

Babcock & Brown Capital Limited
ACN 112 119 203

Supplementary Prospectus

About this Supplementary Prospectus

This is a supplementary prospectus dated 24 January 2005 and was lodged with the Australian Securities and Investments Commission (ASIC) on that date. This supplementary prospectus supplements the prospectus dated 24 December 2004 (**Original Prospectus**) which was lodged by Babcock & Brown Capital Limited ACN 112 119 203 with ASIC on that date. This supplementary prospectus must be read together with the Original Prospectus.

Terms defined in the Original Prospectus have the same meaning in this supplementary prospectus except where otherwise defined in this supplementary prospectus.

Supplementary information

1. Babcock & Brown Capital to Increase Firm Allocations to \$840 million

As a result of increased demand from Foundation Investors and Brokers to the Offer, Babcock & Brown Capital Limited has decided to increase the firm allocation of Shares under the Offer to 168 million Shares (equating to \$840 million on a fully paid basis). Additional firm allocations of four million Shares in relation to the Foundation Offer and four million Shares under the Broker Firm Offer have been made. The maximum size of the Offer will remain unchanged at 200 million Shares.

As a result of the increase to the Foundation and Broker Firm Offers, the maximum allocation under the Priority Offer will be 32 million Shares. B&B Capital in its sole discretion may decide to allocate less than the maximum number of Shares available under the Priority Offer, even if subscriptions are received for a greater number of Shares than this, and to further increase allocations under the Foundation or Broker Firm Offers.

The costs of the Offer based on the Minimum Offer and the Maximum Offer set out in Section 1.5 (page 11) of the Original Prospectus do not change as a result of these additional firm allocations.

2. Original Prospectus Corrections

a) Worked Example of Performance Fee Calculations

Two typographical errors appear in the table in Section 10.12 (page 63) of the Original Prospectus which sets out a worked example of the operation of the Performance Fee, as follows:

- ◆ The "Performance Fee Payable" in Year 3 should be \$105 million (being the result of the subtraction of \$34 million from \$139 million as shown in the two preceding line items) rather than \$95 million; and
- ◆ The "Actual return greater than TSR of 10% and less than/equal to TSR of 25%" for Year 5 should be \$902 million (being the result of the subtraction of the "TSR of 10%" threshold of \$611 million from the "Actual Return" of \$1,512 million and after rounding) rather than the \$611 million depicted. The "Performance Fee Payable" in this year is correct.

Section 10.12 is re-stated below with these corrections:

The following is a high-level example of the Performance Fees that would be payable over a five year period under the following assumptions:

- ◆ 200 million Shares are issued at an issue price of \$5.00;
- ◆ no new Shares are issued and there is no subdivision or consolidation of Shares;
- ◆ no capital adjustments;
- ◆ dividend of \$7 million (including franking credits) paid in Year 2 (3.5 cents per Share); and
- ◆ assumed VWAP of Shares over the 20 day trading period immediately prior to 30 June of \$5.75 in Year 1, \$6.88 in Year 2, \$9.97 in Year 3, \$9.48 in Year 4 and \$12.50 in Year 5.

Investors should note the Total Shareholder Return assumed in this example is used to illustrate the calculations involved in the Performance Fee only and should not be considered a forecast. The actual Total Shareholder Return achieved may differ materially from that assumed in this example.

\$million	Year					
	0	1	2	3	4	5
Actual return/ TSR						
Capitalisation based on issue price	1,000	1,000	1,000	1,000	1,000	1,000
Gross dividend (including franking credits)			7			
Capitalisation based on assumed VWAP	1,000	1,150	1,375	1,994	1,895	2,500
TSR calculation						
Year 0		(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Year 1		1,150				
Year 2			1,382	7	7	7
Year 3				1,994		
Year 4					1,895	
Year 5						2,500
Actual TSR		15.00%	17.56%	26.05%	17.48%	20.23%
Actual return: $(1,000 \times (1 + \text{actual TSR})^{\text{Year}}) - 1,000$		150	382	1,003	905	1,512
TSR fee thresholds						
TSR of 10%: $(1,000 \times (1 + 10\%)^{\text{Year}}) - 1,000$		100	210	331	464	611
TSR of 25%: $(1,000 \times (1 + 25\%)^{\text{Year}}) - 1,000$		250	563	953	1,441	2,052
Fee basis						
Actual return greater than TSR of 10% and less than/equal to TSR of 25%		50	172	622	441	902
Actual return greater than TSR of 25%		-	-	50	-	-

Performance Fee

(Actual return greater than TSR of 10% and less than/equal to TSR of 25%) x 20%	10	34	124	88	180
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(Actual return greater than TSR of 25%) x 30%	-	-	15	-	-
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Performance Fee	10	34	139	88	180
Performance Fees paid in previous years (cumulative)	-	10	34	139	139
Performance Fee payable	10	24	105	-	41

Note:

1 The Year 2 TSR calculations include both dividend and market capitalisation based on VWAP

b) Preferred Advisor Agreement

Page 68 of the Original Prospectus refers to the Preferred Advisor Agreement being able to be terminated by Babcock & Brown by six months written notice to the Company with three conditions. This should refer to the Preferred Advisor Agreement being able to be terminated by Babcock & Brown by six months written notice to the Company, and by the Company with three conditions. This paragraph is re-stated below with this correction:

The Preferred Advisor agreement will be able to be terminated by Babcock & Brown by six months written notice to the Company, and by the Company:

- ◆ where Babcock & Brown have materially breached the agreement and the breach has not been cured within 30 days;
- ◆ where a subsidiary of Babcock & Brown ceases to be the manager of the Company; and
- ◆ after the 10th anniversary of the agreement, where it believes Babcock & Brown no longer possesses sufficient resources to provide the services, and after 30 days written notice to Babcock & Brown where Babcock & Brown is unable to materially address the concerns.

c) Board Composition

Page 33 of the Original Prospectus refers to the current Board comprising “two independent Non-Executive Directors and two Executive Directors”. As is set out in the list of directors also provided on page 33, the statement should have referred to there being three rather than two Executive Directors. The Executive Directors are Phillip Green, Rex Comb and Robert Topfer.

d) Remuneration of Directors

Page 66 of the Original Prospectus refers to the maximum aggregate cash remuneration to be paid to the Directors as “\$1 million”. For the purposes of clarity, the statement should have referred to this being “\$1 million per annum”.

Consent to lodgement

Each director of Babcock & Brown Capital Limited has given, and not withdrawn, their consent to the lodgement of this supplementary prospectus with ASIC. This supplementary prospectus has been signed by Robert Topfer, director, on behalf of Babcock & Brown Capital Limited.

A handwritten signature in black ink, appearing to read 'R. Topfer', with a stylized flourish at the end.

Robert Topfer
Director
Babcock & Brown Capital Limited