

## CHAIRMAN'S ADDRESS

Babcock & Brown Capital

2009 General Meeting

11am, 27 April 2009

Museum of Sydney - Auditorium, 37 Phillip Street

### WELCOME

Good morning ladies and gentlemen. My name is Kerry Roxburgh and, as your Chairman, I would like to welcome you to this general meeting of BCM Shareholders.

Before I go any further, I would be grateful if you could all please check to see that your mobile phones have been switched off.

I have been informed that a quorum is present and accordingly, as Chairman of the Meeting, I declare the meeting open and on behalf of the Board I welcome you and thank you for making time available to be here today.

The Notice of Meeting has been distributed and, I propose that the Notice of Meeting be taken as read.

A broad outline of today's meeting is as follows:

- I will introduce my fellow Directors, our Chief Executive Officer, the Chief Financial Officer and the Company Secretary to the meeting.
- As Chairman I will make some opening remarks and provide a brief strategic update following my letter to Shareholders last week.
- We will then move to consider the formal items as outlined in the Notice of Meeting. Shareholders will be given the opportunity to ask questions after each resolution has been proposed and seconded and again we will allow time for more general questions after the formal business has concluded.

## **INTRODUCTION**

I'd like to introduce my fellow Directors who are seated at the top table.

- Mr Andrew Day, our CEO and Executive Director based in London;
- Dr Gregory Clark who is an Independent Director and is also a member of the Nomination, Governance & Remuneration Committee; and
- Andrew Love who is an Independent Director and also Chairman of the Audit, Risk & Compliance Committee.

I might add that I am also an Independent Director, a member of the Audit, Risk & Compliance Committee, and Chairman of the Nomination, Governance & Remuneration Committee.

Also seated at the top table is Frank Giordano our Company Secretary and seated in the front row is Haydn Vella, our CFO.

Today's meeting will bring some certainty with regard to BCM either becoming a stand-alone entity, separate from Babcock & Brown or one that continues to outsource its management to Babcock & Brown.

## **MANAGEMENT INTERNALISATION PROPOSAL**

I'd like to spend a little time providing some background and comments on the management internalisation proposal as this is after all the main reason we are here today.

On 28 August 2008, BCM announced that it had commenced discussions with Babcock & Brown Group about internalisation of its management which would see BCM become a stand-alone investment company with its own management structure and it would no longer outsource its management to Babcock & Brown.

Following these discussions, on 10 November 2008, the Company announced that it had entered into an agreement that, subject to Shareholder approval, would result in termination of the Management Agreement and the associated Advisory Agreement. Under this agreement, a total of \$50 million could become payable to Babcock & Brown. On termination of the Management Agreement \$32.5 million would have been

payable followed by a \$12.5 million payment contingent on there being a change in control of the Company or eircom before 30 April 2010. \$5 million was also payable for advisory services in relation to BCM's review process, also contingent on there being a change in control of the Company or eircom before 30 April 2010.

Since that time, primarily driven by a material reduction in BCM's consolidated net assets as at 31 December 2008, the Board concluded that it would not be recommending the Management Internalisation Proposal agreed in November 2008 to Shareholders, because, after completion of BCM's half year accounts to 31 December 2008 the amount payable to the Manager under the Management Agreement is now limited to reimbursement of the Manager's costs of performing the services under the Management Agreement.

As a result, a revised internalisation proposal was negotiated.

In summary, the consideration now payable by BCM for termination of the Management Agreement and the associated Advisory Agreement is a one off payment of \$5 million. Also, and in recognition that its resources are becoming more constrained, BCM will no longer continue with the appointment of BBA as financial adviser in relation to the Company's review process that may lead to a change in control of BCM.

Shareholders are being asked today to consider and, if thought fit, approve the revised terms of the Management Internalisation Proposal. The BCM Directors commissioned an independent expert, KPMG Corporate Finance, to provide an opinion as to whether the revised terms of the Management Internalisation Proposal were in the best interests of BCM Shareholders. KPMG concluded that the revised proposal is in the best interests of BCM Shareholders. A copy of KPMG's report was enclosed with the Notice of Meeting that all Shareholders will have seen.

The BCM Board agree with the opinion of the Independent Expert, and in order to bring to an end the current outsourced management model which has performed poorly, the BCM Directors unanimously recommend that Shareholders vote in favour of the Management Internalisation Proposal.

We see the key advantages for Shareholders if the Management Internalisation Proposal is approved include:

- the Company will become a standalone entity, separate from Babcock & Brown, with no links ongoing to Babcock & Brown apart from those services provided under the Transitional Services Agreement for the period that agreement remains in place. This agreement can be terminated by either party on one months notice;
- the Company will no longer be liable to pay management fees or performance fees to the Manager;
- the Company will no longer be subject to the Advisory Agreement with BBA;
- the Board will be able to hold management accountable for its actions;
- the Board will be better positioned to develop and review proposals that may lead to a change in control of BCM; and
- the Board will be able to determine the future direction and strategy of the Company, without the need to first receive a recommendation from the Manager.

If Resolution 2 being voted on today is passed, the name of the Company will change to eircom Holdings Limited with the ASX ticker code ERC.

As I said in my most recent letter to Shareholders, we have received a number of proposals from third parties who have expressed interest in the potential acquisition of BCM. I note that none of these proposals envisages that Babcock & Brown should remain as the Manager of BCM.

In the event that BCM Shareholders approve the Management Internalisation Proposal, BCM will be managed by a small, disciplined executive team employed directly by the Company, under the direction of BCM CEO, Andrew Day and fully accountable to the BCM Board.

If BCM Shareholders do not approve the Management Internalisation Proposal, Babcock & Brown Capital Management Pty Limited will continue to manage the Company in accordance with the existing Management Agreement and, in those circumstances, there can be no guarantee that BCM will have another opportunity to terminate the Management Agreement, and separate from Babcock & Brown, in the near future. The BCM Board does not consider this outcome to be in BCM Shareholders' best interests.

I would also note that termination of the Management Agreement does not trigger any default or change of control provisions in the eircom debt facilities.

## STRATEGIC UPDATE: OBJECTIVES

I will now briefly update you on the matters covered in last week's letter to Shareholders.

The Board's overriding objective has always been, and will continue to be, to maximise value for BCM Shareholders.

Recognising the substantial impact of the Global Financial Crisis, BCM's key priorities have been and remain:

- to bring to an end the current outsourced management arrangements that have failed so far to deliver value to Shareholders;
- at eircom, to restore the Company's tarnished reputation and its relationship with eircom stakeholders (including the eircom Board, its employee share ownership trust known as the ESOT, employee unions, the regulator and the Irish Government) and to finalise its search for a new CEO and to constructively address its operational performance issues;
- to realise the Golden Pages investment;
- to return surplus capital to Shareholders; and
- to develop a proposal for Shareholder consideration involving a change of control of BCM that reflects appropriate value for BCM's controlling stake in eircom, in excess of BCM's cash backing of approximately \$1.05 per share

Each of these priorities is well advanced, and if Shareholders vote to internalise management, this will greatly assist the Board to deliver value to BCM Shareholders.

## STRATEGIC UPDATE: REVIEW PROCESS

This Review Process has been ongoing for several months. As part of this process the BCM Board has:

- initiated a process for the sale of Golden Pages and discussions are ongoing with bondholders and potential acquirors; and
- received a number of proposals from third parties who have expressed interest in the potential acquisition of BCM (**Proposals**). The TaemasBridge proposal, disclosed to ASX on 16 April 2009, is one such proposal recently received by the Company.

Several Proposals are being considered by the BCM Board with the assistance of its advisors, UBS Investment Bank. These Proposals are from international financial and strategic groups and, on the basis of their Proposals, a number of these groups have been invited to conduct further due diligence on eircom and BCM, and have been provided with access to a virtual dataroom for this purpose.

As I have said before, the Board requires that any proposal involving a change of control of BCM needs to reflect an appropriate value for BCM's controlling stake in eircom that is in excess of BCM's cash backing of approximately \$1.05 per share (unaudited).

As I said earlier, each of the Proposals we are considering is non-binding, incomplete and, with the exception of the TaemasBridge Proposal, they are confidential. BCM can give no assurance that a change of control transaction will eventuate from this Review Process or from any Proposal, but it remains committed to exploring these Proposals in the best interests of all Shareholders.

If by 30 June 2009 a change of control proposal that has received a Board recommendation has not been announced by BCM then, subject to capital markets conditions, the Board's current objective is to pursue a restructure of BCM's interest in eircom to establish a more sustainable capital structure for eircom, to simplify its ownership structure and to negotiate with the ESOT to replace the current constraints contained in the eircom shareholder agreement with improved governance and performance accountability arrangements.

Working with the eircom Board and management, with the benefit of his extensive telco experience, BCM's CEO Andrew Day is now actively engaged with eircom.

I am pleased to say the revisions to eircom's operational plan is well developed, involving:

1. A substantial cost reduction plan to better position eircom's competitive position in Ireland and to balance possible revenue weakness during the current economic environment. Cost reduction initiatives have been fully analysed with a view to continued implementation over the coming quarters;

2. A strengthening of the advanced technology position of eircom building off the recent and successful wireless broadband launch and increased speeds for fixed broadband access, potentially involving fibre access closer to the customer; and
3. A substantial improvement in eircom's wireless competitive positioning especially in the premium consumer and business sectors. eircom currently has minimal market share of these sectors but is well positioned to take market share.

Over the next two months these broad strategic directions for eircom will be further developed and added to by the eircom Board and management deliberations in which BCM's CEO, Andrew Day will be actively involved. These developments are expected to substantially increase eircom's competitiveness in Ireland leading to further Shareholder value creation as the economic position of Ireland corrects itself.

### **STRATEGIC UPDATE - CAPITAL MANAGEMENT INITIATIVES**

In the event that a sufficiently attractive change of control proposal is not announced before 30 June 2009 and the Management Internalisation Proposal is approved, the BCM Board intends to return to Shareholders BCM's surplus capital after retaining a prudent capital reserve in the region of \$40 million. The Board intends to convene a meeting of Shareholders in July 2009 to consider a second return of capital this year, which is expected to be made at around the time BCM releases its 30 June 2009 results.

Before calling this meeting, BCM's surplus capital will be determined after taking into consideration BCM's liabilities. Based on available cash, receivables and known liabilities as at 31 March 2009, approximately \$135 million or \$0.80 per BCM Share should be available to return BCM Shareholders.

If at any time before 30 June 2009, the BCM Board considers that the Review Process is not likely to lead to a change of control proposal for BCM that the BCM Board would be prepared to recommend, then this return of capital proposal will be brought forward in time.

## **STRATEGIC UPDATE - SALE OF GOLDEN PAGES**

As previously announced, the Board is seeking to dispose of BCM's investment in Golden Pages. Discussions with the bondholders and various parties in relation to the sale of Golden Pages continue. The sale of Golden Pages is unlikely to impact the strategies referred to earlier.

The Golden Pages bondholders have agreed to waive any debt covenant breach for three months while a restructuring with potential buyers is negotiated. The non-cash loss recorded at 31 December 2009 resulted in the equity value falling below the threshold required under the bond covenants.

## **TAEMASBRIDGE PROPOSAL**

The BCM Board has requested from Mr Robert Topfer clarifications of the TaemasBridge proposal that was released to ASX on 16 April 2009.

Whilst the BCM Board is prepared to continue to consider that proposal, the Board notes that there are a number of elements, including the requirement that BCM lends to Liffey Bridge most of the cash consideration that is to be provided under the proposal, that make it unacceptable in its current form.

Importantly, the BCM Board considers that the TaemasBridge proposal does not change its recommendation that Shareholders vote in favour of the Management Internalisation Proposal, and that the TaemasBridge proposal is itself independent of this outcome.

## **FORMAL BUSINESS**

It is now time to proceed with the formal business of the meeting. As stated in the Notice of Meeting, the business of today's meeting is to consider and if thought fit to:

1. pass the resolution to authorise the Company to terminate the Management Agreement and the Advisory Agreement and to make a payment of \$5 million to the Manager;
2. pass the resolution to change the Company name;

3. pass the resolution to approve the issue of share performance rights to Mr Andrew Day, Executive Director and CEO; and
4. pass the resolution to approve termination benefits being paid to Mr Andrew Day, Executive Director and CEO.