

ANNUAL REPORT TO CREDITORS AND NOTEHOLDERS

22 November 2012

Dear Sir/Madam

Babcock & Brown Limited (In Liquidation) ("BBL")
ACN 108 614 955

Report pursuant to Section 508(1)(b)(ii) of the Corporations Act 2001 ("the Act")

I refer to my appointment as Liquidator of BBL on 24 August 2009.

In accordance with Section 508(3) of the Act, I have prepared a report on the progress of the liquidation, setting out our acts and dealings and the general conduct of the winding up for the period 24 August 2011 to 23 August 2012 ("the Period"). This report is set out below and should be read in conjunction with our report dated 26 October 2011.

In this Report, "Noteholders" means registered holders of subordinated notes issued by BBL pursuant to prospectuses issued in Australia dated 9 November 2005 (supplementary prospectus dated 21 November 2005), 9 May 2006, 12 October 2006 and investment statements issued in New Zealand dated 9 May 2006, 12 October 2006.

1. LIQUIDATOR'S ACTS AND DEALINGS FOR THE PERIOD

i. National Greenhouse Energy Reporting and Deregistration

I have been required, pursuant to the National Greenhouse Energy Reporting Act 2007 ("NGER"), to report the greenhouse gas emissions, energy production and energy consumption for Australian facilities under the operational control of BBL on an annual basis since my appointment. A third party consultant was engaged to assist with the preparation of this report for the 2010 – 2011 financial year, and the report was submitted to the Department of Climate Change and Energy Efficiency on 24 October 2011.

I have now successfully applied for BBL's deregistration from the National Greenhouse and Energy Register, and will not be required to submit any further NGER reports on behalf of BBL.

ii. Court Application for Priority Distribution to Contributing Creditors

As previously advised, we successfully raised c.\$557k from contributing creditors and noteholders ("Contributing Creditors") following our initial funding proposal, dated 12 August 2009 ("Funding Proposal"). The contributions were used to fund the Liquidators' investigations into the affairs of BBL, which led to the Liquidators' successful settlement of causes of action against several of the Company's former directors and officers, and its former auditor.

Consistent with our previous undertaking, the Liquidator applied to the Court, pursuant to section 564 of the *Corporations Act 2001* (Cth) (the "Application"), for an order entitling Contributing Creditors to obtain a preferential return out of recoveries over and above those creditors and noteholders who elected not to participate in the Funding Proposal.

The Application was heard by Justice Emmett of the Federal Court of Australia on 3 February 2012, and on that occasion the Court made the orders sought by the Liquidator. In summary, the Court ordered that Contributing Creditors are to receive payment in priority to the claims of all other ordinary unsecured or subordinated creditors of the Company, in respect of their contribution and specifically, the following amounts:

- i. Repayment of the amount of their individual contribution (“Reimbursement”) **AND**
- ii. Payment of an additional amount, being **ten times the amount of their individual contribution** to the fighting fund (“Uplift”)

The order includes a limitation whereby no contributing creditor can receive more, by way of Reimbursement and Uplift, than the value of their original claim against BBL. I further note that the Court’s decision does not affect the priority of, or reduce the value of the Contributing Creditor’s original claim against BBL.

iii. Distribution of Court ordered payments to Contributing Creditors

Subsequent to the Orders, my office contacted all Contributing Creditors to confirm contact details and payment authority instructions. As at 23 August 2012, \$5,873,953.02 (approximately 96%) of outstanding Contributor Creditor payments had been distributed. As at the date of this circular, a total of \$5,917,953.02 (approximately 97%) has been distributed.

My office has taken steps, where possible, to contact Contributing Creditors from whom insufficient payment authority instructions have been received, or where further information has been required.

Please contact Mani Oberoi of this office on +61 2 9322 5266 if you are a Contributing Creditor and have not yet received your reimbursement and uplift payment.

iv. GST ruling from the Commissioner of Taxation in relation to the settlement proceeds

In response to the Liquidator’s application, The Commissioner of Taxation issued a private ruling, dated 22 November 2011, confirming that the settlement proceeds are **not** subject to Goods and Services Tax.

v. Dividend to ordinary unsecured creditors

On 26 June 2012, the Liquidator issued notice to all ordinary unsecured creditors of his intention to declare a first and final dividend to ordinary unsecured creditors of BBL. I confirm that this notice related to **ordinary unsecured creditors only** (as distinct from subordinated noteholders, who will be dealt with subsequently).

A significant number of complicated ordinary unsecured claims were received following this notice.

Each claim received has required detailed examination, and in many cases, legal consultation. In many instances I have been required to request further verification and supporting information in order to adjudicate these claims. I have subsequently received requests from a significant portion of those creditors, and in some instances their legal representatives, requesting that I grant an extension of time to provide that information.

The Liquidator has a duty to provide full and proper consideration of all claims received. In light of this duty, I have granted extensions to certain parties, when considered appropriate. The result of these extensions is that the intended dividend declaration date of 24 August 2012 has been delayed until further notice.

I confirm that since the above date, further particulars have been received in relation to a large number of the claims. My review and adjudication of all ordinary unsecured claims, and relevant additional information, is ongoing.

Please note that due to the above claims received, I am unable at this stage to comment on the value of any surplus funds remaining for distribution to subordinated noteholders until all unsecured creditor claims are finalised and paid. I further note that, due to the operation of regulation 5.6.65 of the *Corporations Regulations 2001*, I am required to re-advertise my intention to declare a dividend to ordinary unsecured creditors not more than two months before the intended date of payment. I expect to issue this notice by February 2013.

All notable updates in relation to the dividend process will be made available on our website at www.deloitte.com/au/babcockandbrown. All statutory notices will continue to be issued in accordance with the Act.

2. ONLINE UPDATES

Please note that all previously issued reports and circulars, as well as additional updates to creditors may be found on our website at the following address: www.deloitte.com/au/babcockandbrown

We suggest that all creditors and noteholders visit the website regularly in order to remain updated on the progress of the Liquidation.

3. RECEIPTS AND PAYMENTS

A summary of BBL's receipts and payments for the period 24 August 2011 to 23 August 2012 is attached as Annexure A. A summary of the Voluntary Administrators' and Liquidators' remuneration is attached as Annexure B.

4. ESTIMATED TIMEFRAME FOR COMPLETION OF LIQUIDATION

An indicative timeline for payment of the dividend to creditors is outlined below.

November 2012	Liquidator to finalise adjudication of unsecured creditor claims
December 2012	Claimants have 14 days (or any further period that the Court allows) from the date of the Liquidator's rejection of their claim, to appeal against the Liquidator's adjudication. Any appeals received may delay the below timeline.
February 2013	Liquidator to advertise notice of intention to declare dividend to unsecured creditors Collate, record and adjudicate any further Formal Proof of Debts received
April 2013	Declaration and payment of dividend to unsecured creditors Post an update on our website regarding the outcome of the above process Liquidator to advertise notice of intention to declare dividend to subordinated noteholders
June 2013	Declaration and payment of dividend to subordinated noteholders

Before the liquidation can be terminated, the Liquidator must resolve the issue of BBL's shareholding in, and subordinated intercompany loan to BBIPL. It is the Liquidator's intention to consult with BBL's Committee of Inspection as to the appropriate course of action for this outstanding matter.

Should you have any queries regarding the contents of this report, you may contact this office on +61 2 9322 5266 or bandbltd@deloitte.com.au.

Yours faithfully,



D J F Lombe
Liquidator

Encl.

Annexure A

Babcock & Brown Limited (In Liquidation)

**Summary of Receipts and Payments
24 August 2011 to 23 August 2012**

Opening Cash at Bank	661,207.48
Receipts during the period	
Settlement Proceeds - US Trust	220,000.00
Interest	1,384,554.43
Other Proceeds	40,000,000.00
Total	41,604,554.43
Payments during the period	
IMF (Australia) Fees	7,320,860.81
Legal Fees	941,273.98
Legal Disbursements	136,839.97
Liquidator's Remuneration	1,285,366.91
Liquidator's Expenses	23,548.69
Bank Charges	347.40
Deloitte Forensic - Data loading and hosting	26,637.29
Email Backup Escrow Storage Costs	1,193.73
Consulting Fees - National Greenhouse Energy Reporting	25,000.00
Stationery and Printing	28,655.68
Reimbursement and Uplift payments to funding contributors	5,873,953.02
Total	15,663,677.48
Net Receipts / (Payments)	25,940,876.95
Net GST Receipts / (Payments)	(20,246.95)
Closing Cash at Bank	26,581,837.48

Annexure B

A summary of remuneration of Voluntary Administrators and Liquidators, paid as at 24 August 2012, is provided below. Appropriate information outlining the nature of the remuneration sought was provided to the Committee of Inspection on each occasion.

Voluntary Administration: 13 March 2009 to 23 August 2009 Liquidation: Post 24 August 2009

Period during which fees were incurred	Note	Total Fees (excl GST) (\$)	Fee approval received Date of resolution
13-Mar-09 to 22-May-09		858,700.50	09-Jun-09
23-May-09 to 31-Jul-09		595,604.00	07-Aug-09
01-Aug-09 to 23-Aug-09	(1)	300,000.00	07-Aug-09
Voluntary Administrators' Remuneration:	(2)	1,754,304.50	
24-Aug-09 to 16-Apr-10	(3)	658,542.00	21-May-10
17-Apr-10 to 19-Nov-10		614,083.00	15-Dec-10
20-Nov-10 to 19-Feb-11		112,461.00	28-Feb-11
20-Feb-11 to 31-May-11		60,779.00	29-Aug-11
01-Jun-11 to 25-Nov-11		211,564.50	20-Dec-11
26-Nov-11 to 17-Feb-12	(4)	97,347.50	20-Dec-11
17-Feb-11 to 30-Apr-12	(4)	97,194.50	20-Dec-11
Liquidators' Remuneration:		1,851,971.50	

Notes

(1) Future fee approval of \$300,000.00 received by resolution at Committee Meeting 7 August 2009

(2) \$500,000 was paid during the Voluntary Administration period, with the balance paid during the Liquidation period.

(3) An amount of \$227,272.73 was paid by the litigation funder, IMF (Australia) Limited.

(4) Future fee approval of \$200,000.00 received by resolution at Committee meeting 20 December 2012.

* A portion of the fees incurred during the period 24 August 2009 to 16 April 2010 was paid prior to 24 August 2011. The sum of \$1,285,366.91, drawn during the period 24 August 2011 to 23 August 2012, relates to the balance of fees incurred up to 30 April 2012.