



# BABCOCK & BROWN STRUCTURED FINANCE FUND LIMITED

## **SGX Quarterly Report 30 September 2007**

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This report is not an offer or invitation for subscription or purchase or recommendation of BBSFF shares. It does not take into account the investment objectives, financial situation and particular needs of an investor. Before making an investment in BBSFF, an investor or prospective investor should consider whether such an investment is appropriate to their particular investment needs, objectives and financial circumstances and consult an investment adviser if necessary.

Babcock & Brown Structured Finance Management Pty Limited, as manager of BBSFF is entitled to fees for so acting. BBL and its related corporations, together with their officers and directors, may hold shares in BBSFF from time to time.

This financial report has been prepared to enable the directors to comply with their obligations under the Singapore Exchange Securities Trading Limited Listing Rules and where relevant, to satisfy the requirements of the International Financial Reporting Standards. The responsibility for the preparation of the financial report and any financial information contained in this financial report rests solely with the directors of BBSFF.

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## REVIEW OF BABCOCK & BROWN STRUCTURED FINANCE FUND LIMITED PERFORMANCE

### Dividend Upgrade

Babcock & Brown Structured Finance Fund Limited ("BBSFF" or "the Company") and its subsidiaries collectively referred to as "the Group" have continued to perform strongly during the quarter building on the momentum established in the first half of the year.

The continued strong performance of the portfolio and the accretive impact from the new investments acquired during the early part of the year have resulted in the Company upgrading its dividend guidance for the second time since Listing in respect of the 2007 final dividend to 6.00 cents per share (from the IPO projection of 4.84 cents per share).

The second upgrade to the 2007 dividend guidance results in a 24% increase in the 2007 final dividend compared with the 2007 final dividend projected in the Company's Prospectus. The upgrade also results in a 12% increase on the total 2007 projected dividend outlined in the Prospectus.

### Performance Review

Net profit after tax for the period was S\$12.5m representing more than 45% of the 2007 full year profit projection outlined in the Prospectus.

Total year-to-date net profit after tax for the Group has exceeded the total 2007 full year profit projection however this is partially due to foreign exchange gains recorded through the Income Statement over the nine months to 30 September 2007.

The strong performance of the Group has been driven by many factors across the diversified portfolio. A number of significant factors are highlighted below:

- *The monetisation of the Class B membership interest in JET-i Holdings LLC ("JET-i")*

On 27 September 2007, Babcock & Brown Air Limited ("B&B Air") listed on the New York Stock Exchange. The listing resulted in BBSFF effectively monetising its investment in JET-i and realising a gain after all fees and expenses of approximately US\$15.8 million, i.e., a 102% capital gain. This gain has been recognised in equity and will be recycled through to the Income Statement as the aircraft owned by JET-i are progressively transferred to B&B Air. The transfers are expected to be substantially completed by 31 December 2007. The Company has reinvested a part of the proceeds from the monetisation of its investment in B&B Air Shares (see "Investment Portfolio" for further details).

- *The gain on the divestment of the Company's interest in the North American Biofuels Loan Facility*

The Company sold its interest in the North American Biofuels Loan Facility on 31 August 2007. The sale resulted in a gain of approximately US\$340,000 being recorded through the Income Statement during the quarter.

- *Further increase in the Ancora – Seiza Warehouse Note Investment*

During the quarter, the Company procured an additional A\$13.5 million in letters of credit for Ancora (SF) Pty Limited ("Ancora") in connection with Ancora's purchase of the Class F, Class G notes and net interest margin notes issued by the Seiza Warehouse securitisation, a securitisation of Australian commercial and residential mortgages.

- *Continued strong performance across all asset classes*

All investments have continued to perform at least in-line with internal forecasts and a number of investments have performed above forecasts.

At 30 September 2007, the Company recognised a total of S\$15.1 million of net gains through the Available for Sale revaluation reserve (“the revaluation reserve”). The net adjustment resulted from the significant gain from the JET-i monetisation, partially offset by mark-to-market reductions primarily across the securitisation asset portfolio.

The total mark-to-market reduction for the quarter was S\$8.5 million. This reduction represents approximately 1.3% of total assets and has resulted from marking the Available for Sale financial assets to their current market values, reflecting current market conditions. The assets with mark-to-market reductions continue to generate returns which are either in-line or above expectations and the Company is confident that none of the assets in the portfolio are in any way impaired. Importantly, the reduction is an “unrealised” accounting adjustment which is not expected to ever be realised given the total expected returns when acquiring the individual assets are still expected to be realised in full. As previously advised, the Company does not intend to sell the assets and does not have any debt secured against the assets which requires additional collateral to be posted as a result of the mark-to-market adjustments.

### **Consolidated Income Statement**

From an Income Statement perspective, both total revenue and net profit after tax are considerably higher than internal projections. The majority of this increase is due to:

- net foreign exchange gains which have been recorded through the Income Statement resulting from a further weakening of the US dollar against the Euro, the British Pound and the Australian dollar during the quarter; and
- increased interest income resulting from (a) a higher outstanding balance for the Ancora – Seiza Warehouse Note Investment, (b) recognition of the capitalised deferred interest from the sale of the Company’s interest in the North American Biofuels Loan Facility, and (c) higher accrued interest income resulting from the accretive investments acquired during the year to date.

At 30 September 2007, there was a net positive market value adjustment on the Company’s distribution hedges. This has resulted partially from the United States dollar weakening against the Singapore dollar during the quarter and unrealised losses being recycled through to the Income Statement on settlement of the distribution hedges relating to the 2007 interim dividend. The positive adjustment was recorded through other operating expenses resulting in a decrease in other operating expenses compared with the second quarter.

Finance costs are higher this quarter compared with the first two quarters due to additional letters of credit provided to Ancora for its acquisitions of securitisation assets, as well as marginally higher debt funding costs as a result of the widening of credit spreads during the quarter.

An equity accounting gain has been recorded during the period on the Company’s investment in the Class A membership interest in BBRNA. Equity accounting requires the investor to recognise its share of the profit or loss of the associate through its income statement. The investor is also required to recognise its share of changes in the equity of the associate through equity. An income tax expense has arisen on Class A membership interest in BBRNA as a result of the gain recorded and has been recorded through the Income Statement.

All other Income Statement line items are generally in line with internal projections for the quarter.

## INVESTMENT PORTFOLIO

BBSFF was incorporated in Bermuda on 24 April 2006 and was subsequently registered as a mutual fund company. BBSFF was formed to invest in a diversified group of assets and economic exposures around the world.

The Group's investment portfolio at 30 September 2007 was comprised of the following assets and economic exposures:

### Operating Lease Assets

#### ***Class B membership interest in JET-i Holdings LLC ("JET-i Holdings")***

JET-i Holdings is a United States limited liability company formed to acquire a portfolio of commercial aircraft which are leased to commercial airlines and is targeting a portfolio of up to US\$1.2 billion. The Group holds an 11.36% Class B membership interest in JET-i Holdings. This investment is in the process of being fully monetised and a part of the proceeds from the monetisation will settle the Group's liability in connection with its recently acquired investment in B&B Air.

#### ***Babcock & Brown Aircraft Lessor No. 2 ("BBAL 2")***

The Group owns two Boeing 757-200 aircraft leased to First Choice Airways Ltd. The two leases mature on 30 April 2013 and have fixed monthly rentals over the lease periods with a step-up in monthly rentals on 1 May 2008.

#### ***CDS on JET-I Leasing Tranche B Debt ("CDS")***

The CDS is a collateralised credit default swap which the Group has entered into with Credit Suisse International. The swap has a notional amount of US\$25 million which has been secured by the Group pledging A-1+ rated commercial paper as credit support for the obligations under the swap. The CDS references mezzanine debt secured against the commercial aircraft fleet owned by the Jet-i Holdings Group, noted above in "Class B membership interest in Jet-i Holdings LLC". BBSFF's investment in the commercial paper which secures its obligations under the credit default swap is in the process of being liquidated following the listing of B&B Air.

#### ***Class A membership interest in BBRNA ("BBRNA")***

BBRNA is a United States limited liability company formed to aggregate a number of North American railcar investments managed or owned by the Babcock & Brown Group. The Group has acquired a 49.5% interest in BBRNA which currently owns a portfolio of over 8,000 railcars on lease in North America.

#### ***Babcock & Brown Air Limited ("B&B Air")***

Babcock & Brown Air Limited is a United States limited liability company which has been listed on the New York Stock Exchange. It has a portfolio of commercial aircraft which are leased to commercial airlines. As at 30 September 2007, the Group held 1,577,941 Babcock & Brown Air Limited shares, which are subject to an escrow arrangement.

### Loan Portfolio and Securitisation Assets

#### ***Ancora – Pepper Securitisation No. 2 Investment ("Pepper 2")***

Pepper 2 is a securitisation vehicle which owns Australian non-conforming residential mortgage loans originated by Pepper Home Loans Pty Limited. The Group has invested in the non-rated note and the senior net interest margin ("NIM") note.

#### ***Ancora – Pepper Securitisation No. 3 Investment ("Pepper 3")***

Pepper 3 is a securitisation vehicle which owns Australian non-conforming residential mortgage loans originated by Pepper Home Loans Pty Limited. The Group has invested in the non-rated note and the senior NIM note.

#### ***Ancora – Provident Inventory Finance ("PIF")***

PIF is a revolving purchase facility provided to specialty inventory financier Provident Inventory Finance Limited ("PIFL"). Under the facility, the Group purchases loan receivables originated by PIFL. The purchased

loans are loans PIFL makes to its customers, typically small to medium enterprises for the purpose of purchasing inventory. On 23 October PIF changed its name to Provident Cashflow Limited ("PCL").

***Ancora – Seiza Warehouse Note Investment ("Seiza")***

Seiza is an investment in a warehouse vehicle which owns Australian residential and commercial mortgages originated by Seiza Mortgage Company Pty Limited, ("the Seiza Group"). The Group has invested in the Class F, Class G and NIM notes.

***Ancora – Seiza Augustus 2007-1 Trust ("Seiza Augustus")***

Seiza Augustus is a securitisation vehicle which owns Australian non-conforming commercial and residential mortgage loans originated by Seiza Group. The Group has invested in the Class G notes and junior NIM notes.

***Mortgages plc Securitisation Investment ("Mortgages")***

Mortgages plc is a United Kingdom based originator of non-conforming mortgages. The Group has invested in 50% of two classes of certificates issued by Newgate Funding 2006-3 plc which is a securitisation vehicle owning non-conforming mortgages originated by Mortgages plc.

***Paradox Capital LLC – Subordinated Loan ("Paradox")***

The Group has invested in a loan to Paradox Funding LLC which is a United States limited liability company. The proceeds are used by the Paradox group to make or purchase loans secured by intellectual property owned by corporate borrowers located in the United States and Europe.

***Avoca VI CLO Investment ("Avoca VI")***

Avoca VI is a European collateralised loan obligation ("CLO") vehicle which is managed by Avoca Capital Holdings ("Avoca"). The Group has invested in subordinated notes issued by Avoca VI which are secured by collateral consisting of European senior secured, second lien and mezzanine loans.

***Avoca VII CLO Investment ("Avoca VII")***

Avoca VII is a European CLO vehicle which is managed by Avoca. The Group has invested in the Class B notes and the subordinated notes in Avoca VII. The Avoca VII notes are secured by collateral consisting of European senior secured, second lien and mezzanine loans.

## **Alternative Assets**

***AGSO Loan Guarantee ("AGSO")***

The Group has provided a guarantee secured by a letter of credit to Deutsche Bank to enable Babcock & Brown Prime Broking Trust, to secure additional borrowings under a limited recourse debt facility it has with Deutsche Bank. The Group has security over listed securities to secure recovery of any amount paid under the AGSO Loan Guarantee.

***Paramount Mezzanine Loan ("Paramount")***

The Group has invested in a secured subordinated loan to Royal Palm Paramount Bay LLC which is being used to fund the development of an ultra-luxury condominium development project in Miami Florida in the United States.

***Music Copyright Assets ("Music Assets")***

The Group has invested in music copyright interests in over 1,000 musical compositions.

## ECONOMIC OUTLOOK

Macroeconomic conditions will be a key determinant of the performance of a number of BBSFF's existing investments and will be a consideration in determining where future investments are made.

Overall, global economic growth appears to have moderated in 2007, relative to 2006, but with strong growth continuing in the Asian region and Australia, but a slowdown evident in the United States. This pattern is predicted to continue into 2008, unless recent US interest rate cuts are able to prevent further slowdown. However, the dynamics in each of the major economies in which BBSFF participates, and will seek to expand, may differ.

- United States ("US")

A slowdown in the US economy appears to be at increased risk despite continued strong headline GDP growth numbers. There is continued weak US housing construction, falling house prices and high stockpiles of existing housing. Fears that this weakness in housing may curb consumer spending and strain the financial system led the US Federal Reserve to announce a 0.50% decrease in rates in September and a further 0.25% decrease in rates in late October in an attempt to stave off a recession. Notwithstanding the weakness in the construction sector, the US labour market remains strong with unemployment staying at low levels.

- United Kingdom ("UK")

Uncertainty in financial markets has seen the Bank of England hold rates at current levels over recent months. There appears to be evidence in both the mortgage and consumer credit sectors that a moderating of growth is occurring as a result of the earlier rises. Overall however, GDP is still expected to grow at long term trend levels. Housing prices have grown by around 8-10% over the past year however there is an expectation that further increases over the coming twelve months will be limited.

- Mainland Europe

Economic growth in mainland Europe is moderating in 2007 according to current data. However, unemployment is likely to remain low and money supply growth has increased. The European Central Bank did not raise interest rates over the past quarter due to uncertainty in financial markets, but most commentators have not ruled out further increases in interest rates over the remainder of 2007.

- Australia

Australian economic growth remains robust with leading economic indicators suggesting that growth will remain strong through at least the first 6 months of 2008. Core inflation remains at the top end of the range set by the Reserve Bank of Australia and led to an increase of 0.25% in rates in November. A number of commentators also expect another increase in rates of 0.25% in December 2007 or Q1 2008. Housing prices have continued to increase throughout Australia, despite housing affordability issues, on the back of low unemployment and strong economic growth.

Consequently, BBSFF will continue to look for acquisitions in these four economies, but will seek to broaden its geographic diversity, where favourable and sustainable economic conditions are expected to exist. The economic growth in Asia continues to be monitored by the Manager, and BBSFF will seek to make acquisitions where appropriate returns can be achieved.

## **BUSINESS OUTLOOK**

### **Operating Lease Assets**

Conditions in the aircraft market have continued to move positively over the past quarter driven by continued strong passenger demand particularly in Asia, where the tight supply of aircraft has resulted in increasing lease rates and aircraft values. Over the latter half of 2006, there were a number of sales of portfolios of aircraft by way of initial public offerings and trade sales at prices that appeared attractive for the vendors. BBSFF took advantage of this in September 2007 when the assets owned by JET-i Holdings LLC were contracted to be sold to B&B Air Limited, a fund managed by Babcock & Brown Group and listed on the NYSE. As part of that transaction BBSFF acquired shares in B&B Air. The returns to BBSFF from the JET-i divestment were exceptional, generating a profit of approximately US\$15.8 million compared to its original investment of US\$15.4 million. BBSFF expects that further leased aircraft which meet its investment criteria will be available for acquisition in 2008.

The market is not expecting a dramatic increase in either values or revenues from freight car rolling stock in North America in 2007. This is due to the slowing of the US economy combined with the fact that deliveries of new freight cars have been maintained in 2005 and 2006, whereas new orders have declined overall. Demand for younger fleets remains strong and the leasing market continues to gain ground as a method by which freight forwarders will access equipment. BBRNA expects to acquire further leased portfolios of freight rolling stock which meet agreed eligibility criteria in 2007 and BBSFF will consider further investment at the time, in light of economic and industry conditions, as well as the overall portfolio mix.

### **Alternative Assets**

Over the course of Q3 2007, BBSFF made a decision to liquidate the last of its positions in loans to biofuel projects. BBSFF received its scheduled return from those investments despite the market environment for biofuels having deteriorated since Listing. The achievement of its return validates the decision of BBSFF to take a debt position in the capital structure to insulate it from the economic impact of commodity fluctuations.

The market for single obligor structured loans remains active, resultant from the continued relatively strong business cycle and the seeming inability of traditional lenders to adapt to the changed credit and collateral markets. Investments in this sector are opportunistic, rather than specific to a particular economic sector and must be assessed on their own merit at the time. BBSFF believes that the current liquidity crisis and widening of credit spreads presents an opportunity to make further investments in this asset class.

The music publishing industry continues to grow in size and investor understanding. Colonial First State has recently announced that it will be marketing a fund comprising of music copyright assets to institutional investors with closing expected by year end. BBSFF believes that greater institutional investment in the sector is a positive development, with the potential over time to generate increased demand for the asset class. BBSFF will continue to implement its strategy of accumulating small to medium sized, well seasoned catalogues over the short to medium term and is actively looking at acquisitions by year end.

### **Loan Portfolio and Securitisation Assets**

In Australia, over the next one to two years, continued strong employment conditions, tax rate cuts, and increases in housing prices are expected and, in combination, these should limit defaults and losses that may be incurred on defaulting loans. Accordingly, BBSFF will continue to leverage its relationship with the Ancora Group and its strategic partners in Australia to selectively access quality loan portfolio and securitisation transactions. In the UK, expected continued strong employment levels and the growth in housing prices over the past 12 months should favourably impact seasoned mortgage portfolio performance. BBSFF will not make further investment in the UK mortgage sector in 2007 and will monitor house price growth and underwriting standards prior to committing to additional exposure in 2008.

In the first half of 2007, European leveraged loans were being concluded with debt ratios towards the high end of historical levels with some spread contraction. However a market correction since mid June has seen spreads widen in the secondary market with the opportunity to purchase high quality loans at a discount. BBSFF believes that economic conditions in Europe remain conducive to sound performance and accordingly, will continue to focus on the European CLO market.

The US ABS CDO market provides exposure to US mortgages, including sub-prime mortgages. Since the beginning of 2007, there has been extreme turmoil and market disruption in this market, particularly for sub-prime exposures, and spreads have widened considerably. BBSFF has no existing direct or indirect exposure to this sector and will not consider any investments in this sector until BBSFF believes there is greater clarity in the market and it considers itself able to assess the transactions.

**INCOME STATEMENT**

	Group quarter ended 30 Sep 07 S\$'000	Group Year to date 30 Sep 07 S\$'000	Group quarter ended 30 Sep 06 S\$'000	Group Year to date 30 Sep 06 S\$'000
<b>Revenue</b>				
Distribution income	653	1,794	-	-
Interest income	12,279	33,629	-	-
Rental income	1,435	4,354	-	-
Guarantee fee income	1,232	3,554	-	-
Net foreign exchange gains	2,701	9,883	-	-
Other operating income	1,092	2,199	-	-
<b>Total revenue</b>	<b>19,392</b>	<b>55,413</b>	-	-
<b>Expenses</b>				
Management fees	1,453	4,369	-	-
Depreciation and amortisation	726	1,882	-	-
Finance costs	5,056	12,486	-	-
Other operating expenses	115	1,720	-	-
<b>Total expenses</b>	<b>7,350</b>	<b>20,457</b>	-	-
<b>Share of profit / (loss) in equity accounted investment</b>	<b>727</b>	<b>(939)</b>	-	-
<b>Profit before tax</b>	<b>12,769</b>	<b>34,017</b>	-	-
<b>Income tax (expense) / benefit</b>	<b>(300)</b>	<b>203</b>	-	-
<b>Profit after tax</b>	<b>12,469</b>	<b>34,220</b>	-	-
<b>Basic earnings per share (cents per share)</b>	<b>3.23</b>	<b>8.95</b>	-	-
<b>Diluted earnings per share (cents per share)</b>	<b>3.23</b>	<b>8.93</b>	-	-

BBSFF was incorporated on 24 April 2006, and was listed on the Main Board of the Singapore Stock Exchange Securities Trading Limited on 20 December 2006. Prior to that date, BBSFF did not engage in any commercial or other activity. As a result, the financial result for period from incorporation to 30 September 2006 was nil.

**BALANCE SHEET**

	Group As at 30 Sep 07 S\$'000	Group As at 31 Dec 06 S\$'000	Company As at 30 Sep 07 S\$'000	Company As at 31 Dec 06 S\$'000
<b>Assets</b>				
Cash and cash equivalents <sup>1</sup>	108,613	64,953	29,303	400
Available for sale financial assets	238,114	123,728	383	-
Loans and receivables	146,217	148,866	364	-
Guarantee fees receivable	6,020	7,659	-	-
Aircraft	43,118	45,551	-	-
Investments in subsidiaries	-	-	362,117	355,099
Investment in equity accounted investment	48,713	48,953	-	-
Intangible assets – music copyright assets	46,308	-	-	-
Deferred tax assets	2,277	1	-	-
Other assets	243	1,587	1,755	1,515
<b>Total assets</b>	<b>639,623</b>	<b>441,298</b>	<b>393,922</b>	<b>357,014</b>
<b>Liabilities</b>				
Guarantee fees payable	5,802	9,748	-	533
Interest bearing liabilities	229,263	127,737	85	41
Deferred tax liabilities	126	3	-	-
Intercompany payable	-	-	2,556	-
Payable to Babcock & Brown Air Limited	54,088	-	-	-
Other liabilities	3,698	-	1,928	-
<b>Total liabilities</b>	<b>292,977</b>	<b>137,488</b>	<b>4,569</b>	<b>574</b>
<b>Net assets attributable to shareholders</b>	<b>346,646</b>	<b>303,810</b>	<b>389,353</b>	<b>356,440</b>
<b>Shareholders equity</b>	<b>346,646</b>	<b>303,810</b>	<b>389,353</b>	<b>356,440</b>
Net assets per share (\$ per share)	0.90	0.85	1.01	0.99
Net tangible assets per share (\$ per share)	0.78	0.85	1.01	0.99

<sup>1</sup> Cash and cash equivalents for the Group as at 30 September 2007 is comprised of S\$92.3 million of short-term deposits used to support cash-backed letters of credit in connection with the AGSO loan guarantee and the Ancora commercial paper program.

**STATEMENT OF CASH FLOWS**

	Group quarter ended 30 Sep 2007 S\$'000	Group year to date 30 Sep 2007 S\$'000	Group quarter ended 30 Sep 2006 S\$'000	Group period from incorporation to 30 Sep 2006 S\$'000
<b>Cash flows from operating activities</b>				
Operating costs	(1,854)	(5,543)	-	-
Interest income	12,330	30,422	-	-
Guarantee fee income	1,375	4,435	-	-
Distribution income	1,886	4,268	-	-
Rental income	455	1,353	-	-
<b>Net cash inflow from operating activities</b>	<b>14,192</b>	<b>34,935</b>	-	-
<b>Cash flows from investing activities</b>				
Investment in equity accounted investment	-	(10,248)	-	-
Purchase of intangible assets	-	(46,504)	-	-
Purchase of financial assets	(28,578)	(156,083)	-	-
Loan repayments received	40,994	126,634	-	-
<b>Net cash outflow from investing activities</b>	<b>12,416</b>	<b>(86,201)</b>	-	-
<b>Cash flows from financing activities</b>				
Proceeds from issue of ordinary shares	-	25,268	-	-
Net proceeds from / (repayment of) borrowings	(22,012)	92,103	-	-
Capital raising costs	-	(1,713)	-	-
Borrowing costs paid	(4,649)	(8,960)	-	-
Dividends paid	(20,060)	(20,060)	-	-
<b>Net cash inflow from financing activities</b>	<b>(46,721)</b>	<b>86,638</b>	-	-
<b>Net increase in cash and cash equivalents</b>	<b>(20,113)</b>	<b>35,372</b>	-	-
Cash and cash equivalents at beginning of period	127,584	64,953	-	-
Effects of exchange rate changes on cash and cash equivalents	1,142	8,288	-	-
<b>Cash and cash equivalents at 30 September 2007</b>	<b>108,613</b>	<b>108,613</b>	-	-

BBSFF was incorporated on 24 April 2006, and was listed on the Main Board of the Singapore Stock Exchange Securities Trading Limited on 20 December 2006. Prior to that date, BBSFF did not engage in any commercial or other activity. As a result, the financial result for period from incorporation to 30 September 2006 was nil.

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

Changes in shareholders equity of the Group for the quarter ended 30 September 2007	Share capital and reserves S\$'000	Retained earnings S\$'000	Translation reserves S\$'000	Total S\$'000	Group quarter ended 30 Sep 2006 S\$'000
<b>Balance as at 01 July 2007</b>	328,451	6,854	(6,171)	329,134	- <sup>1</sup>
Profit for the period	-	12,469	-	12,469	-
Available for sale financial assets revaluation reserve	15,076	-	-	15,076	-
Equity accounting reserve	(3,706)	-	-	(3,706)	-
Foreign currency translation reserve	-	-	(9,203)	(9,203)	-
<b>Total recognised income for the period</b>	<b>11,370</b>	<b>12,469</b>	<b>(9,203)</b>	<b>14,636</b>	<b>-</b>
Transactions with equity holders in their capacity as equity holders:					-
Issue of share capital – reinvestment of management fees	2,876	-	-	2,876	-
<b>Balance as at 30 September 2007</b>	<b>342,697</b>	<b>19,323</b>	<b>(15,374)</b>	<b>346,646</b>	<b>-</b>

Changes in shareholders equity of the Group for the year to date ended 30 September 2007	Share capital and reserves S\$'000	Retained earnings S\$'000	Translation reserves S\$'000	Total S\$'000	Group period from incorporation to 30 Sep 2006 S\$'000
<b>Opening Balance</b>	304,572	5,163	(5,925)	303,810	- <sup>1</sup>
Profit for the period	-	34,220	-	34,220	-
Available for sale financial assets revaluation reserve	15,076	-	-	15,076	-
Equity accounting reserve	(3,706)	-	-	(3,706)	-
Foreign currency translation reserve	-	-	(9,449)	(9,449)	-
<b>Total recognised income for the period</b>	<b>11,370</b>	<b>34,220</b>	<b>(9,449)</b>	<b>36,141</b>	<b>-</b>
Transactions with equity holders in their capacity as equity holders:					-
Issue of share capital	25,447	-	-	25,447	-
Issue of share capital – reinvestment of management fees	3,033	-	-	3,033	-
Dividend for the period	-	(20,060)	-	(20,060)	-
Transaction costs	(1,725)	-	-	(1,725)	-
<b>Balance as at 30 September 2007</b>	<b>342,697</b>	<b>19,323</b>	<b>(15,374)</b>	<b>346,646</b>	<b>-</b>

<sup>1</sup> BBSFF was incorporated in Bermuda on 24 April 2006. Two ordinary shares of \$1.00 each have been issued as of the date of incorporation.

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE COMPANY**

Changes in shareholders equity of the Company for the quarter ended 30 September 2007	Share capital and reserves S\$'000	Retained earnings S\$'000	Translation reserves S\$'000	Total S\$'000	Company
					quarter ended 30 Sep 2006 S\$'000
<b>Balance as at 01 July 2007</b>	386,196	(11,044)	(7,352)	<b>367,800</b>	- <sup>1</sup>
Profit for the period	-	29,416	-	<b>29,416</b>	-
Foreign currency translation reserve	-	-	(10,739)	<b>(10,739)</b>	-
Total recognised income for the period	-	29,416	(10,739)	<b>18,677</b>	-
Transactions with equity holders in their capacity as equity holders:					
Issue of share capital – reinvestment of management fees	2,876	-	-	<b>2,876</b>	-
<b>Balance as at 30 September 2007</b>	<b>389,072</b>	<b>18,372</b>	<b>(18,091)</b>	<b>389,353</b>	-

Changes in shareholders equity of the Company for the year to date ended 30 September 2007	Share capital and reserves S\$'000	Retained earnings S\$'000	Translation reserves S\$'000	Total S\$'000	Company
					period from incorporation to 30 Sep 2006 S\$'000
<b>Opening Balance</b>	362,317	1,150	(7,027)	<b>356,440</b>	- <sup>1</sup>
Profit for the period	-	37,282	-	<b>37,282</b>	-
Foreign currency translation reserve	-	-	(11,064)	<b>(11,064)</b>	-
Total recognised income for the period	-	37,282	(11,064)	<b>26,218</b>	-
Transactions with equity holders in their capacity as equity holders:					
Issue of share capital	25,447	-	-	<b>25,447</b>	-
Issue of share capital – reinvestment of management fees	3,033	-	-	<b>3,033</b>	-
Dividend for the period	-	(20,060)	-	<b>(20,060)</b>	-
Transaction costs	(1,725)	-	-	<b>(1,725)</b>	-
<b>Balance as at 30 September 2007</b>	<b>389,072</b>	<b>18,372</b>	<b>(18,091)</b>	<b>389,353</b>	-

<sup>1</sup> BBSFF was incorporated in Bermuda on 24 April 2006. Two ordinary shares of \$1.00 each have been issued as of the date of incorporation.

## ACCOUNTING POLICIES APPLICATION

Accounting policies and methods of computation applied in preparation of these figures that are not stated in this report are the same as those used in the most recently audited annual financial statements of the Group and the Company. There have been no changes in accounting policies during the quarter however with the acquisition of the Music Copyright Assets the following accounting policy has been adopted:

### Intangible assets

#### *Music Copyright Catalogues*

Acquired music copyright catalogues are initially capitalised at an amount which includes the contracted purchase price and other directly attributed costs of preparing the asset for its intended use. Music copyright catalogues are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in the Income Statement using the straight-line method over the estimated useful lives of the catalogues which is expected to be no greater than 35 years. Costs associated with holding the music copyright catalogues are recognised as an expense when incurred.

The amortisation period and amortisation method of intangible assets are reviewed at least quarterly. The effects of any revision of the amortisation period or amortisation method are included in the Income Statement for the financial period in which the change arises.

## DIVIDENDS

The 2007 interim dividend of 5.23 cents per share in respect of the period from listing to 30 June 2007 was paid on 14 September 2007.

The 2007 final dividend will be declared during December 2007 and is expected to be paid on 14 March 2008.

As the Company was incorporated in Bermuda and is not resident in Singapore for tax purposes, dividends paid by the Company will be regarded as foreign-source income for Singaporean tax resident recipients.

Foreign dividends are subject to Singapore income tax when received in Singapore by corporate shareholders.

Foreign dividends received by foreign investors with no permanent establishment in Singapore are generally not subject to Singapore income tax.

Foreign-sourced dividends received by individuals in Singapore (whether resident or otherwise) are exempt from Singapore income tax unless these dividends are received via partnerships.

Neither Singapore nor Bermuda currently imposes withholding tax on dividends paid to non-Singapore or non-Bermudan tax resident shareholders.

## CHANGES IN SHARE CAPITAL

On 2 July 2007 and 10 August 2007, 1,233,309 and 1,396,709 new shares were issued to Babcock & Brown Structured Finance Management Pty Limited in satisfaction of the Base Management Fees for the quarters ended 31 March 2007 and 30 June 2007 respectively. Following the issuance of the new ordinary shares, the total shares in issue was 386,191,725.

## NET ASSET VALUE

	Group As at 30 Sep 07 S\$'000	Group As at 31 Dec 06 S\$'000	Company As at 30 Sep 07 S\$'000	Company As at 31 Dec 06 S\$'000
<b>Net asset value</b>				
Total net asset value (\$'000)	346,646	303,810	389,353	356,440
Total number of ordinary shares on issue used in calculation of net asset value per share ('000)	386,192	359,401	386,192	359,401
Net asset value per ordinary share (\$ per share)	0.90	0.85	1.01	0.99

Net asset value per ordinary share is derived by dividing the net assets as disclosed in the balance sheet of the Group as at 30 September 2007 by the number of ordinary shares on issue as at 30 September 2007.

## EARNINGS PER SHARE

	Group Quarter ended 30 Sep 07 S\$'000	Group Year to date 30 Sep 07 S\$'000	Group Quarter ended 30 Sep 06 S\$'000	Group Period of incorporation to 30 Sep 06 S\$'000
<b>Basic earnings per share</b>				
Earnings used in calculation of basic earnings per share (S\$'000)	12,469	34,220	-	<sup>1</sup>
Weighted average number of shares on issue used in calculation of basic earnings per share ('000)	385,571	382,347	-	-
Basic earnings per share (cents per share)	3.23	8.95	-	-
<b>Diluted earnings per share</b>				
Diluted earnings used in calculation of diluted earnings per share (\$'000)	12,469	34,220	-	-
Weighted average number of shares on issue used in calculation of diluted earnings per share ('000)	386,210	383,018	-	-
Diluted earnings per share (cents per share)	3.23	8.93	-	-

In future periods, shares may be issued to the Manager in lieu of management fees otherwise payable in cash. This will have a dilutive effect on Earnings per Share.

<sup>1</sup> BBSFF was incorporated on 24 April 2006, and was listed on the Main Board of the Singapore Stock Exchange Securities Trading Limited on 20 December 2006. Prior to that date, BBSFF did not engage in any commercial or other activity. As a result, the financial result for period from incorporation to 30 September 2006 was nil.

## INTEREST BEARING LIABILITIES

	<b>Group as at 30 Sep 2007 S\$'0000</b>
Term loans <sup>1</sup>	94,486
Commercial paper notes <sup>2</sup>	134,777
<b>Total interest bearing liabilities</b>	<b>229,263</b>
Amount repayable in one year or less, or on demand	179,649
Amount repayable after one year	49,614
<b>Total interest bearing liabilities</b>	<b>229,263</b>
Amount secured	229,263
Amount unsecured	-
<b>Total interest bearing liabilities</b>	<b>229,263</b>

<sup>1</sup> The term loans are secured against the two Boeing 757-200 aircraft leased to First Choice Airways Ltd, the music copyright catalogues held by the Group and partially against the assets of the Company and its subsidiaries, BBSFF Asset Holdings Ltd; BBSFF Operating Lease Limited; BBSFF Loan Portfolio & Securitisation Limited; and BBSFF Alternative Assets Limited.

<sup>2</sup> Under the LC Procurement Agreement dated 27 October 2006, between BBSFF and Ancora Group, BBSFF has agreed to procure letters of credit from a bank rated A1+ by Standard & Poor's to support the commercial paper program which Ancora group has established.

## CONTRACTUAL ARRANGEMENTS

At the time of the acquisition of the initial music copyright assets the Company entered into a Music Catalogue Introduction Agreement with the Spirit Music Group ("Spirit"). The Babcock & Brown Group has a majority interest in Spirit resulting in transactions between Spirit and the Company being deemed related party transactions. Under the terms of the Music Catalogue Introduction Agreement, Spirit may be entitled to certain fees and profits on music copyright assets introduced to the Company by Spirit. The nature and quantum of any such fees and profits are dependent on the outcome of a vote of the Company's Shareholders at its next shareholder General Meeting.

## AUDIT OR REVIEW

The figures in this quarterly report have not been audited or reviewed by the external auditor, PricewaterhouseCoopers.

## SUBSEQUENT EVENTS

On 13 November 2007, the SGX-ST provided its in-principle approval for the listing and quotation of 1,438,441 ordinary shares to AGSO Property Pty Ltd ATF Babcock & Brown Prime Broking Trust, the nominee of the Manager, to satisfy the Company's obligation to pay the base management fee for the quarter ended 30 September 2007.

Following the issue of these new ordinary shares, the total shares on issue was 387,630,166.

**CONFIRMATION OF THE BOARD PURSUANT TO RULE 705(4) OF THE LISTING MANUAL**

On behalf of the Board of Directors of Babcock & Brown Structured Finance Fund Limited, we, the undersigned hereby confirm to the best of our knowledge that nothing has come to the attention of the Board of Directors of the Company which may render the financial statements for the third quarter ended 30 September 2007 to be false or misleading in any material respect.

On behalf of the Board of Directors



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Richard Umbrecht  
Director  
9 November 2007



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Tara Railton  
Director  
9 November 2007