

BABCOCK & BROWN CAPITAL LIMITED

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ASX Release

4 September 2006

BCM 2006 RESULTS

Babcock & Brown Capital Limited (ASX: BCM) today announced a 2006 operating profit before tax and non-recurring, non-cash costs associated with the recently completed acquisition of eircom Group plc (eircom) of \$39.4m.

BCM generated revenue of \$44.3m for the year to 30 June 2006 principally from interest and dividend income. At 30 June 2006 BCM owned 27.1% of eircom. At an operational level, for the three month period to 30 June 2006, eircom reported total revenue of €483m, a 21% increase on the previous corresponding period. EBITDA for the period was 9% higher at €162m than the previous corresponding period. Meteor EBITDA of €13m for the quarter ended 30 June 2006, above our expectations. Earnings from the fixed line business were in line with the 2005 result.

At a group level, eircom reported a loss of €108m for the three month period to 30 June 2006, comprising a trading profit after tax of €48m and a non-recurring, non-cash expense of €156.0m. This one-off expense represented the prepayment cost of eircom's outstanding bonds, as a result of the successful conclusion of BCM's offer. BCM's share of this cost in its 30 June 2006 result is \$71.1 million.

Rob Topfer Executive Director of BCM said "eircom's first quarter operational results show the business continuing to grow at rates above its European peers due to its re-entry into the mobile business, bundled product growth and the significant broadband potential in Ireland.

"We are delighted with the outcome of the eircom transaction and the funding structure we have put in place to complete the Offer. We believe this transaction has the potential to drive significant positive outcomes for BCM shareholders over the medium term. BCM will work with its principal bid partner, the eircom Employee Share Ownership Trust to implement its business plan that includes growth of the eircom business."

ENDS

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About Babcock & Brown Capital

Babcock & Brown Capital is an Australian-based investment company that focuses on a concentrated portfolio with a flexible investment horizon. The Company's mandate allows it to build positions in domestic and overseas companies and both listed and private entities. 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 Stock Exchange in February 2005.

eircom owns Ireland's copper and fibre backbone telecommunications network. It is the dominant provider of fixed line wholesale and retail telecommunication services in Ireland and has 77% market share in the fast growing DSL market. eircom recently acquired Meteor, a mobile telecommunications business, which has a rapidly growing 13% share of the mobile market.

BCM holds a 57.1% interest in eircom representing an investment of approximately \$800 million. Associates of Babcock & Brown hold an additional 7.9% and existing and former employees will hold the remaining 35% through their share ownership trust, the ESOT.

For further information please see our website:

www.babcockbrowncapital.com

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APPENDIX 4E

Preliminary Final Report

1. Details of the reporting period

Current Period: 1 July 2005 - 30 June 2006
Previous Corresponding Period: 8 December 2004 - 30 June 2005

2. Results for announcement to the market

		\$A'000
2.1 Revenues from ordinary activities	up 286.2%*	44,336
2.2 (Loss) from ordinary activities after tax attributable to members	down 543.0%*	(30,516)
2.3 Net profit for the period attributable to members	down 543.0%*	(30,516)
* 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	nil	N/A
Interim distribution	nil	N/A
<i>Previous Corresponding Period:</i>		
Final distribution	nil	N/A
Interim distribution	nil	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 results (Note 17(A) Retained Profits).

9. Net asset backing per security

	Current period	Previous period
Net tangible asset backing per ordinary security	\$5.04	\$2.45*

* The figure for 30 June 2005 refers to the shares which were partly paid to \$2.50 at that date. The second instalment of \$2.50 was received on 6 February 2006 and the shares became fully-paid as at that date.

10. Control gained or lost over entities during the period

10.1 Name of entity (or group of entities) over which control was gained	N/A
10.2 Date control was gained	N/A
10.3 Consolidated profit (loss) 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	N/A
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

During the period Babcock and Brown Capital Limited and its investment associates purchased 308,999,053 ordinary shares in eircom Group plc ("eircom") representing 28.8% of the capital. BCM's own share of the shareholding as at 30 June 2006 is 27.1% (290,773,902 shares).

eircom was accounted for as an associate in the accounts for the period ended 30 June 2006. Refer to the attached financial results note 9 Investments accounted for using the equity method for further details.

12. Other significant information

Refer "Results for Announcement to the Market" within the attached Full Year Financial Results.

13. Accounting standards used by foreign entities

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

14. Commentary on results

	Current period	Previous corresponding period
14.1 Earnings per share		
Basic earnings per share	(15.3) ¢	3.4 ¢
Diluted earnings per share	(15.3) ¢	3.4 ¢
14.2 Returns to shareholders:	\$'000	\$'000
Distributions	nil	N/A
No dividends were paid or recommended during the period.		

14. Commentary on results (continued)

14.3 Significant features of operating performance and trends in operating performance:	\$A'000	\$A'000
Revenue		
Interest income	17,244	11,480
Effective interest un-wind on receivable from shareholders	16,502	-
Dividend income	9,651	-
Other income	939	-
Total revenue	<u>44,336</u>	<u>11,480</u>
Share of net operating profits of associates accounted for using the equity method	21,260	-
Share of one-off finance cost write-offs accounted for using the equity method	(71,073)	-
Total share of net losses of associates accounted for using the equity method	<u>(49,813)</u>	<u>-</u>
Expenses		
Management fee	(10,964)	-
Manager's administration expenses	(288)	(439)
Share based payments	(200)	(401)
Auditor's Remuneration	(406)	(117)
Directors' fees	(409)	(136)
Project and deal costs	(210)	(749)
Unrealised Hedge Loss	(7,964)	-
Other operating expenses	(550)	(240)
Finance costs	(5,214)	-
Total expenses	<u>(26,205)</u>	<u>(2,082)</u>
(Loss)/Profit before income tax	<u>(31,682)</u>	<u>9,398</u>
Income tax benefit/(expense)	1,166	(2,510)
(Loss)/Profit attributable to members of BCM	<u>(30,516)</u>	<u>6,888</u>

14. Commentary on results (*continued*)

Overview of Operating Performance

The Consolidated Entity reported a loss after income tax of \$30.5 million (2005: profit of 6.9 million). This loss was the result of the Consolidated Entity's share of net losses from eircom which became an associate during the period. Included in the share of net losses of associates is a loss of \$71.1 million. The amount represents the Consolidated Entity's 27.1% share of one-off costs totaling €156.0 million. These one-off costs, recorded in the eircom first quarter results, are solely related to charges arising from the proposed restructuring and early redemption of the eircom debt. Excluding these one-offs, the share of eircom's result was a profit after tax of \$21.3 million and the Consolidated Entity's profit after tax from ordinary activities totalled \$40.6 million.

Total operating revenue for the full year to 30 June 2006 was \$44.3 million. This figure comprised of interest income from bank and term deposits of \$17.2 million and interest derived from the discount un-wind on the net shareholder receivable of \$16.5 million. Revenue from bank and term deposits was earned on cash deposits invested in financial institutions. Dividend income of \$9.6 million was received predominantly from the BCM investment in eircom Group plc., in respect of the period prior to being equity accounted for under the equity method.

Excluding the discount un-wind on the net shareholder receivable, which has been transferred to an equity reserve, operating revenue for the current year was \$27.8 million. This represents a 38.3% increase over an annualised 2005 operating revenue figure of \$20.1 million.

Operating expenses of \$21 million were incurred in the management of BCM locally and abroad. Of these expenses, management fees totalled \$11.0 million and represented 52% of total operating costs.

BCM were required to recognise a net loss on derivatives not qualifying as hedges. This amount totalled \$8.0 million and represented 38% of the total operating expenses.

Income tax benefit for the year ended 30 June 2006 totalled \$1.2 million. This was achieved through the receipt of the eircom dividend which is not taxable to the group in Australia or in Ireland and the effective interest un-wind on the net shareholder receivable, which is not taxable for income tax purposes. The remaining taxable income items were offset by the remaining expenses including the \$11.0 million management fee.

14.4 Segment results:

Refer attached financial results note 21 Segment Information.

BCM had only two identifiable business segments being the telecommunications segment and the corporate segment. The corporate segment includes interest and dividends earned during the year and other amounts related to the remaining funds of the Group.

BCM identified Ireland as the additional geographical segment outside of its management operations in Australia. (Note 21: Segment Information).

14.5 Trends in performance:

Refer to 14.3.

14.6 Other factors:

Refer "Results for Announcement to the Market" within the attached Full Year Financial Results.

15. International Financial Reporting Standards ("IFRS")

The financial results include a note to the financial results describing the impacts of adopting Australian Equivalents to International Financial Reporting Standards. (Note 27: Explanation of transition to AIFRS).

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 type="checkbox"/>	The accounts have been audited. (refer attached financial results)	<input type="checkbox"/>	The accounts have been subject to review. (refer attached financial results)
<input checked="" 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.

Babcock & Brown Capital Limited Full Year Financial Results

30 June 2006

Results for Announcement to the Market

Babcock & Brown Capital Limited and its controlled entities
ABN 31 112 119 203

	Year ended 30 June 2006 A\$ 000	Period ended 30 June 2005 A\$ 000
Revenue	44,336	11,480
Operating profit before tax and non-recurring associate restructuring costs	39,391	9,398
Non-recurring associate restructuring costs	(71,073)	-
Operating (loss)/profit before Tax	(31,682)	9,398
Tax benefit/(expense)	1,166	(2,510)
Net (loss)/profit after Tax	(30,516)	6,888

Earnings per Share

Basic and diluted earnings per share before non-recurring associate restructuring costs	20.3 ¢	3.4 ¢
Basic and diluted earnings per share	(15.3) ¢	3.4 ¢

Net Tangible Asset (NTA) Backing

NTA before non-recurring associate restructuring costs	\$5.39	\$2.45
NTA	\$5.04	\$2.45

All amounts are in Australian dollars unless otherwise stated. The information on which this announcement is based is in the process of being audited by the Babcock & Brown Capital Limited's ("the Company" or "BCM") auditor, PricewaterhouseCoopers. The Company has a formally constituted Audit and Risk Management Committee of the Board of Directors. The release of this report was approved by resolution of the Board of Directors on 31 August 2006.

Major Investment

The Company's major investment for the year to 30 June 2006 was the acquisition of the incumbent Irish telecommunications provider eircom Group plc ("eircom").

BCM made an \$A8bn recommended offer ("Offer") for eircom on 23 May 2006. The Offer was effected by means of a scheme of arrangement under section 425 of the United Kingdom Companies Act ("Scheme"). The Offer was approved by eircom shareholders at an Extraordinary General Meeting held on 26 July 2006 in Dublin, Ireland and was approved by a final Court Hearing on 17 August 2006. The effective date of the Scheme was 18 August 2006.

On conclusion of the funding of the Scheme, BCM will hold a 57.1% interest in eircom. This investment represents approximately \$800 million of the initial \$1 billion originally raised in the IPO. Associates of Babcock & Brown will hold an additional 7.9%, and existing and former eircom employees will hold the remaining 35% through their share ownership trust, the ESOT.

Review of Operations

BCM reported a loss after income tax of \$30.5 million for the year ended 30 June 2006. This amount included its share of eircom's net losses of \$49.8 million, comprised of a trading profit of \$21.3 million and a one-off expense of \$71.1 million. This non-recurring expense represents the future anticipated cost of restructuring and early redemption of financial liabilities expected to be carried out by eircom after majority control of eircom passes to BCM on 18 August 2006.

Excluding these one-off restructuring charges, BCM's profit after tax from ordinary activities including its share of associate profits from eircom would have totaled \$39.4 million. Further detail is provided below.

Revenue

BCM generated revenue of \$44.3 million in the 2006 financial year. This comprised:

- interest income of \$17.2 million earned on the Company's cash and term deposits;
- \$16.5 million interest derived from the discount un-wind on the shareholder receivable in relation to the second equity installment paid by shareholders; and
- dividends of \$9.7 million received predominantly from the BCM investment in eircom

Excluding the discount un-wind on the net shareholder receivable, which has been transferred to an equity reserve, operating revenue for the current year was \$27.8 million.

Expenses

BCM incurred total expenses of \$26.2 million, consisting of \$21 million of operating costs incurred in the management of BCM locally and abroad, and \$5.2 million of finance costs.

Included in operating costs were fees payable to Babcock & Brown Capital Management Pty Limited, the manager of BCM, totaling \$10.9 million and representing 52% of total operating costs. In addition BCM was required to recognise a net loss on derivatives not qualifying as hedges. This amount totalled \$8.0 million and represented 38% of the total operating expenses \$3.8 million of finance costs predominantly related to interest incurred on margin loans used to acquire eircom shares during the year.

Income tax benefit for the year ended 30 June 2006 totalled \$1.2 million. This was achieved through the receipt of the eircom dividend which is not taxable to the group in Australia or in Ireland and the effective interest un-wind on the net shareholder receivable, which is not taxable for income tax purposes. The remaining taxable income items were offset by the remaining expenses including the management fee.

Results of Associates

At 30 June 2006, BCM held a 27.1% interest in eircom. BCM equity-accounted eircom from 10 March 2006 to 30 June 2006 and will consolidate eircom from 18 August 2006.

For the quarter ended 30 June 2006 eircom reported a loss of €108 million. The Board of eircom determined that in light of the BCM Offer a material debt restructuring was imminent, and decided to expense €156.0 million of finance costs. These non-recurring, non-cash expenses related to charges arising from the proposed restructuring and early redemption of part of eircom's existing debt as a result of the Offer. BCM's share of these costs is \$71.1 million.

For the period to 30 June 2006 eircom generated total revenue of €483 million. This compared favourably to the €399 million produced for the same quarter last year. EBITDA of €162 million was €13 million higher than in Q1 2005, however, EBITDA margins were lower due to the developing mobile business. The fixed line business remained consistent.

Review of Balance Sheet

The balance sheet for the year ended 30 June 2006 reflects net assets of \$1.0 billion made up of gross assets of \$1.3 billion and liabilities of \$302.4 million.

On 8 February 2006, BCM received the second and final equity installment of \$2.50 per share raising \$500 million. The cash raised through this process together with existing cash resources and margin loan funding were employed in the acquisition of eircom shares. The margin loan outstanding in respect of eircom shares at year end was \$260 million secured by BCM's eircom shares. At 30 June 2006, BCM held a 27.1% interest in eircom.

Review of Cash Flow Statement

The movement in cash flows from investing activities predominantly relates to the acquisition and funding of the eircom share purchase and the receipt of dividends from that company.

The increase in cash flows from financing activities relates to the second and final equity installment of \$2.50 per share raising \$500 million.

Dividends per Share

No dividends were paid or recommended during the year ended 30 June 2006.

Key Dates

The Company's Annual General Meeting will be held on Wednesday 8 November 2006 at the Sofitel Wentworth Hotel in Sydney.

Financial Results

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Income Statements for the year ended 30 June 2006

	Note	Consolidated		Parent	
		Year ended 30 June 2006	8 Dec 2004 to 30 June 2005	Year ended 30 June 2006	8 Dec 2004 to 30 June 2005
		\$'000	\$'000	\$'000	\$'000
Revenues from continuing operations	2	44,336	11,480	42,091	11,480
Expenses from continuing operations (excluding finance costs)	3(A)	(20,991)	(2,082)	(20,874)	(2,082)
Finance costs	3(B)	(5,214)	-	(536)	-
Share of net losses of associates accounted for using the equity method	9	(49,813)*	-	-	-
(Loss)/profit before income tax		(31,682)	9,398	20,681	9,398
Income tax benefit/(expense)	4(A)	1,166	(2,510)	(1,752)	(2,510)
(Loss)/profit attributable to members of Babcock & Brown Capital Limited		(30,516)	6,888	18,929	6,888

Earnings per share for (loss)/profit attributable to the members of Babcock & Brown Capital Limited

Basic earnings per share	25	(15.3 cents)	3.4 cents
Diluted earnings per share	25	(15.3 cents)	3.4 cents

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

* Included in the share of net losses of associates of \$A49.8 million, is a trading profit of \$A21.3 million and a one-off expense of \$A71.1 million. The one-off expense represents the future anticipated cost of restructuring and early redemption of financial liabilities expected to be carried out by eircom Group plc ("eircom"), after majority control of eircom passes to Babcock & Brown Capital Limited on 18 August 2006.

Balance Sheets as at 30 June 2006

	Note	Consolidated		Parent	
		30 June 2006 \$'000	30 June 2005 \$'000	30 June 2006 \$'000	30 June 2005 \$'000
CURRENT ASSETS					
Cash and cash equivalents	5	188,114	501,427	151,996	341,427
Term deposits	6	59,267	-	59,267	-
Derivative financial instruments	7	9,738	-	9,711	-
Receivables	8	12,874	502,393	764,623	502,393
TOTAL CURRENT ASSETS		269,993	1,003,820	985,597	843,820
NON-CURRENT ASSETS					
Investments accounted for using the equity method	9	995,024	-	-	-
Available-for-sale financial assets	10	23,627	-	-	-
Deferred tax assets	11	8,205	6,506	7,878	6,506
Derivative financial instruments	7	12,800	-	-	-
Other financial assets	12	-	-	160,001	160,000
TOTAL NON-CURRENT ASSETS		1,039,656	6,506	167,879	166,506
TOTAL ASSETS		1,309,649	1,010,326	1,153,476	1,010,326
CURRENT LIABILITIES					
Payables	13	26,499	17,167	159,772	17,167
Borrowings	14	273,108	-	-	-
Current tax liabilities		-	2,488	-	2,488
TOTAL CURRENT LIABILITIES		299,607	19,655	159,772	19,655
NON-CURRENT LIABILITIES					
Deferred tax liabilities	15	2,803	22	-	22
TOTAL NON-CURRENT LIABILITIES		2,803	22	-	22
TOTAL LIABILITIES		302,410	19,677	159,772	19,677
NET ASSETS		1,007,239	990,649	993,704	990,649
EQUITY					
Contributed equity	16	957,026	983,360	957,026	983,360
Retained (losses)/profits	17(A)	(50,232)	6,888	9,842	6,888
Reserves	17(B)	100,445	401	26,836	401
TOTAL EQUITY		1,007,239	990,649	993,704	990,649

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

Statements of Changes in Equity as at 30 June 2006

	Note	Consolidated		Parent	
		Year ended 30 June 2006	8 Dec 2004 to 30 June 2005	Year ended 30 June 2006	8 Dec 2004 to 30 June 2005
		\$'000	\$'000	\$'000	\$'000
Total equity at the beginning of the financial year/period		990,649	-	990,649	-
Adjustments on adoption of AASB 132 and AASB 139 to:					
Contributed equity	27(4)(ii)	(26,239)	-	(26,239)	-
Retained earnings	27(4)(ii)	10,264	-	10,264	-
Restated total equity at the beginning of the financial year/period		974,674	-	974,674	-
Changes in the fair value of available-for-sale financial assets, net of tax	17(B)	(4,087)	-	-	-
Retained earnings adjustment on recognition of associate, net of tax		(10,629)	-	-	-
Changes in the investment valuation reserve, net of tax	17(B)	18,557	-	-	-
Changes in value of cash flow hedge, net of tax	17(B)	10,240	-	-	-
Exchange differences on translation of foreign operations	17(B)	48,895	-	(4)	-
Net income recognised directly in equity		62,976	-	(4)	-
(Loss)/profit for the year/period		(30,516)	6,888	18,929	6,888
Total recognised income and expense for the year/period		32,460	6,888	18,925	6,888
Transactions with equity holders in their capacity as equity holders:					
Equity Issued		-	1,000,000	-	1,000,000
Transaction costs on equity issued		(135)	(23,146)	(135)	(23,146)
Tax benefit from transaction costs		40	6,506	40	6,506
Changes in share-based payments reserve, net of tax	17(B)	200	401	200	401
Total transactions with equity holders in their capacity as equity holders		105	983,761	105	983,761
Total equity at the end of the financial year/period		1,007,239	990,649	993,704	990,649
Total recognised income and expenses for the year is attributed to:					
Members of Babcock & Brown Capital Limited		32,460	6,888	18,925	6,888

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Cash Flow Statements for the year ended 30 June 2006

	Note	Consolidated		Parent	
		Year ended 30 June 2006	8 Dec 2004 to 30 June 2005	Year ended 30 June 2006	8 Dec 2004 to 30 June 2005
		\$'000	\$'000	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Interest received		17,704	9,469	17,582	9,469
Payments to suppliers		(2,498)	(437)	(2,364)	(437)
Management fees paid		(12,183)	(439)	(12,183)	(439)
Management fees received		-	-	9,314	-
Income tax paid		(2,758)	-	(2,758)	-
Net Cash inflows from Operating Activities	24	265	8,593	9,591	8,593
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for investments in subsidiaries		-	-	-	(160,000)
Payments for available-for-sale financial assets		(27,715)	-	-	-
Payments for derivative financial instruments		(17,675)	-	(17,675)	-
Payments for investment in associates		(977,125)	-	-	-
Proceeds from intercompany borrowings		-	-	169,000	-
Repayment of intercompany borrowings		-	-	(636)	-
Loans to subsidiaries		-	-	(774,320)	-
Investments in term deposits (note 6)		(59,267)	-	(59,267)	-
Dividends received		27,973	-	-	-
Dividends received on behalf of investor partners		1,304	-	-	-
Net Cash (outflows) from Investing Activities		(1,052,505)	-	(682,898)	(160,000)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares		-	500,000	-	500,000
Proceeds from call on shares		500,000	-	500,000	-
Share issue costs		(16,115)	(7,166)	(16,115)	(7,166)
Proceeds from borrowings		258,263	-	-	-
Interest paid		(3,769)	-	(9)	-
Net Cash inflows/(outflows) from Financing Activities		738,379	492,834	483,876	492,834
Net (decrease)/ increase in cash and cash equivalents		(313,861)	501,427	(189,431)	341,427
Cash and cash equivalents at the beginning of the financial year/period		501,427	-	341,427	-
Effects of exchange rate changes on cash and cash equivalents		548	-	-	-
CASH AT THE END OF FINANCIAL YEAR/PERIOD	5	188,114	501,427	151,996	341,427

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

Notes to the Financial Results for the year ended 30 June 2006

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.

The principal accounting policies adopted in the preparation of the report are set out below. These policies have been applied consistently to all the periods presented, unless otherwise stated. The report includes separate financial results for the Company as an individual entity and the consolidated entity consisting of the Company and its subsidiaries.

(B) BASIS OF PREPARATION

The results presented in this report have been prepared in accordance with Australian equivalents to International Financial Reporting Standards ("IFRS"), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

Compliance with International Financial Reporting Standards ("IFRS")

Australian Accounting Standards include AIFRS. Compliance with AIFRS ensures that the consolidated financial results and notes of the Company comply with IFRS. The parent entity financial statements and notes do not comply with IFRS insofar as it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 Financial Instruments: Presentation and Disclosure.

Application of AASB 1 First-time adoption of the Australian Equivalents to International Financial Reporting Standards

Financial statements of the Company until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the Company's financial results for the year ended 30 June 2006, management has amended certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with AIFRS. With exception of financial instruments, the comparative balance sheet has been restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to only apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the Group's equity and its net income are given in note 27.

Historical cost convention

These financial results 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.

Critical accounting estimates

The preparation of financial results 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.

There are no judgemental issues or critical accounting estimates in these accounts.

Notes to the Financial Results for the year ended 30 June 2006

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(C) PRINCIPLES OF CONSOLIDATION

(i) Subsidiaries

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)).

All intercompany balances, transactions and unrealised gains and losses on transactions between Group companies have been eliminated in full. 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 results 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 consolidated financial results 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 9).

The Group's share of its associates post acquisition profits or losses are 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 where necessary to ensure consistency with the policies adopted by the group.

In the company's financial results, investments in associates are carried at fair value, with resulting revaluation gains and losses recognised in equity. The fair value of investments in listed shares of associates, is their current market value at the balance sheet date.

(D) SEGMENT REPORTING

A business segment is 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 segment is Telecommunications.

(E) FOREIGN CURRENCY TRANSLATION

(i) Functional and Presentation Currency

Items included in the financial results 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 results are presented in Australian dollars, which is the Company's functional and presentation currency.

Notes to the Financial Results for the year ended 30 June 2006

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(E) FOREIGN CURRENCY TRANSLATION (CONTINUED)

(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.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss 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 duties and taxes paid. Revenue is recognised as follows:

Interest income

Interest income is brought to account on an accruals basis with reference to the effective interest rate applicable on the asset. Interest revenue on loans and advances is recognised using the effective interest rate method.

Dividend income

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

Associate income

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

Notes to the Financial Results for the year ended 30 June 2006

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 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.

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

Tax consolidation legislation

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

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

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

Assets or liabilities arising under the tax funding agreement with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group.

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) ACQUISITION OF ASSETS

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus the 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. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after reassessment of the identification and measurement of the net assets acquired.

Notes to the Financial Results for the year ended 30 June 2006

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(I) IMPAIRMENT OF ASSETS

Goodwill has an indefinite useful life and is not subject to amortisation and is 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) RECEIVABLES

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

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 original 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.

(L) INVESTMENTS AND OTHER FINANCIAL ASSETS

From 8 December 2004 to 30 June 2005

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. The Group has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139. Under previous AGAAP loans and receivables were recognised at their nominal amounts. For further information on previous AGAAP refer to the annual report for the period ended 30 June 2005.

Adjustments on Transition Date: 1 July 2005

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that, with the exception of loans and receivables which are measured at amortised cost (refer below), fair value is the measurement basis. Changes in fair value are either taken to the income statement or an equity reserve (refer below). At the date of transition (1 July 2005) changes to carrying amounts were taken to retained earnings or reserves.

From 1 July 2005

The Group classifies its investments in the following categories: available-for-sale financial assets, financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. The policy of management is to designate a financial asset if there exists the possibility it will be sold in the short-term and the asset is subject to frequent changes in fair value. Derivatives are also categorised as fair value through the income statement unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Notes to the Financial Results for the year ended 30 June 2006

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(L) INVESTMENTS AND OTHER FINANCIAL ASSETS (CONTINUED)

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non current assets. Loans and receivables are included in the balance sheet (note 8).

(iii) Available-for-sale financial assets

Available-for-sale financial assets, comprising of 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.

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 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.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from the changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity in the available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

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 in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss - is removed from equity and recognised in the income statement.

(M) FAIR VALUE ESTIMATION

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

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

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. 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 options is determined using option pricing models, the inputs of which include the spot rate, forward rate, volatility and time.

Notes to the Financial Results for the year ended 30 June 2006

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(M) FAIR VALUE ESTIMATION (CONTINUED)

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(N) DERIVATIVES

From 8 December 2004 to 30 June 2005

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. There were no derivatives held by the Group during that period.

Adjustments on transition date: 1 July 2005

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that derivatives are measured on a fair value basis. Changes in fair value are either taken to the income statement or an equity reserve.

There were no derivatives held by the Group on transition date and hence no adjustments were required.

From 1 July 2005

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 7. Movements in the hedging reserve in shareholders' equity are shown in note 17.

(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.

(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).

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.

Notes to the Financial Results for the year ended 30 June 2006

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(N) DERIVATIVES (CONTINUED)

(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.

(O) 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 at the date of acquisition. Goodwill on acquisitions of associates is included in investments in associates. 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 include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing.

(P) 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 days of recognition.

(Q) 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.

(R) BORROWING COSTS

Borrowing costs are expensed as incurred.

(S) PROVISIONS

Provisions are recognised when a legal, equitable, constructive obligation to make a future sacrifice of economic benefits to other entities arise as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

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.

Notes to the Financial Results for the year ended 30 June 2006

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(T) SHARE-BASED PAYMENTS

Share-based payment compensation benefits were provided to non-executive directors as part of the Initial Public Offering (IPO), referred to 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.

(U) CONTRIBUTED EQUITY

Contributed equity includes all issued capital, and includes the fair value of the amounts on the partly paid shares plus uncalled amounts on the partly paid shares.

(V) DIVIDENDS

Provision is made for the amount of any dividend declared by the Directors on or before the end of the financial period but not distributed at balance date.

(W) EARNINGS PER SHARE (EPS)

Basic EPS is determined by dividing the net loss/profit after tax attributable to members of the Group by the weighted average number of ordinary shares outstanding during the period. Amounts are adjusted for any bonus elements in ordinary shares issued during the period, or to be issued.

Diluted EPS 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 issued in relation to dilutive potential ordinary shares.

(X) GOODS AND SERVICES TAX

The amount of GST incurred by the Group that is not recoverable from the Australian Taxation Office (ATO) 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 ATO is included in receivables in the Balance Sheet.

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

Notes to the Financial Results for the year ended 30 June 2006

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(Y) 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.

(Z) PRESENTATION OF FINANCIAL RESULTS

With the application of AIFRS, the amounts related to the 2nd instalment of uncalled capital due from shareholders on 6 February 2006, and the subject of a contractual obligation, has been considered to be, on a net basis a "financial asset".

In accordance with AIFRS, the net "financial asset" was discounted to reflect the time value of money over the period from the date of establishment of the financial instrument to its ultimate date of recovery. This discount has been brought to account progressively over the period through to expected recovery.

As a result of this treatment, a net \$10,264,000 of the amount ultimately received from shareholders has been brought to account as retained earnings at 1 July 2005. A further net \$15,975,000 of the amount of \$5.00 per share received from shareholders has been brought to account as income for the year ended 30 June 2006.

All costs incurred in respect of the original issue of shares at \$5.00 each have been charged directly against the capital value of the shares issued.

The Directors have determined that this total of \$26,239,000 in income and retained earnings should not be used to pay future dividends. As a result, the Directors have resolved to transfer the total discount un-wind from retained earnings to an equity reserve.

(AA) FINANCIAL INSTRUMENT TRANSACTION COSTS

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The Group has applied previous Australian GAAP (AGAAP) in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. Under previous AGAAP transaction costs were excluded from the amounts disclosed in the financial statements. Under AIFRS such costs are included in the carrying amounts, except for financial assets of liabilities that are measured at fair value through profit or loss.

(AB) NEW ACCOUNTING STANDARDS AND UIG INTERPRETATIONS

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2006 reporting periods. The Group's assessment of the impact of applicable new standards and interpretations is set out below.

(i) AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards (AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038)

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial results, but will impact the type of information disclosed in relation to the Group's financial instruments.

(ii) AASB 2005-6 Amendments to Australian Accounting Standards (AASB 121)

AASB 2005-6 is applicable to annual reporting periods ending on or after 31 December 2006. The amendment relates to monetary items that form part of a reporting entity's net investment in a foreign operation. It removes the requirement that such monetary items had to be denominated either in the functional currency of the reporting entity or the foreign operation. The Group does not have any significant monetary items forming part of a net investment in a foreign operation. The amendment to AASB 121 has no material impact on the Group's financial results.

Notes to the Financial Results for the year ended 30 June 2006

2) REVENUES FROM CONTINUING OPERATIONS	Consolidated		Parent	
	Year ended 30 June 2006 \$'000	8 Dec 2004 to 30 June 2005 \$'000	Year ended 30 June 2006 \$'000	8 Dec 2004 to 30 June 2005 \$'000
Interest income – Cash and deposits	17,244	11,480	17,122	11,480
Effective interest on second instalment of equity issue (note 27(4)(ii))	16,502	-	16,502	-
Dividend income	9,651	-	-	-
Management fee reimbursement	-	-	8,467	-
Other income	939	-	-	-
Total revenues from continuing operations	44,336	11,480	42,091	11,480

3) EXPENSES

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

(A) OPERATING EXPENSES

Management fee* (note 22)	10,964	-	10,964	-
Management Company's administration expenses* (note 22)	288	439	288	439
Share-based payments (note 17(B))	200	401	200	401
Auditors remuneration (note 19)	406	117	406	117
Directors fees	409	136	409	136
Project and deal costs	210	749	92	749
Net loss on derivatives not qualifying as hedges	7,964	-	7,964	-
Other expenses	550	240	551	240
Total operating expenses	20,991	2,082	20,874	2,082

* The Management Company's administration costs ceased when the Company invested in eircon. The Company now pays a management fee to the Management Company on a monthly basis. Payment for the management fee commenced in October 2005 with the last payment for administration costs being made in September 2005.

(B) FINANCE COSTS

Finance costs

Interest and finance charges paid/payable	3,830	-	5	-
Effective interest on share issue costs (note 27(4)(ii))	527	-	527	-
Loan establishment costs and bank fees	857	-	4	-
Total finance costs	5,214	-	536	-

Notes to the Financial Results for the year ended 30 June 2006

4) INCOME TAX EXPENSE	Consolidated		Parent	
	Year ended 30 June 2006	8 Dec 2004 to 30 June 2005	Year ended 30 June 2006	8 Dec 2004 to 30 June 2005
	\$'000	\$'000	\$'000	\$'000
(A) INCOME TAX (BENEFIT)/EXPENSE				
Current tax (benefit)/expense	(588)	2,488	2,573	2,488
Deferred tax	(827)	22	(1,070)	22
Under provision – prior year	249	-	249	-
Income tax (benefit)/expense	(1,166)	2,510	1,752	2,510
Deferred income tax (revenue)/expense included in income tax expense comprises:				
(Increase) in deferred tax asset (note 11)	(1,070)	-	(1,070)	-
Increase in deferred tax liabilities	243	22	-	22
	(827)	22	(1,070)	22
(B) NUMERICAL RECONCILIATION OF INCOME TAX TO PRIMA FACIE TAX PAYABLE				
(Loss)/profit from continuing operations before income tax (benefit)/expense	(31,682)	9,398	20,681	9,398
Tax at the Australian tax rate of 30% (2005: 30%)	(9,505)	2,820	6,204	2,820
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Foreign tax exempt dividends	(2,827)	-	-	-
Non taxable income – discount un-wind from net shareholder receivable	(4,793)	-	(4,793)	-
Share of net losses from associates	14,944	-	-	-
Share based payments	60	-	60	-
Non-deductible expenses	288	120	32	120
Share issue costs	-	(430)	-	(430)
	(1,833)	2,510	1,503	2,510
Difference in overseas tax rates	418	-	-	-
Under provision – prior year	249	-	249	-
Income tax (benefit)/expense	(1,166)	2,510	1,752	2,510
(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				
Current tax – (credited) directly to equity	-	(430)	-	(430)
Net deferred tax – (credited) directly to contributed equity (note 16)	(40)	-	(40)	-
Net deferred tax – debited directly to reserves (note 17)	2,560	-	-	-
	2,520	(430)	(40)	(430)
(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.				

Notes to the Financial Results for the year ended 30 June 2006

4) INCOME TAX EXPENSE (Continued)	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
(E) UNRECOGNISED TEMPORARY DIFFERENCE				
Temporary differences relating to available-for-sale investments for which deferred tax assets have not been recognised				
Available-for-sale investments	1,226	-	-	-
	1,226	-	-	-

A deferred tax asset has not been recognised in respect of temporary differences arising as a result of the fair value movement of the available-for-sale asset. At this point in time there are no capital gains to offset this tax benefit and there is a low probability of recoupment of the tax benefit.

5) CASH AND CASH EQUIVALENTS	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Cash at bank	123,383	196,787	92,731	36,787
Term deposits – maturity within 3 months	59,265	304,640	59,265	304,640
Restricted cash	5,466	-	-	-
Total cash and cash equivalents	188,114	501,427	151,996	341,427
Term deposits – maturing after 3 months (note 6)	59,267	-	59,267	-
Total cash and term deposits	247,381	501,427	211,263	341,427

Cash at bank and term deposits maturing within 3 months are bearing interest rates between 2.00% (for EURO denominated account) and 5.74% p.a. (2005: 5.50% and 5.81%). Cash is invested in financial institutions with a short-term rating of A-1+ and A-1. Term deposits maturing within 3 months have an average remaining maturity of 11 days.

Restricted cash represents cash which has been pledged to secure outstanding bank loan facilities (refer note 14). The balance was bearing interest at year end of 2.25% p.a.

6) TERM DEPOSITS (CURRENT)	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Term deposits – maturing after 3 months	59,267	-	59,267	-
Total Term Deposit – maturing after 3 months	59,267	-	59,267	-

The term deposit bears interest at 5.87% pa. Term deposits are invested in financial institutions with a short-term rating of A-1+ and A-1.

7) DERIVATIVE FINANCIAL INSTRUMENTS	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current assets				
Foreign currency options (note 7(B)(i))	9,711	-	9,711	-
Foreign currency forward exchange contracts	27	-	-	-
Total current derivative financial instrument assets	9,738	-	9,711	-
Non-Current assets				
Interest rate swaps – cash flow hedges (note 7(B)(ii))	12,800	-	-	-
Total non-current derivative financial instrument assets	12,800	-	-	-

(A) TRANSITION TO AASB 132 AND AASB 139

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. There were no derivatives held by the Group during the period ended 30 June 2005.

Notes to the Financial Results for the year ended 30 June 2006

7) DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

(B) INSTRUMENTS USED BY THE GROUP

(i) Foreign currency option contracts

The Company's investment in eircom Group plc 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 with a notional value of approximately €456 million which expire on 30 June 2010. The options in place cover 100% of the equity invested by the Company in eircom Group plc.

The gain or loss from remeasuring the option contracts at fair value is recognised in the income statement.

(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 3.93% and receives floating 6-month EUR-EURIBOR-Telerate interest rate.

As at 30 June 2006, the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

	2006 EUR'000	2005 EUR'000
Less than 3 years	-	-
3 – 4 years	1,250,000	-
4 – 5 years	1,250,000	-
	<u>2,500,000</u>	<u>-</u>

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.

8) RECEIVABLES (CURRENT)	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Interest receivable	1,551	2,011	1,551	2,011
Related entity receivable from Babcock & Brown Australia Pty Ltd	-	197	-	197
Owing from subsidiaries*	-	-	762,484	-
Withholding tax receivable	9,882	-	-	-
Receivable from shareholders	-	500,000	-	500,000
Other	1,441	185	588	185
Total current receivables	<u>12,874</u>	<u>502,393</u>	<u>764,623</u>	<u>502,393</u>

*The amount of \$762,484,000 owing from subsidiaries is repayable on demand. This is an unsecured loan.

9) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Carrying value of the investment in associate	<u>995,024</u>	-	-	-
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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	
			2006 %	2005 %	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<i>Listed</i>								
eircom Group plc	England and Wales	Telecommunications	27.1	-	995,024	-	-	-

Notes to the Financial Results for the year ended 30 June 2006

9) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (Continued)

	Consolidated	
	2006	2005
(B) MOVEMENTS IN CARRYING AMOUNTS	\$'000	\$'000
Carrying amount at the beginning of the financial year	-	-
Purchase of investment assets	999,125	-
Share of associates (losses) after income tax	(49,813)	-
Foreign currency translation reserve movement	63,638	-
Other reserve movements	17,199	-
Dividends received/receivable	(35,125)	-
Carrying amount at the end of the financial year	995,024	-
(C) FAIR VALUE OF LISTED INVESTMENTS IN ASSOCIATES		
eircom Group plc	1,083,975	-
	1,083,975	-
(D) SHARE OF ASSOCIATE'S LOSSES		
Loss before income tax	(45,779)	-
Income tax expense	(4,034)	-
Losses after income tax	(49,813)	-

The Company became entitled to a 27.1% interest in eircom during March 2006. The Company has applied the principles of equity accounting to its interest effective from 10 March 2006. Accordingly, the results of the Company for the year, include a 27.1% interest in the results of eircom for the three month period ended 30 June 2006. This 27.1% interest has resulted in a net loss for the period of A\$49.8 million.

This net amount includes losses of A\$71.1 million, being the Group's 27.1% share of the total costs related to the proposed restructuring of the €2.1 billion financial liabilities of the eircom group. These costs totalling Euro €156 million, are comprised of fees due on the proposed early retirement of the debt (€102 million), write off of deferred loan establishment fees (€36 million), and write-off of deferred hedging losses (€18 million).

Exclusive of these one-off refinancing costs arising from the acquisition, the Group's 27.1% share of the result of eircom for the three months ended 30 June 2006, was a profit of A\$21.3 million.

These one-off, non recurring items, arise solely from the actions involving the Company and the ESOT acquiring control of the eircom group. Subsequent to the shareholder meeting approving the change of ownership, the Board of eircom determined that a material restructuring of the financial liabilities of that group was imminent. Accordingly, and in accordance with the provisions of 'AASB 139: Financial Instruments Recognition and Measurement', those liabilities were restated to reflect the expected timing of the repayment and thus their expected fair values.

(E) SUMMARISED FINANCIAL INFORMATION OF ASSOCIATES	Assets*	Liabilities*	Revenues*	Profit*
	\$'000	\$'000	\$'000	\$'000
eircom Group plc	7,203,694	6,439,199	2,738,596	132,643

* Asset and Liabilities figures are taken from the latest 30 June 2006 information for eircom. Revenue and profit figure represent the full year figure to 31 March 2006.

	Consolidated	
	2006	2005
(F) SHARE OF ASSOCIATE'S EXPENDITURE COMMITMENTS, OTHER THAN FOR SUPPLY OF INVENTORIES	\$'000	\$'000
Capital commitments [#]	45,885	-
Lease commitments [#]	108,919	-
	154,804	-
(G) CONTINGENT LIABILITIES OF ASSOCIATES		
For which eircom is severally liable [#]	(17,334)	-
	(17,334)	-

[#] Figures relate to the latest 30 June 2006 quarter information for eircom.

Notes to the Financial Results for the year ended 30 June 2006

10) AVAILABLE-FOR-SALE FINANCIAL ASSETS	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
At beginning of the year	-	-	-	-
Additions	1,002,035	-	-	-
Available-for-sale mark-to-market valuation	66,102	-	-	-
Transfer to investments accounted for using the equity method	(974,321)	-	-	-
Reversal of available-for-sale mark-to-market	(66,102)	-	-	-
Revaluation (deficit) transferred to equity	(4,087)	-	-	-
At end of year	23,627	-	-	-
Listed equity securities	23,627	-	-	-
11) DEFERRED TAX ASSETS (NON-CURRENT)				
The balance comprises temporary differences attributable to:				
<i>Amounts recognised in profit and loss</i>				
Net losses on derivatives not qualifying as hedges	2,390	-	2,390	-
Audit accrual	74	-	74	-
Tax losses	589	-	262	-
	3,053	-	2,726	-
<i>Amounts recognised directly in equity</i>				
Share issue expenses	5,152	6,506	5,152	6,506
	5,152	6,506	5,152	6,506
Total deferred tax asset	8,205	6,506	7,878	6,506
Movements:				
Opening balance at the beginning of the year/period	6,506	-	6,506	-
Credited to the income statement	1,070	-	1,070	-
Credited to equity – share issue expenses	40	6,506	40	6,506
Tax losses brought to account	589	-	262	-
Closing balance at 30 June	8,205	6,506	7,878	6,506
Deferred tax assets to be recovered after more than 12 months	4,347	5,150	4,020	5,150
Deferred tax assets to be recovered within 12 months	3,858	1,356	3,858	1,356
	8,205	6,506	7,878	6,506
12) OTHER FINANCIAL ASSETS (NON-CURRENT)				
Shares in controlled entities	-	-	160,001	160,000
13) PAYABLES (CURRENT)				
Trade payables	408	429	408	429
Other payables (Including project and deal costs)	24,787	758	-	758
Amounts owing to subsidiaries	-	-	159,364	-
Dividends received on behalf of co-investment partners	1,304	-	-	-
Underwriting fees payables and other share issue costs	-	15,980	-	15,980
Total Payables (Current)	26,499	17,167	159,772	17,167

Underwriting fees payable

Underwriting fees of \$15.98 million were paid to the underwriter of the IPO during the year following completion of the second share instalment.

Notes to the Financial Results for the year ended 30 June 2006

	Consolidated		Parent	
	2006	2005	2006	2005
14) BORROWINGS (CURRENT)	\$'000	\$'000	\$'000	\$'000
<i>Secured</i>				
Cash advance facility	13,214	-	-	-
Bank loan facility	259,894	-	-	-
Total borrowings (Current)	273,108	-	-	-

The cash advance facility is secured by the available-for-sale securities held by the Group. Financing under the facility is subject to approval by the lender and satisfactory charge over the securities of the Group. Interest accrues on the facility at the Australian Cash Rate plus 1.5%. The facility is repayable on demand.

The bank loan facility of the Company is secured by shares held in associates and cash balances equal to 2.92% of the outstanding loan balance. The purpose of the facility is to finance the acquisition of shares in eircorn Group plc. The bank facilities may be drawn at any time and interest accrues on the facility at EURIBOR + 1.5%. The facility is repayable within one year of origination. This facility has been terminated since the completion of the eircorn offer on 18 August 2006.

Access was available at balance date to the following lines of credit under this facility:

	Consolidated		Parent	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Total facilities	520,246	-	-	-
Used at balance date	(259,894)	-	-	-
Unused at balance date	260,352	-	-	-
Assets pledged as security				
<i>Current – floating charge</i>				
Cash and cash equivalents	5,466	-	-	-
Available-for-sale financial assets	23,627	-	-	-
	29,093	-	-	-
<i>Non-current – floating charge</i>				
Investments accounted for using the equity method	375,919	-	-	-
Total assets pledged as security	405,012	-	-	-

15) DEFERRED TAX LIABILITIES (NON-CURRENT)

The balance comprises temporary differences attributable to:

Amounts recognised in profit and loss

Prepayments	-	22	-	22
Unrealised gains	243	-	-	-
	243	22	-	22

Amounts recognised in equity

Cash flow hedge	2,560	-	-	-
Total deferred tax liability	2,803	22	-	22

Movements:

Opening balance at the beginning of the year/period	22	-	22	-
Charged/(credited) to the income statement	221	22	(22)	22
Charged to equity (note 17)	2,560	-	-	-
Closing balance at 30 June	2,803	22	-	22

Notes to the Financial Results for the year ended 30 June 2006

16) CONTRIBUTED EQUITY

	2006	2005	2006	2005
	Shares	Shares	\$'000	\$'000
(A) AUTHORISED, ISSUED, PAID UP CAPITAL				
Ordinary shares fully paid	200,000,000	-	1,000,000	-
Partly paid ordinary shares	-	200,000,000	-	1,000,000
(B) MOVEMENTS IN SHARES ON ISSUE				
Beginning of financial period	200,000,000	2	983,360	-
Net effective interest in second instalment of equity issue (note 27(4)(ii))	-	-	(26,239)	-
Public equity raising	-	199,999,998	-	1,000,000
Share issue costs	-	-	(135)	(23,146)
Adjustment to tax benefit recognised on equity raising costs under AASB 112	-	-	40	6,506
Closing balance at 30 June	200,000,000	200,000,000	957,026	983,360

(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.

As at 30 June 2005, there were 200,000,000 ordinary shares partly paid to \$2.50, on which another \$2.50 was outstanding. These shares were allotted on 4 February 2005. The second instalment of \$2.50 was payable on 6 February 2006 and was fully received during the financial year.

(D) SHARE OPTIONS

Information relating to the Babcock & Brown Capital Limited options for Non-Executive Directors is set out in Note 26.

17) RESERVES AND RETAINED (LOSSES)/PROFITS

	Consolidated		Parent	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
(A) RETAINED (LOSSES)/PROFITS				
Balance at the beginning of the financial year/period	6,888	-	6,888	-
Effective interest adjustment on adoption of AASB 132 and AASB 139, net of tax	10,264	-	10,264	-
Adjusted balance at the beginning of the financial period/year	17,152	-	17,152	-
Net (loss)/profit attributable to members of Babcock & Brown Capital Limited	(30,516)	6,888	18,929	6,888
Recognition of retained (loss)/dividend receipt upon eircon becoming an associate	(10,629)	-	-	-
Transfer to equity reserve (note 17(B))	(26,239)	-	(26,239)	-
Total retained earnings	(50,232)	6,888	9,842	6,888

Notes to the Financial Results for the year ended 30 June 2006

17) RESERVES AND RETAINED LOSSES/PROFITS (Continued)	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
(B) RESERVES				
Foreign currency translation reserve	48,895	-	(4)	-
Share-based payments reserve	601	401	601	401
Equity reserve (note 17(A))	26,239	-	26,239	-
Investment valuation reserve	18,557	-	-	-
Hedging reserve - cash flow hedges	10,240	-	-	-
Available-for-sale investment revaluation reserve	(4,087)	-	-	-
Total Reserves	100,445	401	26,836	401
Movement in Reserves:				
<i>Foreign currency translation reserve</i>				
Balance at beginning of year/period	-	-	-	-
Currency translation differences arising during the year	48,895	-	(4)	-
Balance at 30 June	48,895	-	(4)	-
<i>Share-based payments reserve</i>				
Balance at beginning of year/period	401	-	401	-
Options expense (note 3(A))	200	401	200	401
Balance at 30 June	601	401	601	401
<i>Equity reserve</i>				
Balance at beginning of year/period	-	-	-	-
Transfer from retained earnings (note 27(4)(ii))	26,239	-	26,239	-
Balance at 30 June	26,239	-	26,239	-
<i>Investment valuation reserve</i>				
Balance at beginning of year/period	-	-	-	-
Investment valuation reserve	18,557	-	-	-
Balance at 30 June	18,557	-	-	-
<i>Hedging reserve - cash flow hedges</i>				
Balance at beginning of year/period	-	-	-	-
Revaluation of cash flow hedge	12,800	-	-	-
Deferred tax	(2,560)	-	-	-
Balance at 30 June	10,240	-	-	-
<i>Available-for-sale investment revaluation reserve</i>				
Balance at beginning of year/period	-	-	-	-
Revaluation of available-for-sale asset	62,015	-	-	-
Reversal of available-for-sale mark-to-market (note 10)	(66,102)	-	-	-
Balance at 30 June	(4,087)	-	-	-

Notes to the Financial Results for the year ended 30 June 2006

17) RESERVES AND RETAINED LOSSES/PROFITS (Continued)

(C) NATURE AND PURPOSE OF RESERVES

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.

Share-based payment reserve

The share-based payments reserve is used to recognise the fair value of options issued but not exercised.

Share in associate's reserves

Share in associate's reserves is used to recognise the Group's share of the associate's reserve movements.

Equity reserve

The equity reserve is used to recognise the effective interest adjustment coming 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.

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.

Cash flow hedge reserve

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 1(N)(ii). Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

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)(iii). Amounts are recognised in profit and loss when the associated assets are sold or impaired.

18) KEY MANAGEMENT PERSONNEL DISCLOSURES

(A) DIRECTORS

The following persons were directors of the Company during the financial year:

(i) Chairman – Non-executive

Robert Champion de Crespigny AC

(ii) Executive directors*

Rex Comb, Chief Executive Officer of the Management Company

Phillip Green

Robert Topfer

(iii) Non-executive directors

William Wavish

Kerry Roxburgh (Appointed Director on 9 February 2006)

*All Executive directors are paid by Babcock & Brown Australia Pty Ltd. The Company neither pays nor influences the remuneration of the CEO of the Management Company or other Babcock & Brown Group employed staff.

Notes to the Financial Results for the year ended 30 June 2006

18) KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(B) OTHER KEY MANAGEMENT PERSONNEL

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

<i>Name</i>	<i>Position</i>	<i>Employer</i>
Sarah Zanon	Company Secretary	Babcock & Brown Australia Pty Ltd
Paul Ferguson	Company Secretary	Babcock & Brown Australia Pty Ltd

(C) KEY MANAGEMENT PERSONNEL COMPENSATION

	Consolidated		Parent	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Short term Employee benefits	1,339,167	490,670	1,339,167	490,670
Post employment benefits	124,664	52,917	124,664	52,917
Share-based payments	456,297	144,863	456,297	144,863
	1,920,128	688,450	1,920,128	688,450

The Company has not provided any loans to key management personnel during the financial year ended 30 June 2006 and the financial period ended 30 June 2005. The Company neither pays nor influences the remuneration of the CEO of the Management Company or other Babcock & Brown Group employed staff.

Notes to the Financial Results for the year ended 30 June 2006

18) KEY MANAGEMENT PERSONNEL DISCLOSURES (Continued)**(C) KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)**

Remuneration figures are in AUD	Year	Short-term employee benefits				Post-Employment benefits	Long-term employee benefits	Total
		Salary	STIP relating to current period ¹	STIP relating to prior years	Non-monetary benefits	Superannuation	Share based payments ²	
		\$	\$	\$	\$	\$	\$	\$
Directors								
<i>Non executive directors</i>								
Robert Champion de Crespigny AC (Chairman)	2006	150,000	-	-	-	12,139	-	162,139
	2005	75,000	-	-	-	6,750	-	81,750
William Wavish	2006	100,000	-	-	-	9,000	359,694	468,694
	2005	50,000	-	-	-	4,500	144,863	199,363
Kerry Roxburgh ⁴	2006	39,167	-	-	-	3,525	96,603	139,295
Total remuneration for Non-executive directors	2006	289,167	-	-	-	24,664	456,297	770,128
	2005	125,000	-	-	-	11,250	144,863	281,113
<i>Executive directors</i>								
Phillip Green ¹	2006	-	-	-	-	-	-	-
	2005	-	-	-	-	-	-	-
Robert Topfer ¹	2006	-	-	-	-	-	-	-
	2005	-	-	-	-	-	-	-
Rex Comb	2006	550,000	500,000	-	-	100,000	-	1,150,000
	2005	219,203	145,833	-	634	41,667	-	407,337
Andrew Tyndale ³	2005	-	-	-	-	-	-	-
Total remuneration for Executive directors	2006	550,000	500,000	-	-	100,000	-	1,150,000
	2005	219,203	145,833	-	634	41,667	-	407,337
Total remuneration for Directors	2006	839,167	500,000	-	-	124,664	456,297	1,920,128
	2005	344,203	145,833	-	634	52,917	144,863	688,450

¹ Remuneration paid to Executive Directors, Phillip Green and Robert Topfer is not paid by the Company. Remuneration paid to Phillip Green was \$10,363,169 (2005: \$201,113), including options of \$902,779 (2005: \$147,926). Remuneration paid to Robert Topfer was \$4,524,419 (2005:\$201,113), including options of \$359,759 (2005: \$36,982). This remuneration is 100% of the remuneration paid to each of the Directors by the Babcock & Brown Group. Options granted relate to Babcock & Brown Limited. This remuneration is paid to the executive Directors in respect of their wider responsibilities relating to the Babcock & Brown Group, of which the executive directorship of the Group is a part. It is not practicable or meaningful to apportion the remuneration to the time spent directly on the executive directorship of the Group.

² Equity options have been valued using a Binomial pricing model. Option values for Non-Executive Directors William Wavish and Kerry Roxburgh represent options granted in Babcock & Brown Capital Limited. Option values for Executive Directors Phillip Green and Robert Topfer represent options granted in Babcock & Brown Limited. Options held by Robert Champion de Crespigny AC have not been valued or expensed during the year. The expectation at year-end was that these options would not vest. This was confirmed by his resignation as a Director on 4 August 2006.

³ Andrew Tyndale was appointed a Director on 8 December 2004 and resigned 17 December 2004.

⁴ Kerry Roxburgh was appointed a Director on 9 February 2006.

Notes to the Financial Results for the year ended 30 June 2006

18) KEY MANAGEMENT PERSONNEL DISCLOSURES (Continued)

(D) EQUITY INSTRUMENT DISCLOSURES RELATING TO KEY MANAGEMENT PERSONNEL

(i) Option holdings

The numbers of options over ordinary shares in the company held during the financial year by each director of Babcock & Brown Capital Limited and other key management personnel of the Group, including their personally related parties, are set out below:

2006 Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Babcock & Brown Capital Limited						
R Champion de Crespigny AC*	1,500,000	-	-	-	1,500,000	-
W Wavish	1,000,000	-	-	-	1,000,000	-
K Roxburgh	-	1,000,000	-	-	1,000,000	-

2005 Name	Balance at the start of the period	Granted during the period as compensation	Exercised during the period	Other changes during the period	Balance at the end of the period	Vested and exercisable at the end of the period
Directors of Babcock & Brown Capital Limited						
R Champion de Crespigny AC*	1,500,000	-	-	-	1,500,000	-
W Wavish	1,000,000	-	-	-	1,000,000	-

* Options held by Robert Champion de Crespigny have not been valued or expensed during the year. The expectation at year-end was that these options would not vest. This was confirmed by his resignation as a Director on 4 August 2006.

(ii) Share holdings

The numbers of shares in the company held during the financial year by each director of Babcock & Brown Capital Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2006 Name	Balance at the start of the year	Received during the year on the exercise	Changes during the year	Balance at the end of the year
Directors of Babcock & Brown Capital Limited				
R Champion de Crespigny AC	4,000,000	-	(2,325,581)	1,674,419
W Wavish	-	-	25,000	25,000
P Green	1,600,001	-	-	1,600,001
R Topfer	400,001	-	2,500,000	2,900,001
R Comb	-	-	1,000,000	1,000,000

2005 Name	Balance at the start of the period	Received during the period on the exercise	Changes during the period	Balance at the end of the period
Directors of Babcock & Brown Capital Limited				
R Champion de Crespigny AC	-	-	4,000,000	4,000,000
P Green	-	-	1,600,001	1,600,001
R Topfer	-	-	400,001	400,001

Notes to the Financial Results for the year ended 30 June 2006

18) KEY MANAGEMENT PERSONNEL DISCLOSURES (Continued)

(E) LOANS TO KEY MANAGEMENT PERSONNEL

In 2005 and 2006, there were no loans to key management personnel or individuals.

(F) OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

In 2005 and 2006, there were no transactions with key management personnel.

19) 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:

Audit services

	Consolidated		Parent	
	2006	2005	2006	2005
<i>PricewaterhouseCoopers Australian firm</i>	\$	\$	\$	\$
Audit and review of financial reports and other audit work under the Corporations Act 2001 (incl GST)	405,550	79,000	405,550	79,000
Other audit services	-	37,500	-	37,500
	405,550	116,500	405,550	116,500

Other assurance services

Related practices of PricewaterhouseCoopers Australian firm

Due diligence services – eircom investment	974,528	-	-	-
Total remuneration for assurance services	1,380,078	116,500	405,550	116,500

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.

20) FINANCIAL RISK MANAGEMENT

The Group's activities are exposed to a variety of financial risks: market risk (including interest rate risk equity price risk and currency risk) and credit 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.

Risk management is carried in accordance with the policies approved by the Board of Directors by the central risk department ("Group Risk") of Babcock & Brown Limited.

The Group has engaged, under a management agreement, the 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.

(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

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 Group has international investments and is exposed to foreign exchange risk arising from currency exposures of the local currency of these investments.

Forward contracts and put options, transacted with Group Treasury, are used to manage foreign exchange risk. Group Treasury is responsible for managing exposures in each foreign currency.

(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.

Notes to the Financial Results for the year ended 30 June 2006

20) FINANCIAL RISK MANAGEMENT (Continued)

(iii) 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.

(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 Group has no significant concentrations of credit risk. Derivative counterparties and cash transactions are limited to high credit quality financial institutions.

(C) LIQUIDITY AND CASH FLOW 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. Cash flow risk is the risk that future cash flows derived from holding financial assets will fluctuate. Given the quantum of investment in cash and cash equivalents, exposure to liquidity and cash flow risk is therefore minimal.

21) 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 predominately invested in the following areas:

Telecommunications

Principal investments and investment management activities are in the telecommunications sector world.

Corporate

Includes management of the funds in the Group that remain uninvested in the entities outside of the Group. Also includes interest earned and dividends revenue during the period.

Geographical segments

The Group's assets were predominately invested in two geographical areas: Australia and Ireland. There continues to be no significant operations in countries outside of Australia and Ireland.

Notes to the Financial Results for the year ended 30 June 2006

21) SEGMENT INFORMATION (Continued)**(B) PRIMARY REPORTING FORMAT – BUSINESS SEGMENTS**

	Telecommunications		Corporate		Consolidated	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Revenue from external parties	939	-	26,895	11,480	27,834	11,480
Other revenue- effective interest on net shareholder receivable	-	-	16,502	-	16,502	-
Total sales revenue from continuing operations	939	-	43,397	11,480	44,336	11,480
Share of net losses from associates	(49,813)	-	-	-	(49,813)	-
Total segment revenue	(48,874)	-	43,397	11,480	(5,477)	11,480
Segment results from continuing operations	(56,838)	-	25,156	10,147	(31,682)	10,147
Unallocated revenue less unallocated expenses					-	(749)
(Loss)/profit before income tax					(31,682)	9,398
Income tax (expense)/benefit					1,166	(2,510)
(Loss)/profit for the year/period					(30,516)	6,888

	Telecommunications		Corporate		Consolidated	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Segment assets	1,050,253	-	259,396	1,010,326	1,309,649	1,010,326
Unallocated assets					-	-
Total assets					1,309,649	1,010,326
Segment liabilities	302,002	-	408	19,677	302,410	19,677
Unallocated liabilities					-	-
Total liabilities					302,410	19,677
Investments in associates			995,024			

(C) SECONDARY REPORTING FORMAT – GEOGRAPHICAL SEGMENTS

	Segment revenues		Segment assets	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Ireland	(48,874)	-	1,026,597	-
Australia	43,397	11,480	259,396	1,010,326
Other countries	-	-	23,656	-
Total	(5,477)	11,480	1,309,649	1,010,326

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

Notes to the Financial Results for the year ended 30 June 2006

22) 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 23.

(C) KEY MANAGEMENT PERSONNEL

Disclosures relating to key management personnel are disclosed in note 18.

(D) TRANSACTIONS WITH RELATED PARTIES

The following transactions occurred with related parties:

<i>Other related parties</i>	Babcock & Brown Australia Pty Ltd		Babcock & Brown Securities Pty Ltd		Babcock & Brown Capital Management Pty Ltd	
	2006	2005	2006	2005	2006	2005
	\$	\$	\$	\$	\$	\$
Management fee	-	-	-	-	10,964,000	-
Performance fee	-	-	-	-	-	-
Break fee	-	-	-	-	-	-
Adviser's fee	5,812,000	-	7,456,000	-	-	-
Administrative expenses	-	-	288,005	438,905	-	-
Other expenses	-	-	-	36,500	-	-

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 period to 31 August 2005 was Babcock & Brown Securities Pty Ltd. Babcock & Brown Capital Management Pty Ltd became the Management Company on 1 September 2005 subsequent to the issue of its Australian Financial Services Licence.

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

Less than 30%

At least 30% (at any time) but less than 50%

At least 50% (at any time) but less than 75%

At least 75% (at any time)

Annual Management Fee

Nil. Subject to reimbursement of costs incurred by the Management Company.

1% of the value of Net Assets shown in the most recent half yearly or annual audited balance sheet.

1.5% of the value of Net Assets in the most recent half yearly or annual audited balance sheet.

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.

Notes to the Financial Results for the year ended 30 June 2006

22) RELATED PARTY TRANSACTIONS (Continued)

(D) TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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.

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 (2005: nil).

Adviser's Fee

In addition to the management fee and performance fees payable to the Management Company, Babcock & Brown Securities Pty Ltd has been appointed as the Preferred Adviser. Babcock & Brown Securities Pty Ltd is a controlled entity of Babcock & Brown Limited. The fees payable under the Preferred Adviser mandate are determined on the basis of the investment proposal presented to the Company by Babcock & Brown Securities Pty Ltd in conjunction with Babcock & Brown Australia Pty Ltd.

(E) OTHER TRANSACTIONS WITH RELATED PARTIES

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
The following transactions occurred with related parties:				
<i>Dividend revenue</i>				
Associates (prior to becoming an associate)	9,269,000	-	-	-
Associates	25,856,000	-	-	-
<i>Management fee</i>				
Subsidiaries	-	-	8,467,000	-
<i>Tax Consolidation legislation</i>				
Tax losses assumed from wholly owned tax consolidated entities	-	-	262,000	-

During the period, Babcock & Brown International Pty Ltd entered into €189,189,000 of foreign currency option contracts as agent for the Company in respect of the eircom acquisition. These contracts expire 30 June 2010. These contracts have been novated across to the Company on 15 August 2006. During the period, the risks and benefits of these contracts resided with the Company.

(F) OUTSTANDING BALANCES WITH RELATED PARTIES

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

<i>Current Receivables (Investing activities)</i>				
Subsidiaries	-	-	765,319,000	-
<i>Current Payables</i>				
Subsidiaries (note 13)	-	-	(159,364,000)	-
<i>Current Payables (tax funding agreement)</i>				
Subsidiaries	-	-	(2,835,000)	-
<i>Current Payables</i>				
Other related parties	7,456,000	-	-	-

Notes to the Financial Results for the year ended 30 June 2006

22) RELATED PARTY TRANSACTIONS (Continued)

	Consolidated		Parent	
	2006	2005	2006	2005
(G) LOANS TO FROM RELATED PARTIES	\$	\$	\$	\$
<i>Loans to subsidiaries</i>				
Beginning of the year/period	-	-	-	-
Loans advanced (note 8)	-	-	762,484,000*	-
	-	-	762,484,000	-
<i>Loans from subsidiaries</i>				
Beginning of the year	-	-	-	-
Loans made (note 13)	-	-	(159,364,000)	-
	-	-	(159,364,000)	-

*The advanced between parent and subsidiary entities are repayable on demand. They are unsecured loans.

23) SUBSIDIARIES

The consolidated financial results incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(C):

Name	Country of incorporation	Ownership Interest	
		2006 %	2005 %
Babcock & Brown Capital Investments Pty Ltd	Australia	100	100
Babcock & Brown Capital Investments 2 Pty Ltd	Australia	100	100
B&B Capital (Germany) Management GmbH*	Germany	100	100
B&B Capital (Germany) GmbH & Co KG**	Germany	80	80
Eamon Holdings Pty Ltd (Incorporated 7 September 2005)	Australia	100	-
BCL Communications Pty Limited (Incorporated 24 August 2005)	Australia	100	-
B&B Ireland Group Ltd (Incorporated 21 March 2006)	Cayman Islands	100	-
BCM Ireland Equity Ltd (Incorporated 4 May 2006)	Cayman Islands	100	-
BCM Ireland Finance Ltd (Incorporated 27 April 2006)	Cayman Islands	100	-
BCM Ireland Holdings Ltd (Incorporated 17 February 2006)	Cayman Islands	100	-
BCM ESOT Services Ltd (Incorporated 26 June 2006)	Cayman Islands	100	-

* B&B Capital (Germany) Management GmbH has a financial year ending 31 December.

** B&B Capital (Germany) GmbH & Co KG is a limited liability partnership, in which B&B Capital (Germany) Management GmbH is the personally liable partner.

Notes to the Financial Results for the year ended 30 June 2006

24) RECONCILIATION OF (LOSS)/PROFIT AFTER TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
(Loss)/profit for the year after tax	(30,516)	6,888	18,929	6,888
Effective interest on net shareholder receivable	(15,975)	-	(15,975)	-
Dividends received	(9,651)	-	-	-
Share of associates net losses	49,813	-	-	-
Fair value adjustment – net losses on derivatives	7,964	-	7,964	-
Net foreign currency gains/losses	(937)	-	-	-
Share-based payments	200	401	200	401
<i>Changes in Assets and Liabilities:</i>				
(Increase) in trade and other receivables	(588)	(2,393)	257	(2,393)
Increase/(decrease) in trade and other creditors	722	1,187	(690)	1,187
(Decrease)/increase in tax payable	(2,488)	2,488	(2,488)	2,488
Increase in provision for deferred income tax	1,721	22	1,394	22
Net cash flow from operating activities	265	8,593	9,591	8,593

25) EARNINGS PER SHARE	Consolidated	
	2006 \$'000	2005 \$'000
(A) EARNINGS PER SHARE		
The following reflects the income and share data used in the calculations of basic and diluted earnings per share:		
Earnings used in calculating basic and diluted earnings per share	(30,516)	6,888
Weighted average number of ordinary shares issued	200,000,000	200,000,000
Basic earnings per share	(15.3 cents)	3.4 cents
Diluted earnings per share	(15.3 cents)	3.4 cents

(B) DIVIDENDS

The directors have not proposed an interim or final dividend for the year ended 30 June 2006 (2005: nil).

Notes to the Financial Results for the year ended 30 June 2006

26) SHARE-BASED PAYMENTS

NON-EXECUTIVE DIRECTOR OPTION PLAN

Options 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 (\$)	Date Exercisable
4 February 2005	4 February 2012	5.00	0.62 – 1.43*	Any time after the Company's third year result, subject to the vesting conditions of the options
9 February 2006	4 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

* 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: 500,000 options (2005: 500,000) with no hurdle; plus
- Tranche 2: 1,300,000 options (2005: 866,667) if the Total Shareholder Return (TSR) since listing is an internal rate of return (IRR) of 10% or greater; plus
- Tranche 3: 1,700,000 options (2005: 1,133,333) 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 BBCL shares for each measurement period, calculated in accordance with the formula set out in the Management Agreement (refer note 22). Set out below are summaries of the options granted under the plan:

Grant Date	Expiry Date	Balance at start of the year/period Number	Granted during the year/period Number	Balance at the end of the year/period Number
4 February 2005	4 February 2012	2,500,000	-	2,500,000
9 February 2006	4 February 2012	-	1,000,000	1,000,000
Total		2,500,000	1,000,000	3,500,000

Notes to the Financial Results for the year ended 30 June 2006

27) EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSs

(1) At the end of the last reporting period under previous AGAAP: 30 June 2005:

Notes	Consolidated			Parent entity		
	Previous AGAAP \$'000	Effect of transition to AIFRS \$'000	AIFRS \$'000	Previous AGAAP \$'000	Effect of transition to AIFRS \$'000	AIFRS \$'000
ASSETS						
Current Assets						
Cash and cash equivalents	501,427	-	501,427	341,427	-	341,427
Receivables	502,393	-	502,393	502,393	-	502,393
Total Current Assets	1,003,820	-	1,003,820	843,820	-	843,820
Non-Current Assets						
Deferred tax assets	27(4)(i)	-	6,506	-	6,506	6,506
Other financial assets		-	-	160,000	-	160,000
Total Non-Current Assets		-	6,506	160,000	6,506	166,506
Total Assets	1,003,820	6,506	1,010,326	1,003,820	6,506	1,010,326
LIABILITIES						
Current Liabilities						
Payables	27(4)(iv)	1,187	15,980	1,187	15,980	17,167
Current tax liabilities		2,488	-	2,488	-	2,488
Provisions	27(4)(iv)	15,980	(15,980)	15,980	(15,980)	-
Total Current Liabilities		19,655	-	19,655	-	19,655
Non-Current Liabilities						
Deferred tax liabilities		22	-	22	-	22
Total Non-Current Liabilities		22	-	22	-	22
Total Liabilities		19,677	-	19,677	-	19,677
Net Assets		984,143	6,506	984,143	6,506	990,649
Equity						
Contributed Equity	27(4)(i)	976,854	6,506	976,854	6,506	983,360
Retained earnings		7,289	(401)	7,289	(401)	6,888
Reserves	27(4)(iii)	-	401	-	401	401
Total Equity		984,143	6,506	984,143	6,506	990,649

The Company was formed on 8 December 2004 and had no transactions before listing on the ASX on 14 February 2005. The Company's first consolidated financial report was produced for the period ended 30 June 2005. As a result, no comparative information exists prior to 30 June 2005.

Notes to the Financial Results for the year ended 30 June 2006

27) EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSs (Continued)

(2) Reconciliation of profit for the year ended 30 June 2005

	Notes	Consolidated			Parent entity		
		Previous AGAAP	Effect of transition to AIFRS	AIFRS	Previous AGAAP	Effect of transition to AIFRS	AIFRS
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenues from continuing operations		11,480	-	11,480	11,480	-	11,480
Expenses (excluding finance costs)	27(4)(iii)	(1,681)	(401)	(2,082)	(1,681)	(401)	(2,082)
Finance Costs		-	-	-	-	-	-
Share of net profits of associates accounted for using the equity method		-	-	-	-	-	-
Profit from continuing operations before income tax		9,799	(401)	9,398	9,799	(401)	9,398
Income tax expense		(2,510)	-	(2,510)	(2,510)	-	(2,510)
Net profit attributable to members of Babcock & Brown Capital Limited		7,289	(401)	6,888	7,289	(401)	6,888

The Company was formed on 8 December 2004 and had no transactions before listing on the ASX on 14 February 2005, therefore the above profit reconciliation reflects the results for the period from incorporation to 30 June 2005.

(3) Reconciliation of cash flow statement for the year ended 30 June 2005

There are no material differences between the Cash Flow Statement under AIFRS to that presented under AGAAP for the previous reporting period.

(4) Notes to the reconciliations

(i) Income Tax

Under previous AGAAP there was no requirement to recognise deferred tax on transactions recognised directly in equity, using the income statement approach.

Under AIFRS, AASB 112: Income Taxes requires the Group to use the balance sheet approach which calculates temporary differences based on the carrying amount of an entity's assets and liabilities in the balance sheet and their associated tax bases. The effect of this at 30 June 2005 was to recognise a deferred tax asset for \$6,506,000 with a corresponding increase in contributed equity, representing the tax effect of the future deductible share issue costs at 30 June 2005.

(ii) Financial Instruments

Under previous AGAAP and the Group's accounting policy, current receivables were held at cost and were only reduced where they were viewed as unrecoverable or impaired.

Under AIFRS, AASB 139: Financial Instruments: Recognition and Measurement, classifications of loans and receivables remain unchanged. Measurement of these instruments is now required to be initially recorded at fair value with subsequent measurement at amortised cost using the effective interest rate method.

As at 30 June 2005, the Group presented in its Statement of Financial Position amounts in respect of the second partly-paid share instalment, which was completed on 6 February 2006. The amounts were a \$500,000,000 receivable and a \$15,980,000 provision for future underwriting costs. The AIFRS treatment of both of these amounts is discussed below:

Notes to the Financial Results for the year ended 30 June 2006

27) EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSs (Continued)

Receivable of \$500,000,000

In accordance with AIFRS, the receivable has been discounted to reflect the time value of money over the period from the date of establishment of the financial asset to its ultimate date of recovery, and the discount is being brought to account progressively over the period through to expected recovery.

In measuring the shareholder receivable at amortised cost on initial recognition in February 2005, an adjustment was made to decrease contributed equity and receivables by \$27,105,000. As a result of the un-wind of the discount on the receivable at 1 July 2005, an adjustment was made to increase retained earnings and the corresponding receivable by \$10,603,000. For the current year to 30 June 2006, a further \$16,502,000 was unwound from the discount to the receivable and is recorded in the income statement for the year (refer note 2).

Payable of \$15,980,000

In measuring the liability for future underwriting costs on initial recognition in February 2005, there was an increase in share capital of \$866,000 with a corresponding reduction to payables. As a result of the un-wind of the discounted liability at 1 July 2005, an adjustment was made to decrease retained earnings by \$339,000. For the current year to 30 June 2006, the un-wind of the discount is shown in the income statement as part of finance costs. The amount for the year period was \$527,000.

The net impact of the two above-mentioned AIFRS adjustments on 1 July 2005 is as follows:

Increase in Retained earnings	\$10,264,000
Decrease in Contributed equity	\$26,239,000

(iii) Share-Based Payments

Under previous AGAAP there was no requirement to recognise an expense in respect of share-based payments. Public companies were only required to disclose the value of equity instruments granted to non-executive directors.

Under AIFRS, AASB 2: Share-based Payment requires the Group to recognise an expense for those options granted under the non-executive director Share Option Plan. The value of the option is determined at the date of grant and that value must be expensed on a pro-rata basis from the date of grant to the date the options fully vest with the employee. The effect of this is at 30 June 2005 was to reduce retained earnings by \$401,000.

(iv) Reclassification of liabilities

Under previous AGAAP the liability for future underwriting costs of \$15,980,000 was classified as a provision in the statement of financial position. Under AIFRS, this amount is reclassified as a financial liability and included as part of payables as at 30 June 2005.