

# Babcock & Brown Capital 1H07 Results Presentation

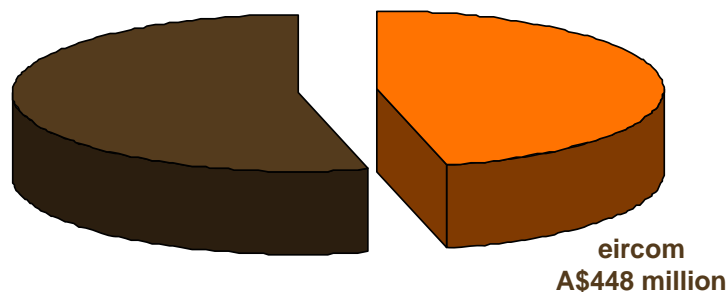
**February 2007**

# BCM SNAPSHOT

ASX Code	Babcock & Brown Capital Ltd: "BCM"
Market cap <sup>1</sup>	A\$848 million
ASX Indices inclusion	ASX 200
Balance date	30 June
Further information	www.babcockbrowncapital.com Deborah Kelly +61 2 9229 1800

## Current Portfolio <sup>1</sup>

Cash & marketable securities  
A\$580 million



<sup>1</sup> As at 27 Feb 07

## Investment Philosophy

- An Australian-based **listed private equity company**
- BCM's primary goal is to achieve **strong risk-adjusted returns** over the medium-term
- Taking positions **globally** in listed and private entities
- Building a **concentrated portfolio** of investments with **predictable cash flows**
- Pursuing **active investment management**

*Increasing equity value  
emerging over time*

# BCM SNAPSHOT continued

## eircom performing strongly

- Ireland's dominant fixed line, mobile and emergency services networks
- Acquired for A\$8bn (€4.8bn) August 06, BCM holds 57.1%
- Business performing slightly ahead of acquisition expectations
  - Growth in fixed line revenue and EBITDA
  - ~17% mobile market share<sup>1</sup> and growing

## Well positioned in very favourable market: Ireland

- Europe's fastest growing economy
- Highest population growth in Europe
- Youngest population in Europe
- Among the highest new house starts in Europe



### Fixed line

- 67% of traffic market share
- Stable free cash flow
- Favourable access pricing regime

### Mobile

- ~17% subscriber market share<sup>1</sup>, growing at ~4% a year
- Total market growing at 11% a year
- European 3<sup>rd</sup> operator EBITDA margin historically matures at ~30%

## BCM value-add program

- Value enhancing follow on investments around eircom  
e.g. aggregation of masts portfolio, real estate development, media opportunities



## BCM SNAPSHOT continued

### Future Portfolio Development

- Currently BCM has ~A\$580m remaining capital available to be invested
- BCM is working to release further capital from its eircom investment
- BCM:
  - Is seeking to leverage telco expertise in new opportunities in the telecoms, media and technology (TMT) sectors
  - Will only pursue an alternate sector if a compelling opportunity arises
- BCM's disciplined private equity investment approach
  - Focused on highly cash generative businesses
  - With free cash flow growth rates in excess of cost of finance
  - Global focus
  - Remains patient for value

# BCM 1H07 FINANCIAL RESULTS

## BCM – 1H07 FINANCIALS

Babcock & Brown Capital Group consolidated results for the half-year ended 31 December 2006		\$'m
<b>Revenue</b>		<b>1,263.7</b>
<b>EBITDA</b>		<b>423.7</b>
<b>EBIT</b>		<b>177.5</b>
Finance Costs		(171.8)
<b>Earnings before tax</b>		<b>5.8</b>
Income tax		(7.0)
<b>Loss from ordinary activities after tax</b>		<b>(1.2)</b>
Loss attributable to minority interests		1.0
<b>Loss for the half-year attributable to members</b>		<b>(0.2)</b>

## BCM – 1H07 FINANCIALS continued

<b>eircom consolidated results from 18 Aug 06 - 31 Dec 06</b>			
<b>EUR:AUD 0.60</b>	<b>eircom 100% €m</b>	<b>BCM Interest 57.1% €m</b>	<b>BCM Interest 57.1% \$'m</b>
Fixed line revenue	595.9	340.2	571.1
Mobile revenue	138.2	78.9	132.4
<b>Total revenue</b>	<b>734.0</b>	<b>419.1</b>	<b>703.5</b>
Cost of Sales	( 193.8)	( 110.6)	( 185.7)
Operating Costs (before restructuring costs)	( 290.6)	( 165.9)	( 278.5)
<b>Operating Costs (before restructuring costs)</b>	<b>( 484.4)</b>	<b>( 276.5)</b>	<b>( 464.2)</b>
<b>EBITDA (pre one-off's and non-cash adjustments)</b>	<b>249.7</b>	<b>142.5</b>	<b>239.3</b>
Other income/(expense) - Restructuring program	( 11.0)	( 6.3)	( 10.5)
<b>Adjusted EBITDA</b>	<b>238.7</b>	<b>136.3</b>	<b>228.8</b>
Depreciation & Amortisation - eircom	( 131.6)	( 75.1)	( 126.1)
Purchase Price Adjustments - Depreciation & Amortisation	( 15.2)	( 8.7)	( 14.6)
<b>EBIT</b>	<b>91.9</b>	<b>52.5</b>	<b>88.1</b>
Net finance costs	( 83.5)	( 47.7)	( 80.1)
PIK finance costs	( 4.5)	( 2.6)	( 4.3)
<b>Operating profit before tax</b>	<b>3.9</b>	<b>2.2</b>	<b>3.7</b>
Income tax expense	( 5.3)	( 3.0)	( 5.1)
<b>Net result after tax</b>	<b>( 1.4)</b>	<b>( 0.8)</b>	<b>( 1.4)</b>

## BCM – 1H07 FINANCIALS continued

Babcock & Brown Capital Group Position	At 31 Dec 06 A\$m	At 30 Jun 06 A\$m
Cash - eircom level	435.8	-
Cash - BCM level	484.3	247.4
Receivables	660.9	12.9
Property, plant & Equipment	3,634.2	-
Goodwill	4,068.5	-
Intangibles	1,126.2	-
Equity accounted investments	-	995.0
Other Investments	100.9	23.6
Other assets (including deferred tax assets)	361.6	30.7
<b>Total Assets</b>	<b>10,872.4</b>	<b>1,309.6</b>
Payables and accruals	1,151.8	26.5
Provisions	550.3	-
Net debt - eircom level	69.6	273.1
Net debt - BCM level	7,145.1	-
Other liabilities	556.6	2.8
<b>Total Liabilities</b>	<b>9,473.5</b>	<b>302.4</b>
<b>Net Assets</b>	<b>1,398.9</b>	<b>1,007.2</b>
Minority Interests	347.7	-
<b>Net Assets attributable to BCM members</b>	<b>1,051.2</b>	<b>1,007.2</b>

# BCM – 1H07 FINANCIAL RESULTS COMMENTARY

BCM's results were significantly impacted by a number of accounting adjustments which do not have an impact on either the underlying performance or overall value of the eircom investment:

- BCM equity accounted the eircom investment up to date of settlement, 18 Aug 2006. eircom was consolidated from this date forward
- Purchase price adjustment exercise of eircom assets and liabilities on acquisition<sup>1</sup> required materially higher levels of depreciation and amortisation than previously reported in the eircom accounts. This substantially reduced BCM's consolidated reported accounting profits
  - Incremental depreciation and amortisation interest not tax deductible
  - Increased depreciation and amortisation will continue to apply in future years
- The return of capital to BCM from its portion of the €425m PIK note refinancing in Nov 06 resulted in higher interest costs and reduced consolidated reported accounting profits, but increased BCM's shareholder returns
  - Interest on the notes capitalises, no cash impact
  - PIK interest not tax deductible

<sup>1</sup> Draft final asset and liability values used in BCM consolidation at 31-12-06. These values may change on finalisation of the valuation exercise.

# eircom VALUE SUMMARY

# eircom VALUE SUMMARY

## Indicative Pro-forma Base Outcome

- The table below is not a forecast nor is it BCM's investment case. It is provided to investors as a reference template to assist them in understanding the metrics for evaluating the performance and underlying value of eircom over a notional 5-year period.
- The table uses eircom's annualised 1H07 fixed line EBITDA and European average mobile data.

Fixed Line Business	Basis	Source	€Million
EBITDA (€ million)	eircom 1H07 results annualised	eircom	600

Mobile Business	Approach	Source	€Million
Market size (€ Billion)		ComReg	2.20
Market growth (% p.a.)	Currently growing at 11% p.a., (ComReg); assume grows at nominal GDP in future	ComReg, OECD	4.5%
Market share (%)	European average third operator (eircom/Meteor currently at ~17%)	Historical Comparables	20.0%
EBITDA margin (%)	European average third operator (eircom/Meteor currently 15%)	Historical Comparables	30.0%
EBITDA (€ million)	Based on European average third operator historical metrics		164
<b>Total Business (€million)</b>	<b>Addition of Fixed and Mobile</b>		<b>764</b>

Free Cash Flow (FCF) €Million	Basis		€Million
<b>Total EBITDA</b>			<b>764</b>
Capex (fixed line + mobile)	eircom 1H07 depreciation annualised	eircom	312
Interest	Cost of current debt package		251
<b>Free Cash Flow before tax</b>			<b>201</b>
<b>Free Cash Flow after tax <sup>1</sup></b>	Current Irish rate	12.5%	<b>176</b>

eircom Pro forma Output			
Enterprise Value (EV) /EBITDA Multiple	Current global telco EV/EBITDA multiple	6.60	
Multiple Uplift for tax rate	The Irish tax rate of 12.5% is worth 0.5x on an EV/EBITDA Multiple	0.50	
Adjusted EV/EBITDA Multiple		7.10	
Implied EV - 2011 (€ million)			<b>5,428</b>
Debt in 2011(€ million)	€3,850 less Free Cash Flow after tax x 5 years		<b>2,969</b>
	PIK €425 capitalising at eurobor + 700bps		<b>720</b>
Implied Equity Value in 2011 (€ million)			<b>1,739</b>
BCM Equity Share (€ million)		57.1%	<b>993</b>
Foreign Exchange Rate (€)		0.60	
BCM equity share (\$A million)			<b>1,659</b>

## eircom VALUE SUMMARY continued

- BCM has \$448m invested in eircom today
- Illustratively, assuming a :
  - Stable fixed line business;
  - Mobile business achieving historical European 3<sup>rd</sup> player metrics;
  - Increased capex program: maintaining the fixed and wireless networks and undertaking new initiatives, e.g. 3G, NGN Core and NGN IT, and
  - Post tax sweep of residual cash to pay down debt,

then a:

- Notional time period of 5 years; and
- Notional exit at the end of this period at current telco trading multiples,

then BCM's investment in eircom *may* achieve an implied equity outcome of \$1.66bn<sup>1</sup>

- *The above does not take into account the value of or any returns generated from the current A\$580m of available cash in BCM over this period*

<sup>1</sup> This is not a forecast or BCM's investment case

## eircom VALUE SUMMARY continued

### Today

- A change in market sentiment and improved understanding of the telco sector has resulted in a 20% increase in the global EV/EBITDA multiple over past 12 months
- eircom currently produces a normalised running cash yield of **18.7%**<sup>1</sup> before debt amortisation
- Excess cash is swept to pay down debt

<sup>1</sup> Actual running cash yield for 6 months to 31 Dec 06 was 26.8%. This, however, only included interest expense for part of the period since BCM's acquisition of eircom.

Actual eircom 6 month results to 31 Dec 06	eircom 100% €m	BCM's Interest 57.1% A\$m	Per BCM Share <sup>1</sup> A\$0.00
EUR:AUD 0.60			
Fixed Line EBITDA	300.0	289.4	\$1.45
Meteor EBITDA	28.6	27.4	\$0.14
<b>Total eircom EBITDA (before one-off's)</b>	<b>330.6</b>	<b>316.8</b>	<b>\$1.58</b>
Other income/(expense) - Sale of properties	16.1	15.4	
Other income/(expense) - Restructuring program	( 10.8)	( 10.4)	
<b>Adjusted EBITDA</b>	<b>335.9</b>	<b>321.9</b>	<b>\$1.61</b>
Less: CAPEX	( 159.2)	( 152.6)	
Taxation	( 9.0)	( 8.6)	
<b>Cash flow before debt service</b>	<b>167.7</b>	<b>160.7</b>	<b>\$0.80</b>
Interest <sup>2</sup>	( 125.0)	( 119.0)	
<b>Free cash flow</b>	<b>42.7</b>	<b>41.7</b>	<b>\$0.21</b>
Equity investment		447.5	
<b>ANNUALISED CASH YIELD ON EQUITY INVESTMENT</b>		<b>18.7%</b>	

<sup>1</sup> 200m BCM shares on issue

<sup>2</sup> Charge normalised to represent interest expense for 6 months

# eircom INVESTMENT UPDATE

# eircom – INVESTMENT SCORECARD

## Fixed Line

Maintain fixed line EBITDA at  
~€150m per qtr, ~€600m p.a.



Actual EBITDA qtr ended:

- Sept 06 – €157m
  - Dec 06 – €143m<sup>1</sup>
- €300m for 1H07

## Mobile

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



Actual subscriber market share qtr ended\*:

- June 06 – 15.6%
- Dec 06 – 17.1%

Attain historical European  
average 3<sup>rd</sup>-player EBITDA  
margin of 30%



Actual EBITDA margin % qtr ended:

- Sept 06 – 13%
- Dec 06 – 15%

In a growth phase, more EBITDA is spent on customer  
acquisition than in a mature market.

EBITDA margins also improve with scale

\* Source: ComReg Quarterly report Sept. 2006 and company estimates

<sup>1</sup> Severe weather resulted in abnormal maintenance and repair expenditure in December 2006

# BCM – eircom OPERATIONAL RESULTS SUMMARY

## Fixed line

- Revenue growth of 2.9% year on year (“yoy”)
- 1.5% increase yoy in the number of new fixed lines (excluding DSL)
- 83% increase yoy in the number of broadband customers from 197,000 to 360,000
- €300m of EBITDA, 3% increase year on year
- Winback campaign has resulted in 70.4% of churned customers rejoining the network in period April to December

## Mobile

- Revenue of €183m up from €110m<sup>1</sup> yoy
- EBITDA of €28m up from €8m<sup>1</sup> yoy
- EBITDA margin for the 6-month period to 31 Dec 06 of 14%
- 42% increase in the number of net subscribers from 565,000 to 802,000 year on year
  - 90% pre-pay/ 10% post-pay
- Increase in market share from 13.4% in December 2005 to 17.1% in December 2006\*
- Remains one of Europe’s fastest growing mobile operators

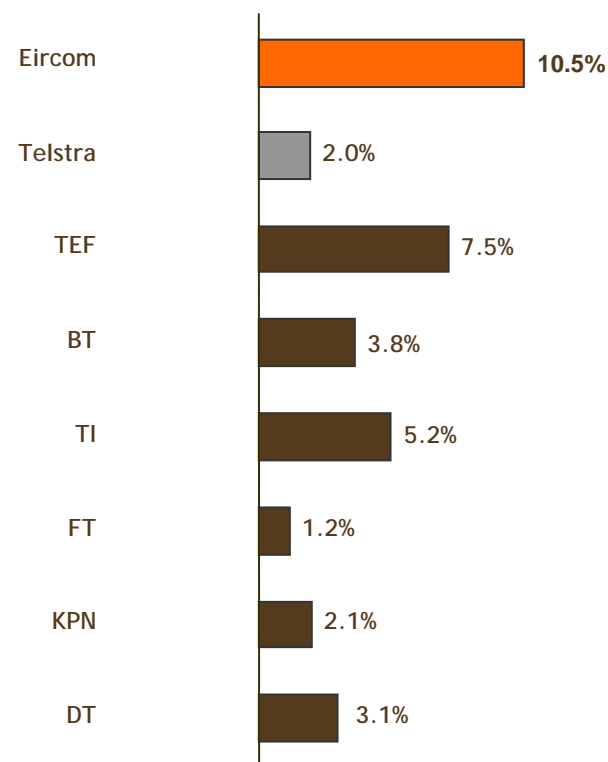
\* Source: ComReg quarterly reports and company estimates

<sup>1</sup> Assuming eircom owned Meteor for the 6 months to December 05. Acquisition occurred November 05.

## eircom IS NOT A TYPICAL INCUMBANT TELCO...

- Growth in the Irish economy and population underpins the resilience of eircom's fixed line EBITDA at ~€600m p.a.
- The small Irish population and low density has resulted in a lack of fixed line competition at the network and consumer levels
- The mobile market in Ireland is one of the most valuable in Europe driven by
  - Population growth
  - Increasing penetration
  - High ARPU's based on high minutes of use
- eircom's mobile business continues to grow subscribers at ~4% p.a. toward 20% market share and 30% EBITDA margins historically achieved by 3<sup>rd</sup> players in the European mobile markets

**Combined revenue  
9mth to Dec 06 vs. 9mth to Dec 05  
(% change)**



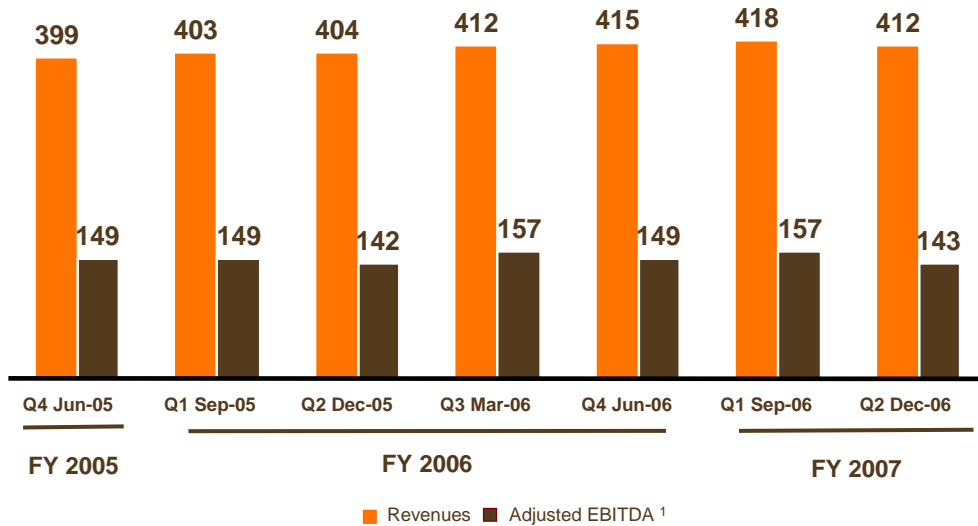
Source: *eircom* management accounts and company filings and respective company press releases and analyst presentations

Note: TEF stands for Telefonica, TI for Telecom Italia, FT for France Telecom, BT for British Telecom, DT for Deutsche Telekom and KPN is the Dutch incumbent

# eircom FIXED LINE BUSINESS

# RESILIENCE OF FIXED LINE BUSINESS

**Quarterly revenue and Adjusted EBITDA<sup>1</sup>**  
(Jun-05 to Dec-06)

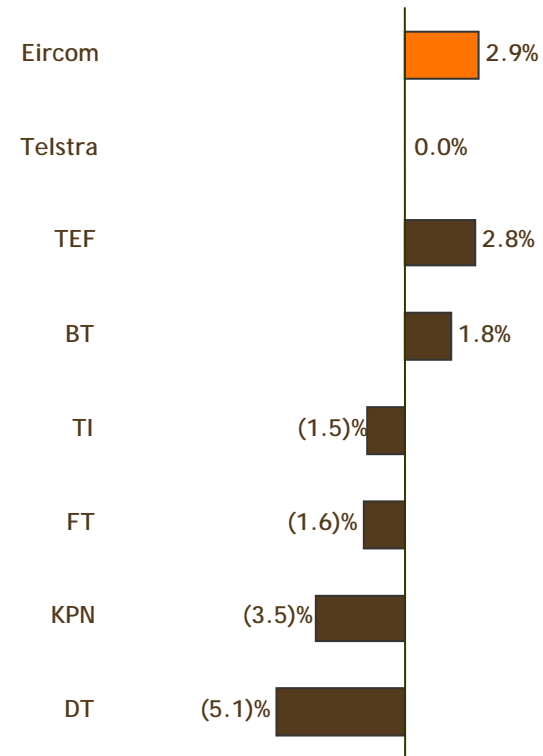


Source: eircom annual and interim reports

<sup>1</sup> EBITDA before restructuring costs, transaction costs, non-cash pension charge/credit and profit on disposal of property and investments

Note: TEF stands for Telefonica, TI for Telecom Italia, FT for France Telecom, BT for British Telecom, DT for Deutsche Telekom and KPN is the Dutch incumbent

**Domestic fixed revenue**  
**9mth to Dec 06 vs. 9mth to Dec 05**  
(% change)

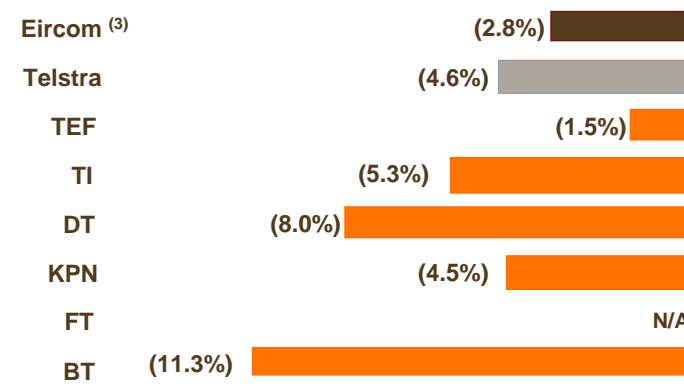


Source: company filings, eircom plc results

# RESILIENCE OF FIXED LINE BUSINESS continued

- Rate of voice decline currently below expectations
  - Also slower than European peers
- This decline offset by rebalancing to access revenues
  - Total call cost is below European average cost, but access charge is above European average cost
  - Regulation allows annual CPI increase for access

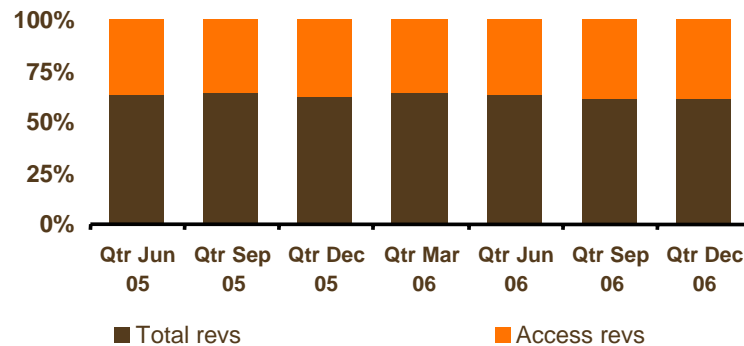
**Fixed line voice call volume  
9mth to Dec 06 vs. 9mth to Dec 05  
(% change)**



Source: Company filings and analysts presentations, eircom plc results

Note: TEF = Telefonica, TI = Telecom Italia, FT = France Te-lecom, BT = British Telecom, DT = Deutsche Telekom and KPN is the Dutch incumbent.

**Access as % of Turnover**



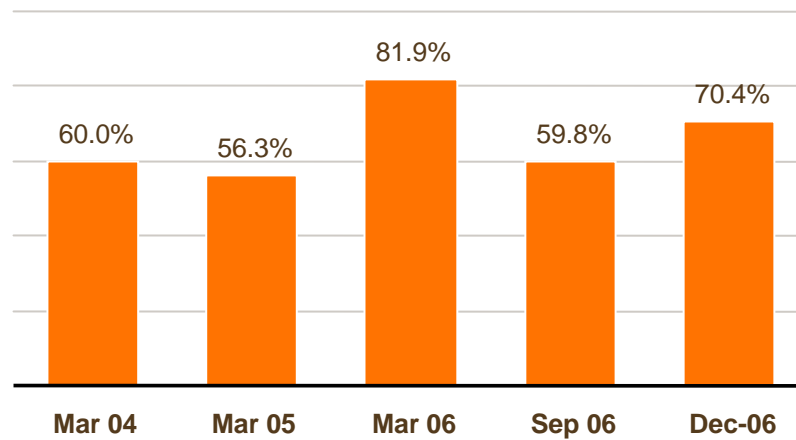
Source: eircom annual and interim reports

- Number of fixed lines has grown by 4.2% CAGR 2000-2005 compared to declines experienced by other European incumbents
  - New housing starts (c. 93,000 in 2006) is significantly greater than UK

# ROBUST WIN-BACK CAPABILITIES

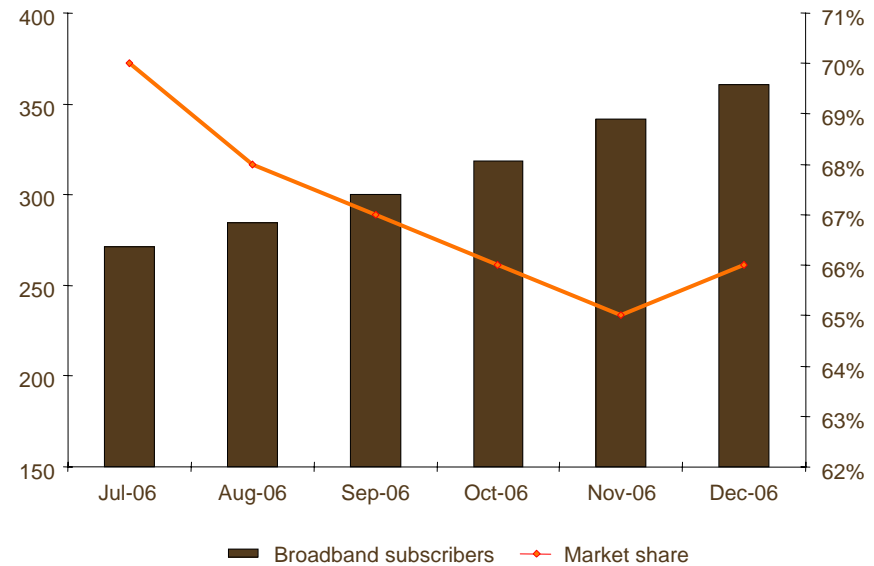
- Strong win-back of fixed line customers enabling defence of fixed line market share
- Increased service levels will have a long-term effect of reducing customer churn
- Tailored bundled products to better suit customer usage profile
- Sales channel capabilities include both outbound/inbound call centres and a door-to-door salesforce

**Winback as % of gross losses**



# CAPITALISE ON BROADBAND OPPORTUNITIES

- **Making the fixed line more 'sticky' by offering value-added services and other differentiated products**
  - Gaming
  - Security
  - IPTV
- **eircom to accelerate broadband growth through better availability**
  - 100% in commercially viable areas, including using WiMax for in-fill
  - Government decision to fund enablement of non-viable rural areas
- **Aggressive marketing**
  - Sports content agreement signed with Setanta Sports
  - Sales coverage
  - Improve service bundling
  - Price cuts
  - Leverage dial-up customer base

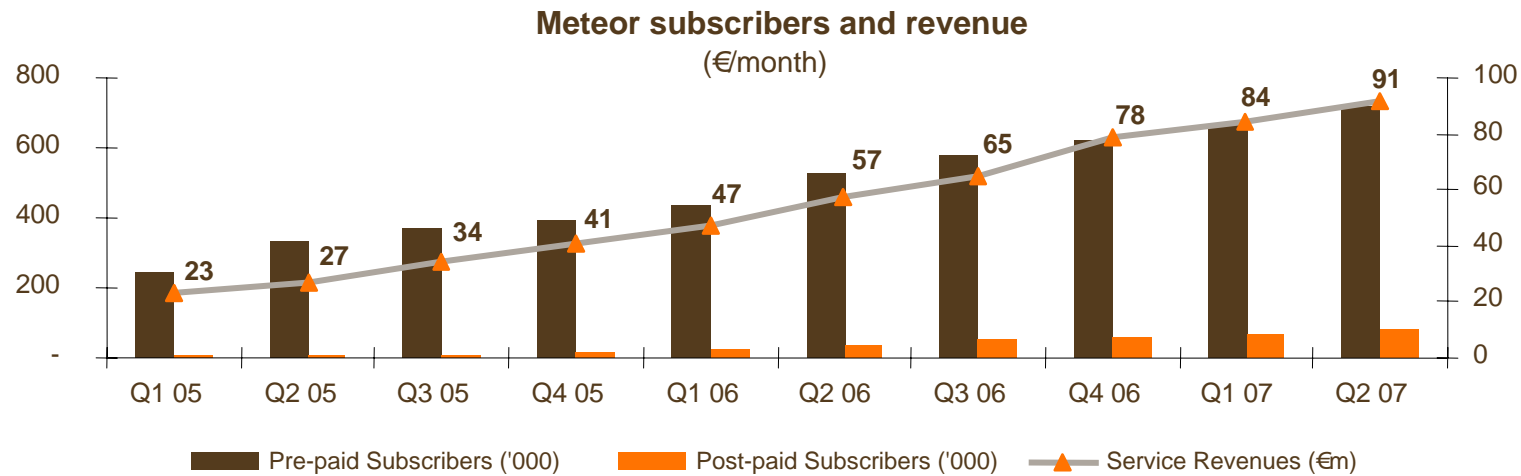


**Target of 500,000 subscribers by Dec 2007**

# eircom MOBILE BUSINESS

# MOBILE MARKET OVERVIEW

- Irish mobile market subscribers have grown by 10% in the year to September 2006<sup>1</sup> with Meteor taking 66% of this increase
- Current estimate 4.7m mobile subscribers
- Mobile ARPUs<sup>2</sup> among highest in Europe<sup>1</sup>
- 3rd operators in Europe have historically achieved ~20% market share and 30% EBITDA margins<sup>3</sup>

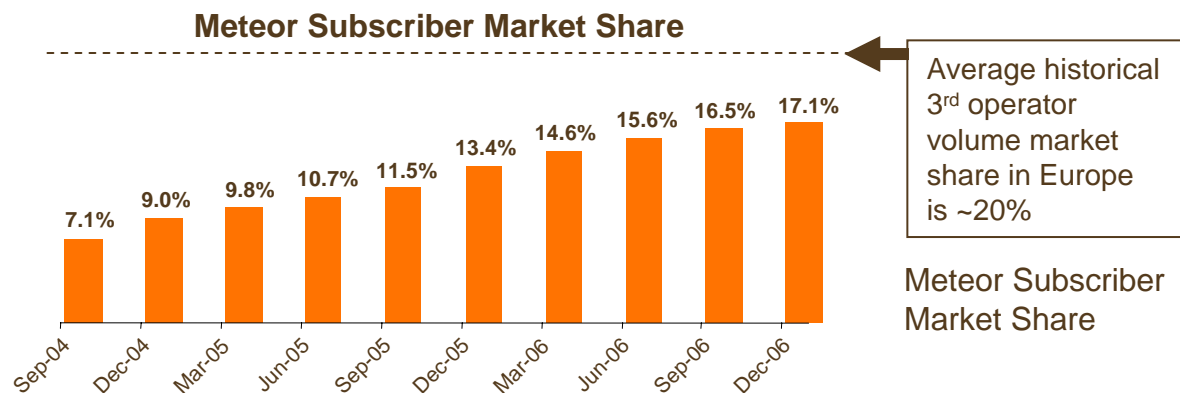


<sup>1</sup> ComReg Key Data Report - issued Dec 06 (based on September 2006)

<sup>2</sup> Average Revenue per User

<sup>3</sup> JPMorgan for average 3rd operator market share

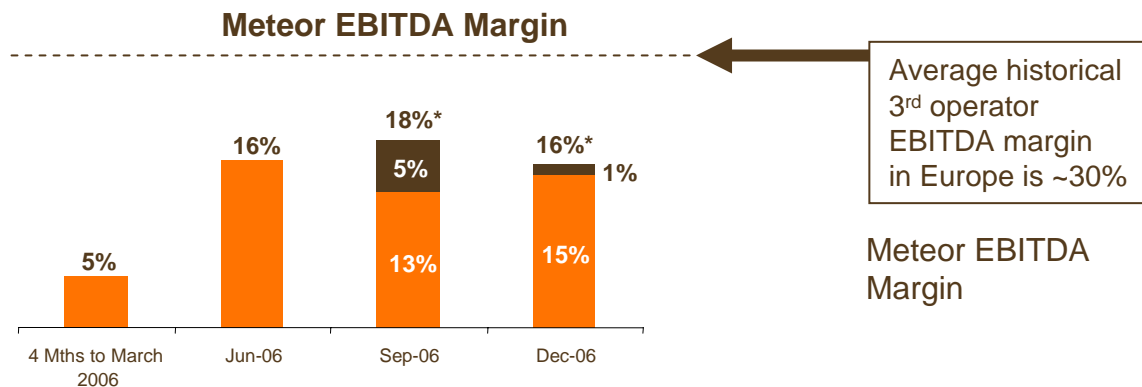
# GROWTH POTENTIAL OF MOBILE BUSINESS



Source: ComReg for market share and eircom management estimates, JPMorgan for average 3<sup>rd</sup> operator market share

## Key market share drivers

- Value positioning
- Strong distribution
- Effective marketing



Source: eircom management results, JPMorgan for average historical 3<sup>rd</sup> operator market share

\* EBITDA for the quarters ending Sept 06 and Dec 06 exclude incentive fee costs equal to 5% and 1% of margin, respectively. This may re-occur in the future

## Key EBITDA drivers

- Higher subscriber acquisition costs in growth phase
- Improved EBITDA with scale
- December qtr EBITDA margins historically lower due to higher customer acquisition costs around Christmas time

# MOBILE OPERATIONAL FOCUS

- 3G update
  - eircom has accepted the last remaining 3G licence offered by Comreg on the understanding that the necessary financing arrangements will be in place ahead of 12 March 2007
  - An initial up-front fee of €44m, performance bonds of €100m to be put in place
  - eircom is exploring multiple options for network roll-out
- New roaming agreement with Vodafone offering improved costs and network coverage in the west coast region
- Build on key business strengths
  - Efficient cost structure
  - Expanding distribution platform
    - 470 retail sales points and growing
    - increased retail stores' footprint from 20 stores in December 2005 to 36 in December 2006
- Core IT systems upgrade
  - New billing system being implemented
- Attain parity with key competitors
  - Network coverage & quality: aggressively rolling out additional sites
- Move up the value chain by
  - Maintaining strong momentum in post pay
  - Broadening product portfolio

## MOBILE – KEY FINANCIALS

	Q4 2006 June 2006	Q1 2007 Sept 2006	Q2 2007 Dec 2006
Prepaid Subs	626,000	664,000	721,000
% of Total Subs	91.7%	90.5%	89.9%
Postpay Subs	57,000	70,000	81,000
% of Total Subs	8.3%	9.5%	10.1%
<b>Total Subscribers</b>	<b>683,000</b>	<b>734,000</b>	<b>802,000</b>
ARPU	39.50	39.66	39.68
<b>Mobile Revenues</b>	<b>80</b>	<b>87</b>	<b>96</b>
Operating Costs	(67)	(76)	(82)
<b>Mobile EBITDA</b> <sup>1 2</sup>	<b>13</b>	<b>11</b>	<b>14</b>
<b>Margin %</b>	<b>16.1%</b>	<b>12.6%</b>	<b>14.6%</b>

Source: *eircom* management accounts

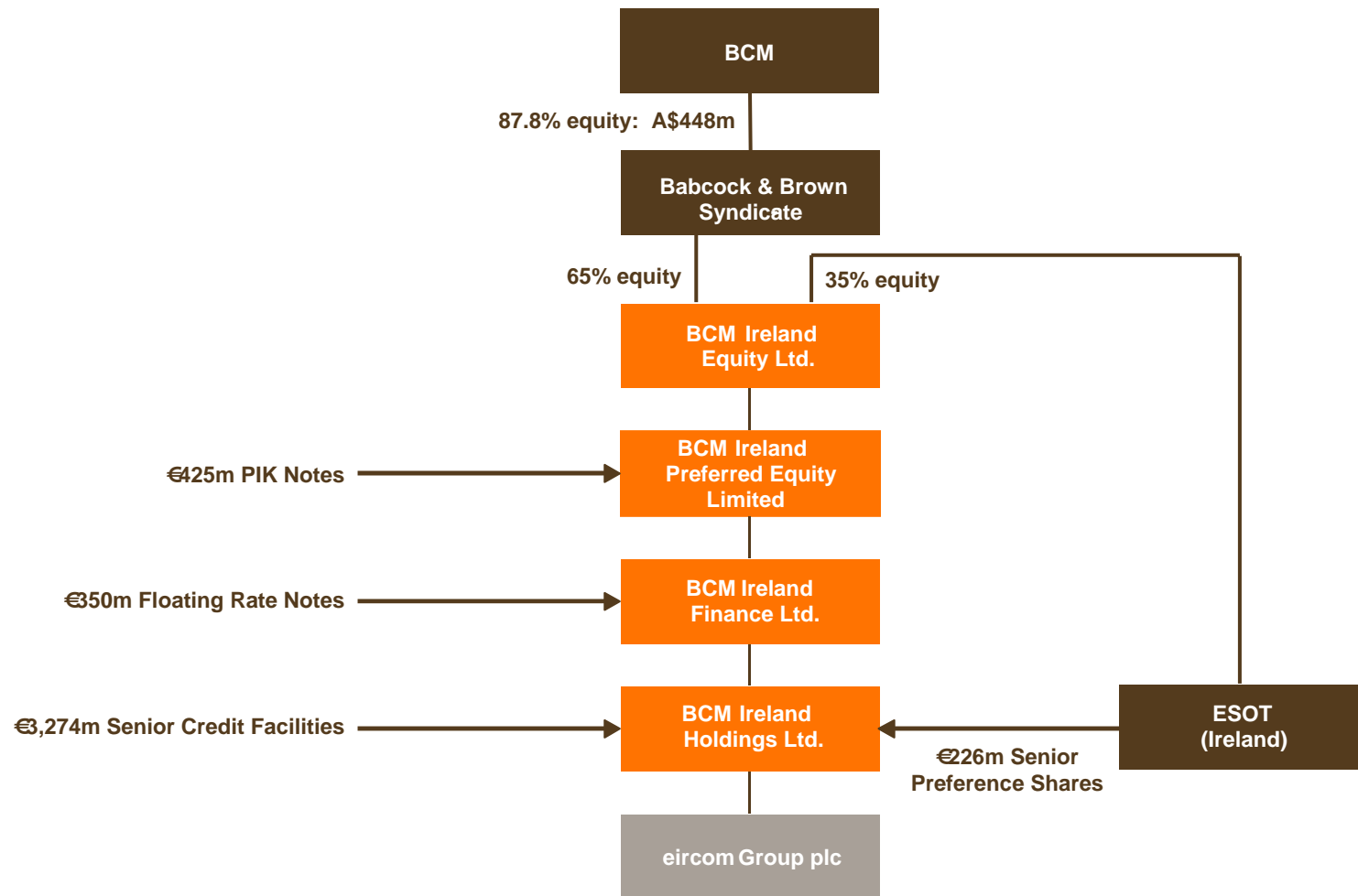
1 Adjusted EBITDA before restructuring costs, transaction costs and profit on disposal of property and investments

2 EBITDA for the quarters ending Sept 06 and Dec 06 includes incentive fee costs equal to 5% and 1% of margin, respectively.

This may re-occur in the future

# APPENDIX

# BCM – CORPORATE STRUCTURE



# BCM – INVESTMENT CAPITAL STRUCTURE

Capital (incl margin over eurobor on debt where applicable)	Dec-06	%	x LHA Dec-06 EBITDA <sup>1</sup>
Cash and Cash Equivalents	435		
Special preference shares	225	5%	0.34x
Term Loan A (2.000%)	425	8%	0.64x
Term Loan B (2.375%)	1,250	26%	1.89x
Term Loan C (2.750%)	1,250	26%	1.89x
<b>Total First Lien Debt</b>	<b>3,150</b>	<b>65%</b>	<b>4.77x</b>
Second Lien (4.250%)	350	7%	0.53x
<b>Total Senior Debt</b>	<b>3,500</b>	<b>73%</b>	<b>5.30x</b>
Floating Rate Notes (5.000%)	350	7%	0.53x
<b>Total Cash Pay Debt</b>	<b>3,850</b>	<b>80%</b>	<b>5.83x</b>
PIK Notes (7.000%)	425	9%	0.64x
<b>Total Debt</b>	<b>4,275</b>	<b>89%</b>	<b>6.48x</b>
<b>Net Debt (2)</b>	<b>4,181</b>	<b>87%</b>	<b>6.33x</b>
<b>Total Equity</b>	<b>543</b>	<b>11%</b>	<b>0.82x</b>
<b>Total Capitalisation</b>	<b>4,818</b>	<b>100%</b>	<b>7.30x</b>

<sup>1</sup> Last Half Annualised EBITDA of €660 million

<sup>2</sup> Excludes leases

# BCM – TERMS OF PIK NOTES

## Summary terms

Issuer	BCM Ireland Preferred Equity Limited
Issue	PIK Notes
Currency	EUR
Amount	€425,000,000
Maturity	February 2017
Security	Unsecured
Interest	PIK for life; cash pay at Issuer's option
Margin	EUROBOR + 700bps
Call Protection	NC 18 months, 102 for 6 months, 101 for 12 months, 100 thereafter

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