

NOTICE OF GENERAL MEETING

Notice is hereby given that a General Meeting of the shareholders of Babcock & Brown Capital Limited ACN 112 119 203 ("the Company") will be held as follows:

Date: Monday 21st April 2008

Time: 11am AEST

Place: Auditorium

Museum of Sydney

37 Phillip Street, Sydney

This Notice of Meeting should be read in conjunction with the accompanying Explanatory Notes. A Proxy Form accompanies this Notice.

SPECIAL BUSINESS

Resolution 1 – To approve the buy-back of up to 50% of ordinary shares

To consider, and if thought fit, pass the following ordinary resolution:

That the Company authorises and approves for the purposes of section 257C of the Corporations Act 2001 and all other purposes:

(a) the buy-back of up to a total of 100 million of its issued ordinary shares (minus any ordinary shares bought back on-market during the 12 months prior to the date of this General Meeting) by buy-back agreements under either or both of:

(1) one or more off-market tender buy-backs; and

(2) one or more on-market buy-backs; and

(b) the terms, and entry into, of any buy-back agreements to the extent that approval of such buy-back agreements is required under the Corporations Act 2001,

as detailed in the Explanatory Notes which accompany this Notice of General Meeting.

By order of the Board

Dated: 14 March 2008



Simone Lander

Company Secretary

Babcock & Brown Capital Limited

NOTES:

- 1 On a poll, shareholders have one vote for every fully paid ordinary share held or unit held. On a show of hands, every person present and qualified to vote has one vote and if one proxy has been appointed, that proxy will have one vote on a show of hands. Under the Corporations Act, if a shareholder appoints more than one proxy, neither proxy may vote on a show of hands, but both proxies will be entitled to vote on a poll.
- 2 A shareholder entitled to attend and vote is entitled to appoint not more than two proxies. If it is desired to appoint two proxies, then an additional proxy form can be obtained from the Company's share registry by telephoning +61 2 8280 7783.
- 3 Where more than one proxy is appointed, each proxy may be appointed to represent a specified proportion or number of the shareholder's voting rights.
- 4 A proxy need not be a shareholder of the Company and may be an individual or body corporate.
- 5 Proxy forms (and if the appointment is signed by the appointor's attorney, the original authority under which the appointment was signed or a certified copy of the authority) must be received by the Company's share registry Link Market Services:
 - by mail to Locked Bag A14, Sydney South NSW 1235; or
 - by hand to Level 12, 680 George Street, Sydney NSW 2000; or
 - by fax to +61 2 9287 0309; or
 - by electronic lodgement online at Link Market Services' website www.linkmarketservices.com.au in accordance with the instructions provided on the website. You will need your Holder Identification number (HIN) or Security Reference Number (SRN) to lodge your proxy online,prior to 11.00am AEST Saturday, 19 April 2008.
- 6 The Board of the Company have determined that, for the purposes of the meeting shares will be taken to be held by the persons who are registered as shareholders as at 7.00pm AEST on Saturday, 19 April 2008. Accordingly share transfers registered after that time will be disregarded in determining entitlement to attend and vote at the meeting.

Explanatory Notes

These Explanatory Notes are intended to provide shareholders of the Company with information to assess the merits of the proposed resolution contained in the accompanying Notice of Meeting.

Approval to buy back up to 50% of ordinary shares (ordinary resolution)

1 Overview

Background – Existing on-market buy-back program

On 28 August 2007 the Company announced an on-market buy-back program ("**Existing On-Market Program**") under which it could purchase up to 10 million of the Company's shares (representing 5% of issued capital). On 25 January 2008, the Existing On-market Program was expanded so that the Company could purchase up to 19.98 million shares (representing 9.99% of issued capital). As this was below the 10% limit set out in the Corporations Act 2001, the Existing On-Market Program did not require prior shareholder approval. The Existing On-Market Program is still in operation and as at 13 March 2008, 11.69 million shares (or 5.85% of issued capital) have been bought back under that program.

Investment review and capital management program

On 28 February 2008, the Board announced that it had completed a comprehensive review of its investments, with a particular focus on how to maximise value for shareholders. The Board determined that the best use of surplus cash resources was to pursue an aggressive capital management program over the next 12 months.

At that time, the Board determined that at least \$310 million of the Company's available cash resources would be allocated to capital management programs, in particular share buy-backs, over a period of 12 months. This would still leave up to \$150 million cash available for working capital requirements, to support the Company's existing investments, and to take advantage of value-enhancing bolt-on acquisitions in eircom and Golden Pages.

Subject to the actual buy-back price, the Company may have capacity to buy back up to 50% of its ordinary shares (including shares already bought back under the Existing On-Market Program). The Company may decide to buy back some or all of this capital either off-market using one or more tender processes ("**Off-Market Tender**"), or on market using an expanded on-market program ("**Expanded On-Market Program**"), or a combination of both. Together, the Off-Market Tender and Expanded On-Market Program are referred to as the "**Buy-Back Program**".

All references in this document to buying back up to "50%" of the Company's shares mean up to 100 million ordinary shares including any shares bought back under the Existing On-Market Program (whether before or after the date of this document).

Shareholder approval sought for Buy-Back Program

A buy-back of shares exceeding 10% of issued capital in any 12 month period requires shareholder approval under the Corporations Act 2001.

Accordingly in Resolution 1 (the "**Buy-Back Resolution**"), the Company is seeking shareholder approval to buy back ordinary shares under an Off-Market Tender, and also (or alternatively) to buy back more shares on-market under an Expanded On-Market Program.

If shareholders approve the Buy-Back Resolution, the Company will be permitted to buy back a maximum of 50% of its ordinary shares either off-market or on-market (or both) over the next 12 months. The maximum 50% of ordinary shares would represent a total of 100 million shares, including up to 19.98 million shares (9.99%) that may be bought back under the Existing On-Market Program. Although the Company is seeking approval to buy back this number of shares, other than through the Existing On-Market Program, the Company has not made any decision at this stage whether it will buy back any shares at all. Nor has it made any decision as to the relative sizes of any Off-Market Tender and Expanded On-Market Program. It will only buy back shares if the Board determines a buy-back is appropriate having regard to the then prevailing market and business conditions. The Board notes however that it is considering an Off-Market Tender and that it intends to make an announcement to shareholders concerning an Off-Market Tender in advance of the General Meeting. In such circumstances, any Off-Market Tender would only proceed if the Buy-Back Resolution is approved and mandatory regulatory approvals are obtained.

No buy-back election required at this time

This document contains details of the potential Buy-Back Program and seeks approval of the Buy-Back Resolution. However, shareholders are not committing themselves to participate in any buy-back transaction just by voting in favour of the Buy-Back Resolution.

No binding buy-back arrangement will affect any shareholder's shares unless and until that shareholder actively decides to participate in the Buy-Back Program, either by making an election to participate in an Off-Market Tender if and when it is offered, or by choosing to sell shares on-market during the Existing On-Market Program or an Expanded On-Market Program.

Position of Babcock & Brown

The Babcock & Brown group of companies ("**Babcock & Brown Group**"), which currently hold 14,459,281 shares, has confirmed that it:

- will not vote on the Buy-back Resolution; and
- will not participate in the Existing On-Market Program or any Expanded On-Market Program.

Babcock & Brown Group has reserved the right to participate in any Off-Market Tender but will not do so at current share price levels and will only do so once prior notification (including by way of disclosure in the tender booklet) of its intention to participate is provided to ASX.

If Babcock & Brown Group does not participate, depending on the number of shares bought back from other shareholders, Babcock & Brown Group's voting power in the Company will increase, assuming it retains its current shareholding. More information about the impact of any buy-back on Babcock & Brown Group's voting power is set out in Section 8 below.

Contents of these Explanatory Notes

These Explanatory Notes set out information that is material to the Company's shareholders' decision on how to vote on the Buy-Back Resolution, including:

- reasons for the Buy-Back Program and directors' recommendation (Sections 3 and 4);
- details of the potential Off-Market Tender (Section 5);
- details of the potential Expanded On-Market Program (Section 6);
- the financial implications of the Buy-Back Program on the Company (Section 7);
- the effect of the Buy-Back Program on Babcock & Brown Group's voting power in the Company (Section 8); and
- other material information, including directors' interests (Section 9).

2 Reason for the resolution

The purpose of the Buy-Back Resolution is to seek shareholder approval of the Buy-Back Program. Under the Corporations Act 2001, the Company must obtain the approval of its shareholders in order to buy back more than 10% of the smallest number of voting shares that the Company had on issue during the 12 months preceding the buy-back.

The Buy-Back Resolution is designed to give the Board flexibility in deciding on the most appropriate method to return surplus capital to shareholders, having regard to the Company's circumstances and its ongoing capital management strategy.

The Buy-Back Resolution will be approved if more than 50% of votes cast at the General Meeting are in favour of the resolution, subject to ASIC granting the relief referred to in Section 5 below.

3 Reasons for the Buy-Back Program

The Board considers that, having regard to available funding, projected cash flows and capital requirements over the 12 months after the General Meeting, the Company may have surplus capital of at least \$293 million (being \$310 million as at 28 February less \$17 million spent on the Existing On-Market Program between 28 February and 13 March 2008) and, subject to the final buy-back price, the Company may have capacity to buy back up to 50% of its ordinary shares including 11.69 million shares already bought back under the Existing On-Market Program.

The Board considers that a buy-back is an effective means of returning surplus capital to shareholders and will enable the Company to maintain an efficient capital structure. Implications of the Buy-Back Program for the Company's financial position are set out in Section 7 below.

The Board considered other potential uses of surplus capital, and considered a range of alternative ways of returning capital to shareholders. The Board concluded that giving the Company the ability to conduct either an Off-Market Tender or an Expanded On-Market Program (or both) gives the Company the flexibility to choose the most advantageous method of returning surplus capital to shareholders having regard to the prevailing market and business conditions at the time. The advantages and disadvantages of the Off-Market Tender and Expanded On-Market Program are set out in more detail in Sections 5 and 6 below.

Subsequent to the release of the Company's 31 December 2007 half year results, analysts' 12 month price targets for the Company range from \$5.40 to \$6.55 per share¹. Any shares bought back at a price lower than this range would, other things being equal and assuming analysts applied a consistent methodology to value the Company's shares, result in an increase in the value range for the remaining shares. The Company and its directors do not necessarily endorse these price targets, and they do not make any kind of price or value prediction in this document.

4 Directors' recommendation

Each of the Company's Directors recommend that shareholders vote in favour of the Buy-Back Resolution.

Consistent with the Babcock & Brown Group position, Mr Phil Green and Mr Robert Topfer, as the Babcock & Brown Group representatives on the Board:

- will not vote on the Buy-Back Resolution; and
- will not participate in the Existing On-Market Program or any Expanded On-Market Program.

Mr Green and Mr Topfer have reserved the right to participate in any Off-Market Tender but will not do so at current share price levels and will only do so once prior notification (including by way of disclosure in the tender booklet) of their intention to participate is provided to ASX.

In deciding how to vote, shareholders should be aware that, among other things, if any buy-backs are undertaken:

- Babcock & Brown Group's voting power in the Company is likely to increase on the assumption that it does not participate;
- there will be a reduction in the number of ordinary shares on issue, which may decrease liquidity on the ASX;
- the Company's weighting in S&P/ASX indices may decrease and the Company could be excluded from S&P/ASX indices;
- any buy-back will reduce the net assets of the Company and so will reduce the amount of the base management fee payable to Babcock & Brown (although it may not necessarily reduce the amount of future performance fees payable as this will depend on future shareholder returns); and
- net asset value per share is expected to increase.

There are other specific advantages and disadvantages of off-market and on-market buy-backs, and these are described in Sections 5 and 6 below.

Directors' interests in the Company's shares are set out in Section 9 below.

¹ This range includes price targets from 2 analysts published on 28 February 2008. The range includes all publicly available price targets known to the Company that were published after the release of the Company's half year results for the period ended 31 December 2007. None of the analysts is associated with Babcock & Brown Group.

5 Outline of Off-Market Tender

Overview of the Off-Market Tender process

Any off-market buy-back will be conducted using a tender process. This involves the Company inviting each shareholder who is eligible to participate, to tender to sell ordinary shares to the Company on terms which would be set out in a separate tender booklet to be mailed to all eligible shareholders. The tender booklet, when sent, will set out details of the tender process, including a timetable for the transaction and the total amount available for buying back shares (these details have not yet been determined).

The Off-Market Tender will invite eligible shareholders to tender some or all of their shares either:

- at specified prices per share within a tender range. The Board will specify these prices at the time it decides to proceed with the Off-Market Tender. The lowest price in the range may be a discount and the highest price in the range a premium to the prevailing market price at the time the Off-market Tender is undertaken; or
- at specified discounts or premiums within a tender range to the prevailing share price over the last week of the tender period. The Company may set a maximum share price above which it will not buy back shares.

Each eligible shareholder may (but is not obliged to) submit a tender if they wish to sell some or all of their ordinary shares. If no tender is submitted, a shareholder will not have any shares bought back in the tender.

A shareholder's tender form must specify:

- the number of shares the shareholder offers to sell, which may be up to 100% of their holding as at the record date; and
- either:
 - if the Company decides to set prices for tenders – the nominated prices within the specified buy-back range; or
 - if the Company decides to set the tender range by reference to the prevailing share price over the last week of the tender period – a price determined by reference to nominated discounts or premiums within the specified buy-back range.

Alternatively, shareholders wishing to increase the likelihood that they will participate in the buy-back may submit a "final price" tender. A final price tender is a tender in which the shareholder elects to receive the final buy-back price, whatever it is determined to be under the tender process.

Shares that are tendered above the final buy-back price will not be bought back. Shares tendered at or below the final buy-back price, or as a final price tender, will be bought back subject to the scale-back mechanism outlined below.

After the close of the tender period, the Company will determine the lowest price in the tender range at which the Company will be able to buy back the amount of capital it decided to allocate to the Off-Market Tender (the "**final buy-back price**"). All shareholders submitting successful tenders will be paid the same price for shares bought back (even if they tendered shares below the final buy-back price).

Shareholders will be advised by announcement to the ASX of the buy-back price, the total number of shares to be bought back and the extent of any scale-back, after the close of the buy-back period.

Conduct of the Off-Market Tender

If any of Babcock & Brown Group, Mr Green or Mr Topfer decide, on prior notification to ASX, to participate in an Off-Market Tender, once the tender booklet is issued, a sub-committee of the Board, comprising the Independent Directors will take all further decisions regarding the conduct of the Off-Market Tender including:

- the number of shares, if any, to be bought back under the Off-Market Tender; and
- the final buy-back price.

In these circumstances, the Babcock & Brown Group representatives on the Board will not participate in these decisions.

If none of Babcock & Brown Group, Mr Green or Mr Topfer decide to participate in an Off-Market Tender, then the above decisions will be made by the Board.

Scale-back mechanism

If the total number of shares tendered at or below the final buy-back price (including final price tenders) is more than the Company wishes to buy back, a scale-back mechanism may be applied. The operation of the scale-back mechanism will depend on the final buy-back price as detailed below.

- **Where the final buy-back price is the lowest price in the tender range:**

All tenders at the final buy-back price (including final price tenders) will be scaled back on a pro-rata basis except that those eligible shareholders who have submitted tenders in respect of 100% of their shares as final price tenders and/or at the final buy-back price, and would have a small shareholding (that is, around \$500 worth of shares or less as set out in the tender booklet) as at the end of the process as a result of the scale-back, will have all of their shares bought back.

- **Where the final buy-back price is above the lowest price in the tender range:**

(a) Tendere of shares below the final buy-back price, and final price tendere will be bought back in full.

(b) Tendere of shares at the final buy-back price will be scaled back as follows:

- eligible shareholders who have submitted tendere in respect of 100% of their shares at or below the final buy-back price and would have a small shareholding (that is, around \$500 worth of shares or less as set out in the tender booklet) at the end of the process as a result of the scale-back, will have all of their shares bought back; and
- the number of shares that will be bought back from each other eligible shareholder who tendere shares at the final buy-back price will be scaled back on a pro rata basis.

Priority allocation in scale-back

The Company may also adopt a priority allocation, so that a specified number of shares (equating to a total value of around \$2,000 as set out in the tender booklet) will be bought back before the scale-back is applied.

Who may participate?

Subject to certain exceptions (as set out below), the Company will invite all shareholders who are registered on the record date for determining entitlements to participate in the Off-Market Tender.

Shareholders resident in Australia, UK, New Zealand, the United States of America, Hong Kong and Singapore and potentially other countries as well (to be detailed in the tender booklet when it is prepared) will be eligible to participate. Shareholders in other foreign countries will not be eligible to participate unless they can demonstrate to the Company's satisfaction before the end of the tender period that they can lawfully participate in the off-market buy-back either unconditionally or after compliance with such conditions as the Company in its absolute discretion regards as acceptable and not unduly onerous.

While eligible to participate in the Off-Market Tender, the Independent Directors have determined that they will not participate in the Off-Market Tender.

Mr Green and Mr Topfer have reserved the right to participate in any Off-Market Tender but will not do so at current share price levels and will only do so once prior notification of their intention to participate is provided to ASX.

Participation in any Off-Market Tender is voluntary. Shareholders do not have to sell their shares if they do not want to.

Timing

Assuming the Buy-Back Resolution is passed and any mandatory regulatory approvals referred to below are obtained, if the Board decides to proceed with an Off-Market Tender the Company will announce details to ASX and mail out tender booklets to all eligible shareholders. Alternatively, the Board may decide to proceed with this announcement and mail out of tender booklets before the General Meeting.

Shareholders do not have to make a decision as to whether or not to participate in any Off-Market Tender until after those booklets have been sent out, the Buy-Back Resolution is passed and the necessary regulatory approvals are obtained.

Details of the record date for eligibility, tender period, and payment dates have not yet been determined and will be set out in the ASX announcement and the tender booklet.

Number of shares to be bought back

The maximum number of shares that the Company will buy back under the Buy-Back Program will be 50% of issued shares, or a total of 100 million shares. Accordingly, an Off-Market Tender could theoretically be for up to this number of shares, minus any shares previously purchased under the Existing On-Market Program.

This represents a maximum number of shares that may be bought back rather than the number that will definitely be bought back. The number of shares actually bought back will depend on a range of factors including the total amount of funding available for the Buy-Back Program, the amount of this funding allocated to the Off-Market Tender, the price level of tenders received (which will in turn depend to some extent on prevailing market prices), and an assessment of the value to the Company in buying back shares at the tendered price.

Advantages of Off-Market Tender process

The Board considers the benefits of conducting the off-market buy-back by way of a tender process are as follows:

- all eligible shareholders have an equal opportunity to participate, and can choose whether and to what extent they participate;
- the Off-Market Tender process allows shareholders to tender their shares at prices that they choose within the tender range which means that shareholders effectively determine the minimum buy-back price for a given number of shares to be bought back;
- the Off-Market Tender process should allow the Company to buy back a greater number of shares within a shorter period than under an on-market buy-back;
- the Off-Market Tender process may enable the Company to repurchase shares at a lower average cost than a fixed price buy-back or an on-market buy-back;
- compared with a fixed price buy-back, the Off-Market Tender process reduces the risk of setting a buy-back price that is too low and the buy-back being unsuccessful through a low take-up;
- compared with a fixed price buy-back, the tender process may facilitate the repurchase of a greater number of shares which will maximise any positive net asset value per share ("NAV"), earnings per share ("EPS") and investment return ("IRR") impacts;
- any buy-back will reduce the net assets of the Company and so will reduce the amount of the base management fee payable to Babcock & Brown (although it may not necessarily reduce the amount of future performance fees payable as this will depend on future shareholder returns);
- the Off-Market Tender process should enable shareholders to sell a large volume of shares without depressing the market price of ordinary shares; and
- shareholders should not have to pay brokerage or appoint a stockbroker to sell their shares in the Off-Market Tender.

Disadvantages of Off-Market Tender process

Potential disadvantages of conducting the off-market buy-back by way of a tender process are as follows:

- there will be a reduction in the number of shares on issue, which may decrease liquidity on the ASX;
- the Company's weighting in S&P/ASX indices may decrease and the Company could be excluded from S&P/ASX indices;
- shareholders who elect to specify a minimum buy-back price (or minimum discount/premium to market price) in their tender will be at risk of having no shares bought back if the final buy-back price is less than that price (or is lower than that discount/premium); and
- shareholders who do not specify a minimum price (or a minimum discount/premium) and instead make a "final price" tender will not take the same risk as to the number of shares to be sold (although they may be subject to scaling back), but will have no control over the price at which their shares will be bought back.

ASIC exemption

In order to proceed with an Off-Market Tender, in addition to shareholder approval, the Company will require an ASIC exemption.

An Off-Market Tender does not technically comply with the requirements under the Corporations Act for an equal access buy-back. Accordingly, it would be treated as a selective buy-back for the purposes of the Corporations Act, and, rather than requiring approval by ordinary resolution of shareholders, it would require approval by a special resolution on which no votes are cast by persons whose shares are proposed to be bought back or their associates.

Before proceeding with an Off-Market Tender, the Company will apply to ASIC for an exemption to permit it to:

- conduct the buy-back similarly to the conduct of an equal access scheme;
- use the scale-back mechanism described above;
- invite all shareholders to offer for sale any number of their shares to the Company, rather than the Company offering to buy back such shares; and
- rely on the approval of the buy-back by an ordinary resolution of its shareholders (on the same basis as would be required for an equal access buy-back in excess of the 10/12 limit).

ATO Class Ruling

As well as an ASIC exemption, the Company is in the process of applying for a Class Ruling confirming the tax position outlined in Section 9 below. The Company will not necessarily wait to receive a final Class Ruling before proceeding with the Off-Market Tender. Further details of the Class Ruling process will be contained in the tender booklet.

ASX waiver

Before proceeding with any Off-Market Tender, the Company will apply for a waiver from the ASX from:

- Appendix 7A of the Listing Rules. This will exempt the Company from the requirement to set a record date for entitlement to participate in the proposed Off-Market Tender at least seven days after the General Meeting;
- Listing Rule 3.8A. This will allow the Company to lodge its Appendix 3F notifying the market and proposed Off-Market Tender participants of the results of the proposed Off-Market Tender at least half an hour before the commencement of trading on the second business day after the proposed Off-market Tender period ends, rather than that time on the first such business day required; and
- Listing Rule 10.1. This will enable Babcock & Brown Group to participate to the full extent of its current shareholding in the Company in the Off-Market Tender on the same terms as all other shareholders. In the absence of this waiver, Babcock & Brown Group will be able to participate in the Off-Market Tender in respect of most (but not all) of its current shareholding in the Company. As mentioned above, Babcock & Brown Group does not currently intend to participate in any buy-back but does reserve the right to do so in the future.

All of the above waivers from ASX may not be necessary for the Off-Market Tender to proceed.

6 Outline of Expanded On-Market Program

Overview of process

An on-market buy-back involves the Company buying shares in the ordinary course of trading at the prevailing market price on the ASX, in the same way as any other market transaction.

The implementation of an on-market buy-back is regulated by both ASIC and the ASX. In particular, the ASX Listing Rules prescribe that the buy-back price must not be more than 5% above the average of the closing market prices for ordinary shares in the Company over the previous 5 trading days before the buy-back. Historical share price information is provided below in Section 9.

The Company must announce on the ASX the period during which shares may be bought back (if the Company has determined this), the maximum number of shares intended to be bought back and any other information that would affect a shareholder's decision to sell shares. The Company also has to give daily notices containing details of the shares bought back.

Conduct of the Expanded on-Market Program

Any Expanded On-Market Program will be administered by the manager of the Company (Babcock & Brown Capital Management Pty Limited) under authority from and, in accordance with rules set down by, the Board.

Who may participate?

All shareholders are eligible to participate by selling their shares to the Company in the ordinary course of trading on the ASX.

The Board has determined that Directors will not participate in any Expanded On-Market Program.

Participation in any buy-back is voluntary. Shareholders do not have to sell their shares if they do not want to.

Timing

The Company does not require the ASIC, ASX or ATO relief and rulings which are applicable to the Off-Market Tender (see Section 5 above). Accordingly, it may continue the Existing On-Market Program and (subject to the Buy-Back Resolution being passed) commence the Expanded On-Market Program at any time. The Expanded On-Market Program may be continued up to the date which is 12 months after the Buy-Back Resolution is passed. Any variation to the Existing On-Market Program, including increasing the number of shares that may be purchased, will be announced to ASX.

The Company will suspend any on-market buy-back program during the tender period for any Off-Market Tender which it decides to implement. Further on-market buy-backs may then be made after the close of the Off-Market Tender.

Number of shares to be bought back

The maximum number of ordinary shares that the Company will buy back under the Buy-Back Program will be 50% of issued shares, or a total of 100 million shares. Accordingly, on-market buy-back programs (including both the Existing On-Market Program and any Expanded On-Market Program) could theoretically be for up to this number of shares, minus any shares bought back under any Off-Market Tender conducted by the Company.

Since an on-market buy-back involves shares being acquired at the market price of shares at that time, it is not possible to anticipate the value (and therefore the number) of shares that may actually be bought back and cancelled. This will depend on a range of factors and in any case the Company reserves the right not to buy back any shares at all.

Advantages of on-market buy-backs

The advantages of an on-market buy-back include the following:

- purchases on-market can be tailored to changing market conditions;
- any buy-back will reduce the net assets of the Company and so will reduce the amount of the base management fee payable to Babcock & Brown (although it may not necessarily reduce the amount of future performance fees payable as this will depend on future shareholder returns);
- the Company has complete flexibility to adjust the volume of shares bought and can stop buying at any time; and
- implementation of an on-market buy-back is very simple and involves few costs.

Disadvantages of on-market buy-backs

Potential disadvantages of an on-market buy-back include the following:

- there will be a reduction in the number of shares on issue, which may decrease liquidity on the ASX;
- the Company's weighting in S&P/ASX indices may decrease and the Company could be excluded from S&P/ASX indices;
- shareholders who wish to sell their shares on-market have no assurance as to the price, volume or timing of sales as these factors depend on market dynamics which are not all within the control or influence of the Company; and
- shareholders who sell on-market, and the Company when it buys on-market, will incur brokerage costs.

7 Financial implications of the Buy-Back Program on the Company

Outlook for the Company

In 2007, the Company undertook to conduct a review of its investments. Following that review, the Company continues to believe that there is the potential for considerable medium term value growth in its investments in both eircom and Golden Pages. The Company remains focused on delivering that value to shareholders.

eircom

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 has a majority share of the fast growing broadband market. eircom's mobile business also has a growing share of the mobile market.

The Company's 57.1% interest in eircom has been a successful investment for the Company. The eircom debt package is non-recourse to the Company and is considered attractive in terms of quantum, pricing, term and amortisation. The fixed line business remains resilient and is a highly cash generative business. The combination of high cash generation and eircom's debt package mean the value of equity is expected to be optimised over a medium term investment horizon. At the same time, the mobile business has been growing and is expected to maximise EBITDA over the medium term. In addition, discussions have commenced with the Irish government and telecommunications regulator on the build-out of fibre (Next Generation Networks), required regulatory changes and separation with a view to achieving a mutually value enhancing outcome.

Golden Pages

The Company acquired Golden Pages in July 2007. Golden Pages is the leading Israeli directories business with a portfolio of complementary directory and search businesses.

Golden Pages has grown rapidly over recent years through complementary value-enhancing acquisitions. Further value is expected to be created through:

- cost and revenue synergies from past acquisitions which continue to operate as separate entities;
- further acquisitions of on-line businesses in complementary advertising spaces at value enhancing multiples; and
- growing existing on-line business while protecting print revenue.

Recent transaction multiples for directories businesses in Greece and New Zealand indicate there is the potential for value upside in the Golden Pages investment if these strategies can be successfully implemented.

How the Buy-Back Program will be funded

The Company currently holds approximately \$443 million in available unallocated cash of which at least \$293 million (being \$310 million as at 28 February less \$17 million spent on the Existing On-Market Program between 28 February and 13 March 2008) has been allocated to capital management programs. The Company expects to draw on this resource to fund any Buy-Back Program.

Impact on financial position

The pro-forma consolidated balance sheet extract as at 31 December 2007 set out below reflects the impact of illustrative amounts of \$150 million and \$300 million being spent on a combination of the Existing On-Market Program and the Buy-Back Program at an illustrative average buy-back price of \$3.84 per share, the closing share price on 13 March 2008. The price of \$3.84 is used as an example only and shareholders should not assume that this will be the actual buy-back price.

For the purpose of showing the impact of the Buy-Back Program on the Company's financial position as at 31 December 2007, the pro-forma has been prepared on the assumption that the capital management program was completed on 31 December 2007. These statements have been prepared numerically (but not in relation to format or disclosure) in accordance with Australian equivalents to IFRS.

Pro-forma consolidated balance sheet extract as at 31 December 2007

	31 Dec 2007 \$'m	\$150 million buy-back @ \$3.84		\$300 million buy-back @ \$3.84	
		Adjustments \$'m	Pro-forma \$'m	Adjustments \$'m	Pro-forma \$'m
Cash and liquid resources – Company level ¹	440.2	(150.0)	290.2	(300.0)	140.2
Other assets	10,906.6	-	10,906.3	-	10,906.3
Total Assets	11,346.8	(150.0)	11,196.8	(300.0)	11,046.8
Borrowings	(7,338.1)	-	(7,338.1)	-	(7,338.1)
Other liabilities	(2,658.7)	-	(2,658.7)	-	(2,658.7)
Net Assets	1,350.0	(150.0)	1,200.0	(300.0)	1,050.0
Minority Interests	(313.1)	-	(313.1)	-	(313.1)
Net Assets attributable to the Company	1,036.9	(150.0)	886.9	(300.0)	736.9
Number of Shares (Million)	199.8	(39.1)	160.7	(78.1)	121.7
Net Asset Value per share	\$5.19	N/A	\$5.52	N/A	\$6.06

Notes:

1. Represents actual number at 31 December 2007. Between 1 January 2008 and 13 March 2008, the Company realised an additional \$43 million from the refinancing of Golden Pages and spent \$46 million on the Existing On-Market Program

No adverse impact on solvency

The directors are satisfied, having regard to the total number of shares that can be bought and the amount of cash that will be spent, that the Company will remain solvent and will continue to pay its debts as and when they fall due on completion of the proposed Buy-Back Program.

Impact on NAV and EPS

The precise impact on net asset value per share ("NAV") and earnings per share ("EPS") of any Buy-Back Program cannot be determined until it is completed and will depend on the number and timing of any shares bought back and the volume weighted average buy-back price. However, it is expected that the impact on NAV will be positive.

Impact on ordinary shares on issue

Percentage of total shares bought back	Number of shares bought back (million) ¹	Number of shares remaining (million) ²
10.0%	20	180
20.0%	40	160
30.0%	60	140
40.0%	80	120
50.0%	100	100

Notes:

1. Based on 200 million shares outstanding as at the announcement of the Existing On-Market Program on 28 August 2007. 11.69 million shares, representing 5.85% of issued capital, have been repurchased under the Company's Existing On-Market Program up to 13 March 2008. The Company may buy back up to a total of 19.98 million shares under the Existing On-Market Program.
2. The Company also has options on issue which, if exercised, would result in the issue of a further 3 million shares – see Directors' interests below.

Impact on liquidity of BCM shares

A buy-back may decrease the Company's ASX free float and may reduce ASX trading volumes and liquidity in the Company's shares. However, it is not possible to determine the extent of any potential decrease in liquidity at this time.

Impact on inclusion of the Company in S&P/ASX indices

Eligibility for inclusion in S&P/ASX indices is at the discretion of the Standard & Poor's Australian Index Committee and is based on criteria which include (amongst other criteria):

- the size of a company's free-float market capitalisation;
- a stock's liquidity relative to the liquidity of peers of a similar size; and
- a minimum free float of 30% of total issued ordinary shares.

A company's weighting in S&P/ASX indices is generally based on the size of the company's free float relative to the weightings assigned to other companies included in an index. Stocks may also be down weighted in an index if their relative liquidity is significantly lower than companies in the index with free float capitalisation of a similar size.

Any Buy-Back Program may reduce the Company's free float market capitalisation. Further, any Buy-Back Program may decrease liquidity and the size of the ASX free float as a percentage of total issued shares.

Any Buy-Back Program may therefore decrease the Company's weighting within S&P/ASX indices and could result in the exclusion of the Company from S&P/ASX indices.

8 Babcock & Brown Group Voting Power

Babcock & Brown Group's percentage voting power if they do not sell any shares

Percentage of total issued shares bought back	Voting power following buy-back^{1,2}
10.0%	8.0%
20.0%	9.0%
30.0%	10.3%
40.0%	12.0%
50.0%	14.5%

Notes:

1. Based on 200 million shares outstanding as at the announcement of the Existing On-Market Program on 28 August 2007. 11.69 million shares, representing 5.85% of issued capital, have been repurchased under the Company's Existing On-Market Program up to 13 March 2008. The Company may buy back up to a total of 19.98 million shares under the Existing On-Market Program.
2. Based on Babcock & Brown Group's shareholding of approximately 14.5 million shares as at 13 March 2008

9 Other material considerations

Historical share price information

The closing price of the Company's ordinary shares on the ASX on 13 March 2008 was \$3.84. The Company's highest and lowest market sale prices and the average monthly closing prices on the ASX during each of the preceding six months were as follows:

Period	Low (\$)¹	High (\$)¹	Average closing price (\$)²
September 2007	3.98	4.30	4.14
October 2007	4.15	5.08	4.72
November 2007	4.25	4.92	4.66
December 2007	4.02	4.79	4.43
January 2008	2.81	4.52	3.79
February 2008	3.55	4.67	3.92
March 2008	3.78	4.59	4.07

Notes:

1. Based on trading of ordinary shares during normal ASX trading hours, generally from around 10.00am to 4.00pm.
2. Calculated as the average of the closing prices of the Company's ordinary shares on the ASX for each trading day over the relevant month.
3. Prices for March are taken up to and including 13 March 2008.

The market price and the buy-back price of shares at the time of any buy-back may be significantly lower or higher than the Company's historical share price and this will affect the maximum number of shares that can be bought back.

ESOT Conversion Rights

The Company has issued conversion rights to the eircom Employee Share Ownership Trust (the "ESOT") to convert its 35% interest in eircom into BCM shares. These conversion rights are unaffected by the Buy-Back Program. Further details of the conversion rights are included in BCM Annual Report for the year ended 30 June 2007.

Australian tax considerations

Each shareholder should obtain specific tax advice on the treatment of the Buy-Back Program taking into account their particular circumstances.

The general comments below are primarily relevant for shareholders investing on capital account. Different implications may arise for shareholders investing on revenue account.

The Australian tax implications for shareholders will depend on the applicable buy-back mechanism by which the shareholder disposes of their BCM shares:

- **Off-Market Tender:** Subject to final buy-back tender price and confirmation from the Australian Taxation Office, the Company currently expects that 100% of the buy-back price under any Off-Market Tender will be treated as capital for tax purposes. The Company is in the process of applying for a Class Ruling from the Australian Taxation Office to confirm this tax treatment if an Off-Market Tender is undertaken. If the Company proceeds with the Off-Market Tender, general information on the tax implications of successfully participating in the Off-Market Tender will be set out in the tender booklet sent to shareholders in relation to the Off-Market Tender.
- **On-market buy-back:** The tax treatment of selling shares into any on-market buy-back is the same as for any other on-market share sale. The implications for shareholders depend on the specific circumstances of the shareholder.

Subject to confirmation from the Australian Taxation Office, the amount by which the buy-back price exceeds the cost base of each share will be a capital gain to the shareholder which should be taken into account in calculating the net capital gains or net capital losses to be included in the shareholder's

assessable income. Any capital gain or capital loss arising for a non-resident shareholder should be disregarded on the basis that shares in the Company are not 'indirect Australian real property interests'.

Latest information on any Class Ruling sought by the Company will be posted on the Company's website as received. Shareholders will not be individually notified of the issue of the Class Ruling. Any Class Ruling will be published by the Australian Taxation Office on its website.

Effect on participating shareholders' voting and dividend rights

Shareholders will be entitled to vote (in accordance with voting rights attached to their shares) at any meeting of the shareholders of the Company that is held before the Company enters into a buy-back agreement with the shareholders (whether at the end of the Off-Market Tender process, or under an on-market buy-back).

Shareholders will also be entitled to any dividends (in accordance with the dividend rights attached to their shares) where the record date for the dividend occurs before the date on which the Company enters into a buy-back agreement with the shareholders (whether at the end of the Off-Market Tender process, or under an on-market buy-back).

Once a buy-back agreement is entered into in respect of shares, by operation of the Corporations Act, the rights attaching to those shares are suspended and immediately after the registration of the transfer of shares bought back by the Company, the shares are cancelled.

Directors' interests in shares

The relevant interest of each Director in the share capital of the Company as at 13 March 2008 as notified by the Directors of the Company to the ASX in accordance with section 205G of the Corporations Act is:

NAME	Shares	Options
Robert Topfer ¹	3,731,158	2,000,000
Phil Green	1,600,001	0
Kerry Roxburgh	0	1,000,000
Greg Clark	0	1,000,000
Bill Wavish ²	25,000	1,000,000
Total Directors Holdings	5,356,159	5,000,000

Notes

1. Mr Topfer's options are over existing issued BCM shares and were not purchased from or issued by BCM.
2. Mr Wavish's options will lapse 90 days after the cessation of his directorship unless exercised.

Full details of these options are included in the Company's Annual Report for the year ended 30 June 2007.

The Directors are entitled to participate in any Buy-Back Program in the same manner as other shareholders. However:

- The Independent Directors will not participate in any Off-Market Tender;
- Mr Green and Mr Topfer have reserved the right to participate in any Off-Market Tender but will not do so at current share price levels and will only do so once prior notification of their intention to participate is provided to ASX (including by way of disclosure in the tender booklet).

Mr Wavish will retire as a Director with effect from the end of this General Meeting, and accordingly will not be restricted from participating in any Buy-Back Program which is implemented after he ceases to be a Director.

Foreign Acquisitions and Takeovers Act (the Act)

Under the Act, the Treasurer may make divestment orders in relation to shares held by certain persons if following the buy-back a foreign person has a controlling interest in the Company. Relevantly, a person will have a controlling interest if they and their associates have control of, or interests in, 15% or more of the Company's shares. Shareholders who are foreign persons should take their own advice in relation to the implications of any buy-back for them.

APPOINTMENT OF PROXY

If you would like to attend and vote at the General Meeting, please bring this form with you. This will assist in registering your attendance.

Please return your Proxy forms to:
 Link Market Services Limited
 Level 12, 680 George Street, Sydney NSW 2000
 Locked Bag A14, Sydney South NSW 1235 Australia
 Telephone: 1800 704 855
 From outside Australia: +61 2 8280 7783
 Facsimile: (02) 9287 0309
 ASX Code: BCM
 Website: www.linkmarketservices.com.au

You can also lodge your vote on-line at www.linkmarketservices.com.au

I/We being a member(s) of Babcock & Brown Capital Limited and entitled to attend and vote hereby appoint

A the **Chairman of the Meeting** **OR** if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered securityholder) you are appointing as your proxy

or failing the person/body corporate named, or if no person/body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following instructions (or if no directions have been given, as the proxy sees fit) at the General Meeting of the Company to be held at 11:00am on Monday, 21 April 2008, at the Museum of Sydney, 37 Phillip Street, Sydney NSW and at any adjournment of that meeting.

Where more than one proxy is to be appointed or where voting intentions cannot be adequately expressed using this form an additional form of proxy is available on request from the share registry. Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the meeting. The Chairman of the Meeting intends to vote undirected proxies in favour of all items of business.

B To direct your proxy how to vote on any resolution please insert in the appropriate box below.

	For	Against	Abstain*
Resolution 1 To approve the buy back of up to 50% of ordinary shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

C SIGNATURE OF SECURITYHOLDERS – THIS MUST BE COMPLETED

Securityholder 1 (Individual) <input style="width: 200px; height: 30px;" type="text"/> Sole Director and Sole Company Secretary	Joint Securityholder 2 (Individual) <input style="width: 200px; height: 30px;" type="text"/> Director/Company Secretary (Delete one)	Joint Securityholder 3 (Individual) <input style="width: 200px; height: 30px;" type="text"/> Director
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This form should be signed by the securityholder. If a joint holding, either securityholder may sign. If signed by the securityholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the securityholder's constitution and the *Corporations Act 2001* (Cwth).

Link Market Services Limited advises that Chapter 2C of the *Corporations Act 2001* requires information about you as a securityholder (including your name, address and details of the securities you hold) to be included in the public register of the entity in which you hold securities. Information is collected to administer your securityholding and if some or all of the information is not collected then it might not be possible to administer your securityholding. Your personal information may be disclosed to the entity in which you hold securities. You can obtain access to your personal information by contacting us at the address or telephone number shown on this form. Our privacy policy is available on our website (www.linkmarketservices.com.au).

