

BABCOCK & BROWN
CAPITAL LIMITED

Babcock & Brown Capital Limited · ABN 31 112 119 203
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ASX Release

28 August 2008

**BCM DELIVERS STRONG FULL YEAR RESULT OF A\$101.2M NPAT
AND 31% INCREASE IN EBITDA**

Group Financial Highlights

- EBITDA of A\$1,277 million up 31% on prior year
- Consolidated profit of A\$101.2 million up from a prior year loss of A\$131.7 million
- Group EPS of 52.3 cents compared to previous year loss of 65.8 cents per share
- NAV of \$5.58¹ per share a 20% increase on \$4.66 at 30 June 2007

Operational Highlights

eircom

- Fixed line EBITDA maintained at ~€150 million per quarter in line with guidance
- 30% increase in fixed line broadband subscribers year on year
- 57% increase in Meteor EBITDA over prior year

Golden Pages

- Consolidated EBITDA for 6 months to 30 June 2008 of NIS 38.8m, a 12.5% increase on the pcp
- Growth in online EBITDA from a loss in pcp to NIS 4.4m for 6 months to 30 June 2008
- 68% growth in Local Search & Information Business EBITDA from NIS 5.6m to NIS 9.4m

Financial Results

Babcock & Brown Capital Limited ("BCM") today released its full year 07/08 financial results achieving earnings before interest, tax, depreciation and amortisation ("EBITDA") for the year of A\$1,227 million, an increase of 31% on the prior year largely attributed to the strong operating

¹ A\$5.32 excludes impact of the buy-back

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performance of eircom. Profit for the year of A\$101.2 million represents an increase of over 100% on the prior year which was negatively effected by a one off charge for the voluntary leaving program at eircom.

Kerry Roxburgh, Independent Chairman of BCM commented: "We continue to be extremely pleased with the very strong operating performance of our investments particularly in light of the continued turbulent 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 businesses offsetting the decline in print.

"The Group's strong result represents earnings per share of 52.3 cents, an increase of 13% on the prior six months," Mr Roxburgh said.

eircom

eircom's solid operational performance delivered an EBITDA for the full year of €712.0 million, a 7% increase on the pcp. This achievement comprised a 57% increase in Meteor's EBITDA over the prior year to €118 million and a Fixed Line EBITDA of €594 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.

To address the effects 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 have successfully utilised bundled broadband packages as an effective acquisition and retention tool. Fixed line broadband subscribers increased by 30% from 455,000 to 593,000 over the course of the year.

Meteor's EBITDA contribution to eircom's result is largely due to a 12% increase in subscriber numbers to 983,000 over pcp and economies of scale. eircom's mobile market penetration is expected to slow down going forward, largely due to increased competition.

Cash spend of €331 million during the 12 months to 30 June 2008 equates to 16% of revenue being invested in eircom's telecommunications infrastructure. This remains in line with eircom's second year of increased capital expenditure (c. €1 billion over three years).

eircom's cash balance of €352 million at 30 June 2008 demonstrates the ongoing strength of eircom's cash position. Despite the volatile credit markets eircom's long dated debt profile remains secure with a weighted average term of eight years.

The Voluntary Leaving program continues to remain on track to achieve 900 leavers by 2009/10 with over 600 voluntary leavers or 67% reached by the end of June 2008.

eircom has made progress on the appointment of a new Chairman and expect to be in a position to announce the new appointment in the coming months. Pierre Danon will remain Chairman of eircom until the end of 2008 or such time as his successor has been appointed.

Golden Pages

Golden Pages achieved a NIS\$38.8 million consolidated EBITDA for the six months to June 2008, an increase of 12.5% over the pcp. The increase in EBITDA from the Online and Local Search & Information Businesses offset the decline in Print EBITDA.

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 multiple distribution platforms.

Further to the 29 July 2008 announcement, 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.

Outlook

"We are particularly pleased with the strong performance of both eircom and Golden Pages despite the current market environment. While the BCM Board has commenced formal discussions with Babcock & Brown regarding the future management of BCM, these discussions will have no impact on BCM's ownership of either eircom or Golden Pages," Mr Roxburgh concluded.

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Attachments

- An investor presentation which includes information intended to provide investors with the metrics for evaluating the performance and underlying value of eircom and Golden Pages.
- Financial accounts for BCM Ireland Finance Limited ("BCMIF") and BCM Ireland Preferred Equity Limited ("BCMIPE). BCMIF and BCMIPE are single purpose financing entities in the Babcock & Brown Capital / eircom Group corporate structure.

ENDS

Further Information:

Erica Borgelt
Investor Relations
Babcock & Brown
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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 18.9% 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

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BABCOCK & BROWN CAPITAL LIMITED

ABN 31 112 119 203

APPENDIX 4E

Preliminary Final Report

1. Details of the reporting period

Current Period: 1 July 2007 - 30 June 2008

Previous Corresponding Period: 1 July 2006 - 30 June 2007

2. Results for announcement to the market

| | | 2008 \$A'000 | 2007 \$A'000 |
|---|---------------------|-----------------------------|-----------------|
| 2.1 Revenues from ordinary activities | Up 21.2% | 3,519,468 | 2,903,704 |
| 2.2 Profit/(Loss) from ordinary activities after tax attributable to members | up 176.9% | 101,235 | (131,677) |
| 2.3 Net profit/(Loss) for the period attributable to members | up 176.9% | 101,235 | (131,677) |
| * Refer overview of operating performance in section 14.3 | | | |
| 2.4 Distributions | Amount per security | Franked amount per security | |
| <i>Current Period:</i> Final distribution Interim distribution | nil nil | N/A N/A | |
| <i>Previous Corresponding Period:</i> Final distribution Interim distribution | nil nil | N/A N/A | |
| 2.5 Record date for determining entitlements to the distribution | N/A | | |
| 2.6 Provide a brief explanation of any of the figures reported above necessary to enable the figures to be understood: Refer to section 14.3 for explanations surrounding the figures. | | | |

3. Statement of Financial Performance with notes

Refer to the Income Statements in the attached financial results.

4. Statement of Financial Position with notes

Refer to the Balance Sheets in the attached financial results.

5. Statement of Cash Flows with notes

Refer to the Cash Flow Statements in the attached financial results.

6. Details of distributions

No dividend has been declared or paid since the commencement of the financial year and the directors do not recommend the declaration of a dividend.

7. Details of dividend reinvestment plan

N/A

8. Statement of retained earnings showing movements

Refer attached financial statements (Note 26(A) Retained Profits/(Losses)).

9. Net asset value per security

| | Current period | Previous period |
|---|----------------|-----------------|
| Net asset value per ordinary security * | \$5.58 | \$4.66 |

* NTA is Nil.(2007:\$nil).The Babcock & Brown Capital Limited Group has recognised significant intangibles, including goodwill, brand names and licences from the eircom and Golden pages Israel acquisitions.

10. Control gained or lost over entities during the period

| | |
|---|--|
| 10.1 Name of entity (or group of entities) over which control was gained | G.P.M.Classified Directories (Management & Marketing) Ltd) Refer full list of GPM subsidiaries in note 32 of the Financial Report. |
| 10.2 Date control was gained | 31 July 2007 |
| 10.3 Consolidated (loss)/profit from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) since the date in the current period on which control was acquired | \$ (18.9) million |

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| | |
|--|-----|
| 10.4 Profit/(loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) for the whole of the previous corresponding period | N/A |
|--|-----|

10. Control gained or lost over entities during the period (continued)

| | |
|--|-----|
| 10.1 Name of entity (or group of entities) over which control was lost | N/A |
| 10.2 Date control was lost | N/A |
| 10.3 Consolidated profit/(loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) for the current period to the date of loss of control | N/A |

11. Details of associates and joint venture entities

For details of associates refer note 14 in the attached Financial Report.

12. Other significant information

Refer attached Results Announcement, titled "Review of Operations."

13. Accounting standards used by foreign entities

Refer note 1 of the financial statements "Summary of Significant Accounting Policies"

14. Commentary on results

| | Current period | Previous corresponding period |
|--|----------------|-------------------------------|
| 14.1 Earnings per share | | |
| Basic earnings per share | 52.3 ¢ | (65.8) ¢ |
| Diluted earnings per share | 52.3 ¢ | (65.8) ¢ |
| <hr/> | | |
| 14.2 Returns to shareholders: | \$A'000 | \$A'000 |
| Distributions | nil | nil |
| No dividends were paid or recommended during the period. | | |

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14. Commentary on results (continued)

Refer Management Discussion and Analysis and review of Operations on pages 2 to 3 of the attached Financial Report.

15. International Financial Reporting Standards (“IFRS”)

The financial statements comply with the Australian Equivalents to International Financial Reporting Standards (AIFRS). Refer Note 1B(i) of the attached financial statements.

16. Audit / review of accounts upon which this report is based

This report is based on accounts to which one of the following applies (*tick one*):

| | | | |
|-------------------------------------|--|--------------------------|--|
| <input checked="" type="checkbox"/> | The accounts have been audited. (refer attached financial statements) | <input type="checkbox"/> | The accounts have been subject to review. (refer attached financial statements) |
| <input type="checkbox"/> | The accounts are in the process of being audited or subject to review. | <input type="checkbox"/> | The accounts have <i>not</i> yet been audited or reviewed. |

17. Qualification of audit

Not applicable.

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Babcock & Brown Capital Limited and Controlled Entities

ABN 31 112 119 203

Full Year Financial Report For the year ended 30 June 2008

Babcock & Brown Capital Management Pty Ltd ACN 112 118 144 ("BBCM") is the Management Company for Babcock & Brown Capital Limited ("the Company") under a Management Agreement dated 20 December 2004.

Investments in the Company are not investments in, deposits with or other liabilities of Babcock & Brown Limited, 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.

Babcock & Brown Capital Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and place of business is:

Level 23, The Chifley Tower
2 Chifley Square
SYDNEY NSW 2000
Australia

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 financial 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.

Results for Announcement to the Market

Name of Company: Babcock & Brown Capital Limited ("BCM")
ABN 31 112 119 203

| | Year ended 30 June 2008 \$'000 ¹ | 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) |
| Earnings before interest, tax, depreciation and amortisation expense ("EBITDA") and restructuring costs | 1,281,724 | 973,842 |
| Net gain on disposal of eircom masts business | 130,581 | - |
| Restructuring costs | - | (269,688) |
| Depreciation and amortisation ² | (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 |
| Profit/(loss) before tax | 237,167 | (252,176) |
| Income tax (expense)/benefit | (52,880) | 4,600 |
| Profit/(loss) for the year | 184,287 | (247,576) |
| (Profit)/loss attributable to minority interest | (83,052) | 115,899 |
| Profit/(loss) for the year attributable to members | 101,235 | (131,677) |
| Basic and diluted profits/(losses) per share | 52.3 cents | (65.8) cents |
| Net Tangible Asset ("NTA") Backing | | |
| Net asset value per security ³ | \$5.58 | \$4.66 |

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

² Includes impairment loss on Golden Pages Israel goodwill of \$4.3 million

³ 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 Israel acquisitions.

BCM's results were significantly impacted by a number of accounting adjustments and non-recurring items from the acquisition of Golden Pages Israel. These are discussed further in the Results Review section of the Management Discussion and Analysis.

Dividends

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

All amounts are in Australian dollars unless otherwise stated. The information on which this announcement is based has been audited by the Company's auditor, PricewaterhouseCoopers. The Company has a formally constituted Audit, Risk & Compliance Committee of the Board of Directors. This report was approved by resolution of the Board of Directors on 28 August 2008.

Management Discussion & Analysis

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; and
- 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.

Accounting Impacts of Acquisition:

Acquisition Accounting

The Group has accounted for the acquisition of G.P.M. Classified Directories (Management and Marketing) Limited Israel ("Golden Pages Israel" 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 Israel 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.

Review of Operations

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 latest management estimates, Meteor (including eircom mobile) has a market share of 19.0% 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 Israel

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.

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.

Management Discussion & Analysis (continued)

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) |
| Loss attributable to BCM | (18.9) |
| 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 |
| Adjusted profit, after excluding non-cash acquisition costs, refinancing costs and abnormal CPI linkage | 4.6 |

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 # 1 comparative shopping website;
 - **REST**, Israel's # 1 restaurant directory business;
 - **ProGroup**, Israel's premier student portal;
 - **55% of Dun & Bradstreet Israel**, a business directory and business information service;
 - **Doctors**, Israel's # 1 professional website for the medical industry;
 - **Michatnim**, Israel's # 1 wedding directory business;
 - **Weekends**, Israel's # 1 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 27 August 2008, a total of 32,095,086 (16.0% 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.

Directors' Report

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 |
| Phillip Green | Non-Executive Director |
| Andrew Love | Independent Non-Executive Director (appointed 21 April 2008) |
| 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 Stock 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 consultations 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 and Marketing) Ltd ("Golden Pages Israel"), 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 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;
- 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;
- 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.

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 GPM. Further details of this investment are set out in note 32 of the financial statements;
- On 28 August 2007, the Company announced an on-market buy-back program. This program has been expanded with shareholders approval 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, 16.0% of the original issued capital (32,095,086 shares) had been bought-back at a total cost of approximately \$122 million; and
- On 21 April 2008, shareholder approval was granted to extend the buy-back program to 50% of original equity issued (100 million shares).

Directors' Report (continued)

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

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 3 years

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

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 3 years

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

Andrew Love

Non-Executive Director. Age 54.
BCOM, FCA, MAIDC

Chairman of the Audit, Risk &
Compliance Committee

Experience and expertise

Independent Non-Executive Director since April 2008. Mr Love was a Senior Partner with Ferrier Hodgson. Mr Love has had over 30 years 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.

Other current listed company directorships

Non-Executive Director of ROC Oil Company Limited
Non-Executive Director of Riversdale Mining Limited
Non-Executive Director of Babcock & Brown Communities Group

Former listed company directorships in last 3 years

Non-Executive Director of Principal Real Estate Investors (Australia) Limited

Phillip H Green

Non-Executive Director. Age 54.
BCOM, LLB

Member of the Nomination &
Governance Committee
(ceased 30 May 2008)

Experience and expertise

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.

Other current listed company directorships

Non-Executive Director of Babcock & Brown Infrastructure Limited, Everest Babcock & Brown Group and of the responsible entity of Babcock & Brown Japan Property Trust.

Former listed company directorships in last 3 years

Non-Executive Director of Thakral Holdings Group (February 2004 to July 2007), Abacus Property Group (October 2002 to September 2006), Primalife 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.

Robert N Topfer

Non-Executive Director. Age 48.
BA, LLB

Member of the Nomination,
Governance & Remuneration
Committee

Experience and expertise

Director since December 2004. Mr Topfer has over 20 years of specialist structured and corporate finance experience across many industry sectors.

Other current listed company directorships

Non-Executive Director of Babcock & Brown Communities Group and Assetinsure Limited.

Former listed company directorships in last 3 years

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 (continued)

Information on Secretaries

| Name, independence status and special responsibilities | Qualifications and experience |
|--|--|
| Simone Lander <i>Company Secretary</i> | <p>Simone Lander was appointed Company Secretary on 11 August 2006.</p> <p>Experience and expertise</p> <p>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.</p> <p>Simone studied a Bachelor of Economics and is an Affiliate of Chartered Secretaries Australia.</p> |
| David Richardson <i>Company Secretary</i> | <p>David Richardson was appointed Company Secretary on 25 July 2006.</p> <p>Experience and expertise</p> <p>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.</p> <p>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.</p> |

Director's Meetings

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

** Not a member of that committee

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

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

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

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

⁵William Stevens was an independent Committee member of the Audit, Risk and 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.

⁶Phil Green ceased to be a member of the Nomination and 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 below under the heading, "Non-Executive Directors".

Specialised Fund Platform

Babcock & Brown Limited (Babcock & Brown or "B&B") 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 ("B&B 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 security holder and market expectations; and
- ensuring incentive remuneration is very directly linked to performance and that individuals who contribute to this performance are rewarded.

Babcock & Brown remunerate their 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 long-standing employees had received Babcock & Brown pre-IPO Options which vest in August 2008. With those due to vest shortly the B&B Board decided to introduce the allocation on a formal and more systematic basis.

The B&B Board also restructured the composition of incentive remuneration for 2007/8. 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 2007/8. 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 security-holders with the ongoing motivation and retention of employees. The B&B Board believes that the remuneration structure in 2007/8 should give Babcock & Brown shareholders and Babcock & Brown Capital Limited security-holders added comfort that employees will be focused and rewarded for improving share and security price performance.

The one-time changes for 2007/8 include:

- a significant portion of what otherwise would have been immediate Short Term Incentive (STI) cash bonus delivered as fully vested Share Awards¹ in Babcock & Brown. This is to further align the interests of certain senior Executives² with those of security-holders 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 in the management of BCM, these represent a notional investment in BCM's shares to further align these individuals with the security-holders in BCM in the more volatile capital markets.

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 LTI³ 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 employees total annual remuneration; and
- the introduction of Fund Bonus Deferral Rights (Fund BDRs)⁴ for eligible employees who contribute to the performance of Babcock & Brown Capital Limited. These are in addition to Babcock & Brown Bonus Deferral Rights (B&B 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 security holders of BCM. In 2007, 50% of total incentive remuneration (i.e. the combination of STI (B&B 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 8 for a diagram explaining Babcock & Brown's Remuneration structure for Executives.

The B&B 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.

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.

³ 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.

⁴ 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.

Remuneration Report (continued)

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 whilst 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 B&B Group's remuneration outcomes strike an appropriate balance between the interests of BCM's security-holders 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 |

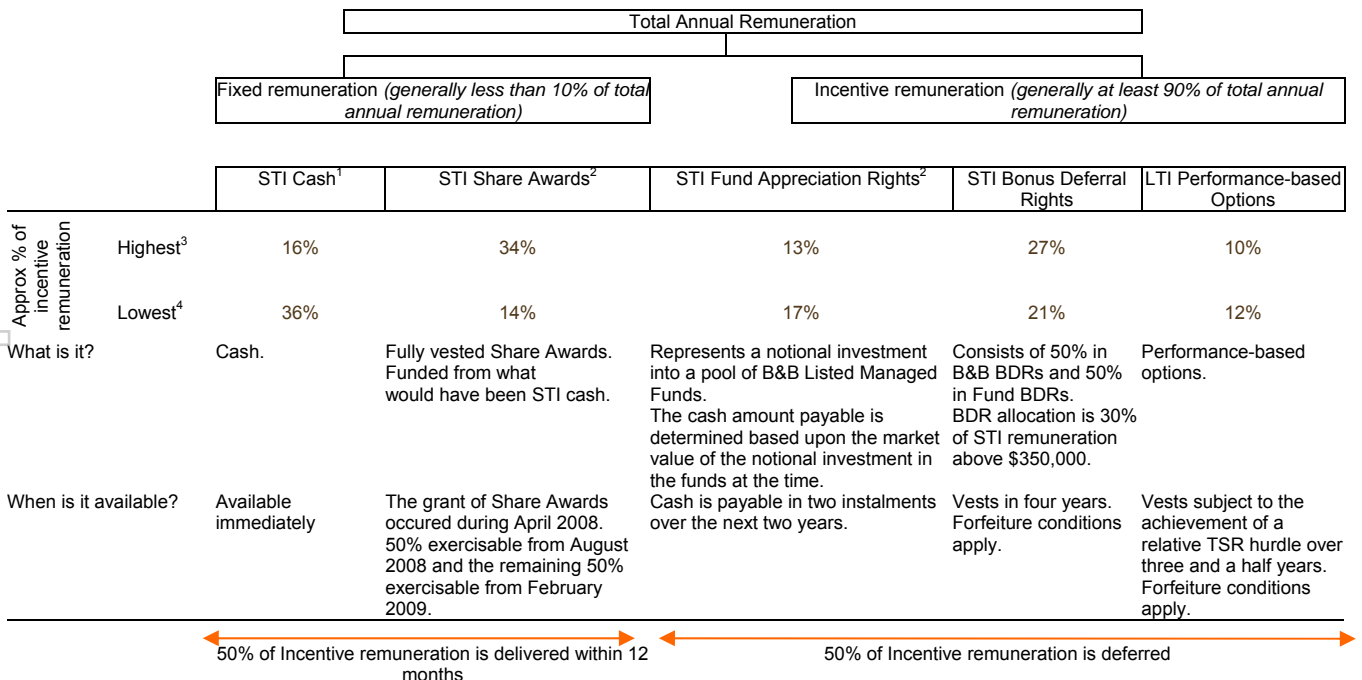
These persons are employed by Babcock & Brown Australia Pty Limited.

Remuneration Policy

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

Remuneration Structure

During 2007, the B&B Board determined that remuneration would be assessed under a total annual remuneration model consisting of fixed remuneration and incentive remuneration (short-term incentives (STI) and long-term incentives (LTI)). The diagram below outlines Babcock & Brown's remuneration structure for Executives in 2007/8:



- 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.
- These are one-time components in the 2007 STI structure for Executives.
- Highest remunerated Executive of Babcock & Brown.
- Lowest remunerated Executive of Babcock & Brown.

Remuneration Report (continued)

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 2007/8 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 B&B 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 2007/8 total annual remuneration allocation for BCM Executives is outlined below:

Step 1: Independent members of the BCM Nomination, Governance and 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 B&B Group 2007 year-end results and the preliminary Return on Net Equity (ROE), 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.

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

Allocations to individuals were determined by the B&B Corporate Management Committee, and then recommended to the B&B 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 B&B 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 B&B Remuneration committee established recommendations to the B&B Board for the total annual remuneration allocation amount and total annual remuneration recommendations for Executives.

The independent members of the B&B Remuneration Committee recommended to the B&B Board the total annual remuneration amount after the B&B 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 B&B Corporate Management Committee.

Fixed remuneration

The Babcock & Brown Limited Board has set fixed remuneration for the Executives allocated to BCM 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 STI plan. The B&B Board's policy is to allocate at least 25% of an employee's STI award above a threshold level to a grant of Bonus Deferral Rights (BDRs) with the balance paid in cash. In 2007/8, the B&B Board allocated 30% of an employee's STI award above A\$350,000 to a grant of BDRs. BDRs take the form of B&B BDRs and Fund BDRs (each further described below). The threshold level and allocation percentage are subject to annual review.

All short-term incentives below the threshold level are generally delivered entirely as cash. However, to encourage increased employee share ownership levels and a greater alignment of interests between employees, B&B shareholders and 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 B&B Listed Managed Funds securities, the B&B 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 B&B share and BCM security price performance. Therefore, the B&B Board introduced some one-time components into the 2007/8 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).

Remuneration Report (continued)

Share Awards

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

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

Fund Appreciation Rights

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

| | |
|---|--|
| Nature | 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. |
| Eligibility | Applies to Executives. |
| Composition and weighting of pool | 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. |
| Quantum of Fund appreciation rights to be allocated | 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. |
| Entitlement and treatment of dividends | A dividend/distribution equivalent (less any applicable deductions and withholdings) based on the Funds in the notional investment will be paid periodically to participants. |

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

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

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

Remuneration Report (continued)

Fund Bonus Deferral Rights (FUND BDRS)

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

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

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

Long-term Incentive Plan ("LTIP")

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

| Nature | Each performance-based Option entitles the participant to one share in Babcock & Brown upon vesting subject to the payment of an exercise price. The exercise price of each Option will generally be based on the market value of shares at the time of grant. | | | | | | | | |
|--|---|------------|-------------------------|-----------------------|-----|-------------------------|---|-----------------------------|------|
| Eligibility | All employees who have total annual remuneration which is more than double fixed remuneration and have total annual remuneration which is in excess of \$250,000. | | | | | | | | |
| Quantum of performance-based options to be granted | The number of performance-based Options to be granted is determined by dividing the amount of the LTI allocation by the value of the performance-based Option at the time they are granted. The Performance-based Options are expected to be granted to Executives and other employees during April 2008. | | | | | | | | |
| Vesting and performance period | The B&B Board's policy on the terms of vesting of LTI awards will typically include vesting at least three years after grant subject to the achievement of a performance hurdle. Performance-based Options to be granted for 2007 will have a three and a half-year vesting period, subject to achievement of a relative TSR hurdle. | | | | | | | | |
| Performance Hurdle | The relative TSR hurdle set by the Board measures Babcock & Brown's TSR performance against all other ASX 100 index companies as at the date of grant measured over the three and a half year vesting period. The B&B Board has chosen Relative TSR ranking as the performance hurdle for the LTI awards because this hurdle ensures the greatest alignment between executive reward and the creation of shareholder value. By using ASX 100 index companies as the peer group, Babcock & Brown ensures that Executives and other senior executives will only be rewarded when Babcock & Brown's TSR has exceeded the median of the broader Australian market. LTI awards will vest in accordance with the table below: | | | | | | | | |
| | <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> | 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% | | | | | | | | |

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

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

Remuneration Report (continued)

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

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

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

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

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 February 2006 | - | 0.389 | 388,466 | \$5.00 | 28 August 2007 | 14 February 2012 |
| William Wavish ¹ | 1,000,000 | 14 February 2005 | - | - | - | \$5.00 | 28 August 2007 | 14 February 2012 |
| Gregory Clark | 1,000,000 | 8 November 2006 | - | 0.135 | 135,167 | \$5.00 | 28 August 2007 | 14 February 2012 |
| TOTAL | 3,000,000 | | - | | \$523,633 | | | |

¹ William Wavish resigned as a director on 21 April 2008. Mr Wavish's options lapsed 90 days after his resignation on 19 July 2008.

Remuneration Report (continued)
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 | | Superannuation | Share based payments ² | |
| | | \$ | \$ | \$ | \$ | \$ | \$ | |
| Independent Non-Executive Directors | | | | | | | | |
| Kerry Roxburgh (Chairman) | 2008 | 262,275 | - | - | - | 13,129 | 41,787 | 317,191 |
| | 2007 | 150,000 | - | - | - | 12,686 | 250,076 | 412,762 |
| William Wavish ³ | 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 ⁴ | 2008 | 33,948 | - | - | - | 3,055 | - | 37,003 |
| | 2007 | - | - | - | - | - | - | - |
| Robert Champion de Crespigny AC ⁵ | 2008 | - | - | - | - | - | - | - |
| | 2007 | 25,000 | - | - | - | - | - | 25,000 |
| Total remuneration for Independent Non-Executive Directors | 2008 | 577,924 | - | - | - | 36,813 | 128,816 | 743,553 |
| | 2007 | 365,580 | - | - | - | 21,686 | 716,991 | 1,104,257 |
| Other Non-Executive Directors | | | | | | | | |
| Phillip Green ¹ | 2008 | 104,850 | - | - | - | - | - | 104,850 |
| | 2007 | 100,000 | - | - | - | - | - | 100,000 |
| Robert Topfer ¹ | 2008 | 104,850 | - | - | - | - | - | 104,850 |
| | 2007 | 100,000 | - | - | - | - | - | 100,000 |
| Rex Comb | 2008 | - | - | - | - | - | - | - |
| | 2007 | 353,756 | - | - | - | 1,737,138 | - | 2,090,894 |
| Total remuneration for other Non-Executive Directors | 2008 | 209,700 | - | - | - | - | - | 209,700 |
| | 2007 | 553,756 | - | - | - | 1,737,138 | - | 2,290,894 |
| Total remuneration for Directors | 2008 | 787,624 | - | - | - | 36,813 | 128,816 | 953,253 |
| | 2007 | 919,336 | - | - | - | 1,758,824 | 716,991 | 3,395,151 |

¹Remuneration 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.

²Equity 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.

³William Wavish resigned on 21 April 2008.

⁴Andrew Love was appointed on 21 April 2008.

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

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

| 2008 | Year | Short-term employee benefits | | | Post-employment benefits | | Long-term employee benefits | Total |
|--|-------------|------------------------------|----------------|-----------------------|--------------------------|----------------|-----------------------------|----------------|
| | | Salary | Cash Bonus | Non-monetary benefits | Long Service Leave | Superannuation | Share based payments | |
| | | \$ | \$ | \$ | \$ | \$ | \$ | |
| BCM Group Executives | | | | | | | | |
| John Fanning ² (Chief Investment Officer) | 2008 | 333,333 | - | - | - | - | - | 333,333 |
| Deborah Kelly ² (Chief Operating Officer) | 2008 | 166,667 | - | - | - | - | - | 166,667 |
| Haydn Vella (Group Financial Controller) | 2008 | 165,000 | 160,000 | 3,738 | 2,750 | 13,129 | 15,980 ¹ | 360,597 |
| Total remuneration for Group Executives | 2008 | 665,000 | 160,000 | 3,738 | 2,750 | 13,129 | 15,980 | 860,597 |

¹Options issued to Haydn Vella were issued in Babcock & Brown Ltd shares in 2006.

²Executive 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 BBCM of the services performed directly for BCM.

Remuneration Report (continued)
Table 3: Remuneration of the Executives for the year ended 30 June 2007

| 2007 | Year | Short-term employee benefits | | | Post-employment benefits | | Long-term employee benefits | Total | |
|---|--|------------------------------|------------------|-----------------------|--------------------------|------------------|-----------------------------|----------|-------------------|
| | | Salary | Cash Bonus | Non-monetary benefits | Termination payments | Superannuation | Share based payments | | |
| | | \$ | \$ | \$ | \$ | \$ | \$ | \$ | |
| BCM Group Executives¹ | | | | | | | | | |
| | Philip Nolan ^{2,3} (former eircom Chief Executive Officer) | 2007 | 479,429 | 531,531 | 61,638 | 2,934,047 | 227,474 | - | 4,234,119 |
| | Peter Lynch ^{2,3} (former eircom Chief Financial Officer) | 2007 | 316,238 | 378,172 | 22,681 | 2,487,975 | 47,436 | - | 3,252,502 |
| | Rex Comb ² (Chief Executive Officer - eircom) | 2007 | 822,945 | 544,037 | 355,500 | - | 123,442 | - | 1,845,924 |
| | Andrew MacLeod ² (Chief Operating Officer - eircom) | 2007 | 737,023 | 583,881 | 155,423 | - | 110,555 | - | 1,586,882 |
| | Cathal Magee ² (Managing Director of Retail - eircom) | 2007 | 745,055 | 530,113 | 54,200 | - | 96,732 | - | 1,426,100 |
| | Total remuneration for Group executives | 2007 | 3,100,690 | 2,567,734 | 649,442 | 5,422,022 | 605,639 | - | 12,345,527 |

¹The 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.

²eircom executives remuneration has been included from the acquisition date of 18 August 2006. Rex Comb and Andrew MacLeod were appointed 18 August 2006.

³Philip 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 4: Remuneration of the Secretary for the year ended 30 June 2008

| 2008 | Year | Short-term employee benefits | | | Post-employment benefits | | Long-term employee benefits | Total | |
|--------------------|---|------------------------------|---------------|-----------------------|--------------------------|----------------|-----------------------------|--------------|----------------|
| | | Salary | Cash Bonus | Non-monetary benefits | Long Service Leave | Superannuation | Share based payments | | |
| | | \$ | \$ | \$ | \$ | \$ | \$ | \$ | |
| Secretaries | | | | | | | | | |
| | Simone Lander | 2008 | 51,180 | 47,340 | - | 853 | 3,939 | 2,648 | 105,960 |
| | | 2007 | 60,000 | - | - | - | 5,400 | - | 65,400 |
| | Total remuneration for secretaries | 2008 | 51,180 | 47,340 | - | 853 | 3,939 | 2,648 | 105,960 |
| | | 2007 | 60,000 | - | - | - | 5,400 | - | 65,400 |

Table 5: Remuneration components as a proportion of total remuneration

| 2008 | Fixed Remuneration | Performance-based remuneration | | Total |
|----------------|--------------------|--------------------------------|-----------------------------------|-------|
| | | Cash STIP | Share based payments ¹ | |
| Directors | (%) | (%) | (%) | (%) |
| 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 |

¹Share-based payments include options.

Remuneration Report (continued)
Table 5: Remuneration components as a proportion of total remuneration (continued)

| 2008 | Fixed Remuneration | Performance-based remuneration | | Total |
|-----------------------------|--------------------|--------------------------------|-----------------------------------|--------------|
| | | Cash STIP | Share based payments ¹ | |
| BCM Group Executives | (%) | (%) | (%) | (%) |
| John Fanning | 100.0 | - | - | 100.0 |
| Deborah Kelly | 100.0 | - | - | 100.0 |
| Haydn Vella | 51.2 | 44.4 | 4.4 | 100.0 |

Table 6: Value of Remuneration that vests in future years

| Executives | Remuneration subject to vesting ¹ | | | |
|---------------|--|--------|-------|------|
| | 2008 | 2009 | 2010 | 2011 |
| John Fanning | - | - | - | - |
| Deborah Kelly | - | - | - | - |
| Haydn Vella | 15,980 | 15,980 | 1,998 | - |

¹ Remuneration amounts disclosed in the above table refer to the maximum value of Options, B&B BDRs and Fund BDRs, where relevant. These amounts have been determined at grant date by using an appropriate pricing model and amortised in accordance with AASB 2 "Share Based Payment". The minimum value that may vest is \$nil and no remuneration currently granted vests after August 2011.

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 leave 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 share holdings 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.

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.

Directors' Report (continued)

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 advisor, the Audit, Risk and 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 and 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 Auditors' 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 | |
| <i>Related practices of PricewaterhouseCoopers Australian firm</i> | |
| Audit of regulatory returns | 2,096 |
| Other audit related services | 810 |
| Total remuneration for other audit-related services | 2,906 |
| 2. Taxation services | |
| <i>Related practices of PricewaterhouseCoopers</i> | |
| Tax compliance services | 82 |
| Total remuneration for taxation services | 82 |
| 3. Other advisory services | |
| <i>Related practices of PricewaterhouseCoopers</i> | |
| Other advisory services | 488 |
| Total remuneration for other advisory services | 488 |
| Total remuneration for non-audit services | 3,476 |

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 28 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

Corporate Governance Statement 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.

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 they are 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 whilst 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 8 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 8 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 is 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 their respective corporate governance practices.

Compliance with the ASX Recommendations

As at the date of this Corporate Governance Statement, the Boards of BCM advise that their 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 their Charters and Policies.
- The BCM Board have 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.

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 act in the same capacity for BCM as in their 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 them 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.

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;

Corporate Governance Statement 2008 (continued)

- 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 and 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 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 page 6.

Corporate Governance Statement 2008 (continued)

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.

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 ¹ | ✓ | - |

¹ 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.

Corporate Governance Statement 2008 (continued)

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 their 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 they remain 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; A 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 assessing the skills required to competently discharge the BCM Board's duties and obligations, and making 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;
- providing 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

- consulting 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 providing input and advice about their remuneration;
- approving BCM's remuneration disclosures; and
- making recommendations to the BCM Board in relation to the level of remuneration to be paid to independent Directors.

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.

Corporate Governance Statement 2008 (continued)

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 & Remuneration Committee is also responsible for establishing and facilitating an induction programme 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 are committed to delivering strong returns and shareholder value whilst 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.

Corporate Governance Statement 2008 (continued)

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 are 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.

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 Bill Wavish as the independent non-executive Committee Chairman and on 30 June 2008, John Fanning replaced Bill 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 and 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 Chief Executive Officer and Chief Financial Officer (or equivalents) letter of representation to the BCM Board;
- review the financial sections of the annual report and related regulatory filings before release;
- 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;
- review the scope of internal and external auditors' 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;

Corporate Governance Statement 2008 (continued)

- 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;

Corporate Governance Statement 2008 (Continued)

- 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;
- 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;

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;
- 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;
- 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;
- 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 a 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 GP 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.

Corporate Governance Statement 2008 (continued)

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 Director's 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.

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;
- 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.
- 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) 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;

Corporate Governance Statement 2008 (continued)

- 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 amongst 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.

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.

Corporate Governance Statement 2008 (continued)

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 Director's 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 team work, individual performance and the interests of shareholders.

The non-independent Directors of BCM, Mr Green and Mr Topfer, are 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 & 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 advisors to provide information to the Boards to be considered in their 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 long-term incentive plans (LTI Plans) recommended by the Manager involving the issue of BCM Securities; and
 - f) monitor and review any LTI Plans 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), Greg Clark and Rob Topfer.

Corporate Governance Statement 2008 (continued)**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 Director's 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 are employees of Babcock & Brown and are separately remunerated by Babcock & Brown.

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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 | |
|---|------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | | Year ended 30 June 2008 \$'000 | Year ended 30 June 2007 \$'000 | Year ended 30 June 2008 \$'000 | Year ended 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 | - | - |
| Profit/(loss) before income tax | | 237,167 | (252,176) | 20,458 | 20,778 |
| Income tax (expense)/benefit | 8 | (52,880) | 4,600 | (6,031) | (4,480) |
| Profit/(loss) for the year | | 184,287 | (247,576) | 14,427 | 16,298 |
| (Profit)/loss attributable to minority interest | | (83,052) | 115,899 | - | - |
| Profit/(loss) attributable to members of Babcock & Brown Capital Limited | | 101,235 | (131,677) | 14,427 | 16,298 |
| 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 |
| Current Assets | | | | | |
| 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 | - | - |
| Total Current Assets | | 1,958,288 | 1,682,163 | 381,854 | 542,423 |
| Non-Current Assets | | | | | |
| 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 |
| Total Non-Current Assets | | 9,186,731 | 8,741,513 | 525,277 | 633,541 |
| Total Assets | | 11,145,019 | 10,423,676 | 907,131 | 1,175,964 |
| Current Liabilities | | | | | |
| 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 | - | - |
| Total Current Liabilities | | 2,006,061 | 1,557,018 | 4,053 | 163,952 |
| Non-Current Liabilities | | | | | |
| 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 | - | - |
| Total Non-Current Liabilities | | 7,856,238 | 7,698,542 | 1,298 | 1,289 |
| Total Liabilities | | 9,862,299 | 9,255,560 | 5,351 | 165,241 |
| Net Assets | | 1,282,720 | 1,168,116 | 901,780 | 1,010,723 |
| Equity | | | | | |
| 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 |
| Parent entity interest | | 937,480 | 932,291 | 901,780 | 1,010,723 |
| Minority Interest | | 345,240 | 235,825 | - | - |
| Total Equity | | 1,282,720 | 1,168,116 | 901,780 | 1,010,723 |

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

| Consolidated | Note | Attributable to members of Babcock & Brown Capital Limited | | | | | Total Equity \$'000 |
|--|-------|--|--------------------|---|------------------|--------------------------------|------------------------|
| | | Contributed Equity \$'000 | Reserves \$'000 | Retained Earnings/ (Losses) \$'000 | Total \$'000 | Minority Interest \$'000 | |
| Balance at 1 July 2006 | | 957,026 | 100,445 | (50,232) | 1,007,239 | - | 1,007,239 |
| 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) |
| Net (expense)/income recognised directly in equity | | - | (26,421) | 82,433 | 56,012 | 351,724 | 407,736 |
| (Loss) for year | | - | - | (131,677) | (131,677) | (115,899) | (247,576) |
| Total recognised income and expense for the year | | - | (26,421) | (49,244) | (75,665) | 235,825 | 160,160 |
| Changes in share-based payments reserve | 26(B) | - | 717 | - | 717 | - | 717 |
| | | - | 717 | - | 717 | - | 717 |
| Balance at 30 June 2007 | | 957,026 | 74,741 | (99,476) | 932,291 | 235,825 | 1,168,116 |
| Balance at 1 July 2007 | | 957,026 | 74,741 | (99,476) | 932,291 | 235,825 | 1,168,116 |
| 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 |
| Net income recognised directly in equity | | - | 25,967 | - | 25,967 | 26,363 | 52,330 |
| Profit for year | | - | - | 101,235 | 101,235 | 83,052 | 184,287 |
| Total recognised expense and income for the year | | - | 25,967 | 101,235 | 127,202 | 109,415 | 236,617 |
| 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) |
| Balance at 30 June 2008 | | 834,450 | 101,271 | 1,759 | 937,480 | 345,240 | 1,282,720 |

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

Statement of Changes in Equity for the year ended 30 June 2008 (Continued)

| Parent | Note | Contributed Equity \$'000 | Reserves \$'000 | Retained Earnings /(Losses) \$'000 | Total Equity \$'000 |
|---|-------|---------------------------------|--------------------|---|------------------------|
| Balance at 1 July 2006 | | 957,026 | 26,836 | 9,842 | 993,704 |
| Exchange differences on translation of foreign operation | 26(B) | - | 4 | - | 4 |
| Net income recognised directly in equity | | - | 4 | - | 4 |
| Profit for year | | - | - | 16,298 | 16,298 |
| Total recognised income and expense for the year | | - | 4 | 16,298 | 16,302 |
| Changes in share-based payments reserve | 26(B) | - | 717 | - | 717 |
| | | - | 717 | - | 717 |
| Balance at 30 June 2007 | | 957,026 | 27,557 | 26,140 | 1,010,723 |
| Balance at 1 July 2007 | | 957,026 | 27,557 | 26,140 | 1,010,723 |
| Exchange differences on translation of foreign operation | 26(B) | - | - | - | - |
| Net income recognised directly in equity | | - | - | - | - |
| Changes in contributed equity resulting from share buy-back | 25(B) | (122,576) | - | - | (122,576) |
| Profit for year | | - | - | 14,427 | 14,427 |
| Total recognised income and expense for the year | | (122,576) | - | 14,427 | (108,149) |
| Changes in share-based payments reserve | 26(B) | - | (794) | - | (794) |
| | | - | (794) | - | (794) |
| Balance at 30 June 2008 | | 834,450 | 26,763 | 40,567 | 901,780 |

The above Statement 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 007 \$'000 | 30 June 008 \$'000 | 30 June 2007 \$'000 |
| Cash Flows from Operating Activities | | | | | |
| 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) |
| Net cash inflows from operating activities | | 1,062,231 | 929,529 | 13,428 | 6,767 |
| Cash Flows from Investing Activities | | | | | |
| 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) | - | - |
| Net cash outflows from investing activities | | (407,115) | (2,857,934) | (53,503) | 347,986 |
| Cash Flows from Financing Activities | | | | | |
| 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) | - | - |
| Net cash (outflows)/inflows from financing activities | | (551,360) | 2,597,210 | (122,576) | - |
| Net increase/(decrease) in cash and cash equivalents | | | | | |
| 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 |
| Cash at the end of financial year | 9 | 955,819 | 843,534 | 344,023 | 506,941 |

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

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.

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

(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.

(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 customers website and then provides services to the customers on completion of the website.

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

(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 substantively 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.

(i) 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 are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(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

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

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 and 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 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 derecognition

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.

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

(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 profit or loss – 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.

(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 profit or loss 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 profit or loss (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 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.

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

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 & 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 customer's 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 revalued amounts, net of their residual values, over their estimated useful lives, as follows:

| Asset Class | Estimated Economic Life (Years) |
|----------------------------------|------------------------------------|
| Buildings | 40 |
| Network Plant | |
| Transmission Equipment: | |
| Duct | 20 |
| Overhead cable/poles | 10-15 |
| Underground cable | 14 |
| Other local network | 6-15 |
| Exchanges | |
| Exchange line terminations | 8 |
| Core hardware/operating software | 3-4 |
| Others | 3-7 |

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

Fully depreciated property, plant & equipment are retained in the cost of property, plant & 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 & 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 assets 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.

(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 Note 19 for further details.

Notes to the Financial Statements for the year ended 30 June 2008 (continued)
(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 2 to 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 1.5 to 5 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 programmes are also capitalised. These costs are amortised over their estimated useful lives which is estimated at between 3 and 4 years.

Costs associated with maintaining computer software programmes 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 |
| Intangible assets from acquisitions | |
| 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 License | 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 Groups 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.

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

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.

(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 7.10% (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.

Notes to the Financial Statements for the year ended 30 June 2008 (continued)
(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 & 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 are 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 are 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 7 year period.

(AC) CONTRIBUTED EQUITY

Ordinary Shares are classified as equity. Mandatorily redeemable Preference Shares are classified as borrowings, refer 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, eg. 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 profit or loss 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.

(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 basic earnings per Share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary Shares and the weighted average number of Shares assumed to have been issued for no consideration in relation to dilutive potential ordinary Shares.

(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.

Notes to the Financial Statements for the year ended 30 June 2008 (continued)**(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.

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 co-operation 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 includes 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, who 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 variable 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 variable 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 (continued)

Consolidated

| | Increase in AUD by 10% | | Decrease in AUD by 10% | |
|---------------------------------------|------------------------|---------------|------------------------|---------------|
| | 2008 | 2007 | 2008 | 2007 |
| Euro | \$'000 | \$'000 | \$'000 | \$'000 |
| 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 AUD by 10% | | Decrease in AUD by 10% | |
|------------------------------|------------------------|---------------|------------------------|---------------|
| | 2008 | 2007 | 2008 | 2007 |
| NIS | \$'000 | \$'000 | \$'000 | \$'000 |
| 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 AUD by 10% | | Decrease in AUD by 10% | |
|---------------|------------------------|---------------|------------------------|---------------|
| | 2008 | 2007 | 2008 | 2007 |
| Euro | \$'000 | \$'000 | \$'000 | \$'000 |
| 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% to 100% of its borrowings. This policy has been complied with at year-end, with rates fixed for 70% of total borrowings.

Consolidated

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

| | 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 |
| Net exposure to cash flow interest rate risk | | (1,401,997) | | (2,001,542) |

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

Parent

| | 30 June 2008 | | 30 June 2007 | |
|--|--------------------------------|---------|--------------------------------|---------|
| | Weighted average interest rate | Balance | Weighted average interest rate | Balance |
| | (%) | \$'000 | (%) | \$'000 |
| Cash and cash equivalents | 7.05% | 344,023 | 6.30% | 506,941 |
| Net exposure to cash flow interest rate risk | | 344,023 | | 506,941 |

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 bps has been selected as this is considered reasonable given the current level of both short-term and long-term interest rates.

Consolidated

| | Increase in interest rates by 100 bps | | Decrease in interest rates by 100 bps | |
|----------------------------------|---------------------------------------|----------|---------------------------------------|----------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$'000 | \$'000 | \$'000 | \$'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.

Parent

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

(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.

| | Aging Analysis | | | | Collateral held over overdue balances | Neither impaired or past due date | Impaired | Total |
|----------------------|----------------|--------|--------|---------|---------------------------------------|-----------------------------------|----------|---------|
| | 0-30 | 31-60 | 61-90 | Over 90 | | | | |
| | \$'000 | \$'000 | \$'000 | \$'000 | | | | |
| Trade debtors | | | | | | | | |
| 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.

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

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 |
| Cash and cash equivalents | | | | |
| 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 ¹ | 16,212 | 15,172 | - | - |
| Total Cash and cash equivalents | 965,943 | 843,636 | 344,023 | 506,941 |
| Derivative financial assets | | | | |
| AA | 97,193 | 51,919 | 9,409 | 10,840 |
| AA- | 28,724 | 23,279 | - | - |
| A | 28,930 | 19,826 | - | - |
| Total Derivative financial assets | 154,847 | 95,024 | 9,409 | 10,840 |

¹ 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 | | < than 1 year \$'000 | 1-2 years \$'000 | 2-5 years \$'000 | > 5 years \$'000 | Future Interest Payments | 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 | | < than 1 year \$'000 | 1-2 years \$'000 | 2-5 years \$'000 | > 5 years \$'000 | Future Interest Payments | 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 Accounts.

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 Entities 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.

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

The fair value of financial assets and liabilities are 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 cashflows. 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.

Cash and cash equivalents

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

Receivable, 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 monitor 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 November 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 \$A | Fair Value \$'000 | Maturity |
|---|---------------------------|----------------|----------------------|-------------------------------------|
| Sell Euro and receive Australian dollar | 48,496 | 0.5466 | 1,887 | 30 June 2010 |
| Sell NIS and receive Australian dollar | 100,022 | 3.45 | (9,825) | 8 August 2008 and 16 August 2009 |

| 2007 | Principal Value \$'000 | FX rate to \$A | Fair Value \$'000 | Maturity |
|---|---------------------------|----------------|----------------------|--------------|
| Sell Euro and receive Australian dollar | 48,496 | 0.5466 | 3,001 | 30 June 2010 |

Notes to the Financial Statements for the year ended 30 June 2008 (continued)
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 cashflow hedges and movements in the fair value of the hedges have been taken through the cashflow 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 | Weighted Average Interest rate | Maturity Profile | | | | | | |
|--|---------------------------|-------------------------------|--------------------------------------|---------------------|--------------|--------------|--------------|--------------|----------------------------|--|
| | | | | Less than 1 year | 1-2 years | 2-3 years | 3-4 years | 4-5 years | Greater than 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 2008 | Weighted Average Interest rate | Maturity Profile | | | | | | |
|--|---------------------------|-------------------------------|--------------------------------------|---------------------|--------------|--------------|--------------|--------------|----------------------------|--|
| | | | | Less than 1 year | 1-2 years | 2-3 years | 3-4 years | 4-5 years | Greater than 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 June 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 June 2010 |

This has not been hedge accounted for in the parent entity

Notes to the Financial Statements for the year ended 30 June 2008 (continued)
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 are 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 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.

(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 Israel economies and particular industry issues. A significant, unanticipated downturn in the Irish and Israel 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 were 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.

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

(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

eircom announced a voluntary leaving plan to reduce its workforce by 900 over three years in May 2007. 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.

4) REVENUES FROM CONTINUING OPERATIONS

| | Consolidated | | Parent | |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
| | Year ended 30 June 2008 | Year ended 30 June 2007 | Year ended 30 June 2008 | Year ended 30 June 2007 |
| | \$'000 | \$'000 | \$'000 | \$'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 | - | - | - |
| Total revenues from continuing operations | 3,568,716 | 2,936,598 | 47,581 | 32,358 |

5) OTHER INCOME

| | Consolidated | | Parent | |
|---|----------------------------|----------------------------|----------------------------|----------------------------|
| | Year ended 30 June 2008 | Year ended 30 June 2007 | Year ended 30 June 2008 | Year ended 30 June 2007 |
| | \$'000 | \$'000 | \$'000 | \$'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 |
| Total other income | 135,128 | 18,339 | 1,315 | 4,549 |

Notes to the Financial Statements for the year ended 30 June 2008 (continued)
6) EXPENSES

Profit /(loss) before income tax includes the following specific expenses:

| (A) OPERATING EXPENSES | Consolidated | | Parent | |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
| | Year ended 30 June 2008 | Year ended 30 June 2007 | Year ended 30 June 2008 | Year ended 30 June 2007 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| 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 |
| Total operating expenses | 2,237,780 | 2,199,550 | 28,438 | 16,129 |
| (B) FINANCE COSTS | | | | |
| 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) | - | - |
| Total finance costs | 564,724 | 429,411 | - | - |

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 on-line 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 predominately 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.

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

(B) PRIMARY REPORTING FORMAT – BUSINESS SEGMENTS

| | Telecommunications | | Directories* | | Corporate | | Consolidated | |
|---|--------------------|------------------|-----------------|----------|---------------|---------------|------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Revenue from external parties | 3,452,484 | 2,930,404 | 84,805 | - | 31,427 | 24,533 | 3,568,716 | 2,936,598 |
| Other income | 130,534 | - | - | - | 4,594 | - | 135,128 | 18,339 |
| Total sales revenue from continuing operations | 3,583,018 | 2,930,404 | 84,805 | - | 36,021 | 24,533 | 3,703,844 | 2,954,937 |
| Share of net gains from associates | 329 | 1,933 | - | - | - | - | 329 | 1,933 |
| Total segment revenue | 3,583,347 | 2,932,337 | 84,805 | - | 36,021 | 24,533 | 3,704,173 | 2,956,870 |
| Segment results from continuing operations | 245,087 | (255,186) | (17,500) | - | 9,580 | 3,010 | 237,167 | (252,176) |
| Profit/(loss) before income tax | | | | | | | 237,167 | (252,176) |
| Income tax (expense)/benefit | | | | | | | (52,880) | 4,600 |
| Profit/(loss) for the financial year | | | | | | | 184,287 | (247,576) |

* Directories segment revenue and results relate to acquisitions made during the year.

| | Telecommunications | | Directories* | | Corporate | | Consolidated | |
|---|--------------------|-----------|--------------|--------|-----------|---------|-------------------|-------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Segment assets | 10,283,270 | 9,829,122 | 364,543 | - | 497,206 | 594,554 | 11,145,019 | 10,423,676 |
| Unallocated assets | | | | | | | - | - |
| Total assets | | | | | | | 11,145,019 | 10,423,676 |
| Segment liabilities | 9,576,479 | 9,250,310 | 271,364 | - | 14,456 | 5,252 | 9,862,299 | 9,255,562 |
| Unallocated liabilities | | | | | | | - | - |
| Total liabilities | | | | | | | 9,862,299 | 9,255,562 |
| 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 |

* Directories segment assets and liabilities relate to acquisitions made during the year.

(C) SECONDARY REPORTING FORMAT – GEOGRAPHICAL SEGMENTS

| | Segment revenues | | Segment assets | |
|-----------------|------------------|------------------|-------------------|-------------------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$'000 | \$'000 | \$'000 | \$'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 | - |
| Other countries | - | - | - | - |
| Total | 3,568,716 | 2,936,598 | 11,145,019 | 10,423,676 |

Segment revenues, assets and capital expenditure are allocated based on the country in which investments of the Group are located.

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

8) INCOME TAX EXPENSE/ (BENEFIT)**(A) INCOME TAX EXPENSE/ (BENEFIT)**

| | Consolidated | | Parent | |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
| | Year ended 30 June 2008 | Year ended 30 June 2007 | Year ended 30 June 2008 | Year ended 30 June 2007 |
| | \$'000 | \$'000 | \$'000 | \$'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) |
| Income tax expense/(benefit) | 52,880 | (4,600) | 6,031 | 4,480 |

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 |
| | (9,529) | (64,091) | 1,333 | 4,678 |

(B) NUMERICAL RECONCILIATION OF INCOME TAX TO PRIMA FACIE TAX PAYABLE

| | Consolidated | | Parent | |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
| | Year ended 30 June 2008 | Year ended 30 June 2007 | Year ended 30 June 2008 | Year ended 30 June 2007 |
| | \$'000 | \$'000 | \$'000 | \$'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 |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income: | | | | |
| 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) |
| Income tax expense/(benefit) | 52,880 | (4,600) | 6,031 | 4,480 |

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 | 2007 | 2008 | 2007 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Current tax – (credited) directly to equity | | | | |
| 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 (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 installments. 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.

9) CASH AND CASH EQUIVALENTS (CURRENT ASSETS)

| | Consolidated | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Cash at bank | 644,574 | 271,287 | 41,941 | 4,221 |
| Term deposits – maturity within 3 months | 305,187 | 502,720 | 302,082 | 502,720 |
| Restricted cash | 16,182 | 69,629 | - | - |
| Total cash and cash equivalents | 965,943 | 843,636 | 344,023 | 506,941 |

(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 | 2007 | 2008 | 2007 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Balances as above | 965,943 | 843,636 | 344,023 | 506,941 |
| Bank overdrafts (note 21) | (10,124) | (102) | - | - |
| Total cash and cash equivalents | 955,819 | 843,534 | 344,023 | 506,941 |

(B) Cash at bank

Cash at bank and term deposits maturing within 3 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%).

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

10) TRADE AND OTHER RECEIVABLES

| | Consolidated | | Parent | |
|--|----------------|----------------|---------------|---------------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Current Assets | | | | |
| Trade receivables | 541,774 | 488,667 | - | - |
| Provision for impairment of receivables | (51,876) | (53,965) | - | - |
| | 489,898 | 434,702 | - | - |
| 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 |
| Total current trade and other receivables | 866,172 | 652,000 | 28,422 | 24,642 |
| Non-Current Assets | | | | |
| Loan to associate | 1,867 | - | - | - |
| Total non-current trade and other receivables | 1,867 | - | - | - |

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 believe 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 | 2007 |
| | \$'000 | \$'000 |
| At 1 July | 53,966 | 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 | (964) | (1,627) |
| | 51,876 | 53,966 |

11) INVENTORIES (CURRENT ASSETS)

| | Consolidated | | Parent | |
|--|---------------|---------------|----------|----------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Network development and maintenance stocks | 9,484 | 10,847 | - | - |
| Consumable and other stocks | 13,029 | 13,066 | - | - |
| Total inventories | 22,513 | 23,913 | - | - |

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 (continued)

12) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CURRENT ASSETS)

| | Consolidated | | Parent | |
|---|---------------|---------------|--------|--------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| At beginning of the year | 95,849 | - | - | - |
| Additions | - | 95,849 | - | - |
| Disposals | (43,423) | - | - | - |
| Disposal of Australian listed equity securities | (4,034) | - | - | - |
| At end of year | 48,392 | 95,849 | - | - |
| Australian listed equity securities | - | 4,034 | - | - |
| Financial asset associated with Temporary Income Stream annuity | 48,392 | 91,815 | - | - |
| | 48,392 | 95,849 | - | - |

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 ten 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.

13) DERIVATIVE FINANCIAL INSTRUMENTS

| | Consolidated | | Parent | |
|--|----------------|---------------|--------------|---------------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Current Assets | | | | |
| 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 |
| Total current derivative financial instrument assets | 7,522 | 7,839 | 9,409 | 10,840 |
| Non-Current Assets | | | | |
| 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 | - | - |
| Total non-current derivative financial instrument assets | 147,325 | 87,185 | - | - |
| Current Liabilities | | | | |
| Foreign currency forward exchange contracts (note 13(A)(i)) | 7,910 | - | - | - |
| Equity traded options (note 13(A)(iii)) | - | 8,748 | - | - |
| Total current derivative financial instrument liabilities | 7,910 | 8,748 | - | - |
| Non-Current Liabilities | | | | |
| Foreign currency forward exchange contracts (note 13(A)(i)) | 2,071 | - | - | - |
| Total non-current derivative financial instrument liabilities | 2,071 | - | - | - |

(A) INSTRUMENTS USED BY THE GROUP

(i) Foreign currency derivative financial instruments

The Company's investment in eircom Group Limited is denominated in EURO. In order to protect against exchange rate movements upon translating the investment at each reporting date from EURO 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 09 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.

Notes to the Financial Statements for the year ended 30 June 2008 (continued)
(ii) Interest rate swap contracts – cash flow hedges (continued)

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 |
| | 4,921,260 | 3,000,000 | 3,957,575 | 2,500,000 |

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 Stock Exchange ("ASX"). In the current year these have been disposed of. On 30 June 2007, the Group held: \$58,072,970 in these investments.

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 | - | - |
| | 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 entity | |
|-----------------|--------------------------|----------------------|--|-----------|----------------|----------------|----------------|----------------|
| | | | 2008 % | 2007 % | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| Unlisted | | | | | | | | |
| 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 | - | - | - | - | - |
| Total | | | | | 711 | 134 | - | - |

(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) |
| Carrying amount at the end of the financial year | 711 | 134 |

(C) SHARE OF ASSOCIATES PROFITS

| | 2008 | 2007 |
|---------------------------------|------------|--------------|
| Profits before income tax | 376 | 2,021 |
| Income tax expense | (47) | (88) |
| Profits after income tax | 329 | 1,933 |

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.

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

(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 | - | - | - | - |
| Tichofinist | 241 | - | - | - |
| Tetra | - | - | - | - |
| Proguides | - | - | - | - |
| Total | 3,122 | 1,574 | 3,858 | 329 |

| | 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 |
| Total | 1,631 | 1,610 | 3,227 | 1,933 |

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 | - | - |
| At end of the year | - | - | - | - |
| Listed equity securities | - | - | - | - |

16) PROPERTY, PLANT AND EQUIPMENT (NON-CURRENT ASSETS)

| | Land and Buildings \$'000 | Consolidated Plant & Equipment (incl. networks) \$'000 | Total \$'000 |
|---|--|---|-------------------------|
| At 30 June 2008 | | | |
| Cost or Valuation | | | |
| 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 |
| At 30 June 2008 | 931,703 | 3,613,810 | 4,545,513 |
| Accumulated Depreciation | | | |
| 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 |
| At 30 June 2008 | 61,247 | 932,527 | 993,774 |
| Total net book value at 30 June 2008 | 870,456 | 2,681,283 | 3,551,739 |

| | Land and Buildings \$'000 | Consolidated Network Plant and Equipment \$'000 | Total \$'000 |
|---|--|--|-------------------------|
| At 30 June 2007 | | | |
| Cost or Valuation | | | |
| 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) |
| At 30 June 2007 | 914,708 | 3,000,028 | 3,914,736 |
| Accumulated Depreciation | | | |
| 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) |
| At 30 June 2007 | 27,208 | 415,564 | 442,772 |
| Total net book value at 30 June 2007 | 887,500 | 2,584,464 | 3,471,964 |

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).

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

(ii) Analysis of Book Value of Land and Buildings

| | Consolidated | | Parent | |
|-------------------------|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| Freehold | | | | |
| Land | 692,913 | 710,200 | - | - |
| Leasehold | | | | |
| Over 50 year unexpired | 153,041 | 142,473 | - | - |
| Under 50 year unexpired | 24,502 | 34,827 | - | - |
| | 870,456 | 887,500 | - | - |

17) OTHER ASSETS

| | Consolidated | | Parent | |
|-------------------------------|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| Current Assets | | | | |
| Lease receivable (note 21) | 43,279 | 58,926 | - | - |
| Other | 4,467 | - | - | - |
| | 47,746 | 58,926 | - | - |
| Non Current Assets | | | | |
| Shares in controlled entities | - | - | 1 | 160,001 |
| Other investments* | - | - | 521,999 | 468,584 |
| Lease receivable (note 21) | 36,916 | 90,335 | - | - |
| Other | 4,561 | - | - | - |
| | 41,477 | 90,335 | 522,000 | 628,585 |

* Other investments in subsidiaries include parent entity interest in subsidiaries as described in note 1(C)

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Notes to the Financial Statements for the year ended 30 June 2008 (continued)

18) DEFERRED TAX ASSETS (NON-CURRENT ASSETS)

The balance comprises temporary differences attributable to:

| | Consolidated | | Parent | |
|---|---------------|---------------|--------------|--------------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Amounts Recognised in Profit and Loss | | | | |
| 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 & loss | - | 380 | - | - |
| Tax losses | 34,052 | 39,265 | - | 729 |
| Other | 1,322 | 73 | 222 | 73 |
| | 38,814 | 42,739 | 715 | 1,199 |
| Amounts Recognised Directly in Equity | | | | |
| Share issue expenses | 2,362 | 3,757 | 2,362 | 3,757 |
| Share buy-back expenses | 200 | - | 200 | - |
| Total deferred tax asset | 41,376 | 46,496 | 3,277 | 4,956 |
| Movements | | | | |
| 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) | - | - |
| Closing balance at 30 June | 41,376 | 46,496 | 3,277 | 4,956 |
| Deferred tax assets to be recovered within 12 months | 5,021 | 18,465 | 2,074 | 2,594 |
| Deferred tax assets to be recovered after more than 12 months | 36,355 | 28,031 | 1,203 | 2,362 |
| | 41,376 | 46,496 | 3,277 | 4,956 |

19) INTANGIBLE ASSETS (NON-CURRENT ASSETS)

| | Goodwill | Licences & sites | Computer Software & databases | Brand Names & Trademarks | Contracts & Related Customer Relationships | Total |
|---|------------------|------------------|-------------------------------|--------------------------|--|------------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| At 30 June 2008 | | | | | | |
| Cost | | | | | | |
| 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 | 221,766 |
| At 30 June 2008 | 4,114,339 | 274,632 | 183,249 | 536,517 | 550,520 | 5,659,257 |
| Amortisation | | | | | | |
| 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 |
| At 30 June 2008 | 4,273 | 32,505 | 65,660 | 10,994 | 143,589 | 257,021 |
| Total net book value at 30 June 2008 | 4,110,066 | 242,127 | 117,589 | 525,523 | 406,931 | 5,402,236 |

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

19) INTANGIBLE ASSETS (NON-CURRENT ASSETS) CONTINUED

| | Goodwill \$'000 | Licences & Sites \$'000 | Computer Software \$'000 | Brand Names & Trademarks \$'000 | Contracts & Related Customer Relationships \$'000 | Total \$'000 |
|---|--------------------|-------------------------------|--------------------------------|---------------------------------------|--|------------------|
| At 30 June 2007 | | | | | | |
| Cost | | | | | | |
| 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) |
| At 30 June 2007 | 3,844,325 | 254,583 | 84,741 | 480,578 | 492,039 | 5,156,266 |
| Amortisation | | | | | | |
| 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) |
| At 30 June 2007 | - | 13,456 | 22,894 | 5,148 | 69,369 | 110,867 |
| Total net book value at 30 June 2007 | 3,844,325 | 241,127 | 61,847 | 475,430 | 422,670 | 5,045,399 |

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 |
|--------------------------|------------------|--------------------|------------------------|
| Goodwill | | | |
| 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 |
| Total Goodwill | | | 4,342,058 |
| Brand Names | | | |
| eircom - fixed line | 0.5 | 8.6 | 429,297 |
| Golden Pages Israel | Nil – 2% | 12.3% | 22,505 |
| Total Brand Names | | | 451,803 |

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 |
| Total trade and other payables | 1,349,357 | 1,130,164 | 1,631 | 160,702 |

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

21) BORROWINGS

Group borrowings consist of non-recourse facilities at the investment level. The eircorn and Golden Pages Israel borrowings are presented below. All debt is non-recourse.

| eircorn | | | |
|------------------------------|---------------------|-----------------------|-----------------|
| Facility | Amount (AUD) | Amount (EUR m) | Maturity |
| Tranche A | 938 | 572 ¹ | Sept 2013 |
| Tranche B | 2,051 | 1,250 | Sept 2014 |
| Tranche C | 2,051 | 1,250 | Sept 2015 |
| Total First Lien Debt | 5,040 | 3,072 | |
| Second Lien Debt | 574 | 350 | Mar 2016 |
| Total Senior Debt | 5,614 | 3,422 | |
| Floating Rate Notes | 574 | 350 | Sept 2016 |
| Total Cash Pay Debt | 6,188 | 3,722 | |
| PIK Notes ² | 822 | 501 | Feb 2017 |
| Total Debt | 7,010 | 4,273 | |
| Cash | (579) | (353) | |
| Net Debt | 6,431 | 3,920 | |

¹ Initial draw down €650m

² Includes capitalised interest on initial face value of €425m

| Golden Pages | | | |
|-----------------------------------|---------------------|------------------------|-----------------|
| | Amount (AUD) | June 08 (NIS m) | Maturity |
| Working Capital | 8 | 25 | Feb 2015 |
| Facility A | 47 | 154 | Feb 2015 |
| Facility B | 32 | 103 | Feb 2015 |
| Bank Debt | 87 | 282 | |
| Bond | 106 | 343 | Apr 2019 |
| Other | 2 | 6 | |
| Total Debt | 195 | 631 | |
| Cash | (6) | (18) | |
| Net Debt | 189 | 613 | |
| Credit Line C (Currently undrawn) | 39 | 125 | Up to Feb 2015 |

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

21) BORROWINGS (NON-CURRENT ASSETS) CONTINUED

| | Consolidated | | Parent | |
|---|-------------------|------------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| Unsecured | | | | |
| Bank overdraft | 10,124 | 102 | - | - |
| Other loans | 120,991 | 30,346 | - | - |
| Secured | | | | |
| 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 | - | - |
| Total current borrowings | 442,656 | 144,003 | - | - |
| Unsecured | | | | |
| PIK notes | 806,614 | 692,239 | - | - |
| Secured | | | | |
| 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 | - | - |
| Total non-current borrowings | 6,846,544 | 6,658,748 | - | - |
| Total facilities | 7,393,257 | 6,973,246 | - | - |
| Used at balance date | (7,224,250) | (6,735,792) | - | - |
| Debt issue costs included in borrowings | 145,281 | 162,351 | - | - |
| Unused at balance date | 314,288 | 399,805 | - | - |
| Assets Pledged as Security | | | | |
| Assets - floating charge | | | | |
| Cash and cash equivalents | - | 69,629 | - | - |
| eircom assets | 10,283,270 | 9,775,902 | - | - |
| Golden Pages assets | 364,543 | - | - | - |
| Total assets pledged as security | 10,647,813 | 9,845,531 | - | - |

Notes to the Financial Statements for the year ended 30 June 2008 (continued)
21) BORROWINGS (NON-CURRENT ASSETS) CONTINUED
(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, 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 5 days notice

Floating Rate Notes

The floating rate notes of €350 million (\$574 million) are secured, amongst 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, 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 part at any time upon payment of a "make whole" premium.

PIK Notes

The PIK notes issued by the Group in November 2006 totalled of €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 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: 5.4%-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 CPI.

Bank Loan

The senior credit facility totalling NIS400million (\$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 (continued)

21) BORROWINGS (NON-CURRENT ASSETS) 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.

| | Floating interest rate \$'000 | Fixed interest rate | | | | | Over 5 years \$'000 | Total \$'000 |
|------------------------------------|----------------------------------|--------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|------------------------|------------------|
| | | 1 year or less \$'000 | Over 1 to 2 years \$'000 | Over 2 to 3 years \$'000 | Over 3 to 4 years \$'000 | Over 4 to 5 years \$'000 | | |
| 2008 | | | | | | | | |
| 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 | - | - |
| Total borrowings | 2,367,940 | - | 2,050,525 | - | 2,050,525 | 820,210 | - | 7,289,200 |
| Weighted average interest rate | 5.08% | - | 3.79% | - | 3.93% | 4.47% ¹ | - | - |

¹ These were executed December 2007.

| | Floating interest rate \$'000 | Fixed interest rate | | | | | Over 5 years \$'000 | Total \$'000 |
|------------------------------------|----------------------------------|--------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|------------------------|------------------|
| | | 1 year or less \$'000 | Over 1 to 2 years \$'000 | Over 2 to 3 years \$'000 | Over 3 to 4 years \$'000 | Over 4 to 5 years \$'000 | | |
| 2007 | | | | | | | | |
| 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 | - | - |
| Total borrowings | 2,845,176 | - | - | 1,978,787 | - | 1,978,788 | - | 6,802,751 |
| Weighted average interest rate | 6.66% | - | - | 3.79% | - | 3.93% | - | - |

22) PROVISIONS

| | Consolidated | | | | Total \$'000 |
|--|------------------------------|-----------------------------|-------------------------------|-----------------|-----------------|
| | TIS Annuity Scheme \$'000 | Onerous Contracts \$'000 | Restructuring Costs \$'000 | Other \$'000 | |
| At 30 June 2008 | | | | | |
| 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 |
| At 30 June 2008 | 169,873 | 23,225 | 99,484 | 231,035 | 523,617 |

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

22) PROVISIONS (CONTINUED)

| | Consolidated | | | | |
|--|--------------------|-------------------|---------------------|----------------|----------------|
| | TIS Annuity Scheme | Onerous Contracts | Restructuring Costs | Other | Total |
| At 30 June 2007 | \$'000 | \$'000 | \$'000 | \$'000 | \$'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) |
| At 30 June 2007 | 166,851 | 26,834 | 248,536 | 130,416 | 646,571 |

Provisions have been analysed between current and non-current as follows:

| | Consolidated | |
|-------------|----------------|----------------|
| | 2008 | 2007 |
| | \$'000 | \$'000 |
| Current | 129,892 | 230,640 |
| Non-current | 393,725 | 415,931 |
| | 523,617 | 646,571 |

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 ("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 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 programme 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.

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%.

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 Resource 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.

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

(A) PENSION SCHEME OBLIGATION

| | Consolidated | | Parent | |
|--|-----------------|------------------|--------|--------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| The status of the defined benefit scheme is as follows: | | | | |
| Present value of funded obligations | 4,471,927 | 4,489,324 | - | - |
| Fair value of the scheme assets | (4,503,915) | (5,157,898) | - | - |
| Scheme assets in excess of benefit obligation | (31,988) | (668,574) | - | - |
| Unrecognised actuarial gains | 217,746 | 913,583 | - | - |
| Total retirement benefit obligation | 185,758 | 245,009 | - | - |

(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) | - | - | - |
| Total expense included in employee benefits | (43,360) | 29,681 | - | - |
| Actual return on scheme assets | (828,973) | 516,767 | - | - |

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

| | Consolidated | | Parent | |
|--|------------------|------------------|--------|--------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| (i) Defined Benefit Obligation | | | | |
| 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) | - | - |
| Total defined benefit obligation | 4,471,927 | 4,489,324 | - | - |
| Actuarial gains/(losses) not recognised | - | - | - | - |
| Total defined benefit obligation including unrecognised (gains)/losses as per corridor approach | 4,471,927 | 4,489,324 | - | - |

| | Consolidated | | Parent | |
|--|--------------------|--------------------|--------|--------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| (ii) Fair Value of Plan Assets | | | | |
| 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 | (266,298) | - | - |
| 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 | - | - |
| Total Fair Value of Plan Assets | (4,503,915) | (5,157,898) | - | - |

Notes to the Financial Statements for the year ended 30 June 2008 (continued)**(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 | 2007 | 2008 | 2007 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Equities | 2,806,766 | 3,696,200 | - | - |
| Bonds | 997,075 | 877,037 | - | - |
| Property | 407,776 | 419,576 | - | - |
| Cash | 292,298 | 165,085 | - | - |
| Total Pension Scheme assets | 4,503,915 | 5,157,898 | - | - |

(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% |
| Mortality assumptions | 30 June 2008 | 30 June 2007 |
| 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 |
| Expected long-term rate of return | 30 June 2008 | 30 June 2007 |
| Equities | 8.40% | 7.40% |
| Bonds | 5.00% | 4.60% |
| Cash | 4.50% | 3.00% |
| Property | 7.40% | 6.40% |

24) DEFERRED TAX LIABILITIES (NON-CURRENT LIABILITIES)

The balance comprises temporary differences attributable to:

| | Consolidated | | Parent | |
|--|----------------|----------------|--------------|--------------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Amounts recognised in profit and loss | | | | |
| 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 |
| | 385,963 | 353,598 | 1,298 | 1,289 |
| Amounts recognised in equity | | | | |
| Cash flow hedge | 42,177 | 25,256 | - | - |
| Total deferred tax liability | 428,140 | 378,854 | 1,298 | 1,289 |

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

| | Consolidated | | Parent | |
|---|----------------|----------------|--------------|--------------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Movements: | | | | |
| 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) | - | - |
| Closing balance at 30 June | 428,140 | 378,854 | 1,298 | 1,289 |
| 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 | - | - |
| | 428,140 | 378,854 | 1,298 | 1,289 |

25) CONTRIBUTED EQUITY

| | Consolidated | | Parent | |
|--|--------------------|--------------------|----------------|----------------|
| | 2008 | 2007 | 2008 | 2007 |
| | Shares | Shares | \$'000 | \$'000 |
| (A) AUTHORISED, ISSUED, PAID UP CAPITAL | | | | |
| Ordinary Shares fully paid | 200,000,000 | 200,000,000 | 1,000,000 | 1,000,000 |
| (B) MOVEMENTS IN SHARES ON ISSUE | | | | |
| Beginning of financial year | 200,000,000 | 200,000,000 | 957,026 | 957,026 |
| On market share buy-back | (32,095,086) | - | (122,576) | - |
| Closing balance at 30 June | 167,904,914 | 200,000,000 | 834,450 | 957,026 |

(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 in eircom 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 advisor agreed by both parties. The value of the BCMIE Shares offered for conversion are then converted into BCM Shares at the 3 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 (continued)

26) RESERVES AND RETAINED PROFITS/(LOSSES)

| (A) RETAINED PROFITS/(LOSSES) | Consolidated | | Parent | |
|--|----------------|-----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| 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 | - | - |
| Total retained earnings/(loss) | 1,759 | (99,476) | 40,567 | 26,140 |
| (B) RESERVES | | | | |
| 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 | - | - | - | - |
| Total reserves | 101,271 | 74,741 | 26,763 | 27,557 |
| Movement in Reserves: | | | | |
| Foreign currency translation reserve | | | | |
| Balance at beginning of year | 6,211 | 48,895 | - | (4) |
| Currency translation differences arising during the year | 8,460 | (42,684) | - | 4 |
| Balance at 30 June | 14,671 | 6,211 | - | - |
| Share-based payment reserve | | | | |
| Balance at beginning of year | 1,318 | 601 | 1,318 | 601 |
| Options expense (note 6(A)) | 563 | 717 | (794) | 717 |
| Balance at 30 June | 1,881 | 1,318 | 524 | 1,318 |
| Equity reserve | | | | |
| Balance at beginning of year | 26,239 | 26,239 | 26,239 | 26,239 |
| Transfer from retained earnings | - | - | - | - |
| Balance at 30 June | 26,239 | 26,239 | 26,239 | 26,239 |
| Investment valuation reserve | | | | |
| Balance at beginning of year | 4,816 | 18,557 | - | - |
| Changes in investment valuation reserve | 393 | (13,741) | - | - |
| Balance at 30 June | 5,209 | 4,816 | - | - |
| Hedging reserve - cash flow hedges | | | | |
| Balance at beginning of year | 33,642 | 10,240 | - | - |
| Revaluation of cash flow hedge | 67,487 | 48,658 | - | - |
| Deferred tax | (42,177) | (25,256) | - | - |
| Balance at 30 June | 58,952 | 33,642 | - | - |
| Net investment hedge reserve | | | | |
| Balance at beginning of year | 2,515 | - | - | - |
| Changes in net investment hedge reserve | (8,196) | 2,515 | - | - |
| Balance at 30 June | (5,681) | 2,515 | - | - |
| Available-for-sale investment revaluation reserve | | | | |
| 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) | - | - |
| Balance at 30 June | - | - | - | - |

Notes to the Financial Statements for the year ended 30 June 2008 (continued)
(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)-(iii). Amounts are recognised in profit and loss when associated hedge transaction. Amounts are recognised in profit and loss 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 profit and loss when the associated assets are sold or impaired.

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 |
| | \$ | \$ |
| Key Management Personnel | | |
| 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 |
| Total | 1,813,850 | 4,068,818 |

Detailed remuneration disclosures are provided in the Remuneration Report detailed on pages 7 to 15.

Notes to the Financial Statements for the year ended 30 June 2008 (continued)
(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 start of the year | Granted as remuneration | Acquired during the year | Forfeited during the year | Balance at end of the year |
|----------------------------------|---------------------------------|----------------------------|-----------------------------|------------------------------|-------------------------------|
| William Wavish ¹ | 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 |
| Total | 5,000,000 | - | - | - | 5,000,000 |

¹ 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 start of the year | Granted as remuneration | Acquired during the year | Forfeited during the year | Balance at 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 ¹ | - | 2,000,000 |
| Gregory Clark | - | 1,000,000 | - | - | 1,000,000 |
| Total | 3,500,000 | 1,000,000 | 2,000,000 | (1,500,000) | 5,000,000 |

¹ 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 start of the year | Acquired during the year | Other movements ¹ | 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 |
| Total | 5,356,158 | - | (25,000) | 5,331,158 |

¹ 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 start of the year | Acquired during the year | Other movements ¹ | 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) | - |
| Total | 7,199,420 | 831,157 | (2,674,419) | 5,356,158 |

¹ 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 (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 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 |
| Total shareholdings | 84,519 | 46,404 | - | 130,923 |

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

| Executives of the Company 2007 | Balance at 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 |
| Total shareholdings | 16,500 | 32,898 | - | 49,398 |

(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.

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 | 2007 | 2008 | 2007 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| PricewaterhouseCoopers Australian firm | | | | |
| 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 | - | - | - |
| Total remuneration for audit services | 2,862 | 2,762 | 647 | 816 |
| (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 | - | - |
| Total remuneration for audit related services | 2,906 | 4,886 | - | - |
| Taxation Services - related practices of PricewaterhouseCoopers Australian firm | | | | |
| Tax compliance services | 82 | 256 | - | - |
| Total remuneration for audit taxation services | 82 | 256 | - | - |
| (C) Other Advisory Services | | | | |
| Other Advisory Services - related practices of PricewaterhouseCoopers Australian firm | | | | |
| Other advisory services | 488 | - | - | - |
| Total remuneration for other advisory services | 488 | - | - | - |
| | 6,338 | 7,904 | 647 | 816 |

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.

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

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, but 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 per annum), and capitalisation of losses (\$68.4 million per annum). 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, eg, 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 our 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.

(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 one hundred and eleven 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 were 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 do not believe that these figures represent damages which would be properly recoverable from eircom.

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

30) COMMITMENTS

Capital Commitments

Capital expenditure contracted for at reporting date but not recognised in liabilities is as follows:

| | Consolidated | | Parent | |
|--|----------------|---------------|----------|----------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| No later than 1 year | 118,606 | 84,434 | - | - |
| Later than 1 year and not later than 5 years | 38,676 | - | - | - |
| | <u>157,282</u> | <u>84,434</u> | <u>-</u> | <u>-</u> |

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 | |
|--|---------------|----------------|--------------|---------------|
| | Defeased | Non-defeased | Defeased | Non-defeased |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| No later than 1 year | 47,104 | 63,321 | 3,861 | 6,543 |
| Later than 1 year and not later than 5 years | 42,922 | 101,314 | 2,076 | 3,579 |
| | <u>90,026</u> | <u>164,635</u> | <u>5,937</u> | <u>10,122</u> |
| Future finance charges | (9,831) | (15,374) | - | - |
| Present value of finance lease liabilities | <u>80,195</u> | <u>149,261</u> | <u>5,937</u> | <u>10,122</u> |

| | Consolidated | | Parent | |
|---|----------------|----------------|----------|----------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| The total contracted payments due on operating leases are as follows: | | | | |
| Payable: | | | | |
| Within 1 year | 88,894 | 59,937 | - | - |
| Between 2 and 5 years | 267,798 | 212,639 | - | - |
| Over 5 years | 488,597 | 430,296 | - | - |
| | <u>845,289</u> | <u>702,872</u> | <u>-</u> | <u>-</u> |

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).

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 key management personnel are disclosed in note 27.

(D) TRANSACTIONS WITH RELATED PARTIES

The following transactions occurred with related parties:

| Other related parties | Babcock & Brown Securities (Singapore) Pty Ltd | | Babcock & Brown Capital Management Pty Ltd | | Babcock & Brown Securities Pty Ltd | | Babcock and Brown Australia Pty Ltd | | Total | |
|-----------------------|--|----------|--|---------------|------------------------------------|---------------|-------------------------------------|----------|---------------|---------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Management fee | - | - | 19,366 | 13,254 | - | - | - | - | 19,366 | 13,254 |
| Performance fee | - | - | - | - | - | - | - | - | - | - |
| Break fee | - | - | - | - | - | - | - | - | - | - |
| Advisor's fee | 2,742 | - | - | - | 7,626 | 85,170 | 97 | - | 10,465 | 85,170 |
| | <u>2,742</u> | <u>-</u> | <u>19,366</u> | <u>13,254</u> | <u>7,626</u> | <u>85,170</u> | <u>97</u> | <u>-</u> | <u>29,831</u> | <u>98,424</u> |

Notes to the Financial Statements for the year ended 30 June 2008 (continued)
(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) Advisor'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 advisor. Babcock & Brown Securities Pty Ltd is a controlled entity of Babcock & Brown Limited. The fees payable under the preferred advisor 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:

| | Consolidated | | Parent | |
|--|--------------|----------|--------|--------|
| | 2008 | 2007 | 2008 | 2007 |
| (E) OTHER TRANSACTIONS WITH RELATED PARTIES | \$'000 | \$'000 | \$'000 | \$'000 |
| <i>Dividend revenue</i> | | | | |
| Subsidiaries | - | - | 7,042 | 3,761 |
| Associates | - | 1,933 | - | - |
| <i>Management fee revenue</i> | | | | |
| Subsidiaries | - | - | 12,190 | 7,737 |
| <i>Transaction costs</i> | | | | |
| Other related parties | - | (18,408) | - | - |
| <i>Tax Consolidation legislation</i> | | | | |
| Tax losses assumed from wholly-owned tax consolidated entities | - | - | 1,152 | 270 |
| <i>Transaction cost recovery</i> | | | | |
| Subsidiaries | - | - | - | 49,082 |
| <i>Other</i> | | | | |
| Administration costs of minority interests | - | (761) | - | - |

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

The following balances are outstanding at the reporting date in relation to transactions with related parties:

(F) OUTSTANDING BALANCES WITH RELATED PARTIES

| | Consolidated | | Parent | |
|--|----------------|----------------|----------------|----------------|
| | 2008 \$'000 | 2007 \$'000 | 2008 \$'000 | 2007 \$'000 |
| <i>Current Receivables (investing activities)</i> | | | | |
| Subsidiaries | - | - | 28,553 | 14,310 |
| <i>Current Receivables (tax funding agreement)</i> | | | | |
| Subsidiaries | - | - | 746 | 6,042 |
| <i>Current Payables</i> | | | | |
| Subsidiaries | - | - | (720) | (159,999) |
| <i>Current Payables (tax funding agreement)</i> | | | | |
| Subsidiaries | - | - | (1,152) | (286) |
| <i>Current Payables</i> | | | | |
| Other related parties | - | 10,796 | - | - |

(G) LOANS TO FROM RELATED PARTIES
Loans to subsidiaries

| | | | | |
|--------------------------|---|---|---------------|---------------|
| Beginning of the year | - | - | 20,064 | 17,384 |
| Loans advanced (note 10) | - | - | 5,871 | 2,680 |
| | - | - | 25,935 | 20,064 |

Loans from subsidiaries

| | | | | |
|-------------------------------|---|---|--------------|------------------|
| Beginning of the year | - | - | (159,999) | (159,364) |
| Loans repaid/(made) (note 20) | - | - | 159,279 | (635) |
| | - | - | (720) | (159,999) |

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 \$152.1 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:

| | |
|--|----------------|
| Purchase Consideration | \$'000 |
| Cash paid | 143,577 |
| Direct costs related to the acquisition | 6,324 |
| Total purchase consideration | 149,901 |
| Fair value of net identifiable assets acquired (refer below) | 48,853 |
| Goodwill | 198,754 |
| Intangibles Acquired: | |
| Brand names | 33,242 |
| Customer contracts | 22,825 |
| Databases and technology | 2,148 |
| Total Intangibles | 58,215 |

The goodwill is attributable to Golden Pages Israel's strong market position and profitability in trading in the Israel directories market.

Notes to the Financial Statements for the year ended 30 June 2008 (continued)
(B) ASSETS AND LIABILITIES ACQUIRED – Golden Pages Israel

| | Carrying Amount | Fair Value |
|-------------------------------|----------------------------|-------------------|
| | \$'000 | \$,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 |
| Total assets | 58,485 | 105,067 |
| Non current liabilities | (2,066) | (9,543) |
| Borrowings | (132,949) | (106,308) |
| Current liabilities | (40,752) | (38,069) |
| Total liabilities | (175,767) | (153,920) |
| Net Assets | (117,282) | (48,853) |

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.

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Notes to the Financial Statements for the year ended 30 June 2008 (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:

| | €000 | \$'000 |
|--|------------------|------------------|
| Purchase Consideration | | |
| Cash paid | 2,343,548 | 3,710,458 |
| Direct costs related to the acquisition | 85,514 | 135,371 |
| Total purchase consideration | 2,429,062 | 3,845,829 |
| Fair value of net identifiable assets acquired | (956) | (1,504) |
| Goodwill | 2,428,106 | 3,844,325 |
| Intangibles Acquired: | | |
| 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 |
| Total Intangibles | 706,024 | 1,117,657 |

The goodwill is attributable to eircom's market position and profitability in trading in the Irish telecommunications industry. eircom have in place a significant infrastructure base in Ireland and operate the third largest mobile carrier in Ireland (Meteor).

(D) ASSETS AND LIABILITIES ACQUIRED – eircom

| | Carrying Amount \$'000 | Fair Value \$,000 |
|-------------------------------|------------------------------|----------------------|
| Purchase Consideration | | |
| 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 |
| Total assets | 5,137,132 | 6,153,346 |
| 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) |
| Total liabilities | (5,854,297) | (6,153,334) |
| Net Assets | (717,165) | 12 |

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

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.

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 Phonestop 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% | - |
| Dunn & Bradstreet (Israel) Ltd | Israel | 55% | - |
| Mitchatnim Bareshet Ltd | Israel | 100% | - |
| Mitchatnim Catalog Ltd | Israel | 100% | - |
| Winhelp Ofran Limited Partnership | Israel | 50.1% | - |
| Net Health Vanture | 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 (continued)

34) CASH FLOW FROM OPERATIONS

| | Consolidated | | Parent | |
|--|------------------|------------------|-----------------|----------------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Profit/(loss) for the year after tax | 184,287 | (247,576) | 14,427 | 16,298 |
| Add back | | | | |
| 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 | - | - |
| Adjusted profit for the year after tax | 1,462,120 | 757,320 | 20,458 | 20,778 |
| Adjustments for | | | | |
| 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)/losses | - | - | (41) | (106) |
| Non cash share-based payments | 563 | 717 | (794) | 717 |
| Non cash retirement benefit charge/(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) | - | - |
| Changes in Assets and Liabilities: | | | | |
| 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) |
| Cash flow generated from operations | 1,138,906 | 1,013,504 | (15,957) | (8,443) |

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 |
| | \$'000 | \$'000 |
| Profits/(losses) used in calculating basic and diluted earnings per share | 101,235 | (131,677) |
| (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).

Notes to the Financial Statements for the year ended 30 June 2008 (continued)
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 (\$) ¹ | 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 |

¹ 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 Total Shareholder Return ("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 the lapse after 90 days of his or her termination date of any vested but unexercised options.

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 note 31). Set out below are summaries of the options granted under the plan:

Parent entity - 2008

| Grant Date | Expiry Date | Balance at start of the year Number | Granted during the year Number | Forfeited during the year Number | Balance at end of the year Number |
|-------------------------------|------------------|--|-----------------------------------|-------------------------------------|--------------------------------------|
| 14 February 2005 ¹ | 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 |
| Total | | 3,000,000 | - | - | 3,000,000 |

¹ 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 start of the year Number | Granted during the year Number | Forfeited during the year Number | Balance at 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 |
| Total | | 3,500,000 | 1,000,000 | (1,500,000) | 3,000,000 |

Notes to the Financial Statements for the year ended 30 June 2008 (continued)
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 |
| Income statement | |
| Revenue from continuing operations | 42,654 |
| Expenses from continuing operations (excluding finance costs) | (21,864) |
| Profit before income tax | 20,790 |
| Income tax expense | (4,135) |
| Profit for the year | 16,655 |

(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 |
| Total current assets | 487,213 |
| Non-current assets | |
| Investments in subsidiaries | 419,449 |
| Derivative financial instruments | 1,887 |
| Deferred tax assets | 6,224 |
| Total non-current assets | 427,560 |
| Total assets | 914,773 |
| Current liabilities | |
| Trade and other payables | 486 |
| Derivative financial instruments | 7,754 |
| Current tax liabilities | 2,422 |
| Total current liabilities | 10,662 |
| Non-current liabilities | |
| Deferred tax liabilities | 1,298 |
| Derivative financial instruments | 2,071 |
| Total non-current liabilities | 3,369 |
| Total liabilities | 14,031 |
| Net assets | 900,742 |
| Equity | |
| Contributed equity | 855,532 |
| Retained profits | 45,210 |
| Total equity | 900,742 |

Notes to the Financial Statements for the year ended 30 June 2008 (continued)

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.

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Directors' Declaration

In the directors' opinion;

(A) the financial statements and notes set out on pages 30 to 87 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 7 to 15 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

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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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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*.

Pricewaterhouse Coopers

PricewaterhouseCoopers



VJ Clarke
Partner

Sydney
28 August 2008

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Babcock & Brown Capital
Full Year Results to 30 June 2008
28 August 2008

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HIGHLIGHTS – FY08 FINANCIAL RESULTS

- Consolidated Profit of A\$101.2m (2007: loss of A\$131.7m)
- Strong earnings growth
 - BCM consolidated EBITDA of A\$1,277m up 31% on pcp
 - eircom EBITDA up 26% to €712.0m (A\$1,251m) due to:
 - Reflects full 12 months contribution from eircom (2007: 10½ months)
 - ongoing growth in Meteor – 57% growth in EBITDA and 36% revenue growth on pcp
 - continued strength in the Fixed Line business – EBITDA in line with prior year
 - Golden Pages Israel achieved an EBITDA of NIS 84m (A\$25m) for the 11 months since acquisition. After adjusting for fair value adjustments from the acquisition, only NIS 40m (A\$11.8m) is brought to account.
 - Corporate contribution to EBITDA of \$15.8m increased by 76% on pcp
 - Group EPS of 52.3 cents (2007: loss of 65.8c) a 13% increase on prior six months
 - Adjusted EPS of 60.3 cents based on current issued capital of 167.9m shares
 - NAV of \$5.58¹ per share vs A\$4.66 at 30 June 2007

¹ A\$5.32 excludes impact of the buy-back

HIGHLIGHTS – REVIEW OF MANAGEMENT ARRANGEMENTS

- The Independent Directors have commenced discussions with Babcock & Brown regarding the future management and potential internalisation of BCM
- This decision follows Babcock & Brown strategic review and BCM's ongoing investment review
 - Babcock & Brown have announced that it will provide ongoing support and management to BCM but that the Corporate & Structured Finance division, which is currently responsible for the Management of BCM, will gradually be wound down
- Detailed protocols to be developed to govern discussions between the parties.
- Independent Directors hope to seek shareholder approval for an internalisation proposal at the BCM AGM in November 2008. However, the Independent Directors are not in a position to provide any assurance that this will be the outcome of discussions
- Further updates will be provided to the market in due course

¹ A\$5.32 excludes impact of the buy-back

HIGHLIGHTS – CAPITAL MANAGEMENT PROGRAM

Off-Market Buy-Back

- In light of the discussions with Babcock & Brown on management arrangements, the Board has decided to postpone the off-market buy-back scheduled to commence on 29 August 2008
- The Board believes shareholders should know outcome of these discussions before deciding whether they will participate in the off-market buy-back
- Further updates in the off-market buy-back will be provided on completion of the discussions

On-Market Buy-Back

- On-market buy back program to date has purchased 32.1m shares (16.0% of original equity)
- Total cost to date is \$122.0m at an average price of \$3.80
- To date the buy-back has increased NAV of BCM by 26 cents per share

Cash Reserves

- BCM retains \$367m in cash reserves at 30 June 2008.

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FY08 BCM CONSOLIDATED FINANCIAL RESULTS

| Consolidated Financial Performance | Year ended 30 June 08 A\$m | Year ended 30 June 07 A\$m ¹ | % Change |
|---|----------------------------------|---|----------------|
| Revenue | 3,650.1 | 2,903.7 | 25.7 |
| EBITDA | | | |
| eircom ¹ | 1,251.4 | 964.9 | 29.7 |
| Golden Pages ² | 10.2 | - | NM |
| Corporate | 15.8 | 9.0 | 75.6 |
| | 1,277.4³ | 973.8³ | 31.2 |
| EBIT | 748.2 | 126.0 | >100 |
| Net Finance Costs | (511.0) | (378.2) | 35.1 |
| Earnings before tax | 237.2 | (252.2) | >100 |
| Income tax expense (benefit) | (52.8) | (4.6) | >100 |
| Profit/(Loss) from ordinary activities after tax | 184.3 | (247.6) | >100 |
| (Profit)/Loss attributable to minority interests | (83.0) | 115.9 | >100 |
| Profit/(loss) for the year attributable to BCM | 101.2 | (131.7) | >100 |
| Earnings/(losses) per share | 52.3 cents | (65.8 cents) | >100 |

NM: Comparison to prior year period is not meaningful

1 eircom consolidated from 18 August 2006

2 Golden Pages consolidated from 31 July 2007

3 Excluding restructuring, depreciation & amortisation, net finance costs and associated gains

FY08 CONSOLIDATED FINANCIALS - EIRCOM

| eircom Consolidated Financial Performance HY08 EUR: AUD 0.612 | FY08 eircom 100% €'m | FY07 ¹ eircom 100% €'m | FY08 BCM Interest 57.1% A\$'m | FY07 ¹ BCM Interest 57.1% A\$'m |
|---|-------------------------------|--|--|---|
| Fixed Line revenue | 1,657.0 | 1,419.3 | 1,543.3 | 1,344.2 |
| Mobile revenue | 481.7 | 353.8 | 448.7 | 335.1 |
| Consolidated Adjustments (intercompany transfers) | (78.0) | (53.0) | (68.5) | (50.5) |
| Total Revenue | 2,060.7 | 1,720.1 | 1,923.5 | 1,628.8 |
| Operating Cost (before restructuring costs) | (1,348.7) | (1,157.0) | (1,259.2) | (1,095.6) |
| EBITDA² | 712.0 | 563.1 | 664.3 | 533.2 |
| Other income/(expense) | 86.1 | (150.8) | 80.7 | (135.8) |
| Adjusted EBITDA | 798.1 | 412.3 | 745.0 | 397.4 |
| Depreciation & Amortisation – eircom | (399.2) | (349.8) | (372.6) | (331.2) |
| EBIT | 398.9 | 62.5 | 372.4 | 66.2 |
| Net finance costs | (277.6) | (211.5) | (259.1) | (201.4) |
| PIK finance costs | (55.3) | (28.3) | (51.7) | (26.7) |
| Operating profit/(loss) before tax | 66.0 | (177.3) | 61.5 | (161.8) |
| Income tax expense | (29.3) | 7.4 | (27.2) | 7.0 |
| Net profit/(loss) after tax | 36.7 | (169.9) | 34.3 | (154.8) |
| eircom Masts sale | 78.3 | - | 74.5 | - |
| Net profit/(loss) after tax, including masts (Jun 08) | 115.0 | (169.9) | 108.8 | (154.8) |

¹ eircom consolidated from 18 August 2006

² eircom EBITDA for the period was €712m, compared to €698m in BCM Ireland Finance Limited's ("BCMIF") accounts produced for bondholders. The difference of €14m consists of: fair value adjustments excluded by BCM (€7m), management fee (€3.5m) and incentive fees (€3.3m).

FY08 CONSOLIDATED FINANCIALS – GOLDEN PAGES

| Golden Pages Consolidated Financial Performance FY08 AUD:NIS 3.374 | Six months to 30 Jun 2008 NIS'm | Six months to 30 Jun 2007 NIS'm | Six months to 30 Jun 2008 A\$m | Six months to 30 Jun 2007 A\$m |
|---|--|--|---|---|
| Net Revenue | | | | |
| Print | 84.0 | 92.8 | 24.9 | 27.5 |
| Online | 26.4 | 18.5 | 7.8 | 5.5 |
| Local Search & Information Businesses | 47.4 | 33.6 | 14.1 | 99.0 |
| Consolidated Net Revenue | 157.8 | 144.9 | 46.8 | 42.9 |
| EBITDA (pre transaction costs) | | | | |
| Print | 25.0 | 29.4 | 7.4 | 8.7 |
| Online | 4.4 | (0.5) | 1.3 | (0.1) |
| Local Search & Information Businesses | 9.4 | 5.6 | 2.8 | 1.7 |
| Consolidated EBITDA (pre transaction costs) | 38.8 | 34.5 | 11.5 | 10.3 |

Golden Pages was purchased on 31 July 2007
Dun & Bradstreet, Michatnim and Weekend which were purchased during 2007

FY08 CONSOLIDATED FINANCIALS – GOLDEN PAGES

| Golden Pages | NIS'm | A\$m |
|--|--------------|--------------|
| AUD:NIS 3.25 | | |
| Acquisition Cost | 415.5 | 106.9 |
| Loss/Profit for 11 months | (49.3) | (14.6) |
| Foreign Exchange movement | - | 20.4 |
| Impairment Loss | (14.4) | (4.3) |
| Carrying Value – 30 June 2008 | 351.8 | 108.4 |
| Enterprise Valuation at 30 June 2008 (Deloitte Valuation) | 965.3 | 297.4 |
| Less: net debt | (613.5) | (189.0) |
| Equity value | 351.8 | 108.4 |

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FY08 BCM CONSOLIDATED BALANCE SHEET

| Babcock & Brown Capital Group Position | At 30 Jun 08 A\$m | At 30 Jun 07 A\$m |
|---|----------------------|----------------------|
| Cash – Investment level (eircom & GP) | 610.7 | 266.3 |
| Cash – BCM level | 355.2 | 577.3 |
| Receivables | 868.2 | 652.0 |
| Property, Plant & Equipment | 3,551.7 | 3,472.0 |
| Intangible assets | 5,402.2 | 5,045.4 |
| Other assets (including deferred tax assets) | 357.0 | 410.7 |
| Total Assets | 11,145.0 | 10,423.7 |
| Payable and accruals | 1,349.4 | 1,130.2 |
| Provisions | 523.6 | 646.5 |
| Borrowings (refer slide 41 & 43) | 7,289.2 | 6,802.7 |
| Other liabilities | 700.1 | 676.2 |
| Total Liabilities | 9,862.3 | 9,255.6 |
| Net Assets | 1,282.7 | 1,168.1 |
| Minority Interests | 345.2 | 235.8 |
| Net Assets attributable to BCM members | 937.5 | 932.3 |
| Net Asset Value | \$5.58* | \$4.66 |

* A\$5.32 excludes impact of the buy-back

EUR:AUD 0.6096

FY08 FINANCIAL RESULTS COMMENTARY

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| | |
|--|---|
| eircom Operations | <ul style="list-style-type: none"> • Continues strong performance • Group achieved EBITDA¹ of €712m, an increase of 7% on prior year. Increase reflects strong growth in Meteor revenue up 36% to €481.7 and solid growth of 17% in Fixed Line to €1,657m² • Group EBITDA margin of 35%, an increase of 6% over 33% at 30 June 2007 • Group revenue of €2,060.7m up 20% on prior year |
| Golden Pages Operations | <ul style="list-style-type: none"> • Continues to perform in line with expectations • Completed two smaller 'bolt-on' acquisitions during the year • Impairment of A\$4m on goodwill from Golden Pages Israel investment, based on Deloitte's valuation. |
| Corporate | <ul style="list-style-type: none"> • At 30 June 2008 A\$367m available in cash reserves. • Post 30 June 2008, given Israeli CPI and interest rates, NIS120 million (A\$38 million) was remitted to GP to repay debt. • Cash held either on hand or in short-term deposits with quality credit rated Australian financial institutions. |
| BCM Consolidated Financial Position | <ul style="list-style-type: none"> • NAV per share at 30 June 2008 was A\$5.58³ representing a 20% increase over A\$4.66 at 30 June 2007 and 8% from A\$5.19 at 30 December 2007. |

¹ Pre MAST sale, management fee, management incentive costs, restructuring costs, construction income and LTIP

² Reflects full 12 months contribution from eircom (2007: 10½ months)

³ A\$5.32 excludes the effect of the buy-back

FY08 FEES

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| Management | <ul style="list-style-type: none"> • A\$19.4m – 2% of net assets of A\$932 – A\$1,010m <p>Based on the formula set out in the original BCM prospectus dated December 2004, management fees were calculated on a sliding scale. The monthly management fee is calculated on 2% of consolidated net assets.</p> | | | | | | | | | | |
|-----------------------------------|--|-----------------------------------|-------------------------------|---------------------|--|-----|--|-----------|--|---------------------|---------------------------|
| Investment Bank Advisory | <ul style="list-style-type: none"> • A\$4m – Golden Pages acquisition • A\$7m – eircom Mast sale advisory fee and separation advice <p>All investment banking advisory fees payable to Babcock & Brown relate to the investments of BCM. Fees relate to the original investments and subsequent refinancings of the investments. Babcock & Brown has a preferred right to undertake investment banking advisory roles for BCM which is disclosed in the original BCM prospectus.</p> | | | | | | | | | | |
| Performance | <ul style="list-style-type: none"> • No performance fees were payable for FY08 <p>Babcock & Brown is entitled to receive an annual performance fee calculated by reference to the pre-tax Total Shareholder Return as follows:</p> <table border="0"> <thead> <tr> <th style="text-align: left;">Pre-tax Shareholder return</th> <th style="text-align: left;">Annual performance fee</th> </tr> </thead> <tbody> <tr> <td>Between 10% and 25%</td> <td>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 pre-tax TSR.</td> </tr> <tr> <td>25%</td> <td></td> </tr> <tr> <td>Above 25%</td> <td>30% of the amount (if any) by which the actual TSR exceeds a notional 25% pre-tax TSR, less the aggregate of any fees previously paid by BCM to Babcock & Brown during the</td> </tr> <tr> <td>performance term of</td> <td>the Management Agreement.</td> </tr> </tbody> </table> <p>At 30 June 2008 BCM share price would have need to be \$7.06 (\$6.59 removing effect of buy-back), for a performance fee to be payable</p> | 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 pre-tax TSR. | 25% | | 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 fees previously paid by BCM to Babcock & Brown during the | performance term of | the Management Agreement. |
| 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 pre-tax TSR. | | | | | | | | | | |
| 25% | | | | | | | | | | | |
| 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 fees previously paid by BCM to Babcock & Brown during the | | | | | | | | | | |
| performance term of | the Management Agreement. | | | | | | | | | | |

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STRATEGIC UPDATE

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| | |
|---|--|
| Discussions with Babcock & Brown | <ul style="list-style-type: none">• Discussions with Babcock & Brown will have no impact on the ongoing management of BCM in the normal course of business, nor on BCM's ownership of either eircom or Golden Pages |
| Relationship between BCM and Babcock & Brown | <ul style="list-style-type: none">• BCM is listed on the ASX and operates as a completely separate entity to Babcock and Brown Limited• BCM has its own balance sheet and surplus liquid resources• Completely separate governance structure to Babcock & Brown• No cross holdings or cross loans with any of the Babcock & Brown funds.• BCM is managed by Babcock & Brown who have an 8% stake in the company. |
| Independence of BCM Board | <ul style="list-style-type: none">• The BCM Board has majority of independents• All major decisions are subject to approval by the Board |
| BCM Board Changes | <p>Rob Topfer</p> <ul style="list-style-type: none">• Stepped down from executive role at Babcock & Brown• Remain on the board of BCM• Remains actively involved in the business under a consultancy arrangement with Babcock & Brown <p>Phil Green</p> <ul style="list-style-type: none">• Announced intention to retire from the BCM Board upon the nomination and acceptance of a suitable replacement |

CAPITAL MANAGEMENT UPDATE

| | |
|----------------------------|--|
| On-Market Buy-Back | <ul style="list-style-type: none">• Under the share Buy-Back program, 16% of the total issued capital have been bought back at a cost of A\$122m• Represents approximately 32.1m shares at a volume weighted average price of A\$3.80 per share |
| Off-Market Buy-Back | <ul style="list-style-type: none">• Deferred pending completion of discussions between Babcock & Brown and BCM Independent Directors regarding the future management of BCM |

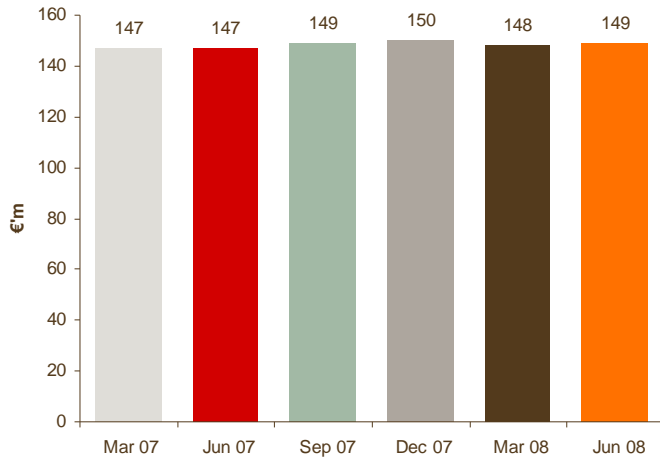
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EIRCOM – INVESTMENT SCORECARD

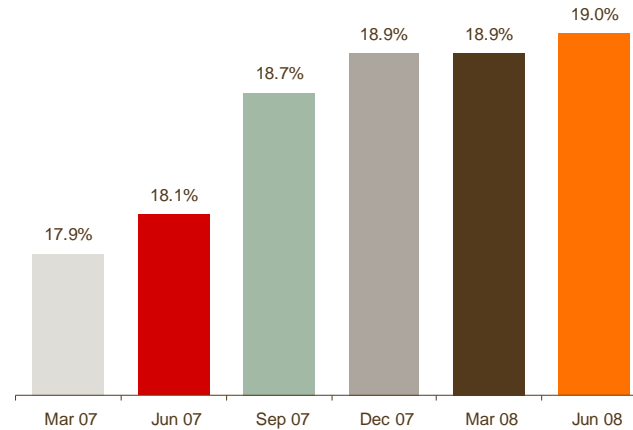
FIXED LINE – Actual EBITDA¹ per quarter

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



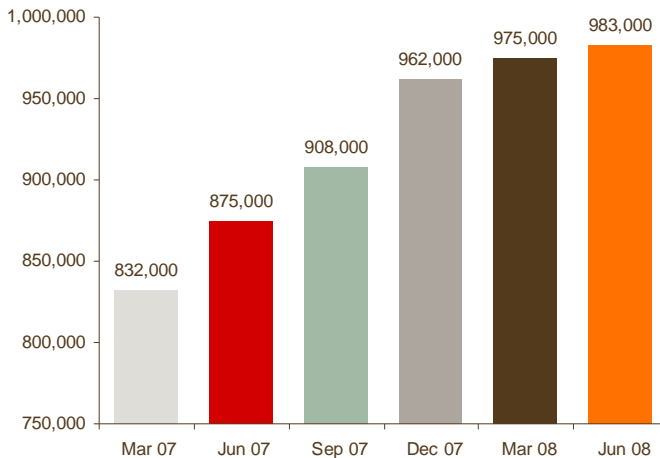
MOBILE – Actual Subscriber Market Share per quarter²

KPI: Attain historical European average 3rd player market share of 20%⁴



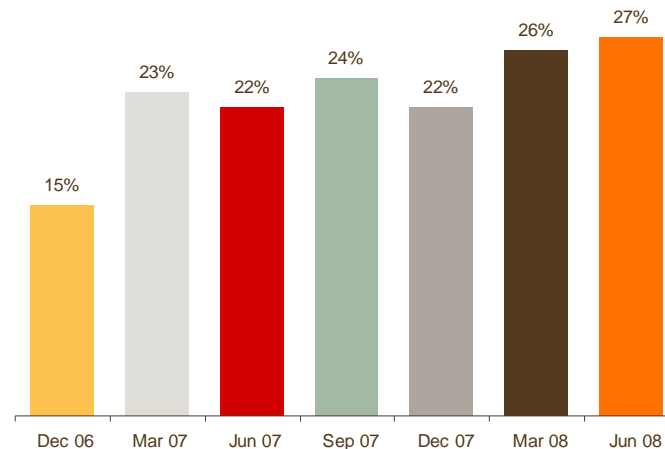
MOBILE – Actual Subscribers per quarter²

KPI: Grow mobile phone subscribers



MOBILE – Actual EBITDA Margin % per quarter³

KPI: Attain historical European average 3rd player EBITDA margin of 30%⁴



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 have been adjusted to include mobile broadband estimates.

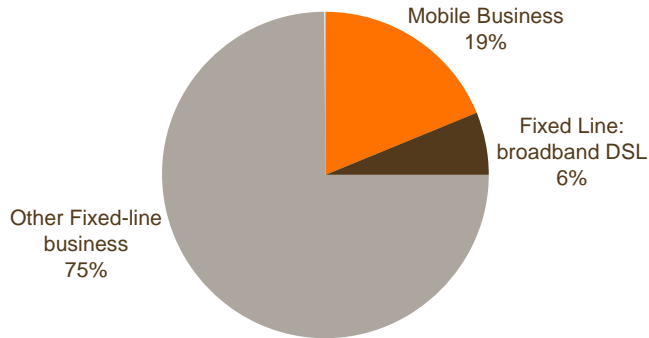
3 Before management incentive costs

4 JP Morgan

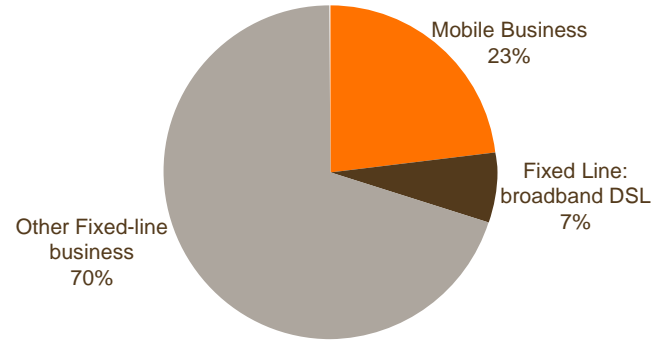
EIRCOM - REVENUE AND EBITDA SEGMENTATION

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Revenue 30 June 2007

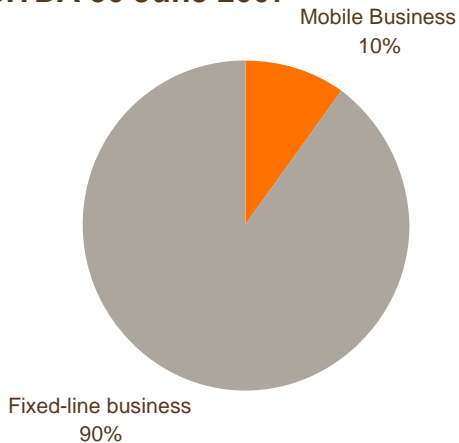


Revenue 30 June 2008

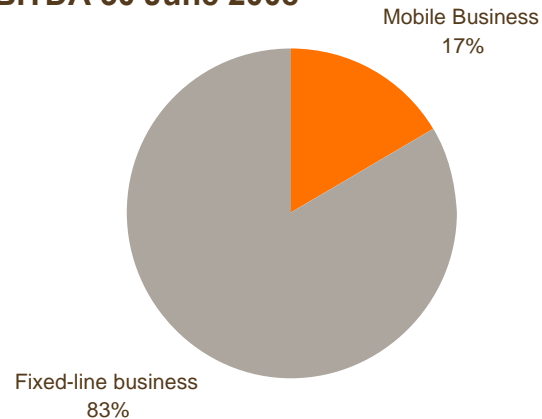


Group revenue has grown by 4% in the year to June 2008

EBITDA 30 June 2007



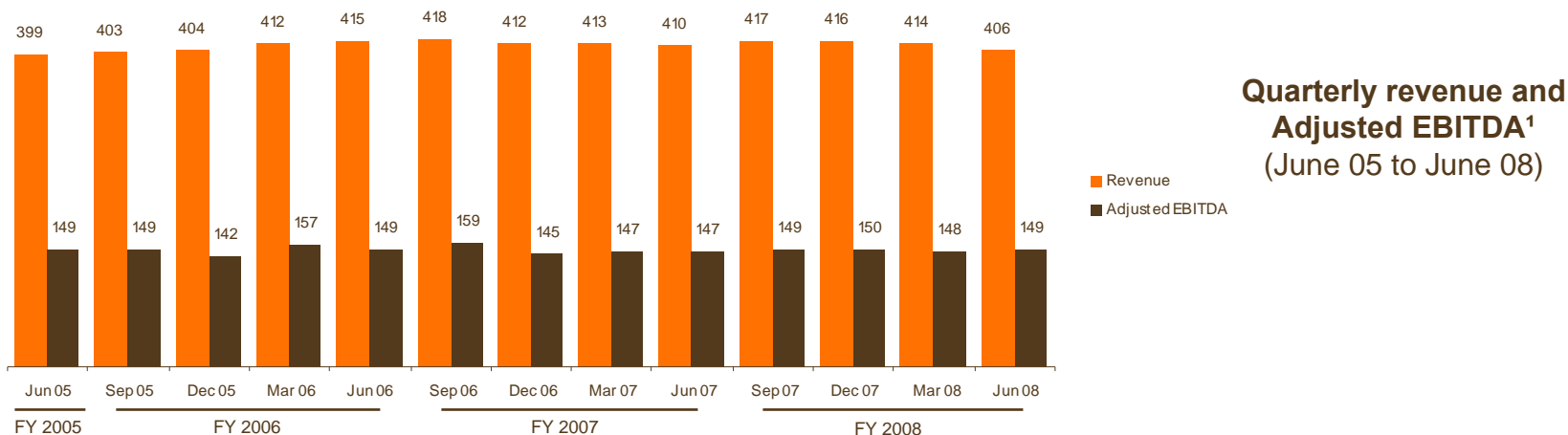
EBITDA 30 June 2008



Group EBITDA has grown by 8% in the year to June 2008

EIRCOM – FIXED LINE

- €149m of EBITDA¹ increased 1% on the June 2007 quarter due to reduced costs arising from headcount reduction and other savings
- Revenue flat year on year
- Higher broadband revenues continue to offset the decline in fixed line traffic volumes
- Winback year to date to June 2008 of 81%, vs 83% for the year to June 2007
- Investment in the fixed network continues with a focus on increasing capacity, broadband roll-out, demand-led growth and Next Generation Networks (NGN) developments



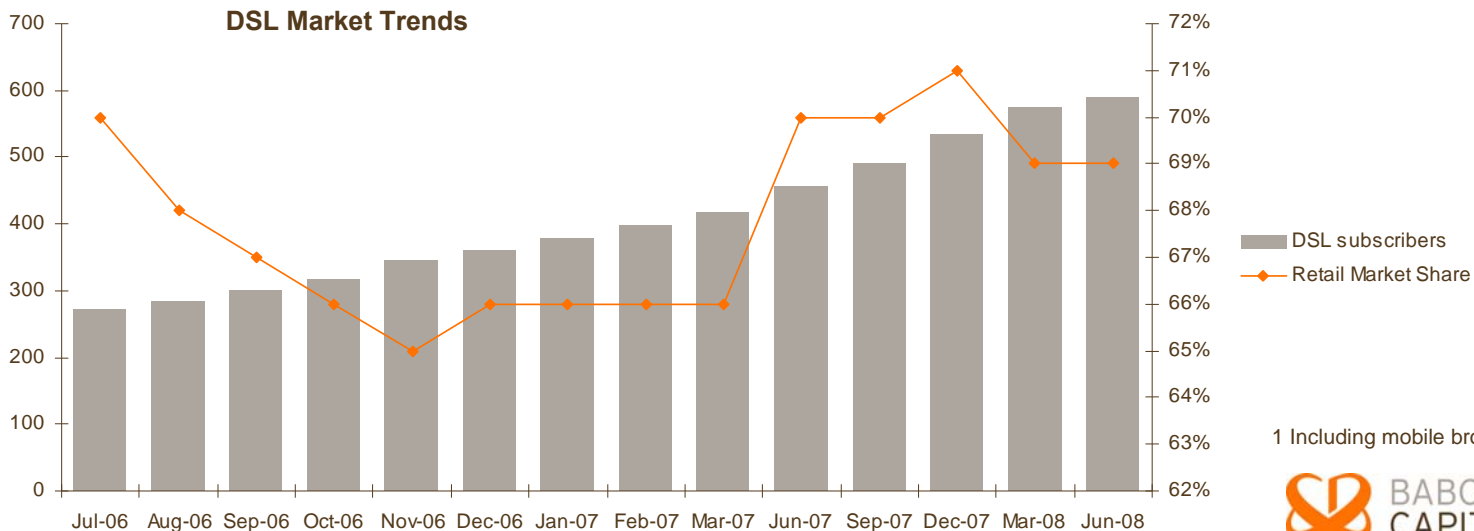
Source: eircom annual and interim reports

¹ Pre: MAST Co sale, management fee, fair value adjustments and restructuring costs and management incentive costs

EIRCOM - FIXED LINE continued

Broadband

- Broadband revenues of €153m, 26% ahead of prior year
- 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
- Increased use of broadband bundled offerings remain an effective acquisition and retention tool
- Broadband rollout – a total of 590 exchange sites enabled as at 30 June 2008, connecting more than 1.4m lines pre-qualifying for broadband.
- 138,000 net DSL customer adds during the year resulting in 593,000 total subscribers at 30 June 2008 a 30% increase yoy
- eircom has a retail share of total DSL market (retail, bitstream, LLU) of 69% and total broadband market share (both Wholesale and Retail and excluding LLU) of 58%¹



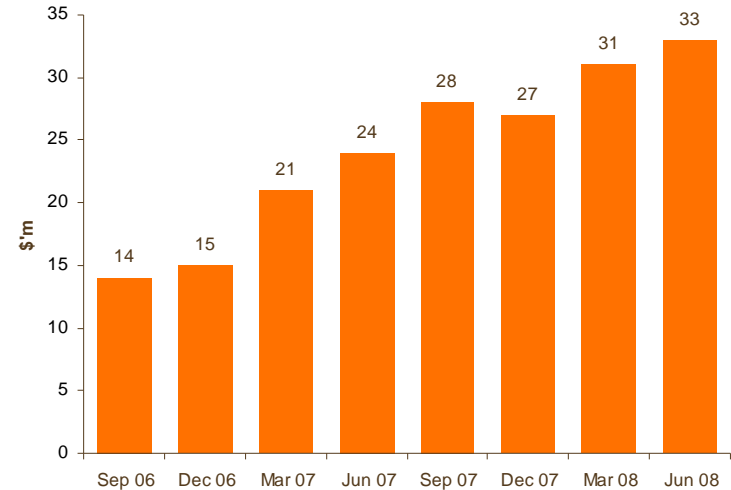
¹ Including mobile broadband

EIRCOM - METEOR

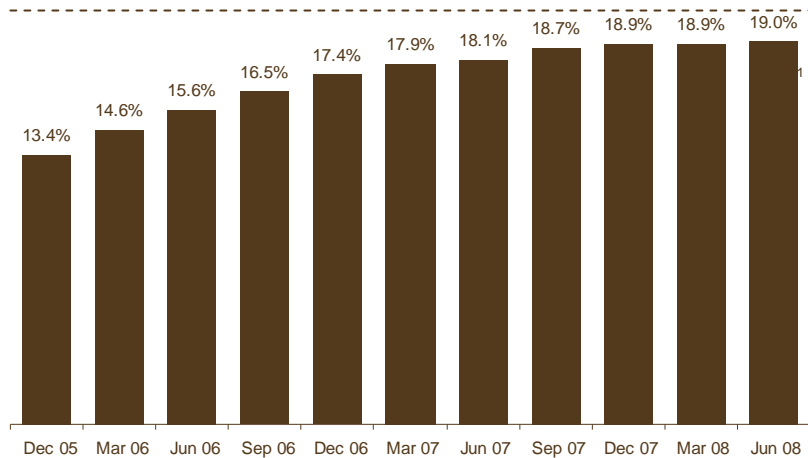
- EBITDA¹ of €33m for the June 2008 quarter, an increase of 38% on the June 2007 quarter
- EBITDA¹ of €118m for the full year, an increase of 57% on the \$75m for FY07 due to higher subscriber numbers and economies of scale
- Revenue of €481m up 24% on previous year.
- Increase in Meteor market share to 19% from 18.1% in June 2007²
- Irish mobile market penetration rate at 121% up from 119% over the previous quarter³
- Irish mobile market continues to grow strongly at 9% year on year with Meteor taking 26% of net adds⁴

1 Pre management incentive costs
 2 Source: ComReg quarterly reports and company estimates
 3 ComReg Quarterly report June 2008 – position as at March 2008
 4 Management estimate

EBITDA



Meteor Subscriber Market Share



Average historical 3rd operator volume market share in Europe is ~20%

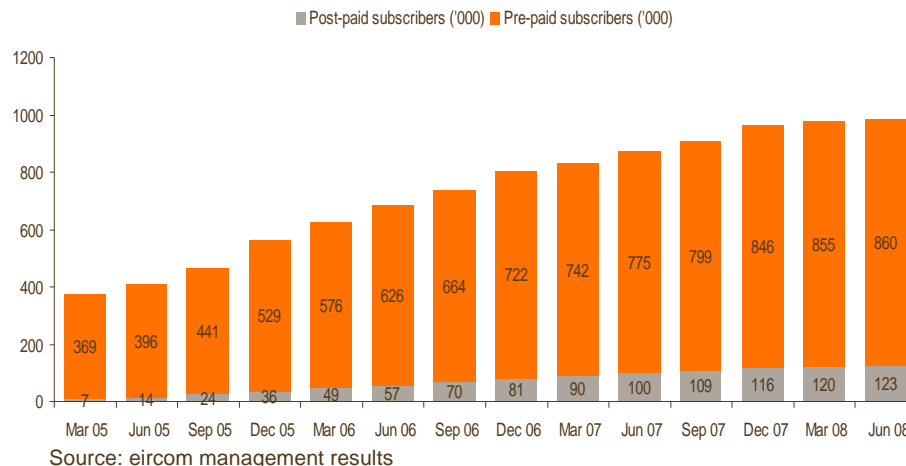
Key market share drivers

- Value positioning
- Strong distribution
- Effective marketing

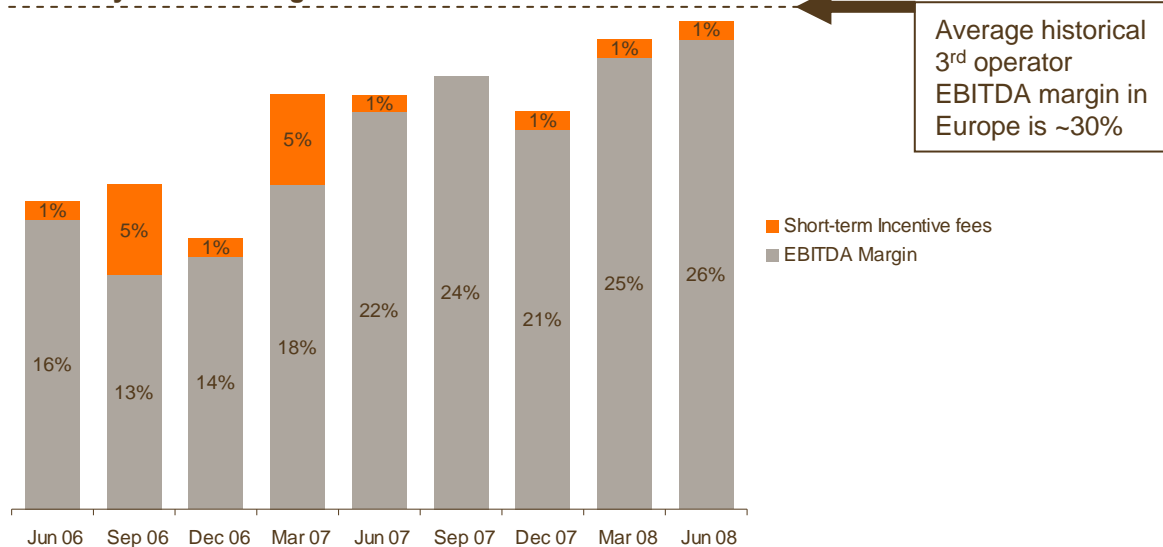
Source: ComReg and company estimates for market share, December 2007 number has been adjusted to include broadband mobile estimates. JPMorgan for average 3rd operator market share

EIRCOM – METEOR continued

- EBITDA margin (pre management incentive costs) for the June 2008 quarter of 27% up from 23% in the June 2007 quarter on the back of increased subscriber numbers and greater subscriber activity
- 12% increase in the number of net subscribers from 875,000 to 983,000 year on year
 - post-paid increased to 12.5% of the total base (June 2007 - 11%)
 - a 23% increase in post-paid customers year on year
- Blended ARPU per month of €40.22 – a 4% increase on June 2007



Quarterly EBITDA Margin



Key EBITDA drivers

- Increased net subscriber base
- Network enhancement
- 3G roll-out and increased product selection
- Scale effect increasingly having an impact
- December quarter returns lower EBITDA margin due to heavy subscriber acquisition costs associated with Christmas trading period

EIRCOM – CAPITAL EXPENDITURE

- €331m cash spend during the 12 months to 30 June 2008, equating to 16% of revenue being invested in capital expenditure
- Second year of planned increased CAPEX program (c. €1bn over 3 years), after which will trend back to normal levels
- Fixed line capex expenditure predominantly relates to:
 - DSL rollout
 - Upgrade to next generation core and renewal of access network
- Mobile capex expenditure predominantly relates to:
 - 3G network rollout

EIRCOM – VALUE ENHANCING INITIATIVES & KEY UPDATES

Mobile

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

Broadband

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

Fixed Line

| | |
|---------------------------|--|
| Call Set Up Charging | <ul style="list-style-type: none"> • From 2 September 2008, changes to call charges implemented which reduces call connection but rebalances call time cost |
| Northern Ireland Business | <ul style="list-style-type: none"> • Signed 6 – 10 year €100m contract for provision of connectivity to Northern Irish Civil Service • Network buildout underway and first phase complete with most government departments now connected |
| Tetra | <ul style="list-style-type: none"> • 56% shareholder in consortium awarded 8 year contract to design and build secure radio network in Ireland for emergency services |

EIRCOM – VALUE ENHANCING INITIATIVES & KEY UPDATES

Regulatory

| | |
|-------------|---|
| Line Shares | <ul style="list-style-type: none"> • ComReg had reduced monthly rental to €2.94 from €8.41 • This reduction has now been withdrawn |
| LLU | <ul style="list-style-type: none"> • Current price of €16.43 per month – the present regime due to expire end November 2008 • Submission being made by eircom |
| USO | <ul style="list-style-type: none"> • Binding performance targets introduced by ComReg on Line Faults measure |
| WACC | <ul style="list-style-type: none"> • Revised WACC agreed with Comreg at 10.21% vs 11.5% • No current material impact on EBITDA |

General

| | |
|-------------------------|--|
| Restructuring Program | <ul style="list-style-type: none"> • Fixed Line headcount reduced by 621 in the year to 30 June 2008 • Voluntary leaving restructuring program on track to achieve 900 FTE reduction by 2010 |
| Real Estate Development | <ul style="list-style-type: none"> • Net c.€50m cash received in July 2008 in respect of new office building • Further property sales planned in the next 12 months |

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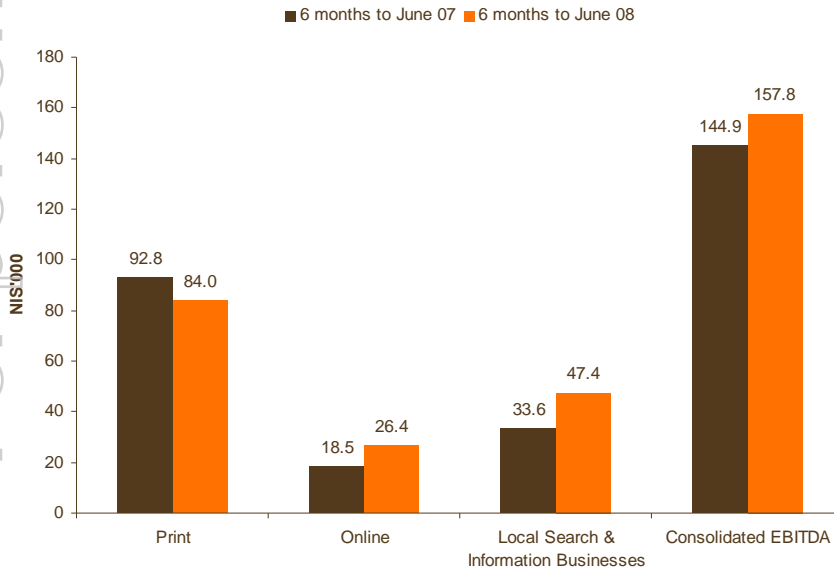
GOLDEN PAGES – 6 MONTH OPERATIONAL UPDATE

Net Revenue

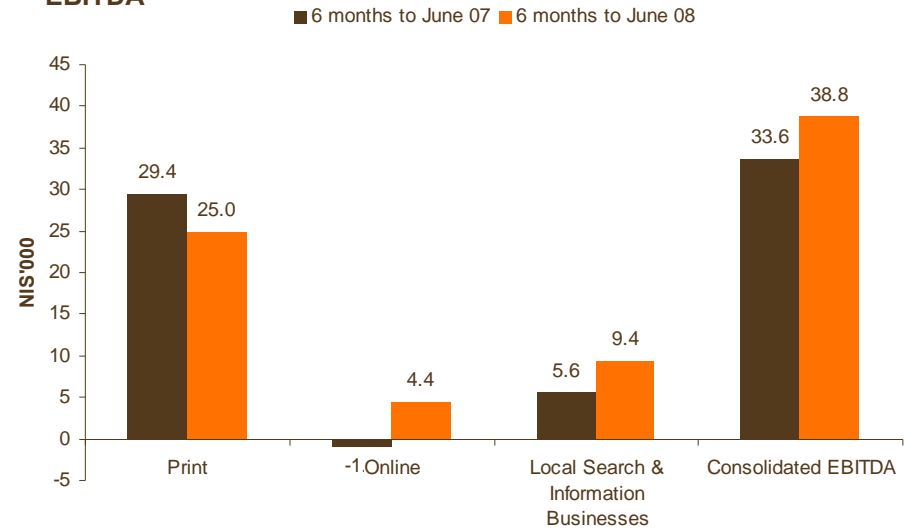
9% increase in consolidated Net Revenue¹

- 43% increase in Online revenue offset 9% decline in print revenue
- 41% increase in Local Search & Information Businesses largely attributed to growth of the businesses and acquisitions made during the second half of 2007

Net Revenue



EBITDA



EBITDA

15% increase in consolidated EBITDA^{1, 2}

- Increase in Online EBITDA¹ partially offsets decline in Print
- 68% growth in Local Search & Information Businesses primarily as a result of acquisitions¹ and growth in underlying businesses

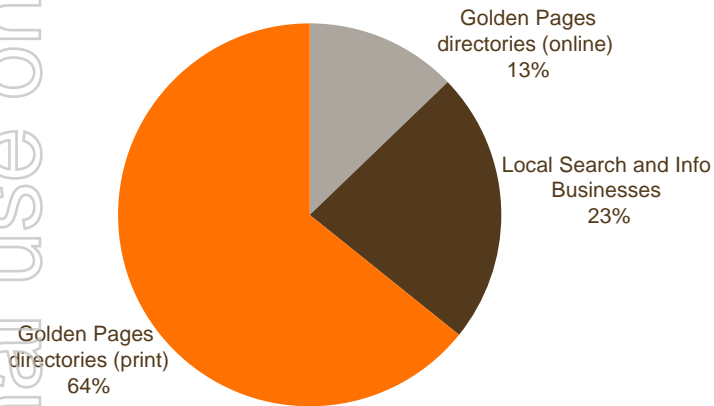
1 June 2007 figure excludes Dun & Bradstreet, Michatnim & Weekend which were acquired during 2007

28 2 Pre transaction costs

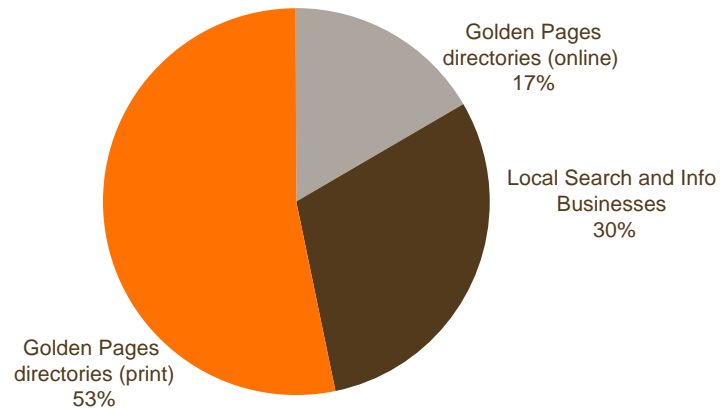
GOLDEN PAGES - REVENUE & EBITDA SEGMENTATION

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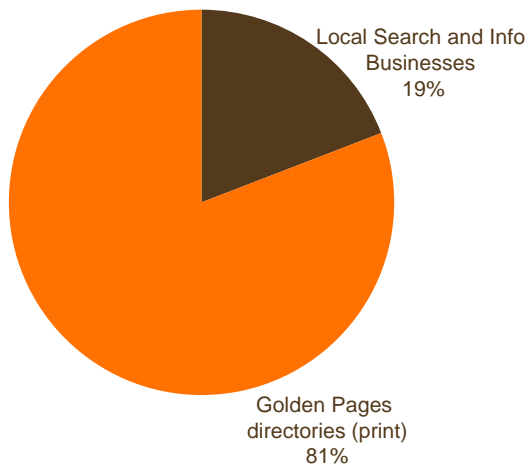
Revenue 30 June 2007



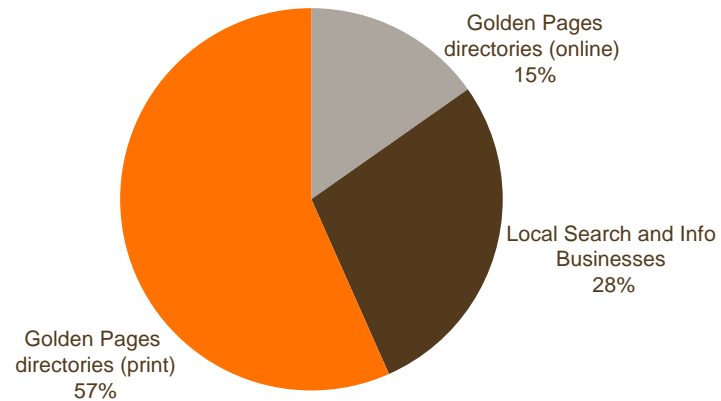
Revenue 30 June 2008



EBITDA 30 June 2007



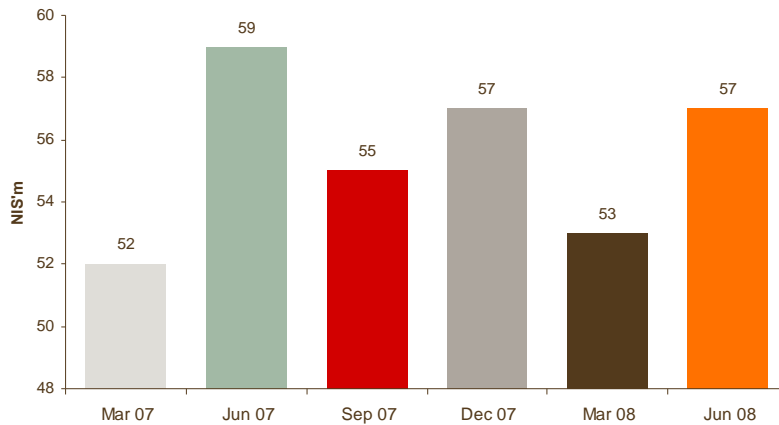
EBITDA 30 June 2008



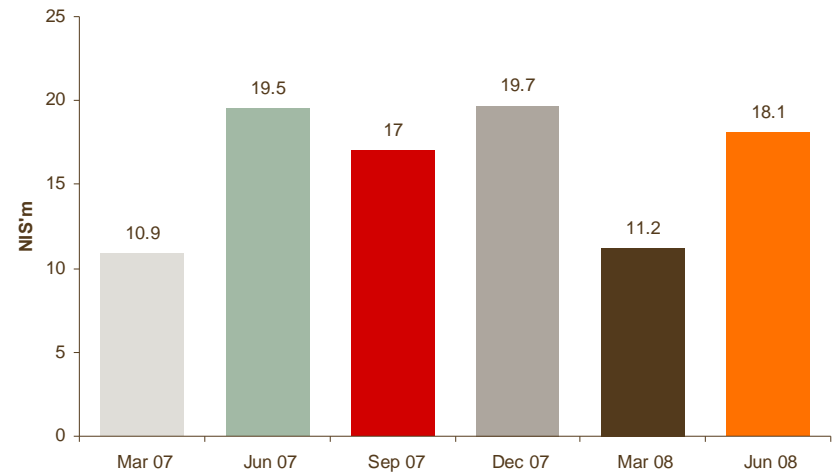
GOLDEN PAGES – PRINT & ONLINE

Quarterly Investment Scorecard

Net Revenue per quarter

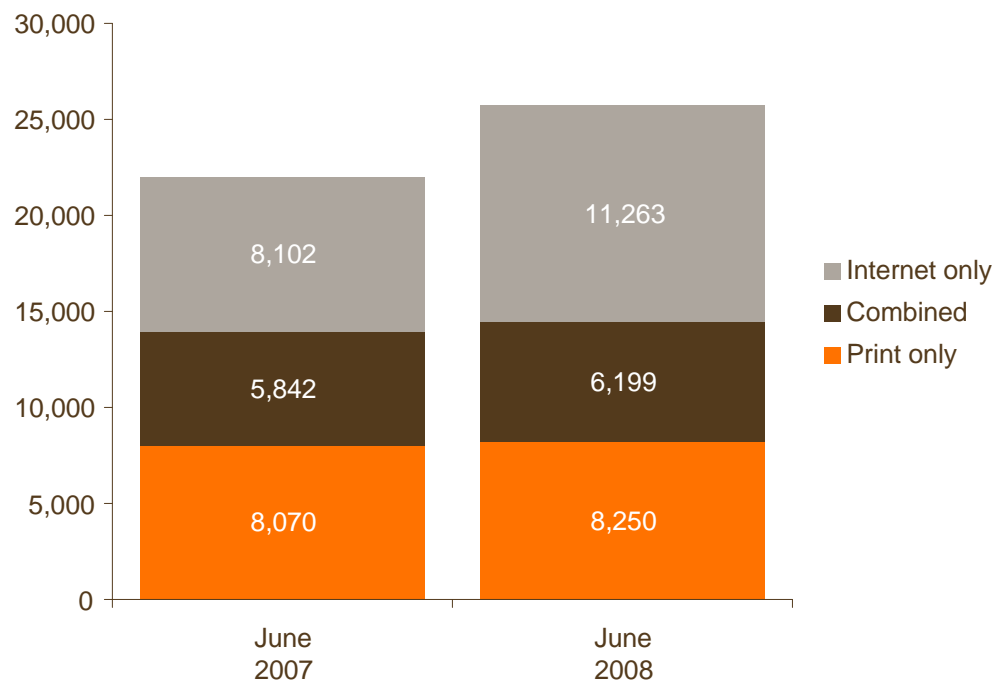


EBITDA per quarter



- Revenue for June 2008 quarter 7.5% higher than previous quarter
- Revenue and EBITDA effected by reduction in Tel Aviv summer canvass

GOLDEN PAGES PRINT & ONLINE CUSTOMER BASE



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GOLDEN PAGES – LOCAL SEARCH & INFO BUSINESSES

Quarterly Investment Scorecard

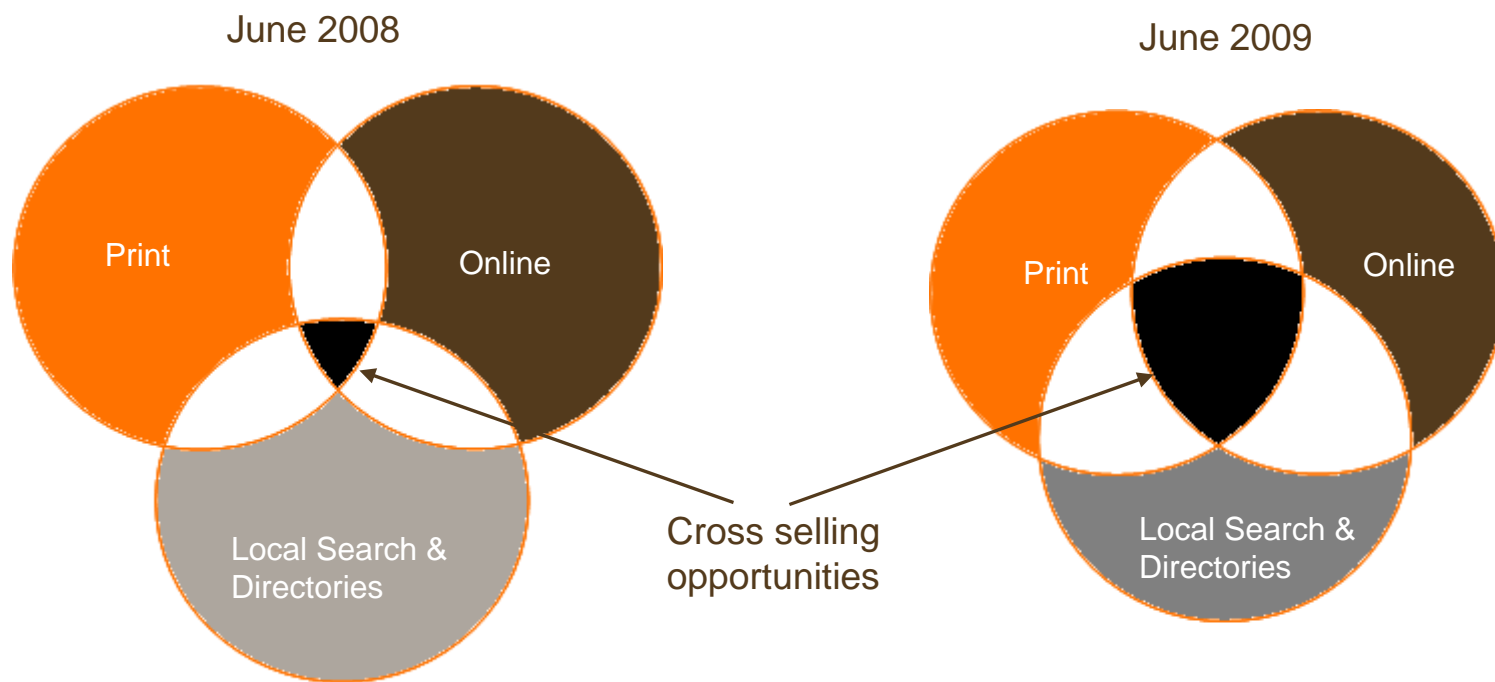
| Revenue (unaudited) NIS'000 | Jun 08 quarter | Mar 08 quarter | Dec 07 quarter | Sept 07 quarter ¹ | Jun 07 quarter |
|---|----------------|----------------|-----------------------------|------------------------------|----------------|
| Zap | 4.6 | 4.1 | 4.9 | 3.8 | 3.8 |
| Rest | 3.7 | 2.9 | 3.9 | 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 ² | 4.1 | 3.8 | 2.8 | N/A | N/A |
| EBITDA (unaudited) NIS'000 | Jun 08 quarter | Mar 08 quarter | Dec 07 quarter ¹ | Sept 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 ² | 1.5 | 1.0 | 1.1 | N/A | N/A |

- Some seasonality in each business, but year on year EBITDA grew 28% and revenue up by 64
 - All businesses experienced revenue growth on previous quarter as well as year on year
- Zap: continues to perform well. EBITDA margins for the 6 months were 59%
- ProGroup: performed below expectations over the past 6 months affected by student strikes and management changes
- Dun & Bradstreet: exceeding expectations for the 6 months driven largely by strong revenue from credit services
- Weekend & Michatnim and Doctors: New acquisitions

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 Michatnim, Weekend and Doctors businesses acquired in September 2007

GOLDEN PAGES: CROSS SELLING OBJECTIVE



- Integration project commenced in June 2008
- Objective to increase overlapping exposure between businesses to create further cross selling opportunities by June 2009

GOLDEN PAGES – STRATEGIC FOCUS

| | Strategic Focus / Value Creating Initiatives |
|---|--|
| Corporate | <ul style="list-style-type: none">• Expand portfolio of complementary directories / media businesses Continual assessment of new areas of expansion for portfolio |
| Print & Online | <ul style="list-style-type: none">• Maintain stable print and online earnings Management's objective is to achieve stable print and online revenues trend going forward |
| Local Search & Info Businesses | <ul style="list-style-type: none">• Grow Local Search & Info Businesses Focus on cross selling opportunities between Online and Local Search & Info Businesses |

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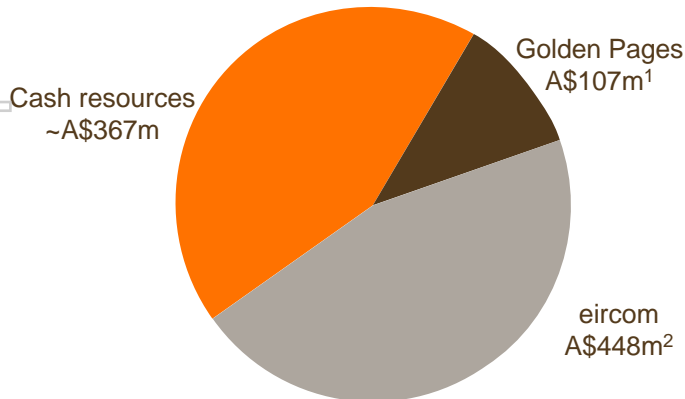
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PORTFOLIO

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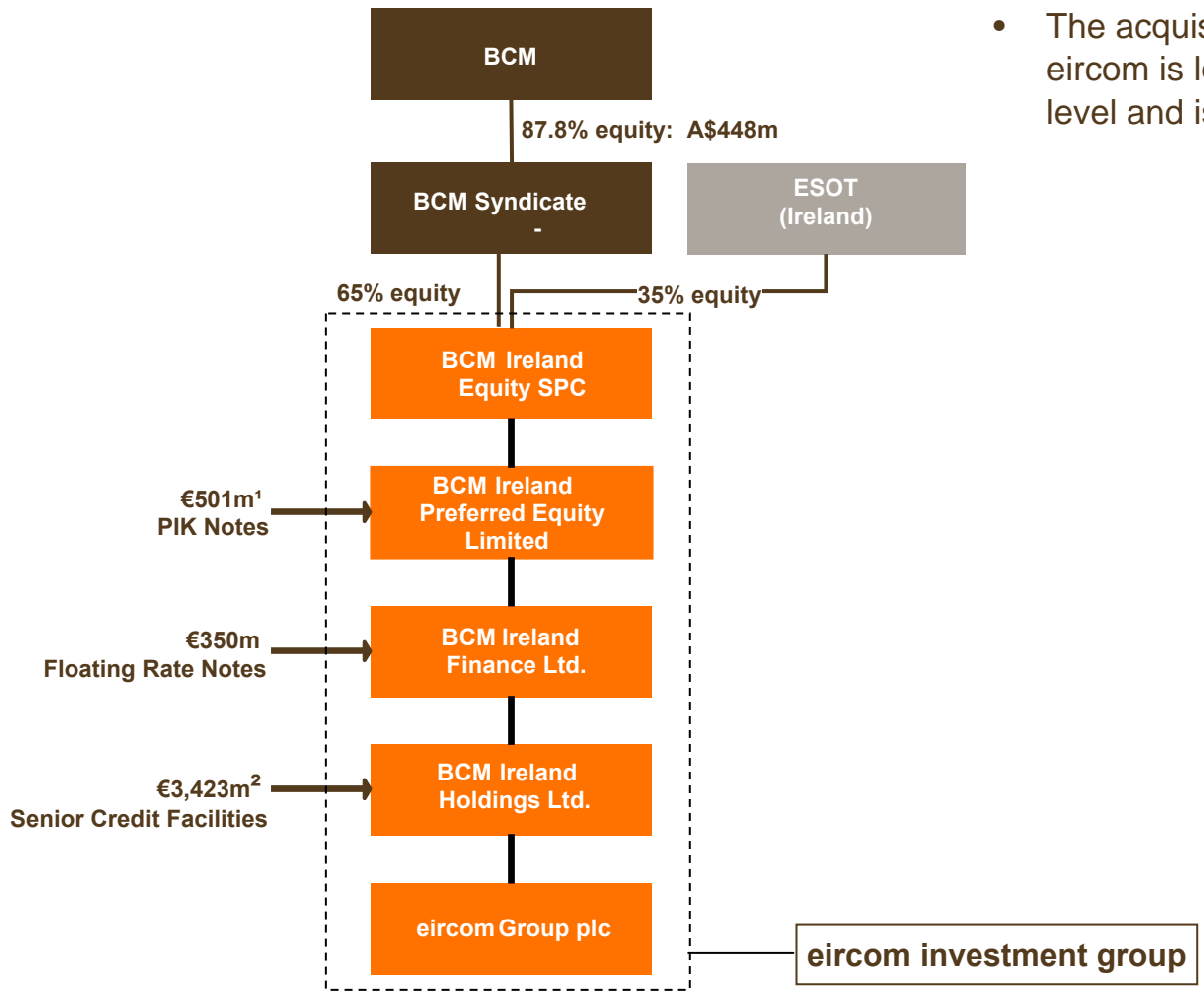
| | |
|-----------------------|---|
| eircom | <ul style="list-style-type: none"> • Ireland's largest provider of fixed line wholesale and retail telecommunication services with rapidly growing share of mobile business • Acquired 57.1% in August 2006 representing equity investment of A\$448m (for total enterprise value of ~A\$8bn) |
| Golden Pages | <ul style="list-style-type: none"> • Israel's leading directories business with portfolio of complementary directory and search businesses • Acquired 100% for an equity investment of A\$150m (total EV of A\$248m) • Current equity investment, following refinance in February 2008, is A\$108m |
| Cash Resources | <ul style="list-style-type: none"> • A\$367m in cash at 30 June 2008 |

PORTFOLIO AS AT 30 JUNE 2008 (167.9m shares on issue)



¹ Equity amount invested following refinance
² Equity amount invested

EIRCOM - CORPORATE DEBT STRUCTURE



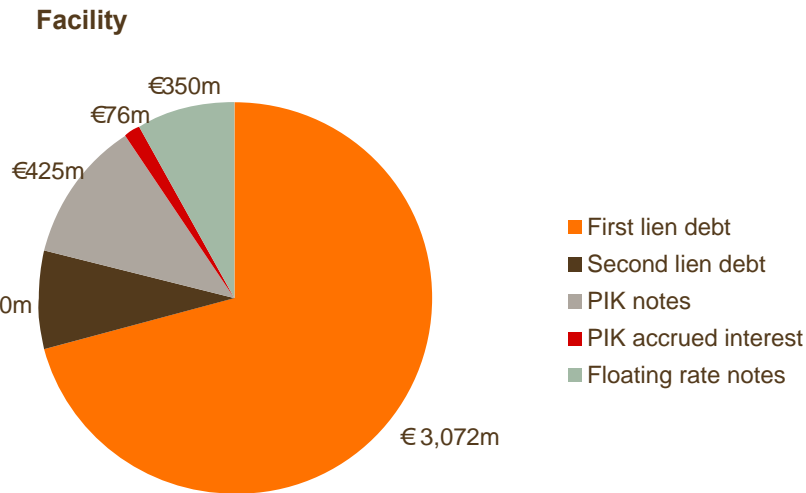
- The acquisition debt raised to acquire eircom is located at the investment group level and is non-recourse to BCM

¹ Includes capitalised interest

² A total of €78m loan principal repaid to 30 June 2008. Initial draw down €3,500m

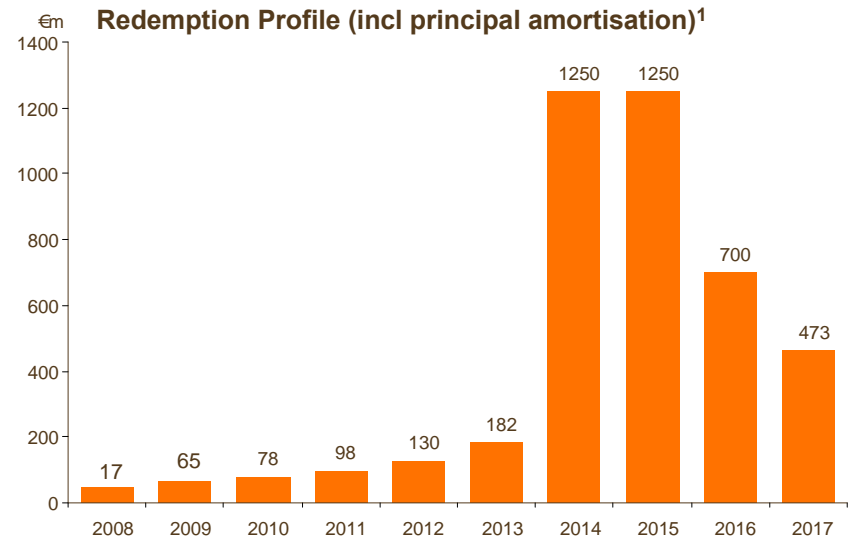
EIRCOM – CORPORATE DEBT PROFILE AT 30 JUNE 08

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- eircom has total cash-pay debt of €3.77bn
- PIK notes valued at €425m with €76m accrued interest issued on new notes
- eircom has cash of €352m at 30 June 2008
- eircom has a c. €98m revolving credit facility available to draw on
- Interest rate swaps in place for over €3bn (~80% of total cash pay debt) with ~80% hedged for the next two years which reduces to ~60% for years three and four

- All eircom debt is non-recourse to BCM
- Long dated debt profile with weighted average term of 8 years
- eircom's weighted average cost of cash pay debt is ~6.5%
- eircom continues to meet its quarterly covenants
- Internalisation of management will not result in any change in the debt position of eircom
- Internalisation does not cause a change of control in eircom debt. The requirement is that BCM continues to hold >50% of eircom



¹ Worked on calendar year. Tranche A debt of €572m is an amortising loan with a maturity date of 2013

EIRCOM - CORPORATE DEBT STRUCTURE AT 30 JUNE 2008

| Facility | Amount (EUR m) | Maturity | Repayment | Margin (bps) |
|------------------------------|-------------------|----------|------------|--------------|
| Tranche A | 572 ¹ | Sep 2013 | Amortising | E + 175 |
| Tranche B | 1,250 | Sep 2014 | Bullet | E + 187.5 |
| Tranche C | 1,250 | Sep 2015 | Bullet | E + 212.5 |
| Total First Lien Debt | 3,072 | | | |
| Second Lien Debt | 350 | Mar 2016 | Bullet | E + 425 |
| Total Senior Debt | 3,422 | | | |
| Floating Rate Notes | 350 | Sep 2016 | Bullet | E + 500 |
| Total Cash Pay Debt | 3,772 | | | |
| PIK Notes ² | 501 | Feb 2017 | Bullet | E + 700 |
| Total Debt | 4,273 | | | |
| Cash | (352) | | | |
| Net Debt | 3,921 | | | |

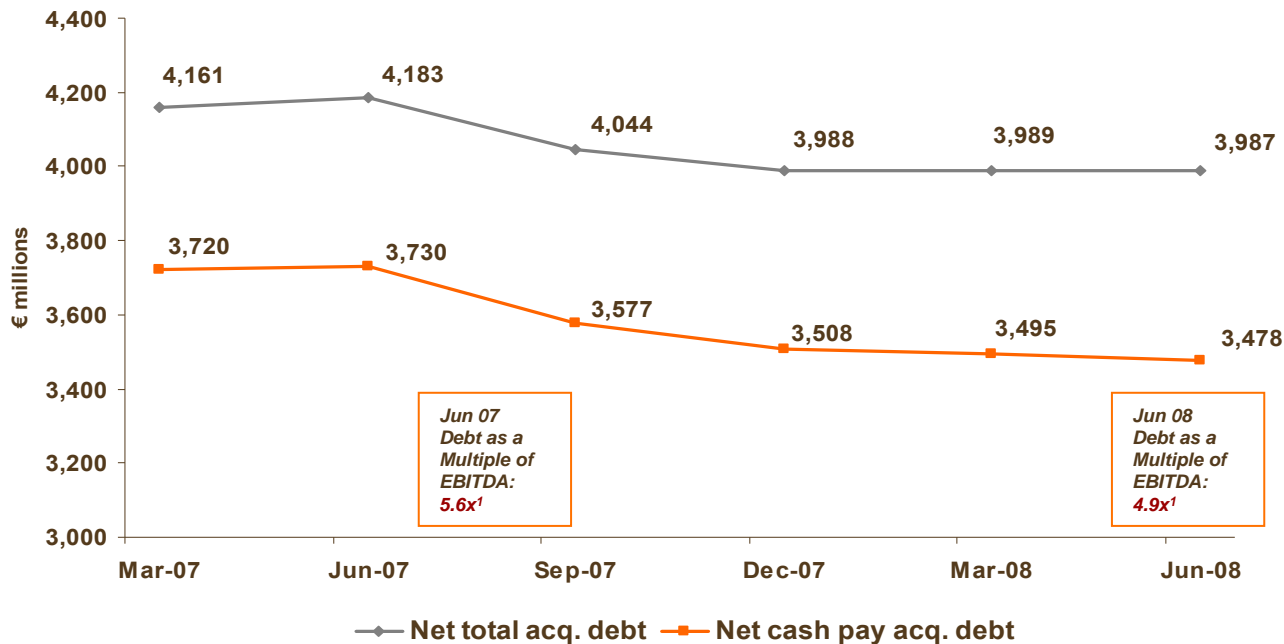
All debt is non-recourse.

¹ Initial draw down €650m

² Includes capitalised interest on initial face value of €425m

DEBT REPAYMENT

**Movement in acquisition debt
(including accrued interest)**

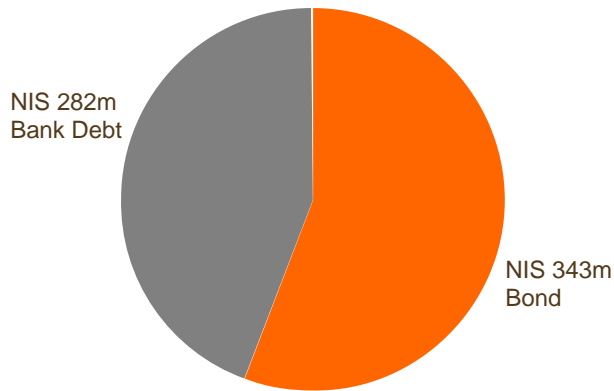


¹ Based on EBITDA before management charge and Fair value adjustments, and net cash pay debt

- Net cash pay debt reduced by €242m since December 2006
- Repayments of €78m made in the period
- PIK debt increased by €68m - rolled up interest on the loan

GOLDEN PAGES – CORPORATE DEBT PROFILE AT 30 JUNE 2008

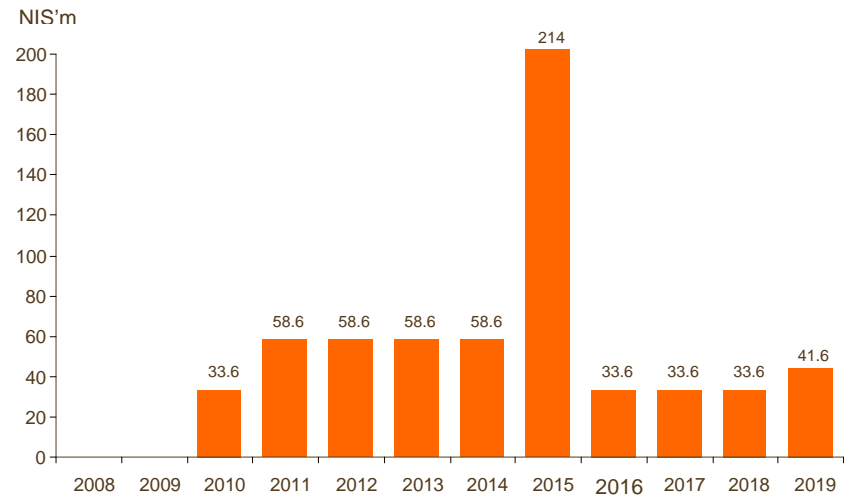
Facility



- Long dated debt profile with weighted average term of 7 years
- Continues to meet its quarterly covenants on cash and interest cover, and senior and total leverage
- Internalisation of management will require a renegotiation of GPM’s bank debt but will not result in any change in the position of the GPM bonds

- GP has total fixed debt facility of NIS625m
- Interest rate dependent on CPI – current weighted average cost of debt is ~5.8% + CPI
- Given current CPI in Israel, subsequent to 30 June 2008, BCM remitted NIS 120 million (A\$38 million) to GPM which will be used to repay existing debt facilities.

Redemption Profile*



* Worked on calendar year. Excludes working capital facility. Figures are before repayment of NIS 120 million in debt.

GOLDEN PAGES – CORPORATE DEBT STRUCTURE AT 30 JUNE 2008

| Capital | Jun 08 (NIS m) | Maturity | Repayment | Interest Rate (%) ¹ |
|-----------------------------------|-------------------|-----------------------|----------------------|------------------------------------|
| Working Capital | 25 | Feb 2015 | Bullet | Prime +0.05 (eff 4.4) ² |
| Facility A | 154 | Feb 2015 ³ | Partial Bullet | WRI+2% (eff 6.15) ² |
| Facility B | 103 | Feb 2015 ³ | Partial Bullet | WRI+1.6% (eff 5.75) ² |
| Bank Debt | 282 | | | |
| Bond | 343 | Apr 2019 | Amortising from 2010 | 5.65 ⁴ |
| Total Debt | 625 | | | |
| Credit Line C (Currently undrawn) | 125 | Up to Feb 2015 | Bullet | WRI+1.85% (eff 6.00) ² |

All debt is non-recourse. All debt is held within the GPM Group

1 Fixed Rate Facilities and bond, CPI linked

2 Rates set using 3 month MAKAM (@ 4.15%) on 20 February 2008

3. Three year grace, 50% Bullet loan

4. Margin reduction of 0.65% on listing, potential 0.5% margin increase if rating decreased due to refinancing

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