

CHAIRMAN'S ADDRESS
Babcock & Brown Capital
2007 Annual General Meeting
11.00am, 29 October 2007
Museum of Sydney - Auditorium, 37 Phillip Street

Welcome

Chairman's Address – Kerry Roxburgh

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The 2007 financial year saw Babcock & Brown Capital Limited complete the A\$8 billion acquisition of eircom, Ireland's largest provider of telecommunications services. Capitalising on its telecommunications, media and technology expertise, after year end BCM acquired Golden Pages, the leading directories and local search business in Israel for A\$248 million.

Turning first to eircom, we are very pleased with what has been achieved since BCM's acquisition in August 2006. The company's operations are performing ahead of our acquisition expectations and in line with our milestones for optimising its capital value.

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BCM is pleased to report it has accomplished a number of the stated initiatives it set out to achieve at the beginning of the year. In the ten months since BCM made its investment in eircom, a number of projects have been completed that have created significant value for BCM Shareholders as follows:

- The refinancing of BCM's initial equity investment in eircom in November 2006 through the issue of €425 million in PIK notes. This enabled the return of approximately 50% of BCM's initial equity investment in eircom after three months, resulting in a material uplift to the projected returns on the investment;

- In January 2007 eircom was selected as the preferred bidder as part of the Tetra Ireland consortium for the build and roll-out of the national emergency services network for the Republic of Ireland;
- eircom was awarded the last 3G licence in Ireland in March 2007 which presented an excellent opportunity for eircom to complement the expansion of the mobile business and allow the company to target higher value post-pay mobile subscribers and broaden its suite of available products;
- In May 2007, just ahead of the global liquidity crisis, BCM successfully completed a debt repricing on its senior secured debt facilities which represents an interest saving of approximately €16 million a year;
- eircom announced a 4.9% CPI increase on monthly access line rental charges in June 2007, effective 30 July 2007, further underpinning fixed-line EBITDA going forward;
- In June 2007 eircom announced a three-year voluntary redundancy program as part of a planned restructuring of the business and organisation. Whilst this program necessitated a one-off total €157m charge in June 2007, the planned expenditure will significantly enhance eircom's operating efficiency and performance in future years, thereby creating additional value for BCM Shareholders;
- Ongoing optimisation of real estate and other asset portfolios. This enables eircom to internally fund its capital investment program. eircom announced in September 2007 that it had sold its radio mast site business for a total cash consideration of €155 million representing 17.2x EBITDA multiple; and
- Capitalising on eircom's January 2007 emergency services network contract win, in September 2007 eircom was awarded a very important contract to design and build the Northern Ireland Civil Service's workplace infrastructure. The contract which is valued at €100 million runs for 6-10 years and will cover the voice, video and data applications for all 11 Northern Ireland Government Departments.

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Going forward eircom is pursuing a number of other value creating initiatives in 2008. These include the consideration of further restructuring of eircom's debt, the ongoing review of real estate, the optimisation of working capital, as well as cost savings through remuneration cost reductions, more efficient procurement programs, improving network performance and ongoing engagement with ComReg over network infrastructure access.

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Turning to Golden Pages. BCM acquired this investment in July 2007 for an enterprise value of A\$248 million. This represents 10.3x FY07 EBITDA which compares very favourably with recent acquisitions such as Yellow Pages in New Zealand at 14x EBITDA.

Golden Pages has an outstanding portfolio of complementary directory and search businesses, with almost 30% of revenues coming from the online market, a very impressive statistic when compared with other global Yellow Pages directory businesses. The portfolio offers the third largest advertising reach of any online group in Israel and that country's largest operation specifically on business information search. BCM will work very closely with Golden Pages' high calibre management team to capitalise on distinct and identified growth opportunities in the expansion of the online portfolio while maintaining stable print revenue earnings.

BCM is also investigating refinancing options for Golden Pages and an increase in gearing to a level more in line with comparable directories businesses worldwide. If this can be achieved it will enable a return of a portion of BCM's initial equity again offering a material uplift to the projected returns on the investment.

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Your Directors continuously review opportunities to optimise BCM's capital structure. After the July 2007 sub-prime crisis and its impact on equity markets, in August 2007 BCM announced a share buyback. For so long as we believe BCM's market price is at such a significant discount to its intrinsic value and growth prospects, BCM may use its liquid reserves to buy back some of its ordinary shares on market. Since this program commenced approximately 168,000 shares (approximately 0.01% of shares on issue) have been purchased and cancelled and BCM's share price has increased by 19% to \$4.91 since the buyback was announced on 28 August to Friday's close..

We express the Board's thanks and appreciation to Pierre Danon, Rex Comb and to all the people involved in successfully delivering and managing the eircom investment. We are confident that eircom will realise superior returns to BCM Shareholders over the medium term.

BCM's relationship with Babcock & Brown again proved fruitful with the proprietary originated acquisition of Golden Pages. We are now progressing with the task of implementing our business strategy for Golden Pages. This process will involve a number of people across the Babcock & Brown Group and I thank them for their significant contribution and ongoing support of BCM.

We look forward to your continuing support in the coming year and a solid performance in 2008.

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Executive Director Presentation – Rob

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I would like to spend a few minutes explaining to shareholders why IFRS accounting standards have somewhat obscured the true underlying performance of BCM's eircom investment and the strong operating result it achieved last year.

BCM's consolidated earnings before interest, tax, depreciation and amortisation and restructure costs for the year ended 30 June 2007 was A\$973.8 million, before minority interests.

Certain non-cash charges arising from the acquisition of eircom are required to be booked on a recurring basis. These include A\$66 million related to depreciation and amortisation expenses. Further, approximately A\$47 million in non-cash-pay interest costs related to the PIK refinancing completed in November 2006 also had to be booked.

As Kerry mentioned, in June 2007 eircom announced a three-year voluntary redundancy program. Our auditors required us to book the full cost of this program upfront as a one-off charge. BCM's proportionate share after tax of this cost is estimated at approximately €78 million (A\$125 million).

While these non-cash charges were the principal contributors to BCM reporting a net loss after tax they represent a significant investment in the increasing capital value of BCM's investment in eircom.

For example the voluntary leaving program is part of a planned restructuring of the business and organisation. The planned expenditure will significantly enhance eircom's operating efficiency and performance in future years, thereby creating additional value for BCM Shareholders. Based on the expected payout, the average payback period on these costs is ~2 ¾ years achieving a ~40% return on equity. 900 total staff reductions are planned over this period and the company has made good progress towards reaching the first year target of 400 voluntary reductions.

Looking at eircom in more detail. eircom's total revenues are up 12% yoy and EBITDA has grown at 7% yoy. eircom's prospects for growth in future years are strong.

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Fixed line has performed well since acquisition delivering solid results on the back of a 1% increase in revenue year-on-year, and a 2% increase in the number of fixed-lines year-on-year and higher broadband subscribers. Compared to its European peers who experience high levels of voice volume decline, eircom only experienced a very pleasing, 3% year on year voice volume decline. A slight decrease in EBITDA was experienced on prior year, for the 12 months to 30 June 2007, due in part to increased costs arising from winter storm damage. Broadband subscribers were up 75% on prior year for the 12 months to 30 June 2007.

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Meteor, eircom's mobile arm, continues to be the eircom growth engine. Mobile performed above expectations reaching 18.2% market share at 30 June 2007 up from 15.6% at 30 June 2006. EBITDA margins also improved to 22% during the June 2007 quarter due to an increase in subscribers and higher average revenues per user. Meteor is close to attaining the 5-year targets BCM set for it on acquisition within our first year of ownership, those being market share of 20% and EBITDA margins of 30%. Subscribers increased by 192,000 during the year.

BCM is very confident that the recent market liquidity issues will not affect our base case investment in eircom. eircom retains its high cash generating capacity with an annualised running cash yield in the region of 20%. The original eircom financing has an eight to ten year term. In addition, eircom's program of capital optimisation around property, masts and opportunistic refinancing places the company in a strong position in relation to its financial covenants.

Going forward eircom's management team continue to engage with the Irish Regulator ComReg over its push for open access to the network infrastructure and to date has committed to provide greater access to the network. This has occurred concurrently with strong investment commitments around broadband rollout and an initial move to next generation networks.

eircom continues to explore the option of structural separation which if achieved could deliver enhanced value to BCM Shareholders while accommodating the regulatory desires and outcomes. Structural separation has not been attempted anywhere in the world and while we believe there are significant potential benefits for everyone, it remains uncharted territory and still requires significant consultation with all relevant stakeholders.

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On Golden Pages, BCM completed this acquisition late July 2007 and so its results did not form part of the 2007 BCM consolidated financial result. Revenue and profit contribution is tracking to plan and we expect to earn good returns from this investment, albeit a small investment compared to eircom.

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Currently BCM has approximately A\$440 million in capital available to be invested. BCM continues to investigate opportunities around eircom, as well as new prospects in the telecoms, media and technology sectors. The Directors may also consider investment in other sectors where a compelling business case can be made.

I'll now hand back to Kerry for the formal part of the business.