

## BABCOCK & BROWN RESIDENTIAL LAND PARTNERS



Babcock & Brown Residential Land Partners Limited · ABN 49 119 517 985  
Babcock & Brown Residential Land Partners Services Limited · ABN 40 118 364 499  
as responsible entity of the Babcock & Brown Residential Land Partners Trust · ARSN 119 613 848  
Level 23 The Chifley Tower · 2 Chifley Square · Sydney NSW 2000 Australia  
T +61 2 9229 1800 · F +61 2 9216 1752 · [www.bbresidentiallandpartners.com](http://www.bbresidentiallandpartners.com)

### ASX Release

28 October 2008

### SECURITYHOLDER MEETINGS ADDRESS AND PRESENTATION

Please see attached:

- Chairman's Address;
- Managing Director's Address; and
- Presentation slides

to be delivered at today's Securityholder Meetings.

### ENDS

#### Further Information:

Michael Balkin  
Managing Director  
B&B Residential Land Partners  
+61 2 9229 1800

Rebecca Hill  
Investor Relations  
B&B Residential Land Partners  
+61 2 9376 8594

#### About Babcock & Brown Residential Land Partners

Babcock & Brown Residential Land Partners (BLP) is a listed vehicle managed by Babcock & Brown which invests in a diversified portfolio of quality residential land projects which are developed by a range of leading private developers.

BLP offers Securityholders liquidity, geographic, project and product diversity, access to quality private developers, long term potential for growth and, importantly, the benefit of access to Babcock & Brown's considerable experience in the real estate sector.

For further details please see our website: [www.bbresidentiallandpartners.com](http://www.bbresidentiallandpartners.com)

**GENERAL MEETINGS, 28 OCTOBER 2008**

**CHAIRMAN'S ADDRESS AND MANAGING DIRECTOR'S PRESENTATION**

**CHAIRMAN, ROBERT WRIGHT**

Before moving to the formal items of business outlined in the Notice of Meetings, Michael Balkin and I would like to provide Securityholders with an update on the developments within BLP and its achievements during the 2008 financial year.

Firstly, I would like to address the current market environment we now face and update Securityholders on a number of strategic issues the Board is currently focused on before turning to BLP's key achievements for 2008. After my brief report, I will hand over to Michael Balkin to discuss the 2008 financial and operational performance as well as the outlook for BLP.

We are currently operating in an unprecedented time of market volatility both in Australia and globally. Heightened concerns over the global credit crisis combined with the financial issues faced by various companies in the property sector have continued to negatively impact sentiment towards Australian listed property trusts. The BLP security price has suffered as a result of these broader market dynamics, however the Board also recognises that the underperformance of BLP has been compounded by a number of company specific issues.

We are very aware that the current BLP security price relative to the underlying net tangible asset backing continues to be disappointing for all Securityholders. While the market will ultimately determine the value of BLP, the Board assures Securityholders that the current price far from reflects the underlying value of the business.

To address the significant gap between the security price of BLP and the underlying value of the portfolio, the Board is in the process of undertaking an independent strategic review of operations. The purpose of the review is to determine an appropriate strategy and structure for BLP to best position the group in the current market environment and to maximise Securityholder value. Independent advisers, Oaktower Partnership, have been appointed to assist the Board in the identification and assessment of potential strategic options. Oaktower is making good progress with the review and we anticipate their recommendations will be provided to the Board to consider by the end of the year. We anticipate however, that implementation of the final outcome from the review will take additional time. We will provide an update to Securityholders once the review is completed and the Board has resolved the path forward.

### **Capital Management**

Prudent management of capital remains a key priority for BLP however, now with an increasing importance in light of the global credit crisis and shifting market tolerance away from companies with high levels of gearing.

During the twelve months ended 30 June 2008, BLP repaid \$25.9 million in senior debt. While we continue to generate sufficient cashflow to cover interest and retire debt, remaining in compliance with our covenants, we are mindful of the current pressures in global credit markets. With gearing at approximately 62.6 per cent as at 30 June 2008, we are conscious of market concerns that our gearing is too high in the current climate. As such, part of our strategic review encompasses assessing the

appropriate level of gearing for BLP in light of the challenging market conditions we face. Irrespective, a continued priority for BLP going forward is further debt reduction. With a focus on reducing our gearing, the Board would like to also reassure Securityholders that BLP will not be undertaking any acquisitions that require cash in the short term.

The Board is aware that distributions are an important way of rewarding Securityholders. Previously, distributions have been paid in line with those prescribed in the PDS and the Board believes it was important to deliver on what was previously promised. As advised to the market in August, going forward distributions will be determined by the Board based on the operating performance of the portfolio and the outcome of the strategic review. At this stage, we cannot provide more definitive guidance on distributions until the strategic review has been completed however, it is the Board's intention that any future declared distributions will no longer be funded from capital. We do intend to update Securityholders with more detail on future distributions once the review has been completed.

### **Key Achievements**

In light of the challenging market conditions we face, I am pleased to say that the 2008 financial year was a productive period for BLP with a number of notable achievements. As at 30 June 2008, BLP's portfolio comprised interests in 18 projects with 11,162 lots remaining compared to 10 projects with 4,241 lots remaining at the time of listing only two years ago.

## BABCOCK & BROWN RESIDENTIAL LAND PARTNERS

During the year, BLP expanded its portfolio into New Zealand and Western Australia, delivering further diversity to the portfolio. Additionally, we have added two experienced private development partners, PRM Group and Darby Partners, broadening our access to a unique group of highly experienced private developers across Australia and New Zealand.

Demonstrating our ability to unlock the underlying value embedded in our land investments, BLP completed the sale of one third of its interest in Ascot Chase in August after the close of the 2008 financial year, at a premium to book value, resulting in net proceeds of \$8.2 million. BLP is prepared to consider other divestitures where we have the opportunity to realise solid returns and the proceeds can be more effectively utilised within the business such as towards the reduction of debt.

Notwithstanding the challenging market conditions BLP has faced during 2008, we remain focused on our core strategy of leveraging a geographically diverse portfolio of residential projects in partnership with a broad, experienced group of development partners in order to deliver long-term sustainable earnings growth.

### **Market Conditions**

We are realistic that residential property markets in Australia and New Zealand may take some time to recover with a number of residential markets remaining challenging with pressures on affordability and purchaser sentiment affecting short-term demand for residential properties. While we expect that the recent interest rate cuts and the Federal Government's action of tripling the First Home Owner's Grant for newly built homes should alleviate some of the heightened pressures on affordability and

sentiment experienced in the 2008 financial year, we anticipate that it may take some time before buyer confidence returns. However, BLP continues to believe that the fundamentals underlying residential property markets remain intact with population growth, a strong rental market and lack of supply in key markets driving demand for residential property in the longer term.

In response to the challenging market conditions BLP currently faces, we remain focused on a strategy of affordability through lot sizing and level of amenity. Our focus is on driving profit through design and construction efficiencies rather than volume and discounted sales. We remain confident that the diversity and scale of our portfolio will position BLP to effectively manage any headwinds faced in the near term.

### **Corporate Governance**

In ensuring the success of BLP, the Board recognises the importance of strong corporate governance and the need for transparent processes and policies. You will find our Corporate Governance Statement in BLP's 2008 Annual Report. Our corporate governance practices are consistent with the ASX best practice recommendations.

In June 2008, I was appointed by the Board as Independent Chairman and Richard Gelski was appointed as Chairman of the Audit, Risk & Compliance Committee. The changes followed the recommendation by Babcock & Brown to increase the independence of the Boards of its Australian listed funds by appointing Independent Chairmen. The Board of BLP remains majority independent with three out of the five directors being independent Non-Executive Directors.

## **Conclusion**

BLP's operational and financial performance has consistently delivered on expectations since IPO and the 2008 financial year was no exception. Our priorities for the year ahead are focused on identifying and pursuing a strategy to resolve the trading discount relative to the underlying portfolio value, prudently managing capital and reducing debt as well as delivering sustainable earnings growth.

Despite challenging market conditions and affordability pressures, BLP remains confident that the longer term, underlying fundamentals supporting the demand profile for residential development projects remain strong.

I would like to take this opportunity to thank the members of the management team for their ongoing efforts which continue to contribute to the solid growth and operational performance of BLP. In addition, I would like to thank my fellow directors for their continued support and commitment to BLP.

I would now like to invite your Managing Director, Michael Balkin, to address the Meetings and provide an overview of the 2008 financial and operational performance as well as the outlook for BLP.

## **MANAGING DIRECTOR, MICHAEL BALKIN**

Good morning fellow Securityholders and thank you for the opportunity to update you on BLP's financial and operational performance during the 2008 financial year and the outlook for 2009.

The 2008 financial year was characterised by subdued residential property conditions across a number of markets and a deterioration in the global market environment. While we are pleased to have delivered on expectations in 2008, we are realistic that the outlook for the 2009 financial year remains extremely challenging, with global economic uncertainty and residential property market pressures continuing to prevail. I would like to briefly review the highlights of our results for the 2008 financial year before turning to the outlook for market conditions and BLP in 2009.

**[Slide 4]**

**Financial Highlights**

In the 2008 financial year, BLP once again delivered on expectations generating underlying net profit after tax of \$9.3 million, in line with previously stated guidance. The result was supported by healthy sales primarily at Seabreeze in Northern New South Wales, Haywards Bay at Wollongong in New South Wales and Renaissance Rise at Mernda in Victoria.

The total distribution for the twelve months ended 30 June 2008 of 8.25 cents per security was consistent with the distribution outlined in the IPO Product Disclosure Statement. Distribution guidance for future periods will be at the discretion of the Board and based on the operating performance of the portfolio. Going forward, the Board has resolved that distributions will no longer be paid out of capital.

Total assets increased by more than \$146 million during the year reflecting the bolt-on acquisition at Mernda in Victoria and our investments in Western Australia and New Zealand. The net tangible asset backing of 81 cents per stapled security as at 30 June

2008 included the provision for the second half distribution of 4.125 cents per stapled security.

**[Slide 5]**

**Capital Management**

Turning to our current capital management profile, BLP had total debt outstanding of \$279 million as at 30 June 2008. Our debt facilities are currently around 80% utilised with capacity within our existing project facilities to develop and deliver land lots to completion. Our corporate debt facilities include a \$100 million evergreen facility with BOSI which was put in place in June 2007 with an initial three year tenure. BLP remains in compliance with all debt covenants and our interest coverage continues to be healthy at 3.3 times.

As mentioned when we announced our 2008 financial results, in terms of short term re-financing, the project facility for Officer was due to expire in October 2008. We have subsequently negotiated to extend the Officer facility for two months to December 2008 in the expectation of achieving re-zoning on the project at which point, we expect to re-finance the facility.

**[Slide 6]**

**Portfolio Performance**

Total portfolio revenue from the sale of land increased 48 per cent to \$62.7 million during the 2008 financial year. It was pleasing to see revenue generated broadly across our portfolio. We anticipate revenue generated from Western Australia and New Zealand will increase from 2009 reflecting full year contributions from these projects.

Approximately, 534 lots were settled during the 2008 financial year. Since 30 June 2008, 235 lots have settled across the portfolio, with a further 430 lots exchanged and due to settle in 2009. We are encouraged by the promising start to 2009, particularly in light of the headwinds faced in a number of residential markets.

**[Slide 7]**

**Portfolio Summary**

BLP's portfolio continues to increase in scale and diversity by geography, product type and development partner. Our portfolio now stands at 18 projects having increased from 10 projects since listing in 2006. Our development partnerships have also expanded to 7 from 4 at IPO.

Following our investments in projects located in Western Australia and New Zealand, BLP's remaining lot yield has increased by more than 160 per cent to 11,162 lots. Our portfolio has a current projected life of 9 years.

The BLP development management team together with our development partners has successfully improved the zoning profile of the portfolio, with 83% now zoned residential, compared to 56% at IPO. This removes a substantial portion of re-zoning risk and adds considerable value to the portfolio.

As Robert mentioned previously, in August BLP completed the sale of one third of its interest in Ascot Chase, its project at Ascot Vale near Melbourne at a premium to book value. The sale resulted in net proceeds of \$8.2 million. The counterparty on the sale

is BLP's existing joint venture partner BMD Urbex, who is also the development manager on the project. Additionally as part of the sale, BLP has granted an option to BMD Urbex to acquire BLP's remaining 50% stake in Ascot Chase. The partial sale of Ascot Chase was opportunistic and demonstrates the underlying value embedded in BLP's land investments.

**[Slide 8]**

**Expansion into New Zealand**

BLP expanded its portfolio into the New Zealand market in November 2007 through the investment in two master-planned residential projects in Queenstown: Jacks Point and Henley Downs. The Jacks Point project covers approximately 400 hectares with a lot yield on acquisition of 411. The project was 85 per cent pre-sold.

Henley Downs is located adjacent to Jacks Point and extends over 681 hectares with a lot yield on acquisition of 462. The project is a longer term investment that will leverage off the substantial infrastructure and critical mass created from the maturity of the Jacks Point development.

Through the investment in New Zealand, BLP established a new development partnership with one of New Zealand's pre-eminent residential developers, Darby Partners. To closely align our interests, Darby is entitled to a profit share component once pre-determined performance hurdles have been met. BLP also has first right of refusal over Darby's other New Zealand projects.

The investment in Jacks Point and Henley Downs represents a measured entry for BLP into the New Zealand residential market. While the New Zealand residential market has softened, our projects continue to benefit from the limited residential land supply in the Queenstown region as well as being of unique appeal to the lifestyle buyer.

**[Slide 9]**

**Investment in Western Australia**

In December 2007, BLP formed a strategic partnership with Western Australia developer, PRM Group. BLP acquired a 50 per cent interest in PRM Property Holdings Pty Ltd, which has joint venture interests in four residential land sub-division projects located in Western Australia.

BLP also acquired a 60 per cent interest in PRM Property Group Pty Ltd, the development manager on the projects. This acquisition is consistent with BLP's strategy of partnering with highly experienced developers with a track record in their chosen market.

**[Slide 10]**

**Residential Market Outlook**

As Robert has mentioned, residential property market conditions in Australia and New Zealand remain very challenging. Combined with the global economic uncertainty, ongoing pressures on affordability and concerns over job security continue to see buyers remaining highly cautious. While the recent interest rate cuts and tripling of the First Home Owner's Grant should assist in bolstering purchaser confidence in the

longer term, we believe a recovery in the broader residential property markets will take some time.

Turning more specifically to the markets BLP operates in, in Regional New South Wales market conditions are expected to remain soft in the year ahead resulting in slower sales rates. BLP has not resorted to deep discounting despite the weaker market dynamics.

In Queensland and Northern New South Wales, strong market conditions persist and BLP's projects continue to perform solidly. Market conditions in Victoria and Western Australia remain stable with our projects continuing to perform well in both markets.

While the New Zealand residential markets have softened, BLP's Queenstown projects benefit from the limited residential land supply in the region. Our projects are unique offerings appealing to the lifestyle buyer. Additionally, BLP's Jacks Point project is sold primarily to the wholesale market.

**[Slide 11]**

**Project Performance**

Despite four interest rate rises in Australia during the 2008 financial year, BLP continued to see stable demand for affordable product in Victoria, Queensland and Western Australia. While margins remain under pressure in New South Wales, across other states, margins continue to track in line with expectations.

In response to the challenging market conditions we currently face, our highly experienced development team is focused on efficiently managing stock through the timely roll out of existing projects depending on market demand. Our core strategic focus for our residential projects remains affordability through lot sizing and level of amenity. We believe the positive start we have enjoyed to the 2009 financial year is reflective of the diversity of our portfolio and the experience of our team in successfully managing the headwinds impacting both housing affordability and consumer sentiment across residential markets in Australia and New Zealand.

**[Slide 12]**

**Outlook**

As Robert has discussed in his address, the Board is currently in the process of undertaking an independent strategic review with our advisers, Oaktower Partnership, expected to deliver its recommendations to the Board by the end of the year. We will be in a better position to provide more definitive guidance on both earnings expectations and future distributions once the strategic review is complete and the path forward has been determined.

BLP has made a promising start to the 2009 financial year with a high level of settled and exchanged lots relative to the same period in 2008. Despite ongoing pressures across a number of markets, we continue to believe in the longer term underlying fundamentals of residential land development in Australia and New Zealand.

I would like to take this opportunity to thank each of our Board members for their continued support and application in respect of BLP. In particular, I would also like to

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add a special thanks to Robert Wright, who recently agreed to become BLP's Independent Chairman. Robert brings a breadth of experience to the Board of BLP which is invaluable in the current volatile market environment and dedicates a substantial amount of his time and effort to BLP. I would also like to formally recognise the ongoing efforts and commitment of the BLP team in achieving the results to date.

# Babcock & Brown Residential Land Partners General Meetings

28 October 2008

# Chairman's Address

Robert Wright

# Managing Director's Address

Michael Balkin

# FINANCIAL HIGHLIGHTS

	Year ended 30 June 2008	Period ended 30 June 2007	Variance	
Underlying net profit before tax	\$11.7m	\$3.3m	\$8.4m	↑
Underlying net profit after tax	\$9.3m	\$3.1m	\$6.2m	↑
Reported net profit after tax	\$7.6m	\$3.1m	\$4.5m	↑
Distribution per stapled security	8.25¢	7.5¢	Fixed in accordance with PDS	
Total assets	\$466.0m	\$319.4m	\$146.6m	↑
Net tangible asset backing	\$0.81	\$0.88	(\$0.07)	↓

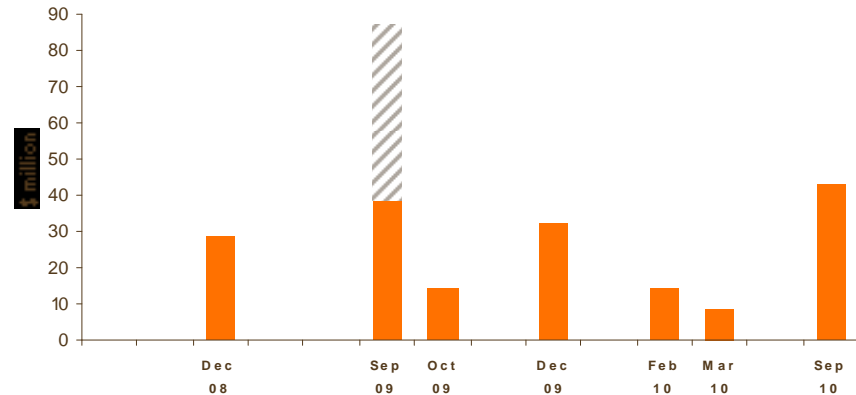
- Underlying net profit after tax in line with guidance
- Distribution fixed in accordance with the distribution policy set out in the PDS dated 6 June 2006
- Total assets higher reflecting:
  - Acquisition of an interest in 'The Groves' at Mernda, Victoria (August 2007) and PRM Holdings and PRM Group, in Western Australia (December 2007), and;
  - Investment in 'Jacks Point' and 'Henley Downs' at Queenstown, New Zealand (November 2007)
- NTA of \$0.81 includes the second half distribution of 4.125¢ per stapled security

# CAPITAL MANAGEMENT


Facility	Limit	Utilised
Project (9)	\$228m	75.1%
Corporate (2)	\$113m	91.2%
<b>TOTAL</b>	<b>\$341m</b>	<b>80.4%</b>

As at 30 June 2008	
Gearing (debt/total assets)	62.6%
Weighted average debt maturity	1.6 years
Hedging	17.9%
Weighted average cost of debt	9.8%
<b>Interest cover ratio</b>	<b>3.3x</b>

Project debt facilities maturity profile



**NOTE:** Graph indicates Peak Project Limits

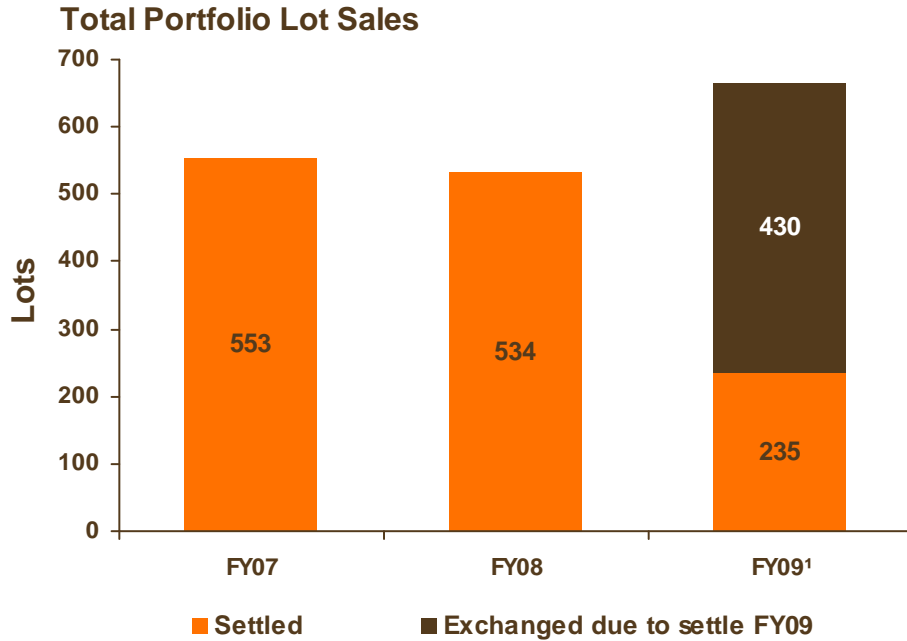
 Relates to Ascot Chase facility. Given partial sale of BLP's interest in Ascot Chase and option granted to BMD Urbex post balance date, the Ascot Chase facility may not be relevant by September 2009

- During the twelve months ended 30 June 2008, BLP repaid \$25.9 million in senior debt
- BLP's corporate debt includes an evergreen facility for \$100 million (with BOSI) that was put in place in June 2007 with an initial 3 year tenure
- Capacity exists within current project facilities to develop and deliver land lots to completion

## Short-term refinancing:

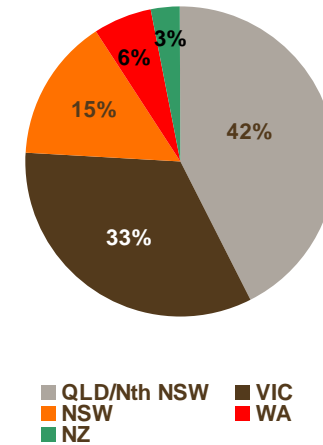
- Debt expiring in December 2008 relates to the Officer project in Victoria. A project financing facility will replace the land bank facility and is currently being negotiated
- Debt expiring in September and October 2009 relates to the Ascot Chase, Haywards Bay and Merimbula projects. These facilities as of 30 June 2008 are only drawn to 74.8% of their combined limits

# PORTFOLIO PERFORMANCE



<sup>1</sup> As at 25 August 2008

**FY08 Revenue From Settled Lots<sup>2</sup>**



<sup>2</sup> Reflects BLP's economic interest in the underlying revenue from land sales

- BLP's share of revenue from the sale of land was \$62.7 million (compared to \$42.4 million in FY07)
- Since 30 June 2008
  - 235 lots have settled; and
  - 430 lots have exchanged and are expected to settle during FY09

# PORTFOLIO SUMMARY

	Current As of 25 August 2008	IPO As of 30 June 2006	% Change
Number of projects	18	10	80% ↑
Number of development partners	7	4	75% ↑
Total portfolio remaining lot yield	11,162	4,241	163% ↑
% of portfolio zoned for residential use (by value)	83%	56%	48% ↑
Projected end date of portfolio life	2017	2014	

- Investments in projects located in Western Australia and New Zealand have delivered further diversity to the portfolio
- Since BLP's listing, 1,322 lots have settled across BLP projects
- Current projected life of portfolio is 9 years
- Sale of one third of BLP's interest in Ascot Chase to existing JV partner, BMD Urbex, subsequent to 30 June 2008 at a premium to book value

# EXPANSION INTO NEW ZEALAND



**Project:** Jacks Point

**Location:** Queenstown, New Zealand

**Total area:** 400 hectares

**Development Partner:** Darby Partners

**Lot yield on acquisition:** 411

**Estimated Completion:** 2010

**Project:** Henley Downs

**Location:** Queenstown, New Zealand

**Total area:** 681 hectares

**Development Partner:** Darby Partners

**Lot yield on acquisition:** 959

**Estimated Completion:** 2015

# INVESTMENT IN WESTERN AUSTRALIA

- BLP acquired a 50% interest in PRM Holdings Pty Limited and a 60% interest in PRM Group in December 2007
- PRM Holdings has interests in four projects with a total lot yield at acquisition of approximately 4,500 lots, hence providing BLP with a significant presence in the Western Australian market
- The remaining 50% of PRM Holdings and 40% of PRM Group is owned by the founding owner, (Steve Robertson), who remains as the active CEO
- PRM Group acts as the development manager for all of PRM Holdings projects and has a staff of 9 people all based in Perth
- BLP's acquisition of an interest in the development management business provides it with a platform to establish itself as a full service development business



# RESIDENTIAL MARKET OUTLOOK

- Residential property markets in Australia and New Zealand remain challenging given pressures on affordability, concerns over job security and global economic uncertainty
- Expect recent interest rate cuts and tripling of the First Home Owner's Grant should help improve buyer confidence
- Realistic that the recovery in residential property markets though may take some time
- Continue to believe that longer term fundamentals supporting the residential property market remain intact

Outlook by BLP Market	FY09 Outlook
<b>Regional NSW</b>	Soft market conditions with slower sales rates. BLP has not resorted to deep discounting
<b>Queensland/Northern NSW</b>	Strong market conditions with BLP projects performing solidly
<b>Victoria</b>	Solid market conditions. Victorian projects continue to perform well
<b>Western Australia</b>	Market expected to be stable in FY09. Continues to benefit from demand driven by resources boom
<b>Queenstown, New Zealand</b>	Steady market conditions. The Queenstown projects however are unique offerings, appealing to the lifestyle buyer. The projects benefit from the limited residential land supply in the region. Jacks Point sales are made primarily to the wholesale market

# PROJECT PERFORMANCE

- Margins are under pressure in NSW, however margins continue to track in line with forecasts across other states
- Despite four interest rate rises in Australia during the twelve months ended 30 June 2008, we continue to see healthy demand for affordable product in Victoria, Queensland and Western Australia
- Strategic focus on affordability through lot sizing and level of amenity
- Focus on driving profit through design and construction efficiencies rather than volume and discounted sales
- Efficient management of stock and timely roll out of production
- Continued focus on roll out of existing projects consistent with approvals and appropriate market conditions

# OUTLOOK

- With a view to resolving the significant trading discount to the underlying portfolio value, the Board has appointed independent advisers, Oaktower Partnership (“Oaktower”), to conduct a strategic review of operations
- Oaktower is expected to deliver its recommendations to the Board by the end of November
- FY09 net profit after tax expected to exceed prior year underlying net profit after tax
- More definitive guidance will be provided to the market on completion of the strategic review
- Future distributions will be determined by the Board based on the operating performance of the portfolio and the outcome of the strategic review
- Going forward distributions will no longer be paid out of capital

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