paid.

The Group recognises revenue when the amount of the revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

##### (i) Telecommunications services revenue

Revenue is recognised in the period earned by rendering of services or delivery of products. Revenue includes sales by Group entities but excludes all inter-company sales. Traffic revenue is recognised at the time the traffic is carried over the Group's networks. Revenue from rentals is recognised evenly over the period to which the charges relate. Bundled products are accounted for in the same manner as the unbundled products comprising the bundle. The discount to standard rates is normally applied based on the relative fair value of the bundle.

Connection fee revenue is deferred over the life of the connection, which is estimated to be between three and seven years. Connection lives are reviewed annually. Revenue from equipment sold to third parties is recognised at the point of sale. Revenue arising from the provision of other services, including maintenance contracts, is recognised over the term of the contract.

Billings for telephone services are made on a monthly, bi-monthly or quarterly basis. Unbilled revenues from the billing cycle date to the end of each month are recognised as revenue during the month the service is provided.

When the Group acts as principal, bearing the risk and rewards of a transaction, revenue is recorded on a gross basis. However, when the Group acts as an agent on behalf of third parties, revenue is reported net of costs.

The Group is required to interconnect its network with other telecommunications operators. In some instances, as is normal practice in the telecommunications industry, reliance is placed on other operators to measure the traffic flows interconnecting with the Group's network. In addition, the prices at which services are charged are often regulated and can be subject to retrospective adjustment. Estimates are used in these cases to determine the amount of income receivable from, or payments required to be made to, these other operators and to establish appropriate provisions.

##### (ii) Directories revenue

###### (a) Advertising revenue

Advertising revenue relating to the Directories business, where there are ongoing obligations at the time of delivery of the related directory, is recognised under the deferral method. Under this method, revenues and expenses are recognised over the life of the related directory, generally 12 months.

Where all contractual obligations have been met, income is brought to account immediately.

###### (b) Internet service revenue

Revenue from the provision of services over the internet is recognised in two forms:

- in full when the contractual obligations are completed; or
- over the contractual or relevant period where the Company constructs a customer's website and then provides services to the customers on completion of the website.

##### (iii) Construction income

Contract costs are recognised when incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Group uses the "percentage of completion method" to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the Balance Sheet date as a percentage of total estimated costs for each contract.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs have been incurred plus recognised profit (less recognised losses).

**(iv) Interest income**

Interest income is recognised on a time proportion basis using the effective interest method.

**(v) Dividend income**

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

**(vi) Associate income**

Refer to Note 1(C)(ii) for recognition criteria on associate income.

**(G) INCOME TAX**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income 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 results, and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using rates (and laws) that have been enacted or substantially enacted by the Balance Sheet date and are expected to apply when the related income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable 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 liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same tax authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

**Tax consolidation legislation**

The Company and its wholly-owned Australian controlled entities became a tax consolidated Group as of 19 April 2005.

The head entity, Babcock & Brown Capital Limited, and the controlled entities in the tax consolidated Group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated Group continues to be a stand-alone taxpayer in its own right.

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

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details about the tax funding agreement are disclosed in Note 8(D).

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

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (H) BUSINESS COMBINATIONS

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Project and deal costs (direct and external only) are capitalised and deferred only to the extent that it is highly probable that a contract will be entered into which will result in the recognition of an asset.

Project and deal costs are assessed for recoverability at the end of each reporting period to determine the amount, if any, which should be expensed to the Income Statement.

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

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

#### (I) IMPAIRMENT OF ASSETS

Goodwill (and intangible assets) that have an indefinite useful life and are not subject to amortisation are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

#### (J) 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 and term deposit investments readily convertible to cash within two working days, net of outstanding bank overdrafts.

#### (K) TRADE AND OTHER RECEIVABLES

##### (i) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for doubtful debts. Trade receivables are generally due for settlement within 30 days.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the Group's effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the Income Statement.

##### (ii) Prepaid cost of publishing

Costs of publishing relating to directories published but not yet carried to income are deferred and presented in the Balance Sheet as a deduction from the amount of unearned income in respect of the related directories.

##### (iii) Prepaid selling expenses

Specific direct selling expenses (mainly sales commissions) relating to directories that have not yet been published and not yet carried to income, are deferred and presented in the Balance Sheet as a deduction from the amount of unearned income in respect of the related directories.

##### (iv) Prepaid website construction expenses

Costs of website construction relating to contracts where the customer has a commitment towards the Company to use its services are deferred and presented in the Balance Sheet as a deduction from the amount of the unearned income in respect of the related websites.

## **(L) INVESTMENTS AND OTHER FINANCIAL ASSETS**

### **(i) Classification**

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition. This classification may change and is subject to regular review.

### **(ii) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purposes of selling in the short-term. Derivatives are classified as held-for-trading unless they are designated as hedges. Assets in this category are classified as current assets.

### **(iii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the Balance Sheet date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the Balance Sheet (refer to Note 10).

### **(iv) Available-for-sale financial assets**

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

### **(v) Recognition and de-recognition**

Regular purchases and sales of investments are recognised on trade-date - the date on which the Group contracts to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit and loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the Income Statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the Income Statement as gains and losses from investment securities.

### **(vi) Subsequent measurement**

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

Available-for-sale financial assets and assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the Income Statement within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit and loss is recognised in the Income Statement as part of revenue from continuing operations when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to the changes in amortised cost are recognised in profit or loss, and other changes are recognised in equity. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

### **(vii) Fair value**

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

### **(viii) Impairment**

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

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (M) DERIVATIVES

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); (2) hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges); or (3) hedges of net investments in foreign operations.

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

The fair values of various derivative financial instruments used for hedging purposes are disclosed in Note 13. Movements in the hedging reserve in Shareholders' equity are shown in Note 26(B). The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

#### (i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest method is used is amortised to the Income Statement over the period to maturity using a recalculated effective interest rate.

#### (ii) Cash flow hedge

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

Amounts accumulated in equity are recycled in the Income Statement in the periods when the hedged item will affect the Income Statement (for instance when the forecast transaction that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable borrowings is recognised in the Income Statement within finance costs.

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

#### (iii) Hedge of net investment in foreign operation

The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity. The ineffective portion is recognised immediately in the Income Statement.

#### (iv) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the Income Statement and are included in other income or other expenses.

#### (N) FAIR VALUE ESTIMATION

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

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

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

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

### (O) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (excluding land and buildings) are stated at historical cost, less accumulated depreciation and impairment losses. Land is stated at deemed cost and buildings are stated at deemed cost less accumulated depreciation and impairment losses. Leasehold improvements are amortised by the straight-line method, over the lease, which is shorter than the estimated life of improvements. Cost in the case of network plant comprises expenditure up to and including the last distribution point before customers' premises and includes contractors' charges, materials and labour and related overheads directly attributable to the cost of construction.

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

Asset class	Estimated economic life (Years)
<b>Buildings</b>	40
<b>Network Plant</b>	
<b>Transmission Equipment</b>	
Duct	20
Overhead cable/poles	10-15
Underground cable	14
Other local network	6-15
<b>Exchanges</b>	
Exchange line terminations	8
Core hardware/operating software	3-4
<b>Others</b>	3-7

The Group's policy is to review the remaining economic lives and residual values of property, plant and equipment on an ongoing basis and to adjust the depreciation charge to reflect the remaining estimated life and residual value.

Fully depreciated property, plant and equipment are retained in the cost of property, plant and equipment and related accumulated depreciation until they are removed from service. In the case of disposals, assets and related depreciation are removed from the financial report and the net amount, less proceeds from disposal, is charged or credited to the Income Statement.

Assets in the course of construction represent the cost of purchasing, constructing and installing property, plant and equipment ahead of their own productive use. No depreciation is charged on assets in the course of construction. The estimated amount of interest incurred, based on the weighted average interest rate on outstanding borrowings while constructing capital projects, is capitalised.

The Group has certain obligations in relation to the retirement of assets - mainly poles, batteries and international cable. The Group also has obligations to dismantle base stations and to restore the property owned by third parties on which the stations are situated after the stations are removed. The Group capitalises the future discounted cash flows associated with these asset retirement obligations and depreciates these capitalised amounts over the useful life of the related asset.

Gains or losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income Statement. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (P) INTANGIBLE ASSETS

##### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired associate/subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity or business include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. Goodwill arising on new acquisitions will be allocated to cash generating units in accordance with the timeline permitted by AASB 3 *Business Combinations*.

##### (ii) Brand names

Brand names are carried at cost less accumulated amortisation and impairment losses. Brand names contain a mixture of finite and indefinite lived brand names. Refer to Note 19 for further details.

##### (iii) Trademarks and licences

Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives, which are between two and 25 years.

##### (iv) Customer contracts

Customer contracts acquired as part of a business combination are recognised separately from goodwill. The customer contracts are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the customer contracts over their estimated useful lives, which is estimated at between one and a half and five years.

##### (v) IT development and software

Acquired computer software licences and associated costs are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Internal costs associated with developing computer software programs are also capitalised. These costs are amortised over their estimated useful lives which is estimated at between three and four years.

Costs associated with maintaining computer software programs are recognised as an expense as incurred.

The following useful lives have been determined for the intangible assets:

	Years
Computer software	3-4
Databases and technology	6-10
Monitoring contracts	3
<b>Intangible assets from acquisitions</b>	
Pre-paid customer relationships	1.5
Post-paid customer relationships	4-10
Roaming customer relationships	5
Directories customer contracts	1-8
Brand - Meteor	12
Brands - GPM subsidiaries	10-12
GSM Licence	25
Brands - eircom fixed line and Golden Pages Israel	Indefinite

## **(Q) TRADE AND PAYABLES**

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 to 60 days of recognition.

## **(R) EMPLOYEE BENEFITS**

### **(i) Wages and salaries, annual leave and sick leave**

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

### **(ii) Long service leave**

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

### **(iii) Retirement benefit obligations**

Group companies operate various pension schemes. The schemes are generally funded through payments determined by periodic actuarial calculations to trustee-administered funds. The Group operates both defined benefit and defined contribution plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate fund. Under defined contribution plans, the Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans set out the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The amount recognised in the Balance Sheet in respect of defined benefit pension plans is the present value of the Group's defined benefit obligation at the reporting date less the fair value of plan assets at that date together with adjustments for unrecognised actuarial gains or losses. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of AAA corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses, arising from experience adjustments and changes in actuarial assumptions, in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

Past service costs are recognised immediately in income, unless the charges to the pension fund are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

For eircom Group Ltd, pre 1 January 1984 past service costs are the responsibility of the Irish Minister for Finance. Post 1 January 1984, past service costs are recognised immediately in the Income Statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans on a contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (R) EMPLOYEE BENEFITS (CONTINUED)

##### (iv) Share-based payments

Share-based payment benefits are provided to the independent Non-Executive Directors of the Company as the Share Option Plan.

The fair value of the Options granted under the Share Option Plan for no cash consideration is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the Directors/employees became unconditionally entitled to the Options.

The fair value at grant date is independently determined using a binomial option pricing model that takes into account the exercise price, the term of the Option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the Option, the share price at grant date and expected volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the Option.

At each Balance Sheet date, the Company revises its estimates on the number of Options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of Options, the balance of the share-based payments reserve relating to those Options is transferred to share capital.

##### (v) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance date are discounted to present value.

##### (vi) Bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the Company's Shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

#### (S) BORROWINGS

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income Statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not incremental costs relating to the actual draw down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

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

#### (T) BORROWING COSTS

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

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year, in this case 7.1% (2007: 6.4%).

#### (U) PROVISIONS

Provisions are recognised when a legal, equitable, constructive obligation to make a future sacrifice of economic benefits to other entities arises as a result of past events and it is probable that a future sacrifice of economic benefits will be required to settle the obligation and the amount has been reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the Balance Sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

#### (V) PAYMENTS TO OTHER OPERATORS

Payments to other operators are mainly settlement fees that the Group pays to other telecommunications operators for traffic that is routed on their networks. Costs associated with these payments are recognised in the period in which the traffic is carried.

#### **(W) CUSTOMER ACQUISITION COSTS**

The Group pays commissions to dealers for the acquisition and retention of mobile subscribers and certain fixed line products. Customer acquisition costs are recorded immediately in the Income Statement.

#### **(X) CAPITAL 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 purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the Income Statement on a straight-line basis over the expected lives of the related assets.

#### **(Y) LEASED ASSETS**

The capital cost of property, plant and equipment acquired under finance leases is included in property, plant and equipment and depreciated over the shorter of the lease term and the estimated useful life of the asset. The outstanding capital element of the lease obligations is included in current and non-current liabilities, as applicable, while the interest is charged to the Income Statement over the primary lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Leases in which a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Income Statement on a straight-line basis over the period of the lease.

#### **(Z) INVENTORIES**

Inventories comprise consumable items and goods held for resale. Inventories is stated at the lower of cost and net realisable value. Cost is calculated on a weighted average basis and includes invoice price, import duties and transportation costs. Where necessary, write-downs in the carrying value of inventories are made for damaged, deteriorated, obsolete and unusable items on the basis of a review of individual items included in inventory.

#### **(AA) RESEARCH**

Expenditure on research is written off as incurred. Development costs are capitalised under intangible assets, if they generate probable future economic benefits. The capitalised development costs are amortised using the straight-line method over their estimated useful life. Development costs that do not fulfil the requirements for capitalisation are expensed as incurred.

#### **(AB) INDEFEASIBLE RIGHTS OF USE ("IRU")**

The Group accounts for IRU contracts in the following manner:

- (i) The sales contracts are accounted for as service contracts with the entire income being deferred and recognised on a straight-line basis over a 17 to 25 year period.
- (ii) The purchase contracts are accounted for as service contracts and accordingly, the pre-paid balance has been recorded as a deferred debtor and is being amortised on a straight-line basis as an expense over a seven year period.

#### **(AC) CONTRIBUTED EQUITY**

Ordinary Shares are classified as equity. Mandatorily redeemable Preference Shares are classified as borrowings, refer to Note 21.

Incremental costs directly attributable to the issue of new Shares or Options are shown in equity as a reduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new Shares or Options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

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

#### **(AD) DIVIDENDS**

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

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (AE) EARNINGS PER SHARE ("EPS")

##### (i) Basic earnings per share

Basic EPS is calculated by dividing the net profit/loss after tax attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary Shares, by the weighted average number of ordinary Shares outstanding during the financial year, adjusted for bonus elements in Ordinary Shares issued during the year.

##### (ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of EPS 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.

#### (AF) GOODS AND SERVICES TAX ("GST")

The amount of GST incurred by the Group that is not recoverable from the taxation authority is recognised as an expense or as part of the acquisition of an asset. Receivables and payables are stated at amounts inclusive of GST. The net amount recoverable from the taxation authority is included in receivables in the Balance Sheet.

#### (AG) ROUNDING OF AMOUNTS

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the rounding off of amounts in the report. Amounts in the report have been rounded off in accordance with that Class Order to the nearest \$1,000, or in certain cases, to the nearest dollar.

#### (AH) FINANCIAL GUARANTEE CONTRACTS

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

#### (AI) NEW ACCOUNTING STANDARDS AND UIG INTERPRETATIONS

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The Group's assessment of the impact of applicable new standards and interpretations is set out below.

##### (i) AASB 8 *Operating Segments*

AASB 8 sets out the requirements for disclosure of financial and descriptive information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. The standard also amends the definition of a reportable segment. The standard replaces AASB 114 *Segment Reporting* and is mandatory for accounting periods beginning on or after 1 January 2009. The Group will apply AASB 8 in the financial year ended 30 June 2010. At this stage it is not anticipated that this standard will have an impact on the Group's Financial Statements.

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

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and when adopted will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Group, as the Group already capitalises borrowing costs relating to qualifying assets.

##### (iii) Revised AASB 101 *Presentation of Financial Statements* and AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101*

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

## NOTE 2 - FINANCIAL RISK MANAGEMENT

The Group's activities are exposed to a variety of financial risks: market risk (including currency risk, equity price risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as forward foreign exchange contracts, options and interest rate swaps to hedge certain risk exposures. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange risks and ageing analysis for credit risk.

The Group has engaged, under a Management Agreement, the Central Risk Department (Group Risk) and Central Treasury Department (Group Treasury) of Babcock & Brown Limited to carry out risk management in accordance with the policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close cooperation with management. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating foreign exchange and interest rate risks.

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

### (A) MARKET RISKS

Market risk refers to the potential for changes in the market value of the Group's investment positions or revenue streams. There are various types of market risks including exposures associated with interest rates, equity market prices, currency rates and the general market values of asset classes in which the Group invests or which it manages.

#### (i) Currency risk

The Group has international investments and is exposed to foreign exchange risk arising from currency exposures of the local currency of these investments, primarily the EURO ("€") and New Israeli Shekel ("NIS").

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis.

To date, actual hedging cover has been maintained at 100%. Consistent with the focus on capital preservation, BCM uses various hedging techniques to protect the equity value, in Australian dollar terms, of investments made in non-Australian markets. Examples of these hedging techniques include forward exchange contracts on its eircom and Golden Pages Israel investments and put options on its eircom investment. The Group Treasury's risk management policy is to hedge between 50% and 100% of the Australian dollar equity investment. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

The majority of the Group's expenses are denominated in the same currency as the associated revenues; only the net income after interest and taxes is exposed to currency fluctuations. BCM also expects to reinvest a significant portion of revenues in the jurisdictions in which the revenue is generated. BCM therefore does not believe it is cost effective to hedge the Group's revenue flows.

Group Treasury is responsible for managing exposures in each foreign currency. Hedging instruments that the Group undertakes are transacted with Group Treasury, which is responsible for managing foreign exchange risk.

#### Foreign currency sensitivity analysis

Based on the financial instruments held at balance date, had the Australian dollar strengthened/weakened by 10% against the EURO and NIS with all other variables held constant, the Group's post-tax profit for the year would have been \$6.5 million lower/\$13.5 million higher (2007: \$35.8 million higher/\$32.8 million lower). Equity would have been \$3.2 million lower/\$3.7 million higher (2007: \$14.5 million lower/\$16.7 million higher), arising mainly from the foreign exchange translation reserve.

The parent entity's post-tax profit for the year would have been \$11.7 million higher/\$6.9 million lower (2007: \$13.5 million higher/\$7.6 million lower) had the Australian dollar weakened/strengthened by 10% against the EURO and NIS with all other variables held constant.

A sensitivity of 10% has been selected as this is considered reasonable given the current level of exchange rates and the volatility observed on a historic basis and market expectations for future movement.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 2 - FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (A) MARKET RISKS (CONTINUED)

##### Consolidated

	Increase in A\$ by 10%		Decrease in A\$ by 10%	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
EURO				
Profit/(Loss)	(8,135)	35,790	15,300	(32,764)
Equity - foreign currency	(22,569)	(18,014)	24,877	19,816
Equity - net investment hedge reserve	2,689	3,466	(3,329)	(3,119)

	Increase in A\$ by 10%		Decrease in A\$ by 10%	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
NIS				
Profit/(Loss)	1,621	-	(1,783)	-
Equity - foreign currency	9,889	-	(10,879)	-
Equity - net investment hedge	6,748	-	(6,877)	-

##### Parent Entity

	Increase in A\$ by 10%		Decrease in A\$ by 10%	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
EURO				
Profit/(Loss)	11,749	13,559	(6,943)	(7,616)

Foreign currency sensitivities have a zero impact on parent entity equity balances.

#### (ii) Equity price risk

The Group is exposed to equity securities price risk. Exposure to equity price risk comes from investments held by the Group and classified on the Balance Sheet either as available-for-sale or at fair value through profit or loss. The Group does not actively hedge its exposure to the risk of a general decline in equity market values, believing that such strategies are not cost effective. Instead, the Group prefers to actively manage the underlying business or asset to ensure that its fundamental value is preserved.

#### Equity price sensitivity analysis

As at 30 June 2008, the Group did not hold any financial instruments impacted by equity price risk. As at 30 June 2007, if equity prices had been 10% lower/higher, the Group's post-tax profit for the year would have been \$0.4 million lower/\$0.4 million higher.

The equity price sensitivity analysis is based on the assumption that the equity price had decreased/increased by 10% with all other variables held constant.

#### (iii) Cash flow interest rate risk

The Group finances the majority of its investments with significant amounts of debt. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings at a fixed rate expose the Group to fair value interest rate risk.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts. Group policy is to fix rates for between 50% and 100% of its borrowings. This policy has been complied with at year end, with rates fixed for 70% of total borrowings.

As at reporting date, the Group had the following interest-bearing assets and liabilities and interest rate swap contracts outstanding:

<b>Consolidated</b>	30 June 2008		30 June 2007	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Cash and cash equivalents	5.56	965,943	5.60	843,636
Bank loans - offshore	7.46	(7,289,200)	6.84	(6,802,753)
Interest rate swaps (notional principal amount)	3.96	4,921,260	3.86	3,957,575
<b>Net exposure to cash flow interest rate risk</b>		<b>(1,401,997)</b>		<b>(2,001,542)</b>

<b>Parent</b>	30 June 2008		30 June 2007	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Cash and cash equivalents	7.05	344,023	6.30	506,941
<b>Net exposure to cash flow interest rate risk</b>		<b>344,023</b>		<b>506,941</b>

#### Interest rate sensitivity analysis

Based on the financial instruments held at balance date, if interest rates had been 100 basis points lower/higher and all other variables were held constant, the Group's post-tax profit for the year would have been \$14.0 million higher/\$14.0 million lower (2007: \$20.0 million higher/\$20.0 million lower). Equity would have been \$84.0 million lower/\$93.3 million higher (2007: \$74.7 million lower/\$72.1 million higher), arising from the cash flow hedging translation reserve.

The parent entity's post-tax profit for the year would have been \$3.4 million lower/\$3.4 million higher (2007: \$5.0 million lower/\$5.0 million higher) had interest rates been 100 basis points higher/lower and all other variables were held constant.

A sensitivity of 100 basis points has been selected as this is considered reasonable given the current level of both short-term and long-term interest rates.

<b>Consolidated</b>	Increase in interest rates by 100 bps		Decrease in interest rates by 100 bps	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Profit/(Loss)	(14,019)	(20,013)	14,019	20,013
Equity - cash flow hedge reserve	93,286	72,107	(84,038)	(74,674)

It should be noted that the results reflect the net impact on a hedged basis. If interest rates were 10% higher, finance costs would be impacted by the interest expense on the floating rate positions. Profit is unaffected by the interest expense on the hedged position, but does impact on the cash flow interest rate hedge reserve in equity.

<b>Parent</b>	Increase in interest rates by 100 bps		Decrease in interest rates by 100 bps	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Profit/(Loss)	3,440	5,072	(3,440)	(5,072)

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

### NOTE 2 - FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (B) CREDIT RISKS

Credit risk refers to the loss that the Group would incur if a debtor or other counterparty fails to perform under its contractual obligations.

The carrying amounts of financial assets recognised in the Balance Sheet best represents the Group's and Company's maximum exposure to credit risk at reporting date. BCM seeks to limit its exposure to credit risk as follows:

The Group's trade debtors are generated by a large number of customers, both private individuals and companies in various industries, mainly in Ireland and Israel. There is no significant concentration of credit risk. Exposure to credit loss and customer/subscriber fraud is actively monitored on a regular/daily basis, including some processing of current credit information on subscribers from third-party sources. Appropriate due diligence is carried out on counterparties before entering into arrangements with them and credit risk in trade debtors is managed through setting normal payment terms of 30 days and through continual risk assessment of customers with material balances. At 30 June 2008, the provision for impairment against trade debtors is \$51.9 million (2007: \$54.0 million). Other than the provision for doubtful debts in trade debtors, no other financial assets are impaired at year end.

The Group is exposed to credit risk relating to its cash and cash equivalents. The Group places its cash with highly rated financial institutions with a short-term rating of A-1+ and A-1. The Group has not experienced any losses on such accounts.

Transactions involving derivative contracts are managed by Group Treasury. The Group's dealings in derivatives are restricted to highly rated financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution.

The following financial assets are past due as at reporting date, but not considered to be impaired.

	Ageing analysis				Collateral held over overdue balances \$'000	Neither impaired or past due date \$'000	Impaired \$'000	Total \$'000
	0-30 \$'000	31-60 \$'000	61-90 \$'000	Over 90 \$'000				
<b>Trade debtors</b>								
2008	175,494	17,431	11,926	15,117	3,630	321,806	(51,876)	489,898
2007	142,121	18,942	17,167	39,463	3,743	270,973	(53,964)	434,702

There is no held-for-trading or derivative financial (other financial) assets past due at reporting date.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Cash and cash equivalents</b>				
AAA-	5,683	-	-	-
AA+	157,211	70,422	-	-
AA	307,621	129,802	61,941	4,221
AA-	131,522	247,659	131,522	247,658
A+	295,773	310,169	98,638	255,062
A	-	70,414	-	-
BBB+	51,921	-	51,922	-
Other <sup>1</sup>	16,212	15,170	-	-
<b>Total cash and cash equivalents</b>	<b>965,943</b>	<b>843,636</b>	<b>344,023</b>	<b>506,941</b>
<b>Derivative financial assets</b>				
AA	97,193	51,919	9,409	10,840
AA-	28,724	23,279	-	-
A	28,930	19,826	-	-
<b>Total derivative financial assets</b>	<b>154,847</b>	<b>95,024</b>	<b>9,409</b>	<b>10,840</b>

<sup>1</sup> Other represents restricted cash held with Comreg.

### (C) LIQUIDITY RISK

Liquidity risk is the risk that the Group will experience difficulty in either realising assets or otherwise raising sufficient funds to satisfy commitments associated with financial assets.

The Group manages liquidity risk through a combination of methods including the use of cash reserves and undrawn capacity at the asset level and through the refinancing of its project specific facilities. At the investment level, liquidity risk is maintained by continuously monitoring forecast and actual cash flows, matching the maturity profiles of financial assets and liabilities and maintaining an appropriate buffer of readily realisable assets and standby credit lines.

At a corporate level, given the quantum of investment in cash and cash equivalents, exposure to liquidity and cash flow risk is therefore minimal.

#### Maturities of financial liabilities

The following tables detail the Company's and the Group's remaining contractual maturity for its financial liabilities, on an undiscounted basis. There did not exist any gross settled derivatives during the period.

##### Consolidated

Financial liabilities		Less than 1 year \$'000	1-2 years \$'000	2-5 years \$'000	Greater than 5 years \$'000	Future interest payments \$'000	Total \$'000
Accounts payable and accrued liabilities	2008	1,349,357	-	-	-	-	1,349,357
	2007	1,140,297	16	10,207	63,711	-	1,214,231
Interest-bearing liabilities	2008	434,566	495,301	1,655,947	8,027,335	(3,323,949)	7,289,200
	2007	432,312	471,593	1,709,357	7,743,764	(3,554,275)	6,802,751
Derivatives	2008	2,071	7,910	-	-	-	9,981
	2007	8,748	-	-	-	-	8,748

##### Parent Entity

Financial liabilities		Less than 1 year \$'000	1-2 years \$'000	2-5 years \$'000	Greater than 5 years \$'000	Future interest payments \$'000	Total \$'000
Accounts payable and accrued liabilities	2008	1,631	-	-	-	-	1,631
	2007	160,702	-	-	-	-	160,702

### (D) CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for Shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Group consists of borrowings at the investment level as listed in Note 21, and equity comprising issued capital, reserves and retained earnings as listed in Note 26. The quantitative analysis of each of these categories of capital is provided in their respective Notes to the Financial Statements.

The Board of Directors review the capital structure, and as part of this review, consider the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the buy-back of shares, issue of new/refinancing of debt or redemption of existing debt. The Group's overall strategy of maximising the value of the BCM share for Shareholders, while ensuring debt obligations are met within its investment, remains unchanged from 2007.

### (E) NET FAIR VALUES

A number of the Consolidated Entity accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the Notes to the Financial Statements specific to that asset and liability. All the financial assets and liabilities have been recognised at the Balance Sheet date at their carrying values, which are not materially different from the fair values.

The fair value of financial assets and liabilities is determined as follows:

#### Derivative contracts

The fair value of interest rate swaps and interest rate options is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates. This value is then discounted back to the Balance Sheet date.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 2 - FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (E) NET FAIR VALUES (CONTINUED)

##### Cash and cash equivalents

The carrying amount represents fair value because of their short-term to maturity.

##### Receivables, other assets, trade and other payables

The carrying amount represents fair value due to their short-term to maturity.

##### Loans receivable, interest-bearing liabilities and borrowings

All loans and notes payable are initially recorded at fair value of the consideration received, net of transactions. After initial recognition, interest-bearing loans and borrowings are stated at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method. Management continually monitors the internal rate of return of all the development projects that loans have been provided to, to ensure that the carrying value of the loans approximate their fair value. The fair value of the total of the loans receivable at 30 June 2008 is not materially different to their carrying value.

#### (F) HEDGING INSTRUMENTS

##### (i) Hedges of specific commitments

###### Consolidated

##### Foreign exchange - forward contracts

At reporting date, Golden Pages Israel has a forward exchange contract to hedge its exposure to short-term foreign currency movements. This has not been hedge accounted.

2008	Principal value \$'000	FX rate to NIS	Fair value \$'000	Maturity
Sell New Israeli Shekel and receive EURO	710	5.45	(157)	30 Nov 2008

##### Foreign exchange - forward contracts treated as hedges of net investments in foreign operations

As at reporting date, the Group had the following forward exchange contracts to hedge its net investments in foreign operations.

2008	Principal value \$'000	FX rate to NIS	Fair value \$'000	Maturity
Sell EURO and receive Australian dollar	48,496	0.5466	1,887	30 Jun 2010
Sell New Israeli Shekel and receive Australian dollar	100,022	3.45	(9,825)	8 Aug 2008 and 16 Aug 2009

2007	Principal value \$'000	FX rate to NIS	Fair value \$'000	Maturity
Sell EURO and receive Australian dollar	48,496	0.5466	3,001	30 Jun 2010

##### Cash flow hedges

As at reporting date, controlled entities had entered into a number of swaps to cover interest rate exposure on various debt obligations. In accordance with AASB 139 *Financial Instruments - Recognition and Measurement*, these instruments have been designated as cash flow hedges and movements in the fair value of the hedges have been taken through the cash flow hedge reserve. The details of the effective interest rate and maturity of these instruments is:

2008	Principal value \$'000	Fair value at 30 June 2008 \$'000	Weighted average interest rate %	Less than 1 year	Maturity profile			
					1-2 years	2-3 years	3-4 years	4-5 years
eircom - senior debt facility - interest rate swaps	4,921,259	145,438	3.89	-	2,050,525	-	2,050,525	820,210

2007	Principal value \$'000	Fair value at 30 June 2007 \$'000	Weighted average interest rate %	Less than 1 year	Maturity profile			
					1-2 years	2-3 years	3-4 years	4-5 years
eircom - senior debt facility - interest rate swaps	3,957,575	84,184	3.86	-	-	1,978,788	-	1,978,787

## Parent

### Foreign exchange - forward contracts

2008	Principal value \$'000	FX rate to A\$	Fair value \$'000	Maturity
Sell EURO and receive Australian dollar	26,508	0.5466	1,887	30 Jun 2010

This has not been hedge accounted for in the parent entity.

### Foreign exchange - foreign exchange put options

2008	Principal value \$'000	FX rate to A\$	Fair value \$'000	Maturity
Sell EURO and receive Australian dollar	374,296	0.6255	7,522	30 Jun 2010

This has not been hedge accounted for in the parent entity.

## NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Judgements and estimates are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

### (A) ESTABLISHING LIVES FOR DEPRECIATION PURPOSES OF PROPERTY, PLANT AND EQUIPMENT

Long-lived assets, consisting primarily of property, plant and equipment, comprise a significant portion of the total assets. The annual depreciation charge depends primarily on the estimated lives of each type of asset and, in certain circumstances, estimates of fair values and residual values. The Directors regularly review these asset lives and change them as necessary to reflect current thinking on remaining lives in light of technological change, prospective economic utilisation and physical condition of the assets concerned. Changes in asset lives can have a significant impact on depreciation and amortisation charges for the period. It is not practical to quantify the impact of changes in asset lives on an overall basis as asset lives are individually determined and there is a significant number of asset lives in use. Detail of the useful lives is included in Note 1(O). The impact of any change would vary significantly depending on the individual changes in assets and the classes of assets impacted. The carrying amount of property, plant and equipment is \$3,551.7 million (refer to Note 16).

### (B) ESTABLISHING LIVES FOR AMORTISATION PURPOSES OF INTANGIBLE ASSETS

The Group has significant levels of intangible assets. The amortisation charge is dependent on the estimated lives allocated to each type of intangible asset. The Directors regularly review these asset lives and change them as necessary to reflect current thinking on remaining lives and the expected pattern of consumption of the future economic benefits embodied in the asset.

The effect of the changes in asset lives can have a significant impact on amortisation charges for the year. Detail of the useful lives is included in Note 1(P). The carrying amount of intangible assets excluding goodwill is \$1,292.2 million (refer Note 19).

### (C) MAKING APPROPRIATE LONG-TERM ASSUMPTIONS IN CALCULATING PENSION LIABILITIES, SURPLUSES AND COSTS

The Group operates a funded defined benefit scheme, which is independent of the Group's finances, for the majority of employees. Valuations of the main scheme are carried out on an annual basis by the actuaries to the scheme. The rates of contribution payable and the pension cost are determined on the advice of the actuaries, having regard to the results of these valuations and the unrecognised pension surplus or deficit at the date of the last valuation. The cost of these benefits and the present value of the pension liabilities depend on the assumptions made in respect of such factors as the life expectancy of the members of the scheme, the salary progression of current employees, the return that the pension fund assets will generate in the period before they are used to fund the pension payments and the discount rate at which the future pension payments are valued. The Group uses estimates for all of these factors in determining the pension costs, surpluses arising on acquisitions and liabilities reflected in the Financial Statements.

Differences between assumptions made and actual experience and changes in assumptions made also impact on pension charges. The carrying amount of the retirement benefit obligation at balance date is \$185.8 million. The effect of changes in assumptions in the pension scheme valuation is contained in Note 23.

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

### NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

#### (D) PROVIDING FOR DOUBTFUL DEBTS

The Group provides services to individuals and business customers on credit terms. The Group expects that some debts due will not be paid as a result of the default of a small number of customers. The Group uses estimates based on historical experience in determining the level of debts, which the Group believes, will not be collected. The estimates include such factors as the current state of the Irish and Israeli economies and particular industry issues. A significant, unanticipated downturn in the Irish and Israeli economies or negative industry trends could require an increase in the estimated level of debts that will not be collected, which would negatively impact the operating results. Any significant reduction in the level of customers that default on payments or other significant improvements that resulted in a reduction in the level of bad debt provision would have a positive impact on the operating results. The level of provision required is reviewed on an ongoing basis. Details of receivables and provision for impairment of receivables are shown in Note 10.

#### (E) PROVIDING FOR LITIGATION CONTINGENCIES AND OTHER CONSTRUCTIVE OBLIGATIONS

The Group is a party to lawsuits, claims, investigations and proceedings, consisting primarily of commercial matters, which are being handled and defended in the ordinary course of business. The Group reviews the current status of any pending or threatened proceedings with the legal counsel on a regular basis. In determining whether provisions are required with respect to pending or threatened litigation, management reviews the following: (1) the period in which the underlying cause of the pending or threatened litigation or of the actual or possible claim or assessment occurred; (2) the degree of probability of an unfavourable outcome; and (3) the ability to make a reasonable estimate of the amount of loss.

Upon considering the above items and other known relevant facts and circumstances, the Group recognises any loss that is considered probable and reasonably quantifiable as of the Balance Sheet date. In addition, the Group provides for other items of an uncertain timing or amount, such as liabilities arising as a result of self-insurance and disputes with third parties, including regulatory authorities. These provisions are recognised when the Group has a legal or constructive obligation as a result of past events and a reliable estimate of that obligation can be made. Estimates and judgements are used in determining the level of provisioning required and the timing of payments.

The Group has certain onerous contracts associated with vacant offices and industrial leasehold properties and disposals relating to relocations. The Group has estimated the future cash outflows arising from these onerous contracts. The estimation of outflows includes judgements in respect of the sublet of certain of the properties. If the Group was unable to sublet the properties for the duration of the leases an additional provision of \$23.6 million would be required in the Financial Statements.

#### (F) MAKING APPROPRIATE MEDIUM-TERM ASSUMPTIONS ON ASSET IMPAIRMENT REVIEWS

The Group undertakes a review for impairment annually or if events or circumstances indicate that the carrying amount may not be recoverable. Factors which the Group considers could trigger an impairment review include, but are not limited to the following: (1) significant negative industry or economic trends; (2) current, historical or projected losses that demonstrate continuing losses; or (3) results of fair market valuations performed. These impairment charges are based upon the excess of the carrying amount of the asset over its recoverable amount which is the higher of the net amount at which the asset could be disposed of and its value in use, based on discounted future cash flows. When an asset is not recoverable, impairment is measured as the excess of carrying value over the recoverable amount of the long-lived asset. Management incorporates estimates when evaluating the carrying amount, the recoverable amount, the value in use and the fair value.

Changes in these estimates would directly affect the amount of the impairment charge recorded and, potentially, the existence of impairment.

#### (G) ASSESSING THE LEVEL OF INTERCONNECT INCOME FROM AND PAYMENTS TO OTHER TELECOMMUNICATIONS OPERATORS

The Group is required to interconnect its networks with other telecommunications operators. In some instances, as is normal practice in the telecommunications industry, reliance is placed on other operators to measure the traffic flows interconnecting with the Group's networks. In addition, the prices at which services are charged are often regulated and can be subject to retrospective adjustment. Estimates are used in these cases to determine the amount of income receivable from, or payments required to be made to, these other operators and to establish appropriate provision. Changes in the estimates directly affect revenue, operating costs and profit.

## (H) ASSET RETIREMENT OBLIGATIONS

The Group has certain obligations in relation to the retirement of assets mainly poles, batteries and international cable. The Group also has obligations to dismantle base stations and to restore the property owned by third parties on which the stations are situated after the stations are removed. Significant judgement is required in determining the cash flows associated with these retirement obligations as some of the cash flows are anticipated up to 18 years in the future.

## (I) VOLUNTARY LEAVE PROVISION

In May 2007, eircom announced a voluntary leaving plan to reduce its workforce by 900 over three years. The Group included a provision in the prior year (\$248.5 million) to reflect the current estimate of the costs associated with the plan. The provision estimated the benefit payable to staff availing of the scheme and the associated pension curtailment impact. Significant judgement is required to estimate the costs as they are dependent on the age and length of service of staff. The closing balance at 30 June 2008 is \$99.5 million. The timing of exits also affects the estimated costs and, as this is a voluntary scheme, it can only be estimated at present. Changes in the estimates used will directly affect the Income Statement.

## NOTE 4 - REVENUES FROM CONTINUING OPERATIONS

	Consolidated		Parent	
	Year ended 30 June 2008 \$'000	Year ended 30 June 2007 \$'000	Year ended 30 June 2008 \$'000	Year ended 30 June 2007 \$'000
Telecommunications revenue	3,368,870	2,853,002	-	-
Directories revenue	48,141	-	-	-
Internet revenue	28,588	-	-	-
Credit services revenue	7,322	-	-	-
Interest income	53,759	51,233	28,349	20,860
Dividend income	600	1,413	7,042	3,761
Construction income	61,040	30,950	-	-
Management fee revenue	-	-	12,190	7,737
Other revenue	396	-	-	-
<b>Total revenues from continuing operations</b>	<b>3,568,716</b>	<b>2,936,598</b>	<b>47,581</b>	<b>32,358</b>

## NOTE 5 - OTHER INCOME

	Consolidated		Parent	
	Year ended 30 June 2008 \$'000	Year ended 30 June 2007 \$'000	Year ended 30 June 2008 \$'000	Year ended 30 June 2007 \$'000
Net gain on disposal of eircom masts	130,581	-	-	-
Net gain on sale of available-for-sale financial assets	-	11,835	-	-
Gain on sale of derivatives	3,539	4,391	-	-
Net gain on foreign currency derivatives not qualifying as hedges	-	1,922	480	4,437
Other income	1,008	191	835	112
<b>Total other income</b>	<b>135,128</b>	<b>18,339</b>	<b>1,315</b>	<b>4,549</b>

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

### NOTE 6 - EXPENSES

Profit/(loss) before income tax includes the following specific expenses:

	Consolidated		Parent	
	Year ended 30 June 2008 \$'000	Year ended 30 June 2007 \$'000	Year ended 30 June 2008 \$'000	Year ended 30 June 2007 \$'000
<b>(A) OPERATING EXPENSES</b>				
Payments to telecommunication operators	610,757	565,208	-	-
Staff costs	623,659	565,785	-	-
Purchase of goods for resale, commission and related costs	255,245	220,331	-	-
Sales and marketing costs	171,978	155,445	-	-
Materials, services and other network costs	178,871	124,810	-	-
Lease rental expense	45,189	35,063	-	-
Defined benefit superannuation expense	-	39,035	-	-
Restructure costs	-	269,688	-	-
Management fee (Note 31)	19,366	13,254	19,366	13,254
Auditors' remuneration (Note 28)	6,156	7,904	647	816
Net loss on derivatives not qualifying as hedges	1,377	1,969	1,911	162
Directors' fees	2,551	1,331	860	461
Net loss on financial assets held at fair value through profit or loss	2,165	1,265	-	-
Share-based payments (Note 26(B))	-	717	-	717
Net foreign exchange losses	-	449	-	7
Project and deal costs	542	81	40	14
Accommodation	62,939	80,176	-	-
Transport and travel	31,743	28,073	-	-
Impairment of investment in subsidiary	-	-	4,273	-
Other expenses	225,242	88,966	1,341	698
<b>Total operating expenses</b>	<b>2,237,780</b>	<b>2,199,550</b>	<b>28,438</b>	<b>16,129</b>
<b>(B) FINANCE COSTS</b>				
Interest and finance charges	543,257	412,045	-	-
Dividend payable on Preference Shares	9,584	11,311	-	-
Amortisation of issue costs of bank loan	29,666	18,399	-	-
Amounts capitalised (Note 1(T))	(17,783)	(12,344)	-	-
<b>Total finance costs</b>	<b>564,724</b>	<b>429,411</b>	<b>-</b>	<b>-</b>

### NOTE 7 - SEGMENT INFORMATION

#### (A) DESCRIPTION OF SEGMENTS

##### Business segments

The business segments are defined by the industry in which the Group's main assets are invested. The Group's assets were predominantly invested in the following areas:

##### (i) Telecommunications

Principal investments and investment management activities in the telecommunications sector.

##### (ii) Directories

Principal investments and investment management activities in the published and online sector.

##### (iii) Corporate

Includes management of the funds in the Group that remain uninvested in the entities outside of the Group. Also includes interest earned and dividend revenue earned during the period.

### Geographical segments

The Group's assets were predominantly invested in three geographical areas: Australia, Ireland and Israel. As at 30 June 2008, there continues to be no significant operations in countries outside of Australia, Ireland and Israel.

### (B) PRIMARY REPORTING FORMAT - BUSINESS SEGMENTS

	Telecommunications		Directories <sup>1</sup>		Corporate		Consolidated	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Revenue from external parties	3,452,484	2,930,404	84,805	-	31,427	24,533	3,568,716	2,954,937
Other income	130,534	-	-	-	4,594	-	135,128	-
<b>Total sales revenue from continuing operations</b>	<b>3,583,018</b>	<b>2,930,404</b>	<b>84,805</b>	<b>-</b>	<b>36,021</b>	<b>24,533</b>	<b>3,703,844</b>	<b>2,954,937</b>
Share of net gains from associates	329	1,933	-	-	-	-	329	1,933
<b>Total segment revenue</b>	<b>3,583,347</b>	<b>2,932,337</b>	<b>84,805</b>	<b>-</b>	<b>36,021</b>	<b>24,533</b>	<b>3,704,173</b>	<b>2,956,870</b>
<b>Segment results from continuing operations</b>	<b>245,087</b>	<b>(255,186)</b>	<b>(17,500)</b>	<b>-</b>	<b>9,580</b>	<b>3,010</b>	<b>237,167</b>	<b>(252,176)</b>
<b>Profit/(loss) before income tax</b>							<b>237,167</b>	<b>(252,176)</b>
Income tax (expense)/benefit							(52,880)	4,600
<b>Profit/(loss) for the financial year</b>							<b>184,287</b>	<b>(247,576)</b>

1 Directories segment revenue and results relate to acquisitions made during the year.

	Telecommunications		Directories <sup>2</sup>		Corporate		Consolidated	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Segment assets	10,283,270	9,829,122	364,543	-	497,206	594,554	11,145,019	10,423,676
Unallocated assets							-	-
<b>Total assets</b>							<b>11,145,019</b>	<b>10,423,676</b>
Segment liabilities	9,576,479	9,250,310	271,364	-	14,456	5,252	9,862,299	9,255,562
Unallocated liabilities							-	-
<b>Total liabilities</b>							<b>9,862,299</b>	<b>9,255,562</b>
Investments in associates	470	134	241	-	-	-	711	134
Acquisitions of property, plant and equipment, intangibles and other non-current segmental assets	499,727	8,733,552	318,176	-	-	-	817,903	8,733,552
Depreciation and amortisation expense	(652,533)	(580,085)	(7,696)	-	-	-	(660,229)	(580,085)
Impairment of goodwill (Note 19)	-	-	(4,273)	-	-	-	(4,273)	-
Restructuring costs	-	269,688	-	-	-	-	-	269,688

2 Directories segment assets and liabilities relate to acquisitions made during the year.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2008

#### NOTE 7 - SEGMENT INFORMATION (CONTINUED)

##### (C) SECONDARY REPORTING FORMAT - GEOGRAPHICAL SEGMENTS

	Segment revenues		Segment assets	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Ireland	3,452,484	2,912,636	10,283,270	9,828,191
Australia	31,427	23,962	497,206	595,485
Israel	84,805	-	364,543	-
<b>Total</b>	<b>3,568,716</b>	<b>2,936,598</b>	<b>11,145,019</b>	<b>10,423,676</b>

Segment revenues, assets and capital expenditure are allocated based on the country in which investments of the Group are located.

#### NOTE 8 - INCOME TAX EXPENSE/(BENEFIT)

##### (A) INCOME TAX EXPENSE/(BENEFIT)

	Consolidated		Parent	
	Year ended 30 June 2008 \$'000	Year ended 30 June 2007 \$'000	Year ended 30 June 2008 \$'000	Year ended 30 June 2007 \$'000
Current tax expense	69,424	60,238	4,710	278
Deferred tax	(9,529)	(64,091)	1,333	4,678
Adjustments for current tax of prior periods	(7,015)	(747)	(12)	(476)
<b>Income tax expense/(benefit)</b>	<b>52,880</b>	<b>(4,600)</b>	<b>6,031</b>	<b>4,480</b>
Deferred income tax expense/(revenue) included in income tax expense comprises:				
Decrease in deferred tax asset (Note 18)	11,849	8,742	1,324	3,389
(Decrease)/increase in deferred tax liabilities (Note 24)	(21,378)	(72,833)	9	1,289
	<b>(9,529)</b>	<b>(64,091)</b>	<b>1,333</b>	<b>4,678</b>

**(B) NUMERICAL RECONCILIATION OF INCOME TAX TO PRIMA FACIE TAX PAYABLE**

	Consolidated		Parent	
	Year ended 30 June 2008 \$'000	Year ended 30 June 2007 \$'000	Year ended 30 June 2008 \$'000	Year ended 30 June 2007 \$'000
Profit/(Loss) from continuing operations before income tax expense/(benefit)	237,167	(252,176)	20,458	20,778
Tax at the Australian tax rate of 30% (2007: 30%)	71,150	(75,653)	6,137	6,233
<b>Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:</b>				
Non-deductible expenses	36,581	23,352	1,282	-
Utilisation of tax losses	(3,230)	-	-	-
Share-based payments	(238)	215	(238)	215
Assessable deferred interest	-	452	-	452
Non-assessable revenue	(15,737)	(201)	(2,117)	(181)
Non-assessable dividends	-	(423)	-	(1,128)
Derivative financial instruments	146	-	900	(754)
Sundry items	12,935	255	79	119
	101,607	(52,003)	6,043	4,956
Difference in overseas tax rates	(41,712)	48,150	-	-
Adjustments for current tax of prior periods	(7,015)	(747)	(12)	(476)
<b>Income tax expense/(benefit)</b>	<b>52,880</b>	<b>(4,600)</b>	<b>6,031</b>	<b>4,480</b>

The effective tax rate for the consolidated Group is 22.3% (2007: 1.8%) and the parent is 29.5% (2007: 21.6%).

**(C) AMOUNTS RECOGNISED DIRECTLY IN EQUITY**

Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity.

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Current tax - (credited) directly to equity</b>				
Net deferred tax - (credited) directly to contributed equity	(399)	-	(250)	-
Net deferred tax - debited directly to reserves	16,282	25,256	9	-
	15,883	25,256	(241)	-

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

### NOTE 8 - INCOME TAX EXPENSE/(BENEFIT) (CONTINUED)

#### (D) TAX CONSOLIDATION LEGISLATION

The Company and its wholly-owned Australian controlled entities elected to form a tax consolidation group on 19 April 2005. The accounting policy in relation to this legislation is set out in Note 1(G).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Babcock & Brown Capital Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Babcock & Brown Capital Limited for any current tax payable assumed and are compensated by Babcock & Brown Capital Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Babcock & Brown Capital Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' Financial Statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables in Notes 31(E) and 31(F).

#### (E) UNRECOGNISED TEMPORARY DIFFERENCE

There were no unrecognised temporary differences in the current or prior year.

### NOTE 9 - CASH AND CASH EQUIVALENTS (CURRENT ASSETS)

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Cash at bank	644,574	271,287	41,941	4,221
Term deposits - maturity within three months	305,187	502,720	302,082	502,720
Restricted cash	16,182	69,629	-	-
<b>Total cash and cash equivalents</b>	<b>965,943</b>	<b>843,636</b>	<b>344,023</b>	<b>506,941</b>

#### (A) RECONCILIATION TO CASH AT THE END OF THE YEAR

The above figures are reconciled to cash at the end of the financial year as shown in the Statement of Cash Flows as follows:

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Balances as above	965,943	843,636	344,023	506,941
Bank overdrafts (Note 21)	(10,124)	(102)	-	-
<b>Total cash and cash equivalents</b>	<b>955,819</b>	<b>843,534</b>	<b>344,023</b>	<b>506,941</b>

#### (B) CASH AT BANK

Cash at bank and term deposits maturing within three months are bearing interest rates between 4.70% (for EURO denominated accounts) and 8.06% p.a. (2007: 3.25% and 6.59%). Cash is invested in financial institutions with a short-term rating of A-1+ and A-1.

#### (C) RESTRICTED CASH

Restricted cash represents cash which has been pledged as security in respect of the performance bond in eircom. The interest earned on these deposits, after deduction of any taxation payable, is payable to the Group. These balances were bearing interest at year-end at rates of 4.70%-6.85% p.a. (2007: 4.10%-6.25%).

**NOTE 10 - TRADE AND OTHER RECEIVABLES**

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Current Assets</b>				
Trade receivables	541,774	488,667	-	-
Provision for impairment of receivables	(51,876)	(53,965)	-	-
	<b>489,898</b>	<b>434,702</b>	-	-
Prepayments	157,627	41,202	277	402
Interest receivable	4,420	4,102	2,163	4,098
Construction contract receivable	209,759	68,916	-	-
Owing from subsidiaries	-	-	25,935	20,064
Accrued income	-	100,803	-	-
Other	4,468	2,275	47	78
<b>Total current trade and other receivables</b>	<b>866,172</b>	<b>652,000</b>	<b>28,422</b>	<b>24,642</b>
<b>Non-Current Assets</b>				
Loan to associate	1,867	-	-	-
<b>Total non-current trade and other receivables</b>	<b>1,867</b>	-	-	-

The fair values of trade and other receivables approximate their carrying amounts.

There is no concentration of credit risk with respect to trade receivables due to the Group's customer base being large in number and unrelated. Due to this, management believes there is no further credit risk provision required in excess of the normal provision for doubtful receivables. The creation and reversal of provisions for impaired receivables have been included in operating expenses in the Income Statement.

Movements in the provision for impairment of receivables are as follows:

	Consolidated	
	2008 \$'000	2007 \$'000
At 1 July	53,965	56,430
Arising on acquisition of subsidiary	942	-
Provision for impairment recognised in the current year	30,140	22,642
Receivables written off during the current year as uncollectible	(32,796)	(23,465)
Unused amount reversed	588	(14)
Currency translation adjustment	(963)	(1,628)
	<b>51,876</b>	<b>53,965</b>

**NOTE 11 - INVENTORIES (CURRENT ASSETS)**

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Network development and maintenance stocks	9,484	10,847	-	-
Consumable and other stocks	13,029	13,066	-	-
<b>Total inventories</b>	<b>22,513</b>	<b>23,913</b>	-	-

The cost of inventories recognised as an expense and included in operating expenses amounted to \$205.1 million (2007: \$174.2 million). The net replacement cost of stocks is not expected to be materially different from that shown above. The creation and usage of provision for impaired inventories have been included in operating expenses in the Income Statement.

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

### NOTE 12 - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CURRENT ASSETS)

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
At beginning of the year	95,849	-	-	-
Additions	-	95,849	-	-
Disposals	(43,423)	-	-	-
Disposal of Australian listed equity securities	(4,034)	-	-	-
<b>At the end of the year</b>	<b>48,392</b>	<b>95,849</b>	-	-
Australian listed equity securities	-	4,034	-	-
Financial asset associated with Temporary Income Stream annuity	48,392	91,815	-	-
	<b>48,392</b>	<b>95,849</b>	-	-

#### TEMPORARY INCOME STREAM ("TIS")

Prior to its acquisition by BCM, eircom established an annuity scheme whereby employees participating in a voluntary termination scheme could accept payment in one lump sum or as an annuity to be paid out over a period of 10 years. The assets set aside to fund the payment stream at the Balance Sheet date are recognised under "financial asset at fair value through profit or loss" and the liability is recognised under provisions.

### NOTE 13 - DERIVATIVE FINANCIAL INSTRUMENTS

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Current Assets</b>				
Foreign currency options (Note 13(A)(i))	7,522	7,839	7,522	7,839
Foreign currency forward exchange contracts (Note 13(A)(i))	-	-	1,887	3,001
<b>Total current derivative financial instrument assets</b>	<b>7,522</b>	<b>7,839</b>	<b>9,409</b>	<b>10,840</b>
<b>Non-Current Assets</b>				
Interest rate swaps - cash flow hedges (Note 13(A)(ii))	145,438	84,184	-	-
Foreign currency forward exchange contracts (Note 13(A)(i))	1,887	3,001	-	-
<b>Total non-current derivative financial instrument assets</b>	<b>147,325</b>	<b>87,185</b>	-	-
<b>Current Liabilities</b>				
Foreign currency forward exchange contracts (Note 13(A)(i))	7,910	-	-	-
Equity traded options (Note 13(A)(iii))	-	8,748	-	-
<b>Total current derivative financial instrument liabilities</b>	<b>7,910</b>	<b>8,748</b>	-	-
<b>Non-Current Liabilities</b>				
Foreign currency forward exchange contracts (Note 13(A)(i))	2,071	-	-	-
<b>Total non-current derivative financial instrument liabilities</b>	<b>2,071</b>	-	-	-

#### (A) INSTRUMENTS USED BY THE GROUP

##### (i) Foreign currency derivative financial instruments

The Company's investment in eircom Group Limited is denominated in EUROS. In order to protect against exchange rate movements upon translating the investment at each reporting date from EUROS to Australian dollars, the Group has purchased EURO-denominated foreign exchange put options and foreign exchange contracts with a notional value of approximately €260 million which expire on 30 June 2010. The options and foreign exchange contracts in place cover 100% of the equity invested by the Company in eircom Group plc.

The Company's investment in GPM is denominated in New Israeli Shekel ("NIS"). In order to protect against exchange rate movements upon translating the investment at each reporting date from NIS to Australian dollars, the Group has purchased NIS denominated foreign exchange put options and foreign exchange contracts with a notional value of approximately NIS52 million which expire on 9 August 2008 and NIS292 million which expire on 9 August 2009. The options in place cover 100% of the equity invested by the Company in GPM.

### (ii) Interest rate swap contracts - cash flow hedges

It is the Group's policy to at least partially protect long-term borrowings from exposure to increasing interest rates. Accordingly, the Group has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates.

Swaps currently in place cover approximately 65% of future anticipated borrowings. Under the swaps the Company pays fixed interest of between 3.79% and 4.47% and receives floating six-month EURIBOR-Telerate interest rate.

As at 30 June 2008, the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

	2008 \$'000	2008 €'000	2007 \$'000	2007 €'000
Less than 2 years	2,050,525	1,250,000	-	-
2-3 years	-	-	1,978,787	1,250,000
3-4 years	2,050,525	1,250,000	-	-
4-5 years	820,210	500,000	1,978,788	1,250,000
	<b>4,921,260</b>	<b>3,000,000</b>	<b>3,957,575</b>	<b>2,500,000</b>

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the cash flow hedging reserve, to the extent that the hedge is effective, and re-classified into profit and loss when the hedged interest expense is recognised. The ineffective portion is recognised in the Income Statement immediately. The hedge was fully effective during the year. There are no interest rate swaps outside of eircom.

### (iii) Equity traded options

In the prior year, the Group had a number of equity traded options over shares in listed investments on the Australian Securities Exchange ("ASX"). In the current year these have been disposed of. On 30 June 2007, the Group held: \$58,072,970 in these investments.

### NOTE 14 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (NON-CURRENT ASSETS)

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Carrying value of the investment in associate	711	134	-	-

Investments in associates are accounted for in the consolidated financial results using the equity method of accounting.

### (A) CARRYING AMOUNTS

Information relating to associates is set out below:

Name of company	Country of incorporation	Principal activity	Ownership interest held by consolidated entity		Consolidated		Parent	
			2008 %	2007 %	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Unlisted</b>								
Buy4Now Limited	Ireland	Software development	22.0	22.0	236	134	-	-
Altion Limited	Ireland	Telecommunications	33.0	33.0	234	-	-	-
BCM SH Pte Ltd	Singapore	Investment	25.0	25.0	-	-	-	-
Tichofonist	Israel	Directories	25.0	-	241	-	-	-
Proguides	Israel	Directories	24.0	-	-	-	-	-
Tetra	Ireland	Telecommunications	56.0	-	-	-	-	-
<b>Total</b>					<b>711</b>	<b>134</b>	<b>-</b>	<b>-</b>

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

### NOTE 14 - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (NON-CURRENT ASSETS) (CONTINUED)

#### (B) CARRYING AMOUNT AT END OF YEAR

	2008 \$'000	2007 \$'000
Carrying amount at the beginning of the financial year	134	995,024
Arising on acquisition of subsidiary	241	134
Share of associates' gains after income tax	329	1,933
Transfer of investments accounted for using the equity method on qualification as a subsidiary	-	(995,024)
Foreign currency translation reserve movement	7	-
Dividends received/receivable	-	(1,933)
<b>Carrying amount at the end of the financial year</b>	<b>711</b>	<b>134</b>

#### (C) SHARE OF ASSOCIATES' PROFITS

Profits before income tax	376	2,021
Income tax expense	(47)	(88)
<b>Profits after income tax</b>	<b>329</b>	<b>1,933</b>

In the 2007 year the investment in eircom was equity accounted from 1 July 2006 to 17 August 2006 and then consolidated from 18 August 2006.

#### (D) SUMMARISED FINANCIAL INFORMATION OF ASSOCIATES

The Group share of results of its associates, all of which are unlisted, and its share of the assets and liabilities are as follows:

	30 June 2008			
	Assets \$'000	Liabilities \$'000	Revenues \$'000	Profit \$'000
Buy4Now Limited	1,901	997	2,457	95
Altion Limited	980	577	1,401	234
BCM SH Pte Ltd	-	-	-	-
Tichofonist	241	-	-	-
Tetra	-	-	-	-
Proguides	-	-	-	-
<b>Total</b>	<b>3,122</b>	<b>1,574</b>	<b>3,858</b>	<b>329</b>

	30 June 2007			
	Assets \$'000	Liabilities \$'000	Revenues \$'000	Profit \$'000
Buy4Now Limited	1,583	1,583	1,659	520
BCM SH Pte Ltd	48	27	1,568	1,413
<b>Total</b>	<b>1,631</b>	<b>1,610</b>	<b>3,227</b>	<b>1,933</b>

**NOTE 15 - AVAILABLE-FOR-SALE FINANCIAL ASSETS (NON-CURRENT ASSETS)**

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
At beginning of the year	-	23,627	-	-
Additions	-	156,537	-	-
Available-for-sale mark-to-market valuation	-	11,834	-	-
Reversal of available-for-sale mark-to-market	-	(11,834)	-	-
Disposals	-	(184,251)	-	-
Revaluation transferred from equity	-	4,087	-	-
<b>At end of the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Listed equity securities	-	-	-	-

**NOTE 16 - PROPERTY, PLANT AND EQUIPMENT (NON-CURRENT ASSETS)**

	Consolidated		
	Land and buildings \$'000	Plant & equipment (incl. networks) \$'000	Total \$'000
<b>Cost or Valuation</b>			
At the beginning of the financial year	914,708	3,000,020	3,914,728
Arising on acquisition of subsidiary	2,026	16,488	18,514
Additions	4,614	496,676	501,290
Disposals/retirements	(14,062)	(15,449)	(29,511)
Transfers	(9,058)	4,386	(4,672)
Foreign exchange adjustment	33,475	111,689	145,164
<b>At 30 June 2008</b>	<b>931,703</b>	<b>3,613,810</b>	<b>4,545,513</b>
<b>Accumulated Depreciation</b>			
At the beginning of the financial year	27,208	415,564	442,772
Arising on acquisition of subsidiary	1,177	12,964	14,141
Depreciation charge for the year	33,083	482,957	516,040
Disposals/retirements	(1,350)	(726)	(2,076)
Transfers	-	4,573	4,573
Foreign exchange adjustment	1,129	17,195	18,324
<b>At 30 June 2008</b>	<b>61,247</b>	<b>932,527</b>	<b>993,774</b>
<b>Total net book value at 30 June 2008</b>	<b>870,456</b>	<b>2,681,283</b>	<b>3,551,739</b>

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

### NOTE 16 - PROPERTY, PLANT AND EQUIPMENT (NON-CURRENT ASSETS) (CONTINUED)

	Consolidated		
	Land and buildings \$'000	Plant & equipment (incl. networks) \$'000	Total \$'000
<b>Cost or Valuation</b>			
At the beginning of the financial year	-	-	-
Arising on acquisition of subsidiary	1,043,892	2,740,770	3,784,662
Additions	21,394	449,528	470,922
Disposals/retirements	(89,396)	(1,048)	(90,444)
Foreign exchange adjustment	(61,182)	(189,222)	(250,404)
<b>At 30 June 2007</b>	<b>914,708</b>	<b>3,000,028</b>	<b>3,914,736</b>
<b>Accumulated Depreciation</b>			
At the beginning of the financial year	-	-	-
Depreciation charge for the year	28,508	435,415	463,923
Foreign exchange adjustment	(1,300)	(19,851)	(21,151)
<b>At 30 June 2007</b>	<b>27,208</b>	<b>415,564</b>	<b>442,772</b>
<b>Total net book value at 30 June 2007</b>	<b>887,500</b>	<b>2,584,464</b>	<b>3,471,964</b>

The Group's policy is to review the remaining economic lives and residual values of property, plant and equipment on an ongoing basis and to adjust the depreciation charge to reflect the remaining estimated life and residual value.

The Group has capitalised interest costs of \$17.8 million (2007: \$16.6 million) that are directly attributable to the construction of qualifying property, plant and equipment. The rate applied to capitalised interest is 6.9% (2007: 6.4%).

#### (i) Assets in the course of construction

Included in property, plant and equipment as at 30 June 2008 are assets in the course of construction of \$207.0 million (2007: \$136.1 million).

#### (ii) Analysis of book value of land and buildings

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Freehold</b>				
Land	692,913	710,200	-	-
<b>Leasehold</b>				
Over 50 year unexpired	153,041	142,473	-	-
Under 50 year unexpired	24,502	34,827	-	-
	<b>870,456</b>	<b>887,500</b>	-	-

**NOTE 17 - OTHER ASSETS**

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Current Assets</b>				
Lease receivable (Note 21)	43,279	58,926	-	-
Other	4,467	-	-	-
	<b>47,746</b>	<b>58,926</b>	-	-
<b>Non-Current Assets</b>				
Shares in controlled entities	-	-	1	160,001
Other investments <sup>1</sup>	-	-	521,999	468,584
Lease receivable (Note 21)	36,916	90,335	-	-
Other	4,561	-	-	-
	<b>41,477</b>	<b>90,335</b>	<b>522,000</b>	<b>628,585</b>

<sup>1</sup> Other investments in subsidiaries include parent entity interest in subsidiaries as described in Note 1(C).

**NOTE 18 - DEFERRED TAX ASSETS (NON-CURRENT ASSETS)**

The balance comprises temporary differences attributable to:

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Amounts Recognised in Profit and Loss</b>				
Net losses on derivatives not qualifying as hedges	493	397	493	397
Put option premiums	2,947	2,624	-	-
Financial asset at fair value through profit and loss	-	380	-	-
Tax losses	34,052	39,265	-	729
Other	1,322	73	222	73
	<b>38,814</b>	<b>42,739</b>	<b>715</b>	<b>1,199</b>
<b>Amounts Recognised Directly in Equity</b>				
Share issue expenses	2,362	3,757	2,362	3,757
Share buy-back expenses	200	-	200	-
<b>Total deferred tax asset</b>	<b>41,376</b>	<b>46,496</b>	<b>3,277</b>	<b>4,956</b>
<b>Movements</b>				
Opening balance at the beginning of the year	46,496	8,205	4,956	7,878
Deferred tax asset recognised upon acquisition of subsidiary	2,343	49,254	-	-
Charged to the Income Statement	(11,849)	(8,742)	(1,324)	(3,389)
Credited to equity	399	-	250	-
Prior year overprovision credited to Income Statement	1,833	747	-	476
Tax transfer from consolidated entities	-	-	(605)	-
Utilisation of tax losses	-	(280)	-	(9)
Foreign exchange adjustment	2,154	(2,688)	-	-
<b>Closing balance at 30 June</b>	<b>41,376</b>	<b>46,496</b>	<b>3,277</b>	<b>4,956</b>
Deferred tax assets to be recovered within 12 months	5,021	18,465	2,074	2,594
Deferred tax assets to be recovered more than 12 months	36,355	28,031	1,203	2,362
	<b>41,376</b>	<b>46,496</b>	<b>3,277</b>	<b>4,956</b>

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

### NOTE 19 - INTANGIBLE ASSETS (NON-CURRENT ASSETS)

	Goodwill \$'000	Licences & sites \$'000	Computer software & databases \$'000	Brand names & trademarks \$'000	Contracts & related customer relationships \$'000	Total \$'000
<b>Cost</b>						
At the beginning of the financial year	3,844,325	254,583	84,741	480,578	492,039	5,156,266
Arising on acquisition of subsidiary	194,512	337	4,900	33,242	29,327	262,318
Additions	10,382	10,221	85,179	697	7,219	113,698
Transfers	-	-	4,673	-	-	4,673
Disposals/retirements	(99,266)	-	(196)	-	-	(99,462)
Foreign exchange adjustment	164,386	9,491	3,952	22,000	21,935	221,764
<b>At 30 June 2008</b>	<b>4,114,339</b>	<b>274,632</b>	<b>183,249</b>	<b>536,517</b>	<b>550,520</b>	<b>5,659,257</b>

<b>Amortisation</b>						
At the beginning of the financial year	-	13,456	22,894	5,148	69,369	110,867
Charge for the financial year	-	18,388	40,778	5,637	71,441	136,244
Impairment	4,273	-	-	-	-	4,273
Transfers	-	-	1,050	-	-	1,050
Foreign exchange adjustment	-	661	938	209	2,779	4,587
<b>At 30 June 2008</b>	<b>4,273</b>	<b>32,505</b>	<b>65,660</b>	<b>10,994</b>	<b>143,589</b>	<b>257,021</b>
<b>Total net book value at 30 June 2008</b>	<b>4,110,066</b>	<b>242,127</b>	<b>117,589</b>	<b>525,523</b>	<b>406,931</b>	<b>5,402,236</b>

	Goodwill \$'000	Licences & sites \$'000	Computer software & databases \$'000	Brand names & trademarks \$'000	Contracts & related customer relationships \$'000	Total \$'000
<b>Cost</b>						
At the beginning of the financial year	-	-	-	-	-	-
Arising on acquisition of subsidiary	4,096,593	120,494	37,588	512,114	520,803	5,287,592
Additions	-	148,269	51,831	-	3,465	203,565
Foreign exchange adjustment	(252,268)	(14,180)	(4,678)	(31,536)	(32,229)	(334,891)
<b>At 30 June 2007</b>	<b>3,844,325</b>	<b>254,583</b>	<b>84,741</b>	<b>480,578</b>	<b>492,039</b>	<b>5,156,266</b>

<b>Amortisation</b>						
Charge for the financial year	-	14,099	23,986	5,394	72,683	116,162
Foreign exchange adjustment	-	(643)	(1,092)	(246)	(3,314)	(5,295)
<b>At 30 June 2007</b>	<b>-</b>	<b>13,456</b>	<b>22,894</b>	<b>5,148</b>	<b>69,369</b>	<b>110,867</b>
<b>Total net book value at 30 June 2007</b>	<b>3,844,325</b>	<b>241,127</b>	<b>61,847</b>	<b>475,430</b>	<b>422,670</b>	<b>5,045,399</b>

Intangible assets from acquisitions relate to intangible assets resulting from the acquisition of GPM (refer Note 32). The eircom and Golden Pages brand names have indefinite lives. Their carrying values at year end are \$491.2 million (€261.7 million) and \$23.5 million (NIS76.2 million). Computer software relates to internal and external capitalised software development costs.

**Key assumptions for value-in-use calculations:**

	Growth rate %	Discount rate %	Carrying value \$'m
<b>Goodwill</b>			
eircom - fixed line	0.5	8.6	2,675,525
eircom - mobile	2.0	9.2	1,666,339
Golden Pages - Israel	Nil-2	12.3	194
<b>Total Goodwill</b>			<b>4,342,058</b>
<b>Brand Names</b>			
eircom - fixed line	0.5	8.6	429,297
Golden Pages Israel	Nil-2	12.3	22,505
<b>Total Brand Names</b>			<b>451,802</b>

**NOTE 20 - TRADE AND OTHER PAYABLES (CURRENT LIABILITIES)**

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Trade payables	208,461	162,709	911	703
Accruals	723,247	610,974	-	-
Deferred income	304,517	247,958	-	-
Interest accrual	108,335	104,559	-	-
Other payables	4,797	3,964	-	-
Amounts owing to subsidiaries	-	-	720	159,999
<b>Total trade and other payables</b>	<b>1,349,357</b>	<b>1,130,164</b>	<b>1,631</b>	<b>160,702</b>

**NOTE 21 - BORROWINGS**

Group borrowings consist of non-recourse facilities at the investment level. The eircom and Golden Pages Israel borrowings are presented below. All debt is non-recourse.

**eircom**

Facility	A\$'m	€'m	Maturity
Tranche A	938	572 <sup>1</sup>	Sep 2013
Tranche B	2,051	1,250	Sep 2014
Tranche C	2,051	1,250	Sep 2015
<b>Total first lien debt</b>	<b>5,040</b>	<b>3,072</b>	
Second lien debt	574	350	Mar 2016
<b>Total senior debt</b>	<b>5,614</b>	<b>3,422</b>	
Floating rate notes	574	350	Sep 2016
<b>Total cash pay debt</b>	<b>6,188</b>	<b>3,772</b>	
PIK notes <sup>2</sup>	822	501	Feb 2017
<b>Total debt</b>	<b>7,010</b>	<b>4,273</b>	
Cash	(579)	(353)	
<b>Net debt</b>	<b>6,431</b>	<b>3,920</b>	

1 Initial draw down €650 million.

2 Includes capitalised interest on initial face value of €425 million.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 21 - BORROWINGS (CONTINUED)

#### Golden Pages

	A\$'m	June 2008 NIS'm	Maturity	
Working Capital	8	25	Feb 2015	
Facility A	47	154	Feb 2015	
Facility B	32	103	Feb 2015	
<b>Bank debt</b>	<b>87</b>	<b>282</b>		
Bond	106	343	Apr 2019	
Other	2	6		
<b>Total debt</b>	<b>195</b>	<b>631</b>		
Cash	(6)	(18)		
<b>Net debt</b>	<b>189</b>	<b>613</b>		
Credit Line C (Currently undrawn)	39	125	Up to Feb 2015	
	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Unsecured</b>				
Bank overdraft	10,124	102	-	-
Other loans	120,991	30,346	-	-
<b>Secured</b>				
Bank loan - senior credit facility	248,741	48,086	-	-
Bank loan facility - other	15,747	-	-	-
Finance leases defeased (Note 17)	43,279	58,926	-	-
Finance leases	3,774	6,543	-	-
<b>Total current borrowings</b>	<b>442,656</b>	<b>144,003</b>	-	-
<b>Unsecured</b>				
PIK notes	806,614	692,239	-	-
<b>Secured</b>				
Floating rate notes	552,848	530,615	-	-
Bank loan - senior credit facility	5,225,267	5,115,611	-	-
Preference shares	117,288	226,369	-	-
Debentures	105,670	-	-	-
Finance leases defeased (Note 17)	36,916	90,335	-	-
Finance leases	1,941	3,579	-	-
<b>Total non-current borrowings</b>	<b>6,846,544</b>	<b>6,658,748</b>	-	-
<b>Total facilities</b>	<b>7,393,257</b>	<b>6,973,246</b>	-	-
Used at balance date	(7,224,250)	(6,735,792)	-	-
Debt issue costs included in borrowings	145,281	162,351	-	-
<b>Unused at balance date</b>	<b>314,288</b>	<b>399,805</b>	-	-
<b>Assets pledged as security</b>				
<b>Assets - floating charge</b>				
Cash and cash equivalents	-	69,629	-	-
eircom assets	10,283,270	9,775,902	-	-
Golden Pages assets	364,543	-	-	-
<b>Total assets pledged as security</b>	<b>10,647,813</b>	<b>9,845,531</b>	-	-

## **(A) FINANCING ARRANGEMENTS - EIRCOM**

### **Senior credit facility**

The senior credit facility totalling €3.61 billion (\$5.92 billion) consists of €3.48 billion (\$5.71 billion) term facility and a €150 million (\$246.1 million) revolving credit facility. The senior credit facility is secured by a first-priority pledge over the assets of BCM Ireland Holdings Limited and second priority on assets of eircom Ltd, BCM Luxembourg Holdings Limited, Meteor Mobile Communications Ltd, ITI Ltd, Valentia Telecommunications, and eircom Group Ltd. The senior credit facility has an effective interest rate of approximately 4.27% at 30 June 2008 (2007: 4.54%). This rate is inclusive of interest rate swaps discussed in Note 13. The senior debt is issued in four tranches. These tranches have maturity dates between 2013 and 2016. Early repayment of the senior credit facility is allowed given five days notice.

### **Floating rate notes**

The floating rate notes of €350 million (\$574 million) are secured, among other things, by a first-priority pledge of the shares in BCM Ireland Holdings Limited and second priority on assets of eircom Ltd, BCM Luxembourg Holdings Limited, Meteor Mobile Communications Ltd, ITI Ltd, Valentia Telecommunications, and eircom Group Ltd. The floating rate notes were issued at a margin of 5.0% above the three-month EURIBOR and have an effective interest rate of 9.86% at 30 June 2008 (2007: 9.06%). The notes mature in August 2016. The notes may be redeemed in whole or in part at any time upon payment of a "make whole" premium.

### **PIK notes**

The PIK notes issued by the Group in November 2006 totalling €425 million (\$673 million), are unsecured and bear a margin of 700 basis points over EURIBOR. Interest on the PIK will be paid in the form of additional PIK notes and there will be no cash impact while the interest is paid in additional PIK notes. The PIK notes have a maturity date of February 2017. The notes may be redeemed in whole or in part at any time upon payment of a "make whole" premium. The PIK notes have an effective interest rate of 11.86% at 30 June 2008 (2007: 11.04%).

### **Finance leases**

Two subsidiaries within the Group are party to a financing transaction under which lease receivable balances equal lease obligation balances. These are shown gross on the Balance Sheet. The liability is recognised under "borrowings" and the lease receivable balance is recognised under "other assets". These borrowings are secured over the leased assets. The finance leases have an effective interest rate of between 5.4% and 8.2% (2007: between 5.4% and 8.2%). Refer to Note 30 for further information on finance leases.

### **Preference shares**

Mandatorily redeemable preference shares have been issued to the ESOT in one the Group's subsidiaries, BCM Ireland Holdings. These total \$117.3 million at year-end and are expected to be fully repaid by 30 June 2011. The effective interest rate at balance date on the preference shares to ESOT is 4.23% (2007: 3.46%).

## **(B) FINANCING ARRANGEMENTS - GOLDEN PAGES**

### **Debentures**

Corporate debentures were issued in GPM in 2006. These bonds rank behind bank loans and have an effective interest rate at balance date of 5.65%, adjusted for movements in the consumer price index ("CPI").

### **Bank loan**

The senior credit facility totalling NIS400 million (\$123.2 million) is secured by a first-priority pledge over the assets of GPM Classified Directories (Management & Marketing) Ltd. The effective interest rate of the loan is approximately 5.86% at 30 June 2008. Consistent with Israeli sourced loans, the principal of the loan is adjusted for CPI movements. This movement is recognised within finance costs.

## **(C) FINANCING ARRANGEMENTS - CORPORATE**

Corporate segment has no borrowing facilities at balance date.

### **Stand-by credit facilities**

In the prior year the Group had access to margin loan facilities of \$325 million, which could be drawn upon on investment in approved equity holdings. These facilities are no longer available.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2008

#### NOTE 21 - BORROWINGS (CONTINUED)

##### (D) INTEREST RATE EXPOSURES

The following table sets out the Group's exposure to interest rate risk, including the contractual repricing dates and the effective weighted average interest rate by maturity periods. Exposures arise predominantly from liabilities bearing variable interest rates as the Group intends to hold fixed rate liabilities to maturity.

2008	Floating interest rate \$'000	Fixed interest rate						Total \$'000
		1 year or less \$'000	Over 1-2 years \$'000	Over 2-3 years \$'000	Over 3-4 years \$'000	Over 4-5 years \$'000	Over 5 years \$'000	
Bank overdraft	10,124	-	-	-	-	-	-	10,124
Bank loan - senior credit facility	5,489,755	-	-	-	-	-	-	5,489,755
Debentures	105,670	-	-	-	-	-	-	105,670
Preference Shares	117,288	-	-	-	-	-	-	117,288
Floating rate notes	552,848	-	-	-	-	-	-	552,848
PIK notes	806,614	-	-	-	-	-	-	806,614
Finance leases	85,910	-	-	-	-	-	-	85,910
Other loans	120,991	-	-	-	-	-	-	120,991
Interest rate swaps (Note 13)	(4,921,260)	- 2,050,525	-	- 2,050,525	820,210	-	-	-
<b>Total borrowings</b>	<b>2,367,940</b>	<b>- 2,050,525</b>	<b>-</b>	<b>- 2,050,525</b>	<b>820,210</b>	<b>-</b>	<b>-</b>	<b>7,289,200</b>
Weighted average interest rate	5.08%	-	3.79%	-	3.93%	4.47% <sup>1</sup>	-	

<sup>1</sup> These were executed December 2007.

2007	Floating interest rate \$'000	Fixed interest rate						Total \$'000
		1 year or less \$'000	Over 1-2 years \$'000	Over 2-3 years \$'000	Over 3-4 years \$'000	Over 4-5 years \$'000	Over 5 years \$'000	
Bank overdraft	102	-	-	-	-	-	-	102
Bank loan - senior credit facility	5,163,697	-	-	-	-	-	-	5,163,697
Preference Shares	226,369	-	-	-	-	-	-	226,369
Floating rate notes	530,615	-	-	-	-	-	-	530,615
PIK notes	692,239	-	-	-	-	-	-	692,239
Finance leases	159,383	-	-	-	-	-	-	159,383
Other loans	30,346	-	-	-	-	-	-	30,346
Interest rate swaps (Note 13)	(3,957,575)	-	- 1,978,787	-	- 1,978,788	-	-	-
<b>Total borrowings</b>	<b>2,845,176</b>	<b>-</b>	<b>- 1,978,787</b>	<b>-</b>	<b>- 1,978,788</b>	<b>-</b>	<b>-</b>	<b>6,802,751</b>
Weighted average interest rate	6.66%	-	-	3.79%	-	3.93%	-	

## NOTE 22 - PROVISIONS

	Consolidated				
	TIS annuity scheme \$'000	Onerous contracts \$'000	Restructuring costs \$'000	Other \$'000	Total \$'000
At the beginning of the financial year	166,851	26,834	248,536	130,416	572,637
Arising on acquisition of subsidiary	-	-	-	2,831	2,831
Charged to income statement	26,311	(1,168)	-	23,491	48,634
Utilised during the year	(29,335)	(3,409)	(157,906)	(12,683)	(203,333)
Transfer in from payables	-	-	-	82,028	82,028
Foreign exchange adjustment	6,046	968	8,854	4,952	20,820
<b>At 30 June 2008</b>	<b>169,873</b>	<b>23,225</b>	<b>99,484</b>	<b>231,035</b>	<b>523,617</b>

	Consolidated				
	TIS annuity scheme \$'000	Onerous contracts \$'000	Restructuring costs \$'000	Other \$'000	Total \$'000
At the beginning of the financial year	-	-	-	-	-
Arising on acquisition of subsidiary	209,177	28,543	-	203,704	441,424
Charged to income statement	5,404	5,083	248,536	19,984	279,007
Utilised in the year	(36,255)	(5,032)	-	(10,934)	(52,221)
Foreign exchange adjustment	(11,475)	(1,760)	-	(8,404)	(21,639)
<b>At 30 June 2007</b>	<b>166,851</b>	<b>26,834</b>	<b>248,536</b>	<b>204,350</b>	<b>646,571</b>

Provisions have been analysed between current and non-current as follows:

	Consolidated	
	2008 \$'000	2007 \$'000
Current	129,892	230,640
Non-current	393,725	415,931
	<b>523,617</b>	<b>646,571</b>

There was only one significant movement in provisions of the consolidated group. This relates to the redundancy provision. In the prior year a provision of \$248.5 million (€157 million) was booked. In the current year \$149.0 million (€96.3 million) has been utilised during the year, leaving \$99.5 million (€60.6 million) in the provision. There were no other significant movements in provisions for the year.

### TEMPORARY INCOME STREAM

Prior to its acquisition by BCM, eircom established an annuity scheme whereby employees participating in a voluntary termination scheme could accept payment in one lump sum or as an annuity to be paid out over a period of ten years. The Group estimates the liability as the present value of the fixed payment stream due to employees. The annuity liability is recognised under "provisions for other liabilities and charges" and the asset is recognised under "financial asset at fair value through income statement". At 30 June 2008, the remaining TIS annuity scheme provision is expected to be utilised over a period of six years.

### ONEROUS CONTRACTS

The Group has onerous contracts in relation to leases on vacant properties and leasehold disposals relating to the relocation to new eircom corporate headquarters. At 30 June 2008, the liability is expected to be discharged over a period of one to ten years.

### RESTRUCTURING COSTS

The Group announced in May 2007 a restructuring program seeking a reduction in staff numbers of 900 over three years. The amount of the provision is based on the Group's past experience of restructuring and discussions to date with staff. During the year, staff numbers reduced by 621 and the provision decreased by \$149.0 million.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2008

#### NOTE 22 - PROVISIONS (CONTINUED)

##### OTHER

The Group is self-insured in respect of certain personal injury and damage claims. There is a provision for the estimated cost of incidents which have occurred up to 30 June 2008, based on a case-by-case review with actuarial assistance. The payments will be made as the cases are settled. The Group also has a provision for costs arising from certain compliance matters including certain obligations in relation to the retirement of assets, mainly poles, batteries, international cable and dismantling and restoration of mobile antenna sites. It is expected that most of these costs will be paid during the period 2008 to 2025 and these anticipated cash flows are discounted using a real rate of return of approximately 2%.

#### NOTE 23 - RETIREMENT BENEFIT OBLIGATIONS (NON-CURRENT LIABILITIES)

The Group's pension commitments are funded through separately administered superannuation schemes and are principally of a defined benefit nature.

In respect of the principal scheme, the actual contributions are based on a rate of 7.80% of pensionable emoluments, as advised by the Group's actuaries.

The last full Actuarial Valuation of the principal scheme was carried out, using the attained age method, as at 30 September 2007 by Mercer Human Resourcing Consulting who are actuaries to the Scheme but are neither officers nor employees of the Group. The actuarial method used involved determining an appropriate future Group contribution rate designed to fund the projected liabilities of the Scheme related to service subsequent to 1 January 1984 over the remaining working lifetime of the current members. The primary financial assumption underlying the actuarial valuation was that the Scheme's investments will earn a real rate of investment return, over and above salary inflation and pension increases of 3.75% per annum. At the date of the last actuarial valuation, the market value of the pension scheme assets was \$5,331 million and the actuarial valuation of the assets attributable to the pension fund was sufficient to meet more than 100% of the value of the Scheme's accrued liabilities making due allowance for future increases in salaries and pensions. Mercer Human Resourcing Consulting also performs annual valuations as required under the accounting standard.

##### (A) PENSION SCHEME OBLIGATION

The status of the defined benefit scheme is as follows:

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Present value of funded obligations	4,471,927	4,489,324	-	-
Fair value of the scheme assets	(4,503,915)	(5,157,898)	-	-
<b>Scheme assets in excess of benefit obligation</b>	<b>(31,988)</b>	<b>(668,574)</b>	-	-
Unrecognised actuarial gains	217,746	913,583	-	-
<b>Total retirement benefit obligation</b>	<b>185,758</b>	<b>245,009</b>	-	-

##### (B) THE AMOUNTS RECOGNISED IN THE INCOME STATEMENT

Current service costs	91,444	88,536	-	-
Interest on obligation	246,786	204,030	-	-
Expected return on scheme assets	(347,239)	(262,705)	-	-
Net actuarial gains recognised during the year	(34,351)	-	-	-
<b>Total expense included in employee benefits</b>	<b>(43,360)</b>	<b>29,861</b>	-	-
<b>Actual return on scheme assets</b>	<b>(828,973)</b>	<b>516,767</b>	-	-

At 30 June 2008, unrecognised actuarial gains exceeded the present value of the defined benefit obligation by less than 10%. The expected contribution levels for the year ended 30 June 2009 are \$28.1 million and the expected credit in the Income Statement is \$11.3 million.

**(C) RECONCILIATIONS****(i) Defined benefit obligation**

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Opening balance	4,489,324	-	-	-
Arising on acquisition of subsidiary	-	5,215,334	-	-
Current service cost	91,444	92,765	-	-
Interest cost	246,786	213,777	-	-
Actuarial gains	(467,659)	(641,909)	-	-
Contributions by employees	27,792	(24,558)	-	-
Benefits paid	(78,512)	(64,264)	-	-
Foreign exchange adjustment	162,752	(301,821)	-	-
<b>Total defined benefit obligation</b>	<b>4,471,927</b>	<b>4,489,324</b>	-	-
Actuarial gains/(losses) not recognised	-	-	-	-
<b>Total defined benefit obligation including unrecognised (gains)/losses as per corridor approach</b>	<b>4,471,927</b>	<b>4,489,324</b>	-	-

**(ii) Fair value of plan assets**

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Opening balance	(5,157,898)	-	-	-
Arising on acquisition of subsidiary	-	(4,947,185)	-	-
Expected return on plan assets	(347,239)	(275,255)	-	-
Actuarial gains/(losses)	1,176,212	(266,198)	-	-
Contributions employees	(27,792)	(24,558)	-	-
Contributions group companies	(38,720)	(38,232)	-	-
Benefits paid	78,512	64,264	-	-
Foreign exchange adjustment	(186,990)	329,266	-	-
<b>Total fair value of plan assets</b>	<b>(4,503,915)</b>	<b>(5,157,898)</b>	-	-

**(D) PENSION SCHEME ASSETS**

The table below presents a breakdown of the various types of investment in which the pension assets are invested:

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Equities	2,806,766	3,696,200	-	-
Bonds	997,075	877,037	-	-
Property	407,776	419,576	-	-
Cash	292,298	165,085	-	-
<b>Total pension scheme assets</b>	<b>4,503,915</b>	<b>5,157,898</b>	-	-

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

### NOTE 23 - RETIREMENT BENEFIT OBLIGATIONS (NON-CURRENT LIABILITIES) (CONTINUED) (E) ASSUMPTIONS OF ACTUARIAL CALCULATIONS

The main financial assumptions used in the valuations were:

	30 June 2008	30 June 2007
Rate of salary increase	3.50%	3.50%
Rate of increase in pensions	3.50%	3.50%
Discount rate	6.25%	5.35%
Expected return on scheme	7.40%	6.50%
Inflation assumption	2.50%	2.25%
<b>Mortality assumptions</b>		
Implied life expectancy male - 65 pensions in payment	86 years	84 years
Implied life expectancy female - 65 pensions in payment	89 years	87 years
Implied life expectancy male - 65 future retirements	87 years	85 years
Implied life expectancy female - 65 future retirements	90 years	88 years
Increase in net assets at the Balance Sheet date assuming an increase in the discount rate applied of 0.25%	\$191.9 million	\$208.9 million
Reduction in net assets at the Balance Sheet date assuming an increase in the salary and pension growth applied of 0.25%	\$191.9 million	\$208.9 million
<b>Expected long-term rate of return</b>		
Equities	8.40%	7.40%
Bonds	5.00%	4.60%
Cash	4.50%	3.00%
Property	7.40%	6.40%

### NOTE 24 - DEFERRED TAX LIABILITIES (NON-CURRENT LIABILITIES)

The balance comprises temporary differences attributable to:

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Amounts recognised in profit and loss</b>				
Property, plant and equipment	297,935	312,709	-	-
Deferred revenue	(3,891)	(3,557)	-	-
Intangibles	116,257	115,526	-	-
Provisions	(3,894)	(33,016)	-	-
Net losses on derivatives not qualifying as hedges	-	-	566	-
Interest receivable	649	1,229	649	1,229
Other	(21,093)	(39,293)	83	60
	<b>385,963</b>	<b>353,598</b>	<b>1,298</b>	<b>1,289</b>
<b>Amounts recognised in equity</b>				
Cash flow hedge	42,177	25,256	-	-
<b>Total deferred tax liability</b>	<b>428,140</b>	<b>378,854</b>	<b>1,298</b>	<b>1,289</b>

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Movements</b>				
Opening balance at the beginning of the year	378,854	2,803	1,289	-
Arising on acquisition of subsidiary	10,518	450,594	-	-
(Credited)/charged to the Income Statement	(21,378)	(72,833)	9	1,289
Charged to equity	16,282	22,668	-	-
Transfers	30,143	-	-	-
Foreign exchange adjustment	13,721	(24,378)	-	-
<b>At 30 June</b>	<b>428,140</b>	<b>378,854</b>	<b>1,298</b>	<b>1,289</b>
Deferred tax liabilities to be settled within 12 months	37,285	(3,223)	1,298	1,289
Deferred tax liabilities not settled within 12 months	390,855	382,077	-	-
	<b>428,140</b>	<b>378,854</b>	<b>1,298</b>	<b>1,289</b>

**NOTE 25 - CONTRIBUTED EQUITY**

	Parent		Parent	
	2008 Shares	2007 Shares	2008 \$'000	2007 \$'000
<b>(A) AUTHORISED, ISSUED, PAID UP CAPITAL</b>				
Ordinary Shares fully paid	200,000,000	200,000,000	1,000,000	1,000,000
<b>(B) MOVEMENTS IN SHARES ON ISSUE</b>				
Beginning of financial year	200,000,000	200,000,000	957,026	957,026
On-market share buy-back	(32,095,086)	-	(122,576)	-
<b>Closing balance at 30 June</b>	<b>167,904,914</b>	<b>200,000,000</b>	<b>834,450</b>	<b>957,026</b>

**(C) ORDINARY SHARES**

Ordinary Shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid up on Shares held. On a show of hands every holder of Ordinary Shares present at a meeting in person or by proxy is entitled to one vote, and upon poll each Share is entitled to one vote.

On 28 August 2007 BCM announced an on-market buy-back of up to 5% of its issued share capital. On 25 January 2008 this buy-back was extended to 9.99%. On 21 April 2008, Shareholders approved the buy-back of up to 50% of the Company's share capital. On 2 June 2008 the Company increased the threshold of the buy-back to 20% of BCM's original issued capital or 40 million Ordinary Shares. As at 30 June 2008, a total of 32,095,086 Shares have been bought back on-market, representing 16.05% of the original issued share capital.

**(D) SHARE OPTIONS**

Information relating to the Babcock & Brown Capital Limited Options for Non-Executive Directors is set out in Note 36.

**(E) CONVERSION RIGHTS**

The Company has issued conversion rights to the eircom Employee Share Ownership Trust ("the ESOT") as part of the acquisition of eircom. The conversion rights which were approved at last year's Annual General Meeting, allows the ESOT to convert its Shares in BCM Ireland Equity SPC ("BCMIE") into BCM Shares. The ESOT are entitled to convert a maximum annual amount of 15% of the BCM issued equity, subsequent to the third anniversary of the acquisition made on 18 August 2006.

The pricing mechanism for conversion requires the Shares in BCMIE to be independently valued by an adviser agreed by both parties. The value of the BCMIE Shares offered for conversion are then converted into BCM Shares at the three month weighted average trading price. BCM has the right to decline the independent valuation if the Company believes that the conversion would be too dilutive. If the parties cannot agree on a valuation, then BCM must procure a listing of eircom.

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

### NOTE 26 - RESERVES AND RETAINED PROFITS/(LOSSES)

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>(A) RETAINED PROFITS/(LOSSES)</b>				
Balance at the beginning of the financial year	(99,476)	(50,232)	26,140	9,842
Net profit/(loss) attributable to members of the Company	101,235	(131,677)	14,427	16,298
Adjustments resulting from the step-up acquisition entries	-	82,433	-	-
<b>Total retained earnings/(loss)</b>	<b>1,759</b>	<b>(99,476)</b>	<b>40,567</b>	<b>26,140</b>
<b>(B) RESERVES</b>				
Foreign currency translation reserve	14,671	6,211	-	-
Share-based payments reserve	1,881	1,318	524	1,318
Equity reserve	26,239	26,239	26,239	26,239
Investment valuation reserve	5,209	4,816	-	-
Hedging reserve - cash flow hedges	58,952	33,642	-	-
Net investment hedge reserve	(5,681)	2,515	-	-
Available-for-sale investment revaluation reserve	-	-	-	-
<b>Total reserves</b>	<b>101,271</b>	<b>74,741</b>	<b>26,763</b>	<b>27,557</b>
<b>Movement in reserves:</b>				
<b>Foreign currency translation reserve</b>				
Balance at beginning of year	6,211	48,895	-	(4)
Currency translation differences arising during the year	8,460	(42,684)	-	4
<b>Balance at 30 June</b>	<b>14,671</b>	<b>6,211</b>	<b>-</b>	<b>-</b>
<b>Share-based payment reserve</b>				
Balance at beginning of year	1,318	601	1,318	601
Options expense (Note 6(A))	563	717	(794)	717
<b>Balance at 30 June</b>	<b>1,881</b>	<b>1,318</b>	<b>524</b>	<b>1,318</b>
<b>Equity reserve</b>				
Balance at beginning of year	26,239	26,239	26,239	26,239
Transfer from retained earnings	-	-	-	-
<b>Balance at 30 June</b>	<b>26,239</b>	<b>26,239</b>	<b>26,239</b>	<b>26,239</b>
<b>Investment valuation reserve</b>				
Balance at beginning of year	4,816	18,557	-	-
Changes in investment valuation reserve	393	(13,741)	-	-
<b>Balance at 30 June</b>	<b>5,209</b>	<b>4,816</b>	<b>-</b>	<b>-</b>
<b>Hedging reserve - cash flow hedges</b>				
Balance at beginning of year	33,642	10,240	-	-
Revaluation of cash flow hedge	67,487	48,658	-	-
Deferred tax	(42,177)	(25,256)	-	-
<b>Balance at 30 June</b>	<b>58,952</b>	<b>33,642</b>	<b>-</b>	<b>-</b>

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>(B) RESERVES (CONTINUED)</b>				
<b>Net investment hedge reserve</b>				
Balance at beginning of year	2,515	-	-	-
Changes in net investment hedge reserve	(8,196)	2,515	-	-
<b>Balance at 30 June</b>	<b>(5,681)</b>	<b>2,515</b>	-	-
<b>Available-for-sale investment revaluation reserve</b>				
Balance at beginning of year	-	(4,087)	-	-
Revaluation of available-for-sale asset	-	15,921	-	-
Reversal of available-for-sale mark-to-market (Note 15)	-	(11,834)	-	-
<b>Balance at 30 June</b>	-	-	-	-

**(C) NATURE AND PURPOSE OF RESERVES**

**(i) Foreign currency translation reserve**

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

**(ii) Share-based payment reserve**

The Share-based payments reserve is used to recognise the fair value of Options issued but not exercised.

**(iii) Equity reserve**

The equity reserve is used to recognise the effective interest adjustment arising from the implementation of AASB 132 and 139. The Directors determined that the effective interest in retained earnings should not be used to pay future dividends and transferred the net amount to an equity reserve.

**(iv) Investment valuation reserve**

The investment valuation reserve is used to recognise the fair value movements in the fair value acquisition of the equity accounted investment. Given that the investment was purchased progressively, the change in fair value of the net assets of the associate needs to be recognised in reserves.

**(v) Hedging reserve - cash flow hedge and net investment hedge**

The hedging reserves are used to record gains and losses on a hedging instrument in a cash flow hedge and net investment hedge that are recognised directly in equity, as described in Note 1(M)(ii) and (iii). Amounts are recognised in the Income Statement when the associated hedged transaction affects profit and loss.

**(vi) Available-for-sale investments revaluation reserve**

Changes in the fair value and exchange differences arising on translation of investments, such as equities, classified as available-for-sale financial assets, are taken to the available-for-sale investments revaluation reserve, as described in Note 1(L)(iv). Amounts are recognised in the Income Statement when the associated assets are sold or impaired.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 27 - KEY MANAGEMENT PERSONNEL DISCLOSURES

#### Details of Key Management Personnel

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

#### (A) DIRECTORS AND EXECUTIVES

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

##### (i) Independent Non-Executive Directors

Kerry Roxburgh (Chairman)  
 William Wavish (resigned 21 April 2008)  
 Gregory Clark  
 Andrew Love (appointed 21 April 2008)

##### (ii) Non-Executive Directors supplied by the Management Company

Phillip Green  
 Robert Topfer

##### (iii) Executives of BCM

John Fanning - Chief Investment Officer (appointed 1 November 2007)  
 Deborah Kelly - Chief Operating Officer (resigned from BCM on 1 November 2007)  
 Haydn Vella - Group Financial Controller

#### (B) KEY MANAGEMENT PERSONNEL REMUNERATION

The aggregate remuneration of the KMP of BCM is set out below:

	Babcock & Brown Capital Limited	
	2008	2007
	\$	\$
Short-term employee benefits	1,616,362	1,564,336
Post-employment benefits	49,942	1,771,510
Long-term benefits	2,750	-
Share-based payments	144,796	732,972
<b>Total</b>	<b>1,813,850</b>	<b>4,068,818</b>

Detailed remuneration disclosures are provided in the Remuneration Report detailed on pages 33 to 44.

#### (C) EQUITY INSTRUMENT DISCLOSURES RELATING TO KMP

##### (i) Option Holdings

Outlined below are the Option holdings of the KMP over the period 1 July 2007 - 30 June 2008 in Babcock & Brown Capital Limited.

Directors of the Company 2008	Balance at the start of the year	Granted as remuneration	Acquired during the year	Forfeited during the year	Balance at the end of the year
William Wavish <sup>1</sup>	1,000,000	-	-	-	1,000,000
Kerry Roxburgh	1,000,000	-	-	-	1,000,000
Robert Topfer	2,000,000	-	-	-	2,000,000
Gregory Clark	1,000,000	-	-	-	1,000,000
<b>Total</b>	<b>5,000,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,000,000</b>

<sup>1</sup> William Wavish resigned on 21 April 2008. Mr Wavish's options lapsed on 19 July 2008.

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

Directors of the Company 2007	Balance at the start of the year	Granted as remuneration	Acquired during the year	Forfeited during the year	Balance at the end of the year
Robert Champion de Crespigny AC	1,500,000	-	-	(1,500,000)	-
William Wavish	1,000,000	-	-	-	1,000,000
Kerry Roxburgh	1,000,000	-	-	-	1,000,000
Robert Topfer	-	-	2,000,000 <sup>1</sup>	-	2,000,000
Gregory Clark	-	1,000,000	-	-	1,000,000
<b>Total</b>	<b>3,500,000</b>	<b>1,000,000</b>	<b>2,000,000</b>	<b>(1,500,000)</b>	<b>5,000,000</b>

<sup>1</sup> Robert Topfer purchased 2000 American call Options over 2,000,000 ordinary Shares. Call Options purchased at a price of \$0.53 per ordinary Share - \$1,060,000. These call Options expire 31 December 2008. These Options were not purchased from or issued by BCM.

No Options were exercised by the KMP during the year. All options were unvested and unexercisable at 30 June 2008.

#### (ii) Shareholdings in Babcock & Brown Capital Limited

Outlined below are the Shareholdings of the KMP over the period 1 July 2007 - 30 June 2008 in Babcock & Brown Capital Limited. No Shares were granted as remuneration to the KMP during the financial year and no Shares were acquired upon the exercise of Options during the financial year.

Directors of the Company 2008	Balance at the start of the year	Acquired during the year	Other movements <sup>2</sup>	Balance at the end of the year
William Wavish	25,000	-	(25,000)	-
Phillip Green	1,600,000	-	-	1,600,000
Robert Topfer	3,731,158	-	-	3,731,158
<b>Total</b>	<b>5,356,158</b>	<b>-</b>	<b>(25,000)</b>	<b>5,331,158</b>

<sup>2</sup> William Wavish resigned as a Director during the year.

Outlined below are the Shareholdings of the KMP over the period 1 July 2006 - 30 June 2007 in Babcock & Brown Capital Limited. No Shares were granted as remuneration to the KMP during the financial year and no Shares were acquired upon the exercise of Options during the financial year.

Directors of the Company 2007	Balance at the start of the year	Acquired during the year	Other movements <sup>3</sup>	Balance at the end of the year
Robert Champion de Crespigny AC	1,674,419	-	(1,674,419)	-
William Wavish	25,000	-	-	25,000
Phillip Green	1,600,000	-	-	1,600,000
Robert Topfer	2,900,001	831,157	-	3,731,158
Rex Comb	1,000,000	-	(1,000,000)	-
<b>Total</b>	<b>7,199,420</b>	<b>831,157</b>	<b>(2,674,419)</b>	<b>5,356,158</b>

<sup>3</sup> Robert Champion de Crespigny AC and Rex Comb resigned as Directors during the 2007 year.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2008

#### NOTE 27 - KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

##### (C) EQUITY INSTRUMENT DISCLOSURES RELATING TO KMP (CONTINUED)

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

Executives of the Company 2008	Balance at the start of the year	Acquired during the year	Sold during the year	Balance at the end of the year
John Fanning	35,121	27,500	-	62,621
Deborah Kelly	41,398	11,904	-	53,302
Haydn Vella	8,000	7,000	-	15,000
<b>Total shareholdings</b>	<b>84,519</b>	<b>46,404</b>	<b>-</b>	<b>130,923</b>

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

Executives of the Company 2007	Balance at the start of the year	Acquired during the year	Sold during the year	Balance at the end of the year
Deborah Kelly	12,500	28,898	-	41,398
Haydn Vella	4,000	4,000	-	8,000
<b>Total shareholdings</b>	<b>16,500</b>	<b>32,898</b>	<b>-</b>	<b>49,398</b>

##### (D) LOANS TO KEY MANAGEMENT PERSONNEL AND THEIR PERSONALLY RELATED ENTITIES FROM BABCOCK & BROWN CAPITAL LIMITED

In 2008 and 2007 there were no loans from BCM to Key Management Personnel.

##### (E) OTHER TRANSACTIONS WITH KMP

In 2008 and 2007 there were no transactions with Key Management Personnel.

#### NOTE 28 - REMUNERATION OF AUDITORS

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

##### (A) AUDIT SERVICES

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>PricewaterhouseCoopers Australian firm</b>				
Audit and review of financial reports	678	816	647	816
Related practices of PricewaterhouseCoopers Australian firm				
Audit and review of financial reports	2,173	1,946	-	-
Non-PricewaterhouseCoopers audit firms for the audit or review of financial reports of any entity in the Group	11	-	-	-
<b>Total remuneration for audit services</b>	<b>2,862</b>	<b>2,762</b>	<b>647</b>	<b>816</b>

##### (B) NON-AUDIT SERVICES

Audit-related services - related practices of PricewaterhouseCoopers Australian firm

Audit of regulatory returns	2,096	2,126	-	-
Other audit related services	810	2,760	-	-
<b>Total remuneration for audit related services</b>	<b>2,906</b>	<b>4,886</b>	<b>-</b>	<b>-</b>

Taxation Services - related practices of PricewaterhouseCoopers Australian firm

Tax compliance services	82	256	-	-
<b>Total remuneration for audit taxation services</b>	<b>82</b>	<b>256</b>	<b>-</b>	<b>-</b>

**(C) OTHER ADVISORY SERVICES**

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Other advisory services - related practices of PricewaterhouseCoopers Australian firm				
Other advisory services	488	-	-	-
<b>Total remuneration for other advisory services</b>	<b>488</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>6,338</b>	<b>7,904</b>	<b>647</b>	<b>816</b>

The Audit and Risk Management Committee has completed an evaluation of the overall effectiveness and independence of the auditor, PricewaterhouseCoopers. As part of this process, the external auditor has provided a written statement confirming their independence.

**NOTE 29 - CONTINGENT ASSETS AND LIABILITIES**

The Group had contingent liabilities at 30 June 2008 in respect of:

**(A) CLAIMS BY SMART TELECOM**

On 8 June 2005, Smart Telecom instituted proceedings against eircom in the Irish High Court, challenging the validity of a notice of termination issued by eircom to Smart Telecom terminating the interconnection agreement between the parties, and alleging that the notice of termination is an abuse by eircom of its dominant position in the telecommunications market. Smart Telecom further alleges that eircom is abusing its dominant position by refusing to provide network access in the form of LLU to Smart Telecom in the manner required by Smart Telecom. Smart Telecom is seeking relief in the form of declarations that the notice of termination is invalid and an abuse of dominance, that eircom is abusing its dominance by failing to meet Smart Telecom's LLU requirements and unspecified damages, including exemplary damages, for breach of contract and violation of the Competition Act 2002 and the EC Treaty.

An interlocutory injunction application by Smart Telecom was listed before the High Court on 19 October 2005, however, the parties reached a settlement in respect of the interlocutory issues concerned. eircom delivered its defence in the proceedings on 23 December 2005.

The Directors believe that the notice of termination was validly issued in accordance with the interconnection agreement, and that eircom provides access to its network fully in accordance with its obligations, and intends to defend the proceedings vigorously. Smart Telecom submitted general particulars of their damages claim under the headings wasted expenditure (\$2.6 million), delayed sales/lost customers (\$6.2 million p.a.), and capitalisation of losses (\$68.4 million p.a.). Even if Smart Telecom could establish liability on eircom's part under each of these headings, the Directors do not believe that these figures represent damages that would be properly recoverable from eircom.

**(B) DEMERGER OF PREVIOUS MOBILE COMMUNICATIONS BUSINESS**

In connection with the demerger of eircom's mast business, and its subsequent acquisition by Towercom Holdings Limited on 18 September 2007, eircom gave warranties to Towercom Holdings Limited in respect of various matters. Notice of any breach of these warranties is required to be given by 31 May 2009, except for taxation warranties, which in most cases must be given within a period of five years. eircom's liability for a breach of the warranties is limited to \$73.8 million (€45 million) (with certain exceptions, e.g., with respect to fraudulent actions).

In connection with the demerger of Eircell in May 2001 and its subsequent acquisition by Vodafone Group, eircom indemnified Eircell and Vodafone Group against various matters, including for breaches of warranties given by eircom pursuant to the agreements with them. Notice of any breach of these warranties was required to be given by May 2003, except for taxation warranties, which, in most cases, must be given by the sixth anniversary of completion of the demerger. No notices of breach have been received to date. eircom's liability for a breach of the warranties is limited to €500 million (with certain exceptions, e.g., with respect to stamp and capital duty taxes or fraudulent actions), subject to deductibles and other limitations set forth in the agreement with them. eircom also agreed to indemnify Eircell and Vodafone Group for various costs and liabilities.

eircom gave customary corporate and tax warranties to Promedia GCV in connection with its exit from Golden Pages Ireland. The liability period for non-tax warranties has expired. eircom's liability under the tax indemnity and undertaking is generally capped at \$16.4 million, and notice of any breach must be given by 23 May 2009.

eircom gave customary tax warranties and indemnities to NTL Communications Corporation in connection with the disposal of its shareholding in Cablelink Limited. The liability period for non-tax warranties has expired. Notice of any breach in respect of tax warranties must be given by 9 July 2006, and eircom's liability is capped at approximately \$820.2 million.

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

### NOTE 29 - CONTINGENT ASSETS AND LIABILITIES (CONTINUED)

#### (C) PERFORMANCE BONDS

Performance bonds require the Group to make payments to third parties in the event that the Group does not perform its contracted commitments under the terms of any related contracts. Group performance bonds include \$77.1 million (30 June 2007: \$164.0 million) in respect of undertakings to roll out a 3G Network in Ireland, including achieving certain agreed milestones.

#### (D) OTHER

eircom received letters before action in relation to potential hearing impairment claims by 111 current and former employees, six of which are currently the subject of court proceedings. Ninety-nine of the cases are at the Personal Injury Assessment Board ("PIAB"), an Irish statutory body that deals with personal injury claims. eircom has denied liability and awaits further details of the alleged injuries from experts' reports commissioned on eircom's behalf. eircom intends to defend these claims vigorously. However, the outcome of the claims cannot be predicted with certainty. It is also uncertain when the claims will be heard and determined. The defence of the claims will involve a significant legal and other costs being incurred by eircom. However, in the event that eircom is successful, it will have a prima facie entitlement to recover its costs, in whole or in part, from the unsuccessful claimants.

Other than disclosed above, a number of other lawsuits, claims and disputes with third parties, including regulatory authorities, have arisen in the normal course of business. While any litigation has an element of uncertainty, the Directors believe that there were no contingent liabilities which would have a material adverse effect on the Group's financial position.

In the normal course of business, we have entered into contracts involving the exchange or purchase and sale of foreign currencies and various performance bonds. No material losses are expected in respect of these transactions other than losses for which provision has been made in the Financial Statements.

#### (E) ALLEGATIONS OF ANTI-COMPETITIVE PRACTICES

On 17 October 2002, ComReg determined that eircom was not in compliance with its obligations under the voice telephony regulations by providing telephone services to specific customers at prices which were not in accordance with the specific terms and conditions of eircom's discount schemes and published prices. No penalties were levied on eircom as a result of this determination. Ocean Communications Limited and ESAT Telecommunications Limited issued proceedings in the Irish High Court in December 2002 against eircom seeking damages, including punitive damages, resulting from the matters that were the subject of the ComReg determination. eircom submitted its defence on 26 January 2004. eircom intends to defend the proceedings vigorously. The plaintiffs submitted general particulars of their damages claim on 3 February 2004 under the headings: loss of existing customers, loss of prospective customers, economic loss and loss of future profits. In those particulars, the plaintiffs have identified claims for loss of revenue on existing customers (\$12.1 million), failure to meet the plaintiffs' alleged budgeted growth (\$41.0 million) and loss of revenue on the plaintiffs' pricing (\$8.2 million). The particulars also include further unquantified damages. The plenary summons and statement of claim of Ocean Communications Limited and ESAT Telecommunications Limited were amended, inter alia, in April 2005 to include a claim for alleged breach of certain constitutional rights. Even if the plaintiffs could establish a liability on eircom's part under each of these headings, eircom does not believe that these figures represent damages which would be properly recoverable from them.

## NOTE 30 - COMMITMENTS

### CAPITAL COMMITMENTS

Capital expenditure contracted for at reporting date but not recognised in liabilities is as follows:

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
No later than one year	118,606	84,434	-	-
Later than one year and not later than five years	38,676	-	-	-
	<b>157,282</b>	<b>84,434</b>	-	-

### LEASE COMMITMENTS

At 30 June 2008, the Group had annual commitments in respect of lease agreements in respect of properties, vehicles, plant and equipment, for which the payments extend over a number of years. The analysis of the Group's annual commitments is as follows:

Finance lease liabilities - minimum lease payments

	2008	2007	2008	2007
	Defeased \$'000	Defeased \$'000	Non-defeased \$'000	Non-defeased \$'000
No later than one year	47,104	63,321	3,861	6,543
Later than one year and not later than five years	42,922	101,314	2,076	3,579
	<b>90,026</b>	<b>164,635</b>	<b>5,937</b>	<b>10,122</b>
Future finance charges	(9,831)	(15,374)	-	-
<b>Present value of finance lease liabilities</b>	<b>80,195</b>	<b>149,261</b>	<b>5,937</b>	<b>10,122</b>

The total contracted payments due on operating leases are as follows:

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Payable:				
Within one year	88,894	59,937	-	-
Between two and five years	267,798	212,639	-	-
Over five years	488,597	430,296	-	-
	<b>845,289</b>	<b>702,872</b>	-	-

Included in the above contracted commitments are non-cancellable lease commitments to the value of \$85.9 million (2007: \$60.2 million). The non-cancellable lease expense for the coming year is expected to approximate \$3.7 million (2007: \$4 million).

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2008

### NOTE 31 - RELATED PARTY TRANSACTIONS

#### (A) ULTIMATE PARENT AND CONTROLLING ENTITY

The ultimate parent and controlling entity within the Group is Babcock & Brown Capital Limited which is incorporated in Australia.

#### (B) SUBSIDIARIES

Interests in subsidiaries are set out in Note 33.

#### (C) KEY MANAGEMENT PERSONNEL

Disclosures relating to KMP are disclosed in Note 27.

#### (D) TRANSACTIONS WITH RELATED PARTIES

The following transactions occurred with related parties:

	Babcock & Brown Securities (Singapore) Pty Ltd		Babcock & Brown Capital Management Pty Ltd		Babcock & Brown Securities Pty Ltd		Babcock & Brown Australia Pty Ltd		Total	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Management fee	-	-	19,366	13,254	-	-	-	-	19,366	13,254
Performance fee	-	-	-	-	-	-	-	-	-	-
Break fee	-	-	-	-	-	-	-	-	-	-
Adviser's fee	2,742	-	-	-	7,626	85,170	97	-	10,465	85,170
	<b>2,742</b>	<b>-</b>	<b>19,366</b>	<b>13,254</b>	<b>7,626</b>	<b>85,170</b>	<b>97</b>	<b>-</b>	<b>29,831</b>	<b>98,424</b>

#### (i) Management fee

Under the terms of the Management Agreement, the Management Company provides designated and non-designated services in return for a fee. The Management Company for the year was Babcock & Brown Capital Management Pty Ltd.

The term of the Management Agreement is 25 years, subject to early termination. The fee is calculated as follows:

Percentage of raised capital invested in authorised investments	Annual management fee
Less than 30%	Nil. Subject to reimbursement of costs incurred by the Management Company.
At least 30% (at any time) but less than 50%	1% of the value of Net Assets shown in the most recent half-yearly or annual audited Balance Sheet.
At least 50% (at any time) but less than 75%	1.5% of the value of Net Assets in the most recent half-yearly or annual audited Balance Sheet.
At least 75% (at any time)	2% of the value of Net Assets in the most recent half-yearly or annual audited Balance Sheet.

In addition to the management fee structure, the Management Agreement provides that the management fee must at least equal the amount of costs which the Management Company has incurred in its role.

#### (ii) Performance fee

The Management Company is entitled to receive an annual performance fee calculated by reference to the pre-tax Total Shareholder Return ("TSR") as follows:

Pre-tax Shareholder return	Annual performance fee
Between 10% and 25%	20% of the amount (if any) by which the actual TSR exceeds a notional 10% pre-tax TSR but is equal to or less than a notional 25% pre-tax TSR; and
Above 25%	30% of the amount (if any) by which the actual TSR exceeds a Notional 25% pre-tax TSR, less; the aggregate of any performance fees previously paid by the Company to the Management Company during the term of the Management Agreement.

The performance fee is calculated on a cumulative basis such that TSR must continue to exceed the return benchmarks before any additional performance fee is payable. TSR is calculated in accordance with the Management Agreement by reference to:

- the difference between amounts paid by Shareholders for any subscription for Company Shares and the value of those Shares as at the end of each measurement period; and
- dividends and/or other distributions received by Shareholders in respect of those Shares during the measurement period.

If the calculation of the performance fee results in a negative figure, no performance fee will be paid to the Management Company. No performance fee was paid for the year.

**(iii) Break fee**

The Management Company is entitled to one-third of the value of any break, termination or other similar fees received by the Company in connection with any proposed investment. No break fees were received during the year (2007: nil).

**(iv) Adviser's fee**

In addition to the management fee and performance fees payable to the Management Company, Babcock & Brown Securities Pty Ltd has been appointed as the preferred adviser. Babcock & Brown Securities Pty Ltd is a controlled entity of Babcock & Brown Limited. The fees payable under the preferred adviser mandate are determined on the basis of the investment proposal presented to the Company by Babcock & Brown Securities Pty Ltd in conjunction with Babcock & Brown Australia Pty Ltd.

The following transactions occurred with related parties:

**(E) OTHER TRANSACTIONS WITH RELATED PARTIES**

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Dividend revenue</b>				
Subsidiaries	-	-	7,042	3,761
Associates	-	1,933	-	-
<b>Management fee revenue</b>				
Subsidiaries	-	-	12,190	7,737
<b>Transaction costs</b>				
Other related parties	-	(18,408)	-	-
<b>Tax consolidation legislation</b>				
Tax losses assumed from wholly-owned tax consolidated entities	-	-	1,152	270
<b>Transaction cost recovery</b>				
Subsidiaries	-	-	-	49,082
<b>Other</b>				
Administration costs of minority interests	-	(761)	-	-

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2008

#### NOTE 31 - RELATED PARTY TRANSACTIONS (CONTINUED)

##### (F) OUTSTANDING BALANCES WITH RELATED PARTIES

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Current Receivables (investing activities)</b>				
Subsidiaries	-	-	28,553	14,310
<b>Current Receivables (tax funding agreement)</b>				
Subsidiaries	-	-	746	6,042
<b>Current Payables</b>				
Subsidiaries	-	-	(720)	(159,999)
<b>Current Payables (tax funding agreement)</b>				
Subsidiaries	-	-	(1,152)	(286)
<b>Current Payables</b>				
Other related parties	-	10,796	-	-
<b>(G) LOANS TO FROM RELATED PARTIES</b>				
<b>Loans to subsidiaries</b>				
Beginning of the year	-	-	20,064	17,384
Loans advanced (Note 10)	-	-	5,871	2,680
	-	-	<b>25,935</b>	<b>20,064</b>
<b>Loans from subsidiaries</b>				
Beginning of the year	-	-	(159,999)	(159,364)
Loans repaid/(made) (Note 20)	-	-	159,279	(635)
	-	-	<b>(720)</b>	<b>(159,999)</b>

## NOTE 32 - BUSINESS COMBINATIONS

### (A) SUMMARY OF ACQUISITION - GPM CLASSIFIED DIRECTORIES (MANAGEMENT AND MARKETING) LTD

On 31 July 2007, the Group completed its second major investment, with the acquisition of the leading Israeli directories business, G.P.M. Classified Directories (Management & Marketing) Ltd ("GPM"), also referred to as Golden Pages Israel.

The Group acquired 100% of GPM from Markstone Capital Partners and other Israeli-based institutional investors. The acquisition enterprise value was \$248.1 million, requiring \$143.3 million of equity from BCM. Inclusive of transaction costs, the total acquisition price was \$149.9 million.

The acquired business contributed revenues of \$84.8 million and a net loss of \$17.5 million to the Group for the period from 31 July 2007 to 30 June 2008.

If the acquisition had occurred on 1 July 2007, consolidated revenue and consolidated loss after tax for the year ended 30 June 2008 would have been \$92.5 million and \$18.2 million respectively. Details of net assets acquired and goodwill are as follows:

	\$'000
Purchase Consideration	
Cash paid	143,577
Direct costs related to the acquisition	6,324
<b>Total purchase consideration</b>	<b>149,901</b>
Fair value of net identifiable assets acquired (refer below)	48,853
<b>Goodwill</b>	<b>198,754</b>
<b>Intangibles Acquired</b>	
Brand names	33,242
Customer contracts	22,825
Databases and technology	2,148
<b>Total Intangibles</b>	<b>58,215</b>

The goodwill is attributable to Golden Pages Israel's strong market position and profitability in trading in the Israel directories market.

### (B) ASSETS AND LIABILITIES ACQUIRED - GOLDEN PAGES ISRAEL

	Carrying amount \$'000	Fair value \$,000
Purchase Consideration		
Cash and cash equivalents	6,160	6,160
Tangible assets	5,587	5,390
Intangible assets	11,778	58,215
Other non-current assets	4,876	5,218
Current assets (ex-cash)	30,084	30,084
<b>Total assets</b>	<b>58,485</b>	<b>105,067</b>
Non-current liabilities	(2,066)	(9,543)
Borrowings	(132,949)	(106,308)
Current liabilities	(40,752)	(38,069)
<b>Total liabilities</b>	<b>(175,767)</b>	<b>(153,920)</b>
<b>Net Assets</b>	<b>(117,282)</b>	<b>(48,853)</b>

The above fair value figures in the report of the acquisition of Golden Pages Israel have now been finalised in accordance with AASB 3 *Business Combinations*. There have been no changes to the purchase price allocation since 31 December 2007 half-year financial report.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2008

#### NOTE 32 - BUSINESS COMBINATIONS (CONTINUED)

##### (C) SUMMARY OF ACQUISITION - EIRCOM

On 18 August 2006 Babcock and Brown Capital Limited acquired 57.1% of the shares in eircom, a telecommunications company located in Ireland for cash consideration of €2,429.1 million.

The acquired business contributed revenues of \$2,912.6 million and a net loss of \$154.9 million to the Group for the period from 18 August 2006 to 30 June 2007. Prior to 18 August 2006, the Group held a 27.1% interest in eircom and the Group accounted for the investment as an associate.

If the acquisition had occurred on 1 July 2006, consolidated revenue and consolidated loss after tax for the year ended 30 June 2007 would have been \$3,333.1 million and \$147.4 million respectively. Details of net assets acquired and goodwill are as follows:

Purchase Consideration	€'000	\$'000
Cash paid	2,343,548	3,710,458
Direct costs related to the acquisition	85,514	135,371
<b>Total purchase consideration</b>	<b>2,429,062</b>	<b>3,845,829</b>
Fair value of net identifiable assets acquired	(956)	(1,504)
<b>Goodwill</b>	<b>2,428,106</b>	<b>3,844,325</b>
<b>Intangibles acquired</b>		
eircom brand name	261,700	414,278
Customer contracts	308,732	488,732
Regulatory licence	71,429	113,074
Meteor brand name and trademark	41,881	66,299
Software	22,282	35,274
<b>Total Intangibles</b>	<b>706,024</b>	<b>1,117,657</b>

The goodwill is attributable to eircom's market position and profitability in trading in the Irish telecommunications industry. eircom has in place a significant infrastructure base in Ireland and operates the third largest mobile carrier in Ireland (Meteor).

##### (D) ASSETS AND LIABILITIES ACQUIRED - EIRCOM

Purchase Consideration	Carrying amount \$'000	Fair value \$,000
Cash and cash equivalents	524,691	524,691
Tangible assets	3,231,792	3,551,604
Intangible assets	204,786	1,117,657
Other non-current assets	455,220	238,751
Current assets (ex-cash)	720,643	720,643
<b>Total assets</b>	<b>5,137,132</b>	<b>6,153,346</b>
Non-current liabilities	(767,040)	(1,094,705)
Borrowings	(3,860,844)	(3,860,844)
Other non-current liabilities	(1,226,413)	(1,197,785)
<b>Total liabilities</b>	<b>(5,854,297)</b>	<b>(6,153,334)</b>
<b>Net Assets</b>	<b>(717,165)</b>	<b>12</b>

Purchase consideration, fair value of assets acquired and goodwill are all EURO-denominated. On consolidation to the BCM Group result into the Australian dollar presentation currency, translation differences are likely to occur to change this figure in Australian dollars.

### NOTE 33 - SUBSIDIARIES

The consolidated Financial Statements incorporate the assets, liabilities and results of the following significant subsidiaries in accordance with Note 1(C):

Company	Country of incorporation	Ownership interest	
		30 June 2008	30 June 2007
BCL Communications Pty Limited	Australia	100%	100%
Babcock & Brown Capital Europe Pty Limited	Australia	100%	100%
B&B Capital Investments Pty Ltd	Australia	100%	100%
B&B Capital Investments 2 Pty Ltd	Australia	100%	100%
Eamon Holdings Pty Ltd	Australia	100%	100%
B&B Ireland Group Ltd	Cayman Islands	87.8%	87.8%
BCM Ireland Equity SPC	Cayman Islands	57.1%	57.1%
BCM Ireland Preferred Equity Ltd	Cayman Islands	57.1%	57.1%
BCM Ireland Finance Ltd	Cayman Islands	57.1%	57.1%
BCM Ireland Holdings Ltd	Cayman Islands	57.1%	57.1%
BCM ESOT Services Ltd	Cayman Islands	57.1%	57.1%
BCM Luxembourg Holdings Ltd	Luxembourg	57.1%	57.1%
BCM Enterprises Ltd	Cayman Islands	57.1%	57.1%
Valentia Telecommunications	Ireland	57.1%	57.1%
eircom Limited	Ireland	57.1%	57.1%
Meteor Mobile Communications Limited	Ireland	57.1%	57.1%
Irish Telecommunications Investments Limited	Ireland	57.1%	57.1%
Osprey Property Limited	Ireland	57.1%	57.1%
eircom Phonewatch Limited	Ireland	57.1%	57.1%
eircom UK Limited	United Kingdom	57.1%	57.1%
Lan Communications Limited	Ireland	57.1%	57.1%
eircom Investments BV	Netherlands	57.1%	57.1%
Eircable Limited	Ireland	57.1%	57.1%
eircom Holdings Limited	Ireland	57.1%	57.1%
eircom (Infonet Ireland) Limited	Ireland	57.1%	57.1%
GoFree Limited	Ireland	57.1%	57.1%
MASTCO	Ireland	-	57.1%
GPM Classified Directory (Managing and Marketing) Ltd	Israel	100%	-
Golden Pages Finance BV	Netherlands	100%	-
Madas Ltd	Israel	100%	-
ZAP Computing Ltd	Israel	100%	-
Rest Limited	Israel	100%	-
Pro Internet Ltd	Israel	75.3%	-
Dun & Bradstreet (Israel) Ltd	Israel	55%	-
Mitchatnim Bareshet Ltd	Israel	100%	-
Mitchatnim Catalog Ltd	Israel	100%	-
Winhelp Ofran Limited Partnership	Israel	50.1%	-
Net Health Venture	Israel	51%	-
Neto Search Engine Ltd	Israel	50.1%	-
Gil Hazav Ltd	Israel	50%	-

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

### NOTE 34 - CASH FLOW FROM OPERATIONS

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Profit/(loss) for the year after tax</b>	<b>184,287</b>	<b>(247,576)</b>	<b>14,427</b>	<b>16,298</b>
<b>Add back:</b>				
Income tax expense/(benefit)	52,880	(4,600)	6,031	4,480
Finance costs	564,724	429,411	-	-
Depreciation and amortisation	660,229	580,085	-	-
<b>Adjusted profit for the year after tax</b>	<b>1,462,120</b>	<b>757,320</b>	<b>20,458</b>	<b>20,778</b>
<b>Adjustments for:</b>				
Net investment gains	(131,300)	(17,639)	-	-
Net construction income	(61,040)	(30,950)	-	-
Dividends received	-	-	(7,042)	(3,761)
Interest revenue	(53,579)	(51,233)	(28,349)	(20,860)
Share of profits from associates	329	(1,933)	-	-
Impairment of investment in subsidiary	4,273	-	4,273	-
Restructuring costs	-	269,688	-	-
Fair value adjustment - net (gains)/losses on derivatives	-	-	1,431	(4,274)
Net foreign currency gains	-	-	(41)	(106)
Non cash share-based payments	563	717	(794)	717
Non cash retirement benefit credit	(81,447)	(6,945)	-	-
Non cash management fee	(6,119)	-	-	-
Non cash revaluation of asset recognised at fair value through the profit and loss	-	1,265	-	-
Effects of exchange rate changes	566	50	-	-
Cash flows relating to construction contracts	(15,677)	(37,107)	-	-
Cash flows relating to restructuring and other provisions	(57,974)	(11,385)	-	-
<b>Changes in assets and liabilities:</b>				
Decrease/(increase) in Inventories	3,855	(3,678)	-	-
Decrease/(increase) in trade and other receivables	(214,172)	48,892	(6,102)	(258)
Increase/(decrease) in trade and other creditors	288,508	96,442	209	(679)
<b>Cash flow generated from operations</b>	<b>1,138,906</b>	<b>1,013,504</b>	<b>(15,957)</b>	<b>(8,443)</b>

## NOTE 35 - EARNINGS PER SHARE

### (A) EARNINGS PER SHARE

The following reflects the income and share data used in the calculations of basic and diluted earnings per Share:

	Consolidated	
	2008	2007
Profits/(losses) used in calculating basic and diluted earnings per Share	\$101,235,000	(\$131,677,000)
(i) Weighted average number of ordinary Shares issued	193,752,275	200,000,000
Basic profits/(losses) per Share	52.3 cents	(65.8 cents)
Diluted profits/(losses) per Share	52.3 cents	(65.8 cents)
(ii) Actual number of ordinary Shares issued at 30 June 2008	167,904,914	200,000,000
Basic profits/(losses) per Share	60.3 cents	(65.8 cents)

### (B) DIVIDENDS

The Directors have not proposed an interim or final dividend for the year ended 30 June 2008 (2007: nil).

## NOTE 36 - SHARE-BASED PAYMENTS

### NON-EXECUTIVE DIRECTOR SHARE OPTION PLAN

Options in the company were granted to the Non-Executive Directors of the Group as part of the IPO. The Option Plan which sets out the terms of the offer, is designed to provide a long-term incentive to Non-Executive Directors. The terms and conditions of the offer are as follows:

Grant date	Expiry date	Exercise price \$	Value per option granted \$ <sup>1</sup>	Date exercisable
14 February 2005	14 February 2012	5.00	0.62-1.32	Any time after the Company's third year result, subject to the vesting conditions of the options
9 February 2006	14 February 2012	5.00	0.14-0.72	Any time after the Company's third year result, subject to the vesting conditions of the options
8 November 2006	14 February 2012	5.00	0.003-0.31	Any time after the Company's third year result, subject to the vesting conditions of the options

<sup>1</sup> Each of the three tranches was fair-valued. In order to assess the economic benefits of the Options, the "Binomial Model" technique was used for the valuation. This methodology produces a Share price distribution and can be used to value Share-based payments with market hurdles and makes allowance for early exercise. The Share price distribution is generated assuming at any point in time the Share price can move up or down.

Options under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one Ordinary Share and carries identical dividend and voting rights as other Ordinary Shares.

### Vesting conditions of the options

The Options issued to Non-Executive Directors were granted for nil consideration and vest as follows:

- Tranche 1: Options issued on 14 February 2005 as part of the IPO were forfeited during the 2007 year. Options outstanding nil.
- Tranche 2: 866,667 Options (2007: 1,300,000) if the TSR since listing is an internal rate of return (IRR) of 10% or greater; plus
- Tranche 3: 1,133,334 Options (2007: 1,700,000) if the TSR since listing is an IRR of 25% or greater.

Each tranche is conditional on the Non-Executive Director being employed by the Company on the date of exercise. Failure to maintain employment as a Non-Executive Director of the Company will result in the immediate lapse of any unvested options and will lapse after 90 days of his or her termination date of any vested but unexercised options.

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

### NOTE 36 - SHARE-BASED PAYMENTS (CONTINUED)

The vesting conditions are linked to TSR to ensure Non-Executive Directors are only rewarded when Shareholder returns are commensurate. TSR is defined as the measure of Shareholder return on investment in BCM Shares for each measurement period, calculated in accordance with the formula set out in the Management Agreement (refer to Note 31). Set out below are summaries of the Options granted under the plan:

#### Parent Entity - 2008

Grant date	Expiry date	Balance at the start of the year Number	Granted during the year Number	Forfeited during the year Number	Balance at the end of the year Number
14 February 2005 <sup>1</sup>	14 February 2012	1,000,000	-	-	1,000,000
9 February 2006	14 February 2012	1,000,000	-	-	1,000,000
8 November 2006	14 February 2012	1,000,000	-	-	1,000,000
<b>Total</b>		<b>3,000,000</b>	<b>-</b>	<b>-</b>	<b>3,000,000</b>

<sup>1</sup> William Wavish resigned on 21 April 2008. Mr Wavish's Options lapsed on 19 July 2008.

#### Parent Entity - 2007

Grant date	Expiry date	Balance at the start of the year Number	Granted during the year Number	Forfeited during the year Number	Balance at the end of the year Number
14 February 2005	14 February 2012	2,500,000	-	(1,500,000)	1,000,000
9 February 2006	14 February 2012	1,000,000	-	-	1,000,000
8 November 2006	14 February 2012	-	1,000,000	-	1,000,000
<b>Total</b>		<b>3,500,000</b>	<b>1,000,000</b>	<b>(1,500,000)</b>	<b>3,000,000</b>

### NOTE 37 - DEED OF CROSS GUARANTEE

Babcock & Brown Capital Limited, Babcock & Brown Capital Investments 2 Pty Limited and Eamon Holdings Pty Limited are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly owned entities have been relieved from the requirement to prepare a Financial Report and Directors' Report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

#### (A) CONSOLIDATED INCOME STATEMENT

The above companies represent a "Closed Group" for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Babcock & Brown Capital Limited, they also represent the "Extended Closed Group".

Set out below is a consolidated Income Statement for the year ended 30 June 2008 of the Closed Group consisting of Babcock & Brown Capital Limited, Babcock & Brown Capital Investments 2 Pty Limited and Eamon Holdings Pty Limited

	2008 \$'000
<b>Income Statement</b>	
Revenue from continuing operations	42,654
Expenses from continuing operations (excluding finance costs)	(21,864)
<b>Profit before income tax</b>	<b>20,790</b>
Income tax expense	(4,135)
<b>Profit for the year</b>	<b>16,655</b>

**(B) BALANCE SHEET**

Set out below is a consolidated Balance Sheet as at 30 June 2008 of the Closed Group consisting of Babcock & Brown Capital Limited, Babcock & Brown Capital Investments 2 Pty Limited and Eamon Holdings Pty Limited.

2008  
\$'000

**Current assets**

Cash and cash equivalents	354,466
Trade and other receivables	125,225
Derivative financial instruments	7,522
<b>Total current assets</b>	<b>487,213</b>

**Non-Current assets**

Investments in subsidiaries	419,449
Derivative financial instruments	1,887
Deferred tax assets	6,224
<b>Total non-current assets</b>	<b>427,560</b>
<b>Total assets</b>	<b>914,773</b>

**Current liabilities**

Trade and other payables	486
Derivative financial instruments	7,754
Current tax liabilities	2,422
<b>Total current liabilities</b>	<b>10,662</b>

**Non-Current liabilities**

Deferred tax liabilities	1,298
Derivative financial instruments	2,071
<b>Total non-current liabilities</b>	<b>3,369</b>
<b>Total liabilities</b>	<b>14,031</b>
<b>Net assets</b>	<b>900,742</b>

**Equity**

Contributed equity	855,532
Retained profits	45,210
<b>Total equity</b>	<b>900,742</b>

**NOTE 38 - EVENTS OCCURRING AFTER THE BALANCE SHEET DATE**

On 28 August 2008, the Independent Directors of BCM deferred the off-market buy-back program, pending completion of discussions with Babcock & Brown Limited regarding the potential internalisation of management of BCM.

## DIRECTORS' DECLARATION

In the Directors' opinion;

- (A) the Financial Statements and notes set out on pages 62 to 129 are in accordance with the *Corporations Act 2001*, including:
- (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Company's and the Consolidated Entity's financial position as at 30 June 2008 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and
- (B) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (C) the remuneration disclosures set out on pages 33 to 44 of the Directors' Report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulation 2001*; and
- (D) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in Note 37 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 37.

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

This declaration is made in accordance with a resolution of the Directors.



Kerry Roxburgh  
Chairman

Sydney,  
28 August 2008

INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF BABCOCK & BROWN CAPITAL LIMITED



PricewaterhouseCoopers  
ABN 52 780 433 757

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

**Independent auditor's report to the members of Babcock & Brown Capital Limited**

**Report on the financial report**

We have audited the accompanying financial report of Babcock & Brown Capital Limited (the company), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Babcock & Brown Capital Limited and Babcock & Brown Capital Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

*Auditor's responsibility*

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

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

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

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

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

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## INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BABCOCK & BROWN CAPITAL LIMITED



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

### *Independence*

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

### *Auditor's opinion*

In our opinion:

- (a) the financial report of Babcock & Brown Capital Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

### **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 7 to 15 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Auditor's opinion*

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

*PricewaterhouseCoopers*

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'VJ Clarke'.

VJ Clarke  
Partner

Sydney  
28 August 2008

## ASX ADDITIONAL INFORMATION

Additional information required by the ASX and not shown elsewhere in this report is as follows. The information is current as at 30 September 2008.

### SHAREHOLDINGS

#### SUBSTANTIAL SHAREHOLDERS

The names of substantial Shareholders who have notified the Company in accordance with section 671B of the *Corporations Act 2001* are:

Shareholder	Number	Percentage
National Australia Bank	17,297,841	10.23
Deutsche Bank AG	16,195,040	9.58
CC Asia Absolute Return Master Fund Ltd	15,350,607	9.08
Babcock & Brown Group	14,459,281	8.60
UBS Nominees Pty Ltd	8,871,551	5.23

Substantial Shareholders are based on the percentage shareholding owned in listed shares.

#### VOTING RIGHTS

At meetings of Shareholders of the Company on a show of hands each Shareholder will have one vote.

On a poll, the voting rights attaching to a share in the Company will be one vote for each fully paid ordinary share.

#### ON-MARKET BUY-BACKS

On 28 August 2007, the Company announced an on-market buy-back program. This program has been expanded with Shareholders' approval on 21 April 2008 and the Company is now authorised to buy-back up to 50% of its original issued capital (or 100 million shares). As at the date of this report, 16% of the original issued capital (32,095,086 shares) had been bought back at a total cost of approximately \$122 million.

#### SHARE CAPITAL

The share capital of Babcock & Brown Capital Limited is:

Ordinary fully paid shares - listed: 167,904,914

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## ASX ADDITIONAL INFORMATION

### DISTRIBUTION OF EQUITY SECURITIES

The number of Shareholders by size of holding, in each class of share is:

Category	Holders	Ordinary Shares
1 - 1,000	377	264,184
1,001 - 5,000	2,062	5,985,398
5,001 - 10,000	602	4,965,242
10,001 - 100,000	447	13,673,220
100,001 and over	100	143,016,870
<b>Total</b>	<b>3,588</b>	<b>167,904,914</b>

The number of shareholders holding less than a marketable parcel of shares is 24.

### NUMBER AND CLASS OF SHARES THAT ARE RESTRICTED OR SUBJECT TO VOLUNTARY ESCROW

There are 10,000,000 ordinary shares in the Company which are subject to voluntary escrow. These shares are 100% owned by Babcock & Brown Limited and will be released from escrow on 4 February 2010, being five years from the allotment date of the partly paid shares.

### USE OF CASH

The Company has used cash and assets in a form readily convertible to cash that it had at the time of admission to the Official List of the ASX in a way consistent with its business objectives.

## TWENTY LARGEST SHAREHOLDERS

The names of the 20 largest Shareholders of quoted shares of the Company are:

Name	Shares held	Percentage of ordinary shares held
National Nominees Limited	18,559,508	11.05
DNU Nominees Pty Limited	14,336,885	8.54
HSBC Custody Nominees (Australia) Limited - A/C 2	13,598,897	8.10
Citicorp Nominees Pty Limited	11,683,449	6.96
ANZ Nominees Limited	10,152,859	6.05
HSBC Custody Nominees (Australia) Limited - A/C 3	8,632,485	5.14
J P Morgan Nominees Australia Limited	8,570,059	5.10
HSBC Custody Nominees (Australia) Limited	5,383,914	3.21
UBS Wealth Management Australia Nominees Pty Ltd	5,187,854	3.09
Brispot Nominees Pty Ltd - House Head Nominee No 1 A/C	5,148,636	3.07
Cogent Nominees Pty Limited	4,641,774	2.76
CS Fourth Nominees Pty Ltd	2,335,571	1.39
Radley Investment Co Pty Ltd + Mr John Dalley	2,199,970	1.31
Mr Andrew John Switajewski	2,013,758	1.20
Southgate Investment Funds Limited	2,000,000	1.19
Chriswall Holdings Pty Ltd	1,900,000	1.13
Merrill Lynch (Australia) Nominees Pty Limited	1,812,095	1.08
Radley Investment Company Pty Ltd	1,463,000	0.87
Mr David Zalmon Baffsky	890,000	0.53
Strategic Value Pty Ltd	876,597	0.52
<b>Total</b>	<b>121,387,311</b>	<b>72.30</b>

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# Corporate Directory

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## **DIRECTORS**

Kerry Roxburgh, Independent Chairman  
Andrew Love, Independent Director  
Phillip Green, Non-Executive Director  
Robert Topfer, Non-Executive Director  
Dr Gregory Clark, Independent Director

## **COMPANY SECRETARY**

Simone Lander

## **PRINCIPAL REGISTERED OFFICE**

Level 23, The Chifley Tower  
2 Chifley Square  
Sydney NSW 2000  
Australia

## **LOCATION OF SHARE REGISTER**

Link Market Services  
Level 12, 680 George Street  
Sydney NSW 2000 Australia  
Tel: 1800 704 855 (within Australia)  
+61 2 8280 7783 (outside Australia)  
Fax: +61 2 9287 0309  
Email: babcockbrown@linkmarketservices.com.au

## **STOCK EXCHANGE**

Australian Securities Exchange

## **MANAGEMENT COMPANY**

The Management Company was initially Babcock & Brown Securities Pty Ltd ("BBS") and was replaced by Babcock & Brown Capital Management Pty Ltd ("BBCM") once it had been issued with an appropriate Australian Financial Services Licence ("AFSL"). The Management Agreement is therefore an agreement between the Company, BBS and BBCM.

## **AUDITORS**

PricewaterhouseCoopers  
201 Sussex Street  
Sydney NSW 1171

## **WEBSITE**

[www.babcockbrowncapital.com](http://www.babcockbrowncapital.com)

## **BABCOCK & BROWN CAPITAL LIMITED AND CONTROLLED ENTITIES**

ABN 31 112 119 203  
BBCM ACN 112 118 144 is the Management Company for BCM under a Management Agreement dated 20 December 2004.

Investments in the Company are not investments in, deposits with, or other liabilities, of Babcock & Brown, or any entity in the Babcock & Brown Group and are subject to investment risk, including loss of income and capital invested. Neither BBCM nor any member of the Babcock & Brown Group, guarantees the performance of the Company, the repayment of capital or the payment of a particular rate of return on the Company's Shares.

This report is not an offer or invitation for subscription or purchase of or a recommendation of securities. It does not take into account the investment objectives, financial situation and particular needs of the investor. Before making an investment in the Company, the investor or prospective investor should consider whether such an investment is appropriate to their particular investment needs, objectives and financial circumstances and consult an investment adviser if necessary.

The Company's consolidated financial report has been prepared to enable the Company to comply with its obligations under the Corporations Act and to ensure compliance with the ASX Listing Rules and satisfy the requirements of the Australian accounting standards. The responsibility for preparation of the consolidated financial report and any financial information contained in this Annual Report rests solely with the Directors of the Company.

The Financial Report was authorised for issue by the Directors on 28 August 2008. The Company has the power to amend and reissue the Financial Report.



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NOTICE OF 2008  
ANNUAL GENERAL MEETING



BABCOCK & BROWN  
CAPITAL LIMITED

# Notice of 2008 Annual General Meeting

Notice is hereby given that the 2008 Annual General Meeting of the Shareholders of Babcock & Brown Capital Limited ACN 112 119 203 ("the Company") will be held as follows:

**DATE:** Friday, 28 November 2008

**TIME:** 2.00pm AEST

**PLACE:** Auditorium  
Museum of Sydney  
37 Phillip Street, Sydney

This Notice of Meeting should be read in conjunction with the accompanying Explanatory Statement. A Proxy Form accompanies this Notice.

## ORDINARY BUSINESS

### Annual Reports and Accounts

To receive and consider the consolidated financial statements of the Company and its controlled entities for the year ended 30 June 2008 and the reports of the Directors and Auditors thereon.

**NOTE:** There is no vote on this item.

### Resolution 1 – Remuneration Report

To consider and, if thought fit, to pass the following ordinary resolution:

*"THAT the Remuneration Report for the year ended 30 June 2008 is approved for the purposes of the Corporations Act 2001 (Cth)."*

**NOTE:** This is a non-binding advisory vote.

### Resolution 2 – Re-election of Mr Andrew Love as a Director

To consider and, if thought fit, to pass the following ordinary resolution:

*"THAT Andrew Love, retiring in accordance with ASX Listing Rule 14.4 and rule 19.4(b) of the Company's Constitution, be re-elected as a Director of the Company."*

### Resolution 3 – Re-election of Dr Gregory Clark as a Director

To consider and, if thought fit, to pass the following ordinary resolution:

*"THAT Gregory Clark, retiring in accordance with ASX Listing Rule 14.4 and rule 20.2 of the Company's Constitution, be re-elected as a Director of the Company."*

### By order of the Board

Dated: 24 October 2008



Simone Lander  
Company Secretary  
Babcock & Brown Capital Limited

NOTES

- 1 On a poll, Shareholders have one vote for every fully paid ordinary share held or unit held. On a show of hands, every person present and qualified to vote has one vote and if one proxy has been appointed, that proxy will have one vote on a show of hands. Under the Corporations Act, if a Shareholder appoints more than one proxy, neither proxy may vote on a show of hands, but both proxies will be entitled to vote on a poll.
- 2 A Shareholder entitled to attend and vote is entitled to appoint not more than two proxies. If it is desired to appoint two proxies, then an additional proxy form can be obtained from the Company's share registry by telephoning +61 2 8280 7180.
- 3 Where more than one proxy is appointed, each proxy may be appointed to represent a specified proportion or number of the Shareholder's voting rights.
- 4 A proxy need not be a Shareholder of the Company and may be an individual or body corporate.
- 5 Proxy forms (and if the appointment is signed by the appointor's attorney, the original authority under which the appointment was signed or a certified copy of the authority) must be received by the Company's share registry Link Market Services:
  - by mail to Locked Bag A14, Sydney South NSW 1235; or
  - by hand to Level 12, 680 George Street, Sydney NSW 2000; or
  - by fax to +61 2 9287 0309; or
  - by electronic lodgement online at Link Market Services' website [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au) in accordance with the instructions provided on the website. You will need your Holder Identification number (HIN) or Security Reference Number (SRN) to lodge your proxy online,prior to 2.00pm AEST Wednesday, 26 November 2008.
- 6 The Board of the Company have determined that, for the purposes of the meeting shares will be taken to be held by the persons who are registered as Shareholders as at 8.00pm AEST on Wednesday, 26 November 2008. Accordingly share transfers registered after that time will be disregarded in determining entitlement to attend and vote at the meeting.

EXPLANATORY NOTES

These Explanatory Notes are intended to provide Shareholders of the Company with information to assess the merits of the proposed resolutions contained in the accompanying Notice of Meeting.

ANNUAL REPORT AND ACCOUNTS

The *Corporations Act 2001 (Cth)* and the Company's constitution require the Financial Report, Director's Report and Auditors report for the financial year ended 30 June 2008 to be tabled before the Annual General meeting, and the Company Constitution provides for such reports to be received and considered at that Meeting. Neither the *Corporations Act 2001 (Cth)* nor the Company's Constitution requires a vote of Shareholders at the Annual General Meeting on such Reports.

The Annual General Meeting provides a forum for Shareholders to ask questions and make comments on the Company's reports and accounts and on the business and operations of the Company for the financial year ended 30 June 2008.

In addition, Shareholders may at the meeting ask questions of the Company's auditors in relation to the following matters:

- (a) the conduct of the audit;
- (b) the preparation and content of the auditor's report;
- (c) the accounting policies adopted by the Company for the preparation of the financial statements; and
- (d) the auditors' independence in relation to the conduct of the audit.

Members may submit written questions to the auditors in relation to the above items. Any written questions to the auditors must be submitted to the Company no later than the 5th business day before the Annual General meeting, that is, on or by Friday, 21 November 2008.

## NOTICE OF 2008 ANNUAL GENERAL MEETING (continued)

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### **Resolution 1 – Remuneration Report**

The Remuneration Report in respect of the financial year ended 30 June 2008 is included in the Company's Annual Report 2008 on pages 31 to 43 and is also available from the Company's website, [www.babcockbrowncapital.com](http://www.babcockbrowncapital.com). The *Corporations Act 2001 (Cth)* provides that at a listed Company's Annual General Meeting, a resolution that the remuneration report be adopted must be put to the vote. Shareholders will be given the opportunity to ask questions about and make comments on the Remuneration Report at the meeting. The vote on the resolution is advisory only, and does not bind the Directors or the Company.

Resolution 1 need only be passed as an ordinary resolution, that is, by a simple majority of those present (including by proxy) and, being entitled to do so, voting in favour of the resolution. A reasonable opportunity for discussion of the Remuneration Report will be provided at the meeting.

### **Resolution 2 – Re-election of Mr Andrew Love as a Director**

ASX Listing Rule 14.5 provides that a listed entity that has directors must hold an election of directors each year. ASX Listing Rule 14.4 provides that a director appointed to fill a casual vacancy or as an addition to the Board must not hold office (without re-election) past the next annual general meeting of the entity. Mr Love was appointed to the Board of the Company on 21 April 2008 and submits himself for re-election as contemplated by Listing Rule 14.4 and the Company's Constitution.

Andrew Love has over 30 years of experience in corporate recovery, reconstruction and insolvency practice in Australia. Andrew is a Chartered Accountant and has extensive public company experience including that of Chairman in other listed entities. He is currently a Non-Executive Director of Babcock & Brown Communities Limited, Chairman of ROC Oil Limited, Deputy Chairman of Riversdale Mining Limited and a Director of the Museum of Contemporary Art. Andrew is independent of Babcock & Brown and has recently retired from Ferrier Hodgson. He is based in Sydney.

Resolution 2 need only be passed as an ordinary resolution, that is, by a simple majority of those present (including by proxy and, being entitled to do so, voting in favour of the resolution).

The Directors (other than Mr Love) unanimously recommend that Shareholders vote in favour of the re-election of Mr Love.

### **Resolution 3 – Re-election of Dr Gregory Clark as a Director**

Dr Clark was appointed to the Board of the Company on 4 August 2006 and submits himself for re-election as contemplated by Listing Rule 14.5 and the Company's Constitution.

Gregory Clark was appointed an Independent Director of Babcock & Brown Capital Limited in August 2006. Gregory is a Principal of Clark Capital Partners, a US based firm that advises internationally on technology and the technology marketplace. Prior to this, Gregory held senior executive positions in IBM, News Corporation and Loral Space and Communications. Gregory is currently a non-executive director of ANZ Banking Group Limited and was a Director of James Hardie from April 2002 to May 2006. He is based in Sydney and New York.

Resolution 3 need only be passed as an ordinary resolution, that is, by a simple majority of those present (including by proxy and, being entitled to do so, voting in favour of the resolution).

The Directors (other than Dr Clark) unanimously recommend that Shareholders vote in favour of the re-election of Dr Clark.

**APPOINTMENT OF PROXY**

If you would like to attend and vote at the Annual General Meeting, please bring this form with you. This will assist in registering your attendance.

You can also lodge your vote on-line at  
[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)



**X99999999999**

I/We being a member(s) of Babcock & Brown Capital Limited and entitled to attend and vote hereby appoint

**A** the **Chairman of the Meeting (mark box)**

**OR** if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered shareholder) you are appointing as your proxy

or failing the person/body corporate named, or if no person/body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following instructions (or if no directions have been given, as the proxy sees fit) at the Annual General Meeting of the Company to be held at 2:00 pm (AEST) on Friday, 28 November 2008, at the Auditorium Museum of Sydney 37 Phillip Street, Sydney and at any adjournment of that meeting.

Where more than one proxy is to be appointed or where voting intentions cannot be adequately expressed using this form an additional form of proxy is available on request from the share registry. Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the meeting. The Chairman of the Meeting intends to vote undirected proxies in favour of all items of business.

**B** To direct your proxy how to vote on any resolution please insert **X** in the appropriate box below.

**ORDINARY BUSINESS**

**Resolution 1**

Remuneration Report

For	Against	Abstain*
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Resolution 2**

Re-election of Mr Andrew Love as a Director

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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**Resolution 3**

Re-election of Dr Gregory Clark as a Director

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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\* If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

**SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED**

Shareholder 1 (Individual)

Sole Director and Sole Company Secretary

Joint Shareholder 2 (Individual)

Director/Company Secretary (Delete one)

Joint Shareholder 3 (Individual)

Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the shareholder's constitution and the *Corporations Act 2001* (Cwlth).



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