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Confirmation of Your Representation: You have been sent the attached prospectus on the basis that you have confirmed to UBS Limited, being the sender of the attached that (i) you are outside the United States and (ii) that you consent to delivery by electronic transmission.

This prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently UBS AG or any person who controls it or any director, officer, employee or agent of it, or affiliate of any such person does not accept any liability or responsibility whatsoever in respect of any difference between the prospectus distributed to you in electronic format and the hard copy version available to you on request from Babcock & Brown Public Partnerships Limited.

You are reminded that the attached prospectus has been delivered to you on the basis that you are a person into whose possession this prospectus may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not nor are you authorised to deliver this prospectus to any other person.

Restrictions: Nothing on this electronic transmission constitutes an offer of securities for sale in the United States or any other jurisdiction. Any securities to be issued will not be registered under the Securities Act of 1933 and may not be offered or sold in the United States or to or for the account or benefit of U.S. persons (as such terms are defined in Regulation S under the U.S. Securities Act of 1933) unless registered under the Securities Act or pursuant to an exemption from such registration.

Prospectus 2006

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THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document you should consult a person authorised for the purposes of the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.

Prospective investors should read this entire document and, in particular, the matters set out under the heading "Risk Factors" on pages 7 to 18, when considering an investment in Babcock & Brown Public Partnerships Limited (the "Company").

It is expected that an application will be made to the UK Listing Authority for all of the Ordinary Shares (issued and to be issued) to be admitted to the Official List and to the London Stock Exchange for all such Ordinary Shares to be admitted to trading on the London Stock Exchange. It is expected that such admission will become effective, and that dealings in the Ordinary Shares will commence, on 9 November 2006.

The Ordinary Shares are not dealt in on any other recognised investment exchanges and no other such applications have been made or are currently expected.

Application has been made for consent under the Control of Borrowing (Bailiwick of Guernsey) Ordinances, 1959 to 1989, for the circulation of this document insofar as it relates to the issue of the Ordinary Shares and to the raising of money by the issue of such shares and the raising of bank finance. Neither the Guernsey Financial Services Commission nor the States of Guernsey Policy Council accept any responsibility for the financial soundness of the Company or for the correctness of any of the statements made or opinions expressed with regard thereto.

Babcock & Brown Public Partnerships Limited

(incorporated in Guernsey with registered no 45241)

**Placing and Offer for Subscription of up to
300 million Ordinary Shares of 0.01 pence each
at an Issue Price of 100 pence per Ordinary Share**

and

Admission to the Official List and trading on the London Stock Exchange

Placing Agent and Sponsor

UBS Investment Bank

The Company and its Directors, whose names appear on page 22 of this document, accept responsibility for the information contained in this document. To the best of the knowledge of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

UBS Limited is acting for the Company and no-one else in connection with the Issue and will not regard any other person as its client in relation to the Issue and will not be responsible to anyone other than the Company for providing the protections afforded to its clients nor for providing advice in relation to the Issue or any transaction or arrangement referred to in this document.

Apart from the responsibilities and liabilities, if any, which may be imposed on UBS by FSMA or the regulatory regime established thereunder, UBS accept no responsibility whatsoever for the contents of this document or for any other statement made or purported to be made by them, or on their behalf, in connection with the Company, the Ordinary Shares or the Issue. UBS accordingly disclaim all and any liability whether arising in tort, contract or otherwise (save as referred to above) which they might otherwise have in respect of such document or any such statement. No representation or warranty, express or implied is made or given by or on behalf of UBS or any of its respective affiliates or any of such person's directors, officers or employees or any other person as to the accuracy, completeness or fairness of the information or opinions contained in this document and no responsibility or liability is accepted for any such information or opinions.

The Ordinary Shares offered by this document have not been and will not be registered under the United States Securities Act of 1933, or under the applicable state securities laws of the United States and, subject to certain exceptions, may not be offered or sold directly or indirectly in or into the United States, or to or for the account or benefit of any US person (within the meaning of Regulation S under the Securities Act). In addition, the Company has not been and will not be registered under the United States Investment Company Act of 1940, as amended.

Prospective investors should consider carefully (to the extent relevant to them) the notices to residents of various countries set out at pages 130 and 131 of this document.

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Summary

THE FOLLOWING INFORMATION IS BASED ON, AND SHOULD BE READ AS AN INTRODUCTION TO AND IN CONJUNCTION WITH, THE FULL TEXT OF THE PROSPECTUS AND ANY INVESTMENT DECISION RELATING TO THE ISSUE SHOULD BE BASED ON THE CONSIDERATION OF THE PROSPECTUS AS A WHOLE.

Where a claim relating to information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the EEA States, have to bear the costs of translating the Prospectus before legal proceedings are initiated. Civil liability attaches to those persons who are responsible for this summary, including any translation of this summary, but only if this summary is misleading, inaccurate or inconsistent when read together with other parts of the Prospectus.

The Company

The Company is a newly established, limited liability, Guernsey-incorporated, closed-ended investment company. The Company offers Shareholders an exposure to investment in infrastructure assets, particularly those with a public or social character such as those developed by public bodies under private finance initiative or public private partnership procurements.

The Company will make infrastructure investments through a series of entities, comprising two wholly-owned Luxembourg SOPARFIs and an English limited partnership (together with the Company, the **"Group"**). Babcock & Brown Investment Management Limited (the **"Investment Adviser"**, **"Operator"** or **"BBIML"**), an investment manager authorised and regulated in the UK by the Financial Services Authority will act as investment adviser to the Company and as operator of the Partnership.

Application will be made for the Ordinary Shares of the Company to be admitted to the Official List and to trading on the London Stock Exchange.

The Company's directors, all of whom are non-executive, are Keith Dorrian (Chairman), Rupert Dorey and Giles Frost. The Company's auditors are Deloitte & Touche, who are registered with the Institute of Chartered Accountants of England & Wales. The Company has no employees.

The Company has an authorised share capital of £100,000. As at the date of this document the Company has not incurred any indebtedness and has no guaranteed, secured, unguaranteed or unsecured debt and no indirect or contingent indebtedness.

On the assumption that the full 300 million Ordinary Shares are issued, the net proceeds of the Issue would be used to finance the Acquisition to meet the deferred payment required in respect of the securities to be held by the Group in RiverCity Motorway and to meet associated costs, leaving over £100 million to fund further acquisitions.

Investment Objectives

The Company will seek to provide Shareholders with long-term distributions at levels that are both sustainable and which preserve the capital value of the Group's infrastructure investments over the long term. The Directors also believe that long term capital growth can also be achieved.

The Company will target a minimum annualised dividend yield to investors of 5.25 per cent.¹ per annum on the Issue Price for its first full financial year. Thereafter the Company will aim to target growth of its annual distribution.

The Company will target an IRR of 8 to 9 per cent.¹ on the Issue Price over the long term.

Investment Opportunity

Following Admission, the Group intends to acquire the infrastructure investments comprised in the Initial Portfolio. The Initial Portfolio consists of direct or indirect interests in Investment Capital in a series of projects developed under the Private Finance Initiative of the UK Government; the UK National Health Service LIFT (Local Improvement Finance Trust) programme and under the Public Private Partnership programmes of certain states within Australia. The Group has entered into sale and purchase agreements with the Vendors in relation to the Acquisition. The Initial Portfolio consists of Investment Capital invested in Project Entities which have:

- an entitlement to public sector or government backed revenues or, in the case of one asset, toll revenues;
- finished construction or are in the course of construction of public or social infrastructure facilities including health facilities, schools, government offices, courthouses, police and custodial facilities, showgrounds and a tunnel; and
- contractual structures that generally provide for the majority of construction and operational project risks to be “passed down” by the Project Entity to subcontractors who take responsibility for the discharge of the bulk of these liabilities subject to pre-defined caps on liability.

The Directors and the Investment Adviser believe that an investment in the Company offers the following features which potentially compare favourably with investments in other investment companies investing in other asset classes such as non-infrastructure equities and real estate:

- yields which are attractive relative to the asset risk profile;
- the likelihood of long term stable cashflows;
- growth potential in the asset class;
- predictable, low volatility returns;
- low exposure to changes in the business cycle; and
- creditworthy counterparties.

Investment Policy and Strategy

After completing the Acquisition, the Group intends to seek further acquisition opportunities within the following parameters:

- investments with characteristics similar to those of the assets comprised in the Initial Portfolio;
- investment in other assets or concessions having a public infrastructure character and in respect of which availability based payments are or will become payable or in respect of which a property rental is or will become payable or in respect of which user paid charges (or payments related to amount of use) are or will become payable; or
- investments in infrastructure assets which the Directors believe have high barriers to entry and that the Directors and the Investment Adviser expect to generate an attractive total rate of return over the whole of the life of the investment.

¹ These are targets only and are not profit forecasts. There can be no assurance that these targets will be met or that the Company will make any distributions whatsoever or that investors will recover all or any of their investments.

The Directors and the Investment Adviser believe that a number of attractive investment opportunities exist and that this number is likely to increase over time. Such acquisitions may be of single assets, of portfolios of assets or of shares in companies or partnerships.

These further investments will be principally sourced by the Investment Adviser and Operator. The Company is aware of a number of additional projects under development by Babcock & Brown that are likely to meet the Company's investment policies. In addition the Investment Adviser and Operator will have access to the 178 strong team of professionals worldwide working in the infrastructure division of Babcock & Brown who have a strong track record in developing and sourcing infrastructure investments that would meet the Company's investment policy.

Further acquisitions will be financed from cash reserves, and/or by raising debt and/or through seeking additional capital from the Shareholders and equity capital markets or a combination of these, where the Directors believe that this will create Shareholder value and where such further investments meet the relevant criteria.

The Directors will over the long term seek a spread of investments to achieve a broad balance of risk in the Investment Portfolio. This balance will be both geographical and across infrastructure sectors. Where investments are made in currencies other than GBP the Directors may, but are not obliged to, hedge currency exposure risk.

Until the Group is fully invested and pending re-investment or distribution of cash receipts, cash received by the Group will be invested in liquid temporary investments.

Material changes to the investment policy of the Company may only be made by ordinary resolution of the Shareholders.

The Investment Adviser and the Operator

Babcock & Brown will be responsible for carrying out investment management and advisory functions for the Group, through its wholly owned subsidiary BBIML. Babcock & Brown has a team of specialists working in 22 offices around the world with extensive experience of originating, developing and managing public infrastructure projects.

Babcock & Brown has originated, developed or provided financial advisory services in respect of all the projects comprised in the Initial Portfolio. The Group and the Investment Adviser anticipate retaining access to and benefiting from the experience of the management teams and personnel who have been responsible for the development of these projects to date.

The Arranger has committed that it or another member of the Babcock & Brown group will take up a shareholding of no less than the lower of 10 per cent. of the Ordinary Shares in the Company on Admission and 25,000,000 Shares.

Distribution Policy

Subject to the Laws, distributions on the Ordinary Shares are expected to be paid twice a year, normally in respect of the six months to 30 June and 31 December and are expected to be made by way of dividend. The Company may also make distributions by way of capital distributions as well as, or in lieu of, by way of dividends, if and to the extent that the Directors consider this appropriate and permitted by the Listing Rules, the Laws and the Articles.

Borrowing Policy

The Company will have no borrowings at time of the Issue. However, the Group intends to make prudent use of leverage to enhance returns to investors, to finance the acquisition of investments and to satisfy working capital requirements. The Group's outstanding borrowings, including any financial guarantees to support outstanding subscription obligations, are limited to 50 per cent. of the Gross Asset Value of its investments and cash balances, with the Group having the ability to borrow in aggregate up to 66 per cent. of the Gross Asset Value on a short term (i.e. less than 365 day) basis if considered appropriate. For this purpose, outstanding borrowings exclude intra-

Group borrowings and debts of the Group's underlying investments. The Group may borrow in currencies other than GBP.

Discount Management

In order to assist in the narrowing of any discount to the Net Asset Value at which the Ordinary Shares may trade from time to time, the Company may, at the sole discretion of the Directors, make market purchases of up to 14.99 per cent. per annum of its issued Ordinary Shares and/or make tender offers for the Ordinary Shares.

Fees and Expenses

BBIML is entitled to: (a) an annual Base Fee equal to 1.2 per cent. per annum of the Gross Asset Value of the Investment Portfolio; and (b) to an Incentive Fee in respect of each Incentive Period equal to 20 per cent. of the excess (if any) of the Ordinary Share Return over the Benchmark Return in the relevant Incentive Period. No Base Fee is charged on such part of the proceeds of the Issue that are not invested or committed to be invested, until such time the relevant part of the Issue proceeds are invested or committed to be invested.

The Group will also pay its ongoing operating expenses which include administration, registrar, and general transactional fees and expenses. The Group will also pay certain Operator overhead expenses. The Group has also entered into a Financial Advisory Mandate with the Arranger that provides that where the Arranger undertakes financial advisory services to the Group in relation to acquisitions and financings, additional fees will be payable to the Arranger.

The costs of the Acquisition and Issue expenses are dealt with on page 31.

The Issue and Timing

The Offer for Subscription will open on 11 October 2006 and the latest time for receipt of Application Forms under the Offer for Subscription will be 4.30 pm on 1 November 2006. The latest time for receipt of commitments under the Placing will be 5.00 pm on 3 November 2006. Admission to the Official List and unconditional dealings in the Ordinary Shares are expected to commence at 8.00 am on 9 November 2006.

Risk Factors

Typical investors in the Company are expected to be institutional and sophisticated investors and private clients. Investors should consult their stockbroker, bank manager, solicitor, accountant or other independent financial adviser before making an investment in the Company.

Risk factors affecting the Company and the Ordinary Shares include, but are not limited to, the following.

- There is no guarantee that the Company will achieve its investment objectives. An investment in the Ordinary Shares is only suitable for investors who have sufficient resources to be able to bear any losses that may arise from that investment (such losses may be equal to the whole amount invested).
- Project Agreements for infrastructure projects may be terminated in certain circumstances. In some circumstances there will be no compensation on termination or the compensation received will be insufficient to repay the acquisition cost of Investment Capital invested in the Project Entity.
- Infrastructure projects rely on large and detailed financial models. Errors in the assumptions or methodology used in the financial models may mean that the investment return from the Project Entity will be less than expected. Returns may also be affected negatively as well as positively by, inter alia, inflation, lifecycle replacement costs and deposit interest rates where these differ from those assumed in the models.
- The financial models for Project Entities are typically based on the fact that construction and other risks of operating the relevant concessions are substantially assumed by subcontractors. The

Project Entities may be exposed to increased cost or other liability where this does not happen, for example as a result of the operation of contractual limits of liability, contractor default or insolvency or defective contractual provisions.

- PFI and PPP are not the only means of funding infrastructure projects and the use of such funding mechanisms in future may decrease. If there is such a change in policy, there is a risk that Public Sector Clients may seek to terminate existing PFI and PPP type projects, although without other contractual justification this would lead to compensation.
- Any change in law or regulation (including any general change in tax rates) or change in tax status of the Group or any Project Entity in which the Group invests may adversely affect investment returns of the Group.

Risk Factors

Investment in the Company carries a degree of risk including the risks in relation to the Company and the Ordinary Shares referred to below. The risks referred to below are risks which are considered to be material but are not the only risks relating to the Company and the Ordinary Shares. There may be additional material risks that the Company and the Directors do not currently consider to be material or of which the Company and the Directors are not currently aware. Potential investors should review this document carefully and in its entirety and consult with their professional advisers before acquiring any Ordinary Shares. If any of the risks referred to in this document were to occur, the financial position and prospects of the Company could be materially adversely affected. If that were to occur, the trading price of the Ordinary Shares and/or their Net Asset Value and/or the level of dividends or distributions (if any) received from the Ordinary Shares could decline significantly and investors could lose all or part of their investment.

A. Introduction

An investment in the Company is suitable only for: investors who are capable of evaluating the risks and merits of such investment; who understand the potential risk of capital loss and that there may be limited liquidity in the underlying investments of the Company; for whom an investment in Ordinary Shares constitutes part of a diversified investment portfolio; who fully understand and are willing to assume the risks involved in investing in the Company; and who have sufficient resources to bear any loss (which may be equal to the amount invested) which might result from such investment. Typical investors in the Company are expected to be institutional and sophisticated investors and private clients. Investors should consult their stockbroker, bank manager, solicitor, accountant or other independent financial adviser before making an investment in the Company.

The Ordinary Shares are designed to be held over the long term and may not be suitable as short-term investments. There is no guarantee that any appreciation in the value of the Company's investments will occur and investors may not get back the full value of their investment.

Any investment objectives of the Company are targets only and should not be treated as assurances or guarantees of performance.

B. Risks Associated with the Initial Portfolio and Further Investments

The Group intends to acquire the Initial Portfolio from the Vendors. The Initial Portfolio consists of direct and indirect interests in:

- Investment Capital in thirteen projects developed under the PFI programme of the UK government (comprising 86 per cent. by value of the Initial Portfolio);
- Investment Capital in six projects developed under the NHS LIFT programme (comprising 3 per cent. by value of the Initial Portfolio); and
- Investment Capital in three projects developed under the PPP programmes of various states within Australia (comprising 11 per cent. by value of the Initial Portfolio).

Following the Acquisition, the Group intends to make additional investments (as further described in Part II entitled "Investment Objective, Policy and Strategy").

Specific risk factors apply to investment in the Initial Portfolio and to the additional investments that the Group intends to make as detailed in this Part B.

LIMITS ON VENDORS' LIABILITIES

Under the Acquisition Agreements, the Vendors will provide various warranties for the benefit of the Group in relation to the Acquisition. However, such warranties will be subject to disclosure, time

limitations and a liability cap and to the extent that such warranties are ineffective or any loss suffered by the Group arises outside of such limitations or exceeds such cap it will be borne by the Group.

COMPLETION RISK

Completion of the Acquisition under the Acquisition Agreement is expected to occur after Admission. Although the Vendors are contractually obliged to complete the transfer of the interests in the projects comprising the Initial Portfolio, there is a risk that they default on their obligations to complete the Acquisition in accordance with the Acquisition Agreements. If such default occurs, the Group may have to instigate legal proceedings against one or more of the Vendors to enforce their rights under the Acquisition Agreements or to seek damages.

TERMINATION OF PROJECT AGREEMENTS

Typically with respect to PFI/PPP projects, both the Project Entity and the Public Sector Client have the right to terminate a Project Agreement in certain defined circumstances. The compensation (if any) to which the Project Entity will be entitled on termination will depend on the reason for termination and the terms of the Project Agreement. In some cases there may be no compensation. In other cases (including termination for force majeure), the amount of compensation payable (if any) may cover neither the full amount of senior debt secured on that Project Entity nor the nominal value of the Investment Capital invested in the Project Entity (nor the amount paid in the market for that Investment Capital). For these purposes, senior debt can be taken to include the costs (or gains) arising from breaking any interest rate hedging arrangements. Typically, senior lenders will have security over any compensation proceeds. In other termination circumstances such as Public Sector Client default, any compensation would be expected to cover senior debt and the return of Investment Capital, but not necessarily the amounts paid for the acquisition of the Investment Capital by the Group.

For NHS LIFT projects, there are no provisions under the Project Agreement providing for compensation to be paid to the Project Entity in a termination scenario. This is due to the fact that the Project Entity owns the building and the land on which it is built and is therefore left with an asset which it can use, develop or dispose of following termination of the Project Agreement, subject to the terms of any security over the asset, title issues, other third party lettings affecting the site and the Public Sector Clients' rights to purchase the site under certain circumstances.

FINANCIAL MODELLING

Infrastructure projects rely on large and detailed financial models. There is a risk that errors may be made in the assumptions or methodology used in a financial model. In such circumstances the returns generated by the Project Entity may be less than expected.

TARGETED RETURNS OF PROJECT ENTITIES

The Group will make investments based on estimates or projections of investment cash flows. There can be no assurance that the actual investment cash flows will equal or exceed those expected and that the stated targeted return to Shareholders will be achieved.

INFLATION/DEFLATION

Project Entity revenues and expenditure are subject to indexation. The base index used for price (and cost) inflation in the UK schemes is either RPI or RPIx and for the Australian projects it is CPI. From a financial modelling perspective, the current assumption is that inflation will increase at a long term rate of 2.5 per cent. per annum. The effect on investment returns if inflation overshoots or undershoots this long term rate is dependent on the nature of the underlying project earnings and, where availability based, the unitary charge indexation provisions agreed with the public sector counterparty for each project. For those schemes where the income stream is indexed and the project is exposed to RPI risk (and where this risk has not been laid off by, for example, index linked funding), increases above and decreases below 2.5 per cent. will have a more beneficial/detrimental effect on Shareholder returns than those which take no or limited RPI risk.

BENCHMARKING/MARKET TESTING

A Project Agreement for accommodation based PFI/PPP projects with availability based payment streams will often contain benchmarking and/or market-testing regimes in respect of the cost of providing certain services, which operate periodically, typically every five years. These mechanisms may expose the Project Entity to the potential losses or gains arising from changes in some of its costs relative to the charges that it is then entitled to receive from the Public Sector Client as a result of the benchmarking/market-testing regimes.

LIFE CYCLE COSTS

During the period of a concession, components of the project facility or building (such as elevators, roofs and air handling plant) will need, inter alia, to be replaced or undergo a major refurbishment. The timing of such replacements or refurbishments is forecast based upon manufacturers' data and warranties and specialist advisers are usually retained by the Project Entities to assist in such forecasting of lifecycle timings and costs. However, shorter than anticipated asset lifespans or costs or inflation higher than forecast may result in life cycle costs being more than anticipated. Any cost implication, not otherwise passed down to subcontractors, will generally be borne by the affected Project Entities.

INSURANCE

A Project Entity will usually be responsible under its Project Agreement for maintaining insurance cover for, amongst other things, buildings, contents and third party risks (for example arising from damage to property). Typically, the Project Entity takes the risk that the cost of maintaining the insurance may be greater than expected and that in some circumstances it may not be able to obtain the necessary insurance. Where insurance is not obtainable, in the case of PFI/PPP projects, the Project Agreement usually provides that the Public Sector Client may, in certain circumstances, arrange to insure the relevant risks itself. If a risk then subsequently occurs, the Public Sector Client can typically choose whether to let the Project Agreement continue, and pay to the Project Entity an amount equal to the insurance proceeds which would have been payable had the insurance been available (excluding in certain cases amounts which would have been payable in respect of Investment Capital), or terminate the Project Agreement and pay compensation on the basis of termination for force majeure (see above under "Termination of Project Agreements"). Certain risks may be uninsurable in the insurance market or subject to exclusions of general events (eg the effect of war) and in such cases the risks of such events will rest with the Project Entity. In the case of NHS LIFT projects, where insurance is unavailable, the Project Entity is obliged to liaise with the relevant Strategic Partnering Board as to whether or not the Project Agreement should be terminated.

CHANGE IN TAX LAW AND PRACTICE

Financing structures of Project Entities are based on assumptions regarding prevailing taxation law and practice. Any change in a Project Entity's tax status or in tax legislation (including in relation to taxation rates) could adversely affect the investment return of the Project Entity. If returns from Investment Capital reach a high level, there is also a risk that governments may seek to recoup returns that they deem to be excessive either on individual projects or more generally.

CHANGE IN LAW

A Project Entity may incur increased costs or losses as a result of changes in law or regulation. It is usual however for the risk of a change in law with an implication on capital expenditure, for a project with an availability based revenue stream, to be shared with or passed on to the Public Sector Client or the Project Entity's subcontractors.

CHANGE IN POLICY

PFI and PPP are not the only means of funding public infrastructure projects and the use of such funding mechanisms in future may decrease. If there is such a change in policy in any relevant jurisdiction, there is a risk that Public Sector Clients may seek to terminate existing PFI and PPP type projects where contractual provisions allow this. While such contractual termination should lead to

compensation being payable it might not be sufficient to cover the amounts paid for the acquisition of the Investment Capital by the Group.

EXCEEDED LIABILITY LIMITS

Where Project Entities have entered into subcontracts, the subcontractors' liabilities to a Project Entity for the risks they have assumed will typically be subject to financial caps and it is possible that these caps may be exceeded in certain circumstances. Any loss or expense in excess of such a cap would be borne by the Project Entity unless covered by the Project Entity's insurance.

BUILDING DEFECTS

Project Entities typically subcontract design and construction activities in respect of projects. The subcontractors responsible for the construction of a project asset will normally retain liability in respect of design and construction defects in the asset for a statutory period which varies between five (in Australia) and six and twelve (in the UK) years following the construction of the asset, subject to liability caps. In addition to this financial liability, the construction subcontractors will also normally have an obligation to return to site in order to carry out any remedial works required for a pre-agreed period, typically the first year following the construction of the asset. The Project Entity will not normally have recourse to any third party for any defects which arise after the expiry of limitation periods.

SUBCONTRACTOR SERVICE FAILURES

If a subcontractor to a Project Entity fails to perform the services which it has agreed to provide, the Project Entity may fail to meet the service standards it has agreed with its Public Sector Client and there may be a reduction in the payments that the Project Entity is entitled to receive, and/or claims by the Public Sector Client for damages. These reductions and/or claims are typically passed on to the relevant subcontractor, subject to any contractual liability caps.

If there is a subcontractor service failure and the relevant subcontractor or its guarantors or insurers fail to meet their obligations in respect of the liabilities that have been passed on to them, then, to the extent the liability cannot be set off against service fees, the Project Entity will not be compensated for any reductions in payments and/or claims made by the Public Sector Client which it suffers as a result of the subcontractor's service failure. Ultimately such service failure could lead to termination of a project agreement.

RELIANCE ON SUBCONTRACTORS

In some instances in respect of the Initial Portfolio, a single subcontractor is responsible for providing services to various Project Entities in which the Group invests. In such instances, the default or insolvency of such single subcontractor could adversely affect a number of the Group's investments.

Following the Acquisition, the Group may make acquisitions of established portfolios of investments in Project Entities. Those Project Entities may already have appointed subcontractors for the duration of their concessions. Although the Group will aim to avoid an excessive reliance on any single subcontractor, and will have regard to this concern when making additional investments, there may be some degree of risk in this respect either in relation to the Initial Portfolio or across the Group's future expanded total portfolio.

TERMINATION OF SUBCONTRACTORS

If there is a subcontractor service failure which is sufficiently serious to cause a Project Entity to terminate a subcontract, or an insolvency in respect of a subcontractor, or the Public Sector Client requires the Project Entity to terminate a sub contract in such event, there may be a loss of revenue during the time taken to find a replacement subcontractor and the replacement subcontractor may levy a surcharge to assume the subcontract or charge more to provide the services. There will also be costs associated with the re-tender process. These may not be recoverable from the defaulting subcontractor.

DEFECTS IN CONTRACTUAL ARRANGEMENTS

The contractual arrangements made by a Project Entity may not be as effective in passing on risks to its subcontractors as intended and this may result in unexpected costs or a reduction in expected revenues for the Project Entity. Certain provisions in sub-contracts intended to pass risk could be ineffective.

PUBLIC SECTOR CLIENT DEFAULT

As described in Parts III and IV, the concessions granted to Project Entities comprised within the Initial Portfolio are predominantly granted by a variety of Public Sector Clients including but not limited to central government departments, local and state governments and statutory corporations. Although the creditworthiness and power of each such body to enter into Project Agreements has been considered on a case-by-case basis with the benefit of advice, the possibility of a default remains. It is not certain that central government will in all cases assume liability for the obligations of local and state governments and statutory corporations in the absence of a specific guarantee, or that central governments will themselves not default on their obligations.

COVENANTS FOR SENIOR DEBT

The covenants provided by a Project Entity in connection with its senior debt are normally extensive and detailed. If certain covenants are breached, payments on Investment Capital are liable to be suspended. Additionally if an event of default occurs the senior lenders may become entitled to “step-in” and take responsibility for, or appoint a third party to take responsibility for, the Project Entity’s rights and obligations under the Project Agreement. In addition, in such circumstances the senior lenders will typically be entitled to enforce their security over the shares in the Project Entity or over its assets and to sell the Project Entity or its assets to a third party. The consideration for any such sale is unlikely to result in any payment in respect of the Group’s investment in the Project Entity.

CONSTRUCTION RISK

A number of the Project Entities within the Initial Portfolio remain in the construction phases of their concessions and are not yet cash generative. Following the Acquisition, the Group may acquire further interests in Project Entities which are similarly in the construction phases of their concessions. While in each case the intention has been or will be for the construction works to have been contracted to a construction contractor on a fixed price basis with liquidated damages payable to the Project Entities where delay is caused which is attributable to the contractor, the contractual arrangements made by a Project Entity may not be as effective as intended and/or contractual liabilities on the part of the Project Entities may result in unexpected costs or a reduction in expected revenues for the Project Entity and recourse against the contractor will be subject to liability caps and may be subject to default or insolvency on the part of the contractor.

INDUSTRIAL RELATIONS RISK

Industrial action involving a subcontractor to a Project Entity may result in unexpected costs or a reduction in expected revenues for the Project Entity.

DEMAND RISK

One of the Project Entities within the Initial Portfolio (RiverCity Motorway) is reliant on revenues receivable from users and thus is exposed to full demand risk. There is a risk that, upon construction completion and the opening of the asset for use by motorists, demand and revenues fall below the current projections and this may result in a reduction in expected revenues for that Project Entity. Others of the Project Entities (including those operating “availability-based” projects where the payments made by Public Sector Clients are based on making the facilities available for use and do not depend on the demand for or use of the project) may assume that they can earn additional revenue from ancillary activities, for example letting of school accommodation for out of hours use. The amount of income received from any such third party revenue generating activities may be variable and less than projected.

The Group may make additional investments in Project Entities which have demand based concessions where the payments received by the Project Entities depend on the level of use made of the project assets. There is a risk that the level of use of the project assets and therefore the returns from such Project Entities will be lower than expected.

INSURANCE MEDIATION DIRECTIVE

There is a risk that Project Entities involved in UK PFI/PPP projects could be deemed to carry out activities described as insurance mediation. If this were the case, a Project Entity could find itself open to criminal prosecution if it arranged insurance on behalf of other parties in a project without obtaining authorisation from the FSA.

The FSA has issued guidance which suggests that authorisation is not required. The guidance states that the need for authorisation will only arise if the Project Entity is carrying on insurance mediation by way of business, ie on behalf of third parties for remuneration and that a Project Entity that takes on contractual obligations in relation to the arranging of insurance on behalf of other parties involved in a project will not be regarded as providing insurance mediation services to third parties for remuneration.

The guidance only covers typical UK PFI/PPP projects (that is a project involving the provision of works and/or services by one party to another governed by a long term project agreement and having certain types of insurance related provisions) and is not binding on the FSA. The FSA notes in its guidance that the interpretation of relevant legislation is "ultimately a matter for the courts to determine".

UNTESTED NATURE OF LONG TERM OPERATIONAL ENVIRONMENT

Given the long-term nature of infrastructure concession contracts, and the fact that infrastructure is a relatively new investment class, there is as yet no experience of long-term operational problems that may arise in the future and which may affect infrastructure projects and Project Entities and therefore the Group's investment returns.

CORRUPT GIFTS

Typically the Public Sector Client will have the right to terminate the Project Agreement where the Project Entity or a shareholder or subcontractor (or one of their employees) has committed bribery, corruption or other fraudulent act in connection with the Project Agreement. Most Investment Capital will not be compensated in these circumstances.

MARKET VALUE OF INVESTMENTS

Returns from the Group's investments will be affected by the price at which they are acquired. The value of these investments will be (amongst other risk factors) a function of the discounted value of their expected future cash flows, and as such will vary with, inter alia, movements in interest rates and the competition for such assets.

LIQUIDITY OF INVESTMENTS

The majority of investments made by the Group will comprise unquoted interests in Project Entities which are not publicly traded or freely marketable and a sale may require the consent of other interested parties. Such investments may therefore be difficult to value and realise. Such realisations may involve significant time and cost.

RISK OF LIMITED DIVERSIFICATION

Other than some holdings in cash or cash equivalents, near cash instruments, money market instruments and money market funds, cash funds and hedging instruments, the Group will invest exclusively in infrastructure investments and will therefore bear the risk of investing in only one asset class.

COUNTERPARTY RISK

Investments made by the Group depend on the timely and accurate performance of obligations by contractual counterparties. Although the Group will take reasonable steps to conduct adequate due

diligence in respect of such counterparties, such counterparties may fail to perform their obligations in the manner anticipated by the Group. This may result in unexpected costs or a reduction in expected revenues for the Group.

SUBORDINATED DEBT IN LIFT SCHEMES

The Initial Portfolio includes interests in subordinated debt issued in respect of various NHS LIFT projects (described in Part IV at pages 56 to 58 of this document) without any accompanying shareholding interest in the relevant schemes. Such subordinated debt, while secured, ranks behind the interests of senior debt issued in respect of such projects. In the event of any default in payment in respect of the senior debt the Group's ability to (amongst other things) enforce payment will be prejudiced by the terms of the priority arrangements applicable between it and the senior lenders. NHS LIFT projects account comprise 3 per cent. by value of the Initial Portfolio.

RESIDUAL VALUE

In some UK PFI/PPP projects, the land and/or buildings revert to the Project Entity at the end of the concession period. There can be no assurance that actual residual values will equal or exceed those expected or projected at the end of the concession period.

NON-PUBLIC SECTOR CLIENT REVENUES

In some Project Agreements, the projected income of the Project Entities assumes a level of third party or non-Public Sector Client revenues from use of the project's facilities for other commercial purposes. There can be no assurance that actual third party revenues will equal or exceed those expected and projected.

GEOGRAPHICAL AND POLITICAL CONSIDERATIONS

The Group may make investments in countries outside the UK and Australia. Different laws will apply in such countries and investments in such countries may be affected by change in law, political climate, economic factors, tax regimes or by other changes that cannot be easily foreseen.

ABILITY TO FINANCE ADDITIONAL INVESTMENTS

To the extent that it does not have cash reserves pending investment, the Group will need to finance additional investments either by borrowing or issuing further Ordinary Shares. Although the Group expects to be able to borrow on reasonable terms and that there will be a market for further Ordinary Shares, there can be no guarantee that this will always be the case.

C. General Risks Associated with Investing in the Company

NO GUARANTEE OF RETURN

A prospective investor should be aware that the value of an investment in the Company is subject to normal market fluctuations and other risks inherent in investing in securities. There is no assurance that any appreciation in the value of the Ordinary Shares will occur or that the investment objectives of the Company will be achieved. The value of investments and the income derived therefrom may fall as well as rise and investors may not recoup the original amount invested in the Company.

In particular, prospective investors should be aware that the periodic distributions made to Shareholders will comprise amounts periodically received by the Group in repayment of its Investment Capital in Project Entities. Although it is envisaged that receipts from Project Entities over the life of their concessions will generally be sufficient to fund such periodic distributions while preserving the value of the Group's original investments in the Project Entities over the long term, this cannot be guaranteed.

The Company's targeted return is based on assumptions which the Directors consider reasonable. However, there is no assurance that all or any assumptions will be justified, and the Company's return may be correspondingly reduced. In particular, there is no assurance that the Company will achieve its distribution and IRR targets.

ORDINARY SHARES

The value of the Ordinary Shares and income derived from them (if any) can go down as well as up. Notwithstanding the existence of the share buyback and tender offer powers as described in Part I of this document, there is no guarantee that the market price of the Ordinary Shares will fully reflect their underlying Net Asset Value. In the event of a winding-up of the Company, the Shareholders will rank behind any creditors of the Company and, therefore, any positive return for Shareholders will depend on the Company's assets being sufficient to meet the prior entitlements of any creditors.

PAST PERFORMANCE

The past performance of investments managed and monitored by BBIML or its associates is not a reliable indication of the future performance of the investments held by the Group.

FUND MANAGEMENT

The success of the Group will depend on the skill and expertise of the Infrastructure Team in identifying, selecting and developing appropriate investments. There is no guarantee that suitable additional investments will be available following the acquisition of the Initial Portfolio, or that any investment will be successful. Competition for investment opportunities may result in increased purchase prices.

There is also no certainty that significant members of the Infrastructure Team will continue to be part of the Infrastructure Team or that Babcock & Brown Investment Management Limited will continue as the Investment Adviser and/or Operator throughout the life of the Company.

NON-INVOLVEMENT IN MANAGEMENT AND OPERATIONAL DECISIONS

Investors will have no opportunity to control or participate in the day-to-day operations, including investment and disposal decisions, of the Group.

LIQUIDITY

Although the Ordinary Shares are to be listed on the Official List and admitted to trading on the London Stock Exchange and will be freely transferable, the ability of Shareholders to sell their Ordinary Shares in the market, and the price which they may receive, will depend on market sentiment. The Ordinary Shares may trade at a discount to the Net Asset Value per Ordinary Share and it may be difficult for a Shareholder to dispose of all or part of his Ordinary Shares at any particular time.

The Company has reserved the ability to make tender offers for Ordinary Shares from Shareholders. Any such tender offers will however be made entirely at the discretion of the Directors and Shareholders will not have any ability to require the Company to make any such tender offer for all or any part of their Ordinary Shares.

EXCULPATION AND INDEMNIFICATION

The structure through which the Group makes investments includes an English limited partnership. Certain provisions contained in the Limited Partnership Agreement and the Operating Agreement may limit the liability of the General Partner and the Operator. The Group is also responsible for indemnifying the General Partner and the Operator (and their employees and agents) for any losses or damage incurred by them except for losses incurred as a result of their fraud, gross negligence or wilful default.

CURRENCY RISK

If an investor's currency of reference is not GBP, currency fluctuations between the investor's currency of reference and the base currency of the Company may adversely affect the value of an investment in the Company.

A proportion of the Group's investments will be denominated in currencies other than GBP. The Company will maintain its accounts and intends to pay distributions in GBP. Accordingly, fluctuations in exchange rates between GBP and the relevant local currencies and the costs of conversion and exchange control regulations will directly affect the value of the Group's investments and the

ultimate rate of return realised by investors. Whilst the Group may enter into hedging arrangements to mitigate this risk to some extent, there can be no assurance that such arrangements will be entered into or that they will be sufficient to cover such risk.

INTEREST RATE RISKS

Changes in interest rates may adversely affect the Group's investments. Changes in the general level of interest rates can affect the Group's profitability by affecting the spread between, amongst other things, the income on its assets and the expense of its interest-bearing liabilities, the value of its interest-earning assets and its ability to realise gains from the sale of assets should this be desirable. Interest rates are highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations, fiscal deficits, trade surpluses or deficits, regulatory requirements and other factors beyond the control of the Group.

The Group may finance its activities with either fixed and/or floating rate debt. With respect to any floating rate debt, the Group's performance may be affected adversely if it fails to limit the effects of changes in interest rates on its operations by employing an effective hedging strategy, including engaging in interest rate swaps, caps, floors or other interest rate contracts, or buying and selling interest rate futures or options on such futures. There can however be no assurance that such arrangements will be entered into or that they will be sufficient to cover such risk.

HEDGING RISK

Should the Group elect to enter into hedging arrangements to protect against inflation risk, currency risk and/or interest rate risk (and it will be under no obligation to do so), the use of instruments to hedge a portfolio carries certain risks, including the risk that losses on a hedge position will reduce the Group's earnings and funds available for distribution to investors and that such losses may exceed the amount invested in such hedging instruments. There is no perfect hedge for any investment, and a hedge may not perform its intended purpose of offsetting losses on an investment and, in certain circumstances, could increase such losses. The Group may also be exposed to the risk that the counterparties with which the Group trades may cease making markets and quoting prices in such instruments, which may render the Group unable to enter into an offsetting transaction with respect to an open position.

Although the Group will select the counterparties with which it enters into hedging arrangements with due skill and care, there will be residual risk that the counterparty may default on its obligations.

LEVERAGE

The Group has the ability to use leverage in the financing of its investments. The use of leverage increases the exposure of investments to adverse economic factors such as rising interest rates, severe economic downturns or deteriorations in the condition of an investment or its market.

It is possible that the Group may not be able to refinance borrowing which becomes repayable during the life of the Group, in which case the performance of the Group may be adversely affected. The Group's borrowings may be secured on the assets of the Group. A failure to fulfil obligations under any financing documents may permit lenders to demand early repayment of the loan and to realise their security.

FAILURE TO RESTRUCTURE

If the Group makes an investment with the intention of restructuring, refinancing or selling a portion of the capital structure thereof, there is a risk that the Group will be unable to complete successfully such a restructuring, refinancing or sale. Any such failure could lead to increased risk and cost to the Group and reduced returns.

VALUATIONS

All investments owned by the Group will be valued as required by the Listing Rules from time to time and the resulting valuations will be used, among other things, for determining the basis on which any Ordinary Shares are bought back by the Company and additional capital raised.

Valuations of the assets of the Group as a whole will also reflect accruals for expected or contingent liabilities, the amount or incidence of which is inevitably uncertain. It follows that some unfairness may arise between departing, continuing and new investors. A valuation is only an estimate of value and is not a precise measure of realisable value. Ultimate realisation of the market value of an asset depends to a great extent on economic and other conditions beyond the control of the Group, and valuations do not necessarily represent the price at which an investment can be sold.

RECOURSE TO THE COMPANY'S ASSETS

The Company's assets, including any investments made by the Company and any funds held by the Company, are available to satisfy all liabilities and other obligations of the Company. If the Company becomes subject to a liability, parties seeking to have the liability satisfied may have recourse to the Company's assets generally and may not be limited to any particular asset, such as the asset giving rise to the liability. To the extent that the Company chooses to use special purpose entities for individual transactions to reduce recourse risk (and it may, but will be under no obligation to do so), the bona fides of such entities may be subject to later challenge.

FOREIGN INVESTMENTS

Laws and regulations of foreign countries may impose restrictions that would not exist in the UK. Investments in foreign entities may require significant government approvals under corporate, securities, exchange control, foreign investment and other similar laws and may require financing and structuring alternatives that differ significantly from those customarily used in the UK. In addition, foreign governments from time to time impose restrictions intended to prevent capital flight, which may, for example, involve punitive taxation (including high withholding taxes) on certain securities, transfers or the imposition of exchange controls, making it difficult or impossible to exchange or repatriate foreign currency. These and other restrictions may make it impracticable for the Company to distribute the amounts realised from such investment at all or may force the Company to distribute such amounts other than in GBP, and therefore a portion of the distribution may be made in foreign securities or currency.

It also may be difficult to obtain and enforce a judgment in a court outside of the UK.

The Company, through due diligence investigations, will analyse information with respect to political and economic environments and the particular legal and regulatory risks in foreign countries before making investments, but no assurance can be given that a given political or economic climate, or particular legal or regulatory risks, might not adversely affect an investment by the Group.

FORCE MAJEURE

The performance of the Group may be affected by reason of events such as war, civil war, riot or armed conflict, radioactive, chemical or biological contamination, pressure waves, environmental occurrences and acts of terrorism (see below for further information on terrorism) which are outside its control. The occurrence of such events may result in an asset of the Group being unavailable for use.

With respect to the Initial Portfolio and PFI/PPP type projects generally, if the force majeure event continues or is likely to continue to affect the performance of the services by the Project Entity for a long period of time (for example six months or longer) it is likely that both the Project Entity and the Public Sector Client will have the right to terminate the Project Agreement. In such circumstances, compensation (if any), would be unlikely to cover the amounts paid for the acquisition of the Investment Capital by the Group.

RISK OF TERRORISM

There is a risk that one or more of the Group's investments will be directly or indirectly affected by terrorist attack. Such an attack could have a variety of adverse consequences for the Group, including risks and costs related to the destruction of property owned or used by Project Entities in which the Group has invested, inability to use one or more such properties for their intended uses for an extended period, decline in income or property (and therefore investment) value, and injury or

loss of life, as well as litigation related thereto. Such risks may not be insurable or may be insurable only at rates that the Group deems uneconomic.

More widely, terrorist attacks and ongoing military and related action in various parts of the world such as Iraq, Lebanon and elsewhere could have significant adverse effects on the world economy, securities, bond and infrastructure markets and the availability and cost of maintaining insurance.

DISTRIBUTIONS

The amount of distributions and future distribution growth will depend on the Group's underlying portfolio. Any change or incorrect assumption in the tax treatment of dividends or interest or other receipts received by the Company (including as a result of withholding taxes or exchange controls imposed by jurisdictions in which the Group invests) may reduce the level of distributions received by Shareholders. In addition any change in the accounting policies, practices or guidelines relevant to the Group and its investments may reduce or delay the distributions received by investors. The Company's ability to pay dividends will be subject to the provisions of the Laws and the Listing Rules.

To the extent that there are impairments to the value of the Group's investments that are recognised in its income statement under IFRS, this may affect the ability of the Group to pay dividends in accordance with the Listing Rules on income cover for dividends as may apply from time to time.

CANCELLATION OF THE SHARE PREMIUM ACCOUNT

As described in Part VIII, the Company has passed a resolution (conditional upon the approval of the Court and on the Issue Agreement becoming unconditional) to cancel the amount standing to the credit of its share premium account in order to create a new distributable reserve which may be used to fund future buy-backs of, and tender offers for, Ordinary Shares. In order to confirm any cancellation, the Court must be satisfied that the creditors of the Company whose debts are outstanding on the date the cancellation becomes effective are protected. Unless the Company obtains the consent of all of its creditors to the cancellation, it will put in place some form of creditor protection, currently anticipated to be an undertaking to the Court not to use the distributable reserve, including for the purpose of making market purchases of, or tender offers for, Ordinary Shares, arising on the cancellation until such time as any such creditors have either been repaid in full or consented to the cancellation.

TAXATION

Investors should consider carefully the information given in Part VII of this document and should take professional advice about the consequences for them of investing in the Company.

The Group structure through which the Company makes investments, whilst designed to maximise post-tax returns to investors, is based on the current tax law and practice of the UK, Luxembourg, Guernsey and Australia. Such law or practice is subject to change, and any such change may reduce the net return to investors, and the Group may incur cost in taking steps to mitigate this effect.

To the extent that the Group's investments are outside the UK, it is possible that investors will be subject to some amount of foreign income and/or withholding taxes with respect to such investments.

LEASING COMPANIES

On 5 December 2005, HM Revenue & Customs ("HMRC") announced measures that apply from that date to counter perceived abuses of the Capital Allowances regime for plant and machinery arising on the change of ownership of "leasing companies". The draft legislation is widely drawn and could potentially apply on the change of ownership of PFI Project Entities. HMRC has confirmed that it is not intended that the rules should apply to companies leasing property. The measures are not expected to affect the Initial Portfolio, although there remains some risk in the absence of the final legislation.

LATE INTEREST

To the extent that a UK resident Project Entity does not pay accrued interest on debt owed to parties not subject to UK corporation tax within 12 months of the end of the accounting period in which the interest accrues, then in certain circumstances a UK tax deduction for such interest will be denied until such time as the interest is paid. This would have a negative effect on the cash flow expected from the Project Entity because tax would be paid earlier than expected.

TRANSFER PRICING

To the extent that interest paid by Project Entities on debt provided by parties interested in the equity of the Project Entity (for example the subordinated debt element of the Investment Capital) exceeds arm's length rates, the relevant tax authorities may seek to restrict the allowable deduction to arm's length rates. This could result in more tax being paid by the Project Entity and therefore reduce the return to investors.

If prospective investors are in any doubt as to the consequences of their acquiring, holding or disposing of Ordinary Shares, they should consult their stockbroker, bank manager, solicitor, accountant or other independent financial adviser.

Important Information

In assessing an investment in the Company, investors should rely only on the information in this document. No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied on as having been authorised by the Company, the Directors, the Investment Adviser, the Placing Agent, the Sponsor or any other person. Neither the delivery of this document nor any subscription or purchase of Ordinary Shares made pursuant to this document shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since, or that the information contained herein is correct at any time subsequent to, the date of this document.

Regulatory Information

This document does not constitute an offer to sell, or the solicitation of an offer to subscribe for or buy, Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful. Issue or circulation of this document may be prohibited in some countries.

Prospective investors should consider carefully (to the extent relevant to them) the notices to residents of various countries set out at pages 130 and 131 of this document.

Investment Considerations

The contents of the Prospectus are not to be construed as advice relating to legal, financial, taxation, investment or any other matter. Prospective investors should inform themselves as to:

- the legal requirements within their own countries for the purchase, holding, transfer or other disposal of the Ordinary Shares;
- any foreign exchange restrictions applicable to the purchase, holding, transfer or other disposal of the Ordinary Shares which they might encounter; and
- the income and other tax consequences which may apply in their own countries as a result of the purchase, holding, transfer or other disposal of the Ordinary Shares. Prospective investors must rely upon their own representatives, including their own legal advisers and accountants, as to legal, tax, investment or any other related matters concerning the Company and an investment therein.

An investment in the Company should be regarded as a long-term investment. There can be no assurance that the Company's investment objectives will be achieved.

This document should be read in its entirety before making any investment in the Ordinary Shares. All Shareholders are entitled to the benefit of, are bound by, and are deemed to have notice of, the provisions of the Memorandum of Association and Articles of Association of the Company which investors should review.

Forward-looking Statements

The Prospectus includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "forecasts", "projects", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts.

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause the Company's actual results to differ materially from those indicated in these statements. These factors include but are not limited to

those described in the part of this document entitled "Risk Factors", which should be read in conjunction with the other cautionary statements that are included in this document. Any forward-looking statements in this document reflect the Company's current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the Company's operations, results of operations, growth strategy and liquidity.

These forward-looking statements apply only as of the date of this document. Subject to any obligations under the Listing Rules, the Company undertakes no obligation publicly to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. Prospective investors should specifically consider the factors identified in this document which could cause actual results to differ before making an investment decision.

Presentation of Information

MARKET, ECONOMIC AND INDUSTRY DATA

Market, economic and industry data used throughout this document is derived from various industry and other independent sources. The Company and the Directors confirm that such data has been accurately reproduced and, so far as they are aware and are able to ascertain from information published from such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

CURRENCY PRESENTATION

Unless otherwise indicated, all references in this document to "GBP", "Sterling", "pounds sterling", "£", "pence" or "p" are to the lawful currency of the UK, all references to "\$", "US\$" or "US dollars" are to the lawful currency of the US, all references to "€" or "Euro" are to the lawful currency of the Eurozone countries and all references to "AU\$", "A\$" and "Australian Dollars" are to the lawful currency of Australia.

Where, in the Prospectus, figures in Australian Dollars have been converted to pounds sterling, the rate of exchange used, in all cases, is £1 to AU\$2.5059.

Definitions

A list of defined terms used in this document is set out at pages 133 to 141.

Governing Law

Unless otherwise stated, statements made in this document are based on the law and practice currently in force in England and Wales and are subject to changes therein.

Expected Timetable

All references to times in the Prospectus are to London times unless otherwise stated.

Issue opens	11 October 2006
Latest time and date for receipt of Application Forms under the Offer for Subscription	4.30 pm on 1 November 2006
Latest time and date for receipt of Placing commitments	5.00 pm on 3 November 2006
Announcement of Offer for Subscription and Placing results	6 November 2006
Admission to the Official List and unconditional dealings in the Ordinary Shares to commence on the London Stock Exchange	8.00 am on 9 November 2006
CREST accounts credited against payment in respect of the Placing	9 November 2006
CREST accounts credited in respect of the Offer for Subscription	9 November 2006
Share certificates in respect of Ordinary Shares issued in certificated form to be despatched	week commencing 13 November 2006

The dates and times specified above are subject to change. In particular, the Directors may, with the prior approval of the Sponsor, bring forward or postpone the closing time and date for the Placing and Offer for Subscription by up to two weeks. If such date is changed, the Company will notify investors who have subscribed for Ordinary Shares of changes to the timetable either by post, by electronic mail or by the publication of a notice through a Regulatory Information Service.

Issue Statistics**

Issue Price per Ordinary Share	100 pence
Target minimum dividend yield for the Company's first full financial year *	5.25 per cent.*
Initial Net Asset Value per Ordinary Share	98.7 pence
Number of Ordinary Shares being issued	300,000,000
Estimated net proceeds of the Issue	£293,400,000

* The target minimum dividend yield on the Ordinary Shares set out above is provided for illustrative purposes only and does not represent a forecast and is not guaranteed.

** On the basis that the Issue is fully subscribed and that the Acquisition is completed.

Directors, Agents and Advisers

Directors (all non-executive)	Keith Dorrian (Chairman) Rupert Dorey Giles Frost
Investment Adviser and Operator	Babcock & Brown Investment Management Limited, 7th Floor, 1 Fleet Place, London EC4M 7NR (Telephone +44 (0)20 7203 7300)
Administrator to Company, Company Secretary and Registered Office	Heritage International Fund Managers Limited Polygon Hall, PO Box 225, Le Marchant Street St Peter Port, Guernsey, GY1 4HY (Telephone +44 1481 716 000)
Registrar	Capita IRG (CI) Limited 2nd Floor No 1 Le Truchet St Peter Port Guernsey GY1 7AX
UK Transfer Agent	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Domiciliation Agent to Luxcos	MAS Sàrl 1, rue des Glacis BP 294 L-2012 Luxembourg
Sponsor & Placing Agent	UBS Limited 1 Finsbury Avenue, London EC2M 2PP
Auditors	Deloitte & Touche P.O. Box 137 Regency Court, Gategny Esplanade St Peter Port, Guernsey GY1 3HW
Reporting Accountants	Deloitte & Touche P.O. Box 137 Regency Court, Gategny Esplanade St Peter Port, Guernsey GY1 3HW
Independent Adviser with respect to the Valuation	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH
Tax Advisers to the Company and the Investment Adviser	Deloitte & Touche LLP 180 The Strand London WC2R 1BL
Legal Advisers to the Company and the Investment Adviser as to English Law	Lovells Atlantic House, Holborn Viaduct, London EC1A 2FG
Legal Advisers to the Company and the Investment Adviser as to Guernsey Law	Ozannes 1 Le Marchant Street, St Peter Port, Guernsey, Channel Islands GY1 4HP
Legal Advisers to the Placing Agent and Sponsor	Herbert Smith LLP Exchange House, Primrose Street, London EC2A 2HS



Information on the Company

Part I

Part I Information on the Company

Introduction

The Company is a newly established, limited liability, Guernsey-incorporated, closed-ended investment company. The Company will be advised by Babcock & Brown Investment Management Limited ("**BBIML**"). An investment in the Company will enable investors to gain an exposure to a diverse portfolio of high quality public or social infrastructure assets located in UK, Australia and, it is anticipated, in due course, in other parts of the world including Europe and North America.

"Public" or "social" infrastructure is the class of infrastructure asset that has a public character and forms the essential fabric of communities. Examples include schools, health facilities, courthouses, police stations, government offices and roads. Investment in such assets typically offers access to long term, high quality, low volatility income streams payable by creditworthy government bodies. In other cases income streams may arise from charges paid by users (for instance, tolls) in circumstances where levels of demand are predictable.

The Company has been formed because the Directors believe that infrastructure is an attractive asset class with sustainable long-term income, and many governments and public authorities are inviting the private sector to fund, own and operate new infrastructure projects. Investors in public companies have to date had few opportunities to invest in a portfolio of public or social infrastructure investments. The Company provides investors with such an opportunity and draws on Babcock & Brown's track record and network to manage the Initial Portfolio and to source future assets to provide income and future growth.

The Issue will comprise Ordinary Shares. An application has been made for the Ordinary Shares to be admitted to the Official List and to be traded on the London Stock Exchange.

Investment Objective

The Company will seek to provide investors with a predictable and attractive yield on the Company's investments. The Company's intention is to provide, over the long-term, distributions at levels that are both sustainable and which preserve the capital value of the assets. The Company will target a minimum initial annualised dividend yield of 5.25 per cent.² on the Issue Price of its Ordinary Shares for its first full financial year. Thereafter the Company will aim to maintain and enhance this yield.

The Directors believe that long term capital growth can be achieved. The Company will target an IRR of 8 to 9 per cent.² on the Issue Price of its Ordinary Shares to be achieved over the long term. The Investment Adviser hopes to achieve this through (amongst other techniques) asset development, future acquisition, active management and prudent use of gearing.

Investment Policy and Strategy

The Group intends to acquire the Initial Portfolio from the Vendors. The Group intends (but is not bound) to hold its investment in the Initial Portfolio for the long term. The Group will seek to enhance the value of its investment and the income derived from the assets within the Initial Portfolio.

² These are targets only and are not profit forecasts. There can be no assurance that these targets will be met or that the Company will make any distributions whatsoever or that investors will recover all or any of their investments.

After completing the Acquisition, the Group will seek further acquisition opportunities. The Directors and the Investment Adviser believe that there are a number of attractive investment opportunities currently under development by Babcock & Brown. In addition, the Directors believe that opportunities exist within the broader infrastructure sector and particularly within the public infrastructure sector and that the number of such opportunities is likely to increase over time. Such acquisitions may be of single assets, of portfolios, of shares in companies or interests in partnerships.

Further information on the Company's investment objectives, policies and strategy can be found in Part II of the Prospectus.

Investment Adviser and Operator

Under the Investment Advisory Agreement, BBIML, an investment manager authorised and regulated in the UK by the FSA, has been appointed by the Company as Investment Adviser. BBIML has also been appointed as Operator of the Partnership through which the Company conducts its investment activities, and in its capacity as Operator of the Partnership acts as discretionary investment manager of the Group's investments.

Summaries of the terms of the Investment Advisory Agreement and the Operating Agreement are provided in paragraphs 11.2 and 11.4 (respectively) of Part VIII of this document. Details of the Limited Partnership Agreement constituting the Partnership are contained in paragraph 4 of Part VIII of this document. Further details on BBIML can be found in Part V of this document.

Relationship with Babcock & Brown

BBIML is a subsidiary of Babcock & Brown Limited. Babcock & Brown is a global investment and advisory firm with longstanding and established capabilities in structured finance and the creation, syndication and management of asset and cash flow-based investments. Babcock & Brown was founded in San Francisco in 1977 and Babcock & Brown Limited listed on the Australian Stock Exchange on 6 October 2004.

Babcock & Brown has originated, developed or provided financial advisory services in respect of each of the projects in the Initial Portfolio. With BBIML as the Investment Adviser for the Company and Operator of the Partnership, where practicable the Group will retain access to the management teams and personnel who have been responsible for the development of these projects to date.

The Arranger has committed to the Company that either it or another member of the Babcock & Brown group will subscribe for a minimum of the lower of 10 per cent. or 25,000,000 of the Ordinary Shares to be issued pursuant to the Issue. Such subscription will be effected pursuant to the Offer for Subscription.

Babcock & Brown has extensive experience of the creation of specialised funds in both the public and private equity markets. This provides investors in these funds access to asset classes and other opportunities to which it would otherwise be difficult to gain direct investment exposure. Further information relating to some of the funds managed by Babcock & Brown that invest in infrastructure assets is set out in Part V of this document.

Babcock & Brown has originated, developed or provided financial advisory services in respect of all the projects comprised in the Initial Portfolio. With the exception of RiverCity Motorway, Babcock & Brown has been responsible for the original competitive bidding process for each project, the selection and assembly of the consortium of designers, constructors, operators and senior debt providers that enable the competitive bid to be won, for the successful financial close of the project and for subsequent management of the projects to date.

Babcock & Brown will be responsible for carrying out investment management and advisory functions for the Group through its wholly owned subsidiary BBIML. Babcock & Brown has a team of specialists working in the infrastructure sector comprised of 39 professionals based in London as part of a team of 178 professionals worldwide with extensive experience of originating and managing PFI/PPP and other infrastructure projects (including the Initial Portfolio to date).

The Directors expect the Company to benefit from the relationship with Babcock & Brown for the following reasons.

- Babcock & Brown does not seek to be a long term owner of infrastructure investments that it originates or develops. The Directors believe that the Group's relationship with Babcock & Brown puts the Group in a good position as a potential acquirer of such infrastructure investments where they fit the Group's investment policies.
- The Directors believe that Babcock & Brown is incentivised to source additional investment opportunities for the Group by the fee arrangements agreed between the Company and Babcock & Brown in respect of future acquisitions of infrastructure investments under the Financial Advisory Mandate.
- Babcock & Brown's commercial interests are substantially aligned with those of the Group through the Incentive Fee arrangements and, for so long as Babcock & Brown remains a Shareholder, through Babcock & Brown's shareholding in the Company.
- The Directors anticipate that the relationship with Babcock & Brown will afford the Group access to the pipeline of public infrastructure projects currently in development by Babcock & Brown (which includes a number of projects at preferred bidder stage).
- Babcock & Brown has substantial existing management experience of the Initial Portfolio, full continuity of which will be available to the Group through the Investment Advisory Agreement and the Operating Agreement.
- The Directors believe that the Group will benefit from the infrastructure project origination skills of Babcock & Brown through the Investment Advisory Agreement and the Operating Agreement.

The Initial Portfolio

The Group intends to acquire the Initial Portfolio from the Vendors. The Partnership (acting through the General Partner or through wholly-owned companies) and each of the Vendors have exchanged contracts for the Acquisition. Completion is conditional upon Admission and the successful completion of the Issue.

The Initial Portfolio consists of direct and indirect interests in:

- Investment Capital in thirteen projects developed under the PFI programme of the UK government (comprising 86 per cent. by value of the Initial Portfolio);
- Investment Capital in six projects developed under the NHS LIFT programme (comprising 3 per cent. by value of the Initial Portfolio); and
- Investment Capital in three projects developed under the PPP programmes of various states within Australia (comprising 11 per cent. by value of the Initial Portfolio).

The Initial Portfolio consists of 22 investments in projects in the education, health, government offices, police accommodation, courthouse, custodial, toll tunnel and showground sectors. Notable occupants of premises comprised in the Initial Portfolio include the UK Court Service, Thames Valley Police, HM Revenue and Customs and the Government of New South Wales. Further details of the Initial Portfolio are contained in Part IV.

Group Structure

The Group will invest in the Initial Portfolio and any further infrastructure investments indirectly via a series of holding entities as follows.

The Company will invest in equity and debt of a Luxembourg taxable company established in Luxembourg under the legal form of a société à responsabilité limitée ("**Sàrl**") ("**Luxco 1**"), which will in turn invest in equity and debt of a similar entity ("**Luxco 2**"). Both Luxco 1 and Luxco 2 are wholly owned subsidiaries of the Company (direct and indirect respectively, with Luxco 2 being

wholly owned by Luxco 1). The Company will control the investment policies of Luxco 1 and Luxco 2 and its Directors will comprise a majority of the directors of Luxco 1 and Luxco 2.

Luxco 2 is the sole limited partner in the Partnership, an English limited partnership which will have Babcock & Brown Public Partnerships GP Limited (a special purpose vehicle) as its general partner (the **"General Partner"**). The General Partner's ultimate holding company is Babcock & Brown Limited. The General Partner, on behalf of the Partnership, will appoint BBIML, whose ultimate holding company is also Babcock & Brown Limited, as Operator of the Partnership. Luxco 2 will invest the contributions it receives from Luxco 1 in capital contributions and partner loans to the Partnership and its wholly owned companies, which will acquire and hold the infrastructure investments directly or through intermediate wholly owned companies or other entities.

The Group's investments will be registered in the name of the General Partner, its wholly owned companies or their nominee.

Distribution Policy

Distributions on the Ordinary Shares are expected to be paid twice a year, normally in respect of the six months to 30 June and 31 December, and are, subject to the provisions of the Laws, expected to be made by way of dividend. The Company may also make distributions by way of capital distributions (or otherwise in accordance with the Laws and the Articles) as well as, or in lieu of, by way of dividend if and to the extent that the Directors consider this to be appropriate.

The Directors intend that, save as provided below, the Company will generally restrict distributions (by way of dividend or otherwise) to a level not greater than Distributable Cash Flows, and dividends to the level of income from the Group's investments, as recognised in the relevant financial period. However the Directors reserve the right to amend this distribution policy from time to time including but not limited to smoothing dividends where appropriate through the use of borrowings (subject to the Listing Rules).

The Directors do not anticipate declaring or paying any dividends in respect of the period from incorporation up until December 2006. Subject to market conditions, the provisions of the Laws and the approval of the London Stock Exchange to any timetable relating to the payment of dividends, it is intended that distributions will be paid as interim dividends as follows in respect of the period from incorporation of the Company to 30 June 2007:

Period ending	Ex-dividend date	Payment date
30 June 2007	22 August 2007	27 September 2007
31 December 2007	6 February 2008	11 March 2008

During the Company's early financial years the Group will have some investments and commitments in projects which have not yet finished construction and/or have not yet reached the stage at which they have started generating their full level of cash flows. During these years, subject to the Laws and the Listing Rules, the Company may distribute as dividend an amount up to the level of the Group's gross income in excess of Distributable Cash Flows. The Directors may exercise a similar policy, where they consider this to be appropriate in respect of the value of significant future acquisitions where such assets are not fully cash generative, and where for instance the price being paid on the acquisition of such investments reflects a discount in respect of such delayed cash flows.

The Company retains the discretion to reinvest the capital proceeds of any investments which the Group transfers, sells or refinances during the life of the Company.

Borrowing Policy

The Group intends to make prudent use of leverage to enhance returns to investors, to finance the acquisition of investments and to satisfy working capital requirements. Borrowings may be made by the Company itself or by any of the Holding Entities. Under the Articles, outstanding borrowings,

including any financial guarantees to support subscription obligations, are limited up to 50 per cent. of the Gross Asset Value of its investments and cash balances, with the Group having the ability to borrow in aggregate up to 66 per cent. of such Gross Asset Value on a short-term (i.e. less than 365 day) basis if considered appropriate. Circumstances where this might be the case include for the purposes of new acquisitions. For this purpose, outstanding borrowings exclude intra-group borrowings and the debts of underlying Project Entities. The Group may borrow in currencies other than GBP as part of any currency hedging strategy.

Currency and Hedging Policy

A portion of the Group's underlying investments may be denominated in currencies other than GBP. For example, a portion of the Initial Portfolio is denominated in Australian Dollars. However, any dividends or distributions in respect of the Ordinary Shares will be made in GBP and the market prices and Net Asset Value of the Ordinary Shares will be reported in GBP.

Currency hedging may be carried out to seek to provide some protection to the level of GBP dividends and other distributions that the Group aims to pay on the Ordinary Shares, and in order to reduce the risk of currency fluctuations and the volatility of returns that may result from such currency exposure. Such currency hedging may include the use of foreign currency borrowings to finance foreign currency assets and forward foreign exchange contracts.

Interest rate hedging may be carried out to seek to provide protection against increasing costs of servicing debt drawn down by the Group to finance investments. This may involve the use of interest rate derivatives and similar derivative instruments. Hedging against inflation may also be carried out and this may involve the use of RPI swaps and similar derivative instruments.

It is intended that the currency, interest rate and any inflationary hedging policies be reviewed by the Directors on a regular basis to ensure that the risks associated with movements in foreign exchange rates, interest rates and inflation are being appropriately managed. Such transactions (if carried out) will only be undertaken for the purpose of efficient portfolio management and will not be carried out for speculative purposes. The execution of currency, interest rate and inflationary hedging transactions is at the discretion of BBIML in its capacity as Operator, subject to the policies set by and the overall supervision of the Directors.

Discount Management

On 9 October 2006, a special resolution in writing was passed authorising the Company (subject to the Listing Rules and all other applicable legislation and regulations) to make market purchases of up to 14.99 per cent. per annum (subject to annual renewal) of its issued Ordinary Shares. Such authorisation can assist in addressing any imbalance between the supply of and demand for the Ordinary Shares, can assist in minimising any discount to Net Asset Value at which the Ordinary Shares may be trading and can also increase the Net Asset Value per Ordinary Share.

The Directors anticipate seeking a renewal of this authority from Shareholders at each annual general meeting of the Company. Purchases of Ordinary Shares will be made within guidelines established from time to time by the Directors. The timing of any purchases will be decided by the Directors in light of prevailing market conditions. Any such purchases will only be made in accordance with the Laws, the Companies (Purchase of Own Shares) Ordinance, 1998 and the Listing Rules in force from time to time or any successor laws, rules or regulations. The Listing Rules currently provide that where the Company purchases its Ordinary Shares the price to be paid must not be more than 105 per cent. of the average of the market values of the Ordinary Shares for the five Business Days before the purchase is made or, if higher, the higher of the latest independent trade and the highest current independent bid.

Additionally, in order to minimise further the risk of the Ordinary Shares trading at a discount to Net Asset Value and to assist in the narrowing of any discount at which the Ordinary Shares may trade from time to time, the Company may make tender offers from time to time (subject to the prior approval of Shareholders of the terms of any such tender offers).

Investors should not expect that they will necessarily be able to realise, within a period which they would otherwise regard as reasonable, their investment in the Company, nor can they be certain that they will be able to realise their investment on a basis that necessarily reflects the value of the underlying investments held by the Company.

Treasury Shares

The Company is able to hold Ordinary Shares acquired by way of market purchase or by way of tender offer "in treasury" i.e. the Ordinary Shares remain in issue owned by the Company rather than being cancelled. Such Ordinary Shares may be subsequently cancelled or sold for cash.

Up to ten per cent. of Ordinary Shares bought by the Company in the market (as described above) or by way of tender offer may be held in treasury. This would give the Company the ability to sell Ordinary Shares held in treasury quickly and cost efficiently, and would provide the Company with additional flexibility in the management of its capital base.

Life of the Company

The Company has been established with an unlimited life. In addition to the possibility of the share purchase and tender facilities mentioned above, Shareholders may seek to realise their holdings through disposals in the market.

Management and Administration

DIRECTORS

The Directors will be responsible for the overall management of the Company. The Directors, all of whom are non-executive, are Keith Dorrian (Chairman), Rupert Dorey and Giles Frost. Further details on the Directors can be found in Parts V and VIII of this document.

INVESTMENT ADVISER AND OPERATOR

Under the Investment Advisory Agreement, Babcock & Brown Investment Management Limited has been appointed as investment adviser to the Company to (inter alia) review and monitor the Group's investments and advise the Company in relation to the strategic management of the Group and its Investment Portfolio.

Babcock & Brown Investment Management Limited has been appointed as Operator of the Partnership pursuant to the Limited Partnership Agreement and Operating Agreement. As Operator, BBIML is responsible for the discretionary investment management of the Group's Investment Portfolio.

Summaries of the terms of the Limited Partnership Agreement, the Investment Advisory Agreement and the Operating Agreement are provided or referred to in Part VIII at paragraphs 4 and 11 of this document respectively. Further details on the Operator and the Investment Adviser can be found in Part V of this document.

ADMINISTRATOR, DOMICILIATION AGENT, REGISTRAR, AND UK TRANSFER AGENT

Heritage International Fund Managers Limited has been appointed as Administrator to the Company and will also provide company secretarial services and a registered office to the Company.

MAS Sàrl has been appointed as domiciliation agent in respect of the Luxcos. The Domiciliation Agent will also carry out various accounting and related services.

Capita IRG (CI) Limited has been appointed as Registrar to the Company and Capita Registrars will act as the Company's UK transfer agent.

Details of the Administration Agreement, of the Luxembourg Agreements, the Registrar Agreement and the Receiving Agent Letter can be found in paragraph 11 of Part VIII of this document.

Avoidance of Conflict of Interest

Specific arrangements have been established to deal with potential conflicts of interest in relation to the Acquisition and these are described in the section entitled "Buyside" and "Sellside" potential conflict of interest avoidance procedures in Part IV at pages 62 to 63 of this document.

It is possible that in future the Group may seek to purchase further investments from Babcock & Brown entities. If such acquisitions are made, it is expected that similar procedures to those described in Part IV in relation to the Acquisition will be established in order to manage potential conflicts of interest.

The Investment Adviser/Operator, the General Partner, the Administrator, the Domiciliation Agent, the Placing Agent, any of their directors, officers, employees, agents and connected persons and the Directors and any person or company with whom they are affiliated or by whom they are employed (each an **"Interested Party"**) may be involved in other financial, investment or other professional activities which may cause potential conflicts of interest with members of the Group and their investments. In particular, Interested Parties may provide services similar to those provided to the Group to other entities and will not be liable to account for any profit earned from any such services. The Investment Adviser and its directors, officers, employees and agents and the Directors will at all times have due regard to their duties owed to members of the Group and where a conflict arises they will endeavour to ensure that it is resolved fairly.

Subject to the arrangements explained above, the Group may (directly or indirectly) acquire securities from or dispose of securities to any Interested Party or any investment fund or account advised or managed by any such person. An Interested Party may provide professional services to members of the Group (provided that no Interested Party will act as Auditor to the Company) or hold Ordinary Shares and buy, hold and deal in any investments for its own account notwithstanding that similar investments may be held by the Group (directly or indirectly). An Interested Party may contract or enter into any financial or other transaction with any member of the Group or with any Shareholder or any entity any of whose securities are held by or for the account of the Group, or be interested in any such contract or transaction. Furthermore, any Interested Party may receive commissions to which it is contractually entitled in relation to any sale or purchase of any investments of the Group effected by it for the account of the Group, provided that in each case the terms have either been agreed with the Company or are no less beneficial to the Group than a transaction involving a disinterested party and any commission is in line with market practice.

Financial Information and Reports to Shareholders

The Company was incorporated on 2 August 2006 and has not yet commenced operations. No financial statements have been made by the Company since its incorporation. As the Company has only recently been formed, it has not published any consolidated financial information.

The Group's annual reports will be prepared up to 31 December each year and it is expected that copies will be sent to Shareholders in the following March. The first annual report covering the period from incorporation to 31 December 2006 is expected to be despatched in March 2007. Shareholders will also receive an unaudited interim report covering the six month period to 30 June each year. The annual general meeting of the Company will be held in Guernsey in each year, the first being expected to be held in April 2007.

The audited accounts of the Group will be drawn up in GBP and prepared under IFRS. Under IFRS, the Group is likely to prepare an income statement which, unlike a statement of total return, does not differentiate between revenue and capital. The Group's management and administration fees, finance costs and all other expenses will be charged through the income statement. The Group's accounts are likely to consolidate the Partnership and therefore, under IFRS rules, changes to the underlying fixed, intangible or financial assets will be reflected in the Group's income statement. Also, some fair value movements may go directly to equity rather than income, if the Directors make the relevant elections. It is intended that the Group's accounts will include a pro forma statement illustrating the Group's income account and balance sheet on an investment basis as well as a consolidated basis in

order to provide Shareholders with a more meaningful representation of the Group's capacity for investment.

Valuations

The Administrator will, with the assistance of BBIML, produce fair market valuations of the Group's investments on a six monthly basis as at 30 June and 31 December. The Group will adopt a valuation methodology for the valuation of its infrastructure investments based on the recommendations of the Investment Adviser. The valuation principles used in such methodology will be based on discounted cash flow methodology, and adjusted for EVCA (European Private Equity and Venture Capital Association) guidelines and otherwise where appropriate, given the special nature of infrastructure investments.

The Administrator will, with the assistance of BBIML, calculate the Net Asset Value of an Ordinary Share as at 30 June and 31 December in each year and this will be reported to Shareholders in the Company's annual report and interim financial statements. All valuations made by the Administrator will be made, in part, on valuation information provided by the Project Entities in which the Group has invested. Although the Investment Adviser and the Administrator will evaluate all such information and data, they may not be in a position to confirm the completeness, genuineness or accuracy of such information or data. In addition, the financial reports typically provided by the Project Entities are provided only on a quarterly or half yearly basis and generally are issued one to four months after their respective valuation dates. Consequently, each half yearly Net Asset Value will contain information that may be out of date and require updating and completing. Shareholders should bear in mind that the actual Net Asset Values may be materially different from these half-yearly estimates. The Directors do not envisage any circumstances other than those arising out of any change in or waiver of the Listing Rules in which valuations will be suspended.

Fees and Expenses

ESTABLISHMENT AND ACQUISITION COSTS

Acquisition Costs

The Acquisition costs are those costs (predominantly legal and financial advisory costs, due diligence costs, stamp duty and including the Arranger's advisory fees in respect of the Acquisition) incurred by the Group in connection with the Acquisition. The Acquisition costs are included in the Price in determining the cost of the Group's investments. The Acquisition costs (including VAT where relevant) are estimated to be approximately £5.98 million.

Issue Expenses

The Issue expenses are those necessary for the establishment of the Group and for the Issue and include fees covering legal, registration, printing and distribution costs and any other applicable expenses. The Issue expenses will be met by the Company from the proceeds of the Issue and charged to the Company's share premium account and deducted from the Net Asset Value in the first financial year of the Company. The Issue expenses (including VAT where relevant, but excluding the Placing Fees) are estimated to be approximately £650,000.

Under the Issue Agreement and the Advisory Mandate, the Placing Agent and the Arranger are in aggregate entitled to placing fees equal to 2 per cent. of the Initial Gross Proceeds (excluding that part of the Initial Gross Proceeds attributable to the Ordinary Shares taken up by the Arranger or by any other member of the Babcock & Brown group). The Placing Fees are in addition to, and are not included in, the estimated Issue expenses referred to above.

ONGOING COSTS

Base Fee

In aggregate, BBIML and the General Partner are entitled to a Base Fee in each year at the annual rate of 1.2 per cent. per annum of the Gross Asset Value of the Investment Portfolio. No Base Fee will be charged on such part of the proceeds of the Issue that are not invested or committed to be invested, until such time as the relevant part of the Issue proceeds are invested or committed to be

invested. The Base Fee accrues and is payable half yearly in arrears on 30 June and 31 December of each year.

The Base Fee is subject to certain adjustments on a time basis in respect of acquisitions and disposals of the Group during the course of a calendar quarter. BBIML is entitled to retain any commissions, fees or any other form of remuneration in relation to any transaction without deduction or set off from either the Base Fee or the Incentive Fee.

Incentive Fee

In aggregate, BBIML and the General Partner are also entitled to an Incentive Fee in respect of each Incentive Period equal to 20 per cent. of the excess (if any) of the Ordinary Share Return over the Benchmark Return in the Incentive Period, provided that the Incentive Fee shall only be payable if and to the extent that the change in the Ordinary Share Return Index in the relevant Incentive Period is greater than the change in the Benchmark Return Index in such period. If the change in the Ordinary Share Return Index is less than the change in the Benchmark Return Index in any Incentive Period, the number of basis points by which the change in the Ordinary Share Return Index is less than the change in the Benchmark Return Index will be carried forward and deducted from the Ordinary Share Return Index of the subsequent Incentive Period for the purposes of determining whether in such subsequent Incentive Period the change in the Ordinary Share Return Index exceeds the change in the Benchmark Return Index.

The Incentive Fee is payable in cash, save that, subject to the Laws, the Listing Rules and all other applicable requirements, the Company may with the written consent of BBIML pay up to 60 per cent. of the Incentive Fee by issuing Ordinary Shares of an equivalent value to BBIML. The issue price of any Ordinary Share issued in lieu of a cash payment in respect of an Incentive Fee shall be the Volume Weighted Average Price at which Ordinary Shares traded on the London Stock Exchange over the period of twenty days immediately following the date on which BBIML consented to the issue of Ordinary Shares in lieu of a cash payment of the Incentive Fee.

Expenses and Overhead Costs

Under the terms of the Investment Advisory Agreement the Investment Adviser is entitled to a reimbursement of any out-of-pocket expenses incurred by it in performing its duties under the Investment Advisory Agreement. Under the terms of the Limited Partnership Agreement, the General Partner is entitled to recover an amount as agreed between Luxco 2 (as limited partner) and the General Partner as being the sum spent on the General Partner's or the Operator's corporate overheads incurred in providing services in respect of the Group (including employee costs, office rental and IT software and hardware). The amount agreed in respect of the period until 30 June 2007 shall be increased annually in line with inflation in the UK.

Administration Fees

The Administrator is entitled to an annual administration fee from the Company equal to 0.01 per cent. of the Net Asset Value of the Company per annum subject to a minimum of £10,000 per annum, together with a fee for Company secretarial services of £20,000 in the Company's first year of operation and £12,500 per annum thereafter, subject to a time cost override. The Administrator is also entitled to a fee for accounting services including preparation of annual and interim accounts based on time spent subject to a minimum of £10,000 per annum and a maximum of £25,000 per annum.

The Domiciliation Agent is entitled to an annual domiciliation fee of €7,200 (€3,600 per annum per Luxco) and a fee on a time spent basis for accounting and related services. It is anticipated that the fee for accounting and related services will be approximately €19,000 per annum but may be higher or lower based on the services provided.

Registrar and Transfer Agency Fees

The Registrar is entitled to receive a quarterly fee in arrears based on the number of Shareholders (subject to an annual minimum fee of £4,750) and the number of transfers. The Registrar is also

entitled to receive a fee of £1,500 per annum for maintaining the register and for the provision of a UK transfer agent.

Directors' Fees

The Directors will be remunerated for their services at such rate as the Directors shall determine, provided that the aggregate amount of such fees shall not exceed £125,000 per annum (or such other sums as the Company in general meeting shall from time to time determine).

Investment and Financial Advisory Costs

The Group will bear stamp duties, taxes, commission, foreign exchange costs, bank charges, registration fees relating to investments, insurance and security costs and all other costs associated with the acquisition, holding and disposal of investments. The costs and charges relating to any deposits pending investment or investments in cash or near cash assets on a temporary basis together with any costs and expenses of any hedging activities will be borne by the Group.

Under the Financial Advisory Mandate, the Arranger has been granted the first and last refusal to provide financial advisory and investment banking services to the Group in respect of future acquisitions and disposals, financing, refinancing, restructuring and certain other related activities. If the Arranger is engaged to provide such services to the Group, it will be entitled to certain advisory fees including, in respect of acquisitions, up to 1.5 per cent. of the Enterprise Value of investments acquired (where the Enterprise Value is the value of investment including risk capital and debt, but in the case of investments developed under PFI or PPP procurements and held by highly leveraged Project Entities, excluding the value of the existing senior project level debt of such Project Entities, and direct and indirect transaction costs incurred in connection with the investment); and, in respect of financing, refinancing and restructuring activities up to 1.5 per cent. of the value of the relevant financing, refinancing or restructuring.

Other Fees and Expenses

The Company will also be responsible for other ongoing operational costs and expenses which will include the Auditors' fees, as well as listing fees, regulatory fees, directors and officers' insurance cover, expenses associated with any purchases of or tender offers for the Ordinary Shares, printing and legal expenses and other expenses (including insurance and irrecoverable VAT). It is intended that the Luxcos will bear the costs of their administration and domiciliation fees as detailed above. The Partnership will bear the expenses of its operation.

The Directors consider that the fees described above reflect arm's length market based fees.



Investment Objective, Policy and Strategy

Part II

Part II Investment Objective, Policy and Strategy

Investment Objective

The Company will seek to provide shareholders with a predictable and attractive yield on the Company's investments. The Company will seek to provide investors with long-term distributions at levels that are both sustainable and which preserve the capital value of the assets over the long term. The Company will target a minimum initial annualised dividend yield of 5.25 per cent.³ on the Issue Price of its Ordinary Shares for its first full financial year. Thereafter the Company will aim to maintain and enhance this yield.

The Company will target an IRR of 8 to 9 per cent.³ on the Issue Price of its Ordinary Shares to be achieved over the long term via asset development, future acquisition, active management and prudent use of gearing. The Directors also believe that long term capital growth can be achieved.

Investment Policy and Strategy

ACQUISITION OF THE INITIAL PORTFOLIO

The Group intends to acquire the Initial Portfolio from the Vendors. As further described in Part IV of this document, the Initial Portfolio consists of direct and indirect interests in Investment Capital in Project Entities which have:

- an entitlement (subject to contractual performance) to public sector or government or quasi-government backed revenues or, in the case of one asset, toll revenues;
- finished construction or are in the course of construction of public or social infrastructure facilities including health facilities, schools, government offices, courthouses, police and custodial facilities, showgrounds and a tunnel; and
- contractual structures that generally provide for the majority of construction and operational project risks to be "passed down" by the Project Entity to subcontractors who take responsibility for the discharge of the bulk of these liabilities, subject to predefined caps on liability.

ACQUISITION OF FURTHER INVESTMENTS

The Group will seek to acquire further public infrastructure assets where the Directors believe that this will create Shareholder value and expect that the global project origination skills of BBIML and Babcock & Brown will assist the Group in identifying new investment opportunities. The Investment Adviser has already identified a number of specific opportunities that may be suitable for the Group to consider acquiring in the future. Such acquisitions may be of single assets, of portfolios or of shares in companies or partnership interests.

Further acquisitions will be financed from cash reserves, and/or by raising debt and/or through seeking additional capital from the Shareholders and equity capital markets or a combination of these. Acquisitions will be led by a desire to increase value for Shareholders. The Group will seek to acquire further investments within any of the following parameters:

- investments with characteristics similar to those of the assets in the Initial Portfolio;
- investment in other assets or concessions having a public infrastructure character and in respect of which availability based payments are or will become payable or in respect of which a property

³ These are targets only and are not profit forecasts. There can be no assurance that these targets will be met or that the Company will make any distributions whatsoever or that investors will recover all or any of their investments.

rental is or will become payable or in respect of which user paid charges (or payments related to amount of use) are or will become payable; or

- investments in infrastructure assets which the Directors believe have high barriers to entry and that the Directors and the Investment Adviser expect to generate an attractive total rate of return over the whole of the life of the investment.

Future investments may be either direct or indirect (i.e. through the Group investing in a company or other entity which itself has a direct or indirect interest in the underlying investment opportunity).

It is currently expected that any future acquisitions will, as with the Initial Portfolio, be held through the Group structure as described on pages 26 and 27 but the Directors and the Investment Adviser will keep the structure under review and amend it as may be appropriate for the more efficient holding of investments.

The Directors believe that opportunities to make further investment may arise globally. The Group may therefore make investments in any location or jurisdiction where the investment in question meets the parameters set out above. The Directors and the Investment Adviser will over the long term seek a spread of investments to achieve a broad balance of risk in the Investment Portfolio. This balance will be both geographical and across industry sectors. Where investments are made in currencies other than GBP, BBIML will consider whether to hedge currency risk (in accordance with the Group's currency and hedging policy as determined from time to time by the Directors). The Group's current currency and hedging policy is described in Part I on page 28.

The acquisition of any further investments from Babcock & Brown entities is likely to be treated for the purposes of the Listing Rules as a related party transaction and as such may be subject to the Company obtaining the necessary Shareholder approvals. The Company may from time to time seek waivers from the UK Listing Authority in this respect. The future investments of the Group will be made in accordance with the Company's investment policy and consistent with the Company's status as an investment company under the Listing Rules.

CREATING VALUE

The Company will target an IRR for Investors of 8 to 9 per cent. on the Issue Price of its Ordinary Shares. It is intended that this will be achieved, amongst other ways, through:

- acquisitions of further investments;
- prudent use of gearing and hedging interest, currency and inflationary risks;
- creating efficiencies through the management of the long term maintenance and asset replacement regime for the Project Entities;
- introducing more efficient financing structures and scale advantages;
- promoting increased third party income from the projects comprised in the Initial Portfolio;
- providing soft and hard facilities management services to projects on a portfolio basis thus achieving economies of scale; and
- through variations arising from changed requirements of Public Sector Clients.

Further consideration is given to possible ways in which Shareholder value can be increased, as discussed at pages 40 to 41.

DEPOSITS PENDING INVESTMENT

Until the Group is fully invested and pending re-investment or distribution of cash receipts, cash received by the Group will be invested in cash, cash equivalents, near cash instruments, money market instruments and money market funds and cash funds. The Group may also hold derivative or other financial instruments designed for efficient portfolio management or to hedge interest, inflation or currency rate risks.

The Company and any other member of the Group may also lend cash which it holds as part of its cash management policy. Such loans may include loans to entities within the Babcock & Brown group provided that such loans are at market rates of interest. Provided that this is the case, such loans will not be treated as related party transactions and no further consent shall be required for such loans to be made. It is anticipated by the Directors that such loans may be made in circumstances where Babcock & Brown is investing in the origination or development of further assets within a class of investments that may be attractive to the Group to acquire in due course and where the making of such loans will enhance the ability of the Group to negotiate the acquisition of further investments.

CHANGES TO THE INVESTMENT POLICY

In accordance with the Listing Rules, material changes to the investment policy set out in this section may only be made by ordinary resolution of the Shareholders.

Infrastructure as an Asset Class

OVERVIEW

An investment in the Company will provide Shareholders with exposure to the infrastructure asset class. The Directors believe that the Initial Portfolio and the subsequent infrastructure investments made in accordance with the Company's investment policy are attractive because of:

- yields which are attractive relative to the asset risk profile;
- the likelihood of long term stable cashflows;
- high barriers to entry to competition;
- the fact that the Group will, in respect of much of the Initial Portfolio, not have to deal with minority shareholders in the underlying assets;
- the creditworthy nature of counterparties;
- predictable low volatility returns;
- the effective pass down of project related risks to subcontractors;
- opportunities to enhance income through active management, Public Sector Client variations, third party income and financial engineering;
- low exposure to changes in the business cycle;
- low correlation to other investment classes eg property or other equity classes;
- the growth potential of the asset class;
- the stated aims of various world wide government entities to procure more assets through PFI/PPP type procurements and/or sell interests in social infrastructure assets; and
- the independent valuation of the Initial Portfolio.

Additionally the Directors believe that the Company has distinguishing features from other listed investment entities offering exposure to similar assets. These include:

- the experience and track record of Babcock & Brown in management of other funds investing in infrastructure assets;
- the development and origination capacity of Babcock & Brown with respect to new opportunities for the Group; and
- the combination of operational assets and assets in construction within the Initial Portfolio.

YIELDS WHICH ARE ATTRACTIVE RELATIVE TO THE ASSET RISK PROFILE

The table set out below shows the average cash yield available as at 9 October 2006 on a number of investments that the Directors believe may be seen as comparables to investment in Ordinary Shares. Shareholders should form their own view on the relevance of these comparables and no forecast is

made that the Ordinary Shares in the Company will perform similarly to or better than any of these comparables.

YIELDS PROVIDED IN CERTAIN SECTORS OF THE INVESTMENT MARKET (AS AT 9 OCTOBER 2006)

	Current Yield (per cent.) ⁽¹⁾ Dividend/Coupon
John Laing plc ⁽³⁾	1.10
Mapeley Limited	4.72
Basket of UK listed commercial property funds ⁽²⁾	4.30
PFI Infrastructure Co Limited	4.22
Long dated UK Government Bond (2021)	4.50
HSBC Infrastructure Company Limited ⁽⁴⁾	5.20

Source: Bloomberg, Thomson (based on unaudited figures)

Notes:

(1) No assertion is made that the yields stated are representative of future targeted and/or realised yields.

(2) Size-weighted average of the gross dividend yields of the constituents. Includes Axa Property Trust, Close High Income Properties, Close High Income Properties 'C', Close High Income Properties 'D', F&C Commercial Property Trust, Gresham House, ING UK Real Estate Income Trust, Insight Foundation Property Trust, Invesco UK Property Income Trust, ISIS Property Trust, ISIS Property Trust 2, Medical Property Investment Fund, Standard Life Investment Property Income Trust, TR Property Investment Trust and UK Balanced Property Trust.

(3) As at 18 September 2006. Note that on 19 September 2006 John Laing plc announced a recommended offer for its entire share capital. As at 9 October 2006, the current yield was 1.05 per cent.

(4) Targeted annualised dividend distribution for its first full financial year on the closing price of its Ordinary Shares as at 9 October 2006.

While the Directors believe that infrastructure assets have a number of characteristics similar to bond type investments, investment in infrastructure assets also, unlike bonds, offers opportunities to enhance the value of investments through active management. This, in the opinion of the Directors, offers equity upside potential to Shareholders. Some of the possible ways in respect of which this upside may be achieved are described at pages 40 to 41.

LONG TERM STABLE CASH FLOWS

Infrastructure assets tend to have long term stable cashflow characteristics. The majority of projects in the Initial Portfolio consist of projects where the income stream is based on the physical availability of the assets and the standard to which certain services are provided. The obligations on the Project Entity to ensure availability relating to service levels are generally passed down to subcontractors on the basis that the subcontractors will account for any revenue receivables lost due to any default of theirs which compromises availability or service levels, subject to any applicable cap on liability. The existence of a robust insurance programme that provides for payment both for the capital cost of renewal and the lost revenue consequent upon the occurrence of an insured event together with the subcontractor pass down provisions are designed to ensure as far as reasonably possible that the cashflows which provide a return on Investment Capital are non volatile and predictable. The majority of the projects in the Initial Portfolio are operational and income producing and the history of these projects to date support this analysis. Such history is however not necessarily a guide to future performance.

HIGH BARRIERS TO ENTRY

Infrastructure assets that are based on availability payment streams are indifferent to competition since the payment obligations on the part of the Public Sector Clients are fixed. Some assets (eg RiverCity Motorway in the Initial Portfolio) have revenue streams that are dependent upon user paid charges. The Group will invest in these type of assets where it believes that sound revenue projections exist or revenue levels have been established. Usually infrastructure assets with this sort

of payment stream benefit from high barriers to entry to competition (eg in respect of a toll tunnel, the complexity and high cost of building a competing tunnel).

THE FACT THAT THE GROUP WILL NOT BE CONSTRAINED IN THE OPERATION OF MANY OF THE UNDERLYING ASSETS BY MINORITY INTERESTS

Most PFI/PPP type projects are owned by consortia of investors which result in ownership structures being split amongst a series of minority shareholders. Such a structure risks disagreement between minority shareholders as to the course of conduct in the management of those assets. However, the shareholdings in the majority by number and value of the assets in the Initial Portfolio will be owned by the Group which in the opinion of the Directors will reduce this risk and provide a premium value to these assets.

THE CREDITWORTHY NATURE OF COUNTERPARTIES

The Project Entities in respect of all but one of the Initial Portfolio benefit from an availability based revenue stream payable by a Government entity, a local government entity or a statutory corporation (i.e. a UK National Health Service Trust). The Directors believe that each of these is a high quality creditworthy counterparty.

PREDICTABLE LOW VOLATILITY RETURNS

The projected returns from the assets in the Initial Portfolio are not guaranteed but where projects are operational the experience to date has shown very low levels of volatility against the original financial projections. Where investments have revenue streams that are dependant on user paid charges, once long term use patterns have been established then these can be expected also to show low levels of volatility.

EFFECTIVE PASS DOWN OF PROJECT RELATED RISKS TO SUBCONTRACTORS

PFI/PPP type projects are generally structured such that risks and obligations imposed on the Project Entity by the Public Sector Client are intended to be passed down by way of subcontract to parties responsible for design and construction, and for facilities management of the project in question, subject to contractual terms. Other risks are sought to be backed off by insurance arrangements. The intention in structuring these projects in this way is to reduce exposure to risk and hence volatility in that part of the overall project income stream projected to be available to provide a return on Investment Capital.

OPPORTUNITIES TO ENHANCE INCOME THROUGH ACTIVE MANAGEMENT, PUBLIC SECTOR CLIENT VARIATIONS, THIRD PARTY INCOME AND FINANCIAL ENGINEERING

Infrastructure projects provide a number of opportunities to increase returns over those projected at the time of the original financial close. Some of the opportunities are examined further in the following sections.

LOW EXPOSURE TO CHANGES IN THE BUSINESS CYCLE

Infrastructure assets tend to be essential part of the fabric of communities and hence they are necessary assets both in times of economic growth and in times of recession.

LOW CORRELATION TO OTHER INVESTMENT CLASSES EG PROPERTY OR OTHER EQUITY CLASSES

Investments in infrastructure assets of the nature of the Initial Portfolio usually have fixed (subject in the case of most projects to partial or full indexation in line with an inflation index and to periodic contractual benchmarking) income streams or income streams that are dependant upon predicted or established user demand. Income streams are frequently not linked to market forces (eg unlike rent reviews in real estate investments) nor exposed to competitive or technological pressures (unlike many equities). The Directors believe that the closest correlation for infrastructure assets is likely to be bond or other fixed interest investments but that infrastructure assets often provide additional equity upside opportunities not available to bondholders.

THIRD PARTY VALUATION OF THE INITIAL PORTFOLIO

The Company has commissioned an independent valuation of the interests in the underlying projects constituting the Initial Portfolio from PwC (the report in respect of which is set out in the Appendix to Part IV of this document). This approach has been taken in preference to the approach of relying upon a Director's valuation of the Initial Portfolio, in order to address any perceived issues of possible conflict of interest between the interests of Babcock & Brown as ultimate holding company for BBIML as Investment Adviser and Operator and as an economically interested party in the sale of the Initial Portfolio.

Capital Growth Potential from the Initial Portfolio and Future Infrastructure Assets

While the Directors believe that the Initial Portfolio will offer an attractive current yield, the Directors also believe that the Initial Portfolio has characteristics that are likely to allow increased value to be derived for the Group over time. Further efficiencies may also be achieved in respect of any additional investments acquired by the Group.

Some of the sources of increased value may include the following.

REVIEW OF THE CAPITAL STRUCTURING OF PROJECT ENTITIES

Most of the Project Entities have the benefit of senior debt facilities which are "limited-recourse" whereby the lenders' only security is the assets of that Project Entity or that Project Entity's shares. A number of other comparable projects completed under the UK Project Finance Initiative have undertaken refinancings whereby the senior debt taken out by the Project Entities has been replaced by new senior debt. In a number of cases this has allowed additional limited recourse debt to be introduced (with the additional amounts of debt being utilized to provide accelerated returns for investors) and/or for the cost of that debt to be reduced. Typically in PFI/PPP projects, this possibility arises in the period after construction completion. In the UK however, provisions exist through a code of practice and through contractual provisions with respect to some projects to the effect that in certain circumstances, up to 50 per cent. of gains from some financial engineering activities must be shared with the relevant Public Sector Client. No such refinancing activities have occurred to date in respect of the Initial Portfolio and there is no guarantee that any such refinancing will occur or will achieve any accelerated returns.

The Directors believe that the fact the Group will not have to deal with any other shareholders in respect of the majority by number of the Project Entities comprised within the Initial Portfolio will facilitate the delivery of such benefits when compared with investments in companies where only a minority economic interest is held in underlying projects.

VALUE SHIFTS UPON COMPLETION OF CONSTRUCTION

The Directors believe that other market investors apply a higher valuation (i.e. apply a lower discount rate on projected cashflows) when the construction phase of projects has been concluded. This is likely to be because the construction phase is perceived as the phase of a project which is most subject to risk. Where the Group has economic interests in projects which are in construction it is likely that these interests will become more valuable when the construction phases end (assuming that project completion is achieved in line with projections).

DELIVERING ECONOMIES OF SCALE

The Initial Portfolio consists of direct and indirect investment in Investment Capital in Project Entities. Currently many of these Project Entities have their own arrangements for matters such as insurance and the setting aside of reserves to meet future asset maintenance and renewal costs. The Directors believe that efficiencies may be achieved by dealing with such matters on a portfolio basis. The currently projected aggregate expenditure on insurance costs and lifecycle (asset renewal) costs over the life of the projects in the Initial Portfolio (excluding RiverCity Motorway and the interests in the NHS LIFT assets) exceeds £125 million and £290 million respectively.

Many of the projects within the Initial Portfolio also include the provision of “soft FM” services being facilities management services in areas such as cleaning, catering and security. Currently these services are all also provided on a project by project basis. Opportunity may also exist for these services to be provided more efficiently on a portfolio basis, subject to existing contractual structures. In particular, the rights and obligations with respect to the provision of these services may be consolidated into one or more entities connected with Babcock & Brown.

CAPITAL ALLOWANCE AND TAXATION REVIEW

A number of the projects within the Initial Portfolio within the UK benefit from capital allowances. All the UK projects within the Initial Portfolio are held via vehicles that are liable to UK taxation. A review is underway currently at the instigation of the Operator to determine the extent to which the current assumptions with regard to the availability of capital allowances are conservative. This review with external advisers involves an analysis of expenditure incurred in projects which have reached the stage of construction completion. The results of this review will form the basis for agreement with HM Revenue and Customs of the capital allowances that may be utilised by the Project Entities. In addition to the extent that projects become grouped for tax purposes and/or the Group acquires additional investments that have tax losses or unutilized allowances it may become possible for tax liabilities that are currently projected to be incurred to be further deferred.

CHANGE REQUESTS

The Public Sector Clients who receive services from the projects comprised within the Initial Portfolio may from time to time require changes to the project facilities. For PFI Projects, typically this occurs in the construction phase but sometimes this may occur after construction. In the case of NHS LIFT projects, no changes can be made during the construction period. Where additional capital expenditure is required, Project Agreements typically provide that any new investment shall be made on terms that such new investment receives a projected return equal to the return projected on the original investment into the project. The Directors consider it likely given the remaining length of the concessions within the Initial Portfolio that changes of this sort are likely to occur although the timing of these cannot be predicted.

INCOME GENERATION

Some projects in the Initial Portfolio have the ability to generate income from third parties, for example by letting out school facilities for use after normal hours. In this instance, this income is typically to be shared between the public and private sectors. The Directors believe that there is potential with respect to certain of the Initial Portfolio of projects for this income to be enhanced.

ACQUISITION OF ADDITIONAL INVESTMENTS

The Directors believe that the opportunity offered to the Company by its relationship with Babcock & Brown through the Investment Adviser and Operator and the Financial Advisory Mandate will lead to the Group being well placed to acquire further investments. The Directors believe that there are three ways in which this is likely to occur:

- acquisition of further investments developed by Babcock & Brown (the Directors are aware of a number of further transactions within the PPP sector that are at preferred bidder or are under development by Babcock & Brown);
- acquisition of further investments that are sourced through opportunities identified by Babcock & Brown who have, worldwide, 178 professional staff working within the Infrastructure Team; and
- acquisition of further investments that become available to the Group from sources other than Babcock & Brown.



Background to the Infrastructure Market

Part III

Part III Background to the Infrastructure Market

Introduction

Infrastructure can broadly be defined as the physical assets and systems that support a country or community. These assets enable services such as transportation, utilities, and communications and provide social needs such as housing, health and education services.

Development and modernisation of infrastructure is core to economic growth of any country and normally requires significant initial investment. Historically, infrastructure has been procured and funded by the public sector, with the taxpayer taking both the responsibility, and risk, of asset delivery, cost and operation. To obtain better value for money for taxpayers, to share the burden of financing and in some cases to overcome constraints imposed by the public sector budgetary process, governments have turned to the private sector to assist in the procurement of infrastructure. Private sector involvement in the provision of infrastructure has steadily increased with privatisation of existing businesses and the use of concessions to procure new assets. Under the procurement model, of which PFI (Private Finance Initiative) and PPP (Public Private Partnership) are variations, a private sector entity is normally contracted to construct, finance and then operate a piece of infrastructure for an agreed period of time. In the NHS LIFT initiative, the private sector entity contracted to procure an asset has majority private sector shareholders with minority public sector shareholders.

A number of factors are driving the growth of private sector involvement in infrastructure in a number of countries, including:

- significant infrastructure requirements resulting from population growth and economic development;
- historic underinvestment, in some countries, in existing assets and new infrastructure needs;
- evidence in some studies that the private sector is achieving significant cost efficiencies in the delivery and operation of infrastructure compared to the public sector; and
- budgetary pressure and a need to manage public debt levels, for example, for member states to meet the Maastricht criteria of the European Union.

The success of private sector involvement in the infrastructure sector has led many governments to implement standardised procurement models such as PFI and PPP. Although many countries often use these models initially to procure transportation infrastructure, many (for example the UK, Portugal, France and Spain) have responded to the success of their initial projects by extending the scope into the provision of other public or social infrastructure assets.

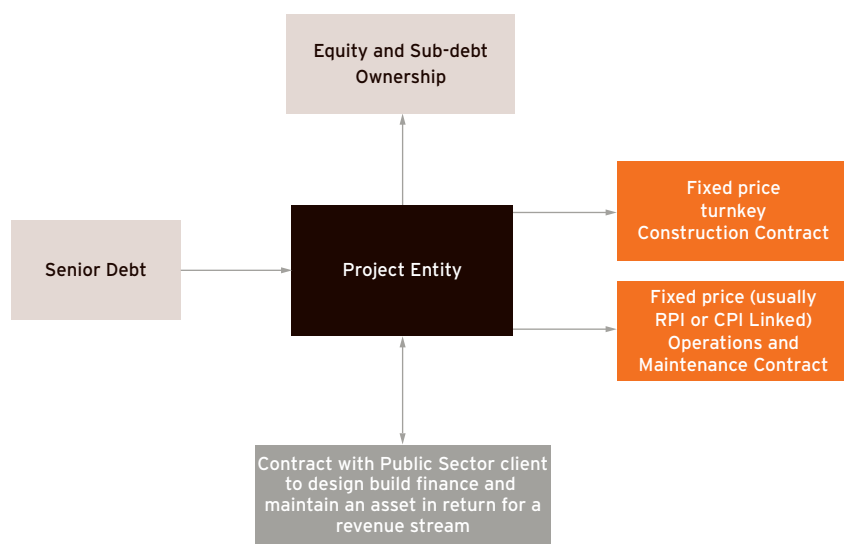
What is Public or Social Infrastructure?

Public or social infrastructure includes social assets such as roads, railways, schools, prisons and hospitals. In the UK, these essential assets are commonly provided through the PFI/PPP model. Under a PFI/PPP structure, a consortium of private sector entities (usually comprising a construction company, a facilities management operator and financial investors) form a Project Entity which enters into a contract with a public sector body to design, build, finance and maintain a public or social infrastructure asset in accordance with agreed service standards and is remunerated for this under a mechanism agreed by both parties. Although the Project Entity will be responsible for the construction of the infrastructure asset in the case of PFI/PPP, it will not usually have full ownership rights over the asset which will usually revert to public sector ownership on termination of the relevant contract (although this is not the case with respect to four projects in the Initial Portfolio where the residual value interest will belong to the Group). For NHS LIFT projects, the Project Entity

(owned by both public and private sector participants), will also own the land on which the health centre is built and the buildings on it, with the public sector being granted the right to occupy under a “lease plus agreement”.

Structure of a Typical PFI/PPP Project

The diagram below shows the typical structure of a PFI/PPP project:



The Project Entity will fund the initial project costs, including the cost of the construction of the infrastructure asset through a mixture of:

- long-term senior debt contributed by banks or through the issue of bonds; and
- equity and subordinated debt (including by way of partnership or shareholder loans) contributed by the financial investors and other consortium members participating in the Project Entity.

Senior debt is sometimes drawn first, and equity and subordinated debt subscription amounts are sometimes drawn towards the end of the construction phase. In some instances, bank letters of credit are required to be provided upfront in respect of the equity and subordinated debt subscription amounts. With respect to the Initial Portfolio the only deferred equity requirement is with respect to the securities in respect of RiverCity Motorway which have been issued partly paid.

Once the social infrastructure asset has been built, and provided the agreed service levels are met, the Project Entity will receive payments from the public sector body for the remainder of the concession. The payments are often inflation-linked or fixed in real terms with reference to specific inflation indexes (eg RPI or CPI). They are generally either “availability” based or “demand” based, depending on the nature of the project.

“Availability” based projects entitle the Project Entity to receive regular payments from the public sector body to the extent that the project asset is “available” for use in accordance with contractually agreed service levels and performance standards are met. “Demand” based projects entitle the Project Entity to receive payments related to the usage of the project asset.

Once the payments received by the Project Entity from the public sector body have been used to service the senior debt repayments, operating costs and other expenses and the funding of reserves, they will be used to remunerate the equity and sub-debt owners in the form of interest payments on subordinated debt, repayment of subordinated debt principal and dividend payments.

At the outset of the project, the Project Entity will generally enter into contracts with subcontractors with the aim of passing on to the latter the various risks associated with providing the construction and operational services. In this way, the risks of cost overruns and delays and deductions from

concession revenues for poor performance are largely passed on, subject to the relevant caps and other limits on liability, to the Project Entity's construction contractors and facilities managers.

Due to its perceived benefits, use of the PFI/PPP model in the UK has been growing and PFIs are expected to continue to account for 10-15 per cent. of total investment in public services (Source: *"PFI: Strengthening Long-term Partnerships"*, HM Treasury, March 2006). The benefits claimed for the model include the following.

- Risk allocation to parties best able to manage or mitigate individual risks.
- In contrast to traditional procurement where the private sector may be less concerned with higher maintenance costs once the asset is delivered (as it does not subsequently manage the asset), under a PFI/PPP, the private sector competes to deliver services over the long-term at the most economically advantageous price taking into account life-cycle costs.
- PFIs/PPPs are seen as a way of bringing private sector know-how and management expertise to the provision of public services and, hence, to improving value for money. Some studies have reported savings of 15-20 per cent. compared to the costs of an equivalent publicly procured project (Source: *"Developing Public Private Partnerships in New Europe"*, PricewaterhouseCoopers May 2004).
- PFIs/PPPs allow public-sector entities to spread payments for social infrastructure assets over a number of years and may allow the associated debt to be kept off the public sector's balance sheet.

As payments to the private sector under a PFI/PPP structure do not typically commence in full until the asset has been built and an agreed level of service is being provided, the private sector is incentivised to complete construction with minimal delay and provide high quality services. The UK experience of PFIs/PPPs suggests that these structures can provide significant improvements over the results that can be achieved from traditional forms of procurement. Examples include the following.

- Only 24 per cent. of UK construction projects under the PFI/PPP model were delivered late to the public sector compared to 70 per cent. of projects under traditional procurement (Source: *"PFI: Construction Performance"*, National Audit Office, February 2003).
- In only 22 per cent. of UK construction projects under the PFI/PPP model have costs to the public sector exceeded the price agreed at contract compared to 73 per cent. under traditional procurement. Where cost overruns occurred, these were generally the result of changes to the project instigated by the Public Sector Client and not the fault of the Project Entity or its subcontractors. (Source: *"PFI: Construction Performance"*, National Audit Office, February 2003).
- 66 per cent. of UK public sector contract manager respondents rate the performance of their PFI projects as either "Very good" or "Good" and 30 per cent. rate the performance as "Satisfactory" (Source: *"Report on Operational PFI Projects"*, Partnerships UK, March 2006).
- In 89 per cent. of UK projects, measurement of the service providers' performance against the requirements set out in the contract shows that service levels are being achieved "Always" or "Almost always" (Source: *"Report on Operational PFI Projects"*, Partnerships UK, March 2006).
- 79 per cent. of UK users of public services delivered under the PFI model feel that services are "Always" or "Almost always" being delivered to an acceptable standard (Source: *"Report on Operational PFI Projects"*, Partnerships UK, March 2006).

The positive track record of PFI/PPP in the UK has made it an increasingly popular means of procuring social infrastructure. Over 700 PFI transactions reached financial close between January 1992 and March 2006, with a total capital value of over £46 billion (Source: *"PFI: Strengthening Long-term Partnerships"*, HM Treasury, March 2006). Of these, over 500 are estimated to be operational (Source: *"PFI: Strengthening Long-term Partnerships"*, HM Treasury, March 2006). Furthermore, the total PFI deal pipeline over the next five years is estimated at around 200 projects worth over £26 billion in capital value (Source: *"PFI: Strengthening Long-term Partnerships"*, HM

Treasury, March 2006). The track record of the model has also led to the development of similar models within the UK such as NHS LIFT schemes which operate under similar principles.

NHS LIFT

The UK National Health Service LIFT (Local Improvement Finance Trust) initiative ("**NHS LIFT**") was introduced to promote the development of new and refurbished primary community health facilities and facilities for general medical practitioners. Some 42 different geographic concessions have been awarded. These franchises represent an agreement entered into by the local NHS primary care trusts in each area, whereby the trusts have agreed to grant to a "LiftCo" (a company majority owned by the private sector and with minority public sector shareholders) an exclusive right (subject to compliance with certain obligations) to develop and invest in all primary care health facilities procured by that trust over the twenty year term of the agreement. The earliest of these agreements to expire expires in 2023. Babcock & Brown have interests in seven of these LIFT franchises and believe that the exclusivity provisions should ensure a significant flow of investment opportunities through the NHS LIFT procurement.

NHS LIFT projects are structured very similarly to PFI/PPP projects although they have a "lease plus agreement" as their key document in place of a "project agreement" or "concession contract". It is important to note that the interest to be acquired by the Group with respect to NHS LIFT projects comprised in the Initial Portfolio are in subordinated debt (ie the right to be paid interest and principal when contractually due) issued by subsidiaries of certain "LiftCo's" and the Group is not acquiring a direct or indirect equity interest in LiftCo's or their subsidiaries or their pipeline of future development opportunities. The Directors do however believe that the existence of this pipeline offers the prospect of significant future investment opportunity for the Group.

Global Trends

Although Britain has been a front-runner in developing PFIs/PPPs, an increasing number of governments around the world have been turning to the PFI/PPP model as a viable option for providing essential public assets and services in an efficient and cost-effective manner. There is a desire by the public sector to increase infrastructure provision and services within imposed budgetary constraints.

The global development of the PFI/PPP model continues to progress as more countries implement the legal and institutional frameworks required to accommodate PFIs/PPPs. A summary of some of the major markets in which the Company may evaluate opportunities is set out below.

EUROPE

In Europe, public investment has been falling as a share of gross domestic product. The investment requirements of economic growth and the desired increase in standards for public services have resulted in a significant infrastructure gap particularly in new member states. The World Bank estimates the infrastructure investment needs for the accession candidates alone to be Euro 65 billion over 15 years (Source: "*Developing Public Private Partnerships in New Europe*", PricewaterhouseCoopers, May 2004).

The European Commission (EC) has been working to remove remaining obstacles to the development of PFIs/PPPs across Europe. EC support for the model was set out in "*Green Paper on Public Private Partnerships and Community Law on Public Contracts and Concessions*", published in April 2004 and updated in September 2005. The paper discusses how EC rules on concessions apply to PPP contracts, and seeks to ensure that operators within the EU are not prevented from gaining access to different types of PPPs (Source: "*A Proliferation of Public-Private Partnerships*", CreditWeek, Standard & Poor's, 19 April 2006).

Many European countries, particularly France, Italy and Spain, initially developed PPPs in the transport sector and later extended their use to other sectors, such as education, health, energy, water and waste treatment. In recent years, a number of European countries have initiated legislative changes and developed institutions to encourage PFIs/PPPs.

IRELAND

In Autumn 2005, the Irish government announced an expansion of the role of the National Development Finance Agency to facilitate the establishment of a new Centre of Expertise which will be responsible for the procurement of all new PPP projects in the central government area (with the exception of road and rail) (Source: *"Delivering the PPP promise"*, PricewaterhouseCoopers, 2005).

In November 2005, the Irish Government announced the "Transport 21" infrastructure plan. The plan earmarked Euro 34.4 billion for transport projects in Greater Dublin over a 10-year period. It is estimated that roughly Euro 6 billion of Transport 21 will be funded through PPP initiatives (Source: *"Irish Transport Plan Unveiled: Opportunities for PPPs"*, *infranews*, 2 November 2005).

Babcock & Brown are currently preferred bidder on one major Irish PPP project.

ITALY

In Italy, a PPP taskforce (Unità tecnica per la Finanza di Progetto or UFP) was established in 1999 to provide guidance to public administrations in identifying projects suitable for private sector participation and assistance in tendering those projects (Source: *"Delivering the PPP promise"*, PricewaterhouseCoopers, 2005). In 1998, Italy passed the Merloni which introduced project finance techniques and structures to the country (Source: the International Project Finance Association (IPFA): www.ipfa.org). Subsequent amendments to the Merloni Law were designed to encourage private sector participation in the construction and operation of public infrastructure facilities. In particular, the 30 year maximum concession period and the 50 per cent. maximum level of public sector grants and subsidies have been abolished (Source: *"Delivering the PPP promise"*, PricewaterhouseCoopers, 2005). In 2003, the Italian government created a project finance unit, Infrastrutture Spa (ISPA), to finance large infrastructure projects. ISPA was merged into Cassa Depositi e Prestiti SpA, CDP, in January 2006 (Source: *"A Proliferation of Public-Private Partnerships"*, *CreditWeek*, Standard & Poor's, 19 April 2006). CDP is a State-owned financial institution mandated to fund local infrastructure projects that are potentially self-supporting (*"A Global Survey of PPPs: New Legislation Sets Context For Growth"*, 14 April 2005, *Infrastructure & Public Finance Ratings Public Private Partnerships Global Credit Survey 2005*, Standard & Poor's).

In 2001, the Italian government approved a national programme with a total capital value of Euro 125 billion to be procured over the next decade to 2011. This figure was increased to Euro 175 billion in July 2005 (Source: *"Italian PPP and transport infrastructure sector review"*, *infrastructure journal*, www.infrastructurejournal.com, 31 March 2006).

Babcock & Brown are currently in exclusive negotiations for the acquisition of an interest in an Italian PPP project and have a number of Infrastructure Team members based in Milan.

SPAIN

Spain provides another example of a European country encouraging the development of PFIs/PPPs. In December 2004, the Spanish Public Works Ministry (Ministerio de Fomento) presented the draft of an infrastructure and transport plan for 2005-2020 (Plan Estratégico de Infraestructuras y Transporte or PEIT) which forecasts a total investment of Euro 214 billion over a 15-year period (Source: *"Delivering the PPP promise"*, PricewaterhouseCoopers, 2005). IPPP (Asociación Público-Privada) structures are expected to account for almost 20 per cent. of the total investment (Source: *"Delivering the PPP promise"*, PricewaterhouseCoopers, 2005).

While transport continues to dominate the Spanish PPP market, as illustrated by the Euro 50 billion in private investment under the 2005-2020 infrastructure plan, projects in sectors such as health, education and accommodation are starting to increase in many regions (Source: *"Spain's PPP market on the road to diversification"*, *infrastructure journal*, www.infrastructurejournal.com, 14 December 2005).

Babcock & Brown has Infrastructure Team members active in Spain and Portugal.

FRANCE

In France, a PPP law, the "Contrats de Partenariat de l'Etat et de ses établissements publics" was passed in 2004 (Source: www.legifrance.gouv.fr; French Ministry of Economy, Finance and Industry: www.ppp.minefi.gouv.fr). The contract allows a public sector entity to grant a private sector entity the right to finance, construct maintain and operate public works such as hospitals and schools on a long-term basis in return for payments from the public sector entity (Source: www.legifrance.gouv.fr; French Ministry of Economy, Finance and Industry: www.ppp.minefi.gouv.fr). The new legislation was followed by the announcement in May 2005 of the establishment of a Ministry of Finance PPP unit to identify pilot projects which may be suitable for the ordinance (Source: "A European Survey of PPPs Ready to Kick Off in 2006", CreditWeek, Standard & Poor's, 19 April 2006). Therefore, in view of this new clearer legal framework as well as ongoing budget constraints and efficiency requirements, recourse to PPPs may increase in the future.

In February 2006, the first wave of French prison PPPs worth roughly Euro 300 million reached financial close and the second scheme worth roughly Euro 200 million was also announced (Source: "The first wave of French prison PPPs", infrastructure journal, www.infrastructurejournal.com, 15 March 2006). In July 2006, RFF, France's rail infrastructure manager, announced four rail PPP projects worth over Euro 6 billion (Source: "RFF Kicks Off Four PPP Projects", infranews, 6 July 2006).

Babcock & Brown recently reached financial close on its first French PPP project.

GERMANY

German authorities have also come to recognise that given budgetary restraints, an element of private sector involvement is essential in order to finance necessary investments in public infrastructure. This is evidenced by the passing of the PPP Acceleration Act which came into effect in September 2005 (Source: "Public-private partnerships in Germany", infrastructure journal, www.infrastructurejournal.com, 24 December 2005). The Act is designed to reduce legal restraints on PPPs and afford authorities greater flexibility in the procurement process.

The German government aims to increase spending through a four-year Euro 25.2 billion growth programme without increasing its budget deficit and PPPs are expected to be an important part of the solution (Source: "German government to boost PPP investments", infrastructure journal, www.infrastructurejournal.com, 17 January 2006). The government intends to raise the share of PPPs in public sector investment from the current level of 4 per cent. to about 15 per cent. (Source: "The prospects for German PPP", infrastructure journal, www.infrastructurejournal.com, 27 July 2006). In June 2006, Germany's first health PPP, the Euro 300 million (including an initial investment and funding requirement of Euro 136 million) proton therapy centre for the treatment of cancer at Essen University Hospital reached financial close (Source: "The prospects for German PPP", infrastructure journal, www.infrastructurejournal.com, 27 July 2006).

Babcock & Brown has a specialist PPP resource based in Munich to concentrate on German PPP opportunities.

CENTRAL and EASTERN EUROPE

The PFI/PPP model is also gaining ground in Central and Eastern Europe. In July 2004, a PPP Centrum was established in the Czech Republic to advise on the necessary amendments to the legal framework and encourage PPPs (Source: "Delivering the PPP promise", PricewaterhouseCoopers, 2005). In August 2005, the Czech Government approved the PPP Concession Law allowing the pilot schemes to proceed (Source: "Delivering the PPP promise", PricewaterhouseCoopers, 2005). Around the same time, a PPP Act came into force in Poland (Source: "Delivering the PPP promise", PricewaterhouseCoopers, 2005). The Russian government has also passed a law to allow concession agreements to be concluded (Source: "Russian Market Readies Itself for the PPP Revolution", infranews, 2006). It is estimated that Euro 21.1 billion worth of projects are currently in tender, at the pre-approval stage or in finance in Eastern Europe (Source: Dealogic ProjectWare).

AUSTRALIA

In Australia, the PFI market continues to develop strongly and this growth is set to continue as governments are faced with budgetary constraints. Each of the states and territories in Australia has its own policies and many projects have been initiated across the country. PFIs only make up roughly 7-8 per cent. of total government infrastructure expenditure but this number now seems set to grow as the model is gaining increasing political support (Source: *"Aussie PPP Sector Supports Changes"*, *infranews*, 15 November 2005). In October 2005, John Howard, the Australian Prime Minister, announced that all federal departments and agencies must consider PFI/PPP arrangements for projects costing more than AU\$100 million (Source: *"Aussie PPP Sector Supports Changes"*, *infranews*, 15 November 2005).

The major PFI markets in Australia are in Victoria and New South Wales. However, PFI projects have also been initiated in Queensland, Western Australia, South Australia and the Northern Territory. The state of Victoria is noted as having experienced the most significant structural change between public and private provision of infrastructure. There has been a long term trend decline in public infrastructure expenditure from a peak of AU\$1.7 billion in 1995 to AU\$1.1 billion in 2004 (Source: *"Infrastructure expenditure in Australia...a state based compendium"*, The Australian Council for Infrastructure Development, February 2006). Conversely, private infrastructure expenditure has risen from AU\$252 million in 1987 and reached AU\$1.7 billion in 2004, exceeding public expenditure (Source: *"Infrastructure expenditure in Australia...a state based compendium"*, The Australian Council for Infrastructure Development, February 2006). The Government of Victoria has set itself a target of up to 10 per cent. of Victoria's infrastructure investment to be procured through PPPs (Source: *"Australian PPP Survey"*, Ernst & Young, November 2005).

In New South Wales, approximately AU\$6 billion of new public infrastructure has been or is being delivered through privately financed projects since 2001 (Source: *"State Infrastructure Strategy"*, New South Wales Treasury). The government of New South Wales views PFIs/PPPs as a means of providing the best value-for-money for social infrastructure. In May 2006, the government announced an AU\$110 billion 10-year infrastructure programme around 10 to 15 per cent. of which is expected to be financed through private sector partnerships (Source: *"State Infrastructure Strategy"*, New South Wales Treasury).

Babcock & Brown has a large team of infrastructure personnel actively developing PPP projects in Australia and South East Asia.

CANADA

The PPP (or "P3" as they are termed in Canada) market is also developing in Canada and is underpinned by national and provincial governments' recognition that an infrastructure investment deficit exists in Canada. In November 2004, the Canadian Council for Public-Private Partnerships published a national survey of 2,000 members of the Canadian public under which over 80 per cent. of respondents expressed the view that government was unable to fully meet the demand for public infrastructure and services and 60 per cent. agreed that private sector participation in the provision of infrastructure ought to be encouraged (Source: *"The People Speak on P3 A national survey on attitudes to public-private partnerships"*, The Canadian Council for Public-Private Partnerships, 22 November 2004). Furthermore, at a Council of the Federation meeting in August 2005, Canada's territorial and provincial premiers identified Canada's significant infrastructure investment needs. For example:

- TD Bank Financial Group estimates Canada's infrastructure gap to be between C\$50 billion and C\$125 billion (Source: *"Mind The Gap, Finding the Money to Upgrade Canada's Aging Public Infrastructure"*, TD Bank Financial Group, May 2004);
- Infrastructure investment needs for Canada's urban transit is estimated at least C\$23 billion over the next few years (Source: *"Looking To The Future, A Plan for Investing in Canada's Transportation System"*, Council of The Federation, December 2005); and

- Investment needs for urban roads and bridges is estimated at C\$66 billion over 10 years (Source: *"Looking To The Future, A Plan for Investing in Canada's Transportation System"*, Council of The Federation, December 2005).

Several Canadian provinces are adopting the P3 model as a means of alleviating this deficit.

In June 2002, the province of British Columbia established Partnerships British Columbia (PBC), an entity whose stated aim is to bring "...together ministries, agencies and the private sector to develop projects through public-private partnerships" (Source: www.partnershipsbcc.ca).

In July 2004, the government of Ontario published "Building a Better Tomorrow—Infrastructure Planning, Financing and Procurement Framework for Ontario's Public Sector", its programme for meeting the province's infrastructure funding gap (Source: *"Building A Better Tomorrow, An Infrastructure Planning, Financing And Procurement Framework For Ontario's Public Sector"*, Ministry of Public Infrastructure Renewal, 2004). In May 2005, Ontario established the Ontario Infrastructure Projects Corporation, an entity which will provide public sector transaction guidance for projects approved under the province's Alternative Financing and Procurement (AFP) approach which covers P3s (Source: *Ministry of Public Infrastructure Renewal*: www.pir.gov.on.ca). In May 2005, the Ministry of Infrastructure Renewal issued its 5-Year Infrastructure Plan entitled "ReNew Ontario", a C\$30 billion public infrastructure investment plan (Source: *"ReNew Ontario 2005-2010, A five-year infrastructure investment plan to strengthen our economy and communities"*, Ministry of Public Infrastructure Renewal, May 2005). The plan envisages that around C\$2.3 billion will come from "...major alternative financing and procurement arrangements for large-scale projects in hospitals, the justice sector and other areas" (Source: *"ReNew Ontario 2005-2010, A five-year infrastructure investment plan to strengthen our economy and communities"*, Ministry of Public Infrastructure Renewal, May 2005). The Government of Ontario stated that it was pursuing such strategies in order to "...take advantage of private-sector capital, expertise and efficiencies" (Source: *"ReNew Ontario 2005-2010, A five-year infrastructure investment plan to strengthen our economy and communities"*, Ministry of Public Infrastructure Renewal, May 2005).

In 2004, the government of Quebec published its framework PPP policy in which it stated that as part of its State Modernisation Plan (2004-2007) it would increasingly resort to PPPs as a means of delivering infrastructure projects (Source: *"Politique-cadre sur les partenariats public-privé"*, Gouvernement du Québec, June 2004). In 2005, the province of Quebec established l'Agence des partenariats public-privé du Québec (PPP Quebec) with a mandate to "...advise the Government on any public-private partnership matter" (Source: *Partenariats public-privé*: www.ppp.gouv.qc.ca).

Babcock & Brown is opening an office base in Canada which will be staffed by infrastructure professionals.

UNITED STATES

US infrastructure has traditionally been developed and financed by governmental authorities through tax-exempt bonds, taxes and revenue funds. However, factors such as rising budget deficits have led many States to explore alternative infrastructure financing methods (Source: *"Customising for the converted"*, Project Finance, August 2005).

It is estimated that US\$1.6 trillion will be needed to be spent in the next five years to replace and expand ageing roads yet, in a transportation bill passed in 2005, only US\$186 billion was provided for highway spending by the Federal Government over the same period (Source: *"In American PPP, Politics is as Fundamental as Financing"*, Dick Gephardt, Mathew C. Bernstein and Cristina E. Antelo, DLA Piper Rudnick Gray Cary, Global PPP/Infrastructure Yearbook 06/07, [infranews](http://infranews.com)). Of this amount, US\$14.8 billion is earmarked for specific transportation projects, most of which require significant additional funding (Source: *"In American PPP, Politics is as Fundamental as Financing"*, Dick Gephardt, Mathew C. Bernstein and Cristina E. Antelo, DLA Piper Rudnick Gray Cary, Global PPP/Infrastructure Yearbook 06/07, [infranews](http://infranews.com)).

In response to this funding gap, many state authorities are increasingly laying the legal and political foundation to facilitate PFIs/PPPs. For example, the State of Virginia now allows private sector

entities to initiate infrastructure projects. Texas legislation now facilitates PPP development in the Trans Texas Corridor and Delaware law allows the General Assembly to authorise PPP projects. North Carolina's PPP statute creates an independent authority with powers to issue bonds, establish and collect tolls and enter into agreements with private parties for the purpose of constructing, maintaining, operating and financing a project.

Babcock & Brown has a large team of infrastructure professionals based in the US.

AFRICA

There are also signs that the PFI/PPP model is gaining ground in Africa. South Africa established the legal framework for PFI in 1999 and formed a PFI unit within the National Treasury in 2000 (Source: National Treasury PPP unit: www.ppp.gov.za). In April 2000, Treasury Regulations for PPPs were issued in terms of the Public Finance Management Act (Act 1 of 1999) (Source: National Treasury PPP unit: www.ppp.gov.za). More recently, the Public Investment Commission, an investment management entity wholly owned by the South African Government, announced plans to create a 25-year equity fund to attract local and international investment for infrastructure development across the continent in sectors including transport, energy, water and sanitation (Source: *"New Fund for African Infrastructure Launched"*, *infranews*, 9 June 2006). The Commission stated that the continent's infrastructure investment shortfall is estimated at US\$120bn (Source: *"New Fund for African Infrastructure Launched"*, *infranews*, 9 June 2006). Other countries in the continent are also putting in place the institutional and legal framework needed to facilitate PPPs. For instance, the Government of Nigeria signed into law the Infrastructure Concession and Regulatory Commission Act 2005 which allows government ministries to grant concessions to private sector entities for the delivery of infrastructure (Source: *"Nigeria Passes PPP Law"*, *infranews*, 23 November 2005).

MIDDLE EAST

The Middle East has also shown signs of turning to private sector participation in public/social infrastructure. As part of its privatisation strategy, the Kingdom of Saudi Arabia ("KSA"), the largest economy in the region, has undertaken to encourage private sector participation in the non-oil sectors of the economy. The Government has laid the legal and regulatory framework to facilitate privatisation, with PPPs seen as a preferred method. The Government established the Supreme Economic Council to oversee the privatisation programme. The Council lists one of its privatisation objectives as reducing the burden on the Government budget by amongst other things, "...transferring the management of public utilities to the private sector through contracts for management, leasing, or contracts for construction, and operation by the private sector" (Source: Kingdom of Saudi Arabia Supreme Economic Council: www.sec.gov.sa). The Council's Privatisation Strategy identifies sectors in which private sector participation would be encouraged. These include social/public infrastructure sectors such as railroads, roads, educational facilities, social welfare institutions and medical facilities. Methods of privatisation envisaged under the Privatisation Strategy include "financing contracts" whereby the "...investor assumes responsibility for providing the capital, operating, and investment expenditures" (Source: Kingdom of Saudi Arabia Supreme Economic Council: www.sec.gov.sa). The Government of KSA reinforced its commitment to the Privatisation Strategy through the enactment of the new Foreign Investment Law and the establishment of the Saudi Arabian General Investment Authority ("SAGIA") in 2000 (Source: Saudi Arabia General Investment Authority: www.sagia.gov.sa). The law allows foreign investors to hold 100 per cent. of projects in KSA and SAGIA's mission is to "...foster investment opportunities in energy, transportation and knowledge-based industries" (Saudi Arabia General Investment Authority: www.sagia.gov.sa). There are also private sector infrastructure initiatives in other countries in the Middle East (including the UAE (particularly Dubai) and Jordan).

ASIA

Legislation has been passed across Asia to encourage PPPs which are needed to fund the infrastructure financing gap. A joint study by the Asian Development Bank (ADB), Japan Bank for International Cooperation (JBIC) and World Bank (Source: *"Connecting East Asia—a new framework for infrastructure"*, Asian Development Bank, Japan Bank for International Cooperation, World Bank,

2005) concluded that East Asia will need to resource estimated infrastructure needs of approximately US\$200 billion annually over the next five years and the private sector is expected to finance a proportion of this (Source: *"Connecting East Asia—a new framework for infrastructure"*, Asian Development Bank, Japan Bank for International Cooperation, World Bank, 2005).

At the Indonesia Infrastructure Summit 2005, the government of Indonesia announced a US\$22.5 billion infrastructure PPP programme (Source: *"Indonesia's US\$22.5bn PPP programme starts tender stream"*, infrastructure journal, www.infrastructurejournal.com, 31 May 2005). The Government issued a public invitation for private sector investment in 91 projects and stated that it would revise laws to remove obstacles to investment (Source: *"Indonesia's US\$22.5bn PPP programme starts tender stream"*, infrastructure journal, www.infrastructurejournal.com, 31 May 2005).

Under the Ninth Malaysia Plan, a five-year development programme (2006-2010), the government of Malaysia announced a list of projects many of which are expected to be funded through PFIs. The Government has allocated RM20 billion (US\$5.4 billion) to PFI, with the education ministry accounting for 31 per cent. of that sum (Source: *"Malaysian PPP Unit on the Cards"*, infranews, 13 June 2006). The Government also announced plans to establish a PFI central unit, which will comprise the Ministry of Finance, the Economic Planning Unit and the National Implementation Directorate to prepare the framework to guarantee fair risk distribution between the government and private sector (Source: *"Malaysian PPP Unit on the Cards"*, infranews, 13 June 2006).

The government of India is considering PPPs as a means of attracting foreign direct investment for infrastructure projects. At a session of the Indian Chambers of Commerce and Industry, the Indian Finance Minister P Chidambaram, stated that the Government is looking to attract around US\$150 billion of investment to its infrastructure sector over the next seven years (Source: *"India to encourage foreign investment by promoting PPP structures"*, infrastructure journal, www.infrastructurejournal.com, 10 July 2006). The Government is taking policy initiatives to promote PPPs on a BOT (Build, Operate and Transfer) basis, including a draft Model Concession Agreement, which is expected to be applied to Indian motorways.

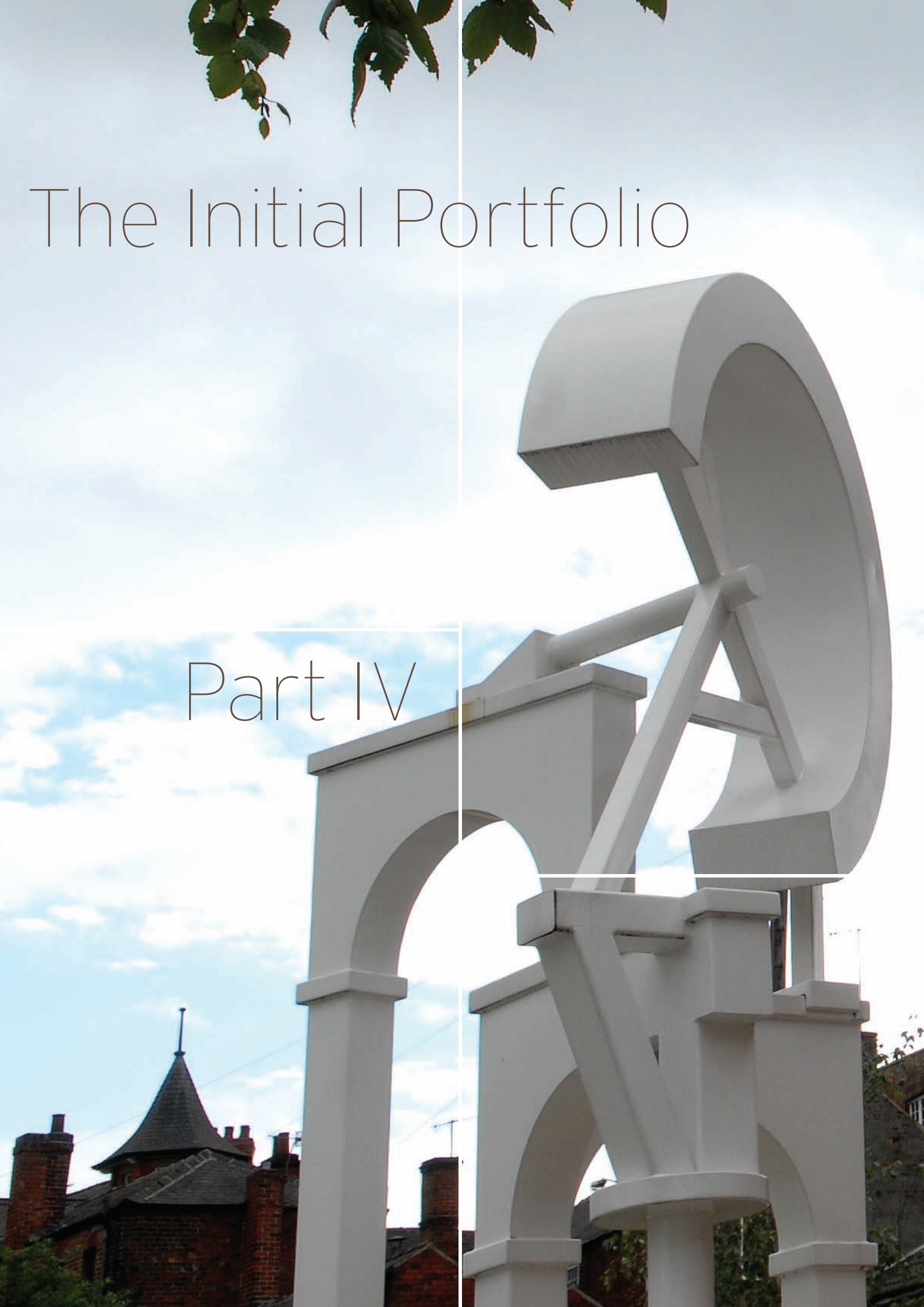
The Opportunities Provided for the Company by the Market

The Directors believe that the development of the public and social infrastructure market provides opportunities for the Group to invest both in markets where BBIML will have a presence and also in new regions as they embrace the PFI/PPP and similar models. Such opportunities may take the form of investments in greenfield projects, where the Group may invest at financial close prior to the commencement of construction, or the acquisition of stakes in projects developed by other parties.

In more mature markets it has been common for the original developers, in particular construction contractors, to consider selling their equity interests once a project has become operational. In recent years a number of developers have sold either individual or portfolio equity interests in projects they have developed. The Directors intend to pursue such opportunities and believe that the track record and global reach of Babcock & Brown will be a positive factor in assisting the Company to grow the Investment Portfolio.

The Initial Portfolio

Part IV



Part IV The Initial Portfolio

The Group intends to acquire the Initial Portfolio of infrastructure investments from the Vendors. The Partnership or its wholly owned companies have entered into the Acquisition Agreements with the Vendors in relation to the Acquisition of the Initial Portfolio.

Interests Comprising the Initial Portfolio

The Initial Portfolio to be acquired by the Group comprises: (i) 100 per cent. of the shareholdings and debt interests in three UK holding companies; (ii) the entire membership interests in one Delaware limited liability corporation; (iii) a portfolio of subordinated debt interests in respect of NHS LIFT projects; (iv) the equity and shareholder debt interests in holding companies owning 50 per cent. of the equity interests in the Australian Assets (other than RiverCity Motorway); (v) units comprising a minority stake in RiverCity Motorway; and (vi) senior debt interests in two UK PFI projects. Further details of the Investment Capital in, and holding structures for, the projects comprised in the Initial Portfolio are set out in pages 57 and 58.

The entities to be held directly by the Partnership following the Acquisition and asset groups held through those entities are set out in the table below.

Holding Company	Assets held
Bootle Derby Holdings Limited	The "Bootle Derby Portfolio"
PPP Senior Funding Limited	"Strathclyde & Hereford Senior Debt Interests"
Babcock & Brown (PPP) Limited	The "Calderdale Portfolio"
Tower Hamlets Holdings Limited/Tower Hamlets Funding Acquisition LLC	"The Tower Hamlets Schools Project"
BBPP (Aust) Limited	The "Australian Asset Portfolio"

Each holding company (with the exception of Tower Hamlets Funding Acquisition LLC and PPP Senior Funding Limited which will hold debt interests only) will hold a series of wholly owned companies and partnerships (and in the case of BBPP (Aust) Limited, also trust units) through which it is entitled to the economic interests in certain projects comprised in the Initial Portfolio. A breakdown of the interests in the UK PFI projects and the Australian Assets held through such holding companies, and also a breakdown of the subordinated debt interests in NHS LIFT projects which will be held by the Partnership, are set out below.

The scheduled completion date (where relevant) for each project referred to in the tables below is the date currently estimated for completion of the main construction works relating to the relevant project in each case. The actual completion dates may vary from those stated.

THE BOOTLE DERBY PORTFOLIO AND STRATHCLYDE & HEREFORD SENIOR DEBT INTERESTS (UK PFI ASSETS)

Project Name	per cent. economic interest to be owned by the Group	Status (scheduled completion date)
Abingdon Police Station	100 per cent.	Operational
Bootle Government Offices	100 per cent.	Operational
Derbyshire Magistrates Courts	100 per cent.	Operational
Derbyshire Schools Phase 1	100 per cent.	Operational
Hereford & Worcester Magistrates Courts	100 per cent. ⁵	Operational
Norfolk Police HQ	100 per cent.	Operational
North Wales Police HQ	100 per cent.	Operational
Strathclyde Police Training Centre	100 per cent. ⁵	Operational
St Thomas More School	100 per cent.	Operational

In respect of two of the United Kingdom PFI projects, Strathclyde Police Training Centre and Hereford and Worcester Magistrates Courts, and as part of the Acquisition, the Group has also contracted to acquire Investment Capital comprising 100 per cent. of the senior debt secured on those projects. The acquisition of the Senior Debt Interests is due to complete immediately after the acquisition of the equity Investment Capital in those projects. After such acquisitions, the Group will therefore hold Investment Capital comprising the economic interest in the total capital invested in these two projects which will each then be free of external debt. All the other Project Entities for UK PFI projects comprised in the Initial Portfolio will continue to be subject to non recourse project level indebtedness.

THE CALDERDALE PORTFOLIO (UK PFI ASSETS)

Project Name	per cent. economic interest to be owned by the Group	Status (scheduled completion date)
Derbyshire Schools Phase 2	100 per cent.	Operational
Calderdale Schools	100 per cent.	Operational
Northamptonshire Schools	100 per cent.	Construction ⁶ (completion due April 2008)

TOWER HAMLETS SCHOOLS PROJECT (UK PFI ASSETS)

Project Name	per cent. economic interest to be owned by the Group	Status (scheduled completion date)
Tower Hamlets Schools	100 per cent.	Operational ⁷

Tower Hamlets Funding Acquisitions LLC holds subordinated debt interests in the project.

⁵ See description of Senior Debt Interests in such projects below.
⁶ All schools are operational but at the time of due diligence, construction works remained outstanding at all schools.
⁷ All schools operational with construction continuing at 4 out of 27 schools.

THE AUSTRALIAN ASSET PORTFOLIO (AUSTRALIAN PPP ASSETS)

Project Name	per cent. economic interest to be owned by the Group	Status (scheduled completion date)
Long Bay Forensic and Prison Hospitals Project	50 per cent.	Construction (completion due mid 2008)
RiverCity Motorway Project	4.86 per cent.	Construction (completion due late 2010)
Royal Melbourne Showgrounds Redevelopment Project	50 per cent.	Operational

THE NHS LIFT PORTFOLIO: INTERESTS IN SUBORDINATED DEBT

The Initial Portfolio includes interests in subordinated debt borrowed to finance the construction of certain projects developed under the NHS LIFT initiative as set out below. Following the Acquisition, the Partnership will become one of a number of lenders under the subordinated credit agreement for each project, lending just under half of the subordinated debt in each case. The Group’s interests in NHS LIFT subordinated debt, following the Acquisition, are estimated to comprise approximately 3 per cent. by value of the Initial Portfolio.

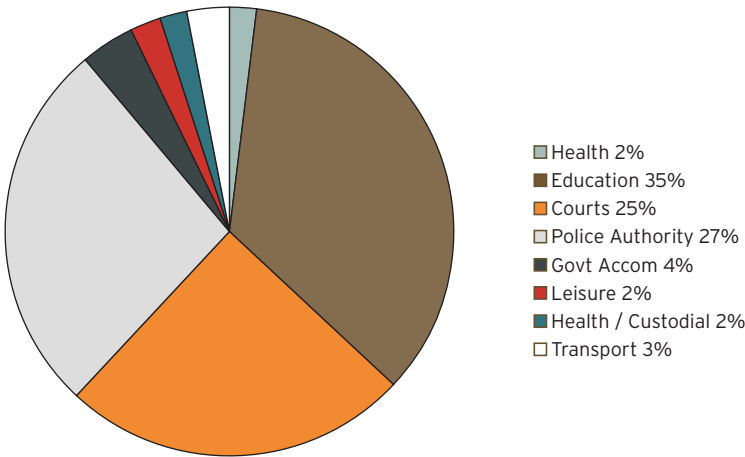
Project Name	Issuer	Status (scheduled completion date)
Beckenham Hospital	BBG Life Accommodation Services Limited	Construction (completion due January 2009)
Garland Road Health Centre	BBG Life Accommodation Services Limited	Construction (completion due December 2006)
Alexandra Avenue Primary Care Centre	BHH Lift Accommodation Services Limited	Operational
Monks Park Health Centre	BHH Lift Accommodation Services Limited	Operational
Gem Centre (Children’s Primary Care Centre), Bentley Bridge	Wolverhampton City and Walsall Lift Accommodation Services Limited	Operational
Phoenix Centre (Parkfields Primary Care Centre)	Wolverhampton City and Walsall Lift Accommodation Services Limited	Operational

A description of all projects comprised in the Initial Portfolio is contained at pages 64 to 85.

Features and value of the Initial Portfolio

All of the investments described have payment streams that are “availability-based” and public sector backed with the exception of RiverCity Motorway (comprising 3 per cent. of the Initial Portfolio, excluding the outstanding, deferred equity commitment) which is demand based. Of the Initial Portfolio value, 26 per cent. by value of assets are in construction with the remaining 74 per cent. in operation.

The pie chart below shows a breakdown of the Initial Portfolio by sector (based on value):



With the exception of RiverCity Motorway, none of the assets within the Initial Portfolio carry any remaining actual or contingent obligations on the Group to subscribe additional Investment Capital. With this one exception, the required Investment Capital for each project has been fully subscribed. In respect of the investment in RiverCity Motorway, the securities to be acquired are partly paid and the Company anticipates raising sufficient capital in order to fund the further payment expected to be due in August 2007 from its own resources. In respect of two further projects, Bootle Government Offices and Royal Melbourne Showgrounds Redevelopment, the Group will assume certain contingent obligations to make payment in relation to senior debt liabilities of the underlying projects.

The Valuation of the interests constituting the Initial Portfolio is £187 million.

The valuation of the interests in the underlying projects constituting the Initial Portfolio has been reported on by PwC who have acted as independent valuers. PwC has acted on behalf of the Company independently from the Investment Adviser and the Vendors. The Company has also been advised by the Investment Adviser in respect of the assessment of the valuation and the associated legal, commercial, due diligence and other work relating to the Acquisition. As a consequence of there being some commonality between the beneficial ownership of the Investment Adviser and some of the Vendors, a detailed set of arrangements and procedures including separate “buyside” and “sellside” committees have been put in place within Babcock & Brown to manage any potential conflict of interest in relation to the Acquisition. This is reported on in more detail below at pages 62 to 63.

The Valuation has been assessed on the basis of detailed financial projections prepared in respect of the underlying assets taking into account (amongst other things) the amount and timing of cash flows, senior debt costs, project level asset management charges, construction risk and other outgoings including the reserving of sums against future projected liabilities for asset repair and renewal.

Initial Portfolio Holding Structures

UK PFI PROJECTS

The project structure for each UK PFI project in the Initial Portfolio differs from the typical PFI structure described on pages 44 to 45 of this document in that the Project Entity is an English limited partnership, with one or two limited partners and a general partner, each of which is a special purpose vehicle, wholly owned (either directly or indirectly) by the relevant Vendor.

The equity funding in each project has been provided by the limited partners through the issue of share capital by the limited partners and each intermediate holding company through which the target companies that the Partnership will acquire hold their respective Project Entities (see the tables on pages 54 to 56 for details of the target companies for the UK PFI projects and the interests in the relevant projects that they own). In some cases loans have also been made from the target companies down through the structure to the Project Entities. Following the Acquisition, the return on the investment will be paid to the Partnership by way of payments under the loan arrangements, distributions in accordance with the partnership agreements and through the declaration of dividends by each intermediate holding company in the chain.

The Partnership will also acquire, through PPP Senior Funding Limited and as part of the Initial Portfolio, 100 per cent. of the external debt funding of the Hereford and Worcester Magistrates Courts and Strathclyde Police Training Centre PFI projects.

NHS LIFT SCHEMES

The Initial Portfolio includes interests in subordinated debt issued in connection with six UK NHS LIFT projects. The subordinated debt investment of the Vendors, Babcock & Brown Holdings Pty Ltd is evidenced by: (i) a subordinated credit agreement entered into with the relevant NHS LIFT Project Entity and other subordinated lenders to the project; and (ii) a security trust deed; and (iii) an intercreditor agreement regulating priorities and other rights as between the subordinated debt holders and the senior lender with respect to each NHS LIFT project. Following the Acquisition, the interests will take the form of debt obligations owed to the Partnership by the relevant borrower (or

issuer) referred to in the table on page 56. Interest on the subordinated debt rolls up until the completion of construction activities in respect of each NHS LIFT Project Entity and is capitalised. After construction completion the borrower is liable to pay interest and principal as they fall due, subject to intercreditor restrictions.

AUSTRALIAN ASSETS

The project structure for each Australian project in the Initial Portfolio described below differs from the typical PFI structure described on pages 44 to 45 of this document in that the Project Entity is either a trust or a partnership. The interests in these Project Entities are themselves held by special purpose trusts and/or special purpose companies which are owned (either directly or indirectly) by the relevant Vendor.

The funding in these projects has been subscribed or advanced by the immediate holding entities through either units or partnership interests and partner loans. The immediate holding entities have themselves funded such subscription or advance through the advance or subscription by the intermediate holding entities of either units or shares and shareholder loans.

Whilst the structures for each project differ, the nature of the returns is similar. For the Long Bay Forensic and Prison Hospitals Project and Royal Melbourne Showgrounds Redevelopment Project, the return on the investment will be paid to the Partnership, following the Acquisition, by way of a combination of repayment of partner loans and partnership distributions or trust distributions by Project Entities, and through a combination of repayment of shareholder loans and dividends or trust distributions by the intermediate holding entities in the chain. The precise mix of these components is dependent on the financial returns from each project and varies from project to project. The returns to investors from RiverCity Motorway are trust distributions by the holding entities in the chain.

The Partnership, through its wholly owned company BBPP (Aust) Limited, will acquire 100 per cent. of the shares and subordinated debt in two companies, B&B PPP Holdings (Showgrounds) Pty Ltd (for the Royal Melbourne Showgrounds Redevelopment Project) and PPP Solutions (Long Bay) Holding Company #1 Pty Ltd (for the Long Bay Forensic and Prison Hospitals Project). The Acquisition of the shares in these two companies is conditional on certain consents being obtained from the Australian Foreign Investment Review Board and certain other project parties. The Directors have been advised that there is a strong likelihood of the consents being obtained. If completion of the Acquisition of some or all of these shares is delayed pending satisfaction of these conditions, the terms of the acquisition provide that BBPP (Aust) may opt either to terminate the agreement immediately or for the parties to use all reasonable endeavours to enter into other arrangements whereby the Group will acquire the economic benefit of the shares and subordinated debt in the relevant companies in a manner that does not require consents. If BBPP (Aust) Limited opts to terminate or if alternative arrangements cannot be agreed, the sale and purchase agreement for the acquisition of these assets will be terminated and the consideration that the Group would otherwise have paid will be added to the cash resources of the Group.

The Group will acquire, through BBPP (Aust) Limited, 4.86 per cent. of the ASX listed units in each of RiverCity Motorway Holding Trust and RiverCity Motorway Investment Trust. Each unit in RiverCity Motorway Holding Trust is contractually stapled to a unit in RiverCity Motorway Investment Trust and such units cannot be traded separately.

Cash Flow Projections for the Initial Portfolio

The Initial Portfolio consists of 22 individual projects.

Of those, 13 are interests in UK PFI projects. Further general information on UK PFI/PPP programmes are set out in Part III of this document on pages 44 to 46. The Group's interest in these Project Entities will comprise partnership equity and related distributions and corresponding dividend payments by intermediate holding companies and, in some cases, entitlement to interest under and repayment of subordinated debt principal. The UK PFI assets are to be held by the Partnership through 100 per cent. interests in holding company structures described above. In respect of the Strathclyde Police Training Centre and Hereford and Worcester Magistrates Courts projects, the Group's interest will include entitlement to payments of senior debt interest and principal.

In respect of the Abingdon Police Station, Strathclyde Police Training Centre, Norfolk Police HQ and Bootle Government Offices projects, the economic interests in the residual value of the land or buildings at those locations will also belong to the Group. The table below sets out the dates upon which the relevant concessions end and (subject to any rights for the occupants to agree continued periods of occupation) the land and buildings could become available to the Group.

Project	Concession Expiry Date
Bootle Government Offices	17 July 2025 ⁸
Abingdon Police Station	9 April 2030
Strathclyde Police Training Centre	16 October 2026
Norfolk Police HQ	16 December 2036 ⁹

The Company's projections have assumed a vacant possession value for these facilities at the concession expiry dates set out above. To the extent that the Public Sector Clients continue to wish to occupy beyond these dates, a higher value may result on account of a continued payment stream and the credit quality of the occupants. No assumptions of continued occupation are included in the Company's financial projections currently.

In respect of the Tower Hamlet Schools project, the Group will acquire an economic interest in a surplus site at Langdon Park School. This is expected to become available in 2007 when associated construction works are completed and it is anticipated that the site will then be disposed of with the benefit of an existing planning consent for residential use.

A further six interests are interests in coupon bearing subordinated debt (without any associated equity interest) issued by companies involved in NHS LIFT projects as described in the table on page 56. The Group's interest will comprise entitlement to payment of subordinated debt interest and principal.

Three projects in the Initial Portfolio are developed under Australian PPP programmes. Further information on these projects is set out in this Part IV at page 56 and at pages 83 to 85. The Company's interest in these projects comprises either units or partnership interests and partner loans (and corresponding entitlement to trust distributions, distributions of partnership profits and repayment of partner loans) or ordinary equity and shareholder loans (and the corresponding payment of dividend distributions and principal and interest payments of shareholder loans) payable by the Project Entities and intermediate holding companies.

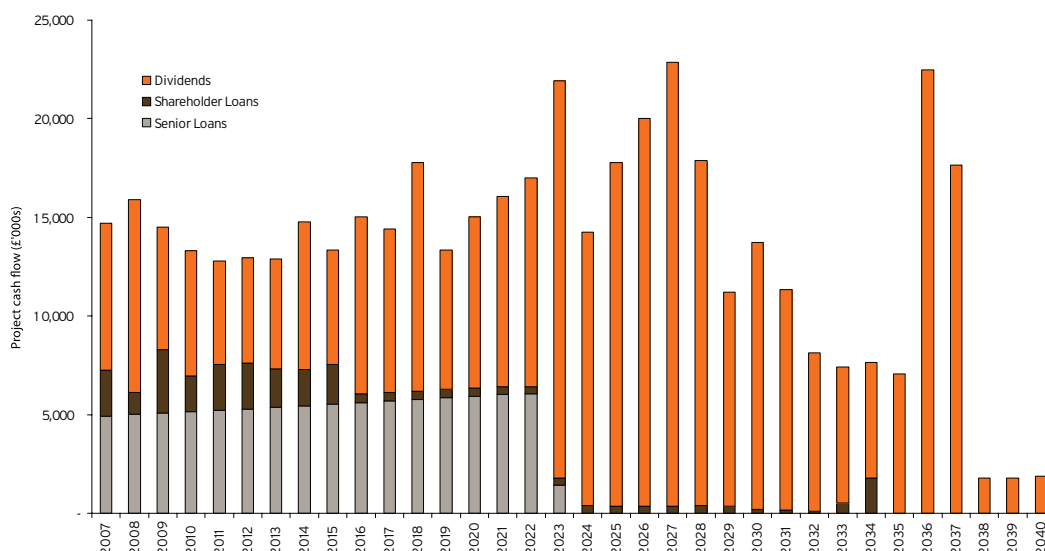
The interest of the Group in RiverCity Motorway will comprise stapled securities which give rise to an entitlement to trust distributions. The stapled securities are quoted on the Australian Stock Exchange. The Company's investment analysis in respect of the RiverCity Motorway investment and

⁸ This concession has a break option from 17 July 2015.

⁹ The Public Sector Client has an option to extend the expiry date by up to two further periods of 15 years.

the projection of its income from this investment is based solely on the published information relating to that entity and the income projections contained in the Product Disclosure Statement and Prospectus issued at the time of that entity's initial public offering. The part of the Price attributable to the securities to be acquired in respect of RiverCity Motorway will be based on the volume weighted average price over the 20 day period prior to the completion date of the transfer of the securities as reported by the Australian Stock Exchange. For the purpose of this document this price has been assumed as AU\$0.405 per security.

The illustration below shows the projected aggregated future cashflows that are anticipated to be receivable by the Group from its investment in the Initial Portfolio:



Notes:

1. The illustration above represents a target only and is not a profit forecast. There can be no assurance that this target will be met.
2. The illustrations assumes: (a) the Group makes no further acquisitions or investment; (b) the Group incurs no borrowing; (c) the Company does not issue or redeem any Ordinary Shares after the Issue; (d) the Group's tax position is unchanged and the Company's projections with respect to the Initial Portfolio are fully realised (see the section of this document entitled "Risk Factors").

There are circumstances where the Company's investment performance might exceed the target levels depicted above. These circumstances might include:

- acquisition of further investments;
- prudent use of gearing and hedging interest, currency and inflation risks;
- creating efficiencies through the management of the long term maintenance and asset replacement regimes for the Project Entities;
- introducing more efficient financing structures and scale advantages;
- promoting increased third party income from the projects comprised in the Initial Portfolio;
- providing soft and hard facilities management services to projects on a portfolio basis thus achieving economics of scale;
- variations arising from changed requirements of Public Sector Clients.

Further consideration is given to possible ways in which upside may be achieved in Part II at pages 40 to 41.

The Valuation and the Valuation Report

The Company has commissioned PricewaterhouseCoopers LLP ("PwC") to prepare an independent valuation of the interests in the underlying projects constituting the Initial Portfolio and has used this as a basis for determination of the Price for the Acquisition. The Directors and the Investment Adviser are also of the opinion that the methodology used in the Valuation is consistent with current market practice for the valuation by sellers and purchasers of portfolios of similar assets. The Valuation Report is reproduced in the Appendix to this Part IV at pages 86 to 88. The Valuation is prepared on the assumption that the third party debt of Bootle Derby Holdings Limited referred to below on this page 61 has been discharged.

The Acquisition

Following negotiations between the parties, the General Partner for and on behalf of the Partnership or companies wholly owned by the Partnership have entered into a series of Acquisition Agreements for the Acquisition. Completion of the sale and purchase is conditional upon, inter alia: (1) the successful Admission of the Ordinary Shares of the Company to the Official List and to trading on the London Stock Exchange; and (2) each other Acquisition Agreement (other than that for the Long Bay Forensic and Prison Hospitals Project and Royal Melbourne Showgrounds Redevelopment Project) becoming unconditional. The Acquisition Agreement for the Long Bay Forensic and Prison Hospitals Project and Royal Melbourne Showgrounds Redevelopment Project is conditional on the other Acquisition Agreements becoming unconditional and a number of project consents.

There is a long stop date in each Acquisition Agreement for achieving Completion of 31 December 2006 subject to any extension agreed between the parties and to the alternative arrangements that may be negotiated in respect of the Australian Assets described on page 58. Completion of the Calderdale portfolio may be deferred at the option of the relevant Vendor to no later than 31 January 2007.

The Price payable for the Initial Portfolio will be subject to adjustment in relation to the Senior Debt Interests for swap breakage costs at Completion and in relation to the interests in RiverCity Motorway, based on the reported average market price as described on page 60. The Price is also deemed to include the amount to be loaned to Bootle Derby Holdings Limited, to enable it to repay third party debt obligations, as adjusted for swap breakage costs. The aggregate Price for the Initial Portfolio (assuming a price of AU\$0.405 per RiverCity Motorway security, an exchange rate of AU\$2.5059 to £1, and swap breakage costs being as calculated as at 9 October 2006), including the amount to be loaned to Bootle Derby Holdings Limited to enable it to repay third party debt obligations, and including stamp duty and other Acquisition costs, will be £183,538,600.

DEFERRED EQUITY

At Completion the Partnership will assume the obligation to contribute AU\$16,777,743.50 in respect of the unpaid part of the Group's investment in RiverCity Motorway where the stapled securities to be held by the Group have been partly paid (assuming that the Acquisition Agreement in respect of RiverCity Motorway achieves completion).

WARRANTIES

Each of the Acquisition Agreements in respect of the UK Assets (other than the acquisition of the Senior Debt Interests), the Australian Assets (other than RiverCity Motorway), and the NHS LIFT Assets contains warranties usual for such transactions covering details of the Investment Capital and senior debt and the projects undertaken by the Project Entities, subject to agreed disclosure. The Warranties were given at the date of AA Signature and certain warranties will be repeated at completion of the relevant Acquisition Agreement. The warranties include warranties as to (inter alia) title, authority and capacity of each Vendor, information provided in respect of the projects, tax, accounts, and financial models and the warranties include non-default under the project senior debt.

The warranties in respect of RiverCity Motorway include title, authority and non-manipulation of markets. The warranties in respect of the Senior Debt Interests relate solely to title.

The warranties contained in the Acquisition Agreements in respect of the Investment Capital for the UK Assets (other than Senior Debt Interests) and the Australian Assets are subject to the following limitations:

- (a) a time limit of 18 months from the date of AA Signature (the **"Warranty Period"**);
- (b) a cap of five per cent. (in some cases 10 per cent.) of the price payable under the Acquisition Agreement save in respect of fraud, insolvency or breach of warranties as to title; and
- (c) de minimus and basket levels.

In the case of the Acquisition Agreement for the Bootle Derby Portfolio, the cap on warranty claims referenced to the price does not include the amount loaned by the Group for repayment of debt in Bootle Derby Holdings Limited.

Liability under the warranties is also excluded to the extent of the relevant purchaser's actual knowledge. This is deemed to extend to the knowledge of the directors appointed to the board of each Project Entity by the relevant Vendor. This knowledge imputed on the purchaser is very likely to be similar in scope and nature to the knowledge of the relevant Vendor and this will affect the likelihood of a claim where warranties are qualified by awareness.

Certain of the Vendors may not have a good covenant or may be wound up shortly after Completion. Accordingly Babcock & Brown International Pty Limited is providing a guarantee of certain warranty and title liabilities of the Vendors (other than Bayerische Hypo- und Vereinsbank A.G., the vendors of Senior Debt Interests).

"BUYSIDE" AND "SELLSIDE" POTENTIAL CONFLICT OF INTEREST AVOIDANCE PROCEDURES

A number of possible potential conflicts of interest arise in relation to the Acquisition. These include that on the "sellside" Babcock & Brown is an existing investor in the Initial Portfolio and is the parent company of BBIML. Babcock & Brown is interested to ensure that the terms on which the Vendors dispose of their assets in the Initial Portfolio are fair and reasonable to the Vendors; and on the "buyside" BBIML, as Investment Adviser to the Company and Operator of the Partnership, must be satisfied as to the appropriateness of the terms for, and the Price of, the Acquisition. In order to deal with these potential conflicts of interests detailed procedures and arrangements have been established to manage the conduct of the Acquisition. The terms of these procedures have been reviewed by Lovells, as English legal advisers to the Company.

Key features of these procedures include:

- the creation of separate committees within Babcock & Brown. These committees represent the interests of the Vendors on the one hand (the **"Sellside Committee"**) and the Company on the other (the **"Buyside Committee"**), to ensure arm's length decision making and approval processes. The membership of each committee is restricted in such a way as to ensure its independence and to minimise conflicts of interest arising;
- a requirement for the Buyside Committee to conduct an independent due diligence process on the Initial Portfolio prior to making an offer for its purchase;
- a requirement for any offer made for the Initial Portfolio to be supported by a report on the Fair Market Value for the transaction from an independent expert (satisfied by the Valuation Report);
- the establishment of "Chinese walls" between the Buyside and Sellside Committees with appropriate information barrier procedures to ensure information that is confidential to one or the other side is kept confidential to that side;
- the provision of a "release letter" to each employee of Babcock & Brown who is a member of the Buyside and Sellside Committees. The release letter confirms that the employee shall be treated as not being bound by his/her duties as an employee to the extent that such duties conflict with any

actions or decisions which are in the employee's reasonable opinion necessary for him/her to carry out as a member of the Buyside Committee or Sellside Committee; and

- individuals with material direct or indirect economic interests in the Initial Portfolio will not participate in Buyside Committee and Sellside Committee discussions regarding the relevant assets in the Initial Portfolio.

In addition to the Babcock & Brown procedures detailed above, the Acquisition was considered and approved by the Company by Keith Dorrian and Rupert Dorey, Directors who are independent from Babcock & Brown. In considering the Acquisition, the Directors reviewed, asked questions of the Buyside Committee of the Investment Adviser and the Group's advisers and the Acquisition was approved by the Directors on the basis of this advice.

PROJECTS COMPRISING THE INITIAL PORTFOLIO

PFI/PPP Projects

Abingdon Police Station



Description:	The design, construction, financing and subsequent provision of facilities management services to a police facility which includes an area headquarters, a section station and a traffic base for the Thames Valley Police Authority.
Status:	Operational
Contract Date:	18 December 1998
Date Operational:	25 April 2000
Date of Concession Expiry:	9 April 2030
Residual Value Interest:	Yes
Design & Build Contractor:	Balfour Beatty Construction Limited (guaranteed by BICC plc)
Facilities Management Contractor:	Rentokil Initial Management Services Limited (guaranteed by Rentokil Initial plc)
Senior Lender:	Banco Santander
Public Sector Client:	Thames Valley Police Authority

Bootle Government Offices

Description:	The design, construction, financing of and subsequent provision of facilities management services to fully serviced accommodation in Bootle for the occupation of HM Revenue and Customs.
Status:	Operational
Date of Contract:	16 December 1998
Date Operational:	17 July 2000
Date of Concession Expiry:	16 July 2025 (with Public Sector Client option to break from 16 July 2015)
Residual Value Interest:	Yes
Design & Build Contractor:	John Mowlem & Co plc
Facilities Management Contractor:	Aqumen Services Limited (guaranteed by John Mowlem & Co plc)
Senior Lender:	Banco Santander
Public Sector Client:	HM Revenue and Customs (formed from the merger of Inland Revenue & HM Customs & Excise on 18th April 2005)

Calderdale Schools



Description:	The design, build, financing and the provision of facilities management services to five schools in Calderdale: Savile Park, Sowerly Bridge, Ryburn Valley High, Halifax High and South Halifax High.
Status:	Operational
Date of Contract:	2 July 2003
Date Operational:	31 August 2004 (applies to the first school which became operational—Savile Park Primary School)
Date of Concession Expiry:	17 April 2030
Residual Value Interest:	No
Design & Build Contractor:	Balfour Beatty Construction Limited and Balfour Kilpatrick Limited (unincorporated joint-venture) (guaranteed by Balfour Beatty plc)
Facilities Management Contractor:	Rentokil Initial Management Services Limited (guaranteed by Rentokil Initial plc)
Senior Lender:	Sumitomo Mitsui Banking Corporation Europe Limited
Public Sector Client:	The Borough Council of Calderdale

Derbyshire Magistrates Courts



Description:	The design, construction, financing and provision of facilities management services to two courthouses in Derbyshire: Chesterfield and Derby.
Status:	Operational
Date of Contract:	31 August 2001
Date Operational:	4 June 2003
Date of Concession Expiry:	2 September 2028
Residual Value Interest:	No
Design & Build Contractor:	HBG Construction Midlands Limited (guaranteed by HBG Construction Limited)
Facilities Management Contractor:	Rentokil Initial Management Services Limited (guaranteed by Rentokil Initial plc)
Senior Lender:	The Governor and Company of the Bank of Scotland
Public Sector Client:	The Lord Chancellor's Department

Derbyshire Schools Phase 1



Description:	The project comprises the design, build, finance and provision of facilities management services to two secondary schools in Derbyshire: Tupton and Chapel le Frith.
Status:	Operational
Date of Contract:	31 March 2001
Date Operational:	28 April 2003
Date of Concession Expiry:	28 April 2029
Residual Value Interest:	No
Design & Build Contractor:	Balfour Beatty Construction Limited (guaranteed by Balfour Beatty plc)
Facilities Management Contractor:	Rentokil Initial Management Services Limited (guaranteed by Rentokil Initial plc)
Bond Underwriter:	Axa Investment Managers UK Limited
Public Sector Client:	Derbyshire County Council

Derbyshire Schools Phase 2

Description:	The project comprises the design, build, financing and provision of facilities management services to two secondary schools in Derbyshire: Long Eaton and Newbold.
Status:	Operational
Date of Contract:	31 March 2001
Date Operational:	13 February 2006
Date of Concession Expiry:	12 February 2032
Residual Value Interest:	No
Design & Build Contractor:	Balfour Beatty Construction Limited (guaranteed by Balfour Beatty Group Limited)
Facilities Management Contractor:	Rentokil Initial Management Services Limited (guaranteed by Rentokil Initial plc)
Senior Lender:	Sumitomo Mitsui Banking Corporation Europe Limited
Public Sector Client:	Derbyshire County Council

Hereford & Worcester Magistrates Courts



Description:	The project comprises the design, construction, financing and subsequent operation of four courthouses in Hereford & Worcester: Redditch, Worcester, Hereford and Kidderminster.
Status:	Operational
Date of Contract:	28 February 2000
Date Operational:	3 March 2003
Date of Concession Expiry:	5 March 2025
Residual Value Interest:	No
Design & Build Contractor:	HBG Construction Midlands Limited (Guaranteed by HBG Construction Limited)
Facilities Management Contractor:	Rentokil Initial Management Services Limited (guaranteed by Rentokil Initial plc)
Senior Lender:	Bayerische Hypo- und Vereinsbank AG (HVB)
Public Sector Client:	The Lord Chancellor's Department

Norfolk Police HQ



Description:	The project consists of the design, construction, financing and subsequent provision of facilities management services of serviced accommodation for a new headquarters and ancillary facilities to the Norfolk Police Headquarters, Wymondham, Norfolk.
Status:	Operational
Date of Contract:	22 March 2000
Date Operational:	15 January 2002 (operational services provided from 17 December 2001)
Date of Concession Expiry:	16 December 2036 (with the option to extend for a further 15 years and a second option to extend for a further 15 years thereafter)
Residual Value Interest:	Yes
Design & Build Contractor:	Balfour Beatty Construction Limited (guaranteed by BICC plc)
Facilities Management Contractor:	Rentokil Initial Management Services Limited (guaranteed by Rentokil Initial plc)
Senior Lender:	The Governor and Company of the Bank of Scotland
Public Sector Client:	Norfolk Police Authority

Northamptonshire Schools

Description:	The design, construction (being a mix of new build and refurbishment work), financing and provision of facilities management services in respect of 30 existing schools and 11 new schools in the county of Northamptonshire.
Status:	In construction (services are also being provided to the existing schools during the construction period)
Contract Date:	22 December 2005
Date Operational:	31 December 2005
Date of Concession Expiry:	31 December 2037
Residual Value Interest:	No
Design & Build Contractor:	Galliford Try Construction Limited (guaranteed by Galliford Try Plc)
Facilities Management Contractor:	Amey BPO Services Ltd (guaranteed by Amey UK plc)
Senior Lender:	Sumitomo Mitsui Banking Corporation Europe Limited and NIB Capital Bank N.V.
Public Sector Client:	Northamptonshire County Council

Strathclyde Police Training Centre



Description:	The design, build, finance and subsequent provision of facilities management to the Strathclyde Police Training Centre at Jackton, Strathclyde.
Status:	Operational
Date of Contract:	17 December 1999
Date Operational:	17 October 2001
Date of Concession Expiry:	16th October 2026
Residual Value Interest:	Yes
Design & Build Contractor:	Balfour Beatty Construction Limited (guaranteed by BICC plc)
Facilities Management Contractor:	Rentokil Initial Management Services Limited (guaranteed by Rentokil Initial plc)
Senior Lender:	Bayerische Hypo- und Vereinsbank AG (HVB)
Public Sector Client:	Strathclyde Joint Police Board

North Wales Police HQ



Description:	The project consists of the design, construction, financing and subsequent supply of facilities management services to the North Wales Police Headquarters at St Asaph North Wales.
Status:	Operational
Date of Contract:	18 September 2002
Date Operational:	1 March 2004
Date of Concession Expiry:	8 December 2028
Residual Value Interest:	No
Design & Build Contractor:	Balfour Beatty Construction Limited (guaranteed by Balfour Beatty plc)
Facilities Management Contractor:	Rentokil Initial Management Services Limited (guaranteed by Rentokil Initial plc)
Senior Lender:	The Governor and Company of the Bank of Scotland
Public Sector Client:	North Wales Police Authority

St Thomas More School

Description:	The design, construction, financing and provision of facilities management services to St Thomas More School, Willenhall, West Midlands.
Status:	Operational
Date of Contract:	28 March 2002
Date Operational:	28 April 2003
Date of Concession Expiry:	28 April 2028
Residual Value Interest:	No
Design & Build Contractor:	Balfour Beatty Construction Limited (guaranteed by Balfour Beatty plc)
Facilities Management Contractor:	Rentokil Initial Management Services Limited (guaranteed by Rentokil Initial plc)
Senior Lender:	The Governor and Company of the Bank of Scotland
Public Sector Client:	The Governing Body of St Thomas More School, the Birmingham Roman Catholic Diocesan Trustees Registered and Walsall Metropolitan Borough Council

Tower Hamlets Schools



Description:	The project consists of the design, construction (a mix of new build and refurbishment) and provision of facilities management services in respect of 27 schools in the London Borough of Tower Hamlets
Status:	Operational (services provided to all schools with construction work to be completed at 4 schools)
Date of Contract:	28 June 2002
Date Operational:	Final construction completion expected April 2007
Date of Concession Expiry:	27 August 2027
Residual Value Interest:	No (save in respect of one surplus site which will be available for sale or redevelopment)
Design & Build Contractor:	Balfour Beatty Group Limited
Refurbishment Contractor	Balfour Beatty Refurbishment Limited (Guaranteed by Balfour Beatty Group Limited)
Facilities Management Contractor:	GSL UK Limited (guaranteed by Global Solutions Limited)
Senior Lender:	Sumitomo Mitsui Banking Corporation Europe Limited
Public Sector Client:	The Mayor and Burgesses of the London Borough of Tower Hamlets

NHS LIFT Projects

Beckenham Hospital



Description:	An interest in the coupon bearing subordinated debt issued to part finance the design, construction and provision of facilities management services for a community hospital in Beckenham, London. This facility is due to be delivered and be income generating in phases.
Status:	In construction (with phased delivery of parts of the facility)
Date Operational:	Expected to be January 2009
Date of Concession Expiry:	Expected to be 30 December 2033
Residual Value Interest:	No
Design & Build Contractor:	Balfour Beatty Construction Limited (guaranteed by Balfour Beatty Group Limited)
Facilities Management Contractor:	Global Solutions Limited
Senior Lender:	NIB Capital Bank N.V.
Public Sector Client:	Bromley Primary Care Trust

Garland Road Health Centre



Description:	An interest in the coupon bearing subordinated debt issued to part finance the design, construction and provision of facilities management services for a multi use primary care health centre in Garland Road, Greenwich.
Status:	In construction
Date Operational:	Due to become operational 10 December 2006
Date of Concession Expiry:	Expected to be 10 December 2031
Residual Value Interest:	No
Status:	
Design & Build Contractor:	Balfour Beatty Construction Limited (guaranteed by Balfour Beatty Group Limited)
Facilities Management Contractor:	Global Solutions Limited
Senior Lender:	NIB Capital Bank N.V.
Public Sector Client:	Greenwich Teaching Primary Care Trust

Alexandra Avenue Primary Care Centre



Description:	An interest in the coupon bearing subordinated debt issued to part finance the design, construction and provision of facilities management services for a multi-use primary care centre in Alexandra Avenue, Harrow.
Status:	Operational
Date Operational:	29 June 2006
Date of Concession Expiry:	29 June 2031
Residual Value Interest:	No
Design & Build Contractor:	Balfour Beatty Construction Limited (guaranteed by Balfour Beatty Group Limited)
Facilities Management Contractor:	Global Solutions Limited
Senior Lender:	NIB Capital Bank N.V.
Public Sector Client:	Harrow Primary Care Trust

Monks Park Health Centre

Description:	An interest in the coupon bearing subordinated debt issued to part finance the design, construction and provision of facilities management services for a multi use health centre in Monks Park, Brent.
Status:	Operational
Date Operational:	1 June 2006
Date of Concession Expiry:	1 June 2031
Residual Value Interest:	No
Design & Build Contractor:	Balfour Beatty Construction Limited (guaranteed by Balfour Beatty Group Limited)
Facilities Management Contractor:	Global Solutions Limited
Senior Lender:	NIB Capital Bank N.V.
Public Sector Client:	Brent Teaching Primary Care Trust

Gem Centre (Children's Primary Care Centre) Bentley Bridge, Neachells Lane, Wolverhampton

Description:	An interest in the coupon bearing subordinated debt issued to part finance the design, construction and provision of facilities management services for a multi use children's development centre in Wolverhampton.
Status:	Operational
Date Operational:	27 March 2006
Date of Concession Expiry:	27 March 2031
Residual Value Interest:	No
Design & Build Contractor:	Balfour Beatty Construction Limited (guaranteed by Balfour Beatty Group Limited)
Facilities Management Contractor:	Global Solutions Limited
Senior Lender:	NIB Capital Bank N.V.
Public Sector Client:	Wolverhampton City Primary Care Trust

**Phoenix Centre (Parkfields Primary Care Centre), Parkfields Road,
Wolverhampton**

Description:	An interest in the coupon bearing subordinated debt issued to part finance the design, construction and provision of facilities management services for a multi use primary care centre in the South East of Wolverhampton.
Status:	Operational
Date Operational:	19 December 2005
Date of Concession Expiry:	5 December 2030
Residual Value Interest:	No
Design & Build Contractor:	Balfour Beatty Construction Limited (guaranteed by Balfour Beatty Group Limited)
Facilities Management Contractor:	Global Solutions Limited
Senior Lender:	NIB Capital Bank N.V.
Public Sector Client:	Wolverhampton City Primary Care Trust

Australian Projects

Long Bay Forensic and Prison Hospitals Project



Description:	The project consists of the design, construction and operation of a new 85 bed prison hospital and a new 135 bed Forensic Hospital on the grounds of the Long Bay Correctional Complex in Sydney, NSW, Australia.
Status:	Under Construction
Date Operational:	Mid 2008
Date of Concession Expiry:	28 Years from 19 July 2006
Residual Value Interest:	No
Design & Build Contractor:	Multiplex Constructions Pty Ltd. (guaranteed by Multiplex Limited).
Operator:	Medirest (Australia) Pty Limited is the facilities management operator and Honeywell Limited is the buildings maintenance operator. Medirest's obligations are guaranteed by Compass Group PLC and Honeywell's obligations are guaranteed by Honeywell International Inc.
Senior Lenders:	The Royal Bank of Scotland plc, Australian Branch and Commonwealth Bank of Australia
Public Sector Client:	New South Wales Government

Royal Melbourne Showgrounds Redevelopment Project



Description:	The project consists of the operation of a newly constructed and refurbished facility at the Royal Melbourne Showgrounds in Melbourne, Victoria, Australia.
Status:	Completed
Date Operational:	25 August 2006
Date of Concession Expiry:	25 Years from 24 August 2006
Residual Value Interest:	No
Design & Build Contractor:	Multiplex Constructions Pty Ltd. (guaranteed by Multiplex Limited).
Operator:	Multiplex Facilities Management Pty Ltd. Multiplex's obligations are guaranteed by Multiplex Limited
Senior Lenders:	ANZ Banking Group Limited and Societe Generale, Australia Branch
Public Sector Client:	The Government of the State of Victoria

RiverCity Motorway



Description:	The project consists of a concession to construct and operate a 6 kilometre toll road (comprising twin 4.8 kilometre two-lane tunnels and a fully electronic tolling system) in Brisbane, Queensland Australia.
Status:	Financial close occurred 4 August 2006, with construction expected to commence September 2006.
Date Operational:	Late 2010
Date of Concession Expiry:	45 Years from Financial Close (August 2006)
Residual Value Interest:	No
Design & Build Contractor:	A consortium of builders (joint and several obligation) including Leighton Contractors Pty Limited (guaranteed by Leighton Holdings), Boulderstone Hornibrook Pty Ltd (guaranteed by Bilfinger Berger AG) and Bilfinger Berger Civil Pty Ltd (guaranteed by Bilfinger Berger AG)
Operator:	Brisbane Motorway Services Pty Limited, a company jointly owned by Leighton Contractors Pty Limited, Bilfinger Berger Services and guaranteed by Leighton Contractors Pty Limited and Bilfinger Berger Australia Pty Limited (joint and several obligations)
Senior Lenders:	ABN AMRO Bank N.V., Calyon Australia Limited, HSBC Bank Australia Limited, The Hong Kong and Shanghai Banking Corporation Limited, West LB AG and National Australia Bank Limited
Public Sector Client:	Brisbane City Council

Appendix to Part IV: Valuation Report



PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Babcock & Brown Public Partnerships Limited
c/o Heritage International Fund Managers Limited
Polygon Hall, PO Box 225, Le Marchant Street
St Peter Port, Guernsey, GY1 4HY

UBS Limited
1 Finsbury Avenue
London EC2M 2PP

11th October 2006

Dear Sirs

Valuation Report on the Infrastructure Investments

We are writing to provide to Babcock & Brown Public Partnerships Limited (the "**Company**") and UBS Limited (the "**Sponsor**"), our opinion as to a fair market value (the "**Valuation**") of the interests in 22 PFI/PPP and LIFT Projects (the "**Infrastructure Equity**") and the senior debt obligations of 2 PFI/PPP projects (the "**Infrastructure Debt**") (together the "**Infrastructure Investments**"). The interests in the Infrastructure Investments are set out within the project tables included on pages 55 and 56 of the prospectus issued by the Company dated 11th October 2006 (the "**Prospectus**").

Purpose

The Valuation has been provided to the Company and the Sponsor in connection with the proposed acquisition of the Infrastructure Investments, by an English limited partnership in respect of which a wholly owned subsidiary of the Company will be the sole limited partner (the "**Partnership**") or by companies wholly owned by the Partnership (the "**Acquisition**"), and the subsequent application for the Company's ordinary shares to be admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange's market for listed securities.

In providing the Valuation, PricewaterhouseCoopers LLP is not making any recommendations to any person regarding the Prospectus in whole or in part and is not expressing an opinion on the fairness of the terms of the Acquisition or the terms of any investment in the Company.

Responsibility

Save for any responsibility we may have to those persons to whom this report is expressly addressed and save for any responsibility arising under item 5.5.3R(2)(f) of the Prospectus Rules to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report, required by and given solely for the purposes of complying with item 23.1 Annex 1 to the PD Regulation, consenting to its inclusion in the Prospectus.

Valuation Basis and Valuation Assumptions

This report sets out our opinion on a fair market value for the Infrastructure Investments in connection with the Acquisition, which is expected to take place on or about 9th November 2006, assuming a willing buyer and seller, dealing at arm's length and with equal information.

The Valuation is necessarily based on economic, market and other conditions as in effect on, and the information available to us, as of 9th October 2006 (being the latest practicable date prior to the publication of the Prospectus). It should be understood that subsequent developments may affect our views and that we do not have any obligation to update, revise or reaffirm the views expressed in this report. Specifically it is understood that the Valuation may change as a consequence of changes to: market conditions, the prospects of the PFI/PPP sector in general or in particular, or the special purpose vehicles ("**SPVs**") in which the Infrastructure Investments are held. The Valuation may also change as a consequence of changes in the circumstances described in the risk factors set out on pages 7 to 13 of the Prospectus.

In providing this report, we have relied upon the directors' of the Company (the "**Directors**") and Babcock & Brown Investment Management Limited's (in its capacity as adviser to the Company), commercial assessment of a number of issues, including, the markets in which the SPVs operate and the assumptions underlying the projected financial information which were provided by the Company and for which the Directors are wholly responsible. We have also placed reliance on the results of independent due diligence advice from the Company's legal, insurance and technical (including property) advisers.

The Valuation with respect to the equity interests in 21 of the 22 PFI/PPP and LIFT projects has been determined using discounted cash flow methodology, whereby the estimated future equity cash flows accruing to each equity interest and attributable to the Infrastructure Equity have been discounted using discount rates reflecting the risks associated with each equity interest and the time value of money. The Valuation is based on all estimated future equity cash flows projected to be received, or paid, on or after 30th September 2006. In determining the discount rate applicable to each equity interest in the Infrastructure Equity, we took into account various factors, including, but not limited to, the stage reached by each project, the period of operation, the historical track record and the terms of the project agreements.

The Valuation with respect to the stapled units in RiverCity Motorway Holding Trust and RiverCity Motorway Investment Trust, has been determined as the product of the number of stapled units to be acquired and the market offer price as at 9th October 2006.

The Valuation with respect to the Infrastructure Debt has been determined as the loan principal amount outstanding as at 30th September 2006 plus the estimated cost for terminating the underlying fixed interest rate as at 9th October 2006.

Except where the due diligence findings reported to the Company have indicated otherwise, we have made the following key assumptions in determining the Valuation:

- The financial model for each of the SPVs within the Infrastructure Equity, which was provided by the Company for the purpose of the Valuation, accurately reflects the terms of all agreements relating to the SPV and presents a fair and reasonable estimation of future equity cash flows accruing to the Company's investment in the SPV;
- The accounting policies applied in the financial model for each SPV are in accordance with UK Generally Accepted Accounting Principles or Australian Generally Accepted Accounting Principles (as appropriate);
- The tax treatment applied in the financial model for each SPV is in accordance with the applicable tax legislation and does not materially understate the future liability of the SPV to pay tax;

- Each SPV has legal title to all assets which are assumed in the financial model for that SPV and the SPV is entitled to receive income assumed to be received in that financial model;
- There are no disputes with parties contracting directly or indirectly with each SPV nor any going concern issues, credit issues or performance issues as regards to the contracting parties nor any other contingent liabilities which as at the date of the delivery of this report are expected to give rise to a material adverse effect on the estimated future cash flows of the SPV as set out in the relevant project financial model provided to us;
- The estimated future equity cash flows accruing to the owners of each SPV have been reduced by estimated UK corporation tax or Australian corporation tax (as appropriate);
- A market offer price of AU\$ 0.405 per stapled unit has been assumed with respect to the proposed transfer of the stapled units in RiverCity Motorway Holding Trust and RiverCity Motorway Investment Trust;
- An exchange rate of AU\$2.5059:£1 has been used to convert cashflows and share prices of the Australian dollar denominated projects. Any cash flows flowing to the Company have been assumed to be payable free of any withholding tax;
- Transaction costs associated with the Acquisition have been ignored; and
- The Company will manage the interests being acquired (both in the Infrastructure Equity and Infrastructure Debt) in such a way that aggregate cash flows to it will be maximised and not trapped by legal or financial restrictions within the underlying SPVs.

Valuation Opinion

While there is clearly a range of possible values for the Infrastructure Investments and no single figure can be described as a "correct" valuation for such underlying assets, PricewaterhouseCoopers LLP advises the Company and the Sponsor that, based on market conditions on 9th October 2006 (being the latest practicable date prior to the publication of the Prospectus), and on the assumptions stated above, in our opinion a fair market value for the Infrastructure Investments is £187 million.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex I of the PD Regulation.

Yours faithfully
PricewaterhouseCoopers LLP

Management and Administration



Part V

Part V Management and Administration

Directors

The Directors, the majority of whom are independent of Babcock & Brown, will be responsible for the overall management of the Company. The Directors, all of whom are non-executive, are listed below.



Keith Dorrian, (Chairman) aged 60, a resident of Guernsey, is an experienced professional in the banking, finance and fund management industries. A former committee member of the Guernsey Investment Fund Association he was also a director of ANZ Bank (Guernsey) Limited and until his retirement in December 2003, Managing Director of Management International (Guernsey) Limited, the Fund Administration Company of the Bank of Bermuda Group in Guernsey. Prior to retirement he had local responsibility for the Bank's Global Fund Services products with over USD14bn of assets being administered from Guernsey. Prior to this he was employed by Manufacturers Hanover Trust and First National Bank of Chicago. He holds the Institute of Directors Diploma in Company Direction and holds a number of directorships in listed offshore property funds, funds of hedge funds and hedge funds.



Rupert Dorey, aged 46, a resident of Guernsey, has over 22 years experience in debt capital markets, specialising in credit related products, including derivative instruments. Mr Dorey's expertise is principally in the areas of debt distribution, origination and trading, covering all types of debt from investment grade to high yield and distressed debt. He was at Credit Suisse First Boston for 17 years from 1988 until May 2005 holding a number of positions including fixed income credit product co-ordinator for European offices and head of UK Credit and Rates Sales. Since leaving CSFB, Mr Dorey is acting in a non-executive directorship capacity for a number of hedge funds, funds of hedge funds and private equity funds.



Giles Frost, aged 43, resident in the United Kingdom, is joint head of the public infrastructure business unit at Babcock & Brown. He has been employed at Babcock & Brown for six years and has been involved in the development, investment and management of projects in the public infrastructure sector throughout this time. Prior to joining Babcock & Brown he was a solicitor and partner in the law firm Wilde Sapte (now Denton Wilde Sapte).

Further details of the Directors' current and previous directorships are set out in Part VIII of this document on pages 113 to 115.

Babcock & Brown, the Investment Adviser and the Operator

INTRODUCTION

Babcock & Brown Investment Management Limited ("**BBIML**") has been appointed as Investment Adviser to the Company. BBIML has also been appointed by the General Partner, on behalf of the Partnership, as the Operator of the Partnership. Under the terms of the Limited Partnership Agreement and the Operating Agreement, the Operator will manage the Partnership and its assets, subject to compliance with the investment policies and restrictions set out in this document. BBIML is a wholly owned subsidiary of Babcock & Brown. BBIML was incorporated in England and Wales on 14 September 2000 under the Companies Act 1985 (registered number 4071543) and is authorised and regulated in the UK by the Financial Services Authority.

BABCOCK & BROWN

Babcock & Brown has 834 staff and operates from 22 offices worldwide, anchored by administrative hub-offices in Sydney, San Francisco, New York, Munich and London. As at 9 October 2006 (the latest practicable date before the publication of this document) the Babcock & Brown group had an equity capitalisation of approximately A\$5.3 billion (£2.1 billion) (Reuters). Headquartered in Australia, Babcock & Brown is a global concern with over two-thirds of its revenue derived from markets outside of Australia. Babcock & Brown has a highly regarded infrastructure and project finance business operating across a diversified range of sectors, including public private partnerships (PPPs), renewable energy, power, transportation, and energy distribution and transmission.

The scope of its roles within these activities include:

- Principal Investment—project development, greenfield development, equity investment and senior and mezzanine debt provision;
- Investment Management—private investment syndication and management of listed funds; and
- Advisory—merger and acquisition advisory, project finance advisory, corporate advisory and debt/equity arrangement.

Babcock & Brown focuses on generating attractive returns and developing long-term investment management roles in relation to assets acquired or originated. This provides entities (such as members of the Group) which Babcock & Brown group companies advise with new transaction opportunities. As an investment adviser (through BBIML), Babcock & Brown seeks to provide investors with exposure to classes of asset which could not otherwise easily be accessed on the public markets and with the intention of delivering returns that out-perform relevant benchmarks. Other companies and funds in respect of which Babcock & Brown group companies are the investment adviser or manager have in excess of £12 billion (A\$31 billion) of assets under management as at 30 June 2006 (the latest practicable date before the publication of this document) (Source: interim results).

Babcock & Brown has originated and developed or provided financial advisory services in respect of all the projects comprised in the Initial Portfolio. In most cases Babcock & Brown has been responsible for arranging the design and construction and facilities management as well as arranging the project level senior debt and providing project level asset management services (eg Public Sector Client liaison, accounting, etc).

This intensive involvement with each of these projects has given Babcock & Brown extensive knowledge and experience of the Initial Portfolio. The management experience of the Infrastructure Team at Babcock & Brown will, through the Investment Adviser and Operator, be available to the Group in accordance with the terms of the Investment Advisory Agreement, the Limited Partnership Agreement and the Operating Agreement.

THE INVESTMENT ADVISER

Under the Investment Advisory Agreement, a subsidiary of Babcock & Brown, BBIML, an investment adviser regulated in the UK by the FSA, has been appointed by the Company as Investment Adviser. BBIML is resourced in the discharge of its obligations as Investment Adviser and Operator through the secondment and deployment to it of Babcock & Brown Infrastructure Team members.

BBIML’s appointment as investment adviser may be terminated in the circumstances detailed in the Investment Advisory Agreement and summarised in paragraph 11.2 of Part VIII. In such circumstances, Babcock & Brown’s permission for the Group to use the Babcock & Brown name and branding will also terminate.

THE OPERATOR

In addition to its role as Investment Adviser to the Company, the Partnership has appointed BBIML as its manager and Operator.

A summary of the terms of the Limited Partnership Agreement is provided in paragraph 4 of Part VIII of the Prospectus and a summary of the terms of the Operating Agreement is provided in paragraph 11.4 of Part VIII of the Prospectus. BBIML’s appointment as manager and Operator of the Partnership may be terminated in circumstances detailed in the Operating Agreement.

THE INFRASTRUCTURE TEAM

The Babcock & Brown Infrastructure Team has 178 members of staff located in the UK, Europe, North America, Asia and Australasia.

These employees are dispersed widely giving Babcock & Brown access to global opportunities.

Location	Number of Infrastructure Group Staff*
UK	43
Europe (ex UK)	17
Australia	55
US	48
Asia	15
Total Number of Infrastructure Team Staff	178

* As at 31 August 2006

The Infrastructure Team is generally engaged in the development, origination, acquisition, sale, improvement and management of infrastructure assets in a number of sub-classes including public and social infrastructure. Babcock & Brown has been an active participant in the UK PPP sector since 1997 and the Australian PPP sector since 2002 having developed over 30 PFI/PPP projects for Public Sector Clients in sectors such as courts, police, education, and government offices. These projects form the basis of the Initial Portfolio. As such, Babcock & Brown is highly experienced in originating, developing, structuring and arranging PFI/PPP projects, through its extensive industry knowledge, and relationships with key industry participants including design and build contractors and facilities management contractors.

FUTURE OPPORTUNITIES

Currently, Babcock & Brown has a number of PPP projects at preferred bidder stage. In addition Babcock & Brown has current ongoing bids for a significant number of PFI/PPP and other infrastructure projects. Based on previous success rates the Directors anticipate that a number of these bids (and future bids) will be successful (although there can be no guarantee of this). Whilst no formal commitment exists on the part of Babcock & Brown to offer these to the Group at any stage, it is anticipated that the Group will be invited in the future to make proposals to acquire assets originated by Babcock & Brown in the public infrastructure sector. Consequently, the Directors believe that Babcock & Brown is well positioned to originate investment opportunities for the Group.

Babcock & Brown also has interests in seven NHS LIFT “franchises”. These franchises represent an agreement entered into by the local NHS primary care trusts in each area, whereby the trusts have agreed with a Project Entity to give that Project Entity an exclusive right (subject to compliance with certain obligations) to develop and invest in all primary care health facilities procured by that trust over the twenty year term of the agreement. The earliest of these agreements to expire expires in

2023. The Initial Portfolio includes subordinated debt interests in some of these facilities. Babcock & Brown anticipates a flow of further investment opportunities through the NHS LIFT procurement.

Track Record of Babcock & Brown in Managing Other Funds Investing in Infrastructure Assets

Over the past 20 years since Babcock & Brown commenced operations in the infrastructure sector, it has developed a substantial portfolio of infrastructure and project finance assets for itself and its managed funds. As at 30 June 2006, funds and assets under management in the infrastructure sector were more than A\$10 billion (£4 billion). Babcock & Brown has extensive experience of forming and managing and advising publicly listed entities specialising in investment in infrastructure assets. Entities managed by Babcock & Brown include:

BABCOCK & BROWN INFRASTRUCTURE

Babcock & Brown Infrastructure (ASX: BBI) is a leading Australian Stock Exchange ("**ASX**") listed infrastructure fund with a diversified international portfolio of quality infrastructure assets including energy transmission and distribution, transport (railtrack and ports) and power generation. It does not own any social infrastructure assets. As at 30 June 2006, BBI had assets of A\$6.6 billion (£2.6 billion) under ownership, management and operation including Powerco, the second largest gas and electricity distribution company in New Zealand, Dalrymple Bay Coal Terminal in Australia and International Energy Group in the UK, Channel Islands and Europe which owns LPG and natural gas distribution assets. During the six month period to 30 June 2006, BBI has completed the acquisitions of PD Ports Plc in the UK for £336.9 million, the New York high voltage Cross Sound Cable for approximately US\$34.9 million, and a 51 per cent. interest in WestNet Rail in Western Australia for A\$163.2 million (£65.1 million). In addition, in July 2006 BBI has acquired a 51 per cent. interest in Europe's second largest inland port in Belgium (WaterContainerTransport–WCT) which has an enterprise value of around €30 million. More information can be obtained at www.bbinfrastructure.com.

BABCOCK & BROWN ENVIRONMENTAL INVESTMENTS LIMITED

Babcock & Brown Environmental Investments Limited (ASX: BEI) is listed on the ASX. An investment in BEI provides access to a diverse range of global businesses in the renewables sector including ethanol, biodiesel, waste to energy and oil recycling. As at 30 June 2006, BEI had assets of A\$212 million (£84.6 million) under management. More information can be obtained at www.bbeil.com.au.

BABCOCK & BROWN WIND PARTNERS

Babcock & Brown Wind Partners (ASX: BBW) is a globally diversified listed stapled entity investing in wind energy generation assets. BBW has assets in Australia, the USA and in key wind energy generation markets in Europe. As at 30 June 2006, BBW had assets of approximately A\$1.4 billion (£558.7 million) under management. Following the acquisition of the Eifel wind farm in Germany and additional wind farm interests in the US in the six months to 30 June 2006, BBW has 468MW of installed capacity (on a proportional equity interest basis) with an estimated long term mean energy production of 1,361 GWh per annum. In addition, BBW has additional wind farms with capacity of 181MW under construction and secured acquisitions totalling over 850MW of capacity. More information can be obtained at www.bbwindpartners.com.

Prospective investors should note that the funds described above are the listed funds managed or advised by Babcock & Brown that invest in the infrastructure sector. Babcock & Brown also manages and advises other funds in the infrastructure sector that have not been described above. Although the funds described above are managed or advised by Babcock & Brown group companies, they are not managed by BBIML, the Investment Adviser and Operator. The past performance of the funds described above is not a guide to the future performance of either the funds described above or of the Company.

Investment Process for Future Investments

DUE DILIGENCE PROCEDURES

In considering any future investment opportunity for the Group, members of the Infrastructure Team will evaluate the project risks which they believe are material to making an investment decision in relation to additional assets. Where appropriate, they will complement their analysis through the use of professional expertise including engineering and/or technical consultants, environmental consultants, accountants, taxation and legal advisers, financial modellers and insurance experts. These advisers may carry out due diligence which is intended to provide a second and independent review of key aspects of a project providing confidence as to the project's deliverability and likely revenue production. All investment evaluations are expected to be supported by financial modelling utilising sensitivity analyses on key variables, including demand risk and fluctuations in revenue and cost.

In addition, members of the Infrastructure Team will carry out a credit and performance risk assessment on counterparties, contractors, subcontractors, equity investors, and other parties as appropriate (and having regard to country risk).

INVESTMENT APPROVAL

A structured investment approval process will be adopted to ensure appropriate selection of prospective investments. In particular BBIML, as Investment Adviser and Operator, will adopt investment procedures agreed with the Company from time to time which will involve the establishment of an investment committee of the Operator (the **"Investment Committee"**) made up of senior Babcock & Brown employees. The Investment Committee will review prospective new investments at various stages up to their acquisition and ultimately will, independently of Babcock & Brown, approve any acquisition. Prospective acquisitions will be reviewed at least at the inception of discussions with the vendors or co-shareholders of the target entity, at the formal offer stage and prior to closing. The Investment Committee will consider, inter alia, the suitability of the acquisition in relation to the existing portfolio and its match with the Company's investment policy. BBIML as Operator will have full discretion over acquisitions and disposals although it is the policy of the Operator to consult with the Directors in respect of acquisitions and disposals by the Group.

Where there is a requirement to raise new equity funds whether or not directly related to an acquisition, the Investment Committee will make a recommendation to the Directors to proceed. Raising new money will therefore be a decision for the Directors. Cash proceeds of equity raising will be invested at the discretion of BBIML as Operator in accordance with the Company's investment strategy and policy.

Investment Monitoring

With respect to the projects within the Initial Portfolio and with the exception of RiverCity Motorway, (which is a stand alone entity with its own management team) and the subordinated debt interests in NHS LIFT projects, all such investments currently benefit from project level asset management from Babcock & Brown group companies. These services are provided at a fixed price linked to the RPI or CPI (as the case may be) under separate contracts and cover the provision of asset management services such as Public Sector Client liaison, invoicing, project monitoring, statutory accounting, bookkeeping. By virtue of the Investment Advisory Agreement and the Operating Agreement, the investment performance of the Investment Portfolio will be actively monitored by BBIML usually through board representation but also through regular dialogue with the key parties involved. Under these arrangements the Group will normally receive regular management and annual audited accounts from each Project Entity in which the Group makes an investment as well as management progress reports addressing critical factors such as actual performance against service requirements. These will be reviewed by BBIML to determine compliance with agreed targets.

BBIML will, as part of the services provided under the Investment Advisory Agreement and the Operating Agreement, keep the assets of the Group under review and advise from time to time on

actions or strategies that could beneficially be implemented to enhance the returns from the Investment Portfolio.

Administration

Heritage International Fund Managers Limited has been appointed as Administrator to the Company and will also provide company secretarial services and a registered office to the Company.

MAS Sàrl will act as domiciliation agent for and will provide administrative services to the Luxcos.

Registrar and UK Transfer Agent

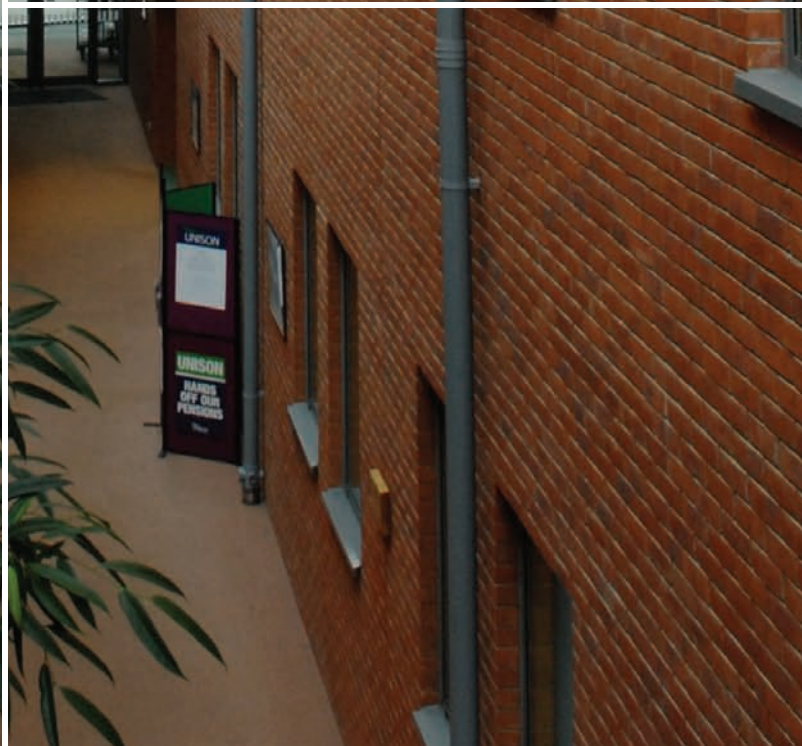
Capita IRG (CI) Limited has been appointed as Registrar to the Company and Capita Registrars will act as the Company's UK transfer agent.



Issue Arrangements



Part VI



Part VI Issue Arrangements

The Issue

The Issue comprises up to 300 million Ordinary Shares to be issued at a price of £1 each. Allocations of the Ordinary Shares under the Issue will be determined at the discretion of the Directors (in consultation with the Placing Agent and BBIML). On the basis that the Issue is fully subscribed for, it is expected that the Company will receive approximately £293,400,000 from the Issue, net of fees and expenses associated with the Issue of approximately £6,600,000 (including Placing Fees). The Issue is being made in order to raise funds for the purpose of achieving the investment objective of the Company as described in Part I and Part II at pages 24 and 35 of the Prospectus.

All applications for Ordinary Shares will be payable in full, in sterling by a cheque drawn on a UK clearing bank.

The Issue is conditional upon inter alia:

- (a) Admission occurring;
- (b) the Issue Agreement having become unconditional in all respects and not having been terminated in accordance with its terms before Admission; and
- (c) not less than 200 million Ordinary Shares being subscribed for in aggregate pursuant to the Issue.

If these conditions are not met, the Issue will not proceed.

The Offer for Subscription

Ordinary Shares are available to the public under the Offer for Subscription. The Offer for Subscription is only being made in the UK but, subject to applicable law, the Company may allot Ordinary Shares on a private placement basis to applicants in other jurisdictions. The terms and conditions of application under the Offer for Subscription and an Application Form are set out at the end of this document. These terms and conditions should be read carefully before an application is made. Investors should consult their stockbroker, bank manager, solicitor, accountant or other financial advisor if they are in doubt.

The Placing

The Company, the Placing Agent and the Investment Adviser have entered into the Issue Agreement, pursuant to which the Placing Agent has agreed, subject to certain conditions, to use reasonable endeavours to procure subscribers for the Ordinary Shares made available in the Placing.

The fees payable to the Placing Agent under the Issue Agreement are detailed in Part I at page 31.

Further details of the terms of the Issue Agreement are set out in Paragraph 11.7 of Part VIII.

General

If subscriptions under the Offer for Subscription and the Placing exceed the maximum number of Ordinary Shares available under the Issue, the Directors will scale back subscriptions at their discretion. The Placing is not subject to scaling back in favour of the Offer for Subscription and the Offer for Subscription is not subject to scaling back in favour of the Placing.

Subject to those matters upon which the Issue is conditional, the Directors, with the consent of the Sponsor, may bring forward or postpone the closing date for the Placing and the Offer for Subscription by up to two weeks.

The basis of allocation under the Issue is expected to be announced on 6 November 2006. The basis of allocation shall be determined by the Company after consultation with the Investment Adviser and the Placing Agent, save that the Arranger (or another member of the Babcock & Brown group as it may direct) shall be entitled to an allocation of up to 10 per cent. of the Ordinary Shares comprised in the Issue. CREST accounts will be credited on the date of Admission and it is anticipated that, where Shareholders have requested them, certificates in respect of the Ordinary Shares to be held in certificated form will be dispatched in the week commencing 13 November 2006. Pending receipt by Shareholders of definitive share certificates, if issued, the Registrar will certify any instruments of transfer against the relevant register of members.

To the extent that any application for subscription is rejected in whole or in part, or the Directors determine in their absolute discretion that the Issue should not proceed, monies received will be returned to each relevant applicant at its risk and without interest.

The net proceeds of the Issue will be used to finance the Acquisition and associated expenses. On the basis that the issue is fully subscribed, the balance, after completing the Acquisition, of over £100 million may be invested in accordance with the section entitled "Deposits Pending Investment" in Part II on page 36, may be used to meet the deferred payment required in respect of the securities held by the Group in respect of RiverCity Motorway which are issued partly paid, and may be used to finance future acquisitions and to meet other working capital requirements of the Group. The Acquisition of the Initial Portfolio and other investment activities described in this paragraph are expected to have a positive effect on earnings.

Financial intermediaries who are investing on behalf of clients should make separate applications. Multiple applications or suspected multiple applications on behalf of a single client may be rejected.

The International Security Identification Number (ISIN) for the Ordinary Shares is GB00B188SR50 and the SEDOL is B188SR5.

Overseas Investors

The attention of persons resident outside the UK is drawn to the notices to investors set out in Part VIII at pages 130 and 131 of this document which contains restrictions on the holding of Ordinary Shares by such persons.

In particular investors should note that the Ordinary Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and the Company has not registered, and does not intend to register, as an investment company under the Investment Company Act. Accordingly, the Ordinary Shares may not be offered, sold, pledged or otherwise transferred or delivered within the United States or to, or for the account or benefit of, any US Persons except in a transaction meeting the requirements of an applicable exemption from the registration requirements of the Securities Act.

CREST

CREST is a paperless settlement procedure enabling securities to be transferred from one person's CREST account to another without the need to use share certificates or written instruments of transfer. The Articles permit the holding of the Ordinary Shares under the CREST system and the Company has applied for the Ordinary Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if any Shareholder so wishes (provided that the Ordinary Shares are not in certificated form).

CREST is a voluntary system and upon the specific request of a Shareholder, the Ordinary Shares of that Shareholder which are being held under the CREST system may be exchanged, in whole or in part, for share certificates.

If a Shareholder or transferee requests Ordinary Shares to be issued in certificated form, a share certificate will be despatched either to them or their nominated agent (at their own risk) within

21 days of completion of the registration process or transfer, as the case may be, of the Ordinary Shares. Shareholders who are non-US Persons holding definitive certificates may elect at a later date to hold their Ordinary Shares through CREST in uncertificated form provided they surrender their definitive certificates.

Dealing Arrangements

Application has been made for the Ordinary Shares to be admitted to trading on the London Stock Exchange. It is expected that such admission will become effective, and that unconditional dealings in the Ordinary Shares will commence at 8:00 a.m. on 9 November 2006.

Settlement

Payment for the Ordinary Shares applied for under the Offer for Subscription should be made in accordance with the instructions contained in the Application Form set out at the end of the Prospectus. Payment for the Ordinary Shares to be acquired under the Placing should be made in accordance with settlement instructions provided to investors by the Placing Agent. To the extent that any application or subscription for Ordinary Shares is rejected in whole or part, monies will be returned to the applicant without interest.

Anti-Money Laundering

Pursuant to anti-money laundering laws and regulations with which the Company must comply in the UK and/or Guernsey, any of the Company and its agents, the Administrator, the Investment Adviser and the Placing Agent may require evidence in connection with any application for Ordinary Shares, including further identification of the applicant(s), before any Ordinary Shares are issued.

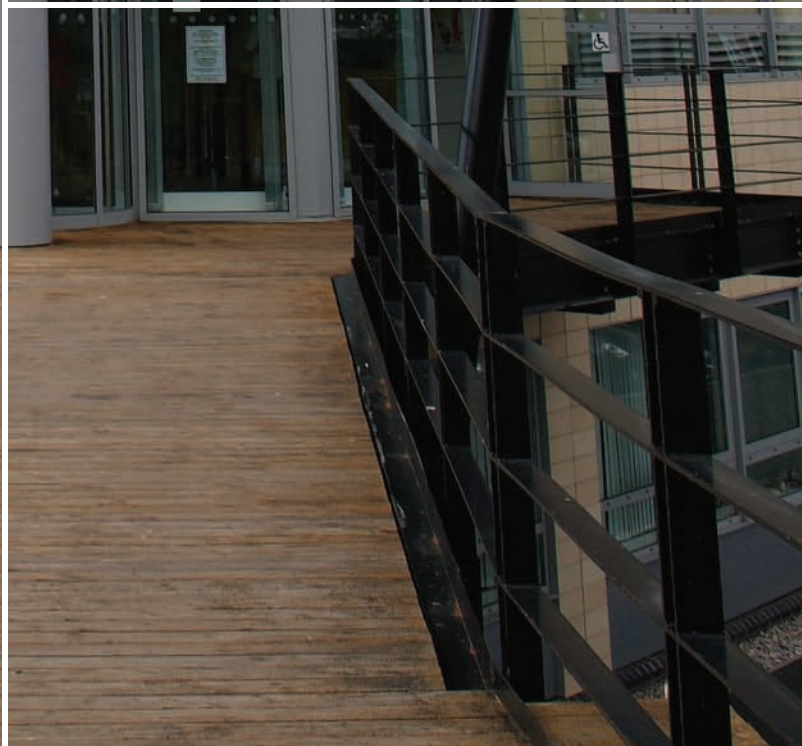
Each of the Company and its agents, the Administrator, the Investment Adviser and the Placing Agent reserve the right to request such information as is necessary to verify the identity of a Shareholder or prospective Shareholder and (if any) the underlying beneficial owner or prospective beneficial owner of a Shareholder's Ordinary Shares. In the event of delay or failure by the Shareholder or prospective Shareholder to produce any information required for verification purposes, the Directors, in consultation with the Placing Agent and the Investment Adviser, may refuse to accept a subscription for Ordinary Shares, or may refuse the transfer of Ordinary Shares held by any such Shareholder.



Taxation



Part VII



Part VII Taxation

Introduction

The following paragraphs, which are intended as a general guide only, summarise the tax treatment of the Group and certain types of investors. This has been provided for general information purposes only and does not address every potential tax consequence that might be relevant to the Group or particular investors. It applies, unless otherwise stated, only to the Group and companies within the Group. This summary is based on the law as at the date of this document and published practice of certain tax authorities and is therefore subject to change, possibly retrospectively.

If the Shareholders are in any doubt as to their tax position they should consult their own professional adviser without delay.

The Group Guernsey Taxation

THE COMPANY

The Company is eligible to be registered in Guernsey as an exempt company by virtue of the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989. Exempt status is granted on an annual basis and the Directors intend to apply for this exemption annually. Under current law and practice in Guernsey, the Company will only be liable to tax in Guernsey in respect of income arising in Guernsey, other than bank deposit interest. A fee, currently £600 per annum, is payable to the States of Guernsey Income Tax Authority in respect of the Company's exempt status.

Payments of dividends and interest by a company that has exempt status for Guernsey tax purposes are regarded as having their source outside Guernsey and hence are payable without deduction of tax in Guernsey.

In response to the review carried out by the European Union Code of Conduct Group, the Policy Council of the States of Guernsey has announced that the States of Guernsey intends to abolish exempt status for the majority of companies with effect from January 2008 and to introduce a zero rate of tax for companies carrying all but a few specified types of regulated business. These proposals have yet to be enacted.

The States of Guernsey Administrator of Income Tax has advised that because collective investment schemes, including closed ended investment vehicles, were not one of the regimes in Guernsey that were classified by the EU Code of Conduct Group as being harmful, collective investment schemes and closed ended investment vehicles will continue to be able to apply for exempt status for Guernsey tax purposes after 31 December 2007.

The Policy Council of the States of Guernsey has stated that it may consider further revenue raising measures in 2011/2012, including possibly the introduction of a goods and services tax, depending on the state of Guernsey's public finances at that time. Guernsey currently does not levy taxes upon capital inheritances, capital gains (with the exception of a dwellings profit tax) gifts, sales or turnover, nor are there any estate duties, save for an ad valorem fee for the grant of probate or letters of administration.

Document duty is payable on the creation or increase of authorised share capital at the rate of one half of one per cent. of the nominal value of the authorized share capital of a company incorporated in Guernsey up to a maximum of £5,000 in the lifetime of a company. In the case of a Guernsey company which is a closed-ended investment company with an authorized share capital consisting of shares of no par value, such as the Company, the document duty is set at a flat rate of £2,000. No stamp duty is chargeable in Guernsey on the issue, transfer or redemption of shares.

THE SHAREHOLDERS

Any Shareholders who are resident for tax purposes in Guernsey, Alderney or Herm will suffer no deduction of tax by the Company from any dividends payable by the Company but the Administrator will provide details of distributions made to Shareholders resident in the Islands of Guernsey, Alderney and Herm to the Administrator of Income Tax in Guernsey. Shareholders resident outside Guernsey will not be subject to any tax in Guernsey in respect of any Ordinary Shares owned by them.

STAMP DUTY AND STAMP DUTY RESERVE TAX ("SDRT")

No Guernsey or UK stamp duty or SDRT will be payable on the issue of the Ordinary Shares. In the event of the death of an individual Shareholder, a Guernsey grant of probate or administration may be required in respect of which certain fees will be payable to the Ecclesiastical Court in Guernsey.

Luxembourg Taxation

Luxco 1 and Luxco 2 (individually a "Luxco" and together the "Luxcos") will be fully taxable companies resident for tax purposes only in Luxembourg established under the form of a *S.a.r.l.* The Directors intend to manage their affairs such that any taxable profit in the Luxcos is minimised. In addition they will seek to ensure that the holdings in the subsidiaries qualify for the Luxembourg participation exemption such that dividend income and capital gains generated from such holdings are exempt from Luxembourg corporate income tax.

TRANSPARENCY OF PARTNERSHIP

The Partnership will be treated as fiscally transparent for Luxembourg tax purposes and therefore Luxco 2 is beneficially entitled to the income and capital arising from the Project Entities (save for any amounts apportioned to the General Partner under the terms of the Limited Partnership Agreement).

FINANCING MARGIN

The Luxcos' interest income will be fully taxable in Luxembourg. It has been agreed in an advance tax agreement with the Luxembourg Tax Authorities that interest expense is fully deductible for tax purposes subject to an arm's length margin on the financing activity of 0.09375 per cent. being taxable in Luxembourg.

WITHHOLDING TAX

The Directors intend to manage the affairs of the group such that withholding taxes that may arise between the Partnership and Luxco 2 or Luxco 1 and the Company are eliminated to the extent possible. The Directors do not intend to pay dividends from Luxco 1 to the Company, however in the event that dividends are paid they will be subject to 20 per cent. withholding tax.

NET WORTH TAX

Net worth tax of 0.5 per cent. on the Luxcos worldwide net worth is payable annually. However, the Directors consider that the amount charged should be nominal on the basis that the assets that are assessed for net worth tax exclude equity funded assets that qualify for the participation exemption and because the debts of the Luxcos are tax deductible for net worth tax purposes.

CAPITAL DUTY

Capital duty of 1 per cent. is charged on the contribution of capital to the Luxcos although the Directors of each Luxco undertake to minimise capital duty where ever possible. There is also proposal that this tax is to be abolished. However, this is yet to be confirmed.

United Kingdom Taxation

TAXATION OF PARTNERSHIP

The General Partner and the Operator intend to conduct the business of the English Limited Partnership so that for United Kingdom tax purposes the Partnership is not regarded as carrying on a trade in the United Kingdom. On the basis that the Partnership is a fiscally transparent entity for

tax purposes which is not carrying on a trade in the UK LuxCo 2 will not be subject to UK tax on its share of the Partnership profits.

UK PROJECT ENTITIES

The UK Project Entities will be subject to UK corporation tax, currently at a rate of 30 per cent., on their taxable income. The Luxco 2 should be entitled to receive dividend and interest income from the UK and other EU Project subsidiaries, without tax being withheld at source, subject to the provisions of the EU Parent Subsidiary Directive and the EU Interest and Royalties Directive.

Australian Taxation

AUSTRALIAN WITHHOLDING TAX

Generally, distributions paid from Australian Project Entities may be subject to Australian tax by assessment or withholding, with the rate of tax dependent on the type and tax profile of the Project Entity and also the ownership percentage held in that investment.

Generally for dividends paid to the UK by Australian companies, or entities treated as companies, there will be no Australian withholding tax on franked dividends whereas unfranked dividends are subject to Australian withholding tax of 15 per cent., which may be reduced to 5 per cent. or 0 per cent. in certain circumstances. It is anticipated that the reduced rates of 0 per cent. and 5 per cent. should apply in most instances.

AUSTRALIAN PROJECT ENTITIES

The Australian Project Entities will be held by a UK holding company, BBPP (Aust) Limited, which is a company wholly owned by the Partnership. BBPP (Aust) Limited will be subject to UK corporation tax, currently at a rate of 30 per cent., on its taxable profits. UK tax credits should be available for overseas tax suffered on dividends received from the Australian Project Entities where BBPP (Aust) Limited holds more than 10 per cent. of the shares in the Australian Project Entities.

Taxation of investors in the Company

The following is a summary of the United Kingdom tax considerations relevant to investors in the Company. The summary is based on current UK tax legislation and HM Revenue & Customs practice which maybe subject to change, with or without retrospective effect. These considerations may not apply to certain categories of investors, such as dealers. If Shareholders are in any doubt as to their tax position or if they are subject to tax in any jurisdiction other than the UK, they should consult an appropriate professional adviser immediately. Shareholders should rely only upon advice received from their own tax advisors based upon their own individual circumstances and the laws applicable to them.

General

The Company is a closed-ended company incorporated in Guernsey and therefore the Company should not at the date of the Placing be a "collective investment scheme" as defined in FSMA. Accordingly the provisions of sections 756A to 764 of the Taxes Act should not apply. For so long as the Company is not a collective investment scheme, any disposal of Ordinary Shares by a Shareholder may give rise to a chargeable gain for UK tax purposes.

The following comments only apply to Shareholders who hold their interest in the Company for investment purposes.

DISPOSAL OF SHARES

UK resident shareholders

A disposal of Ordinary Shares by a Shareholder who is (at any time in the relevant United Kingdom tax year or, as the case may be, accounting period) resident or, in the case of an individual, ordinarily resident in the United Kingdom for tax purposes may give rise to a chargeable gain or an allowable loss for the purposes of United Kingdom taxation on chargeable gains, depending on the Shareholder's circumstances and subject to any available exemption or relief.

Gains realised by UK resident individual Shareholders who are not domiciled in the UK will be subject to tax on the remittance basis.

Non UK resident Shareholders

A Shareholder who is not resident nor, in the case of an individual, ordinarily resident in the United Kingdom for UK taxation purposes and whose Ordinary Shares are not attributable to a trade, profession or vocation carried on in the UK through a branch or agency (or permanent establishment) will not be subject to UK tax on any gains realised on a disposal of Ordinary Shares (save as mentioned below in relation to temporarily non UK resident individuals).

Temporary non-UK resident Shareholders

A Shareholder who is an individual who has ceased to be resident or ordinarily resident in the UK for tax purpose for a period of less than five years of assessment and who disposes of Ordinary Shares during that period may also be liable, on his return to the UK, to UK taxation on any chargeable gains subject to any available exemption or relief.

TAXATION OF DISTRIBUTIONS

Dividends

Subject to their personal circumstances, Shareholders resident in the UK for taxation purposes will be liable to United Kingdom income tax or corporation tax on the gross amount of the dividends received. Dividends received by such Shareholders who are within the charge to UK corporation tax will generally be taxed at the prevailing UK corporate tax rate. A Shareholder who is an individual will generally be chargeable to United Kingdom income tax on dividends received from the Company at the dividend ordinary rate (currently 10 per cent. or, to the extent that the amount of the gross dividend when treated as the top slice of his or her income exceeds the threshold for the higher rate tax, at the dividend upper rate (currently 32.5 per cent.)).

UK resident individual Shareholders who are not domiciled in the UK or are resident but not ordinarily resident in the UK will be subject to UK income tax on such dividends on a remittance basis.

Capital distributions

Where a UK resident shareholder receives a capital distribution this will be treated as a part disposal of their holding. The capital gain or loss is calculated as proceeds less proportional base cost calculated under the part disposal rules subject to any available exemption or relief.

STAMP DUTY AND STAMP DUTY RESERVE TAX ("SDRT")

The following comments are intended as a guide to the general stamp duty and SDRT position and do not relate to persons such as market makers, brokers, dealers, intermediaries and persons connected with depository arrangements or clearance services, to whom special rules apply.

UK stamp duty (at the rate of 0.5 per cent. of the amount of the value of the consideration for the transfer rounded up where necessary to the nearest £5) is payable on any instrument of transfer of the Ordinary Shares executed within the UK or, in certain circumstances, on an instrument which is executed offshore but later has to be relied on in the UK. However, no stamp duty will be payable if the instrument of transfer is executed and retained outside the UK, or if there is no instrument of transfer because the transfer is settled electronically via CREST. Provided that there is no register of the Company kept in the UK, any agreement to transfer the Ordinary Shares will not be subject to UK SDRT.

OTHER UNITED KINGDOM TAX CONSIDERATIONS

The Directors have been advised that the Company should not be an offshore fund for the purposes of United Kingdom taxation. However, should the Company become an offshore fund for the purposes of United Kingdom taxation as a result of changes in current UK tax law and/or practice, this will, compared to current UK tax law and practice, have adverse tax consequences for UK taxable shareholders.

The attention of individuals ordinarily resident in the United Kingdom is drawn to the provisions of Sections 739-745 of the Taxes Act. These contain anti-avoidance provisions dealing with the transfer of assets to overseas persons in circumstances which may render such individuals liable to taxation in respect of undistributed profits of the Company.

Individuals holding Ordinary Shares should not expect to qualify for business asset taper relief in relation to those Ordinary Shares, as the Company is not expected to qualify as the holding company of a trading Group.

The Taxes Act contains provisions which subject certain UK resident companies to corporation tax on profits of companies not so resident in which they have an interest. The provisions may affect UK resident companies which are deemed to be interested (together with any connected or associated companies) in at least 25 per cent. of the profits of the non-resident company which is controlled or deemed to be controlled by residents of the UK, which does not distribute substantially all of its income and which is resident in a low tax jurisdiction. The legislation is not directed towards the taxation of chargeable gains.

It is anticipated that the shareholdings in the Company will be such as to ensure that the Company would not be a close company if resident in the UK. If, however the Company were to be close if resident in the UK, then in accordance with Section 13 TCGA 1992, part of any chargeable gains accruing to the Company or the Luxcos may be apportioned to certain UK residents or in the case of an individual, ordinarily resident Shareholders. The Shareholder may thereby become chargeable to capital gains tax or corporation tax on chargeable gains on the gains apportioned to them subject to any available exemption or relief.

Non-UK Investors

Individuals or corporate shareholders who are resident for tax purposes in jurisdictions other than the UK will be taxed according to the rules of that jurisdiction and should seek their own professional advice.

Life Companies

The following paragraphs are intended as general comments on the UK taxation of a UK resident proprietary life assurance company investor in the Company and may not be relevant to all life assurance companies. Hence each life assurance company should obtain its own separate advice. The comments assume that the life assurance company's interest in the Company is held as an investment of its long-term insurance fund, that the company writes basic life and general annuity business ("BLAGAB") and pension business, and that the company is taxed on the "I minus E" basis. The comments also assume that the life company's interest in the Company does not constitute a relevant interest in an offshore fund for the purposes of Section 212 TCGA 1992.

DIVIDEND DISTRIBUTIONS AND DISPOSALS OF SHARES

To the extent that the dividends and chargeable gains on the disposal of the Shares are referable to BLAGAB they will be included in the life company's I minus E computation and will generally be taxed at a rate of between 20 and 30 per cent., with the precise rate applicable depending upon the particular circumstances of the life company.

To the extent that the dividends and chargeable gains are referable to pension business, they should not be taxable directly in the I minus E computation. Investment return attributable to the Shares may, however, be taken into account in determining the taxable profit arising to the company from writing the pension business.

ISAs, PEPs and SIPPs

It is expected that the Ordinary Shares will be eligible for inclusion in PEPs and ISAs (subject to applicable subscription limits) provided that they have been acquired through the Offer for Subscription (but not any Ordinary Shares acquired directly under the Placing) and that they will be permissible assets for SIPPs.

Additional Information



Part VIII



Part VIII Additional Information

1. The Company

1.1 The Company was incorporated as a limited liability company in Guernsey under the Laws on 2 August 2006 with registered number 45241.

1.2 The registered office of the Company is Polygon Hall, PO Box 225, Le Marchant Street, St Peter Port, Guernsey GY1 4HY (telephone: +44 1481 716 000). The Company operates under the Laws and the ordinances and regulations made thereunder.

1.3 An application has been made for consent under the Control of Borrowing (Bailiwick of Guernsey) Ordinances 1959 to 1989 for the issue of this Prospectus and associated raising of funds. Neither the Guernsey Financial Services Commission nor the States of Guernsey Policy Council take any responsibility for the financial soundness of the Company or for the correctness of any statements made or opinions expressed with regard to it.

1.4 The Company's accounting periods terminate on 31 December of each year, the first such period ending on 31 December 2006.

1.5 For the purposes of sections 16 and 29 of the Laws the minimum subscription required before the Company may proceed to allotment shall be three Ordinary Shares.

1.6 There have been no changes in the authorised and issued share capital of the Company since incorporation as summarised in paragraph 2 of this Part VIII of this document.

1.7 On 27 September 2006 the Company's shareholders resolved to change the name of the Company from "Babcock and Brown Public Partnerships Limited" to "Babcock & Brown Public Partnerships Limited". This change of name was approved by the Court on 6 October 2006.

2. Financial Information on the Company

SHARE CAPITAL

2.1 The Company was incorporated with an authorised share capital of £100,000 divided into 1,000,000,000 unclassified shares of 0.01 pence each. The unclassified shares may be issued as Ordinary Shares, as C Shares (in the circumstances described in paragraph 10.2 of this Part VIII) or in such other classes and on such terms and conditions as the Directors may from time to time determine.

2.2 Two Ordinary Shares issued were issued for the purposes of incorporation to the subscribers to the Memorandum of Association. Both such Ordinary Shares will be transferred to Babcock & Brown on Admission.

2.3 On 9 October 2006, the shareholders of the Company passed a special resolution in writing:

- (a) authorising the Company to make market purchases (within the meaning of section 5 of the Companies (Purchase of Own Shares) Ordinance 1998) of the Ordinary Shares; and
- (b) cancelling the amount standing to the credit of the share premium account of the Company, conditional on the confirmation of the Court and upon the Issue Agreement becoming unconditional, and crediting an equivalent amount to a distributable reserve as described in paragraph 2.5 below.

2.4 In accordance with the power granted to the Board by the Articles, it is expected that (assuming the Issue is fully subscribed) 299,999,998 unclassified shares will be issued as Ordinary Shares and allotted pursuant to a resolution of the Board to be passed prior to and conditional upon Admission.

2.5 On 9 October 2006, the Company passed a special resolution to reduce the share capital of the Company by cancelling the whole amount standing to the credit of the share premium account

following completion of the Issue (less any Issue expenses set off against that account) and to credit an equivalent amount to the Company’s distributable reserves. This resolution is conditional upon confirmation from the Court and upon the Issue Agreement becoming unconditional. In accordance with the Laws, the Directors intend to apply to the Court for an order confirming such cancellation of the share premium account as soon as practicable following Admission. Subject to any undertaking to be given to the Court and to the Issue Agreement becoming unconditional, the reserve created on such cancellation will be available as a distributable reserve to be used for all purposes permitted by the Laws, including the buy-back of Ordinary Shares and the payment of distributions. There can be no guarantee that the Court will approve the reduction of capital.

2.6 There are no provisions of Guernsey law which confer rights of pre-emption in respect of the allotment of any class of shares and the allotment of Ordinary Shares will not be made on a pre-emptive basis.

2.7 Other than in respect of the allocation of up to 10 per cent. of the Ordinary Shares comprised in the Issue to the Arranger or to another member of the Babcock & Brown group, no share or loan capital of the Company is under option or has been agreed, conditionally or unconditionally, to be put under option.

2.8 The authorised share capital and the maximum issued share capital of the Company (all of which will be fully paid) immediately following the Issue (assuming the Issue is fully subscribed) will be as follows:

	Authorised		Issued	
	No. of shares	Nominal (£)	No. of shares	Nominal (£)
Ordinary Shares	300,000,000	30,000	300,000,000	30,000
Unclassified Shares	700,000,000	70,000	0	0

2.9 Save as disclosed in this Part VIII and pursuant to the Issue, since the date of its incorporation no share or loan capital of the Company has been issued or agreed to be issued, or is now proposed to be issued, either for cash or any other consideration, and no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the Issue or sale of any such capital.

2.10 All of the Ordinary Shares will be in registered form and eligible for settlement in CREST. Temporary documents of title will not be issued.

WORKING CAPITAL AND INDEBTEDNESS

2.11 Taking into account minimum net proceeds of the Issue of £200,000,000, the Company is of the opinion that the Group has sufficient working capital for its present requirements, that is for 12 months from the date of this document.

2.12 The Company has the power to borrow—details are set out under the heading “Borrowing Policy” in Part I of this document.

2.13 As at the date of this document, the Company has no guaranteed, secured, unguaranteed or unsecured debt and no indirect or contingent indebtedness. As at the date of this document the share capital of the Company is as follows:

Issued nominal share capital	0.02 pence
Authorised share capital	£100,000
Legal reserve	—
Other reserves	—

2.14 The Directors confirm that the Company has not commenced operations, nor have any accounts been made up since incorporation.

2.15 There has been no significant change in the financial or trading position of the Company from the date of incorporation to the date of this Prospectus.

3. Holding Entities: Luxcos

As explained in Part I of this document, the Company will hold its assets through two Luxembourg companies, each being a “société à responsabilité limitée” (“Sàrl”) (broadly the equivalent of a private company), and each qualifying as a SOPARFI. The status of SOPARFI is relevant for the tax treatment of the investment structure as explained under the heading “Holding Entities” in Part I above. The Luxcos have been established, and Luxco 2 is the sole limited partner in the Partnership.

4. The Partnership

4.1 The Partnership was registered on 26 September 2006 as a limited partnership under the Limited Partnerships Act 1907 of the UK with the name Babcock & Brown Public Partnerships Limited Partnership with registered number LP11596. The principal place of business of the Partnership is at 7th floor 1 Fleet Place London EC4M 7NR. The Partnership is governed by a Limited Partnership Agreement dated 10 October 2006 between Babcock & Brown Public Partnerships GP Limited (a wholly-owned special purpose subsidiary of Babcock & Brown International Holdings Pty Limited and as such a Babcock & Brown group company) as general partner and Luxco 2 as limited partner. Babcock & Brown Investment Management Limited has been appointed as Operator by the Operating Agreement dated 10 October 2006. The management and operation of the Partnership on the intended basis may amount to the regulated activity of operating a collective investment scheme under UK legislation. In order to lawfully carry on a regulated activity in the UK, a person must be authorised by the FSA to carry on the activity in question unless an exemption applies. As such, BBIML, which has been authorised by the FSA, to carry on, amongst other things, the regulated activity of operating a collective investment scheme, has been appointed as Operator to manage and operate the Partnership.

4.2 Under the Limited Partnership Agreement, the General Partner has full discretion to acquire, dispose of and manage the assets of the Partnership, subject to investment guidelines which reflect the investment strategy, policy and restrictions applying to the Company as set out in the Prospectus (or to appoint on behalf of the Partnership a person that is authorised by the FSA to so manage the assets of the Partnership). The General Partner (or any Operator appointed by the Partnership) may effect borrowings for the Partnership within limits to be prescribed by the limited partner.

4.3 The Limited Partnership Agreement provides that the General Partner will not be liable for its losses incurred by the Partnership in the absence of gross negligence, fraud, gross professional misconduct, wilful default, wilful illegal act or any conscious and material breach of its obligations under the Limited Partnership Agreement. The General Partner and its agents and employees are entitled to be indemnified out of the Partnership assets against claims, costs, damages or expenses incurred or threatened by reason of their acting as such, subject to the same exceptions.

4.4 Under the Limited Partnership Agreement, the General Partner is entitled to distributions equal to the Base Fee and Incentive Fee, save that any such distributions to the General Partner under the Limited Partnership Agreement shall be offset against any payments in respect of the Base Fee and Incentive Fee to the Investment Adviser pursuant to the Investment Advisory Agreement. The General Partner is also entitled to an amount as agreed between Luxco 2 (as limited partner) and the General Partner as being the sum spent on the General Partner's or the Operator's corporate overheads incurred in providing services in respect of the Group (including employee costs, office rental and IT software and hardware).

4.5 The General Partner can be removed and replaced in certain circumstances such as the material breach of its obligations under the Limited Partnership Agreement, insolvency (or analogous event) (subject to replacement by a similarly constituted Babcock & Brown group company that is not

insolvent or subject to any analogous event) or if the Investment Advisory Agreement or Operating Agreement is terminated. On the retirement or replacement of BBIML as Investment Adviser and/or Operator, the General Partner can be required to continue as general partner of the Partnership, save that the General Partner's powers will be limited to appointing a replacement operator on such terms to be approved by Luxco 2, and the General Partner shall not be entitled to any remuneration for so acting. The terms upon which the Investment Advisory Agreement and Operating Agreement can be terminated and BBIML removed as Investment Adviser and Operator are described at paragraph 11 of this Part VIII.

4.5 The Partnership has no assets or liabilities at the date of this document, other than a nominal amount of partnership capital contributed by Luxco 2. Luxco 2 will remain the sole limited partner in the Partnership and Luxco 2 will fund the Partnership's obligations under the Acquisition Agreements as explained on pages 27 and 61.

5. Investment Restrictions Under the Listing Rules

5.1 The Company will comply with the investment restrictions imposed by the Listing Rules from time to time. As at the date of this document the Listing Rules require that the Company must not:

- (a) invest more than 10 per cent. in aggregate of the value of the gross assets of the Company, at the time of Admission or at the time of a new investment, in other investment companies or investment trusts which are listed on the Official List (save to the extent that those investment companies or investment trusts have stated policies to invest no more than 15 per cent. of their gross assets in other investment companies or investment trusts which are listed on the Official List);
- (b) conduct a trading activity which is significant in the context of this Group as a whole;
- (c) take legal or management control of the underlying investments in the Partnership's portfolio;
- (d) (other than in respect of the Holding Entities) lend to any one company or group, or invest in the securities of any one company or group, more than 20 per cent. of its total assets (at the time the investment or loan is made);
- (e) pay dividends unless they are covered by income received from underlying investments; and
- (f) distribute as dividend, surpluses arising from the realisation of investments.

5.2 The Listing Rules require that the Company is a passive investor in that it does not take legal or management control of investments, and to meet this requirement the Group will, unless otherwise agreed by the UK Listing Authority, only acquire majority control of a Project Entity in circumstances where the Partnership will, in substance, have only a passive economic interest in the Project Entity. Regardless of whether the Partnership has majority control of a Project Entity, the Partnership's interest in a Project is by its nature passive because the freedom of the Project Entity to carry on its business is limited to the performance of a fixed, long term concession with restrictive financing arrangements and long term service contracts. Further, in those situations where the Partnership may be able to exercise control over the Project Entity (for example where the Partnership is interested in the senior debt in respect of a project) the Company's Articles of Association and the Limited Partnership Agreement provide that the Group is not able to exercise control over a Project Entity in relation to carrying out any activity other than its project activity without the prior approval of the Shareholders in general meeting. Whilst any such approval may be given by Shareholders in general meeting, Shareholders should note that the grant of any such approval would (unless otherwise agreed by the UKLA) affect the Company's ability to comply with the Listing Rules.

5.3 The Listing Rules may be amended or replaced over time. To the extent that the above investment restrictions are no longer imposed under the Listing Rules, those investment restrictions shall not apply to the Company.

5.4 In the event of any breach of the investment restrictions applicable to the Company, Shareholders will be informed of the actions to be taken by the Company by notice sent to the

registered addresses of the Shareholders in accordance with the Articles or by an announcement issued through a Regulatory Information Service.

6. Directors' and Other Interests

6.1 The Directors shall be remunerated for their services at such rate as the Directors shall from time to time determine. The aggregate remuneration and benefits in kind of the Directors in respect of the Company's accounting period ending on 31 December 2006 which will be payable out of the assets of the Company is not expected to exceed £60,000. It is expected that each of the Directors will receive Directors' fees of £25,000 per annum save for the Chairman who will receive £30,000 per annum. No Director of the Company has waived or agreed to waive future emoluments nor has any Director waived any such emolument during the current financial year. While Giles Frost is an employee of Babcock & Brown, his Director's emoluments will be paid to Babcock & Brown. No commissions or performance related payments have been or will be made to the Directors by the Company. The aggregate remuneration of the Directors shall not exceed £125,000 per annum (or such other sum as the Company in general meeting shall determine).

6.2 No Director has a service contract with the Company, nor are any such contracts proposed. The Directors were appointed as non-executive directors by the subscribers to the Memorandum of Association on the incorporation of the Company. Their appointments were confirmed by letters dated 29 September 2006, and their appointments are subject to the Articles. The Directors' appointments can be terminated in accordance with the Articles without notice and without compensation.

6.3 No loan has been granted to, nor any guarantee provided for the benefit of, any Director by the Company.

6.4 As stated in Part V of this document, Giles Frost is an employee with Babcock & Brown whose subsidiary Babcock & Brown Investment Management Limited is the Investment Adviser and Operator.

6.5 None of the Directors has, or has had, any material personal interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company or which has been effected by the Company since its incorporation.

6.6 The Company expects within the period of twelve months from the date of Admission to appoint one or more additional Directors who will also be non-executive.

7. Other Directorships

In addition to their directorships of the Company, the Directors are or have been, members of the administrative, management or supervisory bodies or partners of the following companies or partnerships, at any time in the previous five years:

KEITH DORRIAN

Current Directorships and Partnerships:

AB Alternative Strategies PCC Limited
AB Asia Pacific Growth Fund Limited
AB International Fund PCC Limited
Arab Bank Fund Managers (Guernsey) Limited
ACUS (Channel Islands) Ltd
Ashmore Management Company Ltd
Assetholder PCC No 2 Ltd
Danube Property Fund Limited
Eagle & Dominion EuroAmerican Growth Fund Limited
Eagle & Dominion Limited
Elven Investments Limited
Eurocastle Investments Limited
Guernsey Training Agency Limited
HCIF Index Sub Fund Limited

Helios Alternative Strategies Limited
Hermes Absolute Return Fund (Guernsey) Limited
Hermes Commodities Investment Fund Limited
HSBC Global Absolute Limited
Jade Asia Pacific Fund Inc
Jade (General Partner) Inc
MasterCapital Fund Limited
Montier Long Short Equity Fund of Funds Limited
Montier Mulh strategy Fund of Funds Limited
Montier Asset Management Limited
Montier High Alpha Fund of Funds Limited
Montier High Alpha Closed end Fund of Funds Limited
Montier Multi Strategy Closed End Fund of Funds Limited
UK Commercial Property Trust Limited
City Road Investment PCC Ltd
K A N Consulting Limited

Past Directorships and Partnerships:

Boyer Allan Japan Fund Inc
Boyer Allan Management Limited
Boyer Allan Pacific Fund Inc
Boyer Allan (Holding) Inc
Dalton Capital (Guernsey) Limited
Dalton General Partner Limited
Delphi Global Fund Limited
Finch Management and Marketing Limited

Henderson Management Company (Guernsey) Limited
H R Properties Limited
Management International (Guernsey) Limited
Port Fund Managers (Guernsey) Limited
The Finch Fund Limited
The Finch Innovation Fund Limited
The Sherpa Fund Limited
Total Return Alternative Strategies Limited

RUPERT DOREY

Current Directorships and Partnerships:

AAA Guernsey Ltd
Acencia Debt Strategies Ltd
AP Alternative Assets LP
Celadon Fund PCC Ltd
Clifford Estates Company Ltd
Clifford Estates Company (Chattels) Ltd.
Cognis General Partner Ltd
Dexion Alpha Strategies Ltd
Endurance High Performance Fund Ltd
Episode Inc
Episode LLP
Green Park Capital Investment Management Ltd
KGR Absolute Return Fund PCC Ltd

MAISF PCC Central European Long Short Fund Ltd
MAISF PCC Convertible Bond Arbitrage Fund Ltd
MAISF PCC G7 Fixed Income Fund Ltd
MAISF PCC Socially Responsible Investment Long Short Fund Ltd
M&G General Partner Inc
Niche Opportunities Fund
Onesimus Dorey (Holdings) Ltd
Partners Group Global Opportunities Ltd
PSolve Alternatives PCC Ltd
Tetragon Credit Income Fund Ltd
Tetragon Credit Income Master Fund Ltd

GILES FROST

Current Directorships and Partnerships:

Abingdon Limited
Afteracross Limited
BBG LIFT Accommodation Services Limited
Bexley Bromley and Greenwich LIFT Company
BBG Holdco Limited
Babcock & Brown (Derbyshire Courts) Limited
Babcock & Brown (PPP) Limited
Babcock & Brown PFI Holdings Limited
Babcock & Brown Properties (Abingdon) Limited
Babcock & Brown Properties (Bootle) Limited
Babcock & Brown Properties (Calderdale Schools) Limited
Babcock & Brown Properties (Derbyshire Schools Phase Two) Limited
Babcock & Brown Properties (Derbyshire Schools) Limited
Babcock & Brown Properties (H&W Courts) Limited
Babcock & Brown Properties (Norfolk) Limited
Babcock and Brown Properties (Rhyl St Asaph) Limited
Babcock & Brown Properties (St Thomas More) Limited
Babcock & Brown Properties (Strathclyde) Limited
Babcock & Brown (Tower Hamlets Schools) Limited
St Thomas More Limited
STM (H) Limited
Strathclyde Limited
Taskmore Limited
TH (11th Hour) Limited
Tower Hamlets Schools Limited
Tower Hamlets Holdings Limited
Wellesley Barracks Limited
Wyndham Limited
East London Lift Holdco No2 Limited
East London Lift Accommodation Services No2 Limited

Babcock & Brown Properties Limited
Babcock & Brown Properties No. 2 Limited
Black Country STM Limited
Bootle PFI Solutions 1998 (2) Limited
Bootle Derby Holdings Limited
Calderdale Schools Limited
Derbyshire Courts (Property Co-Trustee) Limited
Derbyshire Courts Limited
Derbyshire Schools Phase Two Limited
Derbyshire Schools Limited
East London Lift Accommodation Services Limited
East London Lift Company Limited
East London Lift Investments Limited
East London Schools Limited
Fieldsecond Limited
H&W Courts Limited
Lift Healthcare Investments Limited
Lift Investors Limited
Long Eaton School Limited
Maesteg School Limited
Maesteg School (Babcock & Brown) Limited
Maesteg School (Bridgerd) Limited
Narville Limited
NW (BBP) Limited
Peak Courts Limited
Rhyl St Asaph Limited

Past Directorships and Partnerships:

CHGP-CILP Limited
CIGP-IFLP Limited
Canjam Limited
Healthcare Improvement Partnership (Wolverhampton City and Walsall) Limited

Infracare Group Limited
Infracare Capital Limited
Infracare Partnering Limited
Infracare (South) Limited
WISP Newport LP Limited
WISP Newport GP Limited
WISP Newport (Property Co-Trustee) Limited
WISP Swansea LP Limited
WISP Swansea GP Limited
WISP Swansea (Property Co-Trustee) Limited
WISP Properties Limited
WISP Strategic Partnership Limited

IFGP Limited
Wolverhampton City and Walsall Holdco Limited
Wolverhampton City and Walsall LIFT Accommodation Services Limited

7.1 At the date of this document, none of the Directors:

(a) has any convictions in relation to fraudulent offences for at least the previous five years;

- (b) has been bankrupt, a director of any company or been a member of the administrative management or supervisory body of an issuer or a senior manager of an issuer at the time of any receivership or compulsory or creditors' voluntary liquidation for at least the previous five years; or
- (c) has been subject to any official public incrimination or sanction of him by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a director of a company or from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer, for at least the previous five years.

7.2 Giles Frost and Keith Dorrian have indicated their intention to subscribe for Ordinary Shares under the Offer for Subscription. No other Director holds or expects to subscribe for any Ordinary Shares under the Offer for Subscription or Placing. The aggregate holding of the Directors is expected to be less than 1 per cent. of the Issue.

7.3 The Company will maintain directors' and officers' liability insurance on behalf of the Directors at the expense of the Company.

7.4 The business address of the Directors is Polygon Hall, PO Box 225, Le Marchant Street, St Peter Port, Guernsey, GY1 4HY.

8. Major Interests

8.1 As at the date of this document and on the basis that the Issue proceeds, the Company is not aware of any persons other than Babcock & Brown (or another member of its group as it may direct) who, immediately following Admission, will be interested, directly or indirectly, in three per cent. or more of the issued share capital of the Company. Babcock & Brown has committed to the Company that either itself or another member of the Babcock & Brown group will subscribe for the lesser of at least 10 per cent. or 25,000,000 of the Ordinary Shares to be issued pursuant to the Issue.

8.2 Those interested, directly or indirectly, in three per cent. or more of the issued share capital of the Company do not now and, following the Issue, will not, have different voting rights from other holders of shares in the Company.

8.3 The Company is not aware of any person who directly or indirectly, jointly or severally, will exercise or could exercise control over the Company immediately following the Issue.

9. Memorandum of Association

The Memorandum of Association of the Company provides that the objects of the Company include carrying on business as an investment company. The objects of the Company are set out in full in clause 3 of the Memorandum of Association, a copy of which is available for inspection at the addresses specified in paragraph 14 of this Part VIII.

10. Articles of Association

10.1 VOTES OF MEMBERS

Subject to the restrictions referred to below and subject to any special rights or restrictions for the time being attached to any class of shares, every member (being an individual) present in person or by proxy or (being a corporation) present by a duly authorised representative at a general meeting has, on a show of hands, one vote and, on a poll, one vote for every share held by him.

10.2 SHARES

Ordinary Shares of 0.01p each

(a) **Income**

Holders of Ordinary Shares are entitled to participate in any dividends or other distributions out of the profits of the Company available for dividend or distribution and resolved to be distributed in respect of any accounting period or any other income right to participate therein.

(b) **Capital**

Holders of Ordinary Shares are entitled on the winding-up of the Company to receive out of the assets of the Company available for distribution an amount equal to the nominal value of the Ordinary Shares plus any surplus remaining after payment of the nominal value of the Ordinary Shares (and the nominal value of the nominal shares in issue at the time).

C Shares

In order to prevent the issue of further shares diluting the existing Shareholders' share of the NAV of the Company, if the Directors consider it appropriate they may issue further shares as "C Shares". C Shares constitute a temporary and separate class of shares which are issued at a fixed price determined by the Company. It is expected that the issue proceeds from the issue of C Shares will be invested in a new portfolio of investments, which will initially be attributed solely to the C Shares. Once the further investments have been made, the C Shares will be converted into Ordinary Shares on a basis which reflects the respective net assets per share represented by the two classes of shares. The Articles contain full details of the conversion mechanism and the rights attaching to the C Shares.

10.3 DIVIDENDS AND DISTRIBUTIONS

- (a) The Company in general meeting may declare a dividend but no dividend shall exceed the amount recommended by the Directors.
- (b) The Company may make distributions of capital in accordance with the Laws and the Articles save that the distribution by way of dividend of the Company's surpluses arising from the realisation of investments is prohibited. Whenever a distribution falls to be considered by the Board, the Directors will consider whether to distribute a dividend or otherwise.
- (c) The Directors may if they think fit at any time declare and pay such interim dividends as appear to be justified by the position of the Company.
- (d) All unclaimed dividends may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee thereof. No dividend shall bear interest against the Company. Any dividend unclaimed after a period of twelve years from the date of declaration or payment of such dividend shall be forfeited and shall revert to the Company.
- (e) The Directors are empowered to create reserves before recommending or declaring any dividend. The Directors may also carry forward any profits which they think prudent not to distribute by dividend.

10.4 ISSUE OF SHARES

- (a) Without prejudice to any special rights conferred on the holders of any class of shares, any share in the Company may be issued with or have attached thereto such preferred, deferred or other special rights, or such restrictions whether in regard to dividend, return of capital, voting or otherwise as the Company may from time to time by ordinary resolution determine and, subject to and in default of such resolution, as the Directors may determine.
- (b) Subject to the Articles, the unissued shares shall be at the disposal of the Directors, and they may allot, grant options over or otherwise dispose of them to such persons, at such times and generally on such terms and conditions as they determine.

- (c) The Company may on any issue of shares pay such commission as may be fixed by the Directors and disclosed in accordance with the Laws. The Company may also pay brokerages.

10.5 VARIATION OF RIGHTS

If at any time the capital of the Company is divided into separate classes of share, the special rights attached to any class of shares may (unless otherwise provided by the terms of issue) be varied with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of such shares. The necessary quorum shall be two persons holding or representing by proxy at least one third of the issued shares of the class. Every holder of shares of the class concerned shall be entitled at such meeting to one vote for every share held by him on a poll. The rights conferred upon the holders of any shares or class of shares issued with preferred, deferred or other rights shall not be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith or the exercise of any power under the disclosure provisions requiring shareholders to disclose an interest in the Company's shares as set out in the Articles.

10.6 RESTRICTION ON VOTING

A member of the Company shall not be entitled in respect of any share held by him to attend or vote (either personally or by representative or by proxy) at any general meeting or separate class meeting of the Company:

- (a) unless all amounts due from him or such share have been paid; or
- (b) in the circumstances mentioned in paragraph 10.7 below.

10.7 NOTICE REQUIRING DISCLOSURE OF INTEREST IN SHARES

The Directors may serve notice on any member requiring that member to disclose to the Company to the satisfaction of the Directors the identity of any person (other than the member) who has an interest in the shares held by the member and the nature of such interest. Any such notice shall require any information in response to such notice to be given within such reasonable time as the Directors may determine.

The Directors may be required to exercise these powers on a requisition of members holding not less than one tenth of the paid up capital of the Company carrying the right to vote at general meetings. If any member is in default in supplying to the Company the information required by the Company within the prescribed period, the Directors in their absolute discretion may serve a direction notice on the member. The direction notice may direct that in respect of the shares in respect of which the default has occurred (the "**default shares**") and any other shares held by the member, the member shall not be entitled to vote in general meetings or class meetings. Where the default shares represent at least 0.25 per cent. of the class of shares concerned the direction notice may additionally state that dividends and distributions on such shares will be retained by the Company (without interest) and that no transfer of the shares (other than a transfer authorised under the Articles) shall be registered until the default is rectified.

10.8 TRANSFER OF SHARES

In respect of those Ordinary Shares held in certificated form, the following shall apply to the transfer of Ordinary Shares held in such form:

- (a) subject as provided below, any Shareholder may transfer all or any of his Ordinary Shares by instrument of transfer in any usual or common form which the Directors may approve. The instrument of transfer of any Ordinary Shares shall be signed by or on behalf of the transferor (and in the case of a partly paid share by the transferee also); and
- (b) an instrument of transfer should be lodged at the registered office accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to prove the title of the transferor or to show the right of the transferor to make the transfer.

The Board may, in its absolute discretion, refuse to register a transfer:

- (a) of any share which is not fully paid up or on which the Company has a lien provided that, in the case of a listed share, this would not prevent dealings from taking place on an open and proper basis;
- (b) if it is in respect of more than one class of share;
- (c) if it is in favour of more than four joint transferees;
- (d) of a certificated share, if the transfer, having been delivered for registration to the registered office or such other place as the Board may decide, is not accompanied by the certificate for the shares to which it related and such other evidence as the Board may reasonably require to prove title of the transferor and the due execution by him of the transfer or, if the transfer is executed by some other person on his behalf, the authority of that person to do so; and
- (e) The Board may refuse to register a proposed transfer of a certificated share to any person who may cause or is likely to cause the assets of the Company to be considered "plan assets" within the meaning of the regulations adopted under ERISA or which holding would or might result in the Company being required to register or qualify under the Investment Company Act.

The registration of transfers of Ordinary Shares whether held in certificated or uncertificated form may be suspended at such times and for such periods as the Board may from time to time determine provided that such suspension shall not be for more than 30 days in any year.

10.9 COMPULSORY TRANSFER OF SHARES

If it shall come to the notice of the Directors that any shares:

- (a) are or may be owned or held directly or indirectly by any other holder of shares or other securities of the Company or any person that is a pension or other benefit plan subject to Title I of the United States Employee Retirement Income Security Act of 1974, as amended ("**ERISA**") and in the opinion of the Directors the assets of the Company may be considered "plan assets" within the meaning of regulations adopted under ERISA; or
- (b) are or may be owned or held directly or beneficially such that the aggregate number of United States Persons who are holders or beneficial owners (which for these purposes shall include beneficial ownership by attribution pursuant to Section 3(c)(1)(A) of the Investment Company Act) of shares or other securities of the Company and who are Private Offering Holders (as defined in the Articles) is or may be more than 75; or
- (c) are or may be owned or held directly or beneficially by any person to whom a transfer of shares or whose ownership or holding of any shares might in the opinion of the Directors require registration of the Company as an investment company under the Investment Company Act,

the Directors may serve a written notice (a "**Transfer Notice**") upon the person (or any one of such persons where shares are registered in joint names) appearing in the register as the holder (the "**Vendor**") of any of the shares concerned (the "**Relevant Shares**") requiring the Vendor within 21 days (or such extended time as in all the circumstances the Directors consider reasonable) to transfer (and/or procure the disposal of interests in) the Relevant Shares to another person who, in the sole and conclusive determination of the Directors, would not fall within paragraph (a) or (c) above and whose ownership or holding of such shares would not result in the aggregate number of Private Offering Holders who are beneficial owners or holders of shares or other securities of the Company being 75 or more (such a person being hereinafter called an "**Eligible Transferee**"). On and after the date of such Transfer Notice, and until registration of a transfer of the Relevant Share to which it relates pursuant to the provisions referred to in this paragraph 10.9, the rights and privileges attaching to the Relevant Shares will be suspended and not capable of exercise.

If within 21 days after the giving of a Transfer Notice (or such extended time as in all the circumstances the Directors consider reasonable) the Transfer Notice has not been complied with to

the satisfaction of the Directors, the Company may sell the Relevant Shares on behalf of the holder thereof, subject to the Guernsey CREST Regulations, by instructing a member firm of the London Stock Exchange to sell them at the best price reasonably obtainable at the time of sale, to any Eligible Transferee or Eligible Transferees. To give effect to a sale, the Directors may authorise in writing any officer of the Company or any officer or employee of the secretary of the Company to transfer the Relevant Shares on behalf of the holder thereof (or any person who is automatically entitled to the shares by transmission or by law), or to cause the transfer of the Relevant Shares, to the purchaser and in relation to an uncertificated share may require the operator to convert the share into certificated form in accordance with the requirements of CREST applicable to the Company and an instrument of transfer executed by that person will be as effective as if it had been executed by the holder of, or the person entitled by transmission to, the Relevant Shares. The purchaser is not bound to see to the application of the purchase money and the title of the transferee is not affected by any irregularity in or invalidity of the proceedings connected to the sale.

The net proceeds of the sale of the Relevant Shares, after payment of the Company's costs of the sale, will be received by the Company, whose receipt will be a good discharge for the purchase moneys, and will belong to the Company and, upon their receipt, the Company will become indebted to the former holder of, or person who is automatically entitled to the shares by transmission or by law to, the Relevant Shares for an amount equal to the net proceeds of transfer upon surrender by him or them, in the case of certificated shares, of the certificate for the Relevant Shares which the Vendor shall forthwith be obliged to deliver to the Company. The Company is deemed to be a debtor and not a trustee in respect of that amount for the member or other person. No interest will be payable on that amount and the Company will not be required to account for money earned on it. The amount may be employed in the business of the Company or as it thinks fit. The Company may register or cause the registration of the transferee as holder of the Relevant Shares and thereupon the transferee will become absolutely entitled thereto.

A person who becomes aware that he falls within any of paragraphs 10.9(a), or 10.9(c) above or, being a Private Offering Holder and a beneficial owner or holder of shares, becomes aware that the aggregate number of Private Offering Holders who are beneficial owners or holders of shares or other securities of the Company is more than 75, shall forthwith, unless he has already received a Transfer Notice pursuant to the provisions referred to in paragraph 10.9 above either transfer the shares to one or more Eligible Transferees or give a request in writing to the Directors for the issue of a Transfer Notice in accordance with the provisions referred to above. Every such request shall, in the case of certificated shares, be accompanied by the certificate(s) for the shares to which it relates.

Subject to the provisions of the Articles, the Directors will, unless any Director has reason to believe otherwise, be entitled to assume without enquiry that none of the shares are held in such a way as to entitle the Directors to serve a Transfer Notice in respect thereof. The Directors may, however, at any time and from time to time call upon any holder (or any one of joint holders or a person who is automatically entitled to the shares by transmission or by law) of shares by notice in writing to provide such information and evidence as they require upon any matter connected with or in relation to such holder of shares. In the event of such information and evidence not being so provided within such reasonable period (not being less than 21 clear days after service of the notice requiring the same) as may be specified by the Directors in the said notice, the Directors may, in their absolute discretion, treat any share held by such a holder or joint holders or a person who is automatically entitled to the shares by transmission or by law as being held in such a way as to entitle them to serve a Transfer Notice in respect thereof.

The Directors will not be required to give any reasons for any decision, determination or declaration taken or made in accordance with these provisions. The exercise of the powers conferred by the provisions referred to in paragraphs in this paragraph 10.9 may not be questioned or invalidated in any case on the grounds that there was insufficient evidence of direct or beneficial ownership or holding of shares by any person or that the true direct or beneficial owner or holder of any shares was otherwise than as appeared to the Directors at the relevant date provided that the said powers have been exercised in good faith.

10.10 ALTERATION OF CAPITAL AND PURCHASE OF SHARES

The Company may from time to time by ordinary resolution increase its share capital by such sum to be divided into shares of such amount as the resolution may prescribe.

The Company may from time to time, subject to the provisions of the Laws, purchase its own shares (including any redeemable shares) in any manner authorised by the Laws.

The Company may by ordinary resolution: consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares; subdivide all or any of its shares into shares of a smaller amount than is fixed by the Memorandum of Association; cancel any shares which at the date of the resolution have not been taken or agreed to be taken and diminish the amount of its authorised share capital by the amount of shares so cancelled.

The Company may by special resolution reduce its share capital, any capital redemption reserve fund or any share premium account in any manner and with and subject to any authorisation and consent required by the Laws.

10.12 INTERESTS OF DIRECTORS

- (a) Save as mentioned below, a Director may not vote or be counted in the quorum on any resolution of the Directors (or a committee of the Directors) in respect of any matter in which he has (together with any interest of any person connected with him) a material personal interest (other than by virtue of his interest in shares or debentures or other securities of the Company).
- (b) A Director shall be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters:
 - (i) the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or any other person at the request of or for the benefit of the Company or any of its subsidiaries;
 - (ii) the giving of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director himself has assumed responsibility in whole or in part and whether alone or jointly with others under a guarantee or indemnity or by the giving of security;
 - (iii) the offer of securities of the Company or its subsidiaries in which offer he is or may be entitled to participate or in the underwriting or sub-underwriting of which he is to participate;
 - (iv) any proposal concerning any other company in which he is interested, directly or indirectly, as an officer or shareholder or otherwise, provided that he, together with persons connected with him, is not to his knowledge the holder of or beneficially interested in one per cent. or more of any class of the equity share capital of any such company or of the voting rights of such company;
 - (v) any arrangement for the benefit of any employees of the Company or any of its subsidiaries which accords to the Director only such privileges and advantages as are generally accorded to the employees to whom the arrangement relates; or
 - (vi) any proposal for the purchase or maintenance of insurance for the benefit of Directors or persons including the Directors.
- (c) A Director, notwithstanding his interest, may be counted in the quorum present at any meeting whereat he or any other Director is appointed to hold any such office or place of profit under the Company, or where the terms of appointment are arranged and he may vote on any such appointment other than his own appointment or the terms thereof.
 - (i) Any Director may act by himself or by his firm in a professional capacity for the Company and he or his firm shall be entitled to remuneration for professional services as if he were not a Director.

- (ii) Any Director may continue to be or become a director, managing director, manager or other officer or member of a company in which the Company is interested, and any such Director shall not be accountable to the Company for any remuneration or other benefits received by him.

10.13 DIRECTORS

- (a) The Directors shall be remunerated for their services at such rate as the Directors shall determine provided that the aggregate amount of such fees shall not exceed £125,000 per annum (or such other sums as the Company in general meeting shall from time to time determine). The Directors shall also be entitled to be paid all reasonable expenses properly incurred by them in attending general meetings, board or committee meetings or otherwise in connection with the performance of their duties.
- (b) If any Director having been requested by the Directors shall render or perform extra or special services or shall travel or go to or reside in any country not his usual place of residence for any business or purpose of the Company he shall be entitled to receive such sum as the Directors may think fit for expenses and also such remuneration as the Directors may think fit either as a fixed sum or as a percentage of profits or otherwise and such remuneration may as the Directors shall determine be either in addition to or in substitution for any other remuneration which he may be entitled to receive.
- (c) A Director may hold any other office or place of profit under the Company (other than the office of auditor) in conjunction with his office of Director on such terms as the Directors may determine.
- (d) The Directors may from time to time appoint one or more of their body (other than a Director resident in the UK) to the office of managing director or to any other executive office for such periods and upon such terms as they determine.
- (e) The Directors may at any time appoint any person to be a Director either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until, and shall be eligible for re-election at, the next general meeting following his appointment but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at that meeting if it is an annual general meeting. Without prejudice to those powers, the Company in general meeting may appoint any person to be a Director either to fill a casual vacancy or as an additional Director.
- (f) At the first annual general meeting of the Company all of the Directors shall retire from office. At each annual general meeting thereafter, one-third of the Directors (or if their number is not three or an integral multiple of three), the number nearest to, but (except where there are less than three Directors) not greater than one-third shall retire from office.
- (g) Subject to the provisions of the Articles, the Directors to retire by rotation on each occasion shall be those of the Directors who have been longest in office since their last appointment or re-appointment but, as between persons who became or were last re-appointed Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot. In addition, any Director who would not otherwise be required to retire at any annual general meeting which is the third annual general meeting after the later of his appointment by the Company in general meeting and re-election as a Director of the Company in general meeting, shall nevertheless be required to retire at such annual general meeting.
- (h) The maximum number of Directors shall be seven and the minimum number of Directors shall be two. The majority of the Directors shall at all times be resident outside the UK.
- (i) Unless otherwise fixed by the Company in general meeting, a Director shall not be required to hold any qualification shares.
- (j) Each Director is required to retire at 70 years of age.

- (k) The office of Director shall be vacated if the Director resigns his office by written notice, if he shall have absented himself from meetings of the Directors for a consecutive period of six months and the Directors resolve that his office shall be vacated, if he becomes of unsound mind or incapable, if he becomes insolvent, suspends payment or compounds with his creditors, if he is requested to resign by written notice signed by all his co-Directors, if the Company in general meeting by ordinary resolution shall declare that he shall cease to be a Director, or if he becomes resident in the UK and, as a result, a majority of the Directors are resident in the UK.
- (l) The Directors may appoint a Chairman, who will not have a second or casting vote.

10.14 GENERAL MEETINGS

Notice for any general meeting shall be sent by the secretary of the Company or any other person appointed by the Directors not less than fourteen days before the meeting. The notice must specify the time and place of the general meeting and, in the case of any special business, the general nature of the business to be transacted. With the consent in writing of all the members, a meeting may be convened by a shorter notice or at no notice in any manner they think fit. The accidental omission to give notice of any meeting or the non-receipt of such notice by any Shareholder shall not invalidate any resolution, or any proposed resolution otherwise duly approved, passed or proceeding at any meeting. The quorum for the general meeting shall be two members present in person or by proxy.

10.15 WINDING-UP

- (a) On a winding-up, the surplus assets remaining after payment of all creditors, including payment of bank borrowings, shall be applied in the following priority:
 - (i) first, in the payment to the holders of Ordinary Shares of a sum equal to the nominal amount of the Ordinary Shares of such class held by such holders provided that there are sufficient assets available in the Company to enable such payment to be made;
 - (ii) second, in payment to the holders of the nominal shares of sums up to the nominal amount paid up thereon (to the extent that there are any nominal shares in issue); and
 - (iii) third, in the payment to the holders of the Ordinary Shares of any balance then remaining, including but without limitation the balance of any assets in the Company.
- (b) On a winding-up, the liquidator may, with the authority of a special resolution, divide amongst the members in specie any part of the assets of the Company. The liquidator may with like authority vest any part of the assets in trustees upon such trusts for the benefit of members as he shall think fit but no member shall be compelled to accept any assets in respect of which there is any liability.
- (c) Where the Company is proposed to be or is in the course of being wound up and the whole or part of its business or property is proposed to be transferred or sold to another company the liquidator may, with the sanction of an ordinary resolution, receive in compensation, or part compensation for the transfer or sale, shares, policies or other like interests for distribution among the members or may enter into any other arrangements whereby the members may, in lieu of receiving cash, shares, policies or other like interests, participate in the profits of or receive any other benefit from the transferee.

10.16 BORROWING POWERS

The Directors may exercise all the powers of the Company to borrow money (in whatever currency the Directors determine from time to time) and to give guarantees, mortgage, hypothecate, pledge or charge all or part of its undertaking, property or assets and uncalled capital and to issue debentures and other securities whether outright or as collateral security for any liability or obligation of the Company or of any third party, provided always that the Company's borrowing policy will limit outstanding borrowings, including any financial guarantees to support subscription obligations to 50 per cent. of the Gross Asset Value of its investments and cash balances, with the Company having

the ability to borrow in aggregate up to 66 per cent. of the Gross Asset Value on a short (ie less than 365 day) basis if the Directors consider appropriate. For this purpose, outstanding borrowings exclude intra-group borrowings and the debts of underlying Project Entities.

11. Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or a Holding Entity or a wholly owned company of a Holding Entity since incorporation of the Company and are, or may be, material and there are no other contracts entered into by the Company or a Holding Entity or a wholly owned company of a Holding Entity which include an obligation or entitlement, which is material to the Company as at the date of this document.

11.1 ACQUISITION AGREEMENTS

The Acquisition Agreements pursuant to which it is intended that the Partnership, or companies wholly owned by the Partnership, acquire the Initial Portfolio are described in more detail in Part IV of this Prospectus at pages 61 to 62.

11.2 INVESTMENT ADVISORY AGREEMENT

Pursuant to an investment advisory agreement dated 10 October 2006, between the Company and the Investment Adviser (the **"Investment Advisory Agreement"**), the Investment Adviser was appointed to provide investment advisory services to the Company. The services to be provided under the Investment Advisory Agreement include (inter alia) advising the Company in respect of the strategic management of the Investment Portfolio and the Holding Entities. As the Company conducts its investment activities through the Holding Entities, the Investment Advisory Agreement does not confer any discretionary investment management powers on the Investment Adviser (the Group's discretionary investment management being conducted by BBIML in its capacity as Operator of the Partnership).

The aggregate fees payable to BBIML in its capacity as Investment Adviser and Operator and to the General Partner are described in Part I of this document at pages 31 and 32. The Investment Adviser is entitled to retain any commissions, fees or any other form of remuneration in relation to any transaction without deduction or set off from either the Base Fee or the Incentive Fee. The Investment Adviser is also entitled to reimbursement of all costs of the Company paid for the Company by the Investment Adviser and reasonable out-of-pocket expenses.

The Investment Advisory Agreement may be terminated by either party giving to the other five years notice of termination, expiring at any time after 15 years from the date of the Investment Advisory Agreement. The Investment Advisory Agreement may also be terminated immediately by either party: (a) if the other party fails to make a payment when due which is not paid within 30 days of being notified of the failure to make a payment; or (b) in the case of the material breach by the other party which remains unremedied for 30 days after such party has been notified of the breach or, if such breach is not capable of remedy, if the breaching party fails to offer compensation in respect of such breach which is reasonably acceptable to the other party.

The Company can terminate the Investment Advisory Agreement immediately in any of the following circumstances: (a) on the insolvency or analogous event occurring in respect of the Investment Adviser; (b) if the Investment Adviser is no longer permitted by applicable laws, rules and regulations to provide its services under the Investment Advisory Agreement; and (c) if the Operator is removed or replaced in accordance with the Operating Agreement, save that in the case of (a) and (b), the Company shall, if so required by Babcock & Brown, novate the Investment Advisory Agreement in favour of another member of the Babcock & Brown group that is reasonably acceptable to the Company, who is not insolvent and who can provide the services in accordance with relevant laws and regulations.

In addition, subject to the Shareholders passing an ordinary resolution directing the Directors to terminate the Investment Advisory Agreement, the Company can terminate the Investment Advisory Agreement by giving one year's written notice to the Investment Advisor in either of the following

circumstances: (a) if at any time after the expiry of five years from the date of the Investment Advisory Agreement, the Benchmark Return Index outperforms the Ordinary Share Return Index by more than 3 per cent. in at least eight out of the immediately preceding 10 quarterly periods unless the reason for the outperformance of the Benchmark Return Index was to a material extent caused by the occurrence of an event or events of force majeure; or (b) if at any time a material (in number and seniority) of employees in the Babcock & Brown group's infrastructure and project finance group cease to be employed by any member of the Babcock & Brown group and are not replaced (before the end of the one year written notice period) by suitably qualified other staff who will enable the services to be provided under the Investment Advisory Agreement in a manner at least comparable to that in which the services were provided prior to the occurrence of such event.

The Investment Adviser can terminate the Investment Advisory Agreement: on the occurrence of any of the following: (a) on the insolvency or analogous event occurring in respect of the Company; (b) if the Ordinary Shares cease to be listed on the Official List; or (c) if a person (other than Babcock & Brown) acquires a relevant interest in 29 per cent. or more of the Ordinary Shares in issue at the relevant time.

The Investment Advisory Agreement provides that the Company shall indemnify the Investment Adviser and its officers, directors, employees and agents for losses of any nature arising in connection with the Investment Advisory Agreement (except where fraud, gross negligence or wilful default are involved on the part of the Investment Adviser or its officers, directors, employees and agents). The Investment Advisory Agreement also provides that the Investment Adviser shall have no liability to the Company or to any Shareholder except for losses resulting from the gross negligence, wilful default or fraud of the Investment Adviser or any of its employees.

11.3 LIMITED PARTNERSHIP AGREEMENT

A description of the terms of the Limited Partnership Agreement governing the Limited Partnership (of which Luxco 2 (a wholly-owned subsidiary of the Company) will be the sole limited partner) is included at paragraph 4 of this Part VIII above.

11.4 OPERATING AGREEMENT

Pursuant to an operating agreement dated 10 October 2006, between the General Partner (for itself and on behalf of the Partnership) and the Operator (the "**Operating Agreement**"), the Operator was appointed by the Partnership to manage and operate the Partnership and its investments.

The Operator is entitled to such fees as shall be agreed between the General Partner and the Operator from time to time. Any such fees shall be payable out of the General Partner's own assets and not out of the assets of the Partnership. The Operator is entitled to retain any commissions, fees or any other form of remuneration in relation to any transaction.

The Operating Agreement may be terminated by either the Partnership or the Operator giving to the other five years notice of termination, expiring at any time after 15 years from the date of the Operating Agreement. The Operating Agreement may also be terminated immediately by the Partnership or the Operator: (a) if the other party fails to make a payment when due which is not paid within 30 days of being notified of the failure to make a payment; or (b) in the case of the material breach by the other party which remains unremedied for 30 days after such party has been notified of the breach or, if such breach is not capable of remedy, if the breaching party fails to offer compensation in respect of such breach which is reasonably acceptable to the other party.

The Partnership can terminate the Operating Agreement immediately (and the General Partner shall so terminate the Operating Agreement if directed to do so by Luxco 2 in its capacity as limited partner) in any of the following circumstances: (a) on the insolvency or analogous event occurring in respect of the Operator; (b) if the Operator is no longer permitted by applicable laws, rules and regulations to provide its services under the Operating Agreement; and (c) if the Investment Adviser is removed or replaced in accordance with the Investment Advisory Agreement, save that in the case of (a) and (b), the General Partner shall, if so required by Babcock & Brown, novate the Operating Agreement in favour of another member of the Babcock & Brown group that is reasonably acceptable

to Luxco 2 in its capacity as limited partner, who is not insolvent and who can provide the services in accordance with relevant laws and regulations.

The Operating Agreement provides that the Partnership shall indemnify the Operator and its officers, directors, employees and agents for losses of any nature arising in connection with the Operating Agreement (except where fraud, gross negligence or wilful default are involved on the part of the Operator or its officers, directors, employees and agents). The Operating Agreement also provides that the Operator shall have no liability to the Company or to any Shareholder except for losses resulting from the gross negligence, wilful default or fraud of the Operator or any of its employees.

11.5 ADMINISTRATION AGREEMENT

Pursuant to an administration agreement dated 10 October 2006, between the Company and the Administrator (the **"Administration Agreement"**), the Administrator was appointed to provide administrative and company secretarial services to the Company. Such services include (inter alia) maintaining the Company's books and records, preparing interim and annual accounts of the Company, calculating the NAV of the Ordinary Shares, arranging for and administering the issue of shares in the Company and providing such other services as are customarily provided by administrators in Guernsey of Guernsey companies. In the performance of its duties under the Administration Agreement, the Administrator shall at all times be subject to the control and review of the Board.

The fees of the Administrator under the Administration Agreement are described in Part I of this document at page 32. The Administrator shall also be entitled to receive all reasonable and properly evidenced out of pocket expenses incurred by it in the performance of its duties under the Administration Agreement.

The Administration Agreement can be terminated by either party on 90 days' written notice to the other. The Administration Agreement may also be terminated immediately by either party: (a) on the insolvency (or analogous event) occurring in respect of the other party; or (b) in the case of a breach by the other party which remains unremedied for 30 days after such party has been notified of the breach. The appointment of the Administrator shall be terminated immediately if the Administrator ceases to be licensed by the Guernsey Financial Services Commission to provide the services under the Administration Agreement.

The Administration Agreement provides that the Administrator shall not be liable for any loss or damage suffered by the Company as a result of the Administrator carrying out its duties under the Administration Agreement unless the loss or damage arises out of the Administrator's fraud, negligence, wilful default or breach of the Administration Agreement. The Company has indemnified the Administrator against any liabilities of whatever nature arising out of the Administrator properly performing its duties under the Administration Agreement (provided that fraud, negligence, wilful default or breach of the Administration Agreement on the part of the Administrator is absent).

11.6 LUXEMBOURG AGREEMENTS

Each of Luxco 1 and Luxco 2 has entered into a domiciliation agreement and an accounting and related services agreement (together the **"Luxembourg Agreements"**), all dated 9 October 2006, with the Domiciliation Agent, who will provide domiciliation services and accounting and related services to the Luxcos in consideration for the fees described in Part 1 of the Prospectus.

Each domiciliation agreement can be terminated by either party on one month's notice or immediately on the occurrence of a limited number of circumstances. Each of Luxco 1 and Luxco 2 has provided an indemnity to the Domiciliation Agent in regard of any damages arising out of it, carrying out the services under the domiciliation agreement (save in cases that involve negligence, fraud, serious or wilful misconduct or breaches of the domiciliation agreement on the part of the Domiciliation Agent).

The accounting and related services agreement referred to above can be terminated by either party on 30 days' notice. Each of Luxco 1 and Luxco 2 has provided the Domiciliation Agent with an indemnity in respect of any damages arising out of it carrying out the services under the accounting

and related services agreement (save in cases that involve negligence, fraud, breaches of the agreement or wilful default on the part of the Domiciliation Agent).

11.7 ISSUE AGREEMENT

Pursuant to the Issue Agreement dated 10 October 2006 between the Company, the Placing Agent and the Investment Adviser, the Placing Agent was appointed as the Company's placing agent. Further details of the Issue Agreement are included in Part VI of this document.

The Issue Agreement contains certain representations and warranties from the Company and the Investment Adviser to the Placing Agent concerning, amongst other things, the Company's authority to issue the Ordinary Shares and the accuracy of the prospectus for the Issue. The Placing Agent also has the benefit of an indemnity from the Company and the Investment Adviser in relation to liabilities incurred by the Placing Agent in the discharge of its duties under the Issue Agreement save (amongst other things) to the extent that the same are determined by a court of competent jurisdiction or by agreement between the parties to have arisen as a result of fraud, negligence or wilful default of UBS or its associates.

The Investment Adviser has the benefit of a counter-indemnity from the Company in respect of any claims by the Placing Agent against the Investment Adviser save that such counter-indemnity is limited to amounts recovered by or on behalf of the Company and any of the Holding Entities from any person (other than the Investment Adviser) in connection with the Issue and the Acquisition.

11.8 REGISTRAR AGREEMENT

Pursuant to a registrar agreement dated 10 October 2006, between the Company and the Registrar, (the **"Registrar Agreement"**), the Registrar was appointed to act as the Company's registrar in Guernsey.

The Registrar Agreement may be terminated by either the Company or the Registrar giving to the other three months' written notice expiring at any time. In the case of the Company serving such notice on the Registrar, such notice must expire after the first anniversary of the date of the Registrar Agreement. The Registrar Agreement may also be terminated immediately by either party: (a) on the insolvency (or analogous event) occurring in respect of the other party; or (b) in the case of a breach by the other party which remains unremedied for 30 days after such party has been notified of the breach. In addition, the Company may terminate the Registrar Agreement if, in the opinion of the Directors, the Registrar is guilty of fraud, wilful default or gross negligence in the performance of its duties under the Registrar Agreement; or if the Registrar ceases to be the holder of any licence, consent, permit or registration enabling it to act as registrar of the Company; or if the Registrar chooses to increase its fees in any annual review thereof.

The fees of the Registrar under the Registrar Agreement are described in Part I of this document at pages 32 and 33. The Registrar shall also be entitled to receive all reasonable out of pocket expenses properly incurred by it in the performance of its duties under the Registrar Agreement, and will be entitled to recover from the Company various disbursements including postage, printing, telephone and CREST transaction costs.

The Registrar Agreement provides that the Company shall indemnify the Registrar and its agents, officers and employees from and against any and all liabilities that they may incur in connection with the Registrar Agreement, save in the case of fraud, negligence or wilful default of the Registrar or its agents, officers and employees (or as may be due to any breach of the terms of the Registrar Agreement). The aggregate liability of the Registrar under the Registrar Agreement is limited to the lesser of £1,000,000 or an amount equal to ten times the annual fee payable to the Registrar under the Registrar Agreement.

11.9 RECEIVING AGENT LETTER

Pursuant to a receiving agent letter dated 10 October 2006, between the Company and the Transfer Agent (the **"Receiving Agent Letter"**), the Transfer Agent agrees to provide receiving agent services to the Company. The Company agrees to indemnify the Transfer Agent (and its subsidiary and parent undertakings from time to time) against all reasonable losses, costs and expenses which the Transfer

Agent may suffer or incur as a result of the Company's or the Company's representatives (including the representatives of the Sponsor) acts of negligence, wilful or fraudulent acts or omissions, subject to the Transfer Agent's duty of mitigation.

The Company shall also indemnify the Transfer Agent against all reasonable losses, costs and expenses arising out of events that are beyond its reasonable control or where the Transfer Agent has acted properly in its role as receiving agent.

The Company also indemnifies the Transfer Agent against all reasonable losses, costs and expenses which it may suffer or incur as a result of any breach and/or non-compliance by the Company with any legal, quasi-legal or regulatory requirement applicable to the Offer for Subscription.

Subject to the Transfer Agent receiving compensation or its fees in respect of its time spent in providing receiving agent's services, either party may terminate the Receiving Agent Letter by giving written notice: either before the Offer for Subscription opens; or, during the Offer for Subscription, if there has been, or is likely to be, a breach of the Receiving Agent Letter or the relevant financial regulations.

The Transfer Agent is entitled to receive various fees, including a fee of £3.25 per application under the Offer per Subscription (subject to a minimum fee of £3,500) together with properly incurred expenses.

11.10 ADVISORY MANDATE

The Company has entered into an advisory mandate with the Arranger dated 10 October 2006 (the **"Advisory Mandate"**) that provides for the payment of certain fees to the Arranger in connection with work undertaken by the Arranger in respect of the Issue and the Acquisition.

The Advisory Mandate provides that the Company will indemnify the Arranger and certain related parties against any reasonable costs, charges, expenses or liabilities properly incurred in connection with performing their duties under the Advisory Mandate, save in the case of the Arranger's (or certain related parties of the Arranger's) negligence, default, fraud or dishonesty or breach of the terms of the Advisory Mandate; or where such costs are the administration costs and overheads of the Arranger and certain related parties.

In any event, the aggregate liabilities of the Arranger and its related parties), who will only be liable for direct loss, will be limited to a maximum of the fees received or receivable under the Advisory Mandate. The Arranger will not be liable for indirect, special, punitive or consequential loss or damages.

The Advisory Mandate will terminate on: either payment to the Arranger of the fees payable under it (which are due and payable on 31 January 2007); or on the election of the Arranger or the Company upon written notice to the other at any time after the earlier of 31 December 2007, if the Issue has not occurred by that date, or if the Company advises the Arranger in writing that it is unable or unwilling to proceed with Issue.

11.11 FINANCIAL ADVISORY MANDATE

The Company has entered into a financial advisory mandate with the Arranger dated 10 October 2006 (the **"Financial Advisory Mandate"**) pursuant to which the Arranger has been granted the first and last right of refusal to provide financial advisory and investment banking services to the Group in respect of future acquisitions and disposals, financing, refinancing, restructuring and certain other related activities.

If the Arranger is engaged to provide such services to the Group, it will be entitled to certain advisory fees including, in respect of acquisitions, up to 1.5 per cent. of the Enterprise Value of investments acquired; and, in respect of financing, refinancing and restructuring activities, equal to up to 1.5 per cent. of the value of the relevant financing, refinancing and restructuring.

The Financial Advisory Mandate can only be terminated by the Company following the tenth anniversary of the date of the Financial Advisory Mandate if all of the following conditions are

satisfied: (a) the Company has formed the view (such view to be formed acting reasonably after due enquiry of the Arranger) that the Arranger no longer possesses or can no longer procure sufficient resources (including suitably qualified personnel) to provide, or cause to be provided, financial advisory services to the Group to a standard which is competitive with those services generally available from similar parties in the European market; and (b) the Company has given written notice to that effect to the Arranger; and (c) within 30 days of receipt of such notice, the Arranger has been unable to materially address such concerns to a level acceptable to the Company (acting reasonably); and (d) within 10 days following such 30 day period, the Company has given to the Arranger written notice to that effect, together with not less than six months and not more than 12 months written notice of termination of the Financial Advisory Mandate.

The Financial Advisory Mandate can be terminated by the Arranger (but not by the Company) upon not less than six months' prior written notice to the Company.

The Financial Advisory Mandate provides that individual transaction mandates arising out of it shall include a number of set terms including the provision of an indemnity by the Company, its related parties and their respective officers, employees and agents against all reasonable costs, charges, expenses or liabilities properly incurred in carrying out the services under such mandate, except: where such costs arise out of the negligence, default, fraud, dishonesty or breach of the terms of the mandate by the Arranger; or are the administration costs or overheads of the Arranger.

Each such individual transaction mandate is also required to contain terms limiting the liability of the Arranger in properly carrying out its services to direct loss of a maximum of the fees received or receivable by the Arranger under the individual transaction mandate. The Arranger will not, in any event, be liable for any indirect, special, punitive or consequential loss or damages, howsoever arising.

11.12 ARRANGEMENT DEED

Pursuant to an arrangement deed dated 10 October 2006 between the Company and Babcock & Brown Securities Pty Ltd ("**BBSPL**") (the "Arrangement Deed"), BBSPL was appointed to act as arranger in respect of the offer of Ordinary Shares in Australia. Under the terms of the Arrangement Deed, the Company has indemnified BBSPL (and certain related parties) against all losses suffered by BBSPL (and certain related parties) as a result of BBSPL carrying out its duties under the Arrangement Deed, except where such loss is caused by fraud, gross negligence, wilful misconduct or breach of the Arrangement Deed on the part of BBSPL (or certain related parties).

12. Availability of the Prospectus

Copies of this document are available for viewing only during normal Business Hours, free of charge, at the Document Viewing Facility, the Financial Services Authority, 25 North Colonnade, Canary Wharf, London E14 6HS.

Copies of this document may be collected, free of charge during normal Business Hours, from BBIML at 7th Floor, 1 Fleet Place, London, EC4M 7NR or from the registered office of the Company.

13. General

13.1 The Issue of the Ordinary Shares is not underwritten.

13.2 The Company is a closed-ended investment company registered under the laws of Guernsey. The Company is not (and is not required to be) regulated or authorised by the FSA but, in common with other investment companies admitted to the Official List, is subject to the Listing Rules and is bound to comply with applicable law such as the relevant parts of FSMA.

13.3 The Group is not, nor has been since its establishment, involved in any governmental, legal or arbitration proceedings. So far as the Group is aware, there are no governmental, legal or arbitration proceedings pending or threatened by or against it which may have, or have since establishment of the Group had, a significant effect on the Group's financial position or profitability.

13.4 The Issue Price of 100 pence per Ordinary Share represents a premium of 99.99 pence over its nominal value of 0.01 pence. No expenses are to be charged to any placee or subscriber pursuant to the Issue.

13.5 PwC has given and has not withdrawn its consent to the inclusion of the Valuation Report in the Appendix to Part IV of this document in the form and context in which it is included and has authorised the contents of the Valuation Report for the purposes of item 5.5.3R(2)(f) of the Prospectus Rules of the UK Listing Authority. PwC's address is 1 Embankment Place, London WC2N 6RH. PwC is authorised and regulated by Financial Services Authority for designated investment business.

13.6 The Company complies with the corporate governance obligations which apply to Guernsey registered companies.

13.7 The Company's audit committee is comprised of all the Directors. The audit committee has the following remit: to meet bi-annually and to consider, inter alia:

- (a) annual and interim accounts;
- (b) auditor reports; and
- (c) terms of appointment and remuneration for the Auditors (including overseeing the independence of the auditor particularly as it relates to the provision of non-audit services).

13.8 The Company has not so far established a separate remuneration committee as the Directors are satisfied that any relevant issues can be properly considered by the Directors as a whole.

13.9 Where information contained in this document has been sourced from a third party, the Company confirms that such information has been accurately reproduced and, so far as the Company is aware and is able to ascertain from the information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

13.10 The Company has not had any employees since its incorporation and does not own any premises.

13.11 The Ordinary Shares will be created and issued by the Company in accordance with the provisions of the Articles and the Laws.

13.12 The City Code on Takeover and Mergers (the **"City Code"**) will apply to the Company. Under the City Code, if an acquisition of Ordinary Shares were to increase the aggregate holding of the acquirer and its concert parties to shares carrying 30 per cent. or more of the voting rights in the Company, the acquirer and, depending on the circumstances, its concert parties, would be required (unless any exemption applied in the circumstances) to make a cash offer for the outstanding Ordinary Shares in the Company at a price not less than the highest price paid for Ordinary Shares by the acquirer or its concert parties during the previous 12 months. A similar obligation to make such a mandatory cash offer would also arise on the acquisition of Ordinary Shares by a person holding (together with its concert parties) Ordinary Shares carrying between 30 to 50 per cent. of the voting rights in the Company if the effect of such acquisition were to increase that person's percentage of the voting rights.

14. Documents for Inspection

Copies of the following documents may be inspected at the offices of Lovells, Atlantic House, Holborn Viaduct, London EC1A 2FG and at the registered office of the Company during normal Business Hours on any day (except Saturdays, Sundays and public holidays) from the date of this document until the Offer for Subscription and Placing closes:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the Valuation Report;
- (c) the terms of appointment of the Directors referred to in paragraph 6.2 above;
- (d) the material contracts referred to in paragraph 11 above; and
- (f) this Prospectus.

Dated 11 October 2006

Notices to Overseas Investors

This document has been approved by the FSA as a prospectus which may be used to offer securities to the public for the purposes of section 85 FSMA and Directive 2003/7/EC. No arrangement has however been made with the competent authority in any other EEA State (or any other jurisdiction) for the use of this document as an approved prospectus in such jurisdiction and accordingly no public offer is to be made in such jurisdictions. Issue or circulation of this document may be prohibited in countries other than those in relation to which notices are given below. This document does not constitute an offer to sell, or the solicitation of an offer to subscribe for or buy, shares in any jurisdiction in which such offer or solicitation is unlawful.

For the Attention of Australian Investors

This offer is made in Australia pursuant to section 708 of the Corporations Act 2001 (Australia) and as such no prospectus or other form of disclosure document in relation to the Ordinary Shares has been lodged with the Australian Securities and Investments Commission. This document does not constitute an offer in Australia other than in the circumstances described in section 708 of the Corporations Act 2001 (Australia). In addition, by subscribing for Ordinary Shares you undertake to the Company that, for a period of 12 months from the date of issue of the Ordinary Shares, you will not transfer any interest in Ordinary Shares to any person in Australia other than a person to whom an exemption in section 708 of the Corporations Act 2001 (Australia) applies. By submitting an application for Ordinary Shares you represent and warrant to the Company that an exemption in section 708(8) (sophisticated investor) or 708(11) professional investor) of the Corporations Act 2001 (Australia) applies to you.

For the Attention of Dutch Investors

The Ordinary Shares are only offered by means of this document and are not, may not and will not be offered, distributed, sold, transferred or delivered, directly or indirectly, in or from the Netherlands, to any person other than employees and/or subsidiaries of the Company, or individuals or legal entities which trade or invest in investment objects or securities in the conduct of their profession or business within the meaning of section 1 of the Exemption Regulation pursuant to the Act on the Supervision of Collective Investment Schemes ("Vrijstellingsregeling Wet toezicht beleggingsinstellingen") or which are professional market parties within the meaning of section 1(c) of the Exemption Regulation pursuant to the Act on the Supervision of Securities Trade 1995 ("Vrijstellingsregeling Wet toezicht effectenverkeer 1995"), including, but not limited to banks, brokers, dealers, pension funds, insurance and/or securities institutions, investment institutions and other institutional investors, including among others, treasuries of large enterprises.

For the Attention of French Investors

This is not an offer, invitation or solicitation (as defined in French law) to subscribe or acquire an investment in the Ordinary Shares.

The Ordinary Shares described in this document have not been and will not be authorised for distribution or marketing, directly or indirectly, in France and may not be offered directly or indirectly in France, or to or for the account or benefit of a French resident.

For the Attention of German Investors

The Ordinary Shares may not be offered, promoted or distributed, directly or indirectly, to the public in Germany. The Placing Agent is making this document available to a limited number of less than 50 individually selected members of their existing customer base only. These members are only

institutional investors. This document is only directed to such recipients to whom it is directly addressed; it is not directed to the public in Germany and may not be disseminated to the public in Germany.

For the Attention of Italian Investors

The Company has not been and will not be registered under the Italian Legislative Decree no. 58 of 24 February 1998, as amended, and implementing regulations thereof.

The Ordinary Shares have not and will not be authorised for distribution or marketing, directly or indirectly, in Italy and no offer, invitation to offer or other solicitation to subscribe for the Ordinary Shares may be made in Italy.

For the Attention of Norwegian Investors

This document has not been produced in accordance with the prospectus requirements laid down in the Norwegian Securities Trading Act 1997 nor in accordance with the prospectus requirements laid down in the Norwegian Securities Fund Act 1981 as amended. This document has not been approved or disapproved by, or registered with, neither the Oslo Stock Exchange nor the Norwegian Registry of Business Enterprises.

This document is only and exclusively addressed to the addressees and can not be distributed, offered or presented, either directly or indirectly to other persons or entities domiciled in Norway without the prior consent of the Placing Agent.

For the Attention of Spanish Investors

Neither the offer of the Ordinary Shares nor this prospectus have been verified or registered with the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*) and the Ordinary Shares will not be offered, sold or distributed in Spain save in accordance with the requirements of the Spanish Securities Market Law of July 28, 1988 and Royal Decree 1310/2005 of 4 November, on Securities Markets, each as amended from time to time.

For the Attention of Swedish Investors

The Ordinary Shares may not be offered to the public in Sweden. This document is only directed to such recipients to whom it is directly addressed and may not be copied or, directly or indirectly, be distributed or made available to other persons without the express consent of the placing agent.

For the Attention of Swiss Investors

The Ordinary Shares have not been authorised for distribution as a foreign investment fund by the Swiss Federal Banking Commission pursuant to Article 45 of the Swiss Federal Investment Fund Act of 18 March 1994, as amended. Accordingly, the Ordinary Shares may not and will not be sold, marketed or otherwise distributed in or from Switzerland by way of public advertising ("öffentliche Werbung") within the meaning of the Swiss Federal Investment Fund Act and its implementing ordinances and notices. As such the Ordinary Shares are only offered pursuant to this document to a limited number of investors in Switzerland by way of private placement, without any public offering in accordance with the Swiss Federal Investment Fund Act and its implementing ordinances and notices. This document may only be used by those persons to whom it has been distributed in connection with the Issue described in this document.

For the Attention of US Investors

The Ordinary Shares offered by this document have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), or under any state securities laws and may not be offered or sold directly or indirectly in or into the United States, or to or for the account or benefit of any US person (within the meaning of Regulation S under the Securities Act).

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Definitions

“AA Signature”	means the date that the relevant Acquisition Agreement, is entered into by or on behalf of the Partnership, or its wholly owned company, and each Vendor;
“Acquisition”	means the acquisition of each of the assets constituting the Initial Portfolio by the Partnership, or its wholly owned companies, on the terms and subject to the conditions of the Acquisition Agreements;
“Acquisition Agreements”	means the sale and purchase agreements entered into between the General Partner for and on behalf of the Partnership, or its wholly owned companies, and the Vendors in connection with the Acquisition;
“Administration Agreement”	means the administration agreement between the Company and the Administrator dated 10 October 2006;
“Administrator”	means Heritage International Fund Management Limited;
“Admission”	means admission of the Ordinary Shares to be issued pursuant to the Issue to the Official List and/or to trading on the London Stock Exchange as the context may require;
“Advisory Mandate”	means the advisory mandate in respect of the Issue and the Acquisition between the Company and the Arranger dated 10 October 2006;
“Application Form”	means the application form attached to this Prospectus for use in connection with the Offer for Subscription;
“Arranger”	means Babcock & Brown Limited, a company incorporated in England and Wales (registered number, 02645511);
“Articles” or “Articles of Association”	means the articles of association of the Company in force from time to time;
“ASX”	means the Australian Stock Exchange;
“Auditors”	means the auditors from time to time of the Company, the current such auditors being Deloitte & Touche, who are registered with the Institute of Chartered Accountants of England & Wales;
“Australian Assets”	means the interests forming part of the Initial Portfolio to be acquired by the Group in the Long Bay Forensic and Prison Hospitals Project, the Royal Melbourne Showgrounds Redevelopment Project and RiverCity Motorway, in each case as described in Part IV of this document;
“Average Market Capitalisation”	means the average market capitalisation of the Company in respect of the relevant period calculated by reference to the Volume Weighted Average Price of the average number of Ordinary Shares for which a price is quoted on the London Stock Exchange for the last 20 LSE Trading Days in the relevant period;
“Babcock & Brown”	means Babcock & Brown Limited a company incorporated in Australia (registered number 53 108 614 955) or any wholly owned subsidiary or related entity;

"Base Fee"	means the annual asset management fee/profit share to which BBIML and the General Partner are in aggregate entitled to as described in Part I of this document on pages 31 and 32;
"BBI"	means Babcock & Brown Infrastructure, a stapled entity whose securities are admitted to trading on the ASX, comprising a company incorporated in Australia (Australian Company Number 100 364 234) and an Australian registered managed investment scheme (registered number 100 375 479);
"BBIML"	means Babcock & Brown Investment Management Limited, a company incorporated in England and Wales (registered number 04071543), regulated and authorised by the FSA;
"BBW"	means Babcock & Brown Wind Partners, a stapled entity whose securities are admitted to trading on the ASX, comprising a company incorporated in Australia (Australian Company Number 105 051 616), an Australian registered managed investment scheme (registered number 116 244 118) and a company incorporated in Bermuda (Australian registered number 116 360 715);
"BEI"	means Babcock & Brown Environmental Investments Limited a company incorporated in Australia (Australian Company Number 074 226 065), whose shares are admitted to trading on the ASX;
"Benchmark Return"	means the value of n in the following formula: $n = AMC \times BRI:$ where: AMC is the Average Market Capitalisation in respect of the relevant period; and BRI is the increase or decrease in the Benchmark Return Index over the relevant period expressed as a percentage based on the daily closing value of the Benchmark Return Index over the last 20 days of trading of Ordinary Shares in the relevant period (or if there have been less than 20 days of trading in the relevant period the average value on the days in the relevant period on which the Ordinary Shares traded or if there have been no trades, on the last day on which the Ordinary Shares traded compared with the value of this index in respect of the immediately preceding period (calculated on the same basis));
"Benchmark Return Index"	means an index measuring the accumulated value of the aggregate return obtained by investors in the Current 15 Year Gilt plus 2.5 per cent., taking into account interest paid and changes in capital value (and assuming that such interest is reinvested into the Current 15 Year Gilt on the date payable);
"BLAGAB"	means a basic life assurance and general annuity business;
"Board"	see "Directors" below;
"Business Day"	means any day (other than a Saturday or Sunday or bank holiday) on which commercial banks are open for business in London and Guernsey;
"Business Hours"	means the hours between 9.30 a.m. and 5.30 p.m. on any Business Day;

"Buyside Committee"	means the committee within Babcock & Brown representing the interests of the Company in respect of the Acquisition;
"C Shares"	means the temporary and separate class of shares that the Directors may determine to issue as described on page 116;
"Capita Registrars"	means a trading division of Capita IRG Plc;
"City Code"	means the City Code on Takeovers and Mergers;
"Company"	means Babcock & Brown Public Partnerships Limited, a company incorporated in Guernsey (registered number 45241);
"Completion"	means the completion of the Acquisition in accordance with the Acquisition Agreements;
"Court"	means the Royal Court of Guernsey;
"CPI"	means the Consumer Price Index Number for a particular Australian state or territory published by the Australian Bureau of Statistics;
"CREST" or "CREST UK system"	means a paperless settlement procedure operated by CRESTCo enabling system securities to be evidenced otherwise than by written instrument;
"CRESTCo"	means CRESTCo Limited;
"Current 15 Year Gilt"	means in respect of the relevant period, such 15 year fixed interest gilt (or gilt with 15 years remaining) issued by the UK Debt Management Office (or any replacement or successor to it) as the Directors shall, acting reasonably and in consultation with the Investment Adviser, select as the current 15 year gilt applicable at the commencement of such period (and for the period ending 31 December 2007, the current 15 year gilt shall be the "Treasury 8 per cent. 2021 Gilt");
"default shares"	means Ordinary Shares in respect of which a default to disclose certain information to the Company in respect of interests in such Ordinary Shares as described on page 117;
"Directors" or "Board"	means the directors from time to time of the Company (or any duly constituted committee thereof) as the context may require, and "Director" is to be construed accordingly;
"Distributable Cash Flows"	means, in any year, (i) all cash received by the Group from its investments that it is supported by a sufficiency of distributable reserves for accounting purposes and under the Laws, including but not limited to (a) interest payments on subordinated debt, (b) repayments of subordinated debt and (c) dividend payments, less (ii) management and advisory fees, interest on external borrowings, running costs and taxation;
"Domiciliation Agent"	means MAS Sàrl, who has been appointed as domiciliation agent and provider of various accounting and related services, to the Luxcos on the terms of the Luxembourg Agreements;
"EEA State"	means a state in the European Economic Area;
"Enterprise Value"	the aggregate enterprise value of the relevant assets being acquired including risk capital and debt, but in the case of investments developed under PFI or PPP procurements and held by highly leveraged Project Entities, excluding the value of existing senior project level debt of such Project Entities, and any direct and

	indirect transaction costs in respect of such acquisition, as at the date of acquisition;
"ERISA"	means the United States Employee Retirement Income Security Act of 1974 and the regulations promulgated thereunder (in each case as amended);
"EU"	means the European Union;
"EVCA"	means the European Private Equity and Venture Capital Association;
"Fair Market Value"	means the amount for which an asset could be exchanged between willing parties who are under no compulsion to transact, who are acting for self-interest and gain, and both of whom are equally well informed about the Initial Portfolio and the infrastructure market;
"Financial Advisory Mandate"	means the financial advisory mandate in respect of future corporate finance advisory work between the Company and the Arranger dated 10 October 2006;
"FSA"	means the UK Financial Services Authority;
"FSMA"	means the Financial Services and Markets Act 2000 of the United Kingdom, as amended;
"General Partner"	means Babcock & Brown Public Partnerships GP Limited, a company incorporated in England and Wales (registered number 05938778), a member of the Babcock & Brown group;
"Gross Asset Value"	means the gross asset value of the Investment Portfolio calculated on a fair market basis and including: (a) borrowings and other liabilities of any member of the Group; (b) subscription obligations of any member of the Group; and (c) firm commitments in respect of future assets or investments made by any member of the Group, but excluding: (a) such part of the proceeds of the Issue that are not invested or committed to be invested, until such time the relevant part of the Issue proceeds are invested or committed to be invested; and (b) any project debt liabilities of any Project Entity;
"Group"	means the Company, the Luxcos and the Partnership (together with their subsidiaries or companies wholly owned by them together, individually or in any combination as appropriate);
"HMRC"	means HM Revenue & Customs;
"Holding Entities"	means all or any of Luxco 1, Luxco 2 and the Partnership;
"ICTA 1988"	means the Income and Corporation Taxes Act 1988, as amended;
"IFRS"	means International Financial Reporting Standards;
"Incentive Fee"	means the performance related asset management fee/profit share in respect of each Incentive Period to which BBIML and the General Partner are in aggregate entitled to as described in Part I of this document on page 32;
"Incentive Period"	means, in respect of the first period from Admission until 31 December 2007, that period and thereafter means each period of six months ending on 30 June or 31 December;
"Infrastructure Team"	means the infrastructure division of Babcock & Brown;
"Initial Gross Proceeds"	means the aggregate value of the Ordinary Shares issued under the Issue and taken at the Issue price;

"Initial Portfolio"	means the initial portfolio of infrastructure investments including the Senior Debt Interests which the Group intends to acquire from the Vendors as further described in Part IV of this document;
"Interested Party"	means the Investment Adviser, the Administrator, the Domiciliation Agent, the Placing Agent, any of their directors, officers, employees, agents and connected persons and the Directors and any person or company with whom they are affiliated or by whom they are employed;
"Investment Adviser"	means BBIML acting in its capacity as investment adviser to the Company pursuant to the Investment Advisory Agreement;
"Investment Advisory Agreement"	means the investment advisory agreement between the Investment Adviser and the Company dated 10 October 2006;
"Investment Capital"	means partnership equity, partnership loans, share capital, trust units, shareholder loans and/or debt interests in or to Project Entities;
"Investment Committee"	means the investment committee established by the Operator as described on page 94 of the Prospectus;
"Investment Company Act"	means the United States Investment Company Act of 1940;
"Investment Portfolio"	means the assets and investments from time to time owned by or held by or to the order of any member of the Group from time to time;
"IRR"	means internal rate of return;
"ISA"	means Individual Savings Account;
"Issue"	means the issue of Ordinary Shares pursuant to the Placing and the Offer of Subscription;
"Issue Agreement"	means the issue agreement relating to the Issue between the Company, the Placing Agent and the Investment Adviser, dated 10 October 2006;
"Issue Price"	means 100 pence per Ordinary Share;
"Laws"	means the Companies (Guernsey) Laws 1994 to 1996, as amended;
"Limited Partnership Agreement"	means the limited partnership agreement dated 10 October 2006 between the General Partner as a general partner and Luxco 2 as sole limited partner;
"Listing Rules"	means the rules, including the listing rules, the disclosure rules and the prospectus rules made by the UK Listing Authority under section 73A of FSMA;
"London Stock Exchange"	means London Stock Exchange plc;
"LSE Trading Day"	means any day on which the main market of the London Stock Exchange is open for non-automated trading business;
"Luxco 1"	means Babcock & Brown Public Partnerships 1 Sàrl, a taxable company established in Luxembourg under the legal form of a Sàrl, a wholly owned subsidiary of the Company;
"Luxco 2"	means Babcock & Brown Public Partnerships 2 Sàrl, a taxable company established in Luxembourg under the legal form of a Sàrl,

	a wholly owned subsidiary of Luxco 1 and thereby a wholly owned indirect subsidiary of the Company;
"Luxcos"	means Luxco 1 and Luxco 2;
"Luxembourg Agreements"	means the domiciliation agreement and the accounting and related services agreement between the Luxcos and the Domiciliation Agent dated 9 October 2006;
"Memorandum of Association"	means the memorandum of association of the Company;
"Net Asset Value" or "NAV"	means the net asset value of the Company in total or (as the context requires) per Ordinary Share calculated in accordance with the Company's valuation policies and as described in Part I of this document at page 31;
"NHS LIFT"	means the UK National Health Service LIFT (Local Improvement Finance Trust) initiative as described in Part III;
"NHS LIFT Assets"	means the interests forming part of the Initial Portfolio to be acquired by the Group that are in respect of NHS LIFT schemes, as described in Part IV of this document;
"NSW"	means New South Wales, Australia;
"Offer for Subscription"	means the offer for subscription to the public in the UK of Ordinary Shares on the terms set out in the Prospectus and the Application Form;
"Official List"	means the official list maintained by the UK Listing Authority;
"Operator"	means BBIML acting in its capacity as Operator of the Partnership;
"Operating Agreement"	means the agreement between the Operator and the General Partner (for itself and for and on behalf of the Partnership), dated 10 October 2006, under which the Operator will provide the services of an operator to the Partnership;
"Ordinary Share Return"	means the value of n in the following formula: $n = AMC \times OSRI;$ where: AMC is Average Market Capitalisation in respect of the relevant period; and OSRI is the movement in the Ordinary Share Return Index over the relevant period expressed as a percentage based on the average daily closing value of the Ordinary Share Return Index on the last 20 days of trading of Ordinary Shares on the London Stock Exchange in the relevant period compared with the average daily closing value of the Ordinary Share Return Index on the last 20 days of trading of Ordinary Shares on the London Stock Exchange in the immediately preceding relevant period;
"Ordinary Share Return Index"	means an index measuring the accumulated value of Ordinary Shares traded on the London Stock Exchange and taking into account any Company dividends and distributions paid (assuming that such dividends as distributions are reinvested in Ordinary Shares at the market price on the date payable) and changes in capital value of Ordinary Shares;

"Ordinary Shares"	means ordinary shares of 0.01 pence each in the capital of the Company;
"Partnership"	means Babcock & Brown Public Partnerships Limited Partnership, a limited partnership registered in England (registered number LP11596), the limited partnership which will hold and manage the Group's investments, as further described in Paragraph 4 of Part VIII of the Prospectus;
"PEP"	means Personal Equity Plan;
"PFI"	means the Private Finance Initiative procurement model;
"Placing"	means the placing of the Ordinary Shares pursuant to the Issue Agreement, details of which are contained in this document;
"Placing Agent"	means UBS Limited;
"Placing Fees"	means the aggregate fees pursuant to which the Placing Agent is entitled to under the Issue Agreement and the Arranger is entitled to under the Advisory Mandate in respect of the Issue (but excluding the Arranger's advisory fees in respect of the Acquisition which are included in the Acquisition costs detailed on page 31) as described in Part I of this document at page 31;
"PPP"	means the Public Private Partnership procurement model;
"Price"	means the aggregate consideration payable for the Initial Portfolio and related payments (including the Acquisition costs and associated expenses detailed on page 31) as further described on page 61 of this document;
"Product Disclosure Statement"	means the product disclosure statement issued at the time of the RiverCity Motorway's initial public offer;
"Project Agreement"	means the agreement between a Project Entity and the Public Sector Client under which the Project Entity agrees to procure the construction of an infrastructure project and the provision of services in relation to that project;
"Project Entity"	means a special purpose entity formed to undertake an infrastructure project or projects;
"Prospectus"	means this document;
"Public Sector Client"	means a procuring client that is the public sector;
"PwC"	means PricewaterhouseCoopers LLP;
"Receiving Agent Letter"	means the letter dated 10 October 2006 between the Company and the Transfer Agent, pursuant to which the Transfer Agent agrees to provide receiving agency services to the Company;
"Registrar"	means Capita IRG (CI) Limited;
"Registrar Agreement"	means the registrar agreement between the Company and the Registrar dated 10 October 2006;
"Regulatory Information Service"	means a regulatory information service approved by the FSA and on the list of Regulatory Information Services maintained by the FSA;
"RiverCity Motorway"	means the project described on Page 85;
"RPI"	means the UK retail price index;

"RPIx"	means the RPI calculated minus mortgage interest payments;
"Sàrl"	means a société à responsabilité limitée;
"SDRT"	means Stamp Duty Reserve Tax;
"Securities Act"	means the United States Securities Act of 1933;
"Sellside Committee"	means the committee within Babcock & Brown representing the interests of the Vendors in respect of the Acquisition;
"Senior Debt Interests"	means the senior debt funding in respect of the Strathclyde Police Training Centre project and the Hereford and Worcester Magistrates Courts project;
"Shareholder"	means a holder of an Ordinary Share;
"SIPPs"	means self-invested personal pensions;
"SOPARFIs"	means a société à participations financières;
"Sponsor"	means UBS Limited, 1 Finsbury Avenue, London, EC2M 2PP;
"Strategic Partnering Board"	means the strategic partnering board established under the NHS LIFT initiative relevant to each Project Entity carrying out a NHS LIFT project;
"TCGA 1992"	means the Taxation of Capital Gains Act 1992;
"Transfer Agent"	means Capita Registrars, a trading division of Capita IRG Plc;
"UBS" or "UBS Investment Bank"	means UBS Limited;
"UK Assets"	means the interests forming part of the Initial Portfolio to be acquired by the Group that are in respect of projects and schemes located in the UK, as described in Part IV of this document;
"UK" or "United Kingdom"	means the United Kingdom of Great Britain and Northern Ireland;
"UK Listing Authority"	means the Financial Services Authority in its capacity as a competent authority for listing in the UK pursuant to Part VI of FSMA;
"US" or "United States"	means the United States of America, its territories and possessions, any state of the United States and the District of Columbia;
"US Person" or "United States Person"	has the meaning given in Regulation S under the Securities Act;
"Valuation"	means the Directors' calculation, having been advised by PwC, of a Fair Market Value of the Initial Portfolio as at 9 October 2006 as set out on page 57;
"Valuation Report"	means the report prepared by PwC in relation to its opinion as to a fair market value of the interests in the underlying projects constituting the Initial Portfolio as contained in the Appendix to Part IV;
"VAT"	means value added tax;
"Vendors"	means the vendors of the Initial Portfolio being: (a) in respect of the "Bootle Derby Portfolio" the "Calderdale Portfolio" and the Tower Hamlets Schools Project", PFI Holdings LP, acting by its general partner, Babcock & Brown PFI Partners LP, itself acting by its general partner, Babcock & Brown PFI LLC; (b) in respect of the portfolio of subordinated debt issued in respect of NHS LIFT

	projects, Babcock & Brown Investment Holdings Pty Limited; (c) in respect of the Australian Assets, Babcock & Brown PPP Investment Pty Limited; (d) in respect of RiverCity Motorway, AGSO Property Pty Limited, in its capacity as trustee for the Babcock & Brown Prime Broking Trust; and (e) in respect of the senior debt relating to Strathclyde Police Training Centre and Hereford and Worcester Magistrates Courts, Bayerische Hypo- und Vereinsbank AG;
"Volume Weighted Average Price"	means, in respect of any day on which an Ordinary Share is traded on the London Stock Exchange, the volume weighted average price per Ordinary Share for sales in those securities on the London Stock Exchange on that day, where each price is weighted by the number of Ordinary Shares sold at various prices that day; and
"Warranty Period"	has the meaning ascribed to it on page 62.

Terms and Conditions of Application Under the Offer for Subscription

The Ordinary Shares are only suitable for investors who understand that there is a potential risk of capital loss, that there may be limited liquidity in the underlying investments of the Company, for whom an investment in the Ordinary Shares is part of a diversified investment programme and who fully understand and are willing to assume the risks involved in such an investment programme.

In the case of a joint Application, references to you in these terms and conditions of Application are to each of you, and your liability is joint and several. Please ensure you read these terms and conditions in full before completing the Application Form.

Words defined in the Prospectus shall have the same meaning in these terms and conditions and in the notes on how to complete the Application Form, and:

"Applicant" means a person or persons (in the case of joint applicants) whose name(s) appear(s) on the registration details (Box 2A) of an Application Form;

"Application" means the offer made by an Applicant by completing an Application Form and posting (or delivering) it to the Receiving Agent as specified in the Prospectus;

"Money Laundering Regulations" means the Criminal Justice (Proceeds of Crime) (Bailiwick of Guernsey) Regulations 2002 and, where appropriate, the Money Laundering Regulations 2003;

"Prospectus" means the prospectus dated 11 October 2006 published by the Company;

"Receiving Agent" means Capita Registrars, a trading division of Capita IRG Plc and/or the Administrator as the context permits; and

"US Person" has the meaning given in Regulation S of the US Securities Act of 1933.

The Terms and Conditions

- (a) The contract created by the acceptance of an Application under the Offer for Subscription will be conditional on:
- (i) Admission becoming effective by not later than 5.00 p.m. (London time) on 9 November 2006 (or such later date as may be provided for in accordance with the terms of the Issue Agreement referred to in Part VI of the Prospectus);
 - (ii) the Issue Agreement referred to in Part VI of the Prospectus becoming otherwise unconditional in all respects, and not being terminated in accordance with its terms before Admission becomes effective; and
 - (iii) not less than 200 million Ordinary Shares being subscribed for in aggregate pursuant to the Issue.
- (b) The right is reserved by the Company to present all cheques and banker's drafts for payment on receipt and to retain application monies and refrain from delivering an Applicant's Ordinary Shares into CREST or issuing an Applicant's Ordinary Shares in certificated form (as the case may be), pending clearance of the successful Applicant's cheques and banker's drafts. The Company also reserves the right to reject in whole or part, or to scale back or limit, any Application. The Company may treat Applications as valid and binding if made in accordance with the prescribed instructions and the Company may, at its discretion, accept an Application in respect of which payment is not received by the Company prior to the closing of the Offer for

Subscription. If any Application is not accepted in full or if any contract created by acceptance does not become unconditional, the application monies or, as the case may be, the balance thereof will be returned (without interest) by returning each relevant Applicant's cheque or banker's draft or by crossed cheque in favour of the first-named Applicant, through the post at the risk of the person(s) entitled thereto. In the meantime, application monies will be retained by the Receiving Agent in a separate account.

- (c) To ensure compliance with the Money Laundering Regulations the Receiving Agent, at its absolute discretion, may require verification of identity from any Applicant and, without prejudice to the generality of the foregoing, in particular from any person who either (i) tenders payment by way of a cheque, building society cheque or banker's draft drawn on an account in the name of a person or persons other than the Applicant or (ii) appears to the Receiving Agent to be acting on behalf of some other person. This may involve verification of his/her name and address through a reputable agency. The Company is entitled to treat as invalid and reject an Application Form if the Receiving Agent determines pursuant to procedures maintained under the Money Laundering Regulations that satisfactory evidence as to identity has not been and is unlikely to be received within a reasonable period of time in respect of the Application Form in question.

The following is provided by way of guidance to reduce the likelihood of difficulties, delays and potential rejection of an Application Form (but without limiting the Receiving Agent's right to require verification of identity as indicated above):

- (i) Applicants should make payment by a cheque drawn on an account in their own name and write their name and address on the back of the banker's draft or cheque and, in the case of an individual, record his date of birth against his name; and
 - (ii) if an Applicant makes the application as agent for one or more persons, he should indicate on the Application Form whether he is a UK or EU regulated person or institution (for example a bank or stockbroker) and specify his status. If an Applicant is not a UK or EU regulated person or institution, he should contact the Receiving Agent.
- (d) By completing and delivering an Application Form, you, as the Applicant (and, if you sign the Application Form on behalf of somebody else or a corporation, that person or corporation, except as referred to in paragraph (viii) below):
- (i) offer to subscribe for the number of Ordinary Shares specified in your Application Form (or such lesser number for which your Application is accepted) on the terms of and subject to the Prospectus, including these terms and conditions, and subject to the Memorandum and Articles of Association of the Company;
 - (ii) agree that, in consideration of the Company agreeing to process your Application, your Application cannot be revoked until after 9 November 2006 (or such later time and date as the Directors may determine if they may postpone the closing of the Offer in accordance with the Prospectus) and that this paragraph shall constitute a collateral contract between you and the Company which will become binding upon despatch by post to, or (in the case of delivery by hand) on receipt by, the Receiving Agent of your Application Form;
 - (iii) agree and warrant that your cheque or banker's draft may be presented for payment on receipt and will be honoured on first presentation and agree that if it is not so honoured you will not be entitled to receive the Ordinary Shares until you make payment in cleared funds for the Ordinary Shares and such payment is accepted by the Company in its absolute discretion (which acceptance shall be on the basis that you indemnify it, and the Receiving Agent against all costs, damages, losses, expenses and liabilities arising out of or in connection with the failure of your remittance to be honoured on first presentation) and you agree that, at any time prior to the unconditional acceptance by the Company of such late payment, the Company may (without prejudice to its other rights) avoid the

agreement to subscribe such Ordinary Shares and may issue or allot such Ordinary Shares to some other person, in which case you will not be entitled to any payment in respect of such Ordinary Shares other than the refund to you at your risk of the proceeds (if any) of the cheque or banker's draft accompanying your application, without interest;

- (iv) agree that (A) any monies returnable to you may be retained pending clearance of your remittance and the completion of any verification of identity required by the Money Laundering Regulations; and (B) monies pending allocation will be retained in a separate account and that such monies will not bear interest;
- (v) undertake to provide satisfactory evidence of your identity within such reasonable time (in each case to be determined in the absolute discretion of the Company and the Receiving Agent) to ensure compliance with Money Laundering Regulations;
- (vi) agree that, in respect of those Ordinary Shares for which your Application has been received and is not rejected, acceptance of your Application shall be constituted, at the election of the Company, either (i) by notification to the UK Listing Authority and the London Stock Exchange of the basis of allocation (in which case acceptance shall be on that basis) or (ii) by notification of acceptance thereof to the Receiving Agent;
- (vii) authorise the Receiving Agent to procure that your name (together with the name(s) of any other joint Applicant(s)) or your nominee (eg CREST) is/are placed on the register of members of the Company in Guernsey in respect of such Ordinary Shares and to send a crossed cheque for any monies returnable by post without interest, at the risk of the persons entitled thereto to the address of the person (or in the case of joint holders, the first-named person) named as an applicant in the Application Form;
- (viii) warrant that, if you sign the Application Form on behalf of somebody else or on behalf of a corporation, you have due authority to do so on behalf of that other person or corporation, and such person or corporation will also be bound accordingly and will be deemed also to have given the confirmations, warranties and undertakings contained herein and undertake to enclose your power of attorney or a copy thereof duly certified by a solicitor or bank with the Application Form;
- (ix) agree that all Applications, acceptances of Applications and contracts resulting therefrom shall be governed by and construed in accordance with Guernsey law, and that you submit to the jurisdiction of the Guernsey Courts and agree that nothing shall limit the right of the Company to bring any action, suit or proceeding arising out of or in connection with any such Applications, acceptances of Applications and contracts in any other manner permitted by law or in any court of competent jurisdiction;
- (x) confirm that, in making such Application, neither you nor any person on whose behalf you are applying are relying on any information or representation in relation to the Company other than the information contained in the Prospectus and, accordingly, you agree that no person responsible solely or jointly for the Prospectus or any part thereof or involved in the preparation thereof shall have any liability for any such information or representation;
- (xi) irrevocably authorise the Receiving Agent or any person authorised by it, as your agent, to do all things necessary to effect registration of any Ordinary Shares subscribed by or issued to you into your name(s) or into the name(s) of any person(s) in whose favour the entitlement to any such Ordinary Shares has been transferred and authorise any representative of the Receiving Agent to execute any document required therefor;
- (xii) agree that, having had the opportunity to read the Prospectus, you shall be deemed to have had notice of all information and representations concerning the Company and the Ordinary Shares contained therein;
- (xiii) confirm that you have reviewed the restrictions contained in these terms and conditions;

- (xiv) warrant that, if you are an individual, you are not under the age of 18;
 - (xv) agree that all documents and cheques sent by post to, by or on behalf of the Company or the Receiving Agent, will be sent at the risk of the person(s) entitled thereto;
 - (xvi) warrant that in connection with your application you have observed the laws of all relevant territories, obtained any requisite governmental or other consents, complied with all requisite formalities and paid any issue or transfer or other taxes due in connection with your application in any territory and that you have not taken any action which will or may result in the Company acting in breach of the regulatory or legal requirements of any territory in connection with the Offer for Subscription or your application;
 - (xvii) save where you have satisfied the Company that an appropriate exemption applies so as to permit you to subscribe, represent and agree that you are not (i) a US Person (meaning any person who is a US Person within the meaning of Regulation S adopted under the United States Securities Act of 1933 (as amended)) and are not acting on behalf of a US Person, that you are not purchasing with a view to re-sale in the US or to or for the account of a US Person and that you are not an employee benefit plan as defined in section 3(3) of ERISA (whether or not subject to the provisions of Title 1 of ERISA) or an individual retirement account as defined in section 408 of the US Internal Revenue Code or (ii) a resident of Canada, Australia or Japan; and
 - (xviii) agree, on request by the Company, or the Receiving Agent on behalf of the Company to disclose promptly in writing to the Company or the Receiving Agent any information which the Company, or the Receiving Agent, may reasonably request in connection with your Application and authorise the Company or the Receiving Agent on behalf of the Company, to disclose any information relating to your Application as it considers appropriate.
- (e) No person receiving a copy of this document and/or an Application Form in any territory other than the UK may treat the same as constituting an invitation or an offer to him; nor should he in any event use an Application Form unless, in the relevant territory, such an invitation or offer could lawfully be made to him or the Application Form could lawfully be used without contravention of any, or compliance with any unfulfilled registration or other legal or regulatory requirements. It is the responsibility of any person outside the UK wishing to apply for Ordinary Shares under the Offer for Subscription to satisfy himself as to full observance of the laws of any relevant territory in connection with any such application, including obtaining any requisite governmental or other consents, observing any other formalities requiring to be observed in any such territory and paying any issue, transfer or other taxes required to be paid in any such territory.
- (f) The Ordinary Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any State or other jurisdiction of the United States and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, US Persons. The Company has not been and will not be registered as an "investment company" under the Investment Company Act, and investors will not be entitled to the benefits of the Act. In addition, relevant clearances have not been, and will not be, obtained from the Securities Commission of any province of Canada, Australia or Japan and, accordingly, unless an exemption under any relevant legislation or regulations is applicable, none of the Ordinary Shares may be offered, sold, renounced, transferred or delivered, directly or indirectly, in Canada, Australia or Japan. Unless the Company has expressly agreed otherwise in writing or unless an exemption under relevant legislation or regulation is applicable (the applicability of which you hereby represent and warrant, you represent and warrant to the Company that you are not a US Person or a resident of Canada, Australia or Japan and that you are not subscribing for such Shares for the account of any US Person or resident of Canada, Australia or Japan and that you will not offer, sell, renounce, transfer or deliver, directly or indirectly Ordinary Shares subscribed for by you in the United States, Canada, Australia or Japan or to any US Person or resident of Canada, Australia or Japan. No Application will be accepted if

it bears an address in the United States, Canada, Australia or Japan unless an appropriate exemption is available as referred to above.

- (g) Pursuant to The Data Protection (Bailiwick of Guernsey) Law 2001 (the **"DP Law"**), the Company the Administrator and/or the Registrar may hold personal data (as defined in the DP Law) relating to past and present Shareholders.
- (h) Such personal data held is used by the Administrator and the Registrar to maintain the Company's register of shareholders and mailing lists and this may include sharing such data with third parties in one or more of the countries mentioned below when (i) effecting the payment of dividends and redemption proceeds to shareholders and the payment of commissions to third parties and (ii) filing returns of shareholders and their respective transactions in shares with statutory bodies and regulatory authorities. Personal data may be retained on record for a period exceeding six years after it is no longer used.
- (i) The countries referred to above include, but need not be limited to, those in the European Economic Area and any of their respective dependent territories overseas, Argentina, Australia, Brazil, Canada, Hong Kong, Hungary, Japan, New Zealand, Singapore, South Africa, Switzerland and the United States of America.
- (j) By becoming registered as a holder of Ordinary Shares in the Company, a person becomes a data subject (as defined in the DP Law) and is deemed to have consented to the processing by the Company the Administrator or the Registrar of any personal data relating to them in the manner described above.
- (k) The basis of allocation will be determined by the Directors after consultation with the Investment Adviser and the Placing Agent at their absolute discretion. The right is reserved to reject in whole or in part and/or scale down and/or ballot any Application or any part thereof. The right is reserved to treat as valid any Application not in all respects completed in accordance with the instructions relating to the Application Form, including if the accompanying cheque or banker's draft is for the wrong amount.
- (l) Save where the context otherwise requires, words and expressions defined in the Prospectus have the same meanings when used in these terms and conditions and in the Application Form and explanatory notes in relation thereto.

Notes on How to Complete the Application Form

Applications should be returned so as to be received no later than 4.30 p.m. on 1 November 2006.

HELP DESK: If you have a query concerning completion of this Application Form please call Capita Registrars on 0870 162 3121 or from outside the UK +44 20 8639 2157. For legal reasons Capita Registrars will not be able to give advice on the merits of the Offer or to provide legal, financial or taxation advice, and accordingly for such advice you should consult your stockbroker, solicitor, accountant, bank manager or other independent professional adviser.

1A. Application

Fill in (in figures) in Box 1A the number of Ordinary Shares being subscribed for. The number being subscribed must be a minimum of 1,000 Ordinary Shares and thereafter in multiples of 500 Ordinary Shares. Financial intermediaries who are investing on behalf of clients should make separate applications for each client.

1B. Subscription Monies

Fill in (in figures) in Box 1B the amount of subscription monies accompanying this application being the number of Ordinary Shares inserted in Box 1A multiplied by 100 pence per Ordinary Share.

2A. Holder Details

Fill in (in block capitals) the full name and address of the first holder and the names only of any joint holders. Applications may only be made by persons aged 18 or over. In the case of joint holders only the first named may bear a designation reference. A maximum of four joint holders is permitted. All holders named must sign the Application Form at section 3.

2B. CREST

If you wish your Ordinary Shares to be deposited in a CREST Account in the name of the holders given in section 2A, enter in section 2B the details of that CREST Account. Where it is requested that Ordinary Shares be deposited into a CREST Account please note that payment for such Shares must be made prior to the day such Ordinary Shares might be allotted and issued. It is not possible for an applicant to request that Ordinary Shares be deposited in their CREST Account on a delivery against payment basis. Any Application Form received containing such a request will be rejected.

3. Signature

All holders named in section 2A must sign section 3 and insert the date. The Application Form may be signed by another person on behalf of each holder if that person is duly authorised to do so under a power of attorney. The power of attorney (or a copy duly certified by a solicitor or a bank) must be enclosed for inspection (which originals will be returned by post at the addressee's risk). A corporation should sign under the hand of a duly authorised official whose representative capacity should be stated and a copy of a notice issued by the corporation authorising such person to sign should accompany the Application Form.

4. Cheque/Banker's Draft, Payment Details

Payment must be made by a cheque or banker's draft accompanying your application. Payment by cheque or banker's draft must accompany your Application Form and be for the exact amount

shown in section 1B of your Application Form. Your cheque or banker's draft must be made payable to Capita IRG Plc a/c Babcock & Brown Public Partnerships Limited and crossed "A/C Payee". If you use a banker's draft or a building society cheque you should ensure that the bank or building society issuing the payment enters the name, address and account number of the person whose account is being debited on the reverse of the banker's draft or cheque and adds its stamp. Your cheque or banker's draft must be drawn in sterling on an account at a bank branch in the UK or the Channel Islands and must bear a UK bank sort code number in the top right hand corner. Where an application is accompanied by a cheque or banker's draft drawn by someone other than the holder(s), any monies returned will be sent by the Receiving Agent to the person named as holder in Section 2A. Your payment must relate solely to this application. No receipt will be issued.

5. Reliable Introducer Declaration

Applications with a value greater than £9,000 will be subject to Guernsey's verification of identity requirements. This will involve you providing the verification of identity documents listed below UNLESS you can have the declaration provided at section 5 of the Application Form given and signed by a firm acceptable to the Registrar and Receiving Agent. In order to ensure your application is processed timely and efficiently all applicants are strongly advised to have the declaration provided in section 5 of the Application Form completed and signed by a suitable firm.

If the declaration in section 5 cannot be completed and the value of the application is greater than £9,000, in accordance with internationally recognised standards for the prevention of money laundering, the documents listed below must be provided with the completed application form as appropriate. Notwithstanding that the declaration in section 5 has been completed and signed, the Registrar reserves the right to request of you the identity documents listed below and/or to seek verification of identity of each holder and payor (if necessary) from you or their bankers or from another reputable institution, agency or professional adviser in the applicable country of residence. If satisfactory evidence of identity has not been obtained within a reasonable time your application may be rejected or revoked. Where certified copies of documents are requested below, such copy documents should be certified by a senior signatory of a firm which is either a governmental approved bank, stockbroker or investment firm, financial services firm or an established law firm or accountancy firm which is itself subject to regulation in the conduct of its business in its own country of operation and the name of the firm should be clearly identified on each document certified.

A. For Each Holder Being an Individual Enclose:

- (1) a certified clear photocopy of one of the following identification documents which bear both a photograph and the signature of the person: current passport—Government or Armed Forces identity card—driving licence; and
- (2) certified copies of at least two of the following documents which purport to confirm that the address given in section 2A is that person's residential address: a recent gas, electricity, water or telephone (not mobile) bill—a recent bank statement—a council rates bill—or similar document issued by a recognised authority; and
- (3) if none of the above documents show the date and place of birth of the Applicant, enclose a note of such information; and
- (4) details of the name and address of their personal bankers from which the Registrar or the Receiving Agent may request a reference, if necessary.

B. For Each Holder Being a Company (a "Holder Company") Enclose:

- (1) a certified copy of the certificate of incorporation of the holder company; and
- (2) the name and address of the holder company's principal bankers from which the Registrar or the Receiving Agent may request a reference, if necessary; and

- (3) a statement as to the nature of the holder company's business, signed by a director; and
- (4) a list of the names and residential addresses of each director of the holder company; and
- (5) for each director provide documents and information similar to that mentioned in A above; and
- (6) a copy of the authorised signatory list for the holder company; and
- (7) a list of the names and residential/registered address of each ultimate beneficial owner interested in more than 5 per cent. of the issued share capital of the holder company and, where a person is named, also complete C below and, if another company is named (hereinafter a **"beneficiary company"**), also complete D below.

If the beneficial owner(s) named do not directly own the holder company but do so indirectly via nominee(s) or intermediary entities, provide details of the relationship between the beneficial owner(s) and the holder company.

- C. For each person named in B(7) as a beneficial owner of a holder company enclose for each such person documents and information similar to that mentioned in A(1) to (4)
- D. For each beneficiary company named in B(7) as a beneficial owner of a holder company enclose:
 - (1) a certified copy of the certificate of incorporation of that beneficiary company; and
 - (2) a statement as to the nature of that beneficiary company's business signed by a director; and
 - (3) the name and address of that beneficiary company's principal bankers from which the Registrar or the Receiving Agent may request a reference, if necessary; and
 - (4) enclose a list of the names and residential/registered address of each beneficial owner owning more than 5 per cent. of the issued share capital of that beneficiary company.
- E. If the payor is not the Applicant and is not a bank providing its own cheque or banker's payment on the reverse of which is shown details of the account being debited with such payment (see note 4 on how to complete this form) enclose:
 - (1) if the payor is a person, for that person the documents mentioned in A(1) to (4); or
 - (2) if the payor is a company, for that company the documents mentioned in B(1) to (7); and
 - (3) an explanation of the relationship between the payor and the holder(s).

The Registrar or the Receiving Agent reserves the right to ask for additional documents and information.

6. Contact Details

To ensure the efficient and timely processing of your Application Form, please provide contact details of a person that the Registrar or Receiving Agent may contact with all enquiries concerning your application. Ordinarily this contact person should be the person signing in section 3 on behalf of the first named holder. If no details are entered here and the Registrar or Receiving Agent requires further information, any delay in obtaining that additional information may result in your application being rejected or revoked.

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APPLICATION FORM

INSTRUCTIONS FOR DELIVERY OF COMPLETED APPLICATION FORMS

Completed Application Forms should be returned, by post or by hand (during normal Business Hours only), to Capita Registrars, Corporate Actions, the Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, so as to be received no later than 4.30 p.m. on 1 November 2006, together in each case with payment in full in respect of the application. If you post your Application Form, you are recommended to use first class post and to allow at least two days for delivery. Application Forms received after this date may be returned.

FOR OFFICE USE ONLY

Log No.

Important before completing this form, you should read the accompanying notes.

To: Capita Registrars, acting as agent for Babcock & Brown Public Partnerships Limited

1. APPLICATION

I/We the person(s) detailed in section 2A below offer to subscribe the amount shown in Box 1 for Shares subject to the Terms and Conditions set out in the Prospectus dated 11 October 2006 and subject to the memorandum and articles of association of the Company.

Box 1A Number of Ordinary Shares
(minimum of 1,000)

Box 1B Subscription monies
(number in Box 1A multiplied by 100 pence)

2A. DETAILS OF HOLDER(S) IN WHOSE NAME(S) SHARES WILL BE ISSUED (BLOCK CAPITALS)

Mr, Mrs, Miss or Title

Forenames (in full):

Surname/Company Name:

Address (in Full):

Postcode:

Designation (if any):

Mr, Mrs, Miss or Title

Forenames (in full):

Surname/Company Name:

Mr, Mrs, Miss or Title

Forenames (in full):

Surname/Company Name:

Mr, Mrs, Miss or Title

Forenames (in full):

Surname/Company Name:

Mr, Mrs, Miss or Title

Forenames (in full):
Surname/Company Name:

2B. CREST DETAILS

(Only complete this section if Ordinary Shares allotted are to be deposited in a CREST Account which must be in the same name as the holder(s) given in section 2A).

CREST Participant ID:
CREST Member Account ID:

3. SIGNATURE(S) ALL HOLDERS MUST SIGN

First holder signature:	Second holder signature:
Name (Print)	Name (Print)
Dated:	Dated:
Third holder signature:	Fourth holder signature:
Name (Print)	Name (Print)
Dated:	Dated:

4. CHEQUES/BANKER'S DRAFT DETAILS

Pin or staple to this form your cheque or banker's draft for the exact amount shown in section 1 made payable to "Capita IRG Plc a/c Babcock & Brown Public Partnerships Limited". Cheques and banker's payments must be drawn in sterling on an account at a bank branch in the UK or the Channel Islands and must bear a UK bank sort code number in the top right hand corner.

5. RELIABLE INTRODUCER DECLARATION

Completion and signing of this declaration by a suitable person or institution may avoid presentation being requested of the identity documents detailed in section 6 of this form.

The declaration below may only be signed by a person or institution (such as a governmental approved bank, stockbroker or investment firm, financial services firm or an established law firm or accountancy firm) (the "firm") which is itself subject in its own country to operation of "know your customer" and anti-money laundering regulations no less stringent than those which prevail in Guernsey. Acceptable countries include Austria, Belgium, Canada, Denmark, Finland, France, Germany, Gibraltar, Greece, Hong Kong, Iceland, Ireland, Isle of Man, Italy, Japan, Jersey, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Singapore, South Africa, Spain, Sweden, Switzerland, the UK and the United States of America.

DECLARATION: To the Company and the Registrar

With reference to the holder(s) detailed in section 2A, all persons signing at section 3 and the payor identified in section 6 if not also the Applicant (collectively the "subjects") **WE HEREBY DECLARE:**

1. we operate in one of the above mentioned countries and our firm is subject to money laundering regulations under the laws of that country which, to the best of our knowledge, are no less stringent than those which prevail in Guernsey;
2. we are regulated in the conduct of our business and in the prevention of money laundering by the regulatory authority identified below;

- 3. each of the subjects is known to us in a business capacity and we hold valid identity documentation on each of them and we undertake to immediately provide to you copies thereof on demand;
- 4. we confirm the accuracy of the names and residential/business address(es) of the holder(s) given at section 2A and if a CREST Account is cited at section 2B that the owner thereof is named in section 2A;
- 5. having regard to all local money laundering regulations we are, after enquiry, satisfied as to the source and legitimacy of the monies being used to subscribe for the Ordinary Shares mentioned; and
- 6. where the payor and holder(s) are different persons we are satisfied as to the relationship between them and reason for the payor being different to the holder(s).

The above information is given in strict confidence for your own use only and without any guarantee, responsibility or liability on the part of this firm or its officials.

Signed:

Name:

Position:

having authority to bind the firm.

Name of regulatory authority:

Firm's Licence number:

Website address or telephone number of regulatory authority:

STAMP of firm giving full name and business address:

6. CONTACT DETAILS

To ensure the efficient and timely processing of this application please enter below the contact details of a person the Registrar or the Receiving Agent may contact with all enquiries concerning this application. Ordinarily this contact person should be the (or one of the) person(s) signing in section 3. If no details are entered here and the Registrar or the Receiving Agent requires further information, any delay in obtaining that additional information may result in your application being rejected or revoked.

Contact name:

E-mail address:

Contact address:

.....

.....

Postcode:

Telephone No:

Fax No:

Name of Company:

Company stamp/Signature of Authorised Representative:

.....

7. DIVIDEND MANDATE

All distributions on the Ordinary Shares may be paid directly into bank and building society accounts. In order to facilitate this, please complete the mandate instruction form below.

Distributions paid directly to your account will be paid in cleared funds on the distribution payment dates. Your bank or building society statement will identify details of the distribution as well as the dates and amounts paid.

Please forward, until further notice, all distributions that may from time to time become due on any Ordinary Shares now standing, or which may hereafter stand, in my name in the register of members of the Company to:

Bank or Building Society reference number and details:

- (1) Sort Code Number:
.....
- (2) Name of Bank/Building Society:
.....
Title of Branch:
.....
Address of Branch:
.....
Please quote all digits including zeros
- (3) Account Number:
.....
- (4) Signature:
.....
- (5) Date:
.....

The Company and the Receiving Agent cannot accept responsibility if any details provided by you are incorrect.

Prospectus 2006

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