

Half-Year Financial Report Appendix 4D

Babcock & Brown Capital Limited
ABN 31 112 119 203

For the half-year ended
31 December 2007



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

Investments in the Company are not investments in, deposits with or other liabilities of Babcock & Brown Limited, or any entity in the Babcock & Brown Group and are subject to investment risk, including loss of income and capital invested. Neither BBCM nor any member of the Babcock & Brown Group, guarantees the performance of the Company, the repayment of capital or the payment of a particular rate of return on the Company's shares.

This report is not an offer or invitation for subscription or purchase of or a recommendation of securities. It does not take into account the investment objectives, financial situation and particular needs of the investor. Before making an investment in the Company, the investor or prospective investor should consider whether such an investment is appropriate to their particular investment needs, objectives and financial circumstances and consult an investment adviser if necessary.

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

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

The Company's consolidated financial report has been prepared to enable the Company to comply with its obligations under the Corporations Act and to ensure compliance with the ASX Listing Rules and satisfy the requirements of the Australian accounting standards. The responsibility for preparation of the consolidated financial report and any financial information contained in this financial report rests solely with the Directors of the Company.

The financial report was authorised for issue by the directors on 28 February 2008. The Company has the power to amend and reissue the financial report.

Results for Announcement to the Market

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

	Half-year ended 31 December 2007 \$'000 ¹	Half-year ended 31 December 2006 \$'000 ²	Change from previous corresponding period
Revenue from ordinary activities	1,914,665	1,263,698	51.5%
Operating expenses (excluding depreciation and amortisation and finance costs)	(1,121,339)	(839,965)	
Earnings before interest, tax, depreciation and amortisation expense (“EBITDA”)	793,326	423,733	87.2%
Finance costs	(275,724)	(171,758)	
Depreciation and amortisation	(326,299)	(246,221)	
Earnings before tax	191,303	5,754	NM
Income tax	(27,745)	(6,986)	
Profit/(loss) for the half-year	163,558	(1,232)	NM
(Profit)/loss attributable to minority interest	(70,882)	1,026	
Profit/(loss) for the half-year attributable to Members	92,676	(206)	NM
Earnings/(losses) per share	46.4 cents	(0.1) cents	
Net asset value per security ³	\$5.19	\$5.26	

NM: Comparison to prior period is not meaningful.

¹ The current period half-year results consolidate Golden Pages Israel from 31 July 2007.

² The comparative half-year results consolidate eircom Group Limited's (formerly eircom Group plc “eircom”) results from 18 August 2006.

³ Net asset value includes intangibles such as goodwill, brand names and licences from the eircom and Golden Pages Israel acquisitions. Net tangible asset backing per security, excludes these intangibles and at 31 December 2007 is nil (2006: nil).

BCM's results for the half-year are discussed further in the Review of Operations section of the Management Discussion and Analysis.

Dividends

The Directors have not proposed a dividend for the half-year ended 31 December 2007 (31 December 2006: nil).

All amounts are in Australian dollars unless otherwise stated. The Company has a formally constituted Audit and Risk Management Committee of the Board of Directors. This report was approved by resolution of the Board of Directors on 28 February 2008.

Management Discussion & Analysis

RESULTS REVIEW

Revenue:

The Group generated revenue of \$1,914.7 million for the half-year. This included:

- eircom revenue from operations of \$1,721.7 million;
- profit on disposal of eircom masts of \$130.6 million;
- Golden Pages revenue from operations \$42.1million;
- corporate investment income of \$20.0 million; and
- equity accounted profits in eircom of \$0.3 million.

Operating Expenses:

The Group incurred total expenses of \$1,751.1 million. This included:

- eircom expenses of \$1,686.3 million. This consisted of \$1,393.5 million in operating expenses (including depreciation and amortisation), \$267.7 million of finance costs and a \$25.1 million tax expense;
- Golden Pages expenses of \$44.8 million. This consisted of \$36.5 million in operating expenses (including depreciation and amortisation), \$8.0 million of finance costs and a tax expense of \$0.3 million; and
- BCM operating costs of \$20.0 million, consisting of \$9.5 million in management fees paid to Babcock & Brown Capital Management Pty Limited, \$3.8 million in net losses from derivatives not qualifying as hedges, \$4.3 million of other operating expenses and a tax expense in BCM of \$2.4 million.

REVIEW OF OPERATIONS

eircom Group Limited

eircom was acquired by the Group on 18 August 2006. The investment has continued to perform well, exceeding expectations for the half-year by contributing \$1,852.6 million to Group revenue and \$166.4 million to net profit after tax. The Company's proportionate share (57.1%) of net profit after tax is \$94.8 million.

Fixed-Line

Fixed line has performed well for the half-year delivering solid EBITDA results for the period. For the 6 months ended 31 December 2007, fixed line produced an EBITDA before MAST sale, management fee and fair value adjustments of €299 million, which is consistent with the result for the 6 months to 31 December 2006 of €299 million. Fixed line gross margin has increased compared to the prior period with a substantial shift from traditional switched products to 'new wave' data and business development opportunities. Operating costs within fixed-line increased against prior year however a number of non-recurring items are included in this increase and recurring costs have generally been contained successfully for the 6 months.

Mobile

eircom operates in the Irish mobile market through its subsidiary, Meteor. For the 6 months ended 31 December 2007, Meteor produced an EBITDA of €55 million, which represents a 90% increase on the prior period's EBITDA of €29 million.

According to latest management estimates, Meteor has a subscriber market share of 18.9% representing a 1.8% increase from the same time last year. At 31 December 2007, Meteor had approximately 962,000 subscribers, a 20% increase on the 803,000 subscribers held at the same time last year.

Meteor's EBITDA margin for the 6 month period was 23% as compared to 13% for the same period last year.

Other

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

Golden Pages Israel

On 31 July 2007, the Group completed its second major investment, with the acquisition of the leading Israeli directories business, G.P.M. Classified Directories (Management & Marketing) Ltd ("GPM"), also referred to as Golden Pages Israel.

The Group acquired 100% of GPM from Markstone Capital Partners and other Israeli-based institutional investors. The acquisition enterprise value was \$248.1 million, requiring \$143.5 million of equity from BCM. Inclusive of transaction costs, the total acquisition price was \$149.9 million.

The GPM Group includes:

- **Golden Pages**, Israel's yellow pages business which is the largest directory franchise in the country. This business publishes approximately 77 directories annually (national, regional and specialist).
- **"D"**, an online directory business; and
- A suite of directory related print and online businesses including:
 - **ZAP**, Israel's # 1 comparative shopping website;
 - **REST**, Israel's # 1 online restaurant directory business;
 - **ProGroup**, Israel's premier student portal;
 - **55% of Dun & Bradstreet Israel**, a business directory and business information service;
 - **Michatnim**, Israel's # 1 wedding directory business;
 - **D-Media**, a business unit focused on marketing and advertising sales across the entire GPM portfolio.

Performance of the GPM Group has been in line with expectations. For the 12 months ended 31 December 2007, the GPM Group reported EBITDA of New Israeli Shekel (NIS) 89.9 million (A\$25.7 million, 31 December 2006: NIS72.8 million; \$20.8 million).

Corporate

On 28 August 2007, BCM announced an on-market share buy-back of up to 5% of its issued capital. On 25 January 2008 this was extended to 9.99%. As at 27 February 2008, a total of 7,564,052 (3.8%) shares have been bought back at a total cost of approximately \$29 million and an average price of \$3.90.

Directors' Report

The Directors of Babcock & Brown Capital Limited ("the Company" or "BCM") submit their report on the Babcock & Brown Capital Group ("the Group") consisting of the Company, and its controlled entities, for the half-year ended 31 December 2007.

Directors

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

Kerry Roxburgh	Non-Executive Chairman
William Wavish	Deputy Chairman, Non-Executive Director
Greg Clark	Non-Executive Director
Phillip Green	Non-Executive Director
Robert Topfer	Managing Director of the Management Company

Review and Results of Operations

A review of the Group's operations and the results of those operations are contained in both the attached Management Discussion and Analysis on page 2 and the Consolidated Financial Statements.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5 and forms part of this report for the half-year ended 31 December 2007.

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

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



Kerry Roxburgh
Director

Sydney, 28 February 2008

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Auditor's Independence Declaration

As lead auditor for the review of Babcock & Brown Capital Limited for the half-year ended 31 December 2007, I declare that to the best of my knowledge and belief, there have been:

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

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



Victor Clark
Partner
PricewaterhouseCoopers

Sydney
28 February 2008

Consolidated Income Statement

		Half-year ended 31 December 2007	Half-year ended 31 December 2006
	Note	\$'000	\$'000
Revenues from continuing operations	2	1,914,393	1,262,163
Expenses from continuing operations (excluding finance costs)		(1,121,339)	(821,550)
Share of net gains of associates accounted for using the equity method	2	272	1,535
Depreciation and amortisation expense	3	(326,299)	(246,221)
Finance costs	3	(275,724)	(171,758)
Restructuring programme expense	3	-	(18,415)
Profit before income tax		191,303	5,754
Income tax expense		(27,745)	(6,986)
Profit/(loss) for the half-year		163,558	(1,232)
(Profit)/loss attributable to minority interest		(70,882)	1,026
Profit/(loss) attributable to Members of Babcock & Brown Capital Limited		92,676	(206)
Earnings per share for profit/(loss) attributable to the Members of Babcock & Brown Capital Limited:			
Basic earnings/(losses) per share	4	46.4 cents	(0.1) cents
Diluted earnings/(losses) per share	4	46.4 cents	(0.1) cents

The accompanying notes form part of the financial report and should be read in conjunction with the above Consolidated Income Statement.

Consolidated Balance Sheet

	31 December 2007 \$'000	30 June 2007 \$'000
ASSETS		
Current Assets		
Cash and cash equivalents	1,018,480	843,636
Trade and other receivables	865,707	652,000
Inventories	28,607	23,913
Financial assets at fair value through profit or loss	74,684	95,849
Derivative financial instruments	5,632	7,839
Other assets	84,104	58,926
Total Current Assets	2,077,214	1,682,163
Non-Current Assets		
Investments accounted for using the equity method	423	134
Derivative financial instruments	57,650	87,185
Property, plant and equipment	3,615,434	3,471,964
Deferred tax assets	45,761	46,496
Intangible assets	5,494,050	5,045,399
Other assets	56,270	90,335
Total Non-Current Assets	9,269,588	8,741,513
Total Assets	11,346,802	10,423,676
LIABILITIES		
Current Liabilities		
Trade and other payables	1,283,021	1,204,098
Borrowings	221,763	144,003
Derivative financial instruments	2,351	8,748
Current tax liabilities	104,693	43,463
Provisions	216,894	230,640
Total Current Liabilities	1,828,722	1,630,952
Non-Current Liabilities		
Trade and other payables	80,955	-
Borrowings	7,116,336	6,658,748
Derivative financial instruments	4,142	-
Deferred tax liabilities	418,908	378,854
Provisions	332,208	341,997
Retirement benefit obligations	215,521	245,009
Total Non-Current Liabilities	8,168,070	7,624,608
Total Liabilities	9,996,792	9,255,560
Net Assets	1,350,010	1,168,116
Equity		
Contributed equity	956,331	957,026
Reserves	87,407	74,741
Retained losses	(6,800)	(99,476)
Parent entity interest	1,036,938	932,291
Minority Interest	313,072	235,825
Total Equity	1,350,010	1,168,116

The accompanying notes form part of the financial report and should be read in conjunction with the above Consolidated Balance Sheet.

Consolidated Statement of Changes in Equity

	Attributable to members of Babcock & Brown Capital Limited					
	Contributed Equity	Reserves	Retained Earnings/ (Losses)	Total	Minority Interest	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2006	957,026	100,445	(50,232)	1,007,239	-	1,007,239
Changes in the fair value of available-for-sale financial assets, net of tax	-	2,739	-	2,739	-	2,739
Changes in the fair value of cash flow hedges, net of tax	-	1,795	-	1,795	-	1,795
Adjustments resulting from step-up acquisition entries	-	-	79,774	79,774	-	79,774
Changes in the investment valuation reserve, net of tax	-	(17,722)	-	(17,722)	-	(17,722)
Exchange differences on translation of foreign operation	-	(22,772)	-	(22,772)	-	(22,772)
Net (expense)/income recognised directly in equity	-	(35,960)	79,774	43,814	-	43,814
(Loss) for half-year	-	-	(206)	(206)	(1,026)	(1,232)
Total recognised income and expense for the half-year	-	(35,960)	79,568	43,608	(1,026)	42,582
Minority interest on acquisition of subsidiary	-	-	-	-	348,753	348,753
Changes in share-based payments reserve	-	329	-	329	-	329
Balance at 31 December 2006	957,026	64,814	29,336	1,051,176	347,727	1,398,903
Balance at 1 July 2007	957,026	74,741	(99,476)	932,291	235,825	1,168,116
Changes in the fair value of cash flow hedges, net of tax	-	(10,475)	-	(10,475)	(7,873)	(18,348)
Changes in the fair value of net investment hedges, net of tax	-	(5,953)	-	(5,953)	-	(5,953)
Changes in the investment valuation reserve, net of tax	-	278	-	278	-	278
Exchange differences on translation of foreign operation	-	28,688	-	28,688	12,497	41,185
Net income recognised directly in equity	-	12,538	-	12,538	4,624	17,162
Profit for half-year	-	-	92,676	92,676	70,882	163,558
Total recognised income and expense for the half-year	-	12,538	92,676	105,214	75,506	180,720
Buy back of ordinary shares	(695)	-	-	(695)	-	(695)
Minority interest on acquisition of subsidiary	-	-	-	-	1,741	1,741
Changes in share-based payments reserve	-	128	-	128	-	128
Balance at 31 December 2007	956,331	87,407	(6,800)	1,036,938	313,072	1,350,010

The accompanying notes form part of the financial report and should be read in conjunction with the above Consolidated Statement of Changes in Equity.

Consolidated Cash Flow Statement

	Half-year ended 31 December 2007 \$'000	Half-year ended 31 December 2006 \$'000
Cash Flows from Operating Activities		
Cash flows from operations	508,302	494,340
Interest received	23,637	22,242
Restructuring cost payments	(42,267)	(19,818)
Income tax refund/(paid)	52,748	(1,583)
Net cash inflows from operating activities	542,420	495,181
Cash Flows from Investing Activities		
Payments for investment in subsidiaries, net of cash acquired	(157,712)	(2,509,664)
Purchase of property, plant and equipment	(223,459)	(198,621)
Proceeds from sale of property, plant and equipment	260,982	84,205
Payments for available-for-sale financial assets	(13,652)	(83,327)
Proceeds from sale of available-for-sale assets	13,079	9,690
Payments for investment in associates	-	(38,494)
Proceeds received for investment in associates	21	38,332
Proceeds from term deposits	-	59,267
Purchase of intangible assets	(32,923)	(25,045)
Payments for derivative financial instruments	(7,218)	-
Proceeds from derivative financial instruments	7,975	2,370
Dividends received	420	1,631
Net cash outflows from investing activities	(152,487)	(2,659,656)
Cash Flows from Financing Activities		
Proceeds from borrowings	49,542	6,853,482
Repayment of borrowings	(66,912)	(3,711,597)
Proceeds from investment refinancing	-	732,443
Payments made to investors from investment refinancing	-	(327,555)
Redemption of Preference Shares	-	(138,849)
Preference Share dividends paid	(5,304)	-
Payments of loan establishment and redemption fees	-	(171,032)
Payments for share buy-back	(695)	-
Debt issue costs paid	-	(171,582)
Interest paid	(205,011)	(159,664)
Lease payments	(4,417)	(3,433)
Net cash (outflows)/inflows from financing activities	(232,797)	2,902,213
Net increase in cash and cash equivalents	157,136	737,738
Cash and cash equivalents at the beginning of the financial half-year	843,534	188,114
Effects of exchange rate changes on cash and cash equivalents	17,810	(5,751)
Cash at the end of the half-year	1,018,480	920,101

The accompanying notes form part of the financial report and should be read in conjunction with the above Consolidated Cash Flow Statement.

Notes to the Consolidated Financial Statements

1. BASIS OF PREPARATION OF HALF-YEAR REPORT

This general purpose financial report for the interim half-year reporting period ended 31 December 2007 has been prepared in accordance with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2007 and any public announcements made by BCM during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and the corresponding interim reporting period with the exception of the following additional accounting policies from the acquisition of Golden Pages Israel.

a) Directories revenue

(i) Advertising revenue

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

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

(ii) Internet service revenue

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

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

b) Prepaid cost of publishing

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

c) Prepaid selling expenses

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

d) Prepaid website construction expenses

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

Notes to the Consolidated Financial Statements

2. SEGMENT INFORMATION

Primary reporting format – business segments								
	Telecommunications		Directories		Corporate		Consolidated	
Half-year ended 31 December	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Total segment income	1,852,278	1,256,268	42,051	-	20,064	5,895	1,914,393	1,262,163
Share of net gains from associates	272	1,535	-	-	-	-	272	1,535
Total segment revenue	1,852,550	1,257,803	42,051	-	20,064	5,895	1,914,665	1,263,698
Segment results from continuing operations	191,504	12,411	(2,563)	-	2,362	(6,657)	191,303	5,754
Unallocated expense							-	-
Income tax expense							(27,745)	(6,986)
Profit/(loss) after income tax							163,558	(1,232)

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 in the telecommunications sector.

Directories

Principal investments and investment management activities in the published and on-line directories sector.

Corporate

Includes management of the funds in the Group that remain uninvested in direct investments.

Notes to the Consolidated Financial Statements

3. PROFIT FOR THE HALF-YEAR

	Half-year ended 31 December 2007 \$'000	Half-year ended 31 December 2006 \$'000
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Profit for the half-year includes the following items:

Revenue

Fixed-line revenue	1,327,787	999,388
Mobile revenue	351,201	231,779
Net profit on disposal of the eircom masts business	130,581	-

Expenses

Management fee	(9,521)	(3,425)
Depreciation and amortisation	(326,299)	(246,221)
Finance costs	(275,724)	(171,758)
Restructuring program costs	-	(18,415)

4. EARNINGS PER SHARE

	Half-year ended 31 December 2007 \$'000	Half-year ended 31 December 2006 \$'000
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EARNINGS PER SHARE

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

Earnings/(losses) used in calculating basic and diluted earnings per share for members of Babcock & Brown Capital Limited	92,676	(206)
Weighted average number of ordinary shares issued	199,897,207	200,000,000
Basic earnings/(losses) per share	46.4 cents	(0.1) cents
Diluted earnings/(losses) per share	46.4 cents	(0.1) cents

Notes to the Consolidated Financial Statements

5. BUSINESS COMBINATIONS

(a) Summary of acquisition – Golden Pages Israel

On 31 July 2007 Babcock and Brown Capital Limited acquired 100% of the shares in Golden Pages Israel, a directories and internet search company located in Israel for a cash consideration of \$149.9 million.

The acquired business contributed revenues of \$42.1 million and a net loss of \$2.6 million to the Group for the period from 31 July 2007 to 31 December 2007.

If the acquisition had occurred on 1 July 2007, consolidated revenue and consolidated profit after tax for the half-year ended 31 December 2007 would have been \$1,922.8 million and \$92.7 million respectively.

Details of net assets acquired and goodwill are as follows:

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

The above figures are preliminary. The Group will be taking advantage of the provisional accounting concessions due to size and nature of the acquisition.

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

Assets and liabilities acquired – Golden Pages Israel:

	Carrying Amount \$'000	Fair value \$'000
Cash and cash equivalents	6,160	6,160
Property, plant and equipment	5,587	5,390
Receivables	28,638	28,638
Inventories	1,446	1,446
Brand names	564	33,242
Customer contracts	4,678	22,825
Databases and technology	6,536	2,148
Other non current assets	4,876	5,218
Total assets	58,485	105,067
Trade payables and accruals	(23,716)	(29,407)
Borrowings	(132,949)	(106,308)
Advances from customers & unearned income	(16,827)	(7,737)
Deferred tax liabilities	(2,066)	(9,543)
Employee entitlements	(209)	(925)
Total liabilities	(175,767)	(153,920)
Net liabilities	(117,282)	(48,853)

Notes to the Consolidated Financial Statements

5. BUSINESS COMBINATIONS (CONTINUED)

(b) Summary of acquisition - eircom

On 18 August 2006 Babcock and Brown Capital Limited acquired 57.1% of the shares in eircom, a telecommunications company located in Ireland for cash consideration of €2,429.1 million.

The acquired business contributed revenues of \$1,254.4 million and a net loss of \$2.4 million to the Group for the period from 18 August 2006 to 31 December 2006. Prior to 18 August 2006, the Group held a 27.1% interest in eircom and the Group accounted for the investment as an associate.

If the acquisition had occurred on 1 July 2006, consolidated revenue and consolidated profit after tax for the half-year ended 31 December 2006 would have been \$1,627.0 million and \$16.8 million respectively.

Details of net assets acquired and goodwill are as follows:

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

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

Assets and liabilities acquired – eircom:

	Carrying Amount \$'000	Fair value \$'000
Cash and cash equivalents	524,691	524,691
Tangible assets	3,231,792	3,551,604
eircom brand name	67,476	414,278
Customer contracts	3,374	488,732
Regulatory licence	84,345	113,074
Meteor trademark	33,738	66,299
Software	15,853	35,274
Other non current assets	455,220	238,751
Current assets (ex cash)	720,643	720,643
Total assets	5,137,132	6,153,346
Non current liabilities	(767,040)	(1,094,705)
Borrowings	(3,860,844)	(3,860,844)
Other non current liabilities	(1,226,413)	(1,197,785)
Total liabilities	(5,854,297)	(6,153,334)
Net (liabilities)/assets	(717,165)	12

Notes to the Consolidated Financial Statements

6. CONTINGENT ASSETS AND LIABILITIES

Since the last annual reporting date, there have been no significant changes in respect of contingent assets and liabilities.

7. SEASONALITY

Fixed line

eircom's interconnect traffic volumes tend to decline during March or April and December as a result of a decline in business traffic over the Easter and Christmas holiday periods. eircom also tend to experience relatively higher fixed line traffic volumes in the Spring and Winter months, other than December and April of each year.

Mobile

Meteor's business tends to experience an increase in sales volume during November and December due to the seasonal nature of its retail business. Also, Meteor's visiting roaming revenues are seasonally significant because Ireland is a popular tourist destination during the summer.

8. SUBSEQUENT EVENTS

On 25 January 2008, the Company announced an extension of its on-market share buy-back from 5% to a maximum of 9.99% of shares on issue. As at 27 February 2008, a total of 7,564,052 (3.8%) shares have been bought back for a total cost of approximately \$29 million and an average price of \$3.90.

On 22 February 2008, the Company announced that it had successfully completed a NIS400 million refinancing of its Golden Pages investment, with a weighted average cost of debt of approximately 5.80% and average term of 7 years. The refinancing includes a NIS150 million (approximately A\$43 million) return of capital to BCM.

On 28 February 2008, the Company announced its intention to convene an extraordinary general meeting to seek shareholder approval to acquire up to 50% of the shares on issue.

Directors' Declaration

In the Directors' opinion:

- a) the Financial Statements and notes set out on pages 6 to 15 are in accordance with the *Corporations Act 2001*, including:
 - i. complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - ii. giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance, as represented by the results of its operations, changes in equity and its cash flows for the half-year ended on that date; and
- b) there are reasonable grounds to believe that Babcock & Brown Capital Limited will be able to pay its debts as and when they become due and payable.

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



Kerry Roxburgh
Director

Sydney, 28 February 2008

INDEPENDENT AUDITOR'S REVIEW REPORT

to the members of Babcock & Brown Capital Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Babcock & Brown Capital Limited, which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the Babcock & Brown Capital Limited Group (the consolidated entity). The consolidated entity comprises both Babcock & Brown Capital Limited (the company) and the entities it controlled during that half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Babcock & Brown Capital Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

For further explanation of a review, visit our website <http://www.pwc.com/au/financialstatementaudit>.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of Babcock & Brown Capital Limited (the company) for the half-year ended 31 December 2007 included on Babcock & Brown Capital Limited's web site. The company's directors are responsible for the integrity of the Babcock & Brown Capital Limited's web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the financial report identified above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Babcock & Brown Capital Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Price Waterhouse Coopers

PricewaterhouseCoopers



VJ Clarke
Partner

Sydney
28 February 2008