

# Babcock & Brown Structured Finance Fund Limited

**Annual Results Presentation**  
27 February 2007

# AGENDA

1. Highlights
2. 2006 Results
3. Investment Philosophy and Management
4. Target Asset Classes
5. Projected 2007 Growth
6. Current Asset Review
7. Questions

For further information please contact:

Peng Lian Wee

+65 6309 4660

# Highlights

# HIGHLIGHTS

- Out-performance of Prospectus forecasts
- Over-allotment option exercised on 22 January 2007
- Credit approval underway to increase Corporate Debt Facility to US\$116.6 million
- Two new investments approved by BBSFF Board for March Closing
- One existing asset investment amount increased
- Strong pipeline of identified assets currently under review

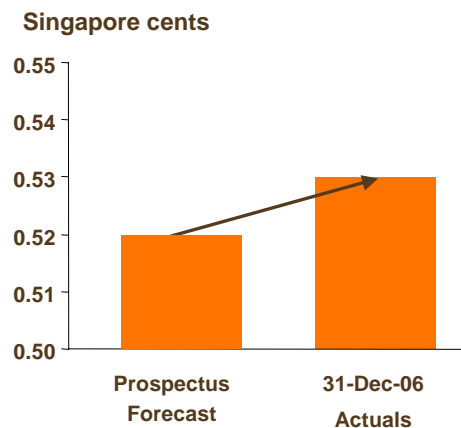
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# 2006 Results

# 2006 RESULTS

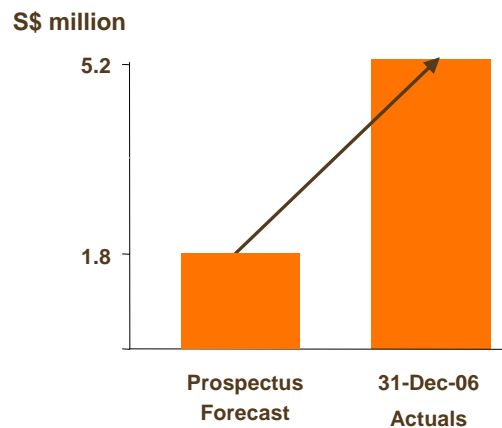
## Cash Economic Income per Share\*



\* For the period from Listing to 31 December 2006

- Increase primarily due to a higher outstanding balance for the Ancora – Seiza Warehouse Note Investment than forecast; and
- We remain on track to deliver the dividend projections for 2007.

## Net Profit After Tax\*



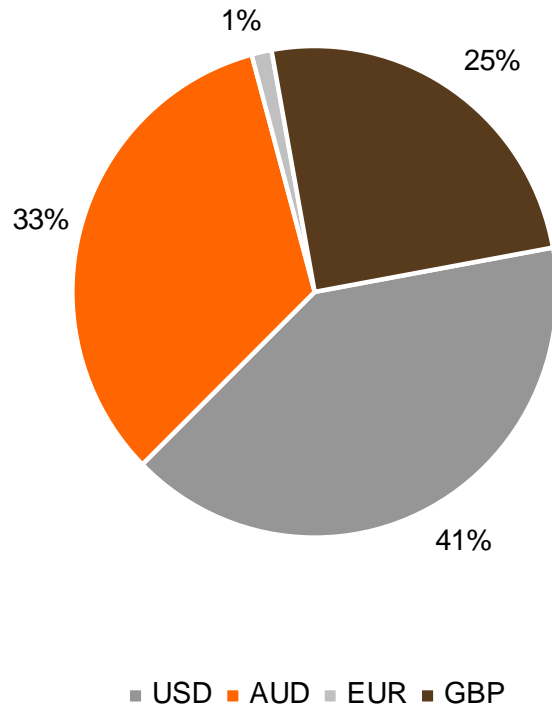
\* For the period from Listing to 31 December 2006

Increase largely due to:

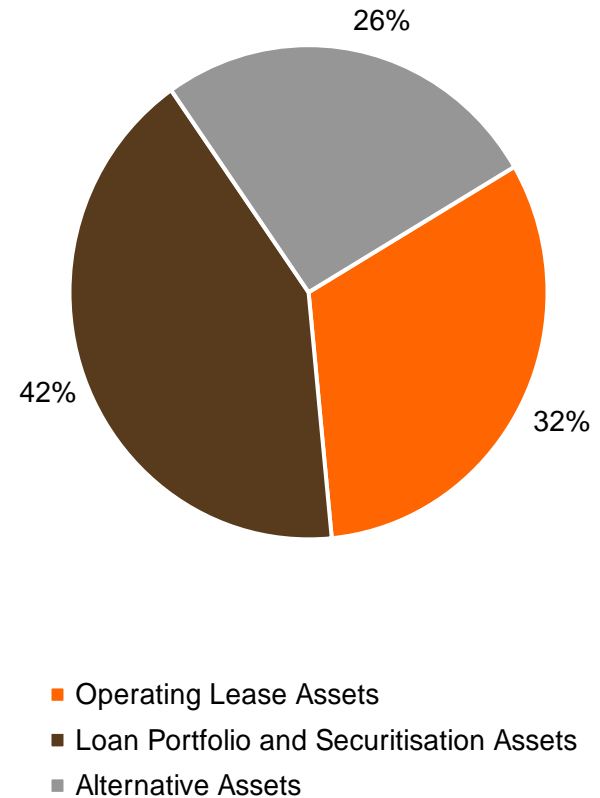
- Foreign exchange gains; and
- A higher outstanding balance for the Ancora – Seiza Warehouse Note Investment than forecast.

# 2006 RESULTS

## Cash Economic Income by Currency\*



## Cash Economic Income by Asset Class\*



\* Income and expenses not directly attributable to a particular currency or asset class have been pro-rated

# FINANCIAL INFORMATION TO BE PROVIDED

Each Half and Full Year Results Presentation will provide the following economic information in addition to SGX-ST required financial statements.

- Distributable cash economic income received by BBSFF from each asset or economic exposure
  - Operating costs
  - Distributable cash economic income analysis:
    - Currency
    - Asset Class
- 
- **Dividend verification**
  - **Asset based analysis**

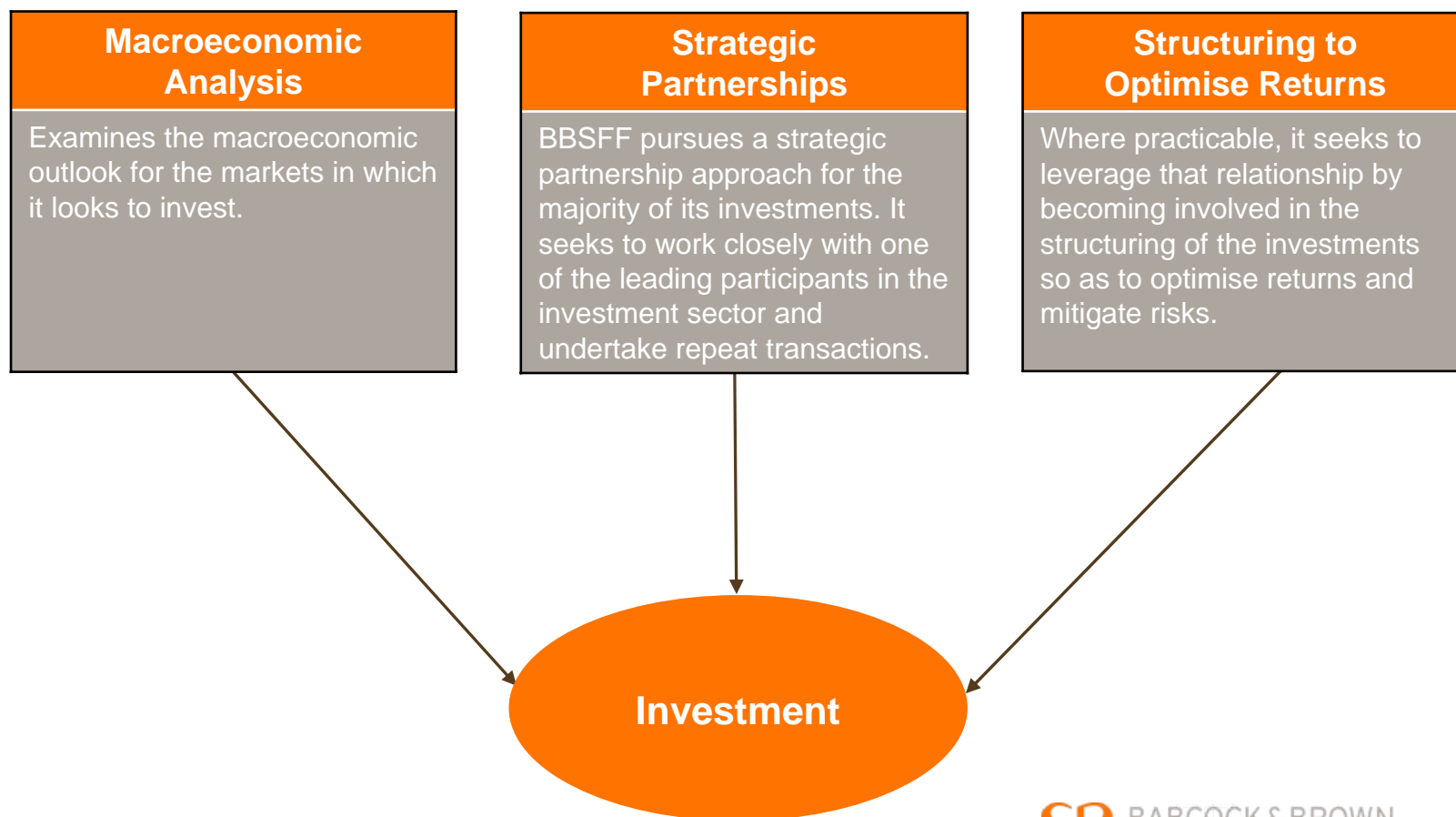
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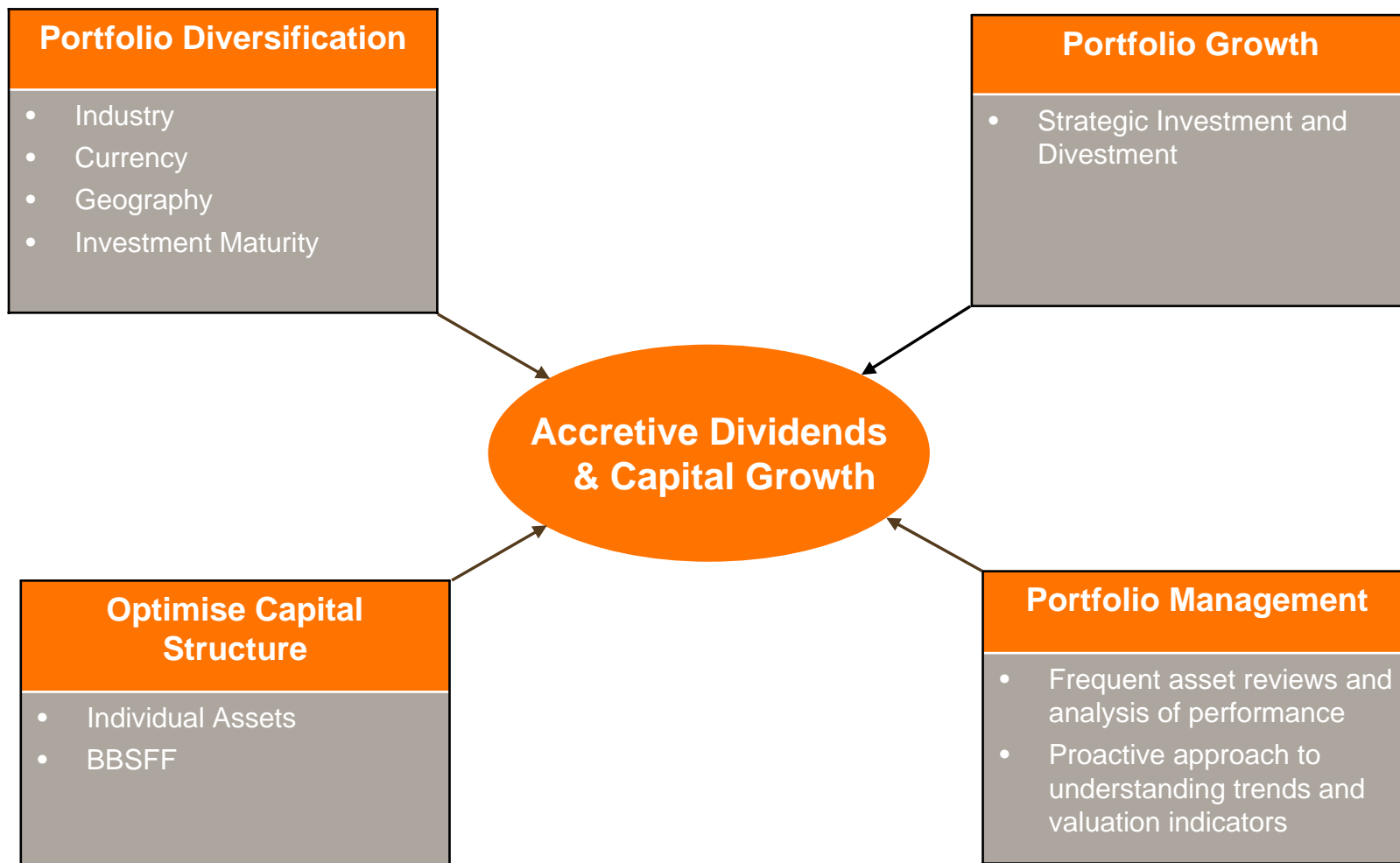
# Investment Philosophy & Management

# THREE TIERED INVESTMENT PHILOSOPHY

BBSFF takes a three tiered approach to investing



# ACTIVE MANAGEMENT



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# Target Asset Classes

# BBSFF OVERVIEW

BBSFF seeks to invest in a portfolio of diverse assets and economic exposures which provides investors with an attractive yield and competitive rate of return



First listed fund for 2 of BNB's core business groups

Diversified portfolio of initial assets across 3 target sectors

Strategies to deliver growth in shareholder value



- 1 Attractive dividend
- 2 Potential for capital growth
- 3 Access to asset classes not readily available to most investors
- 4 Diversification amongst assets, currency, geography, industry and investment maturity
- 5 Babcock & Brown Group relationship

# TARGET ASSET CLASSES

## Operating Lease Assets

- Stable contracted cash flows
- Opportunity for capital appreciation by ownership of the asset
- Ability to increase contracted lease cash flow through active lease management and remarketing

## Aircraft

- Increasing passenger demand, with strong forecast growth on a global basis

## Rollingstock

- North America
  - Strong demand for <10 yr old freight cars, with reasonable barriers to entry in a mature leasing market
- Europe
  - Increasing demand for leased passenger and locomotive rollingstock as the EU has created a seamless rail network
  - Long term, high credit leases for passenger rollingstock
  - 3 year average leases for locomotives with current zero downtime because demand outstrips supply

# TARGET ASSET CLASSES

## Loan Portfolio and Securitisation Assets

- Availability of assets
- Ability to partner with the premier asset originators
- Capacity to manage risk and reward profile of assets
- Growth in distributions via out performance of conservative financial assumptions
- Shareholder value through:
  - Securitisation of portfolio's undertaken by BBSFF
  - Strategic divestments upon ratings upgrades as assets season
  - Appropriate capital solutions

# TARGET ASSET CLASSES

## Alternative Assets

- Ability to capture relative value opportunities not yet identified or understood by the listed investment community
- Shareholder value created by:
  - growth in distributions
  - strategic divestment
- Capacity to move quickly to capture opportunities

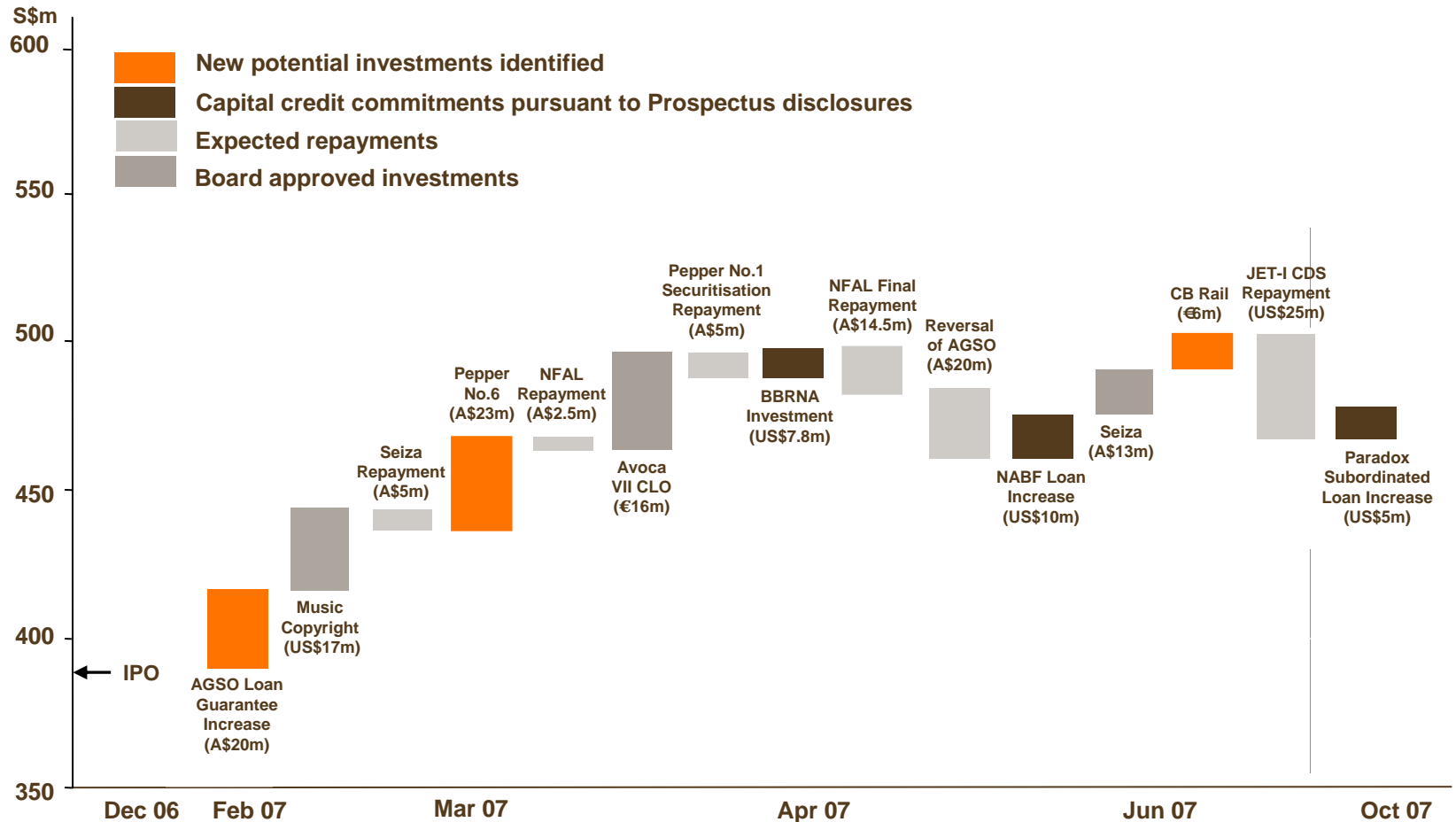
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# Projected 2007 Growth

# PROJECTED 2007 GROWTH

Active asset management minimises idle cash and enhances investor returns



# NEW INVESTMENTS

BBSFF is actively seeking new assets that provide accretive yields and the potential for attractive capital gains.

BBSFF is considering, or has approved\*, the following investments:

<b>Operating Leases</b> CB Rail	<ul style="list-style-type: none"><li>• An investment as a foundation shareholder in CB Rail Leasing Sarl which has a portfolio of leased European rolling stock</li></ul>
<b>Loan Portfolio &amp; Securitisation Assets</b> Seiza Pepper 6 Avoca (approved *)	<ul style="list-style-type: none"><li>• Subordinated Notes in Seiza Augustus 2007-1, a Australian residential and commercial mortgage securitisation originated by Seiza Mortgage Company</li><li>• Subordinated Notes in the next securitisation originated by the Pepper Home Loans Group (approximately A\$23.0 million)</li><li>• Subordinated Notes in the Avoca VII European CLO transaction, a portfolio of high yield European loans managed by Avoca Capital Group (up to €16.0 million)</li></ul>
<b>Alternative Assets</b> Music Copyright Assets (approved *)	<ul style="list-style-type: none"><li>• Five catalogues of music copyright assets (approximately US\$29.0 million, with limited recourse debt expected to be provided by mid-March of approximately US\$14.5 million)</li></ul>

\* Approved in principle subject to due diligence, negotiation and agreement of final terms and execution of transaction documents.

# THREE APPROVED NEW PORTFOLIO INVESTMENTS

## AVOCA VII CLO INVESTMENT

- Up to €8 million in B Rated Note, subject to allocation
- Up to €8 million in Subordinated Note, subject to allocation
- Debt funded through Corporate Debt Facility at effective incremental cost of Euribor plus 110bps
- Avoca Capital Group – one of the premier European CLO Managers

## MUSIC COPYRIGHT ASSETS

- US\$29.0 million investment in a diversified portfolio of catalogues, with a minimum US\$14.5 million limited recourse debt facility
- Strategic relationship with Spirit Music Group to sub-publish catalogues and gain access to future catalogues

## ANCORA-SEIZA WAREHOUSE NOTE INVESTMENT

- A\$15.0 million increase, for total exposure of up to A\$50.0 million
- Continues strategic relationship with the Seiza Mortgage Group
- Reflects strong pipeline of mortgage originations and continued economic growth in Australia

# FURTHER INVESTMENTS IN EXISTING PORTFOLIO

BBSFF expects to make further investments in:

<b>BBRNA</b>	A fourth portfolio of railcars owned by Babcock & Brown Rail North America
<b>Biofuels Holdings</b>	A 3 <sup>rd</sup> ethanol facility in North America
<b>Paradox Loan</b>	Paradox Capital LLC through an additional subordinated loan
<b>Ancora Seiza Warehouse Note Investment</b>	Up to A\$50.0 million, an increase of A\$15.0 million from the maximum noted in the Prospectus and A\$32.0 million above the Prospectus Forecast of A\$18.0 million

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# Current Asset Review - Operating Lease Assets

# JET-i GROUP INVESTMENT

- JET-i is acquiring a portfolio of leased commercial aircraft with a value up to US\$1.2 billion. Asset acquisitions continued past 31 December and portfolio is nearing target size.
- BBSFF owns an 11.4% interest in JET-i Group at a cost of US\$14.1 million
- BBSFF expects to take advantage of the strong current market for portfolios of aircraft by realising its investment in the near term, but not expected to be later than Q3 2007 and BBAM is actively exploring a variety of exit mechanisms – recent examples include SALE, Genesis Leasing, Aircastle
- BBSFF believes that a realisation will yield substantial gains given leverage of in excess of 85% and acquisition of aircraft at less than 87% of base value

**Investment strategy of JET-i: To participate in the upturn in the aviation industry**

## Portfolio status at 31 December 2006

No. of aircraft – Narrow body	37
No. of lessee obligors – Non US	17
– US	3
Largest lessee exposure (by initial appraised value)	13%
Manufacturer – Airbus	42%
– Boeing	58%
Weighted Average age	5.9 years
Weighted average remaining lease term	71.5 months
Aircraft lease expiry prior to 31 December 2007	6*
% of portfolio by appraised value	
– B737-800	28.5%
– A320-200	42.2%
– B757-200	14.9%
– Other	14.4%

\* There are 2 Virgin American planes that have early termination options in 2007 if JET-i Holdings cannot obtain approval from the Department of Transportation to fly by May 2007. Should this occur, the number of leases expiring in 2007 will increase to 8 and the weighted average remaining lease term decreases to 60.8 months.

## Opportunities

- Portfolio sale
- Term securitisation
- Specialised fund
- Listed specialised fund

Value realisation opportunities evaluated by BBAM on an ongoing basis

# CDS ON JET-i LEASING TRANCHE B DEBT

- BBSFF has a credit default swap with Credit Suisse International that references JET-i Leasing's Tranche B debt
- If there is a non-payment of a scheduled amount of Tranche B debt (or the occurrence of another credit event such as bankruptcy), BBSFF must make a settlement payment to Credit Suisse International

## Asset summary

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Base currency	USD
<b>Investment amount</b>	<b>US\$25m</b>
Further commitment	Nil
Return to BBSFF	USD LIBOR + 4.15% p.a.*
<b>Final maturity</b>	<b>15 October 2009</b>

\* Assuming collateral earns LIBOR – 0.05% p.a.

# BABCOCK & BROWN AIRCRAFT LESSOR NO.2

- BBSFF owns 2 Boeing 757-200 aircraft leased to First Choice Airways
- FedEx Express's announcement in late 2006 to replace part of its existing freighter fleet with Boeing 757-200 provides the opportunity for a freighter conversion as an exit option to BBSFF
- AVITAS has upgraded current generic market value of 757-200 aircraft since IPO

## Asset summary

Base currency	USD
<b>Investment amount</b>	<b>US\$10.3m</b>
Further commitment	Nil
<b>Return to BBSFF</b>	<b>Equity</b>

## Aircraft lease details

Lessee	First Choice Airways
Guarantor	First Choice Holidays
Purchase price of aircraft	US\$14.7m each*
Aircraft type	Boeing 757-200
Manufacture date	1993
Lease maturity date	30 April 2013
Rentals	<ul style="list-style-type: none"> <li>• US\$155,000 per month to April 2008</li> <li>• US\$160,000 per month thereafter</li> </ul>

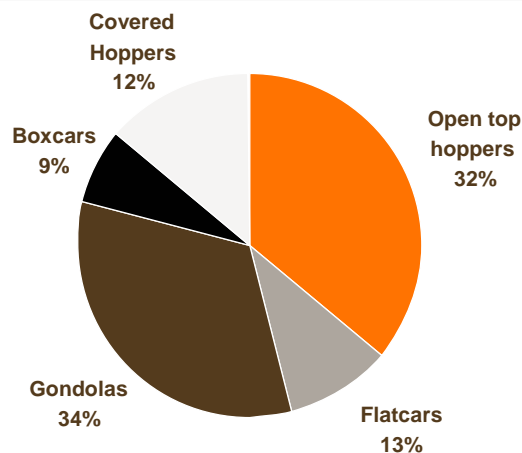
\*Excluding acquisition costs



# BABCOCK & BROWN RAIL NORTH AMERICA (“BBRNA”)

- BBRNA is the owner and lessor of freight car rollingstock which is leased for use in North American markets
- BBSFF owns a 49.5% Class A membership interest in BBRNA which it purchased for US\$31.9 million and is expecting to purchase a stake in a fourth railcar portfolio in April 2007
- BBRNA can acquire further portfolios of railcars which meet certain criteria e.g. not decreative to BBSFF’s expected yield or IRR, portfolio diversity and minimum lease terms
- Acquisition cost: 93.3% of Mercer’s Management Consultant Valuation
- Since BBSFF made its investment, Babcock & Brown Group has introduced two further investors into BBRNA, highlighting investor appetite for this asset class
- 4<sup>th</sup> Portfolio to be acquired in April 2007 (yield to BBSFF expected to be in excess of 9.5% on that portfolio)

**BBRNA initial portfolio composition**



**BBRNA initial portfolio key statistics as at 31 December 2006**

Total no.	6,758
Average age	4.5 years
Average remaining lease term	2.6 years
Average credit quality of leases	85% Investment Grade
Debt:	Not more than 88% of valuation
Expected Yield	8.5% p.a.

# Current Asset Review - Loan Portfolio & Securitisation Assets

# ANCORA – PEPPER SECURITISATION NO.1

- 2 classes of notes in Pepper Residential Securities No.3 Securitisation
- Secured against first mortgages over owner occupied, Australian residential property
- Cumulative losses to 31 December 2006 were A\$1.8 million however all losses have been absorbed by excess spread or the cash reserve account
- BBSFF expects that the notes will be called and will be fully repaid in April 2007

## Capital structure as at 31 December 2006

Note Rating	Issue Amount (A\$m)
AAA (Snr)	25.0
AAA (Mezz)	5.2
AAA (Jnr)	2.5
A+	11.3
BBB	5.0
<b>BB</b>	<b>2.5</b>
<b>Non rated note</b>	<b>2.5</b>

## Loan Portfolio as at 31 December 2006

No. of obligors	270
Average loan size	A\$203,885
Weighted average LVR	68.6%

# ANCORA – PEPPER SECURITISATION NO.2

- 2 classes of notes in Pepper Residential Securities No.5 Securitisation
- Secured against first mortgages over owner occupied, Australian residential property
- Issued on 30 May 2006 in Australia
- 25% of loans are near prime
- Cumulative losses have been met out of excess spread

## Capital structure as at 31 December 2006

Note Rating	Issue Amount (A\$m)
AAA (Snr)	232.2
AAA (Mezz)	55.0
AAA (Jnr)	34.6
A+	13.0
BBB	12.4
<b>Non rated note</b>	<b>5.0</b>
Total notes issued	
<b>Senior NIM note</b>	<b>13.0</b>
First loss note	Balance of excess spread

## Securitisation portfolio as at 31 December 2006

No. of obligors	1,427
Average loan size	A\$236,731
Weighted average LVR	71.3%

# ANCORA – PROVIDENT INVENTORY FINANCE

- Revolving purchase facility to PIF – 3 years with annual review periods at discretion of Ancora
- Specific triggers in the event of deterioration in underlying loan credit performance
- PIF is a member of Provident Capital Group, which has been established for 15 years
- PIF makes loans to SMEs to purchase inventory
- Potential increase in default / loss rates mitigated by three levels of credit enhancement
  - A\$5.0 million first loss insurance wrap provided by AA rated insurer (20% of facility limit)
  - Cash deposit for 10% of drawdown
  - Personal guarantee from PIF directors

## Terms of loan as at 31 January 2007

Term	30-120 days
Repayment	Principal and interest in full at maturity
Amount	A\$0.4-3.0m
Recourse	Full recourse
Diversification	<15% in any one industry

## Portfolio information as at 31 January 2007

Average loan term	90 days
Average loan size/Client	A\$325,000
Drawings under facility	A\$7.5m

# ANCORA – SEIZA WAREHOUSE NOTE INVESTMENT

- Since 31 December 2006 there has been a significant increase in lower rated, higher margin notes guaranteed by Ancora
- 4 classes of notes issued by Seiza 2006–1 Trust, but from 12 March 2007, the Class E notes are unlikely to be held owing to changes in interest rate
- Secured against first mortgages over Australian residential and commercial property
- Build up of cash reserve account over time
- BBSFF expects to participate in the first Seiza public term transaction expected in March 2007, but this will not increase the exposure of BBSFF beyond A\$50.0 million
- Revolving facility, minimum of A\$18.0 million, maximum of A\$35.0 million, now increased to A\$50.0 million to be split between term and warehouse

## Capital structure as at 12 February 2007\*

Note Rating	Issue Amount (A\$m)
AAA (Class A notes)	135
AA (Class B notes)	9.2
A (Class C notes)	13.4
BBB (Class D notes)	9.7
<b>BB (Class E notes)</b>	<b>12.3</b>
<b>B (Class F notes)</b>	<b>8.6</b>
<b>N/R (Class G notes)</b>	<b>11.1</b>
<b>NIM notes</b>	<b>8.8</b>

## Portfolio requirement

Commercial LVR	<70%
Residential LVR	<80%

# MORTGAGES PLC SECURITISATION INVESTMENT

- BBSFF owns two classes of notes issued by Newgate Funding 2006-3 plc a securitisation entity of Mortgages plc
  - MERCS – all prepayment penalties (not in the waterfall)
  - Residual Notes – all excess spread after payment of all other expenses
- Secured against first mortgages over UK residential property
- Mortgages plc is a UK based originator of non-conforming mortgages
  - is wholly owned by Merrill Lynch
  - has originated GBP 3.0bn of mortgages since establishment in 1997
  - has a historical cumulative loss range of between 0.04% and 0.53%.

<b>BBSFF Assets</b>	
MERCS	Amortising
Residuals	Interest capitalising

<b>Portfolio information</b>	
Composition	Approx. 5,750 loans
Recourse	Full recourse
Average loan size	GBP110,000
LVR	80%

# PARADOX CAPITAL LLC – SUBORDINATED LOAN

- BBSFF provided a US\$15.0 million loan to B&B Paradox Funding and an additional US\$5.0 million facility
- In substance this is the subordinate debt in a long term warehouse of IP loans

## Capital structure of Paradox transaction\*

Senior debt	US\$250m
BBSFF Subordinated debt	US\$20m
Babcock & Brown equity	US\$10m

\* When fully drawn

## Terms of the loan

Term	3 year availability with 10 year final maturity
Seniority	After senior debt security
Prepayment	Penalty of 2.5% of remaining loan balance

## Existing criteria for IP loans

Gross spread	Weighted average of 4.5% Single loan $\geq$ 3.5%
Term	Less than 10 years
Loan size	Maximum US\$15m to a single obligor
LVR	Less than 50%
Rating	Weighted average greater than B3
Underlying	<65% trademarks <55% copyrights <33% patents

# AVOCA VI CLO INVESTMENT

- BBSFF owns a subordinated note, representing 11% of the equity in the CLO transaction
- Issued by Avoca VI CLO plc
- Managed by Avoca Capital Holdings
- Secured against European senior secured, second lien and mezzanine loans
- Issued 16 November 2006
- Avoca's average net cumulative historical loss rate <0.01%
- Transaction has successfully ramped significantly quicker than BBSFM assumed which has positive implications for return. No loans in portfolio currently on credit watch.

## Capital structure

Note rating	Issue amt (€m)	Margin (bps)
AAA (Snr)	301.5	21
AAA (Sub)	64.0	28
AA	19.4	35
A	31.5	55
BBB	20.0	135
BB	23.9	335
B	10.0	495
<b>N/R</b>	<b>37.7</b>	<b>n/a</b>

## Loan criteria

- Max of 5.0% for loans rated less than B-/B3
- Max of 15.0% for loans other than snr secured loans
- Max asset size of 2.5% for indiv snr notes
- Max asset size of 1.5% for indiv 2<sup>nd</sup> lien
- Max asset size of 1.0% for mezz loans

# Current Asset Review - Alternative Assets

# ANCORA – NFAL LOAN

- A\$17.0 million facility in Natural Fuels Darwin to develop a biodiesel plant in Darwin
- Commonwealth Bank of Australia has provided a loan in the same amount and on the same terms
- Commissioning prolonged due to installation of additional filtration to achieve throughput capacity necessitated by unexpected feedstock characteristics
- Input prices have increased (eg palm oil) and output prices have dropped

## Terms of loan

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Amount	Up to A\$17.0m
Term	Repayable A\$2.5m on 31 March 2007, with balance on 30 June 2007
Base interest rate	BBSY plus 5% payable monthly
Commitment fee	1.5% per annum of the undrawn balance
Security	First priority fixed and floating charge over NFDL's assets Guarantees from Babcock & Brown Environmental Investments Ltd and Natural Fuels Australia Limited

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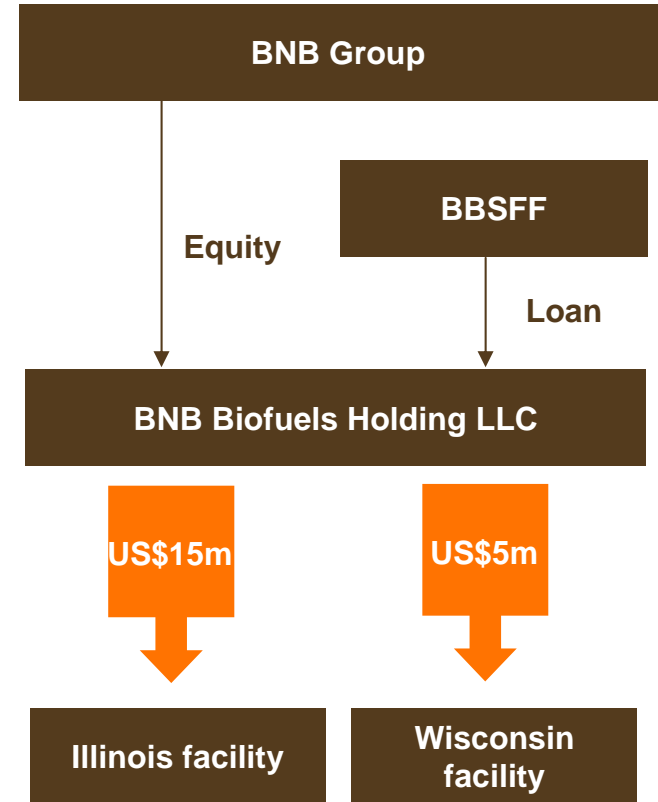


# NORTH AMERICAN BIOFUELS FACILITY

- US\$20.0 million loan to BNB Biofuels Holdings LLC
- Used to acquire equity interest in 2 ethanol facilities under construction in the US
- Acquisition of an equity interest in a 3<sup>rd</sup> ethanol facility currently being negotiated. Additional US\$10.0 million facility will fund purchase. Drawdown prior to 30 September 2007.

## Terms of loan

Term	7 years
Current pay interest:	10.5% p.a.
Capitalised interest	2.0% p.a.
Interest on new drawdowns	12.5% p.a.
Commitment fee	0.4% p.a.
Frequency (from 31/12/07)	Quarterly
Maximum total debt	85%
Cash sweeps/ Additional security	<ul style="list-style-type: none"> <li>• Repeal of Blenders Credit</li> <li>• DSCR &lt; 8x /3x</li> <li>• Equity IRR &gt; 30%</li> </ul>
Security	<ul style="list-style-type: none"> <li>• Borrower/Project Co.</li> <li>• Cross collateralised</li> </ul>



# AGSO LOAN GUARANTEE

- Provides a guarantee for A\$50.0 million to allow Babcock & Brown Group to borrow up to an additional A\$50.0 million from Deutsche Bank under a prime broking facility
- Can be used for shorter term cash flow management of up to S\$40.0 million to allow BBSFF to manage excess cash in a high yield and secured investment

## Terms of Guarantee

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Fee	12.5% less Deutsche Bank cost of funds
Security	Second ranking to DB over shares
Max LVR	80%
Role of DB	- Monitor LVR - Enforce Security
Term	3 years

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# PARAMOUNT MEZZANINE LOAN

- Subordinated loan to finance the development of the Paramount Bay Project in Miami, USA
- Total cost of Paramount Bay project expected to be US\$277.0 million
- Loan will be fully repaid once consummated presales reach US\$302.0 million. Pre-sales as at 29 January 2007 of US\$229.0 million with a further 110 apartments available for sale
- Current yield of 15% p.a.
- IRR of approximately 21%
- Co-lender: Babcock & Brown Group
- Construction of development proceeding according to expectations

## Sources of project funding

<b>Senior debt</b>	<b>US\$216m</b>
Loan	US\$30m
<b>Equity</b>	<b>US\$31m</b>



Artist's impression

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# QUESTIONS

