BABCOCK & BROWN
CAPITAL LIMITED

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ASX Release

24 March 2009

INDEPENDENT EXPERT REPORT CONCLUDES MANAGEMENT INTERNALISATION IS IN BEST INTERESTS OF BCM SHAREHOLDERS

Babcock & Brown Capital Limited (ASX: BCM) today announces that the Independent Expert, KPMG Corporate Finance (Aust) Pty Ltd, has considered the revised terms of the Management Internalisation Proposal and has concluded that it is in the best interests of BCM shareholders.

A full copy of the Independent Expert's Report is attached and will also be included in the Notice of Meeting and Explanatory Statement that will be dispatched to BCM shareholders by 26 March 2009, in connection with the General Meeting to be held on 27 April 2009.

Based upon the opinion of the Independent Expert, the BCM Directors unanimously recommend that shareholders vote in favour of the Management Internalisation Proposal.

ENDS

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The Directors
Babcock & Brown Capital Limited
Level 23, Chifley Tower
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Sydney NSW 2000

23 March 2009

Dear Sirs

Independent expert report and Financial services guide

1 Introduction

On 20 December 2004, Babcock & Brown Capital Limited (BCM) entered into an exclusive 25-year fixed term management agreement with Babcock & Brown Capital Management Pty Ltd (BBCM) and Babcock & Brown Securities Pty Ltd (BBS) (Management Agreement) and a preferred financial advisory agreement with Babcock & Brown Australia Pty Limited (BBA) (Advisory Agreement).

BBCM was established by Babcock & Brown Limited (B&B) to perform the role of Manager which involves providing corporate advisory and investment management services to BCM under the Management Agreement. BBS was initially appointed as the Manager under the agreement, but was later replaced by BBCM once BBCM received an appropriate Australian Financial Services Licence. BBA was appointed by B&B to act as BCM's preferred advisor under the Advisory Agreement. For the purposes of our report, unless stated specifically, we have referred to BBCM, BBS and BBA collectively as B&B, except where distinctions are required to be made between the parties.

On 28 August 2008, BCM announced that it was in discussions with B&B regarding the potential internalisation of management of BCM (Management Internalisation). As part of its Management Internalisation strategy, BCM announced on 10 November 2008 that it had entered into an agreement with B&B to terminate the Management Agreement and Advisory Agreement between BCM and B&B (Termination Agreement). In March 2009, BCM renegotiated the terms of the Termination Agreement. The Termination Agreement is subject to the approval of BCM shareholders at a General Meeting to be held in April 2009.

The Directors of BCM have requested KPMG Corporate Finance (Aust) Pty Ltd (KPMG) to provide an Independent Expert Report (IER) to assess whether the Termination Agreement is in the best interests of shareholders. This report has been prepared for this purpose and our assessment and opinion is contained therein.

Concurrent to the initial announcement of the Termination Agreement on 10 November 2008, BCM also proposed a capital return of $100.7 million to shareholders which was subsequently approved by shareholders at a meeting held on 27 February 2009. Furthermore, BCM announced the commencement of a formal process to more fully consider any proposals for the acquisition of BCM (Review Process).

2 Summary of opinion

We are of the opinion that the Termination Agreement is in the best interests of BCM shareholders as the benefits of Management Internalisation via the Termination Agreement in our opinion outweigh any excess costs which may be associated with the Internal Management Option relative to the Existing Management Option.

We note that the assessment of reasonableness of the Termination Agreement and whether this might outweigh any excess costs which may be associated with the Internal Management Option is particularly difficult under the current circumstances, especially given the uncertainty regarding the future life of B&B and BCM. Any assessment as to the reasonableness of the Termination Agreement involves an element of subjectivity and we encourage each shareholder to consider our opinion in light of their own personal circumstances.

In forming our opinion, we assessed the Termination Agreement on the basis of fairness and reasonableness as defined under RG 111 and in section 5.2. Our opinion is summarised below and detailed in section 10.

The Termination Agreement is not fair

Based on our views as to the expected life and Net Assets of BCM in the context of the current strategy of BCM, we are of the opinion that on the balance of probabilities, the Termination Agreement is not fair. Our not fair opinion is further supported by our sensitivity analysis which implies that possible changes in expected life and Net Assets are unlikely to be sufficiently material to alter our conclusion.

In determining an opinion on fairness, we have considered the cumulative NPV cost of both management options as a function of the life of BCM, as outlined in section 9. Our assessment of fairness is based on the notion that the cost of the Internal Management Option is equal to or lower than the cost of the Existing Management Option.

Based on the current level of Net Assets which is a deficit of $(642) million (post capital return of $100.7 million) and the expectation that Net Assets may not recover materially, the cumulative NPV cost of the Internal Management Option would be always higher than under the Existing Management Option irrespective of the assumed life of BCM. Therefore, the Termination Agreement is not considered to be fair from a quantitative perspective given the current level of Net Assets.

The Termination Agreement is reasonable

We have formed the opinion that **the Termination Agreement is reasonable** based on the following considerations outlined below and in detail in section 10.2**:**

- the excess cost of the Internal Management Option over the Existing Management Option may be deemed immaterial when considering the benefits gained by internalising management, including independence and control over decision making

- the termination payment of $5 million equates to 5 percent of the market capitalisation of BCM as at 18 March 2009, and 2 percent of BCM's available cash resources of $201 million as at 31 December 2008 (post capital return of $100.7 million), and therefore can be considered affordable in the current situation

- in our opinion, it is more likely that the Internal Management Option would better enable BCM to realise maximum value for shareholders rather than the Existing Management Option which may not provide sufficient incentives to BBCM given the current level of Net Assets

- whilst shareholders might prefer taking the risk to wait for an opportunity that may enable BCM to exercise its right to terminate the agreements at a lower cost than proposed under the Termination Agreement, certain events (e.g. B&B failing to perform its obligations under the agreements via BBCM and BBA) would need to occur to enable BCM to do this which, at the time of compiling this report, is uncertain and is outside the control of BCM

- when considering the current market environment and circumstances surrounding B&B, we consider it beneficial to implement Management Internalisation sooner rather than later. The Termination Agreement provides the most certain option for BCM to internalise management at this time.

3 Other matters

In forming our opinion, we have considered the interests of BCM shareholders as a whole. This advice therefore does not consider the financial situation, objectives or needs of individual shareholders. It is not practical or possible for us to assess the implications on individual shareholders as their financial circumstances are not known to us. The decision of shareholders is a matter for individuals based on, amongst other things, their risk profile, liquidity preference, investment strategy and tax position. Individual shareholders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it. As an individual's decision to participate may be influenced by his or her particular circumstances, we recommend that individual shareholders, including residents of foreign jurisdictions, seek their own separate independent professional advice.

Our report has been prepared with regard to the guidance provided by the Australian Securities and Investments Commission (ASIC) Regulatory Guides.

Our opinion is based solely on information available as at the date of this report as set out in Appendix 2 and should be considered in conjunction with and not independently of the information set out in the remainder of this report, including the appendices.

All currency amounts in this report are denominated in Australian dollars unless otherwise stated.

Neither the whole nor any part of this report or its attachments or any reference thereto may be included in or attached to any document, other than the Notice of Meeting and Explanatory Statement and any related announcement to the Australian Stock Exchange (ASX). KPMG consents to the inclusion of this report in the form and context in which it appears in the Notice of Meeting and Explanatory Statement and any related announcement to the ASX.

In the event BCM wishes to refer to the whole or any part of this report, BCM must obtain the prior written consent of KPMG.

Yours faithfully

Diana D'Ambra	Ian Jedlin
Executive Director	Executive Director

Contents

Financial services guide

Dated 23 March 2009

KPMG Corporate Finance (Aust) Pty Ltd ABN 43 007 363 215 (**KPMG** or **we** or **us** or **our** as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

Financial Services Guide

In the above circumstances we are required to issue to you, as a retail client, a Financial services guide (FSG). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- Who we are and how we can be contacted
- The services we are authorised to provide under our **Australian Financial Services Licence, Licence No: 246901**
- Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice
- Any relevant associations or relationships we have
- Our complaints handling procedures and how you may access them.

Financial services we are licensed to provide

We hold an Australian Financial Services Licence, which authorises us to provide financial product advice in relation to:

- Interests in managed investments schemes (excluding investor directed portfolio services)
- Securities (such as shares and debentures).

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

General Financial Product Advice

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

Benefits that we may receive

We charge fees for providing reports. These fees will be agreed with, and paid by, the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis.

Except for the fees referred to above, neither KPMG, nor any of its executive directors, directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Remuneration or other benefits received by our employees

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Associations and relationships

Through a variety of corporate and trust structures KPMG is controlled by and operates as part of KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). Our executive directors may be partners in the KPMG Partnership.

From time to time KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

Complaints resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Proposal

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at: Financial Ombudsman Service Limited, GPO Box 3, Melbourne Victoria 3001 or Toll free: 1300 78 08 08 or by Facsimile: (03) 9613 6399

Contact Details

You may contact us using the contact details set out at the top of the letterhead on page 1 of this report.

4 Management Internalisation

The onset of the global credit crisis in August 2007 and subsequent fall in asset and share prices created an environment of increased scrutiny of the corporate governance responsibilities of the boards and management of listed entities. A consequence of this was the decline in sentiment towards listed investment funds (including BCM) which operated under structures and arrangements which were widely perceived to be complex and to the detriment of the funds and its investors.

In an attempt to improve investor confidence in BCM, the Directors announced on 28 August 2008 that they were in discussions with B&B regarding the potential internalisation of management of BCM.

Following a period of negotiations with B&B, BCM announced on 10 November 2008 that it had entered into an agreement with B&B to terminate the Management Agreement and Advisory Agreement with BCM, subject to BCM shareholder approval. In March 2009, BCM renegotiated the terms of the Termination Agreement. Under the terms of the Termination Agreement, BCM is required to pay $5 million to B&B as compensation for terminating the Management Agreement and Advisory Agreement, payable on the business day after shareholder approval is obtained.

The approval of the Termination Agreement would result in the implementation of the Transitional Services Agreement which is discussed in more detail in section 8.

We have been requested by BCM to provide an opinion as to whether the Termination Agreement is in the best interests of shareholders.

Concurrent to the announcement of the Termination Agreement, BCM also proposed a capital return of $100.7 million to shareholders which was subsequently approved by shareholders at a meeting held on 27 February 2009. Furthermore, BCM announced it commenced a formal process to more fully consider any proposals for the acquisition of BCM.

5 Scope of the report

5.1 Purpose

Whilst the directors do not have a statutory obligation to commission an IER, to assist the shareholders of BCM whether or not to approve the Termination Agreement, the directors of BCM have requested KPMG to provide an IER to opine on whether the Termination Agreement is in the best interests of BCM shareholders, excluding shareholders associated with B&B. Our opinion will be determined on the basis as outlined in section 5.2.

5.2 Basis of assessment

Our IER will have regard to the requirements of Regulatory Guide 111 "Content of expert reports" (RG 111) and Regulatory Guide 112 "Independence of experts" (RG 112).

There is no legal definition of the expression "in the best interests". ASIC issued RG 111 in October 2007 which establishes certain guidelines in respect of independent expert reports prepared for the purposes of the requirements of the Act. The Regulatory Guide is primarily directed towards reports prepared for the purpose of Section 640 and comments on the meaning of "fair and reasonable" in the context of a takeover offer. The Regulatory Guide gives limited guidance as to the regulatory interpretation or meaning of "in the best interests" other than to imply that it is similar to "fair and reasonable".

RG 111 outlines the following definitions of "fair" and "reasonable":

- An offer is "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer (this comparison is required to be undertaken assuming 100 percent ownership of the target and irrespective of whether the consideration is scrip or cash). The expert should not consider the percentage holding of the bidder or its associates in the target when making this comparison

- An offer is "reasonable" if it is fair. An offer may also be reasonable if, despite not being fair, the expert believes that there are sufficient reasons for the security holders to accept the offer in the absence of any higher bid before the close of the offer.

Whilst these definitions apply largely to takeover situations, in considering whether the Termination Agreement is in the best interests of shareholders, we have adopted these terms as appropriate to our assessment and have considered the fairness and reasonableness of the Termination Agreement by assessing the advantages and disadvantages that will emerge for BCM shareholders as a result of the Termination Agreement.

In forming our opinion as to whether the Termination Agreement is in the best interests of BCM shareholders, KPMG has considered the following:

- The terms of the Termination Agreement

- The implications if the Termination Agreement is approved, including the on-going cost of the Management Internalisation

- The implications if the Termination Agreement is not approved

- The advantages and disadvantages of the Management Internalisation.

In preparing our report, it should be noted that:

- we did not undertake an independent valuation of BCM's investments for the purposes of this report
- the role of an independent expert is not to assess all alternative strategic options available to shareholders but only the proposed Termination Agreement
- we have not considered potential taxation consequences for BCM shareholders as a result of the Termination Agreement.

5.3 Valuation approach

RG 111 indicates that it is appropriate for an independent expert to consider the following valuation methods:

- The discounted cash flow method (DCF)
- The capitalisation of future maintainable earnings or cash flows (Capitalisation of earnings)
- The amount that would be distributed to shareholders in an orderly realisation of assets
- The amount which an alternative acquirer might be prepared to pay
- The most recent quoted price of listed securities.

Each of the above methodologies may be applicable in different circumstances. In selecting the appropriate methodology in which to assess the "fairness" of the Termination Agreement, we have considered which of these methodologies a potential purchaser would most likely adopt. A summary of each of the approaches considered in preparing this report is set out in Appendix 3.

Having regard to our statements above, we consider it is appropriate to apply the DCF approach.

5.4 Limitations and reliance on information

In preparing this report and arriving at our opinion, we have considered the information detailed in Appendix 2 of this report. Nothing in this report should be taken to imply that KPMG has in any way carried out an audit of the books of account or other records of BCM for the purposes of this report.

Further, we note that an important part of the information base used in forming our opinion is comprised of the opinions and judgements of management. In addition, we have also had discussions with the directors of BCM in relation to the nature of BCM's business operations, its specific risks and opportunities, its historical results and its prospects for the foreseeable future. This type of information has been evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or validation. It is our view that all material information that we have relied on in forming our opinion is reasonable.

We have no reason to believe that any material facts have been withheld from us but do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this report are given in good faith, and in the belief that such statements and opinions are not false or misleading.

The opinion of KPMG is based on prevailing market, economic and other conditions at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our opinion. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion.

6 Profile of BCM

6.1 Overview

BCM is an Australian-based listed investment company, with a mandate to invest in both listed and private entities across the globe. BCM listed on the ASX in February 2005 with 200 million shares on issue, raising $1 billion. Shares were partly paid with the offer price of $5 payable in two equal instalments. BCM was established on the basis of the external manager-specialist fund model which was commonly implemented by various fund and asset managers. B&B established BCM as a specialist principal investment fund and holds the right to provide corporate advisory and other related services as per the Management Agreement and Advisory Agreement as outlined in section 7.

Since listing in 2005, the BCM share price has consistently traded below the net asset value per share of BCM. In December 2007, BCM commenced a comprehensive review of its investments and strategy with the objective of identifying shareholder value enhancement strategies. On 28 February 2008, BCM announced its intention to distribute a significant portion of its surplus cash back to shareholders via a series of off-market and on-market share buy-backs. This plan had the designed purpose of reducing the discount at which BCM shares had been trading relative to the intrinsic value of BCM.

During 2008, increasing investor concerns regarding the external manager-specialist fund model prompted discussions between BCM and B&B to reassess the nature of their relationship, in particular with reference to its obligations under the Management Agreement and Advisory Agreement between BCM and B&B. On 28 August 2008, BCM announced that it had entered into discussions with B&B concerning the future management and potential internalisation of BCM, causing the off-market buy-back program to be deferred. The decision followed BCM's disclosure of management fees paid to B&B and the announcement that whilst B&B would continue to provide the necessary support and management of BCM, the Corporate and Structured Finance division of B&B which was primarily responsible for the management of BCM, would be wound down. This announcement was followed by the resignation of B&B's nominated directors, Phillip Green and Robert Topfer, in mid-September 2008 who were also executives of B&B. As a result, BCM's current board composition does not consist of any nominee of B&B.

It should be noted that Babcock & Brown Limited was placed into voluntary administration on 13 March 2009. BCM have announced on 13 March 2009 that this event will have no impact on the Management Agreement.

On 10 November 2008, BCM announced that it had entered into the Termination Agreement with B&B, as part of its Management Internalisation strategy, subject to the approval of shareholders. In March 2009, BCM renegotiated the terms of the Termination Agreement. Further details of the Termination Agreement are contained in section 8.

BCM's Board has also commenced a formal process to review a number of approaches received that could potentially result in a change of control for BCM. To date, the BCM Board has not considered any proposal to be in the best interests of BCM shareholders.

In conjunction with BCM's goal to maximise shareholder value, BCM announced on 27 February 2009 the appointment of Andrew Day as Chief Executive Officer (CEO) and Executive Director of BCM for the primary purpose of maximising the value of BCM's existing investments, and that it would seek to return available cash to shareholders subject to retaining sufficient cash reserves to enable it to maximise the value of its existing investments and account for the realisation of accounts receivable and currency hedge liabilities. A capital return of $100.7 million was initially proposed on 10 November 2008 and later approved by BCM shareholders on 27 February 2009.

As at 3 March 2009, BCM had approximately 167.9 million shares on issue and a market capitalisation of approximately $115 million.

Investments

Since listing in 2005, BCM has made two major investments:

- On 18 August 2006, BCM, through its controlled subsidiary BCM Ireland Holdings Ltd (BCMIH) completed its $8 billion (€4.8 billion) acquisition of eircom Group plc (eircom). BCM currently holds a 57.1 percent interest in eircom representing an original equity investment of approximately $448 million. Associates of B&B hold an additional 7.9 percent interest and existing and former employees of eircom hold the remaining 35 percent through their share ownership trust, the Employee Share Ownership Trust (ESOT).

  eircom owns Ireland's copper and fibre backbone telecommunications network. It is the largest provider of fixed line wholesale and retail telecommunication services in Ireland and the leading broadband provider in Ireland. eircom's mobile division, Meteor Ireland Holdings LLC (Meteor), is the third largest mobile operator in Ireland in terms of number of subscribers.

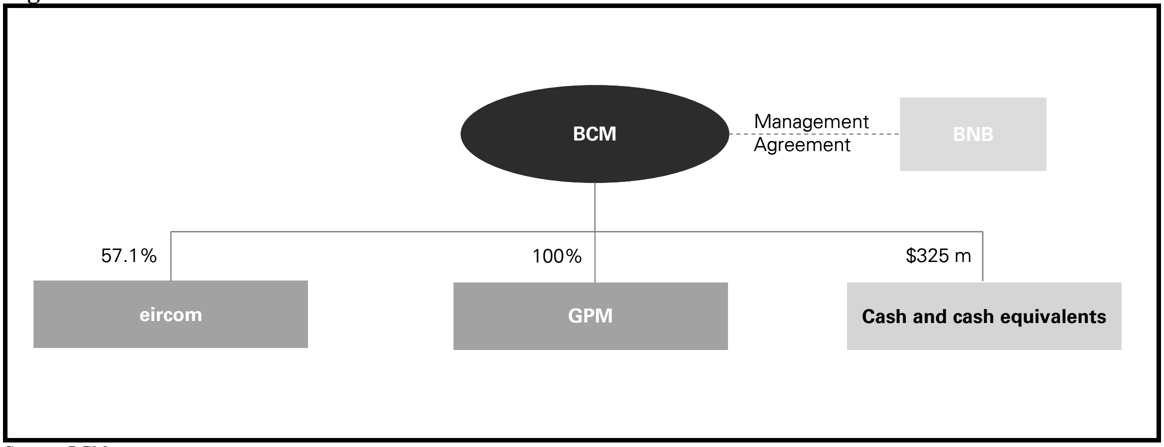
- On 31 July 2007, BCM completed its acquisition of 100 percent of G.P.M Classified Directories (Management and Marketing) Ltd (GPM) for an enterprise value of $248 million (NIS 915 million), requiring an initial equity investment of $150 million.

  GPM is the leading Israeli directories business with a portfolio of complementary directories and search businesses operating across print, online, television and mobile distribution platforms.

In addition, BCM held cash and cash equivalents of $325 million as at 31 December 2008.

BCM's portfolio of investments is illustrated in the figure below.

Figure 1: BCM investments



Source: BCM

Strategy

The key announcements reflecting the current directors' views of BCM's future strategic direction are summarised below:

- The appointment of Andrew Day as CEO and Executive Director of BCM for the primary purpose of maximising the value of BCM's investment in eircom. For so long as the Management Agreement remains in place, Andrew Day will be seconded to, and work in coordination with, the Manager (27 February 2009)
- No intentions to make further acquisitions until investments in eircom and GPM are realised and shareholders consulted (28 February 2008, and reconfirmed on 27 February 2009)
- Agreement with B&B to terminate the Management Agreement and Advisory Agreement via the Termination Agreement, depending on shareholder approval. Should the Termination Agreement be approved, B&B will have no specific rights to representation on the BCM Board (Board)
- Commencement of a formal process to consider proposals for the acquisition of BCM (10 November 2008)
- Intention to return available capital to BCM shareholders, subject to retaining sufficient cash reserves to enable BCM to maximise the value of its existing investments and account for the realisation of accounts receivable and currency hedge liabilities (27 February 2009). A capital return of $100.7 million was approved by BCM shareholders on 27 February 2009
- The reclassification of GPM as a non-current asset held for sale as part of the process of divesting its interest in GPM (27 February 2009).

It is noted that if Management Internalisation does not proceed, BBCM may decide upon a different and longer term strategic direction for BCM.

6.2 Financials

Financial performance

BCM's income statements for the financial year ending 30 June 2008 and half year ending 31 December 2008 are set out in the table below.

Table 1: BCM historical income statement (parent company)

For the period ending $ million	12 months to 30 Jun 2008	6 months to 31 Dec 2008
Revenues		
Interest income	28	11
Management fee reimbursement from subsidiaries of the parent	12	6
Other revenues	8	2
Total revenues	**49**	**19**
Expenses		
Management fee payable to BBCM	(19)	(10)
Impairment of investment in subsidiary	(4)	-
Other expenses	(5)	(6)
Total expenses	**(28)**	**15**
Profit before tax	**20**	**4**
Income tax benefit / (expense)	(6)	(3)
Profit after tax attributable to members of BCM	**14**	**1**

Source: BCM Annual Report 30 June 2008, Half Yearly Accounts 31 December 2008, BCM

In relation to the table above, we note the following:

- BCM have advised that the reimbursement of management fees from eircom is not expected in the event that no management fees are payable by BCM to BBCM. Furthermore, fee reimbursements will cease to be charged post termination of the Management Agreement
- Other revenue for the year ending 30 June 2008 comprises $7.0 million of dividend income and $0.5 million net gain on foreign exchange derivatives. For the six months ending 31 December 2008, other revenues consisted of dividends and investment income
- The impairment of $4.3 million in the year to 30 June 2008 relates to a write down in carrying value of BCM's investment in GPM to reflect deteriorating financial market conditions since acquisition in July 2007
- Other expenses include professional services fees such as audit, director, taxation and advisory fees, and listing and compliance costs of $3 million for the year to 30 June 2008 and $2.2 million for the six months ending 31 December 2008. In addition, BCM incurred foreign exchange hedging loss of $3.6 million for the six months to 31 December 2008
- For further analysis of management fees payable to BBCM, please refer to section 7.2.

Financial position

BCM's balance sheets as at 30 June 2008 and 31 December 2008 are set out in the table below.

Table 2: BCM historical balance sheet (parent company)

As at $ million	30 Jun 2008	31 Dec 2008
Cash	344	301
Trade and other receivables	28	24
Derivative financial instruments	9	6
Total current assets	**382**	**331**
Deferred tax assets	3	2
Investments in eircom and GPM	522	-
Total non current assets	**525**	**2**
Total assets	**907**	**333**
Trade and other payables	2	3
Current tax liabilities	2	-
Total current liabilities	**4**	**3**
Derivative financial instruments	-	43
Deferred tax liabilities	1	2
Total non current liabilities	**1**	**45**
Total liabilities	**5**	**47**
Net assets	**902**	**285**
Contributed equity	834	
Reserves	27	
Retained profits / (losses)	41	
Total equity	**902**	

Source: BCM Annual Report 30 June 2008, Half Yearly Accounts 31 December 2008

In relation to the table above, we note the following:

- On 27 February 2009, BCM shareholders approved a capital return of $100.7 million which had the effect of reducing the available cash balance from $301 million as at 31 December 2008 to $201 million.
- Trade and other receivables predominantly relate to management fees owing from eircom. These items are considered part of total cash available.
- BCM had entered into a range of foreign currency derivative financial instruments to hedge its investments in eircom and GPM. The positions have been closed out subsequent to 31 December 2008.
- Investments of $522 million at 30 June 2008 consist of the carrying value of BCM's investment of $419 million in eircom and $103 million in GPM. BCM's combined investment in eircom and GPM as at 31 December 2008 was fully written down based on the following fair value adjustments:
  - An impairment charge of $1,423 million applied at the eircom consolidated level to reflect deteriorating economic conditions, lower comparable company valuations and increased pension liabilities
  - the reclassification of BCM's investment in GPM as a non-current asset held for sale resulted in a $119 million non-cash operating loss.

Consolidated net asset position

The following table outlines the consolidated net asset position of BCM (excluding net assets) as at 30 June 2008 and 31 December 2008, including a comparison against the net asset positions of the BCM parent entity.

Table 3: Consolidated net assets

As at $ million	30 Jun 2008	31 Dec 2008
Parent entity net assets	902	285
Consolidated net assets (excluding minorities)	**937**	**(541)**
Ordinary shares outstanding	*167,904,914*	*167,904,914*
NAV per share ($) – Parent	5.37	1.70
NAV per share ($) – Consolidated	**5.58**	**(3.22)**

Note: BCM Annual Reports 30 June 2008, Half Yearly Accounts 31 December 2008

In relation to the table above, we note the following:

- The difference between the consolidated and parent net asset positions as at 30 June 2008 primarily relates to a cash flow hedge reserve of $59 million and a foreign currency translation reserve of $15 million at the consolidated level but not at the parent level, offset by a difference of $39 million in retained earnings in favour of the parent entity.

- The difference between the consolidated and parent net asset positions as at 31 December 2008 primarily relates to the impairment of eircom and GPM which is fully recognised at the consolidated level but only recognised at the parent level to the extent of the carrying value of BCM's investment in eircom and GPM.

- NAV per share at the parent entity level is expected to be $1.05 subsequent to payment of the capital return, the closing out of foreign exchange hedging positions and the payment of the proposed termination fee to B&B.

6.3 Capital structure

Share capital

As at 3 March 2009, BCM's issued capital comprised 167.9 million ordinary shares, listed on the ASX.

BCM's top 10 shareholders as at 31 December 2008 are set out in the table below.

Table 4: Major shareholders as at 31 December 2008

Shareholder	Total number of securities held	Percent of shares on issue
National Nominees Limited	21,930,871	13.1%
HSBC Custody Nominees (Australia) Limited – A/C 2	21,503,697	12.8%
ANZ Nominees Limited <Cash Income A/C>	19,723,442	11.8%
Citicorp Nominees Pty Limited	15,111,786	9.0%
HSBC Custody Nominees (Australia) Limited – A/C 3	10,525,113	6.3%
JP Morgan Nominees Australia Limited	7,771,652	4.6%
Brispot Nominees Pty Ltd	7,008,298	4.2%
HSBC Custody Nominees (Australia) Limited	5,063,853	3.0%
DNU Nominees Pty Limited	4,422,476	2.6%
UBS Wealth Management Australia Nominees Pty Ltd	2,146,901	1.3%
Total shares held by top ten shareholders	**115,208,089**	**68.6%**
Other shareholders	52,696,825	31.4%
Total shares on issue	**167,904,914**	**100.0%**

Source: BCM Monthly Registry Report December 2008

It should be noted that B&B held an 8.6 percent shareholding in BCM as at 31 December 2008.

Given the mix of shareholders, BCM has a free float of 91.4 percent.

At last notice, there are no shareholders with an interest of over 20 percent. The spread of shareholders as at 31 December 2008 is set out below.

Table 5: Spread of shareholders as at 31 December 2008

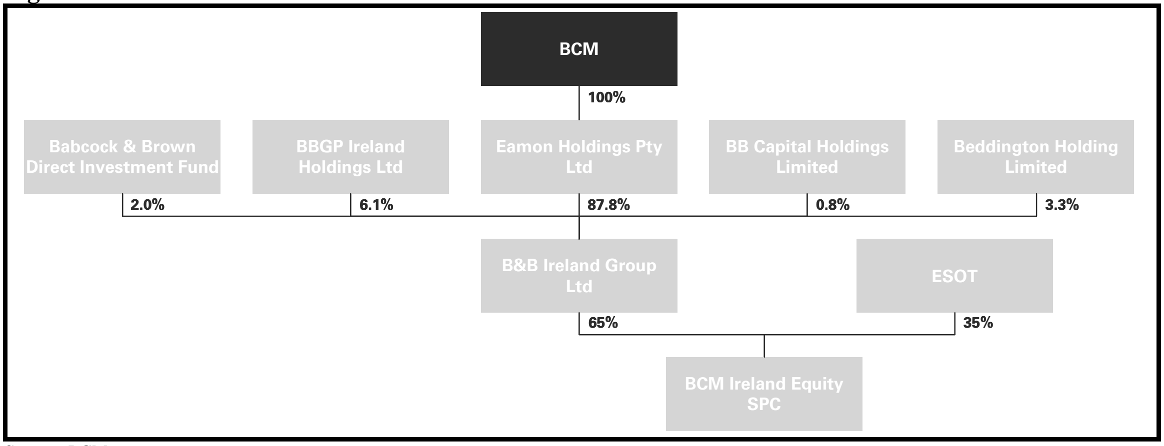
Size of holding	Number of shareholders	Percent of shares on issue
1 to 1,000	373	0.2%
1,001 to 5,000	1,980	3.4%
5,001 to 10,000	585	2.9%
10,001 to 100,000	420	7.5%
100,001 and over	84	86.0%
Total	**3,442**	**100.0%**

Source: BCM Monthly Registry Report December 2008

Conversion rights

BCM holds a 57.1 percent equity interest in BCM Ireland Equity SPC (BCMIE), the ultimate parent of eircom, whilst associates of B&B collectively hold 7.9 percent, and existing and former employees of eircom hold the remaining 35 percent through ESOT. The figure below illustrates the investment holding structure of eircom.

Figure 2: eircom shareholder structure



Source: BCM

On 8 November 2006, the shareholders of BCM approved a resolution allowing the ESOT the right to convert their interests in BCMIE into BCM shares after 18 August 2009 (Conversion Rights).

The Conversion Rights allow the ESOT to convert their interests in BCMIE into BCM shares up to a maximum annual amount of 15 percent of BCM's issued share capital. The pricing mechanism for the conversion requires the shares in BCMIE to be independently valued with the shares then converted to BCM shares based on BCM's three month volume weighted average price (VWAP). Whilst BCM has the right to decline the independent valuation if it believes that the conversion would be too dilutive to existing BCM shareholders, if both parties cannot agree on a valuation, then BCM must procure a listing of eircom.

As part of the Termination Agreement, BCM entered into good faith negotiations with the ESOT in relation to bringing forward the date of conversion and removing the annual limit condition. Any agreement subsequently entered into between the parties will be subject to BCM shareholder approval.

Directors interest

The Board currently consists of Kerry Roxburgh, Greg Clark, Andrew Love and Andrew Day. There is no representation of B&B currently on the Board, but B&B is eligible to appoint three directors on the Board according to the Management Agreement. Upon the approval of the Termination Agreement however, B&B will have no entitlement to representation on the Board.

The current directors of BCM have no interest in BCM related securities as at 18 March 2009.

As at 18 March 2009, the current directors of BCM held 2,000,000 options, representing 1.2 percent of the total issued shares of BCM. A summary of the options issued is set out in the table below.

Table 6: Directors' relevant interests in options at 18 March 2009

Name	Expiry Date	Number of options	Exercise price
Kerry Roxburgh	14-Feb-12	1,000,000	4.40
Greg Clark	14-Feb-12	1,000,000	4.40
Total		**2,000,000**	

Source: BCM Notice of Meeting dated 27 January 2009

In relation to the table above, we note that all options are currently eligible for exercise.

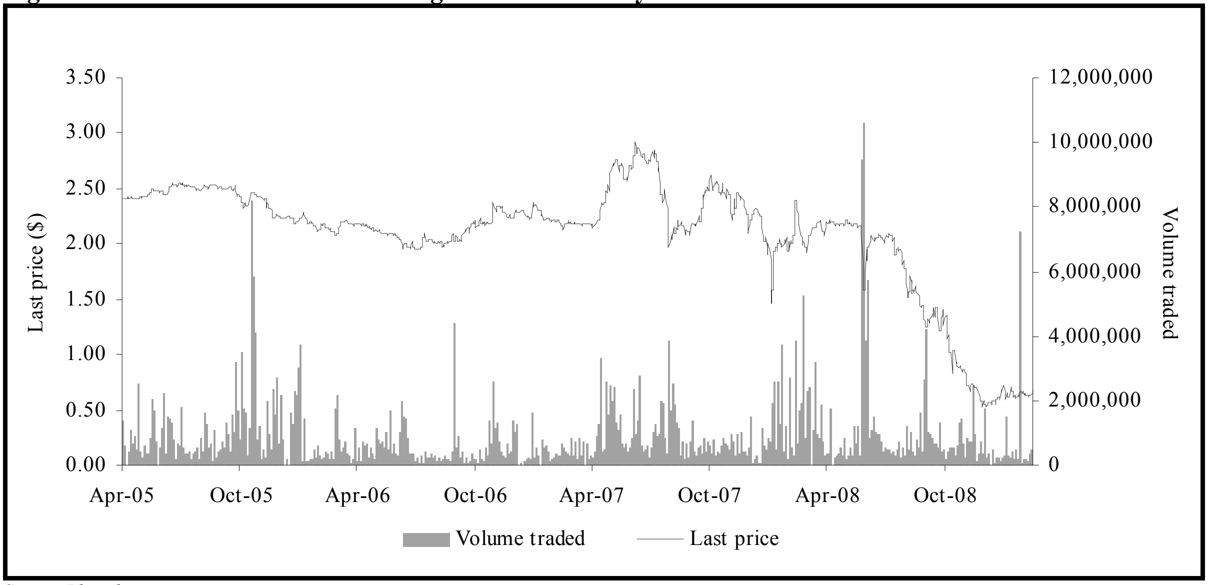
As part of the CEO remuneration package, the Board proposed that Andrew Day be entitled to up to 1,500,000 share performance rights as a long term incentive, subject to shareholder approval. These rights will vest if either a change in control occurs in BCM/eircom or the 20 day VWAP of BCM shares (adjusted for capital returns and dividends) exceeds $5.00 at any time prior to 27 February 2011.

6.4 Share market performance

Recent security market trading

BCM's history and volume of trading since its listing in February 2005 is set out below.

Figure 3: Prices and volume of trading in BCM ordinary shares



Source: Bloomberg

In relation to the figure above, we note the following:

- Since its listing in February 2005, BCM shares have decreased by 85.8 percent (based on the closing price as at 3 March 2009).
- BCM shares rose from $4.31 on 30 April 2007 to a high of $5.60 on 25 June 2007 as a result of a number of positive announcements. On 1 May 2007, BCM announced a proposal to save €16 million per annum in interest expenses on its subsidiary, eircom. In addition, on 29 May 2007, eircom delivered strong operational results in the March 2007 quarter.
- The rise in September and October 2007 coincided with the sale of eircom's radio masts business for €155 million and the awarding of a €100 million contract to eircom to build Northern Ireland Civil Service workplace infrastructure over the next 6 to 10 years.
- In late 2007, the fallout from the credit market resulted in broad underperformance in most share market indices, including BCM's share price. BCM fell from a high of $5.05 on 19 October 2007 to $2.82 on 22 January 2008.

- On 28 February 2008, BCM announced half yearly results for eircom, and the announcement of the expanded buy-back program as part of its investment review.

- BCM's share price fell significantly during the week beginning 9 June 2008 in response to the sharp decline in B&B's share price following the uncertainty around B&B, particularly relating to its high gearing levels. In one week, BCM's shares fell by approximately 27 percent, from \$4.17 to \$3.05.

- The downward trend in BCM's share price intensified in the second half of 2008, reaching a low of \$1.025 on 16 December 2008. Continued uncertainty with regards to global capital markets and global economies have further impacted BCM's share price.

- On 27 February 2009, BCM shareholders approved the proposed capital return of \$100.7 million (which equated to \$0.60 per BCM share). BCM shares traded on an "ex" capital return basis from 3 March 2009, with the price falling from the previous close of \$1.25 to close at \$0.685 on 3 March 2009.

Announcements made since the announcement of the Management Internalisation that may have influenced trading in BCM shares are noted in the table below.

Table 7: BCM ASX announcements

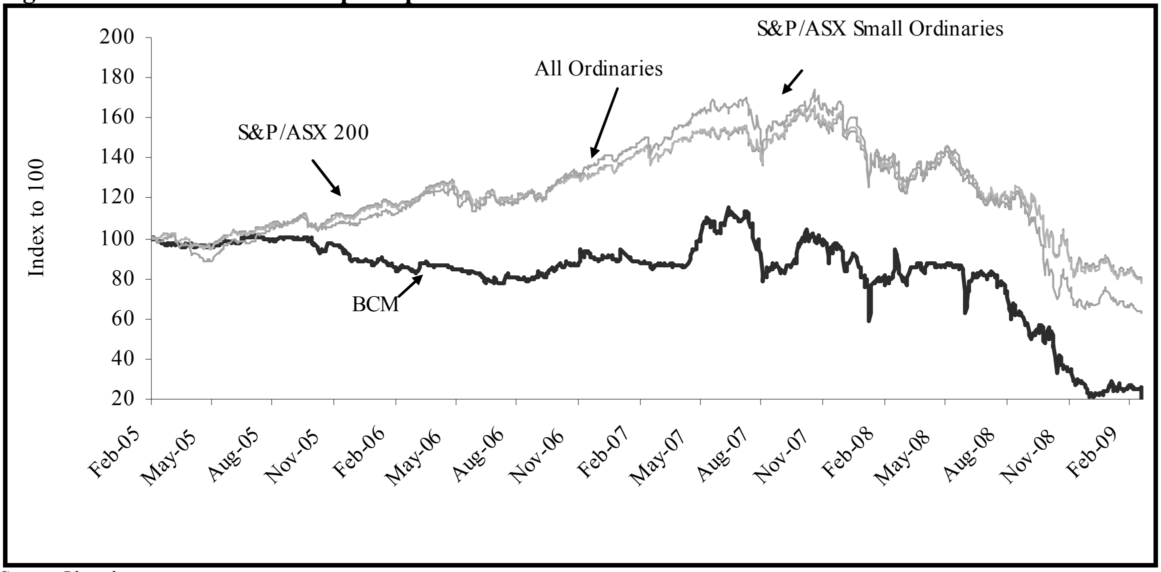
Date	Announcement/publication
28 August 2008	Release of BCMIF and BCMIPE financial accounts
28 August 2008	Release of FY08 statutory accounts
28 August 2008	B&B review of its ownership and management rights in BCM
28 August 2008	Strategic review involving potential internalisation of management and Off-Market Buy-Back
15 September 2008	Resignation of Director Phil Green
17 September 2008	Review of management arrangements and update on Off-Market Buy-Back
22 September 2008	Resignation of Director Robert Topfer
27 October 2008	Entered trading halt
28 October 2008	Release of 2008 Annual Report
29 October 2008	Release of financial accounts for BCMIF and BCMIPE
29 October 2008	Update on capital management programme and management review
30 October 2008	Non binding indicative proposal from LIT plc
10 November 2008	Agreement to terminate Management Agreement and Advisory Agreement, subject to shareholder approval
26 November 2008	September quarter operational update
28 November 2008	AGM Chairman's address and presentation
28 November 2008	Results of Meeting
23 December 2008	Disclosure pursuant to Takeovers Panel Guidance Note 20
20 January 2009	Appointment of Frank Giordano as Company Secretary to replace Simone Lander and David Richardson who resigned
27 January 2009	Anticipation of a material reduction in the carrying value of BCM's investments. Extension of internalisation cut off date from 28 February 2009 to 30 March 2009
11 February 2009	Management Internalisation discussions update
27 February 2009	Half yearly report and results presentation
27 February 2009	Proposed capital return of $100.7 million approved by shareholders
27 February 2009	Appointment of Andrew Day as CEO and Executive Director of BCM
27 February 2009	eircom CEO appointment update
5 March 2009	Initial Director's Interest Notice – Andrew Day
13 March 2009	Voluntary administration of B&B to have no impact on BCM
17 March 2009	Shareholder Letter – Capital Return
23 March 2009	Revised Management Internalisation Agreement

Source: DatAnalysis

Relative share price performance

The figure below details the trading performance of BCM shares since its listing on 15 February 2005, relative to the All Ordinaries Index, ASX 200 Index and the ASX Small Ordinaries Index.

Figure 4: BCM relative share price performance



Source: Bloomberg

In relation to the figure above, we note:

- Since listing, BCM has underperformed key major Australian share market indices. In that time, the BCM share price has decreased by 85.8 percent, while the All Ordinaries, ASX 200 and ASX Small Ordinaries have decreased by 22.5 percent, 21.6 percent and 37.5 percent respectively.

- BCM increased from a closing price of $4.31 on 30 April 2007, to $5.60 on 25 June 2007, its highest share price to date. This represented an increase of 29.9 percent, outperforming the increases in the All Ordinaries (3.3 percent), ASX 200 (2.7 percent) and the Small Ordinaries (4.9 percent) over the same period. The rise in BCM share price related to an announcement on 1 May 2007 of eircom debt refinancing resulting in savings of €16 million per annum and strong operating results from eircom for the March 2007 quarter announced on 29 May 2007.

- Since the onset of the credit crisis in August 2007, the BCM share price has appeared to broadly trade in line with the overall market.

- On 22 January 2008, BCM’s share price fell sharply from $3.60 to $2.82, though by 25 January 2008, the share price returned to $3.71 as BCM announced an increase in its buy-back of BCM ordinary shares from 5 percent to 9.99 percent.

- Following the announcement of the buy-back program on 28 February 2008, BCM shares increased by 15.3 percent to $4.59 on 29 February 2008.

- Since 9 June 2008, BCM’s shares have experienced an overall downward trend, reaching its lowest share price of $1.025 on 16 December 2008. We note that this decline has in part been due to the flow on effects from the challenges experienced by B&B generally, as well as the overall decline in global equity markets.

- Since the market high on 1 November 2007, BCM has decreased by 86.0 percent, underperforming the All Ordinaries (52.4 percent decline), ASX 200 (51.5 percent decline) and ASX Small Ordinaries (63.3 percent decline).

Liquidity analysis

An analysis of the volume of trading in BCM shares, including the VWAP for various periods to 3 March 2009, is set out in the table below.

Table 8: BCM VWAP and liquidity analysis

Period	Price (high)	Price (low)	VWAP	Cumulative volume	Percent of issued capital[1]
1 week	$0.69	$0.62	$0.66	2,540,964	1.5%
1 month	$0.69	$0.60	$0.66	12,431,758	7.4%
3 months	$0.72	$0.53	$0.63	23,882,399	14.1%
6 months	$1.54	$0.53	$0.94	67,914,746	40.2%
12 months	$2.27	$0.53	$1.60	188,437,818	107.9%

Source: Bloomberg, Commsec
[1] Issued capital based on weighted shares outstanding for each respective period

Included in the above analysis are approximately 32.1 million shares purchased by BCM through the on-market buy-back, which represents approximately 17 percent of the cumulative share volume traded within the 12 months to 3 March 2009.

Dividend and capital return history

Since listing, BCM has not declared any dividends to its shareholders.

On 27 February 2009, BCM shareholders approved a capital return of $100.7 million (which equated to $0.60 per BCM share). BCM obtained an ATO Taxation Ruling to confirm that no element of the capital return would be treated as a dividend for Australian tax purposes.

7 Management Agreement and Advisory Agreement

7.1 Management services

On 20 December 2004, BCM entered into an exclusive 25-year fixed term management agreement with BBCM and BBS, under which BBCM is obligated to provide investment management services to BCM. The Management Agreement is due to expire on 20 December 2029 unless it is terminated earlier. We note that on 28 July 2008, certain amendments were made to the original agreement, though these were not of a material nature.

Under the terms of the Management Agreement, BBCM must:

- oversee the identification, structuring, negotiation and execution of investments and divestments within the portfolio
- oversee the management of the portfolio, including the provision of investment, management and risk management services, assist BCM with Board decisions and provide a monthly report of BCM's net assets
- comply with ASX listing obligations, including managing BCM's investor and public relations obligations
- provide support services including office space, accounting, tax, audit and compliance services.

Key obligations of BCM include the appointment of three nominees of BBCM to the BCM Board, to not take any action or decision on matters unless they have been subject to a recommendation by BBCM or fall within other exceptions, subject to overriding fiduciary responsibilities.

BBCM's management team is to comprise approximately eleven individuals, including a part-time executive chairman, CEO, chief financial officer, legal counsel and company secretary, investor and public relations officer, treasurer (as requested by BCM), up to three accounting officers and up to two risk compliance officers. Any additional capacity required by BCM will be at an additional expense. Under the terms of the Management Agreement, BCM may not appoint any other managers or employees to provide similar services to those to be performed by BBCM.

Advisory Agreement

Alongside the Management Agreement, a preferred advisory agreement was entered into on 20 December 2004 between BBA and BCM, whereby BBA was appointed as BCM's preferred financial advisor. This involves BBA providing mergers and acquisitions advice, equity and debt advisory services, and equity and debt raising advice. BBA will have the first and last right of refusal to provide any financial advisory services, provided they are on reasonable market terms and conditions.

The Advisory Agreement may be terminated by BCM on or after 20 December 2014 (being ten years since the commencement of the agreement) on the basis that BBA no longer has the capacity to provide financial advisory services. In such circumstances, BBA has a 30 day period to cure such issues before termination is effective.

It is noted that BCM is not restricted in the type of assets it is able to invest in. In this regard, it is able to invest in a range of assets, liabilities, listed and unlisted securities and other financial products.

7.2 Fees

Fee structure

B&B earns three types of fees from BCM, including base management fees, performance fees and preferred advisory fees. In relation to the payment of fees, we note that each fee is separate and may not be deducted against any other fee subset. Also, B&B must seek consent from BCM when it intends to seek reimbursement for fees for services provided by external third parties to B&B.

B&B is also entitled to additional fees in the event that it is requested to perform services outside the scope of its mandate. Under such circumstances, the amount and terms of payment with respect to the fees must have been negotiated and agreed to prior to the performance of the service.

Management fee

Under the Management Agreement, the management fee is calculated monthly as a percentage of the consolidated net assets of BCM excluding minority interests (Net Assets) of BCM with a sliding scale based on the amount of the original capital raised in the initial public offering that is actually invested as follows.

Table 9: Management fee calculation

Amount of original capital invested	Management fee
>=30 percent but < 50 percent	1.0 percent of Net Assets per annum
>=50 percent but < 75 percent	1.5 percent of Net Assets per annum
>=75 percent	2.0 percent of Net Assets per annum

Source: BCM

We note that once a higher threshold is reached, the management fee percentage cannot be reduced. The 75 percent hurdle was triggered in February 2006, and as such, management fees have been calculated at 2 percent of Net Assets per annum subsequent to that date, converted and paid on a monthly basis.

According to the Management Agreement, Net Assets are defined as the total of individual assets less the total of the individual liabilities appearing in the consolidated financial statements of BCM as at a particular date. The carrying amount of each asset and liability is determined in accordance with the standards issued by the Australian Accounting Standards Board and the accounting policies adopted by BCM at that particular date. Furthermore, the Management Agreement refers to BCM's most recent half yearly or annual (whichever is the most recent) audited or reviewed balance sheet.

It should be noted that any amount payable is subject to a minimum threshold so as to cover the costs reasonably incurred by BBCM in performing its role under the Management Agreement. We have been advised by BCM that this minimum cost is in the order of $3 million and accounts for all back office functions as outlined in the Transitional Services Agreement in section 8.1. On this basis, should Net Assets fall below $150 million, the management fee would fall below $3 million with any difference being in the form of a cost reimbursement. Should Net Assets fall below $0, no management fee would be payable but BBCM would be entitled to (though must substantiate) a recovery of costs which are expected to be in the order of $3 million.

In addition, BCM have appointed Andrew Day as CEO and Executive Director of BCM, which is expected to cost BCM in the order of $1.5 million per year, over and above any management fees and/or cost reimbursements payable to BCM. On this basis, the minimum annual operating cost of BCM is $4.5 million which consists of $3.0 million in management fees and/or cost reimbursements payable to BBCM and $1.5 million being the cost of maintaining the BCM CEO.

Performance fees

B&B is entitled to receive an annual performance fee calculated by reference to the pre-tax Total Shareholder Return (TSR) as follows.

Table 10: Performance fee calculation

Pre-tax shareholder return	Annual performance fee
Between 10 percent and 25 percent	20 percent of the amount (if any) by which the actual TSR exceeds a notional 10 percent pre-tax TSR but is equal to or less than a notional 25 percent pre-tax TSR
Above 25 percent	30 percent of the amount (if any) by which the actual TSR exceeds a notional 25 percent pre-tax TSR, less the aggregate of any performance fees previously paid by BCM to BBCM during the term of the Management Agreement

Source: BCM

TSR is determined with reference to the BCM share price which is indexed at a base price of $2.50 in December 2004 (first instalment) and a further $2.50 in February 2006 (second instalment).

Whilst the amount of the performance fee payable is adjusted for any fee previously paid by BCM, there is no 'claw back' of fees paid should the amount of performance fees payable decline. B&B is entitled to elect to receive payment of performance fees by way of either cash, BCM stock, or a combination thereof.

As at 30 June 2008, the minimum notional 10 percent pre-tax TSR per annum required to trigger a performance fee payable to B&B translates into a minimum price of approximately $7.09 per BCM share, which is significantly higher than BCM's share price of $1.25 as at 2 March 2009. Given the BCM share price has constantly traded below the 10 percent TSR level, no performance fees have been paid historically.

Advisory fees

Under the terms of the Advisory Agreement, advisory fees will be negotiated on a transaction basis and on terms reflective of arm's length conditions. In circumstances where BBA did not undertake this role, fees would be payable to other investment banks on similar terms.

BBA is entitled to one third of the value of any break fees in relation to any transactions which BCM was involved in, but did not eventuate.

Historical fees paid

Outlined in the table below are the fees paid to B&B from the date of listing under the Management Agreement and Advisory Agreement.

Table 11: Fees payable to B&B

	Management fees ($m)	Advisory fees ($m)
FY 2006	11	8
FY 2007	13	49
FY 2008	19	10
Six months to 31 December 2008	10	-
Actual fees borne by BCM shareholders	53	67
Actual fees borne by minorities	-	42
Total fees	**53**	**109**

Source: BCM press release 16 January 2008, BCM Annual Report 2007, BCM
Calculation differences due to rounding

No performance fees have been paid or are due to be paid since the Management Agreement was put in place.

We have been advised by BCM that fees of approximately $2 million per year are payable by BCM for ongoing professional services fees such as audit fees, director fees, taxation, advisory fees and listing and compliance costs. These fees do not form part of the Management Agreement and Advisory Agreement and will still occur in the future even if the Termination Agreement is approved by shareholders.

Likely future fees payable

Management fee payable

The management fee payable to BBCM under the Management Agreement is determined by the Net Assets of BCM which was $(541) million as at 31 December 2008. After adjusting for the capital return of $100.7 million which was approved by shareholders on 27 February 2009, the Net Assets for the purposes of determining future management fees would reduce to $(642) million given the capital return is expected to be funded with the cash reserves of BCM which in turn will directly reduce the Net Assets of BCM.

From 27 February 2009, no management fees will be paid to BBCM though BBCM is entitled to (though must substantiate) the recovery of costs incurred in performing its obligations under the Management Agreement. We have been advised by BCM that these costs are expected to be in the order of $3 million.

It should be noted that the cost reimbursement does not cover the cost to BCM of $1.5 million for maintaining a CEO and the estimate of $2 million for ongoing professional service fees and listing and compliance costs.

Advisory fee payable

To ensure an appropriate level of independence is maintained, BCM have appointed UBS as co-advisors alongside B&B to advise on the Review Process. This may lead to total advisory fees being higher under the Management Agreement than what would normally be incurred under a sole advisor scenario.

Should the Termination Agreement be approved, B&B will cease to provide advisory services to BCM under the Review Process.

7.3 Co-investment rights

Under the Management Agreement, BCM is obliged to offer B&B and its associates the opportunity to co-invest, cumulatively, at least 20 percent in any investment in which BCM proposes to invest.

Key conditions on investment and divestment were put in place to minimise the risk of conflict occurring between BCM and B&B associates:

- If BCM wishes to sell its investment, the purchaser has the ability to demand any B&B associate who acquired the same investment to sell their stake.

- If BCM or a B&B associate which is invested in one of BCM's assets receives an offer to acquire all of its investment from a third party, BCM has an obligation to ensure the B&B associate receives the same offer on similar terms, adjusted for any investment size differences, and vice versa.

- Pre-emptive rights exist for BCM such that in the event a B&B affiliate wishes to divest its interest in one of BCM's assets, BCM has a first right to purchase the investment, provided it is the whole investment and on terms and conditions comparable to other offers which have been fielded. If the investment is not sold to BCM, the terms of the sale must be no more favourable than that under the original offer.

7.4 Termination

Management Agreement

BCM has the right to terminate the Management Agreement on the following grounds:

- a material breach by BBCM which it fails to remedy

- if B&B and its affiliates fail to hold a minimum of 10 million shares in BCM. We note that as at 12 December 2008, B&B and its affiliates held 14.5 million shares in BCM

- any license held by BBCM is no longer valid

- the Manager is insolvent, wound up or acquired and is not replaced within 15 days

- 100 percent of BCM is acquired by a third party.

BBCM may terminate the Management Agreement immediately in the following circumstances:

- BCM ceases to be listed

- a material breach by BCM which it fails to remedy

- BCM is insolvent or ordered to wind up

- an entity other than a B&B associate acquires an interest in 30 percent or more of the shares in BCM.

In the event of a termination of the Management Agreement, all accrued management fees and performance fees in respect of the period prior to termination must be paid. In addition, BCM must change its name so that it does not include the words 'Babcock & Brown'.

Advisory Agreement

The Advisory Agreement may be terminated by BCM on or after 20 December 2014 (being ten years since the commencement of the agreement) on the basis that BBA no longer has the capacity to provide financial advisory services. In such circumstances, BBA has a 30 day period to cure such issues before termination is effective.

Alternatively, BBA can terminate the Advisory Agreement upon providing no less than 6 months written notice to BCM.

8 Termination Agreement

8.1 Overview

On 10 November 2008, BCM announced that it had entered into an agreement with BBCM, BBS and BBA to effect a termination of the Management Agreement and Advisory Agreement, subsequent to shareholder approval. In March 2009, BCM renegotiated the terms of the Termination Agreement.

The mechanism to effect the termination of the Management Agreement and Advisory Agreement is by way of executing two interrelated agreements, being the Termination Agreement and the Transitional Services Agreement.

The approval of the Termination Agreement will also make effective the following other material events:

- BCM's intention (subject to shareholder approval) to bring forward the timing of exercise of the Conversion Rights from August 2009, including the removal of the annual limit condition.

- The senior debt package held by GPM may require renegotiation or early repayment. We understand that BCM is currently in discussions with GPM's debt providers to clarify or renegotiate the terms of early repayment in the event BCM is unable to sell its investment in GPM. Despite this, we note that all financing arrangements for GPM (and eircom) are non recourse to BCM.

It should be noted that upon execution of the Termination Agreement, the clauses in the Management Agreement relating to liability, indemnity, effect of termination, confidentiality, notices, provisions and liability for unpaid fees, will remain effective.

Transitional Services Agreement

The Transitional Services Agreement was put in place to provide the necessary back office functions to enable BCM to operate as a going concern whilst it undertakes the process of developing internal management capabilities. Under the Agreement, BBA is obligated to provide these services until 30 April 2010 unless terminated earlier. This agreement will become effective post termination of the Management Agreement.

Under the Agreement, BBA must use reasonable endeavours to provide, or procure capacity for the provision of a range of back office services, including office space, information technology, accounting, company secretarial, tax, legal, compliance, treasury, investor relations and administrative personnel support. Any request for services beyond the initial scope will be provided at the discretion of BBA and at an additional cost.

BCM will pay BBA a monthly fee of $250,000, excluding retention payments, reasonable out of pocket expenses and any increases to the monthly fee.

The Transitional Services Agreement can be terminated on one months notice.

BCM have advised that this amount is reflective of the market cost that would be incurred by BCM should it decide to terminate the Transitional Services Agreement.

8.2 Termination Fees

Under the terms of the Termination Agreement, BCM is required to pay $5 million to B&B as compensation for terminating the Management Agreement and Advisory Agreement, payable on the business day after shareholder approval is obtained.

BCM have advised that the termination fees outlined above are likely to be deductible for tax purposes. The extent to which these tax deductions can be utilised depend on the level of pre-tax operating income, which is largely determined by the interest income on cash and cash equivalents. Historically, BCM have invested the majority of its surplus cash in short term deposits (up to three month maturity) held by financial institutions with minimum A1 short-term ratings.

In relation to eircom management fee income, this is not expected to be received given management fees are not payable to BBCM. Furthermore, this will cease to be charged post termination of the Management Agreement.

8.3 Cost of Management Internalisation

Management expenses

Upon terminating the Management Agreement, BCM would need to establish internal managerial capabilities to replace BBCM so as to continue to operate as a going concern. BCM have advised that the expected annual administration costs would be in the range of $4 million to $5 million pre-tax (Ongoing Cost of Internal Management).

These costs will likely comprise the following major components:

- $250,000 per month ($3 million per annum) payable to BBA under the terms of the Transitional Services Agreement. This amount is indicative of the expected market cost to be incurred by BCM should it decide to terminate the Transitional Services Agreement

- The BCM CEO at an expected total annual cost of $1.5 million.

It should be noted that the Ongoing Cost of Internal Management does not include the estimate of $2 million for ongoing professional services fees and listing and compliance costs.

Advisory fees

BCM have appointed UBS as co-advisors alongside B&B in relation to the Review Process. Should the Termination Agreement be approved, B&B would cease to advise BCM on the Review Process and it is expected that UBS would be BCM's principal advisor.

9 Assessment of the Termination Agreement

9.1 Approach

When assessing the Termination Agreement, we considered the context from which it was formulated (i.e. BCM Management Internalisation strategy) and its underlying purpose. Whilst the purpose of the Termination Agreement is to directly effect a termination of the Management Agreement and Advisory Agreement with B&B (via BBCM and BBA respectively), it would impose an indirect obligation on BCM to establish and maintain an ongoing internal management capability over the future life of BCM. Accordingly, we have assessed the Termination Agreement on the basis of the overall cost of internalising management (Internal Management Option) on a quantitative and qualitative basis against the status quo under the Management Agreement and Advisory Agreement (Existing Management Option).

Key drivers of quantitative analysis

In order to undertake a quantitative analysis of each management option, we have considered the key drivers impacting our assessment of the Termination Agreement. These are principally:

- The expected life of BCM
- The audited or reviewed Net Assets of BCM.

These drivers are each discussed separately below.

Life of BCM

The life of BCM is an important driver in undertaking a quantitative analysis because as the life of BCM increases, so does the total cost of both management options. As uncertainty exists as to the remaining life of BCM, we compared the cost of each management option as a function of the life of BCM having regard to the cumulative costs of each management option up to the end point of a particular life for BCM, and discounting these costs to a net present value (NPV).

We note the following factors were considered in relation to the life of BCM:

- The Management Agreement currently remains effective until 20 December 2029. For the purposes of comparing the two management options, we have forecast the costs of each management option over the remaining term of the Management Agreement (Forecast Period)
- Based on BCM's current strategy, we have assumed that the end of BCM's expected future life denotes a point in time whereby either 100 percent of BCM is sold or BCM would have completed the entire process involving a divestment of its interests in eircom and GPM (including closing out of relevant hedge contracts) followed by a winding up of the fund via a distribution of any available net cash in BCM to BCM shareholders shortly thereafter
- Should the Termination Agreement be approved by BCM shareholders, it will effect a termination of the Management Agreement and Advisory Agreement and require the payment of the $5 million termination fee on the date of termination (Termination Date), which is expected to be the business day after the shareholder meeting at which approval would take place (27 April 2009). For the purposes of our analysis,

we have assumed the Termination Date to be 28 April 2009 and have discounted all future cash flows as at this date.

Net Assets of BCM

The Net Assets of BCM is a fundamental factor in determining the cost of the Management Agreement. As such, it is a key driver in our assessment of the Termination Agreement since our quantitative analysis is primarily based on a comparison of the cost of the two management options. It is implied that the higher the Net Assets of BCM, the higher the management fees payable under the Management Agreement, and therefore the higher the cost of the Existing Management Option relative to the cost of the Internal Management Option.

As stated in section 7.2, management fees are based on the most recent half yearly or annual audited or reviewed consolidated balance sheet which for the purposes of our analysis, would be the 31 December 2008 accounts which states that Net Assets are $(541) million. When determining the future level of Net Assets for the purposes of forecasting management fee income, it is important to consider various factors that could have an impact on Net Assets and assess the likelihood of those factors eventuating. Given the business model and asset structure of BCM, any material change in Net Assets would likely be driven by:

- Capital management initiatives, including but not limited to capital raisings, exercise of options (e.g. Conversion Rights) and distributions to shareholders via way of capital return or dividends.

  On 27 February 2009, BCM shareholders approved a capital return of $100.7 million. As a consequence, the Net Assets reduced to $(642) million given the capital return was funded with the cash reserves of BCM which in turn directly reduces the Net Assets of BCM. For the purposes of projecting management fees under the Existing Management Option, we have treated the capital return as a one-off adjustment to Net Assets.

  Based on our discussions with BCM management, we have not adjusted Net Assets for the Conversion Rights (refer section 6.3) given its value is based on the value of eircom which is currently negative and is unlikely to be positive for some time.

- Changes in investments, which on the basis of current accounting standards, can be caused by either the impairment or realisation of assets.

  Under the Australian Accounting Standards, the carrying value of non-current investments has to be impaired if fair value is lower than cost but cannot be written up if valuations improve unless the asset is reclassified as a current asset. On this basis, any uplift in value could only be captured if the asset is divested at a higher value than that assumed in the accounts.

  However, based on the current strategy of BCM, any divestment of either eircom and/or GPM at a price higher than that implied by its current carrying value is expected to have only a short term impact on Net Assets as it is most likely that BCM will return those proceeds to shareholders.

- Changes in the equity of BCM as a consequence of the operating performance of BCM and its subsidiaries, and movements in reserves and hedging positions.

It is noted that eircom and GPM are currently loss making primarily owing to their high gearing levels and we expect their profitability not to recover materially in the current market environment. Furthermore, we have not accounted for any changes in reserves and hedging positions on the basis that this would require an assumption on future contract pricing, which given the current market uncertainty, would be considered speculative at this stage.

We have incorporated future interest income on surplus cash held at the BCM parent level into our analysis which will have the effect of increasing Net Assets over the Forecast Period.

Having regard to the considerations outlined above, we have based our quantitative analysis on the current Net Assets of $(642) million (post $100.7 million capital return), adjusted for expected earnings at the BCM parent entity level going forward. Whilst this level of Net Assets is materially lower than that stated at 30 June 2008 of $937 million, we do not expect any material sustained recovery in Net Assets to occur based on the current strategy of BCM and the fact that Australian Accounting Standards are applicable when determining management fees under the Existing Management Option.

Discount rate

In calculating an NPV for each management option, we have applied the discounted cash flow (DCF) approach using an appropriate post-tax nominal discount rate depending on the risk of the underlying cash flows. We have assessed an appropriate post-tax nominal discount rate for assessing the fairness of the Termination Agreement to be in the order of 12 percent per annum.

The selection of the appropriate rate to apply to the forecast cash flows of any asset or business operation is fundamentally a matter of judgement. Whilst there is a body of theory that provides a framework for the derivation on an appropriate discount rate, it is important to recognise that given the level of subjectivity involved, there is no absolute “correct” discount rate. Furthermore, discount rates tend to be assessed based on current market conditions and future expectations. Any changes in conditions and expectations over time may require an adjustment to the discount rates at that particular future point in time.

In determining our discount rate for both management options, we considered:

- broker consensus views as to the cost of capital applied for the BCM business
- discount rates typically applied by valuers/brokers when valuing similar assets
- any possible discount or risk premium to reflect the specific circumstances relating to both management options and the uncertainty of the cash flows over the Forecast Period.

We also performed a sensitivity of the discount rates to determine the extent of its impact on our analysis which we concluded to be immaterial.

On the basis of the factors outlined above, we consider the rate adopted to be a reasonable discount rate that purchasers would use in the current market in assessing the fairness of the Termination Agreement.

9.2 Cost of the Internal Management Option

In order to determine the cost of the Internal Management Option, we applied a sum of the parts approach. This involves calculating cost estimates for each component over the remaining life of the Management Agreement using an appropriate methodology, with our assessment of the total cost being the sum of these components.

Our assessment of the cost of the Internal Management Option is based on the following components:

- $5 million to terminate the existing Management Agreement. Given this amount is payable on the Termination Date, this fee has not been discounted and will apply across the Forecast Period

- An amount of $4.5 million, adjusted for annual inflation of 2.5 percent, to account for the Ongoing Cost of Internal Management over the Forecast Period

- The tax deductibility of the cost of the Internal Management Option to the extent that sufficient taxable income is available

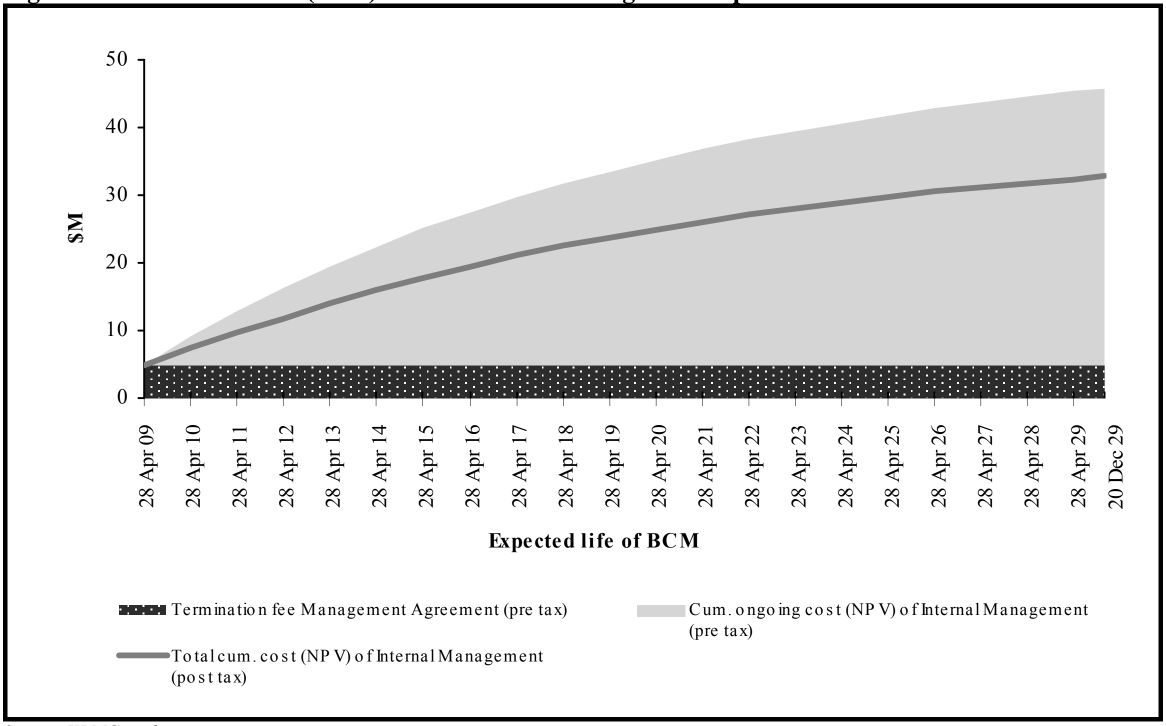
We have not included the estimate of $2 million for ongoing professional service fees and listing and compliance costs into our assessment of the cost of the Internal Management Option as these costs occur under both management options and therefore will not influence a quantitative comparison of both management options. Furthermore, we have also not incorporated any advisory fees which may be associated with the Review Process or the sale of either eircom/GPM or BCM into our assessment of the cost of the Internal Management Option as such costs would occur to the same extent under both management options.

Given the costs of both management options are dependent on the life of BCM, we have determined the cost of the Internal Management Option by calculating the cumulative NPV of the cash flows as a function of the life of BCM.

Assessed value

The graph below illustrates our assessed range for the total cumulative NPV cost of the Internal Management Option as a function of the life of BCM.

Figure 5: Cumulative cost (NPV) of the Internal Management Option



Source: KPMG analysis

In relation to the graph above, we note:

- as the life of BCM increases, the total cumulative NPV cost of the Internal Management Option will increase

- the rate of increase in the total cumulative NPV cost of the Internal Management Option reduces over time given the effect of discounting costs to a present value.

9.3 Cost of the Existing Management Option

We have assessed the Existing Management Option from the perspective of the total expected cost of BCM's obligations under the Management Agreement and the Advisory Agreement. As discussed in section 7.2, BCM is liable to pay B&B a range of fees over the life of the Management Agreement, including management fees, performance fees and advisory fees. On this basis, we have applied a sum of the parts approach in valuing the Existing Management Option, which involves calculating the cost of each fee component using an appropriate methodology, with our assessment of the Existing Management Option being the sum of these costs.

Given the cost of the Management Agreement is dependent on the life of BCM, we have determined the cost of the Existing Management Option by calculating the cumulative NPV of the cash flows as a function of the life of BCM.

Our assessment of the cost of the Existing Management Option is based on the following components:

- the maximum of either a base management fee calculated at two percent of the Net Assets of BCM, or $3 million cost recovery per year (indexed to annual inflation of 2.5 percent) as indicated in section 7.2

- The cost of $1.5 million per year to maintain a CEO for BCM (indexed to inflation)

- An adjustment for the interest income differential as a result of the comparison of the cash flow profile of both management options

- The tax deductibility of the cost of the Existing Management Option to the extent that sufficient taxable income is available

Our assessment of the cost the Existing Management Option excludes the following:

- We have not included the estimate of $2 million for ongoing professional service fees and listing and compliance costs into our assessment of the cost of the Existing Management Option as these costs occur under both management options and therefore will not influence a quantitative comparison of both management options

- We have not incorporated any advisory fees which may be associated with the Review Process or the sale of either eircom/GPM or BCM into our assessment of the cost of the Existing Management Option as such costs would occur to the same extent under both management options.

- We have not attributed any value to future performance fees for the following reasons:

  - the BCM share price is currently trading, and has consistently traded below the 10 percent TSR level required to trigger a performance fee being payable

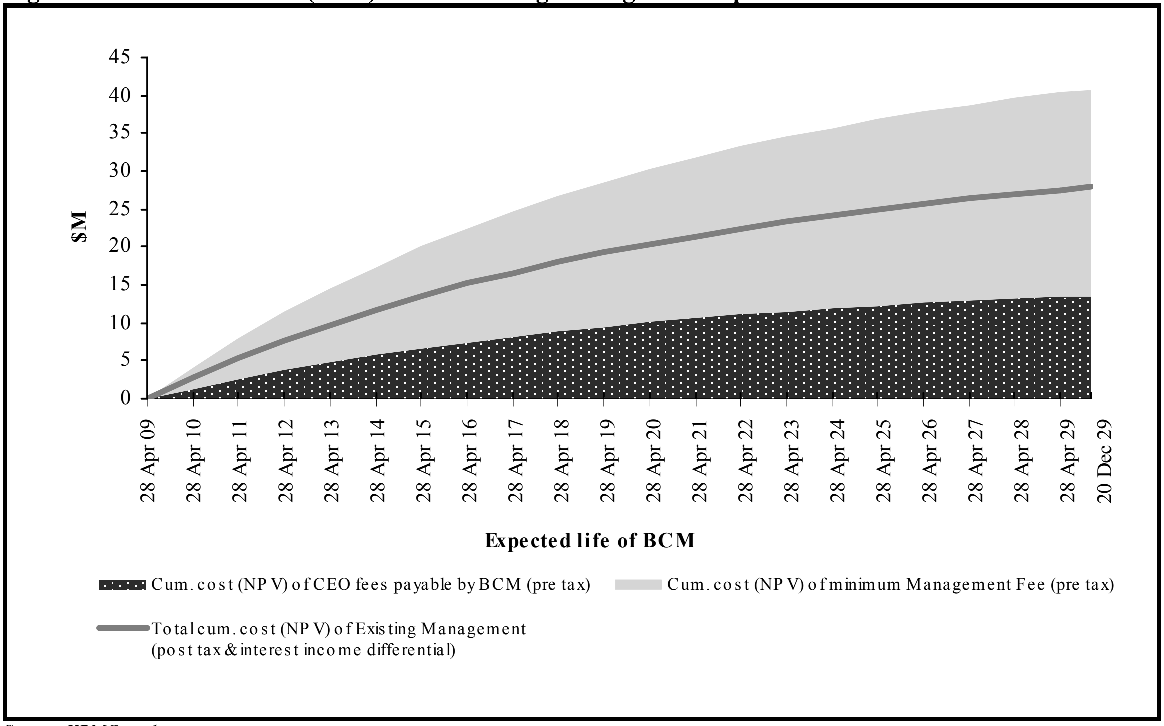
  - no performance fees have been paid historically and B&B is not entitled to any performance fee as at the date of this report

  - having regard to the current net asset value per share of BCM, the tendency of listed investment vehicles to trade at a discount to its net asset position, the current share price of BCM and the latest impairment on the investments of BCM, we are of the opinion that it is highly unlikely that a performance fee would be payable by BCM under the terms of the Management Agreement.

Assessed value

The graph below illustrates our assessed range for the total cumulative NPV cost of the Existing Management Option as a function of the life of BCM.

Figure 6: Cumulative cost (NPV) of the Existing Management Option



Source: KPMG analysis

In relation to the graph above, we note:

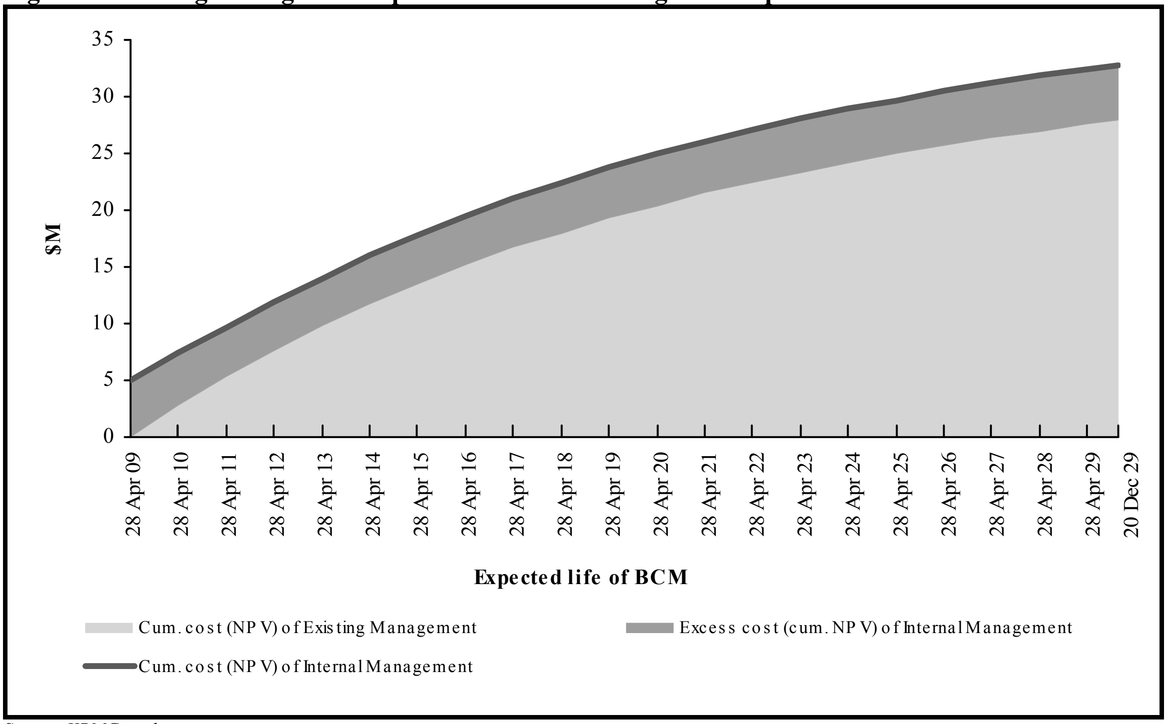
- as the life of BCM increases, the total cumulative NPV cost of the Existing Management Option will increase
- based on the current level of Net Assets of $(642) million (post capital return of $100.7 million) and the expectation that Net Assets may not recover materially given the current strategy of BCM, no management fees would be payable to BBCM but BBCM would be entitled (though must substantiate) the recovery of costs incurred in performing its obligations under the Management Agreement which is expected to be in the order of $3 million (indexed to inflation)
- the rate of increase in the total cumulative NPV cost of the Existing Management Option reduces over time given the effect of discounting costs to a present value.

9.4 Comparison of Internal and Existing Management Options

For any given assumption regarding the future life of BCM, we are of the opinion that in the event the cumulative NPV cost of the Internal Management Option is equal to or lower than the cumulative NPV cost of the Existing Management Option, the Termination Agreement is considered fair for BCM shareholders from a quantitative perspective given it represents an opportunity for BCM to benefit by achieving a lower operating cost base. On the other hand, should the cumulative NPV cost of the Internal Management Option exceed the cumulative NPV cost of the Existing Management Option, the Termination Agreement would be considered not fair.

The following graph illustrates the comparison of the cumulative NPV cost of the Internal Management Option against the cumulative NPV cost of the Existing Management Option as a function of the life of BCM.

Figure 7: Existing Management Option vs Internal Management Option



Source: KPMG analysis

In relation to the graph above, we note:

- Based on the current level of Net Assets (post capital return of $100.7 million) and the expectation that Net Assets may not recover materially given the current strategy of BCM, the cumulative NPV cost of the Internal Management Option would be always higher than under the Existing Management Option irrespective of the assumed life of BCM. Therefore, the Termination Agreement is not considered to be fair from a quantitative perspective given the current level of Net Assets

- If the Termination Agreement would be approved by shareholders, excess costs on a cumulative NPV basis in the order of $4.2 million to $5.0 million might occur under the Internal Management Option relative to the Existing Management Option. This is reflective of the termination fee payable under the Termination Agreement including the corresponding tax and interest implications, whilst the operating costs of managing BCM under both management options are expected to be the same (approximately $4.5 million per annum).

10 Opinion

We are of the opinion that the Termination Agreement is in the best interests of BCM shareholders as the benefits of Management Internalisation via the Termination Agreement in our opinion outweigh any excess costs which may be associated with the Internal Management Option relative to the Existing Management Option.

We note that the assessment of reasonableness of the Termination Agreement and whether this might outweigh any excess costs which may be associated with the Internal Management Option is particularly difficult under the current circumstances, especially given the uncertainty regarding the future life of B&B and BCM. Any assessment as to the reasonableness of the Termination Agreement involves an element of subjectivity and that we encourage each shareholder to consider our opinion in light of their own personal circumstances.

In forming an opinion, we assessed the Termination Agreement on the basis of fairness and reasonableness as defined under RG 111 and in section 5.2. The principal factors which need to be taken into account in forming an opinion are summarised below.

We note that the role of an independent expert is not to assess all alternative strategic options available to shareholders but only the proposed Termination Agreement. Furthermore, we did not consider potential taxation consequences for BCM shareholders as a result of the Termination Agreement.

10.1 The Termination Agreement is not fair

Based on our views as to the expected life and Net Assets of BCM in the context of the current strategy of BCM, we are of the opinion that on the balance of probabilities, the Termination Agreement is not fair. Our not fair opinion is further supported by our sensitivity analysis which implies that possible changes in expected life and Net Assets are unlikely to be sufficiently material to alter our conclusion.

Assessment of fairness

In determining an opinion on fairness, we have considered the cumulative NPV cost of both management options as a function of the life of BCM. Our assessment of fairness is based on the notion that the cost of the Internal Management Option is equal to or lower than the cost of the Existing Management Option as outlined in section 9.4.

Based on the current level of Net Assets (post capital return of $100.7 million) and the expectation that Net Assets may not recover materially, the cumulative NPV cost of the Internal Management Option would be always higher than under the Existing Management Option irrespective of the assumed life of BCM. Therefore, the Termination Agreement is not considered to be fair from a quantitative perspective given the current level of Net Assets. On this basis, our fairness opinion is primarily dependent on the following:

- an assessment of the expected life of BCM considering the current strategy of BCM
- the assumption that Net Assets would not materially recover from the level as per the latest half year accounts at December 2008 in the short to medium term.

Expected life of BCM

In assessing the expected life of BCM, consideration should be given to the following factors:

- The firm's current strategy as outlined in section 6.1, in particular relating to its intention to:
  - appointment of a CEO for the primary purpose of maximising the value of BCM's existing investments
  - not make further acquisitions until investments in eircom and GPM are realised and shareholders consulted
  - return capital to shareholders which will effectively reduce its capacity to continue operating as a going concern
  - commence a formal process to consider any proposals for the acquisition of BCM
  - not inject additional capital into either eircom or GPM
  - conduct a process to execute a sale of GPM.
- The implication that BBCM and BBA are considered non-core operations of B&B, based on recent announcements by B&B to wind down its Corporate & Structured Finance division, and this may affect the capacity of BBCM and BBA to execute its responsibilities under the Existing Management Option
- Investor sentiment in relation to external manager-specialist fund business models
- The timing of potential divestments and the future strategic options available to BCM based on its current strategy
- The mismatch between the short term focus of share market investors and the long term investment horizon of the private equity business model as currently employed by BCM.

Having considered the factors outlined above, we are of the view that on the balance of probabilities, the life of BCM is unlikely to be more than five years.

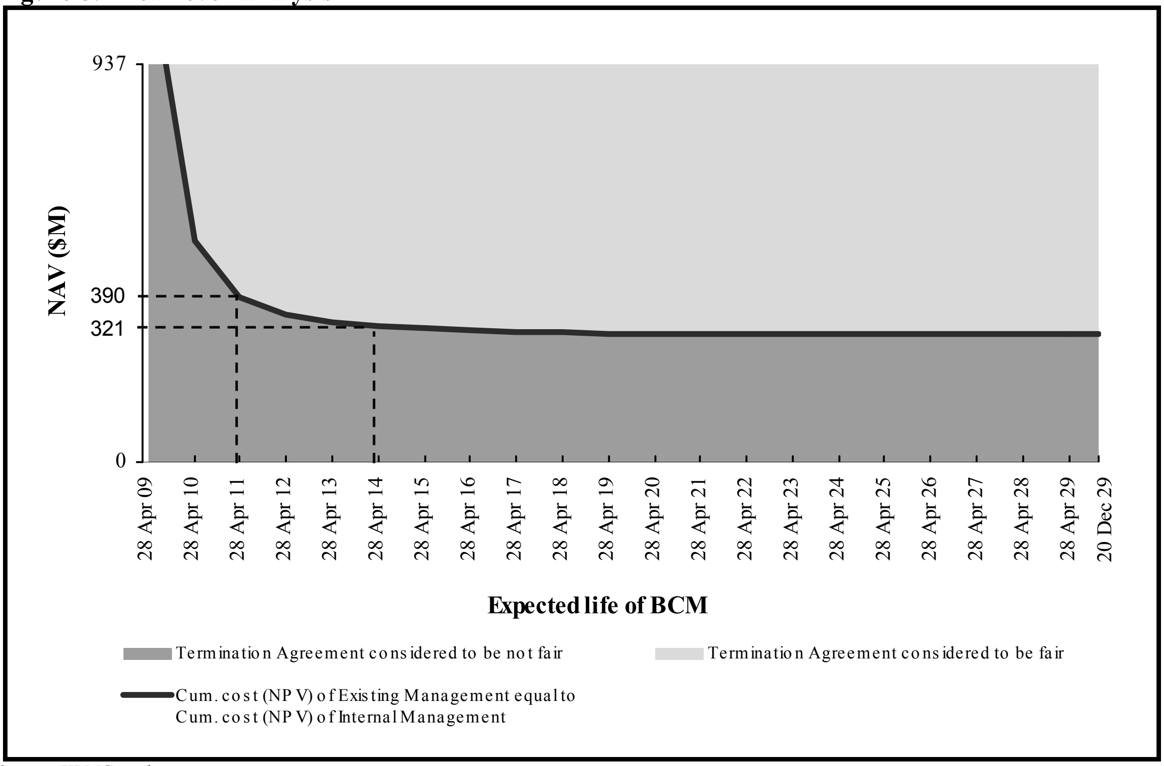
We note that our assessment of the expected life of BCM is primarily based on the current strategy of BCM which might change in the future under both management options. However, based on the current level of Net Assets (post capital return of $100.7 million) and the expectation that Net Assets may not recover materially given the current strategy of BCM, the cumulative NPV cost of the Internal Management Option would be always higher than under the Existing Management Option irrespective of the assumed life of BCM, even if the expected life of BCM exceeds the remaining life of the Management Agreement. Therefore, the Termination Agreement is not considered to be fair from a quantitative perspective given the current level of Net Assets.

Net Assets of BCM

Our assessment of fairness has been based on the assumption that Net Assets would not materially increase from the level as per the latest half year accounts at 31 December 2008 in the short to medium term. In forming this view, we assessed the factors which could potentially have a material impact on Net Assets including the likelihood of these factors eventuating, as outlined in section 9.1 above.

In addition, we have conducted a sensitivity analysis to determine the extent to which our opinion on fairness may alter given a change in Net Assets. This involved the analysis of the break even point at which the cost of both management options would be the same across the Forecast Period. Each point on the break even line represents a particular Life-Net Assets combination at which a fairness conclusion can be determined. On this basis, the break even line in the graph below represents the minimum level of Net Assets required, for any given life of BCM, to deem the Termination Agreement fair from a quantitative perspective.

Figure 8: Break even analysis



Source: KPMG analysis

Based on our break even analysis illustrated in the graph above, we note the following regarding our assessment of fairness:

- As the Net Assets of BCM reduce, BCM would have to remain as a going concern for a longer time frame in order for the Termination Agreement to possibly be considered fair
- Irrespective of the future life of BCM, the Termination Agreement could not be considered fair in the event Net Assets remain below $300 million

- Based on an expected life of BCM of less than five years, the current Net Assets of $(642) million (post capital return) would need to recover above $321 million in the short term so that the Termination Agreement could be considered to be fair from a quantitative perspective.

After performing a sensitivity analysis on the level of Net Assets, we conclude that based on the current strategy of BCM, possible changes in expected life and Net Assets of BCM in the short to medium term are unlikely to be sufficiently material to alter our conclusion. On this basis, the Termination Agreement is not fair.

10.2 The Termination Agreement is reasonable

We are of the opinion that **the Termination Agreement is reasonable** based on the following considerations**:**

- the excess cost of the Internal Management Option over the Existing Management Option may be deemed immaterial when considering the benefits gained by internalising management, including independence and control over decision making

- the termination payment of $5 million equates to 5 percent of the market capitalisation of BCM as at 18 March 2009, and 2 percent of BCM's available cash resources of $201 million as at 31 December 2008 (post capital return of $100.7 million), and therefore can be considered affordable in the current situation

- in our opinion, it is more likely that the Internal Management Option would better enable BCM to realise maximum value for shareholders rather than the Existing Management Option which may not provide sufficient incentives to BBCM given the current level of Net Assets

- whilst shareholders might prefer taking the risk to wait for an opportunity that may enable BCM to exercise its right to terminate the agreements at a lower cost than proposed under the Termination Agreement, certain events (e.g. B&B failing to perform its obligations under the agreements via BBCM and BBA) would need to occur to enable BCM to do this which, at the time of compiling this report, is uncertain and is outside the control of BCM

- when considering the current market environment and circumstances surrounding B&B, we consider it beneficial to implement the internalisation of management sooner rather than later. The Termination Agreement provides the most certain option for BCM to internalise management at this time.

Assessment of reasonableness

Pursuant to the definition of "reasonable" contained in RG 111, we have identified a range of issues that BCM may wish to consider in assessing the reasonableness of the Termination Agreement including:

- The terms of the Termination Agreement

- The implications if the Termination Agreement is approved

- The implications if the Termination Agreement is not approved

- The advantages and disadvantages of the Internal Management Option.

Implications if the Termination Agreement is approved

By approving the Termination Agreement, BCM will achieve independence from B&B and ultimate control over its decision making process. This may result in BCM having a stronger investment mandate and greater appeal to shareholders in the future

By internalising management, BCM will gain ultimate control over its decision making process which will provide increased flexibility in relation to its future strategy and capital management options such as returning more surplus cash to BCM shareholders. Other benefits may include a stronger investment mandate for BCM and a reduction in investors' perception regarding conflicts of interest which may be associated with B&B's management mandate.

This compares to more restrictive arrangements under the Existing Management Option, whereby BCM's decision making process must be subject to recommendations by B&B as well as the obligation on BCM to provide B&B the opportunity to coinvest alongside BCM. These conditions have had the effect of restricting the flexibility of BCM's investment mandate and subdued any investor sentiment towards BCM given the perceived conflicts associated with the captive external manager-specialist fund business model employed by BCM.

In addition, the expected change of name of the company and the fact that B&B would not be entitled to representation on the Board of BCM would also improve the perception of independence.

However, any benefits would need to be considered with respect to the following:

- the current strategy of BCM is not consistent with the notion of BCM operating as an active investment company over a reasonable timeframe to enable BCM to significantly reap the benefits of the Internal Management Option, although this may change at any time

- severing ties with B&B could reduce BCM's ability to leverage the capabilities and networks of the broader B&B group generally, although B&B is currently in a process of winding down and therefore its ability to provide management services to BCM via BBCM and BBA over an extended period is uncertain

- given the dependency on BBCM and BBA to execute BCM's investment mandate, there may be some disruption to BCM's business post termination despite the Transitional Services Agreement being in place. However, any loss of "know how" would likely be minimal as either the Transitional Services Agreement is sufficiently long enough for the "know how" to be transferred to BCM or that BCM may decide to directly employ former BBCM employees

- it may take time to install a new management team and develop a "track record" of success, which may compromise the standalone appeal of BCM for some time. Whilst BCM could rely on third party advisors in the interim, it may not be perceived favourably if BCM as a standalone investment company relies solely on third party advisors to execute its mandate for an extended period of time.

Given our not fair opinion, approving the Termination Agreement may create the perception that BCM might overpay for Management Internalisation

Our not fair opinion may imply that BCM might overpay for internalising management if shareholders approve the Termination Agreement. However, it is important to consider the termination fee from the perspective of materiality and the qualitative benefits achievable before forming a definitive view on the cost of termination.

The termination fee payable of $5 million equates to 5 percent of the market capitalisation of BCM as at 18 March 2009, and 2 percent of BCM's available cash resources of $201 million as at 31 December 2008 (post capital return of $100.7 million), and therefore may be considered affordable. Furthermore, when considering the qualitative benefits to be achieved by terminating the Management Agreement, especially independence and control over decision making, the termination fees could be considered relatively immaterial.

Furthermore, approving the Termination Agreement provides certainty around the timing of implementing internal management capabilities and gaining independence and ultimate control over decision making.

Implications if the Termination Agreement is not approved

The current strategy of B&B involves the winding down of its Corporate Finance division which may compromise B&B's capacity to perform its obligations under the Management Agreement and the Advisory Agreement via BBCM and BBA respectively. If B&B fails to perform its obligations under the agreements, BCM may be able to exercise its right to terminate the agreements at a lower cost than that proposed under the Termination Agreement

Given recent announcements made by B&B to restructure and wind down its business via the sale of assets and reduction in headcount, B&B's ability to perform its obligations under the Existing Management Option via BBCM and BBA may likely be adversely impacted.

"Non-performance" by BBCM may provide BCM the right to terminate both agreements at a lower cost than that proposed under the Termination Agreement, and on this basis, it may be beneficial for BCM to maintain the status quo.

However, it may be difficult for BCM to prove "non-performance" in order to trigger the right to terminate the agreements which represents higher uncertainty with regards to the timing of a possible Management Internalisation in the event the Termination Agreement will not be approved.

Whilst the Management Agreement may be perceived as a "poison pill" in the event of a sale of BCM, prospective acquirers may possibly view the Termination Agreement unfavourably given any sale of 100 percent of BCM would trigger the right for an acquirer to terminate the Management Agreement without incurring the termination fees proposed by the Termination Agreement

Despite the negative market sentiment regarding the Existing Management Option, the Termination Agreement would impose termination fees on BCM which would not apply if a prospective buyer acquired 100 percent of BCM and exercised its right to terminate the existing Management Agreement and Advisory Agreement. Whilst this may possibly cause a prospective buyer to discount the benefit of the Termination Agreement, it should be noted that if the Management Agreement remains in place, the probability of a complete sale of BCM may be lower as B&B may be less inclined to recommend any sale given it would eliminate the potential of future fee income for B&B. Under this scenario however, given the fiduciary obligations under the Act, it would be difficult for B&B not to recommend a sale of BCM if it was clearly beneficial to BCM shareholders.

In addition to the termination fee, it should be noted that any potential acquirer of BCM may need to deal with the implications regarding the potential refinancing of debt in GPM, and transitional management arrangements which would involve B&B.

Based on the current level of Net Assets, fees under the Management Agreement may be insufficient to incentivise B&B to perform in a manner which would enable BCM to realise maximum value for shareholders

Whilst the minimum payment of $3 million cost recovery, based on the current level of Net Assets, is intended to cover the costs incurred by BBCM to perform its obligations under the Management Agreement, it may be insufficient to incentivise B&B to perform in a manner which would enable BCM to realise maximum value for shareholders. In this circumstance, it may be beneficial for BCM to terminate the agreements despite the potential excess costs involved and install an internal management capability that is appropriately incentivised.

Other considerations

Our assessment includes tax considerations for which its realisation is not yet certain. Any differences between the actual treatment and our assumed treatment of tax may effect our assessment and opinion

It should be noted that our assessment of the termination fee under the Termination Agreement is based on our understanding that BCM has obtained tax advice which confirms that it is deductible for tax purposes. Should BCM be unable to claim this deduction owing to insufficient future earnings capacity or the deduction is disallowed when claimed, our assessment would alter which may affect our opinion.

On a fee multiple basis, the Termination Agreement may be reasonably priced compared to amounts recently negotiated by two sister B&B satellite companies with B&B to terminate their respective management agreements

In August 2008, B&B agreed with Babcock & Brown Communities (BBC) to sell its management rights under the existing management agreements between the parties for $17.5 million to assist BBC in extracting maximum offers from prospective acquirers. It should be noted that no management fees were paid by BBC to B&B during FY2008.

In December 2008, Babcock & Brown Wind Partners Limited (BBWP) negotiated the termination of its management agreement and exclusive financial advisory agreement with B&B for a total fee of $40 million ($35 million upfront plus a deferred amount of $5 million). Based on the historical management fees paid by BBWP to B&B of $20 million for FY2008, this equates to a fee multiple of 2 times.

In comparison, the cost for BCM to terminate its Management Agreement and Advisory Agreement with B&B of $5 million implies a multiple of 0.3 times FY2008 management fees of $19 million.

Whilst the Termination Agreement may be reasonably priced on this basis, this comparative analysis should be treated with caution given it does not account for the following:

- the differences in circumstances under which each agreement was negotiated
- the differences in the basis of calculation of management fees payable by BCM, BBC and BBWP

- the different outlook and expected life of BCM, BBC and BBWP

- the deterioration in the Net Assets of BCM since 30 June 2008 and the impact on management fees being payable by BCM to B&B

- the assumption that the termination fees paid by both BBWP and BBC to B&B is fair, given the absence of any independent valuation or recommendation.

10.3 Conclusion

We are of the opinion that the Termination Agreement is in the best interests of BCM shareholders as the benefits of Management Internalisation via the Termination Agreement in our opinion outweigh any excess costs which may be associated with the Internal Management Option relative to the Existing Management Option.

We note that the assessment of reasonableness of the Termination Agreement and whether this might outweigh any excess costs which may be associated with the Internal Management Option is particularly difficult under the current circumstances, especially given the uncertainty regarding the future life of B&B and BCM. Any assessment as to the reasonableness of the Termination Agreement involves an element of subjectivity and that we encourage each shareholder to consider our opinion in light of their own personal circumstances.

Appendix 1 – KPMG disclosures

Qualifications

KPMG is the holder of an Australian Financial Services Licence No 246901 under the Corporations Act 2001 and is controlled by the partners of KPMG Chartered Accountants (the KPMG Partnership). The KPMG Partnership is a long established firm of chartered accountants which provides a full range of professional services, including advising on valuations, acquisitions, takeovers, restructuring proposals, reorganisations and related matters. The following persons, whose qualifications and experience are stated below, have been responsible for the preparation of this report.

Diana D'Ambra is an Executive Director in KPMG. Diana holds a Master of Commerce from the University of New South Wales and is a Fellow of the Institute of Chartered Accountants in Australia. Diana has had in excess of 20 years' experience in the preparation of independent reports on the valuation of shares and businesses.

Ian Jedlin is a partner in the KPMG Partnership and an Executive Director in KPMG. Ian is an Associate of the Institute of Chartered Accountants in Australia and a Fellow of the Financial Services Institute of Australasia (previously the Securities Institute of Australia). Ian holds a Master of Commerce from the University of NSW and has had in excess of 18 years experience in the preparation of independent reports on the valuation of shares and businesses.

Mrs D'Ambra and Mr Jedlin were assisted in the preparation of this report by other KPMG staff.

Declarations

In June 2008, the Directors of BCM engaged KPMG to prepare an independent expert report in respect of a proposed on market share buyback.

During the course of this engagement, KPMG have provided draft copies of this report to BCM Directors for their comments as to the factual accuracy, as opposed to the opinion which is the responsibility of KPMG alone.

Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than KPMG's opinion as to whether the Termination Agreement is in the best interests of BCM shareholders. KPMG expressly disclaims any liability to any shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Other than this report, neither KPMG nor the KPMG Partnership has been involved in the preparation of any announcement to which this report may append. Accordingly, we take no responsibility for the content of any announcement as a whole.

Independence

KPMG is entitled to receive a fee based on our standard rates, excluding GST, for the preparation of this report. Except for these fees, KPMG has not received and will not receive any pecuniary or other benefit whether direct or indirect for or in connection with the preparation of this report.

From time-to-time, KPMG and the KPMG Partnership undertake professional assignments for B&B or its affiliated entities. These assignments involve providing advice in roles such as:

- acquisition due diligence
- valuation of businesses and assets
- tax advice
- operational risk.

A number of such assignments were on-going during the preparation of this report. Other than this report, none of these assignments related to any aspect of the internalisation of management. By way of disclosure, over the past two years, KPMG and the KPMG Partnership earned standard professional fees from undertaking such assignments.

Certain employees of KPMG, the KPMG Partnership and its affiliated entities hold securities in BCM and or B&B. Furthermore, certain individuals involved in preparing this report have an interest in securities in B&B which were purchased prior to becoming aware of the proposed Termination Agreement. However, no individual involved in the preparation of this report, or review thereof, holds a material direct interest in the securities of B&B. With the exception of these matters, neither KPMG or the KPMG Partnership will receive any other benefits, whether directly or indirectly, for or in connection with the making of this report. In accordance with KPMG's firm policy, individuals in preparing this report who hold securities in BCM and or B&B are prohibited from trading their securities during the course of this engagement.

Consent

KPMG consents to the inclusion of this report in the form and context in which it is included in the Notice of Meeting and Explanatory Statement and any related announcement to the ASX with respect to the Termination Agreement. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of KPMG as to the form and context in which it appears.

Indemnity

BCM has agreed to indemnify and hold harmless KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership against any and all losses, claims, costs, expenses, actions, demands, damages, liabilities or any other proceedings, whatsoever incurred by KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership in respect of any claim by a third party arising from or connected to any breach by you of your obligations.

BCM has also agreed that KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership shall not be liable for any losses, claims, expenses, actions, demands, damages, liabilities or any other proceedings arising out of reliance on any information provided by you or any of your representatives, which is false, misleading or incomplete. BCM has agreed to indemnify and hold harmless KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership from any such liabilities we may have to you or any third party as a result of reliance by KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership on any information provided by you or any of your representatives, which is false, misleading or incomplete.

Appendix 2 – Sources of information

In preparing this report we have been provided with and considered the following sources of information:

BCM

- BCM Annual Reports for the years ending 30 June 2007 and 30 June 2008
- BCM Half Year Accounts for the six months ending 31 December 2008
- BCM prospectus
- BCM Constitution
- BCM Management Agreement, 20 December 2004
- Amendments to BCM Management Agreement, 28 July 2008
- BCM financial accounts for BCMIF and BCMIPE
- BCM Termination Agreement and letter relating to termination of Management Agreement, including subsequent amendments
- B&B Preferred Financial Advisor Mandate Letter, 20 December 2004
- Amended and Restated Shareholders Agreement between B&B Ireland Group Limited, eircom ESOP Trustee Limited, BCM Ireland Equity Limited, BCM Ireland Finance Limited, BCM Ireland Holdings Limited, BCM, dated 15 August 2006
- BCM Monthly Registry Report December 2008
- Draft Notice of General Meeting, March 2009
- In addition, we have held discussions with the Independent Directors of BCM

General

- Various ASX company announcements (ASX Code: BCM and B&B)
- Various company websites including BCM
- Various investor presentations and reports relating to BCM
- Various broker and analyst reports relating to BCM
- Various newspaper and media reports pertaining to recent media discussions surrounding B&B and its satellites
- Various market data sources including Bloomberg LLP, DatAnalysis and IRESS Market Technology

Appendix 3 – Overview of valuation methodologies

Capitalisation of Earnings

An earnings based approach estimates a sustainable level of future earnings for a business (maintainable earnings) and applies an appropriate multiple to those earnings, capitalising them into a value for the business. The earnings bases to which a multiple is commonly applied include Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA), Earnings Before Interest and Taxation (EBIT) and Net Profit After Taxation (NPAT).

In considering the maintainable earnings of the business being valued, factors to be taken into account include whether the historical performance of the business reflects the expected level of future operating performance, particularly in cases of continued development or when significant changes occur in the operating environment and when the underlying business is cyclical.

With regard to the multiples applied in an earnings based valuation, they are generally based on data from listed companies and recent transactions in a comparable sector, with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued.

The multiples derived for comparable quoted companies are generally based on share prices reflective of the trades of small parcels of shares. As such, they generally reflect multiples reflective of the prices at which portfolio interests change hands. That is there is no premium for control incorporated within such pricing. They may also be impacted by the level of liquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (i.e. 100 percent) it is appropriate to also reference the multiples achieved in recent transactions, where a control premium and breadth of purchaser interest are more fully reflected.

Net assets or cost based methodology

Under a net assets or cost based approach, total value is based on the sum of the net asset value or the costs incurred in developing a business to date, plus, if appropriate, a premium to reflect the value of intangible assets not recorded on the balance sheet.

Net asset value is determined by marking every asset and liability on (and off) the company’s balance sheet to current market values.

A premium is added, if appropriate, to the marked-to-market net asset value, reflecting the profitability, market position and the overall attractiveness of the business. The net asset value, including any premium, can be matched to the “book” net asset value, to give a P/BV, which can then be compared to that of similar transactions or quoted companies.

A net asset or cost based methodology is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business (e.g. real estate holding companies). A net asset approach is also useful as a cross-check to assess the relative risk of the business (e.g. through measures such as levels of tangible asset backing).

Discounted cash flow methodology

Value is future oriented and accordingly the theoretically correct manner to assess value is to consider future earnings potential of a business. Under a DCF approach, forecast cash flows are discounted back to the valuation date, generating a net present value for the cash flow stream of the business. A terminal value at the end of the explicit forecast period is then determined and that value is also discounted back to the valuation date and added to the net present value of the cash flow stream to give an overall value for the business.

In a DCF valuation, the forecast period should be of such a length to enable the business to achieve a stabilised level of earnings, or to be reflective of an entire operation cycle for more cyclical industries. Typically a forecast period of at least five years is required, although this can vary by industry and by sector within a given industry.

Discount rate

The rate at which the future cash flows are discounted (the Discount Rate) should reflect not only the time value of money, but also the risk associated with the business' future operations. This means that in order for a DCF to produce a sensible valuation figure, the quality of the underlying cash flow forecasts is fundamental.

The Discount Rate typically employed is the Weighted Average Cost of Capital of the business, reflecting an optimal (as opposed to actual) financing structure, which is applied to unleveraged cash flows and results in an enterprise value for the business. Alternatively, in certain circumstances, it is more appropriate to apply an equity approach, which takes the business' cost of equity and applies it to leveraged cash flows to determine an equity value for the business.

Terminal value

In calculating the terminal value, regard must be had to the business' potential for further growth beyond the explicit forecast period. The "constant growth model", which applies an expected constant level of growth to the cash flow forecast in the last year of the forecast period and assumes such growth is achieved in perpetuity, is a common method. The terminal value calculation should be cross-checked for reasonableness against implied exit multiples.

Industry specific methodology

Depending on the industry in which the business operates, an industry specific approach may be appropriate in assessing value. Industry specific methodologies typically involve the application of a 'rule of thumb', which is accepted within the industry as an appropriate basis for benchmarking value.

Industry specific methodologies typically involve the application of a multiplier to an operating metric such as revenue, customer numbers or funds under management.

The multiplier applied is determined with reference to common perception in the market, which is supported through empirical evidence from recently completed transactions.

An industry specific methodology is most appropriate as a cross-check of the value determined by applying one of the above methodologies as a primary methodology.

Enterprise or equity value

Depending on the valuation approach selected and the treatment of the business' existing debt position, the valuation range calculated will result in either an enterprise value or an equity value being determined.

An enterprise value reflects the value of the whole of the business (i.e. the total assets of the business including fixed assets, working capital and goodwill/intangibles) that accrues to the providers of both debt and equity. An enterprise value will be calculated if a multiple is applied to unleveraged earnings (i.e. Revenue, EBITDA, EBIT) or unleveraged free cash flow.

An equity value reflects the value that accrues to the equity holders. To compare an enterprise value to an equity value, the level of net debt must be deducted from the enterprise value. An equity value will be calculated if a multiple is applied to leveraged earnings (i.e. Net Profit after Taxation) or free cash flow, post debt servicing.

Appendix 4 – Glossary

Abbreviation	Definition
α	Company/project specific risk factor (alpha)
Act	Corporations Act 2001
Advisory Agreement	Preferred financial advisory agreement between BCM and BBA
ASIC	Australian Securities and Investment Commission
ASX	Australian Stock Exchange Limited
ATO	Australian Taxation Office
AUD	Australian Dollar
β	beta factor of the investment or business operation
BBA	Babcock & Brown Australia Pty Limited
BBC	Babcock & Brown Communities Group
BBCM	Babcock & Brown Capital Management Pty Ltd
BBS	Babcock & Brown Securities Pty Ltd
BBWP	Babcock & Brown Wind Partners Limited
BCM	Babcock & Brown Capital Limited
BCMIE	BCM Ireland Equity SPC
BCMIH	BCM Ireland Holdings Ltd
B&B	Babcock & Brown Limited and affiliates
Board	BCM Board of Directors
CAPM	Capital Asset Pricing Model
Chief Executive Officer	CEO
Conversion Rights	The right for the ESOT to convert their interests in BCMIE into BCM shares after 18 August 2009
DCF	Discounted Cash Flow
Discount Rate	Rate at which the future cash flows are discounted
EBIT	Earnings Before Interest and Taxation
EBITDA	Earnings Before Interest, Taxation, Depreciation and Amortisation
eircom	eircom Group plc
ESOT	eircom Employee Ownership Trust
Existing Management Option	Existing management arrangements under the Management Agreement and Advisory Agreement
Forecast Period	Period spanning the date of shareholder approval of the Termination Agreement and the end of the Management Agreement (20 December 2029)
FSG	Financial Services Guide
GPM	G.P.M Classified Directories (Management and Marketing) Ltd
IER	Independent Expert Report
Internal Management Option	Proposed management arrangements under an internal management structure, including cost of termination
IPO	Initial Public Offering
KPMG	KPMG Corporate Finance (Aust) Pty Ltd ABN: 43 007 363 215 10 Shelley Street Sydney NSW 2000
KPMG Partnership	KPMG's Australian professional advisory and accounting practice
Management Agreement	25-year fixed term management agreement and a non-exclusive advisory

Abbreviation	Definition
	agreement between BCM and BBCM, BBS and BBA
Management Internalisation	Internalisation of management of BCM
Meteor	Meteor Ireland Holdings LLC
n/a	Not applicable / not available
NAV	Net asset value
Net Assets	Consolidated net assets of BCM, excluding minority interests
NIS	New Israeli Shekel
NPAT	Net Profit After Taxation
NPV	Net Present Value
Ongoing cost of Internal Management	Cost of replacing management services provided by BBCM
Review Process	Formal strategic review to more fully consider any proposals for the acquisition of BCM
RG	Regulatory Guide
Termination Agreement	The revised agreement to enact a termination of the Management Agreement between BCM and BBCM and the Advisory Agreement between BCM and BBA, including the execution of the Transitional Services Agreement and the BBA Appointment Letter
Termination Date	The date upon which the Termination Agreement is executed, which if approved by BCM shareholders, would be one business day after the date of shareholder approval
Transaction	Formal sale process of BCM
TSR	Total Shareholder Return
VWAP	Volume Weighted Average Price