



Macquarie Infrastructure Group

Comprising Macquarie Infrastructure Trust (II) and its controlled entities, including Macquarie Infrastructure Trust (I) and its controlled entities and Macquarie Infrastructure Group International Limited and its controlled entities.

Interim Financial Report 31 December 2005

Macquarie Infrastructure Group (MIG) comprises Macquarie Infrastructure Trust (I) ARSN 092 863 780 (MIT(I)), Macquarie Infrastructure Trust (II) ARSN 092 863 548 (MIT(II)) and Macquarie Infrastructure Group International Limited ARBN 112 684 885 (MIGIL).

Macquarie Infrastructure Investment Management Limited ACN 072 609 271 (MIIML) is the responsible entity of MIT(I) and MIT(II). MIIML is a wholly owned subsidiary of Macquarie Bank Limited ACN 008 583 542 (MBL).

Macquarie Investment Management (UK) Limited (MIM UK) registered number 3976881 is the adviser of MIGIL. MIM UK is a wholly owned subsidiary of MBL.

Investments in MIG are not deposits with or other liabilities of MBL, or any entity in the Macquarie Bank Group and are subject to investment risk, including possible delays in repayment and loss of income and capital invested. Neither MBL, nor any member of the Macquarie Bank Group, including MIIML and MIM UK, guarantees the performance of MIG, the repayment of capital or the payment of a particular rate of return on MIG stapled securities.

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

MIIML, as responsible entity of the trusts comprised by MIG and MIM UK as the adviser of MIGIL are entitled to fees for so acting. MBL and its related corporations (including MIIML and MIM UK) together with their officers and directors and officers and directors of MIGIL may hold stapled securities in MIG from time to time.

The MIG consolidated interim financial report has been prepared to enable MIIML as responsible entity to comply with its obligations under the Corporations Act 2001 and to ensure compliance with the ASX Listing Rules and satisfy the requirements of the Australian equivalents to International Financial Reporting Standards in relation to stapled structures. The responsibility for preparation of the consolidated interim financial report and any financial information contained in this financial report rests solely with the directors of MIIML.

Table of Contents

Directors' Report	1
Directors	1
Review and Results of Operations	1
Significant Changes in State of Affairs	3
Distributions	3
Events Occurring after Balance Sheet Date	3
Directors' Holdings of Stapled Securities	3
Responsible Entity's Holdings of Stapled Securities	3
Auditor's Independence Declaration	3
Rounding of Amounts in the Directors' Report and Financial Report	4
Auditor's Independence Declaration	5
Consolidated Income Statement	6
Consolidated Balance Sheet	7
Consolidated Statement of Changes in Equity	8
Consolidated Cash Flow Statement	9
Notes to the Consolidated Financial Statements	10
1 Summary of Significant Accounting Policies	10
2 Net Profit for the Half Year	16
3 Revision of Estimate	18
4 Distributions Paid and Proposed	18
5 Investments	19
6 Property, Plant and Equipment	21
7 Tolling Concessions	21
8 Interest-Bearing Financial Liabilities	22
9 Contributed Equity	23
10 Reserves	24
11 Retained Profits	24
12 Minority Interest in Controlled Entities	24
13 Non-Cash Financing and Investing Activities	24
14 Segment Reporting	25
15 Business Combination	26
16 Contingent Liabilities	27
17 Commitments for Expenditure	28
18 Events Occurring After Balance Sheet Date	29
19 Explanation of Transition to AIFRS	30
Statement by the Directors of the Responsible Entity of the Trusts	37
Independent Review Report to the security holders of Macquarie Infrastructure Trust (II) (MIT(II))	38

Directors' Report

In respect of the half year ended 31 December 2005, the directors of Macquarie Infrastructure Investment Management Limited (the Responsible Entity) submit the following report on the consolidated interim financial report of Macquarie Infrastructure Trust (II) (MIT(II)). UIG 1013: *Consolidated Financial Reports in relation to Pre-Date-of-Transition Stapling Arrangements* requires one of the stapled entities of an existing stapled structure to be identified as the parent entity for the purpose of preparing consolidated financial reports. In accordance with this requirement, MIT(II) has been identified as the parent of the consolidated group comprising MIT(II) and its controlled entities, Macquarie Infrastructure Trust (I) (MIT(I)) and its controlled entities and Macquarie Infrastructure Group International Limited (MIGIL) and its controlled entities together acting as Macquarie Infrastructure Group (MIG or the Group).

Directors

The following persons were directors of the Responsible Entity during the half year and up to the date of this report:

- Mark Roderick Granger Johnson (Chairman)
- Michael Bernard Easson
- Eric Paul McClintock
- Nicholas William Moore
- David Allen Mortimer
- John Stuart Hugh Roberts
- David Anthony Walsh

The following persons were directors of MIGIL during the half year and up to the date of this report:

- Robert Andrew Mulderig (Chairman)
- Mark Roderick Granger Johnson
- Dr Peter Dyer
- Jeffrey Gerald Conyers

Review and Results of Operations

This interim financial report is the first MIG financial report to be produced in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS). Comparative figures have been restated to AIFRS.

The performance of the Group, as represented by the combined results of its operations, was as follows:

	6 months to 31 Dec 2005 \$'000	6 months to 31 Dec 2004 \$'000
Revenue and other income from continuing activities	1,020,658	623,956
Net profit attributable to MIG security holders**	701,651	547,057
	Cents	Cents
Basic earnings per stapled security*	30.43	28.25
Diluted earnings per stapled security*	29.49	27.01

* Earnings used in the calculation of basic earnings per stapled security includes unrealised revenue from revaluation of MIG's investments. Consequently, basic earnings per stapled security reflects the positive impact of unrealised revaluation increments.

** The Trust Constitutions of MIT(I) and MIT(II) were amended on 30 June 2005 to remove their finite life clauses. On 21 November 2005, unitholders voted at the MIG Annual General Meeting to amend the constitutions further to allow the Responsible Entity discretion to vary the distribution of net income to unitholders, subject to receipt of a private binding income tax ruling from the Australian Taxation Office (ATO) that such amendment would not result in a material adverse consequence to the tax position of the trusts. This amendment was required in order that MIT(I) units would continue to be presented as equity under AIFRS. As at 31 December 2005 a ruling had not been received and the proposed change had not been made to the constitution. As a result, the MIT(I) units, which are compound instruments at 31 December 2005, have been classified as financial liabilities. Accordingly the net profit attributable to MIT(I) unitholders has been classified as a financing cost and is shown separately on the face of the Income Statement.

■ **Securitisation of Future Airport Motorway Group (AMG) Cash Flows**

On 8 July 2005, MIG introduced new credit facilities in relation to its 71.35% interest in AMG. The A\$150.0 million facilities are a securitisation of part of the expected future distributions from AMG and are provided to a funding trust wholly owned by MIT(I).

The facilities have a term of 4.3 years with a 100% bullet repayment on 1 November 2009 or can be repaid earlier without penalty. The facilities carry a margin of between 0.7% and 1.5% on a sliding scale depending on interest coverage ratios.

■ **Refinancing of Skyway**

On 17 August 2005, MIG announced the refinancing of debt in relation to Skyway. The refinancing resulted in the issue of US\$1.6 billion (A\$2.2 billion) of new debt facilities to replace the existing facilities of \$US1.0 billion (A\$1.4 billion). The financing structure provided an immediate return of US\$168.2 million (A\$221.7 million) of cash to MIG.

■ **Acquisition of Dulles Greenway**

MIG reached financial close on its investment in the Dulles Greenway toll road in Virginia on 9 September 2005.

At that time, MIG invested US\$531.7 million (A\$710.7 million) to acquire the General Partner, Shendandoah Greenway Corporation and to provide loans to Shendandoah Holding LLC (SHLLC) and AEI Holdings LLC (AIEHLLC). SHLLC and AIEHLLC own a combined interest of 86.6% of Toll Road Investors Partnership II LLP (TRIP II) via their ownership of limited partners Shendandoah I LLC, Shendandoah II LLC and AIE LLC. Two-long dated call options are exercisable by MIG Investments 2 (US) LLC, a subsidiary of MIT(II), in respect of the issued shares in SHLLC and AIEHLLC respectively.

On 29 September 2005, MIG acquired a further 13.3% interest in TRIP II from Kellogg, Brown and Root (KBR) for US\$84.5 million (A\$112.0 million) via MIG Investments 2 (US) LLC. Following the completion of the KBR acquisition, MIG held 100% economic interest in Dulles Greenway.

■ **Institutional Placement**

On 1 September 2005, MIG raised A\$667.5 million, net of underwriting and transaction costs, from an institutional placement of 174.4 million MIG stapled securities at A\$3.87 to assist in the funding of MIG's investment in 86.6% of TRIP II, the concessionaire of the Dulles Greenway, and to acquire 100% of the General Partner, Shendandoah Greenway Corporation.

■ **MIG Security Purchase Plan**

MIG allotted 26.7 million stapled securities to investors pursuant to the Security Purchase Plan offer dated 12 October 2005. The securities, issued at a price of A\$3.87 each, funded MIG's acquisition of the remaining 13.3% interest in TRIP II, the concessionaire of the Dulles Greenway, from KBR.

■ **Announcement of Preferred Bidder for Autoroutes Paris-Rhin-Rhône (APRR) Motorway Network**

On 14 December 2005 the Government of France advised that the consortium comprised of Eiffage SA, MIG and Macquarie European Infrastructure Fund (together the Consortium) had been selected as preferred bidder to acquire its 74.7% interest in APRR, subject to customary regulatory approvals. On 20 February 2006 MIG contributed €252.8 million (A\$404.6 million) for this stake. The price offered by the consortium was €61.0 per share. Final debt and equity figures are dependent on the take-up of a mandatory offer to minority shareholders (required under French law). At 100%, MIG's equity investment will be €376.0 million (A\$600.0 million).

■ **407 ETR**

As disclosed in Note 5 to the Consolidated Financial Statements, the 407 ETR concession company and the Government of Ontario, Canada, are presently engaged in a series of disputes. 407 ETR and MIG have legal advice in relation to the interpretation of the concession contract and believe that the concession company's position on each of these issues is strong.

■ **MIG ownership in Westlink M7**

At completion of construction of the Westlink M7 on 16 December 2005, there was a mandatory redemption of Construction phase Loan Notes (CLNs) of A\$459.3 million with a mandatory reinvestment for the same amount in Subordinated term Loan Notes (SLNs) issued by the Westlink Motorway Partnership. SLNs are debt instruments that accrue interest on a quarterly basis. Interest payments are only able to be made under the provisions of the Loan Note Subscription Agreement. Interest payments are not expected to be made during the first 21 months of operation of the Westlink M7. The interest rate applicable to the SLNs is 11.9% per annum.

On 16 December 2005, MIG exercised its fixed price option to acquire an additional 5.0% equity interest in Westlink M7. This interest was held by Abigroup Limited (2.5%) and Leighton Holdings Limited (2.5%).

Abigroup Limited and Leighton Holdings Limited hold a total interest of 10.0% in Westlink M7, over which MIG and Transurban Group have pre-emptive rights. MIG now holds a 45.0% direct stake and a 1.3% indirect stake (through MIG's investment in Transurban) in Westlink M7.

■ **Reinvestment of Performance Fees**

During the period MIG issued a total of 21.9 million (2004: 1.9 million) new stapled securities which were issued at A\$4.19 (2004: A\$3.27) each as a result of the Responsible Entity and the Adviser of MIGIL electing to reinvest performance fees of A\$91.6 million (2004: A\$6.1 million) in scrip.

■ **Change of name: Macquarie Infrastructure Bermuda Limited (MIBL) to Macquarie Infrastructure Group International Limited (MIGIL)**

At the MIBL AGM on 21 November 2005, security holders approved the change of name of Macquarie Infrastructure Bermuda Limited (MIBL) to Macquarie Infrastructure Group International Limited (MIGIL). The Certificate of Incorporation on Change of Name was effected under section 10 of the Bermudian Companies Act 1981 by the Bermudian Registrar of Companies.

■ **Securitisation of Future Interlink Roads and Statewide Roads Cash Flows**

On 20 December 2005 MIG introduced new facilities in relation to its investments in Interlink Roads (ILR) and Statewide Roads (SWR). The A\$125.0 million facilities are a securitisation of part of the expected future distributions from ILR and SWR and are provided to a funding trust wholly owned by MIT(II).

The facilities have a term of 3 years with a 100% bullet repayment on 31 December 2008 or can be repaid earlier without penalty. The facilities carry a margin of between 0.65% and 1.45% on a sliding scale depending on interest coverage ratios. MIG will execute interest rate swaps for the term of the facility that fix the base interest rate (excluding the margin) for at least 80.0% of the facilities when funds are drawn down.

Significant Changes in State of Affairs

In the opinion of the directors there were no significant changes in the state of affairs of the Group other than those disclosed in the Review and Results of Operations that occurred during the half year under review.

Distributions

An interim distribution for the half year ended 31 December 2005 of 10.00 cents per stapled security (2004: 63.75 cents per stapled security) was paid on 14 February 2006.

Events Occurring after Balance Sheet Date

A full description of these events is contained in Note 18 to the Consolidated Financial Statements.

Directors' Holdings of Stapled Securities

The aggregate number of stapled securities held directly, indirectly or beneficially by directors or their director-related entities at the date of this report is 2,437,186 (30 June 2005: 2,396,322).

Responsible Entity's Holdings of Stapled Securities

The number of stapled securities held by or on behalf of the Responsible Entity of MIT(I) and MIT(II) at the date of this report is 30,820,428 (30 June 2005: 8,958,672).

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration, as required under section 307C of the Corporations Act 2001, is set out on page 5.

Rounding of Amounts in the Directors' Report and Financial Report

The Group is of a kind referred to in Class Order 98/0100, as amended by Class Order 04/667, issued by the Australian Securities & Investments Commission relating to the "rounding off" of amounts in the Directors' Report and Financial Report. Amounts in the Directors' Report and the Financial Report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

This report is made in accordance with a resolution of the directors of Macquarie Infrastructure Investment Management Limited.



Mark RG Johnson

Sydney
23 February 2006



John SH Roberts

Sydney
23 February 2006

PricewaterhouseCoopers
ABN 52 780 433 757

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
www.pwc.com/au
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999

Auditor's Independence Declaration

As lead auditor for the review of Macquarie Infrastructure Trust (II) for the half year ended 31 December 2005, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Macquarie Infrastructure Trust (II) and the entities it controlled during the period, which are deemed to include Macquarie Infrastructure Trust (I) and the entities it controlled during the period, and Macquarie Infrastructure Group International Limited and the entities it controlled during the period.



Mark Haberlin
Partner
PricewaterhouseCoopers

Sydney
23 February 2006

Consolidated Income Statement

	Note	6 months to 31 Dec 2005 \$'000	6 months to 31 Dec 2004 \$'000
Revenue and other income from continuing activities			
Revenue from continuing activities		304,584	255,928
Other income from continuing activities		716,074	368,028
Total revenue and other income from continuing activities	2(i)	1,020,658	623,956
Operating expenses from continuing activities			
Financing costs excluding costs attributable to security holders**		(148,708)	(166,979)
Other operating expenses		(203,056)	(176,872)
Total operating expenses from continuing activities before finance costs attributable to security holders**	2(ii)	(351,764)	(343,851)
Net profit from continuing activities before income tax benefit and finance costs attributable to security holders**		668,894	280,105
Income tax benefit		154,060	257,364
Net profit from continuing activities after income tax benefit and before finance costs attributable to security holders**		822,954	537,469
Finance costs attributable to security holders		(119,249)	-
Net profit from continuing activities after income tax benefit and finance costs attributable to security holders		703,705	537,469
Net profit/(loss) attributable to:			
MIG security holders		701,651	547,057
Minority interests		2,054	(9,588)
		703,705	537,469
Earnings per security for net profit from continuing activities attributable to MIG security holders			
Basic earnings per stapled security*		30.43c	28.25c
Diluted earnings per stapled security*		29.49 c	27.01c

The above Consolidated Income Statement should be read in conjunction with the accompanying notes

* Earnings used in the calculation of basic earnings per stapled security includes unrealised revenue from revaluation of MIG's investments. Consequently, basic earnings per stapled security reflects the positive impact of unrealised revaluation increments.

** MIT(I) units, which are compound instruments at 31 December 2005, have been classified as financial liabilities. Accordingly MIT(I)'s net profit before adjustment for minority interests has been classified as a financing cost and is shown separately on the face of the Income Statement. Refer to Note 1(k).

Consolidated Balance Sheet

	Note	As at 31 Dec 2005 \$'000	As at 30 June 2005 \$'000
Current assets			
Cash and cash equivalents		1,520,620	1,262,921
Receivables		90,082	119,999
Prepayments		16,781	20,651
Other assets		9,970	2,511
Total current assets		1,637,453	1,406,082
Non-current assets			
Prepayments		8,270	9,587
Investments in financial assets	5	5,326,475	4,556,059
Property, plant and equipment	6	2,883,335	2,365,751
Tolling concessions	7	1,885,356	663,166
Other assets		25,343	38,914
Total non-current assets		10,128,779	7,633,477
Total assets		11,766,232	9,039,559
Current liabilities			
Payables		191,209	280,290
Provisions		7,231	3,078
Interest-bearing financial liabilities	8	64,860	29,650
Distribution payable	4	240,550	297,673
Current tax liabilities		5,332	4,722
Total current liabilities		509,182	615,413
Non-current liabilities			
Provisions		3,723	3,548
Interest-bearing financial liabilities	8	4,070,358	2,846,607
Deferred tax liabilities		306,323	477,157
Concession notes		135,000	120,000
Other liabilities		87,784	83,716
Total non-current liabilities excluding security holder interests classified as debt*		4,603,188	3,531,028
MIT(l) units*		532,682	-
Total non current liabilities		5,135,870	3,531,028
Total liabilities		5,645,052	4,146,441
Net assets		6,121,180	4,893,118
Equity			
MIG security holders' interest			
Contributed equity	9	4,218,780	3,595,768
Reserves	10	236,101	(40,815)
Retained profits	11	1,582,413	1,252,373
Total MIG security holders' interest		6,037,294	4,807,326
Minority interest in controlled entities	12	83,886	85,792
Total equity		6,121,180	4,893,118

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes

* MIT(l) units, which are compound instruments at 31 December 2005, have been classified as financial liabilities. Refer to Note 1(k).

Consolidated Statement of Changes in Equity

	Note	6 months to 31 Dec 2005 \$'000	6 months to 31 Dec 2004 \$'000
Total equity at the beginning of the half year		4,893,118	4,921,673
Adjustment to equity upon adoption of AASB 132 and AASB 139, net of tax*		(394,307)	-
Exchange differences on translation of foreign operations	10	276,916	(70,288)
Acquisition of further stake in a controlled entity		8,526	-
Net profit for the half year		703,705	537,469
Total recognised income and expense for the half year		594,840	467,181
Transactions with equity holders in their capacity as equity holders:			
Contributions of equity, net of transaction costs paid		877,732	21,531
Distributions provided for or paid to MIG security holders	4	(240,550)	(1,234,800)
Distributions provided for or paid to minority interest		(3,960)	(10,146)
		633,222	(1,223,415)
Total equity at the end of the half year		6,121,180	4,165,439
Total recognised income and expenses for the half year is attributable to:			
MIG security holders		701,651	547,057
Minority interest		2,054	(9,588)
		703,705	537,469

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes

* MIT(I) units, which are compound instruments at 31 December 2005, have been classified as financial liabilities. Accordingly MIT(I)'s net profit before adjustment for minority interests has been classified as a financing cost and is shown separately on the face at the Income Statement. Refer to Note 1(k).

Consolidated Cash Flow Statement

	Note	6 months to 31 Dec 2005 \$'000	6 months to 31 Dec 2004 \$'000
Cash flows from operating activities			
Toll revenue received		170,954	140,582
Interest received		151,613	130,125
Interest paid		(68,560)	(63,015)
Net indirect taxes received/(paid)		359	(10,072)
Payments to suppliers and employees (inclusive of GST)		(40,597)	(36,789)
Responsible Entity and Adviser base fees paid		(36,024)	(44,584)
Responsible Entity and Adviser performance fees paid		(9,465)	(857)
Distributions and dividend income received		33,718	23,080
Income taxes paid		(9,290)	(9,405)
Other income received		6,918	8,076
Net cash flows from operating activities		199,626	137,141
Cash flows from investing activities			
Proceeds from repayments of interest bearing financial assets		2,811	1,510
Proceeds from sale of investments		-	1,738,835
Proceeds from sale of controlled entity		-	104,040
Payment for purchase of controlled entity, net of cash acquired		(447,947)	-
Payments for purchase of investments		(159,030)	-
Capital expenditure		(97,950)	(69,612)
Proceeds from sale of property, plant and equipment		-	16
Proceeds from return of capital from investments		221,730	-
Net cash flows from investing activities		(480,386)	1,774,789
Cash flows from financing activities			
Repayment of bank borrowings		(209,446)	(474,287)
Proceeds from bank borrowings		272,327	692,056
Borrowing costs paid		(71,753)	(106,985)
Distributions paid to MIG security holders		(297,672)	(72,395)
DRP proceeds received		71,994	15,445
Distributions paid to minority interests		(10,095)	(17,590)
Proceeds from issue of securities		778,453	-
Costs of raising capital		(7,473)	-
Net cash flows from financing activities		526,335	36,244
Net increase in cash assets held		245,575	1,948,174
Cash and cash equivalents at the beginning of the half year		1,262,921	417,735
Effects of exchange rate movements on cash and cash equivalents		12,124	(34,178)
Cash and equivalents assets at the end of the half year		1,520,620	2,331,731
Non cash financing and investing activities			

13

The above Consolidated Cash Flow Statement should be read in conjunction with the accompanying notes

Notes to the Consolidated Financial Statements

1 Summary of Significant Accounting Policies

This general purpose financial report for the half-year reporting period ended 31 December 2005 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report of MIG for the year ended 30 June 2005 and any public announcements made by MIG during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

(a) Basis of Preparation of Half Year Financial Report

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

— **Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards**

This interim financial report is the first MIG interim financial report to be prepared in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS). AASB 1: *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of MIG until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the MIG interim financial report for the half year ended 31 December 2005, management has amended certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with AIFRS. The comparative figures are restated to reflect these adjustments.

MIG has taken the exemption available under AASB 1 to apply AASB 132: *Financial Instruments: Disclosure and Presentation* and AASB 139: *Financial Instruments: Recognition and Measurement*, from 1 July 2005. MIG has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on MIG's equity and net profit are given in Note 19.

— **Historical cost convention**

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

(b) Consolidated Accounts and Stapling Arrangements

The units of Macquarie Infrastructure Trust (I) (MIT(I)) and Macquarie Infrastructure Trust (II) (MIT(II)) and the shares of Macquarie Infrastructure Group International Limited (MIGIL or the Company) are combined and issued as stapled securities in Macquarie Infrastructure Group (MIG or the Group). The units of MIT(I) and MIT(II) and the shares of MIGIL cannot be traded separately and can only be traded as stapled securities.

UIG 1013: *Consolidated Financial Reports in relation to Pre-Date-of-Transition Stapling Arrangements* requires one of the stapled entities of an existing stapled structure to be identified as the parent entity for the purpose of preparing consolidated financial reports. In accordance with this requirement MIT(II) has been identified as the parent of the consolidated group comprising MIT(I) and its controlled entities, MIT(II) and its controlled entities and MIGIL and its controlled entities.

This interim financial report consists of the consolidated financial statements of MIT(II), which comprises MIT(I) and its controlled entities, MIT(II) and its controlled entities and MIGIL and its controlled entities, together acting as MIG.

1 Summary of Significant Accounting Policies (cont'd)

(b) Consolidated Accounts and Stapling Arrangements (cont'd)

In accordance with UIG 1013, consolidated financial statements have been prepared by MIT(II) as the identified parent of MIG. The combined financial report prepared for MIG at 30 June 2005 has been used for the purpose of applying AASB 1 at the date of transition to restate MIG's comparative information. The financial statements of MIG should be read in conjunction with the interim financial reports of MIT(I) and MIGIL for the period ended 31 December 2005.

(c) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of the entities controlled by MIT(II) at 31 December 2005, including those deemed to be controlled by MIT(II) by identifying it as the parent of MIG on transition to AIFRS, and the results of those controlled entities for the period then ended. The effects of all transactions between entities in the consolidated entity are eliminated in full. Minority interests in the results and equity are shown separately in the Income Statement and the Balance Sheet respectively. Minority interests are those interests in partly owned subsidiaries which are not held directly or indirectly by MIT(I), MIT(II) or MIGIL.

Where control of an entity is obtained during a financial period, its results are included in the Income Statement from the date on which control commences. Where control of an entity ceases during a financial period, its results are included for that part of the period during which control existed.

(d) Group Formation

MIT(I) and MIT(II) were established in Australia on 18 July 1996.

On 9 June 2000, MIT(I) and MIT(II) became registered schemes under the *Managed Investments Act (1998)*. On that date, Macquarie Infrastructure Investment Management Limited (MIIML or the Responsible Entity) became the Responsible Entity of each Trust, replacing the Manager and the Trustee.

On 20 September 2000, the investment of MIT(II) in Macquarie European Infrastructure Limited (MEI) was distributed to MIG security holders through an in specie distribution of the MEI shares. The MEI shares were then stapled to MIT(I) and MIT(II) and listed on the Australian Stock Exchange as a triple stapled security comprising MIG.

On 12 January 2005, a restructure inserted a new Bermudian mutual fund company, Macquarie Infrastructure Bermuda Limited (MIBL), above MEI, replacing MEI as the stapled company in the MIG stapled structure.

On 21 November 2005, the change of name of MIBL to MIGIL was approved by MIG security holders.

(e) Investments in Financial Assets

MIG has designated its investments in toll road companies as financial assets at fair value through profit or loss. Investments in financial assets are revalued at each reporting date, or when there is a change in the nature of the investment, to their fair values in accordance with AASB 139. Changes in the fair values of investments in financial assets, both positive and negative have been recognised in the Income Statement for the period.

Investments have been brought to account as follows:

— **Interests in listed securities in companies and trusts**

Listed interests in companies and trusts which are not controlled are brought to account at fair value. The quoted market price for assets held by the Group is the current bid price. Dividends and other distributions are recognised in the Income Statement separately from revaluation adjustments.

— **Interests in unlisted securities in companies and trusts**

Unlisted interests in companies and trusts (including investments in associates) which are not controlled are brought to account at the directors estimates of fair value, determined in accordance with either a discounted cash flow analysis, option pricing model, or by reference to the current market value of substantially similar interests, as appropriate. Dividends and other distributions are recognised in the Income Statement separately from revaluation adjustments.

— **Interests in financial assets**

Interest in interest-bearing (public and other) debt securities are brought to account at fair value. Adjustments to the fair value of public and other debt securities are recognised in the Income Statement.

1 Summary of Significant Accounting Policies (cont'd)

(f) Tolling Concessions

Tolling concessions are intangible assets and represent the right to levy tolls in respect of controlled motorways.

Tolling concessions have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method to allocate the cost of tolling concessions over the concession term.

(g) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

MIT(II) and its wholly-owned Australian controlled entities have decided to implement the tax consolidation legislation as of 1 July 2003. As a consequence MIT(II), as head entity of a tax consolidated group, recognises current tax amounts relating to transactions, events and balances of the wholly-owned Australian controlled entities in this group as if those transactions, events and balances were its own, in addition to the current tax amounts arising in relation to its own transactions, events and balances. Income tax is allocated amongst the entities in the tax consolidated group on a separate taxpayer within group method.

MIT(I) is not liable for income tax under the Income Tax Assessment Acts, provided that its taxable income (including any assessable realised capital gains) is fully distributed to security holders each year. Accordingly income tax has not been brought to account in relation to MIT(I).

Under current Bermudian law, MIGIL will not be subjected to any income, withholding or capital gains taxes in Bermuda. Controlled entities of MIGIL that are subject to taxes in their jurisdictions recognise income tax using the balance sheet approach of tax effect accounting.

1 Summary of Significant Accounting Policies (cont'd)

(h) Acquisition of Assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus the costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange.

Acquisition of additional interests in an entity, once control has been gained, are accounted for using a purchased goodwill method. Any difference between the amount by which the minority interest is adjusted and the consideration paid is recognised as an increase in goodwill with any residual amount recognised directly in equity.

(i) Derivative Financial Instruments

The Group enters into interest rate swap agreements and forward foreign exchange contracts. In respect of such instruments, the Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The Group has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

The following sets out how derivatives were accounted for under previous AGAAP:

— **Interest rate swaps**

The net amount receivable or payable under interest rate swap agreements is progressively brought to account over the term to settlement. The amount recognised is accounted for as an adjustment to financing costs during the year and included in other debtors or creditors at each reporting date.

— **Forward foreign exchange contracts**

Where forward foreign exchange contracts have been entered into to hedge anticipated future purchases, any unrealised gains and losses on these contracts, together with the cost of the contracts, are deferred and will be recognised in the measurement of the underlying transaction provided the underlying transaction is still expected to occur as originally designated.

In the case of hedges of monetary items, exchange gains or losses are brought to account in the financial period in which the exchange rates change. Gains or costs arising at the time of entering into such hedging transactions are brought to account in the Income Statement over the lives of the hedges.

— **Adjustments on transition date: 1 July 2005**

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that derivatives are measured on a fair value basis. Changes in the fair value are either taken to the income statement or an equity reserve (refer below). At the date of transition (1 July 2005) changes in the carrying amounts of derivatives are taken to retained profits or reserves, depending on whether the criteria for hedge accounting are satisfied at the transition date.

— **From 1 July 2005**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

1 Summary of Significant Accounting Policies (cont'd)

(i) Derivative Financial Instruments (cont'd)

The Group designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash values or cash flows of hedged items.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement.

Amounts accumulated in equity are recycled in the Income Statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Income Statement.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the Income Statement.

— Fair value estimation

The fair values of over-the-counter derivatives are determined using valuation techniques with assumptions that are based on market conditions existing at each balance sheet date. The fair values of interest rate swaps are calculated as the present values of the estimated future cash flows. The fair values of forward exchange contracts are determined using forward exchange market rates at the balance sheet date.

(j) Interest-Bearing Financial Liabilities

Subsequent to initial recognition at fair value, net of transaction costs incurred, interest-bearing financial liabilities are measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income Statement over the period of the borrowings using the effective interest method.

1 Summary of Significant Accounting Policies (cont'd)

(k) Non Current Liability Attributable to Security Holders

The Trust Constitutions of MIT(I) and MIT(II) were amended on 30 June 2005 to remove their finite life clauses. On 21 November 2005 unitholders voted at the MIG Annual General Meeting to amend the constitutions further to allow the Responsible Entity discretion to vary the distribution of net income to unitholders, subject to receipt of a private binding income tax ruling from the Australian Taxation Office (ATO) that such amendment would not result in a material adverse consequence to the tax position of the trusts. This amendment was required in order that MIT(I) units would continue to be presented as equity under AIFRS.

As at 31 December 2005 a ruling had not been received and the proposed change had not been made to the constitution. As a result, the MIT(I) units, which are compound instruments at 31 December 2005, have been classified as financial liabilities. Accordingly MIT(I)'s net profit before adjustment for minority interests has been classified as a financing cost and is shown separately on the face of the Income Statement.

(l) Foreign Currency Translation

— *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars, which is MIT(II)'s functional and presentation currency.

— *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement, except when deferred in equity from applying cash flow hedge accounting and applying net investment hedge accounting.

— *Group companies*

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at exchange rates at the dates of transactions; and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are taken to equity. When a foreign operation is sold or borrowings, that form part of the net investment, are repaid, a proportionate share of such exchange differences are recognised in the Income Statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(m) Rounding of Amounts

The Group is of a kind referred to in Class Order 98/0100, as amended by Class Order 04/667, issued by the Australian Securities & Investments Commission relating to the "rounding off" of amounts in the Directors' Report and Financial Report. Amounts in the Directors' Report and the Financial Report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

(n) Post Retirement Benefits

A subsidiary within the Group, Macquarie Infrastructure UK Limited (MIUK) operates a pension scheme providing benefits on final pensionable pay. A liability or asset in respect to this pension scheme is recognised in the balance sheet, and is measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of the pension scheme's assets at that date and any unrecognised past service cost.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income over the employee's expected average remaining working lives. Past service costs are recognised immediately in income, unless the changes to the pension scheme are conditional on the employees remaining in service for a specified time. In this case, the past service costs are amortised on a straight-line basis over this period. Any movement in the liability or asset during the period is recognised in the income statement.

2 Net Profit for the Half Year

The net profit from continuing activities before income tax includes the following specific items of revenue and expense:

(i) Revenue and Other Income from Continuing Activities

	6 months to 31 Dec 2005 \$'000	6 months to 31 Dec 2004 \$'000
Revenue from continuing activities		
Distribution and dividend income	35,152	22,480
Interest income:		
Related parties	57,126	21,016
Other persons and corporations	52,555	82,224
Toll revenue	152,937	124,437
Construction contract revenue	112	112
Rental income	1,718	1,516
Other revenue	4,984	4,143
Total revenue from continuing activities	304,584	255,928
Other income from continuing activities		
Revaluation of interests in listed securities in companies and trusts	(18,522)	15,675
Revaluation of interests in unlisted securities in companies and trusts	591,112	300,364
Revaluation of interest bearing financial assets	115,853	34,162
Foreign exchange effect of investment revaluations	4,397	(95,181)
Net gain on sale of investments and subsidiaries	-	51,975
Foreign exchange (loss)/gain	(4,092)	61,033
Net gains on derivative financial assets and liabilities	27,326	-
Total other income from continuing activities	716,074	368,028
Total revenue and other income from continuing activities	1,020,658	623,956

2 Net Profit for the Half Year (cont'd)

(ii) Operating Expenses from Continuing Activities

	6 months to 31 Dec 2005 \$'000	6 months to 31 Dec 2004 \$'000
Financing costs		
Amortisation of capitalised borrowing costs	313	310
Interest expense	148,395	166,669
	148,708	166,979
Other operating expenses		
Amortisation of tolling concessions	31,537	22,431
Depreciation:		
Buildings	561	598
Leasehold improvements	32,230	34,889
Motor vehicles	248	227
Plant and equipment	12,028	7,767
	45,067	43,481
Cost of operations:		
Concession notes	7,562	7,562
Employment costs	7,997	8,617
Operating expenses	25,191	15,631
Operating lease rentals	21,533	17,430
	62,283	49,240
Other operating expenses:		
Consulting and administration fees	2,553	690
Custodians' fees	120	219
Responsible entity's and adviser's base fees	48,244	39,579
Option premium paid	-	8,252
Refinancing costs	-	4,764
Other expenses	13,252	8,216
	64,169	61,720
Total other operating expenses	203,056	176,872
Total operating expenses from continuing activities before finance costs attributable to security holders	351,764	343,851

Interim Financial Report

Half Year Ended 31 December 2005

3 Revision of Estimate

Deferred tax liabilities have been recognised for all investment revaluation increments above investment cost for tax paying entities.

An exemption from capital gains tax on disposal of certain entities exists in the UK, termed the Substantial Shareholding Exemption (SSE).

The Group consider that as at 31 December 2005 it is probable that the SSE would be satisfied and that no tax is likely to be payable in the event of disposals of Lusoponte and 407 ETR. Accordingly the deferred tax liabilities recognised in connection with these assets has been reversed. The net affect in the current period is to increase the taxation benefit by \$234.0 million.

4 Distributions Paid and Proposed

The distributions were paid/payable as follows:

	2005 \$'000	2004 \$'000
Final distribution paid for the year ended 30 June	297,673	72,395
Interim distribution proposed and subsequently payable for the half year ended 31 December	240,550	1,234,800
	23.7500	67.5000
	1.8898	1.3144
	1.8898	2.3645

Interim Financial Report

Half Year Ended 31 December 2005

5 Investments

	Balance at 30 June 2005	AIFRS transition adjustment	Investments	Divestments /Repayments	FX Effects Note (v)	Revaluations Note (i)	Balance at 31 Dec 2005
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Interests in listed securities in companies and trusts							
Stapled securities in Transurban Group	156,059	7,993	-	-	-	(18,522)	145,530
	156,059	7,993	-	-	-	(18,522)	145,530
Interests in unlisted securities in companies and trusts							
Shares in Interlink Roads Pty Limited	540,783	-	-	-	-	23,607	564,390
Shares in Transtoll Pty Limited	10,343	-	-	-	-	(1,092)	9,251
Investment in 407 International Inc. (407 ETR) Note (ii)	2,549,699	-	-	-	234,017	452,498	3,236,214
Shares in Lusoponte Concessionária para a Travessia do Tejo S.A. (Lusoponte)	236,633	-	-	(2,810)	3,173	16,923	253,919
Partnership interest in Warnowquerung GmbH (Rostock)	-	-	-	-	-	-	-
Shares in Skyway Concession Company Holdings LLC (Skyway) Note (iii)	603,199	-	-	(221,730)	13,980	99,176	494,625
	3,940,657	-	-	(224,540)	251,170	591,112	4,558,399
Interest bearing financial assets							
Investments in WestLink Construction phase Loan Notes Note (iv)	459,343	-	-	(459,343)	-	-	-
Investments in Westlink Subordinated term Loan Notes Note (iv)	-	-	506,693	-	-	115,853	622,546
	459,343	-	506,693	(459,343)	-	115,853	622,546
Total Investments	4,556,059	7,993	506,693	(683,883)	251,170	688,443	5,326,475

Notes

(i) Distributions received

Revaluations of investments are presented net of any distributions received from those investments.

(ii) 407 ETR valuation

In October 2003, a new government was elected in the Province of Ontario (Province), Canada, with an election campaign statement that it intended to "roll back" tolls on the 407 ETR. In December 2003, the concession company gave notice of a one cent per kilometre (approximately 7.7%) increase in tolls effective 1 February 2004. In January 2004, the Government stated that it opposed the increase, on the basis that its consent was required prior to any toll increase, and that it intended to invoke the concession contract's dispute resolution process. The Government has also disputed the concession company's interpretation of the Province's obligations in respect of Plate Denial and the establishment of Base Year under the concession agreement. It seems likely that these disputes will continue for some time as the dispute resolution process is pursued to completion.

407 ETR and MIG have legal advice in relation to interpretation of the concession contract and believe that the concession company's position on each of these issues is strong.

Following an independent Arbitrator's decision in favour of 407 ETR on all issues put before him on 10 July 2004, the Province lodged an appeal. On 6 January 2005, the Ontario Superior Court of Justice ruled in favour of 407 ETR and dismissed the appeal. On 13 June 2005, the Ontario Court of Appeal gave the Province leave to appeal the decision of the Ontario Superior Court of Justice.

5 Investments (cont'd)

(ii) 407 ETR valuation (cont'd)

The concession company has taken action to expedite resolution of the other matters under dispute. On 16 August 2005, an independent panel of Arbitrators ruled that the conditions required to establish 2002 as the Base Year were achieved. The achievement of Base Year permits 407 ETR to raise tolls above the toll threshold without incurring congestion payments to the province as long as traffic thresholds are met. 407 ETR designated Base Year in 2002 and has operated accordingly since that time. On 15 September 2005, the Province of Ontario served 407 ETR with a notice to appeal this arbitration decision.

MIG's valuation of 407 ETR assumes that the concession company has the right to set toll levels throughout the concession without seeking the consent of the Government of Ontario. The directors of the Responsible Entity believe that this approach is appropriate, as it is consistent with their view of the contract terms, 407 ETR's experience in relation to four previous toll increases since privatisation in 1999, legal advice provided to MIG and both the independent Arbitrators' decisions and the decision of the Ontario Superior Court.

If the Province were to succeed in requiring that toll levels on 407 ETR be reduced or that future toll increases be limited, MIG's valuation of 407 ETR would be materially reduced.

(iii) Refinancing of Skyway

On 17 August 2005, MIG announced the refinancing of debt in relation to Skyway. The refinancing resulted in the issue of US\$1.6 billion (\$2.2 billion) of new debt facilities to replace the existing facilities of US\$1.0 billion (\$1.4 billion). The refinancing structure provided an immediate return of US\$168.2 million (\$221.7 million) of cash to MIG.

(iv) Investment in Westlink M7 stapled securities

At completion of construction of the Westlink M7 on 16 December 2005, there was a mandatory redemption of Construction phase Loan Notes (CLNs) of \$459.3 million with a mandatory reinvestment for the same amount in Subordinated term Loan Notes (SLNs) issued by the Westlink Motorway Partnership. SLNs are debt instruments that accrue interest on a quarterly basis. Interest payments are only able to be made under the provisions of the Loan Note Subscription Agreement. Interest payments are not expected to be made during the first 21 months of operation of the Westlink M7. The interest rate applicable to the SLNs is 11.9% per annum.

On 16 December 2005, MIG exercised its fixed price option to acquire an additional 5.0% equity interest in Westlink M7. This interest was held by Abigroup Limited (2.5%) and Leighton Holdings Limited (2.5%). As part of the transaction, MIG acquired LMI Westlink Partner Holding No 3 Pty Ltd, LMI Westlink Partner No 3 Pty, LMI WSO Holding No 3 Pty Ltd, Abigroup Westlink Partner Holding No 3 Pty Ltd, Abigroup Westlink Partner No 3 Pty Limited and Abigroup WSO Holding No 3 Pty Ltd for nominal consideration. LMI Westlink Partner No 3 Pty Limited and Abigroup Westlink Partner No 3 Pty Limited were each obliged to subscribe for \$23.7 million (combined \$47.4 million) of SLNs. This was contributed on 16 December 2005.

Abigroup Limited and Leighton Holdings Limited hold a total interest of 10.0% in Westlink M7, over which MIG and Transurban Group have pre-emptive rights. MIG now holds a 45.0% direct stake and a 1.3% indirect stake (through MIG's investment in Transurban) in Westlink M7.

If following construction completion, Abigroup seeks to sell a further 2.5% interest in Westlink M7, MIG has right of first refusal. If the sale price is greater than the par value of the interest, Abigroup must pay one half of the difference between the sale price and the par value to MIG. Abigroup has the option to retain its 2.5% interest up to a period of 10 years post construction completion, after which it is obliged to sell its interest to MIG. As the exercise of this option is at the discretion of Abigroup at any point during the 10 year window outlined above, a fair value for this option cannot be reliably measured. Accordingly no amount is recognised in the Balance Sheet.

(v) Foreign Exchange (FX) effects

Where an investment in a toll road company is held by a group entity that has the same functional currency as the asset, FX effects result from translation of the group entity's assets and liabilities and are taken to the Foreign Currency Translation Reserve. Where an investment in a toll road company is held by a group entity that has a functional currency different from that of the asset, FX effects resulting from translation of the investment in the books of the group entity are taken through the Income Statement.

6 Property, Plant and Equipment

	As at 31 Dec 2005 \$'000	As at 30 Jun 2005 \$'000
Property, plant and equipment		
Plant and equipment, at cost	481,079	103,410
Less: accumulated depreciation	(44,972)	(31,592)
	436,107	71,818
Buildings, at cost	54,493	54,941
Less: accumulated depreciation	(2,670)	(2,176)
	51,823	52,765
Leasehold improvements, at cost	2,697,654	2,509,228
Less: accumulated depreciation	(303,872)	(269,573)
	2,393,782	2,239,655
Motor vehicles, at cost	2,912	2,281
Less: accumulated depreciation	(1,289)	(768)
	1,623	1,513
	2,883,335	2,365,751

Assets in the course of construction amount to \$469.0 million (30 June 2005: \$369.5 million).

7 Tolling Concessions

	As at 31 Dec 2005 \$'000	As at 30 Jun 2005 \$'000
Eastern Distributor	352,310	356,481
M4 Motorway	138,288	155,172
M6 Toll	124,438	126,592
South Bay Expressway	25,816	24,921
Dulles Greenway	1,244,504	-
	1,885,356	663,166

Tolling concessions are amortised over the remaining life of each concession, expiring in February 2010 for the M4 Motorway, July 2048 for the Eastern Distributor, January 2054 for the M6 Toll and February 2056 for the Dulles Greenway.

The South Bay Expressway tolling concession runs for a 35-year period from the date of opening. Amortisation of the South Bay Expressway tolling concession will commence on commissioning of the road.

Interim Financial Report

Half Year Ended 31 December 2005

8 Interest-Bearing Financial Liabilities

	As at 31 Dec 2005 \$'000	As at 30 Jun 2005 \$'000
Current		
Non-recourse loans	64,860	29,650
Non-current		
Non-recourse loans	3,594,059	2,393,248
Reset convertible notes (ReCNs)	476,299	453,359
	4,070,358	2,846,607

The consolidated financial statements incorporate interest-bearing financial liabilities raised by controlled project entities to finance the construction of infrastructure assets. These project-related liabilities are non-recourse to the Group.

The ReCNs were issued by Western Sydney Orbital Funding Trust, a 100% owned subsidiary of MIT(I), to Ontario Teachers Pension Plan (OTPP) in order to fund the investment in WestLink M7. As at 31 December 2005, \$471.5 million in ReCNs have been issued.

Interest on the ReCNs is calculated at a margin of 2.5% per annum above the 5 year (or period to initial reset date if shorter) swap rate prevailing at the date of issue. The relevant swap rates for the ReCNs on issue as at 31 December 2005 range between 4.81% and 5.99%. Interest may be paid or capitalised into the outstanding principal at the option of the issuer. The decision to pay or capitalise must be made by the issuer in advance of each six-monthly interest payment date. The first coupon, payable at 30 June 2003, was paid in cash, subsequent coupons have been capitalised into ReCNs.

The ReCNs are split into several sub-tranches and are convertible into MIG securities at a discount of 7.5% from the prevailing MIG market price at the option of the holder at an earliest date of 5 years after financial close (14 February 2003). Should the holder choose to convert, conversion takes place over the following 9 months. The total amount convertible is \$471.5 million plus any future capitalised interest.

After the initial 5 year period, MIG may change the conversion discount rate and interest margin on the ReCNs. The ReCNs mature on the tenth anniversary of the date of issue. On these dates, if the holders have not previously elected to convert, they then have the option to convert or to redeem the ReCNs at face value, including any capitalised interest.

Interest-bearing financial liabilities are carried at amortised cost. By allocating the discount at conversion into capital raising costs at 5.0% with the residual being a deferred interest charge, the amortised cost of the ReCNs of \$476.3 million differs from the face value of \$471.5 million.

MIG's minimum total liability in relation to ReCNs, if all future interest is paid, will be \$471.5 million.

9 Contributed Equity

	As at 31 Dec 2005 \$'000	As at 30 June 2005 \$'000
On issue at the beginning of the year	3,595,768	3,821,789
Adjustment to equity on adoption of AASB 132 and AASB 139*	(254,720)	-
Issued pursuant to:		
Dividend Reinvestment Plan (DRP) on 13 August 2004	-	15,443
Reinvestment of performance fees in securities on 31 August 2004	-	6,087
DRP on 10 February 2005	-	790,408
DRP on 12 August 2005	68,296	-
Institutional placement on 1 September 2005	641,714	-
Reinvestment of performance fees in securities on 12 September 2005	76,590	-
Security purchase plan dated 12 October 2005	98,215	-
Distribution from MIGIL share premium account	-	(255,549)
Transfer to retained profits (Note 11)	-	(782,410)
Costs incurred in the raising of capital	(7,083)	-
On issue at the end of the period	4,218,780	3,595,768
	Number of stapled securities '000	Number of stapled securities '000
On issue at the beginning of the year	2,164,890	1,930,528
Issued pursuant to:		
DRP on 13 August 2004	-	4,550
Reinvestment of performance fees in securities on 31 August 2004	-	1,863
DRP on 10 February 2005	-	227,949
DRP on 12 August 2005	17,594	-
Institutional placement on 1 September 2005	174,419	-
Reinvestment of performance fees in securities on 12 September 2005	21,862	-
Security purchase plan dated 12 October 2005	26,732	-
On issue at the end of the year	2,405,497	2,164,890

* The Trust Constitutions of MIT(I) and MIT(II) were amended on 30 June 2005 to remove their finite life clauses. On 21 November 2005, unitholders voted at the MIG Annual General Meeting to amend the constitutions further to allow the Responsible Entity discretion to vary the distribution of net income to unitholders, subject to receipt of a private binding income tax ruling from the Australian Taxation Office (ATO) that such amendment would not result in a material adverse consequence to the tax position of the trusts. This amendment was required in order that MIT(I) units would continue to be presented as equity under AIFRS. As at 31 December 2005 a ruling had not been received and the proposed change had not been made to the constitution. As a result, the MIT(I) units, which are compound instruments at 31 December 2005, have been classified as financial liabilities. Accordingly the net profit attributable to MIT(I) unitholders has been classified as a financing cost and is shown separately on the face of the Income Statement.

The inception of MIGIL as the company in the MIG stapled structure on 12 January 2005, saw the cancellation of MEI shares. In consideration, MIG security holders received shares in MIGIL in the ratio of one share in MIGIL for each share in MEI. MIGIL issued 1,936,940,676, 1 Australian cent shares. A share premium was recognised on these shares being determined with reference to the market capitalisation of MIG on this date. It was determined that the substitution of a new company in the MIG stapled structure should not increase MIG's security holders' funds. The difference between MIGIL's security holders' funds and the consolidated MEI Group security holders' funds prior to the scheme of arrangement was transferred to another reserve. The issue of MIGIL shares, recognition of this other reserve and the cancellation of MEI shares have all been included in contributed equity with a nil combined effect.

10 Reserves

	As at 31 Dec 2005 \$'000 (Half year)	As at 30 Jun 2005 \$'000 (Full year)
Movements in foreign currency translation reserve		
Balance at 1 July 2005	(40,815)	-
Currency translation differences during the year	276,916	(40,815)
Balance at 31 December 2005	236,101	(40,815)

11 Retained Profits

	As at 31 Dec 2005 \$'000 (Half year)	As at 30 Jun 2005 \$'000 (Full year)
Balance at the beginning of the period	1,252,373	974,880
Adjustment to retained profits on adoption of AASB 132 and 139	(141,641)	-
Acquisition of further stake in controlled entity	8,526	-
Transfers from contributed equity	-	782,410
Net result attributable to security holders	703,705	772,006
Distributions paid and proposed	(240,550)	(1,276,923)
Balance at the end of the period	1582,413	1,252,373

12 Minority Interest in Controlled Entities

	As at 31 Dec 2005 \$'000	As at 30 Jun 2005 \$'000
Contributed equity	58,422	58,422
Retained profits	25,464	27,370
	83,886	85,792

13 Non-Cash Financing and Investing Activities

Responsible Entity and Adviser performance fees of \$91.6 million (31 December 2004: \$6.1 million) were elected to be reinvested in 21.9 million (31 December 2004: 1.9 million) new MIG stapled securities at an issue price of \$4.1897 (31 December 2004: \$3.2682).

This transaction is not reflected in the Cash Flow Statement.

Interim Financial Report

Half Year Ended 31 December 2005

14 Segment Reporting

The principal activity of MIG during the half year was investment in toll road companies. The primary basis of segment reporting is geographical. Within Europe, MIG has assets located in and derives revenues from the United Kingdom, Germany and Portugal, and until the IPO of Cintra Concesiones de Infraestructuras de Transporte SA (Cintra), Spain. North American results and assets pertain to Canada and the United States of America. Intersegmental transactions are undertaken on normal arm's length terms.

MIG's toll road business includes the construction and operation of toll roads and investment in entities in the same industry sector.

	Australia \$'000	Europe \$'000	North America \$'000	Total \$'000
Geographical segments				
6 months to 31 December 2005				
Segment revenue and other income	295,729	125,380	599,549	1,020,658
Revenue and other income from continuing activities	295,729	125,380	599,549	1,020,658
Segment profit/(loss)	129,381	(17,202)	556,715	668,894
Net profit/(loss) from continuing activities before income tax (expense)/benefit and before finance costs attributable to security holders	129,381	(17,202)	556,715	668,894
6 months to 31 December 2004				
Segment revenue and other income	383,516	37,067	203,373	623,956
Revenue and other income from continuing activities	383,516	37,067	203,373	623,956
Segment profit/(loss)	211,447	(116,462)	185,120	280,105
Net profit/(loss) from continuing activities before income tax (expense)/benefit and before finance costs attributable to security holders	211,447	(116,462)	185,120	280,105

15 Business Combination

■ Acquisition of Dulles Greenway

MIG reached financial close on its investment in the Dulles Greenway toll road in Virginia on 9 September 2005.

At that time, MIG invested US\$531.7 million (\$710.7 million) to acquire the General Partner, Shendandoah Greenway Corporation and to provide loans to Shendandoah Holding LLC (SHLLC) and AEI Holdings LLC (AIEHLLC). SHLLC and AIEHLLC own a combined interest of 86.6% of Toll Road Investors Partnership II LLP (TRIP II) via their ownership of limited partners Shendandoah I LLC, Shendandoah II LLC and AIE LLC.

On the 29 September 2005, MIG acquired a further 13.3% interest in TRIP II from Kellogg, Brown and Root (KBR) for US\$84.5 million (\$112.0 million) via MIG Investments 2 (US) LLC, a subsidiary of MIT(II). Following the completion of the KBR acquisition, MIG held 100% economic interest in Dulles Greenway. Two-long dated call options are exercisable by MIG Investments 2 (US) LLC, in respect of the issued shares in SHLLC and AIEHLLC respectively.

Dulles Greenway contributed revenues of US\$17.6 million (\$23.4 million) and a net loss of US\$10.3 million (\$13.6 million) to the Group for the period from 9 September 2005 to 31 December 2005. If Dulles Greenway had been controlled for the half year ended 31 December 2005, it would have delivered a loss to the Group of US\$16.2 million (\$21.5 million).

Details of the Dulles Greenway acquisition are as follows:

	Acquiree's carrying amount USD \$'000	MIG USD 2005 \$'000	MIG AUD 2005 \$'000
Fair value of identifiable net assets of controlled entities at date of acquisition			
Cash and cash equivalents	196,619	196,619	262,816
Receivables	411	411	549
Property, plant and equipment	324,500	324,500	433,751
Tolling concession	-	919,595	1,229,200
Interest-bearing financial liabilities	(752,362)	(752,362)	(1,005,663)
Payables	(5,457)	(5,457)	(7,292)
Net assets	(236,289)	683,306	913,361
Less:			
Minority interests	-	(90,879)	(121,476)
Net identifiable assets acquired	(236,289)	592,427	791,885
Outflow of cash to acquire Shendandoah Greenway Corporation and provide loans to SHLLC and AIELLC, net of cash acquired			
Cash consideration		531,730	710,763
Cash assets acquired		(196,619)	(262,816)
Net outflow of cash		335,111	447,947
Goodwill recognised on acquisition			
Cash consideration		510,000	681,717
Direct costs relating to transaction		21,730	29,046
Deferred consideration		60,697	81,123
Total purchase consideration		592,427	791,886
Fair value of assets acquired		592,427	791,886
Goodwill recognised on acquisition		-	-
Outflow of cash to acquire additional stake of TRIP II from KBR			
Cash consideration		84,500	111,754
Minority interest acquired		(90,879)	(121,476)
Foreign exchange		-	1,196
Residual posted to retained earnings		(6,379)	(8,526)

16 Contingent Liabilities

Except as discussed elsewhere in this report, MIG had the following contingent liabilities at balance date.

■ **M6 Toll**

There are outstanding claims against Midland Expressway Limited (MEL), a subsidiary of MIGIL, for construction liabilities amounting to £63.4million (\$148.5 million), which are subject to ongoing discussion and adjudication. The Group believes that it will defend these claims successfully and that no provisions are necessary in the financial statements as at 31 December 2005.

Certain liabilities can be recovered from a third party under the terms of the contracts.

■ **M4 Motorway**

A controlled entity of SWR has an obligation to undertake defects correction work to a part of the M4 Motorway which is owned and controlled by the NSW State Government. This obligation extends until November 2008. It is not possible to predict how much (if any) expenditure will be incurred in the future in connection with this undertaking. Statewide Road Limited's bankers have issued a performance guarantee for \$5.0 million in support of the entity's obligations.

■ **South Bay Expressway**

There are outstanding claims against the San Diego Expressway Limited Partnership (SDELP) for construction liabilities amounting to US\$65.9 million (\$89.8 million) that are subject to ongoing discussion and adjudication. The Group believes that it will defend these claims successfully and that no provisions are necessary in the financial statements as at 31 December 2005.

■ **Legal Proceedings**

Atlantic Pacific Infrastructure Limited has notified a claim against MEI in connection with the acquisition in 1999 of assets from Kvaerner plc. Legal advice is that the claim is unlikely to succeed. A provision of £0.1 million (\$0.2 million) has been made for the anticipated legal costs to defend this action and it is considered that no other provision is necessary in respect of this claim.

■ **Warnow Tunnel**

During the period a restructuring of existing debt was negotiated. Under the restructuring, European Transport Investments (UK) Limited (ETI) a subsidiary of MIGIL, had its existing contingent commitment to make an equity contribution to Warnowquerung amended to form two separate guarantees, totalling €1.2 million (\$1.9 million), in the event of a senior debt payment event or default by Warnowquerung. The Group believes it is unlikely to have to make these contributions and that no provisions are necessary in the financial statements as at 31 December 2005.

This contingent commitment is backed by an on-demand guarantee, provided through a blocked account into which €1.2 million (\$1.9 million) has been deposited.

17 Commitments for Expenditure

■ *Eastern Distributor*

The Eastern Distributor Project Deed provides for annual concession fees of \$15.0 million payable to the Roads and Traffic Authority of NSW during the construction phase and for the first 24 years after the construction completion date of the Eastern Distributor. Until a certain threshold return is achieved, payments of concession fees due under the Project Deed will be satisfied by means of the issue of non-interest bearing concession notes. Due to uncertainty in determining when the concession note liability will be paid, it has not been included in the analysis below.

■ *South Bay Expressway*

MIG is committed to make further equity contributions to SDELP at construction completion of US\$134.2 million (\$213.2 million).

MIT(I) is the primary party to the South Bay Expressway acquisition agreement, with its obligations under the documents guaranteed by MIT(II), MEI and MIGIL. MIT(II), through its wholly owned subsidiary MIUS, will contribute US\$109.2 million (\$173.4 million) of the funding and MIT(I) will invest the remaining US\$25.0 million (\$39.8 million) at construction completion.

Forward foreign exchange contracts have been entered into to hedge US\$131.9 million of the above contributions. The applicable hedge rate achieved was A\$1 = US\$0.6264. Details of SDELP's commitments in relation to the design and construction of South Bay Expressway toll road are detailed in the table below.

■ *Acquisition of APRR Road Network*

On the 14 December 2005, the Government of France advised that the consortium comprising of Eiffage SA (Eiffage), MIG and Macquarie European Infrastructure Fund (MEIF) (together the Consortium) had been selected as preferred bidder to acquire its 74.7% interest in Autoroutes Paris-Rhin-Rhône (APRR), subject to customary regulatory approvals, including European Commission consent. The Consortium acquired this stake on 20 February 2006 and MIG's equity commitment was €252.8 million (\$404.6 million).

Under French law a company that acquires more than 33.3% of voting rights in a French listed company must make a takeover offer for the balance of the shares at the same price as the price offered to the majority shareholders, in this case the Consortium will make an offer for the remaining 25.3% shares in APRR.

The price offered by the Consortium is €61.00 per share. The Consortium funding requirement for 100% of the shares is €7.1 billion (\$11.3 billion). This funding would comprise €5.8 billion (\$9.2 billion) of senior debt and €1.4 billion (\$2.2 billion) of equity. The final debt and equity figures are dependent on the take up of the mandatory offer to minority shareholders. The offer implies an enterprise value of €12.1 billion (\$19.3 billion) for APRR, including acquisition costs.

At 100%, MIG's equity investment will be €376.0 million (\$600.0 million). Only the equity commitment for the government stake has been presented below.

Interim Financial Report

Half Year Ended 31 December 2005

17 Commitments for Expenditure (cont'd)

	As at 31 Dec 2005 \$'000	As at 30 Jun 2005 \$'000
Operating leases and easement commitments		
Commitments in relation to land leased by MEL from the Highways Agency in the UK , Dulles Greenway easement commitments and other non-cancellable operating leases are payable as follows:		
Within one year	33,437	34,162
Later than one year but not later than five years	132,046	135,117
Later than five years	1,435,532	1,414,587
	1,601,015	1,583,866
Road maintenance commitments		
Commitments in relation to a maintenance contracts for the M4 Motorway and Dulles Greenway are payable as follows:		
Within one year	45,605	1,011
Later than one year but not later than five years	13,782	-
	59,387	1,011
South Bay Expressway commitments		
Commitments in relation to the construction management and design and build contracts of the South Bay Expressway are payable as follows:		
Within one year	317,702	301,392
Later than one year but not later than five years	-	87,698
	317,702	389,090
APRR equity commitments		
Commitments in relation to the APRR acquisition are payable as follows:		
Within one year	404,643	-

18 Events Occurring After Balance Sheet Date

■ **Distribution Reinvestment Plan**

A portion of stapled security holders participated in MIG's Distribution Reinvestment Plan for the interim distribution paid on 14 February 2006. A discount of 2.5% applied to the DRP and it was fully underwritten by way of placement. Of the distribution declared \$136.2 million was reinvested in MIG through the issue of new securities.

■ **Indiana Toll Road**

On 24 January 2006 the Governor of Indiana announced that the MIG and Cintra consortium known as Statewide Mobility Partners as preferred bidder for the 75 years lease of the Indiana Toll Road.

The purchase price for the lease is US\$3.9 billion (\$5.1 billion), with MIG's 50% equity commitment upon financial close being approximately US\$385.0 million (\$512.0 million). The lease will be acquired from the Indiana Finance Authority, subject to legislative approval.

The Indiana Toll Road, which opened to the traffic in 1956, is a 253km (157 mile) long divided highway which runs the full length of northern Indiana. The Indiana Toll Road connects to the MIG-Cintra owned Skyway in the west and the Ohio turnpike in the east. It is a critical part of the transcontinental route that moves freight to and from major US distribution hubs.

■ **Acquisition of APRR Road Network**

Refer note 17.

Other than as disclosed above, there are no matters or circumstances that have arisen since the end of the financial period that have significantly affected or may significantly affect the operations of MIG and its controlled entities, the results of these operations or the state of affairs of the consolidated entity in subsequent financial periods.

19 Explanation of Transition to AIFRS

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRS (AIFRS)

Presented at the date of transition (1 July 2004) at the end of the last half-year reporting period (31 December 2004) and at the end of the last annual reporting period 30 June 2005.

Note	1 July 2004		31 December 2004		30 June 2005	
	Previous AGAAP	AIFRS	Previous AGAAP	AIFRS	Previous AGAAP	AIFRS
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Current assets						
Cash and cash equivalents	417,735	417,735	2,331,731	2,331,731	1,262,921	1,262,921
Receivables	106,691	106,691	69,389	69,389	119,999	119,999
Prepayments	4e 24,283	23,832	20,704	20,704	20,651	20,651
Other assets	3,391	3,391	35,323	35,323	2,511	2,511
Total current assets	552,100	551,649	2,457,147	2,457,147	1,406,082	1,406,082
Non-current assets						
Prepayments	4e 12,220	12,220	10,903	11,185	9,587	9,587
Investments in financial assets	5,081,509	5,081,509	3,485,814	3,485,814	4,556,059	4,556,059
Property, plant and equipment	4c,d 2,451,790	2,498,463	2,453,793	2,402,382	2,482,021	2,365,751
Tolling concessions	4a 3,330,436	723,369	3,702,832	689,868	3,911,577	663,166
Other assets	23,552	23,552	41,826	41,826	38,914	38,914
Total non-current assets	10,899,507	8,339,113	9,695,168	6,631,075	10,998,158	7,633,477
Total assets	11,451,607	8,890,762	12,152,315	9,088,222	12,404,240	9,039,559
Current liabilities						
Payables	320,916	320,916	285,235	285,235	280,290	280,290
Provisions	2,540	2,540	2,826	2,826	3,997	3,078
Interest-bearing financial liabilities	10,650	10,650	26,250	26,250	29,650	29,650
Distribution payable	72,395	72,395	1,234,800	1,234,800	297,673	297,673
Current tax liabilities	4,930	4,930	5,192	5,192	4,722	4,722
Total current liabilities	411,431	411,431	1,554,303	1,554,303	616,332	615,413
Non-current liabilities						
Payables	70,594	70,594	4,528	4,528	-	-
Provisions	4e 1,050	4,131	896	3,900	584	3,548
Interest-bearing financial liabilities	4d 2,860,098	2,726,717	2,963,423	2,829,478	2,983,923	2,846,607
Deferred tax liabilities	4a 1,299,038	610,832	1,167,194	335,872	1,377,951	477,157
Concession notes	105,000	105,000	120,000	120,000	120,000	120,000
Other liabilities	4d 21,938	40,384	41,826	74,702	37,288	83,716
Total non-current liabilities	4,357,718	3,557,658	4,297,867	3,368,480	4,519,746	3,531,028
Total liabilities	4,769,149	3,969,089	5,852,170	4,922,783	5,136,078	4,146,441
Net assets	6,682,458	4,921,673	6,300,145	4,165,439	7,268,162	4,893,118
Equity						
MIG security holders' Interest						
Contributed equity	3,821,789	3,821,789	3,060,910	3,060,910	3,595,768	3,595,768
Reserves	4a,c,d,e 1,950,946	-	2,177,046	(70,288)	2,314,475	(40,815)
Retained profits	4a,c,d,e 690,908	974,880	820,657	1,069,544	1,110,124	1,252,373
Total MIG security holders' Interest	6,463,643	4,796,669	6,058,613	4,060,166	7,020,367	4,807,326
Minority interest in controlled entities	4a 218,815	125,004	241,532	105,273	247,795	85,792
Total equity	6,682,458	4,921,673	6,300,145	4,165,439	7,268,162	4,893,118

19 Explanation of Transition to AIFRS (cont'd)

(2) Reconciliation of profit under previous AGAAP to profit under AIFRS

Presented for the last half-year reporting period (31 December 2004) and at the last reporting period (30 June 2005).

	Note	31 December 2004		30 June 2005	
		Previous GAAP \$'000	AIFRS \$'000	Previous GAAP \$'000	AIFRS \$'000
Revenue from continuing activities					
Revaluation of investments		255,020	255,020	803,542	803,542
Income from investments	4f	2,888,843	177,695	3,192,485	326,297
Toll revenue		124,437	124,437	242,420	242,420
Other revenue	4a,c	118,262	66,804	200,357	31,633
Total revenue from continuing activities		3,386,562	623,956	4,438,804	1,403,892
Operating expenses from continuing activities					
Financing costs	4d	172,626	166,979	307,773	295,953
Other operating expenses	4a,d,f	2,902,985	176,872	3,341,101	449,992
Total operating expenses from continuing activities		3,075,611	343,851	3,648,874	745,945
Net profit from continuing activities before income tax expense		310,951	280,105	789,930	657,947
Income tax benefit		257,364	257,364	101,511	101,511
Net profit from continuing activities after income tax expense		568,315	537,469	891,441	759,458
Net loss from controlled entities attributable to minority interests		13,824	9,588	22,287	12,548
Net profit attributable to MIG security holders		582,139	547,057	913,728	772,006

(3) Reconciliation of cash flow statement for the year ended 30 June 2005

The adoption of AIFRS has not resulted in any adjustments to the cash flow statement for the last half-year reporting period (31 December 2004) and last reporting period (30 June 2005).

19 Explanation of Transition to AIFRS (cont'd)

(4) Notes to the reconciliations

a) Intangible assets - Restrictions on revaluation

Under AASB138: *Intangible Assets*, MIG's tolling concessions are no longer revalued, and are amortised over their useful lives from their original cost base. These assets may only be revalued where the revaluation is performed with reference to an active market.

Any pre-AIFRS revaluations reported by MIG are reversed and the tolling concessions are held at their original acquisition cost less amortisation to date.

The impact following the adoption of AASB 138 are as follows;

	1 July 2004 \$'000	31 Dec 2004 \$'000	30 June 2005 \$'000
Decrease in tolling concessions	(2,607,067)	(3,012,964)	(3,248,411)
Decrease in deferred tax liability	688,206	831,322	900,794
Decrease asset revaluation reserve	1,950,946	2,177,046	2,314,475
Decrease in minority interests	93,812	136,261	162,003
Increase in retained profits	(149,873)	(131,665)	(128,861)

This change has not affected the treatment of MIG's non-controlled entities.

b) Income Tax - "Balance sheet approach"

A "balance sheet approach" will be used to determine deferred tax assets and deferred tax liabilities, which requires a comparison between the carrying amount and the tax base for each asset and liability.

The taxation effect is highlighted in each of the adjustments being made for AIFRS adoption.

c) Foreign currency translation - Recognition of a foreign currency translation reserve

MIG sees differences arising on translation of foreign operations from a functional currency to Australian dollars, the presentational currency of the Group.

Previous Australian accounting standards determined that differences arising on translation be either recognised in a separate equity reserve or immediately in the Statement of Financial Performance, based on whether the foreign operation is classified as a self sustaining or an integrated operation.

Under AASB121: *Effects of Changes in Foreign Exchange Rates*, if a foreign operation has a functional currency that is different from the currency in which its financial statements are presented, these differences that arise must be shown in a separate equity reserve.

MIG has, at the date of transition, availed itself of an exemption under AIFRS from being required to recognise historic foreign exchange gains and losses in a separate foreign currency translation reserve at transition. Such gains and losses will have been recognised by MIG in the Income Statement and are now reflected in retained profits.

Non monetary assets previously recognised at historical rates will now be translated at period closing rates.

The impact following the adoption of AASB 121 is as follows;

	1 July 2004 \$'000	31 Dec 2004 \$'000	30 June 2005 \$'000
Property, plant and equipment	171,811	68,029	(94)
Retained profits	(171,811)	(139,301)	(42,741)
Reserves	-	71,272	42,835

19 Explanation of Transition to AIFRS (cont'd)

d) Lease classification - Finance leases now recognised as operating leases

The lease arrangement between MIG and the Highways Agency in the UK, with respect to the land on which the M6 Toll is built, was previously accounted for as a finance lease. Under AIFRS it has been accounted for as an operating lease.

The impact following the adoption of AASB 117: *Leases* are as follows:

	1 July 2004 \$'000	31 Dec 2004 \$'000	30 June 2005 \$'000
Property, plant and equipment	(125,138)	(119,440)	(116,176)
Liability for future payments for use of land	133,381	133,945	137,316
Operating lease provision	(18,446)	(32,878)	(46,428)
Retained earnings	10,203	19,169	27,027
Reserves	-	(796)	(1,739)

e) Retirement benefit obligations - Treatment of defined benefit scheme obligations

Under AASB119: *Employee Benefits*, an asset or liability is recognised in respect of the difference between the present value of the employee's accrued benefits and the net market value of a defined benefit superannuation fund's assets at that date.

	1 July 2004 \$'000	31 Dec 2004 \$'000	30 June 2005 \$'000
Prepayments	(451)	282	-
Provisions – current	-	-	919
Provisions – non current	(3,081)	(3,004)	(2,964)
Retained earnings	3,532	2,910	2,326
Reserves	-	(188)	(281)

f) Sale of investments

AASB 118: *Revenue* requires the proceeds and cost of sale of securities disposed to be applied against each other and disclosed as a gain or loss on sale.

	1 July 2004 \$'000	31 Dec 2004 \$'000	30 June 2005 \$'000
Income from investments	-	(2,711,148)	(2,866,188)
Other operating expenses	-	2,711,148	2,866,188

19 Explanation of Transition to AIFRS (cont'd)

(5) Adoption of AASB 132 and AASB 139 on 1 July 2005

MIG has taken the exemption available under AASB 1: *First Time Adoption of Australian International Financial Reporting Standards* to apply AASB 132: *Financial Instruments: Disclosure and Presentation* and AASB 139: *Financial Instruments: Recognition and Measurement* from 1 July 2005. The adoption by MIG of AASB 132 and AASB 139 on 1 July 2005 had the following effects.

	Note	AIFRS 30 June 2005 \$'000	Effect of adoption of AASB 132 & AASB 139 \$'000	AIFRS 1 July 2005 \$'000
Current assets				
Cash and cash equivalents		1,262,921	-	1,262,921
Receivables		119,999	-	119,999
Prepayments		20,651	-	20,651
Other assets		2,511	-	2,511
Total current assets		1,406,082	-	1,406,082
Non-current assets				
Prepayments		9,587	-	9,587
Investments in financial assets	5(b)	4,556,059	7,993	4,564,052
Property, plant and equipment		2,365,751	-	2,365,751
Tolling concessions		663,166	-	663,166
Other assets	5(a)	38,914	(20,744)	18,170
Total non-current assets		7,633,477	(12,751)	7,620,726
Total assets		9,039,559	(12,751)	9,026,808
Current liabilities				
Payables		280,290	-	280,290
Provisions		3,078	-	3,078
Interest-bearing financial liabilities		29,650	-	29,650
Distribution payable		297,673	-	297,673
Current tax liabilities		4,722	-	4,722
Total current liabilities		615,413	-	615,413
Non-current liabilities				
Provisions		3,548	-	3,548
Interest-bearing financial liabilities	5(c)	2,846,607	6,853	2,853,460
Deferred tax liabilities	5(a)	477,157	(7,160)	469,997
Concession notes		120,000	-	120,000
Other liabilities	5(a)	83,716	25,267	108,983
Total non-current liabilities excluding security holder interests classified as debt*		3,531,028	24,960	3,555,988
MIT(l) units	5(d)	-	357,391	357,391
Total non-current liabilities		3,531,028	382,351	3,913,379
Total liabilities		4,146,441	382,351	4,528,792
Net assets		4,893,118	(395,102)	4,498,016

19 Explanation of Transition to AIFRS (cont'd)

(5) Adoption of AASB 132 and AASB 139 on 1 July 2005 (cont'd)

	Note	AIFRS 30 June 2005 \$'000	Effect of adoption of AASB 132 & AASB 139 \$'000	AIFRS 1 July 2005 \$'000
Equity				
MIG security holders' Interest				
Contributed equity	5(d)	3,595,768	(254,720)	3,341,048
Reserves	5(d)	(40,815)	-	(40,815)
Retained profits	5(a),(b), (c)	1,252,373	(139,587)	1,112,786
Total MIG security holders' Interest		4,807,326	(394,307)	4,413,019
Minority interest in controlled entities		85,792	(795)	84,997
Total equity		4,893,118	(395,102)	4,498,016

* The Trust Constitutions of MIT(I) and MIT(II) were amended on 30 June 2005 to remove their finite life clauses. On 21 November 2005, unitholders voted at the MIG Annual General Meeting to amend the constitutions further to allow the Responsible Entity discretion to vary the distribution of net income to unitholders, subject to receipt of a private binding income tax ruling from the Australian Taxation Office (ATO) that such amendment would not result in a material adverse consequence to the tax position of the trusts. This amendment was required in order that MIT(I) units would continue to be presented as equity under AIFRS. As at 31 December 2005 a ruling had not been received and the proposed change had not been made to the constitution. As a result, the MIT(I) units, which are compound instruments at 31 December 2005, have been classified as financial liabilities. Accordingly the net profit attributable to MIT(I) unitholders has been classified as a financing cost and is shown separately on the face of the Income Statement.

19 Explanation of Transition to AIFRS (cont'd)

(5) Adoption of AASB 132 and AASB 139 on 1 July 2005 (cont'd)

a) Hedging and derivatives - New categories of assets and liabilities may be recognised

Under AASB139, all derivative contracts, whether or not used for hedging purposes, are carried at fair value. Previous Australian accounting standards did not require the recognition of all such instruments at fair value.

MIG has not accounted for these derivative contracts as hedges and movements in the fair value of these instruments has been reflected in the Income Statement.

The impact following the adoption of AASB 139 on the recognition of derivatives are;

	1 July 2005 \$'000
Other assets	(20,744)
Other liabilities	(25,267)
Deferred tax liabilities	7,160
Retained earnings	38,851

Previously as required under AASB1012: *Foreign Currency Translation*, MIG had deferred the recognition of an exchange loss due to the hedging of the commitment to make further equity contributions to SDELP. This was no longer appropriate under AASB139, so the deferred foreign exchange contract loss and foreign exchange contract payable of \$37,288,000 is removed and replaced with the fair value of the foreign exchange contracts held being a liability of \$31,216,000.

b) Listed securities - No deduction of specified risks

Under AASB139, financial instruments classified as available for sale, are measured at fair value with changes recognised directly in equity until the underlying asset is derecognised. MIG's previous practice of deducting estimated selling costs and allowing for specified risks, such as liquidity risk, from the market value of listed investments was no longer permitted. This resulted in an additional \$8.0 million being recognised in the carrying value of these investments.

c) Financial liabilities - Application of effective interest rate

Under AASB139, financial liabilities are to be recognised at either amortised cost or fair value. In applying amortised cost it is necessary to amortise a loan at its effective interest rate, which may differ from the coupon rate.

The impacts following the adoption of AASB 139 on financial liabilities are;

	1 July 2005 \$'000
Interest bearing financial liabilities	(6,853)
Retained earnings	6,853

d) Compound financial instruments - Classification of security holder funds

The Trust Constitutions of MIT(I) and MIT(II) were amended on 30 June 2005 to remove their finite life clauses. On 21 November 2005, unitholders voted at the MIG Annual General Meeting to amend the constitutions further to allow the Responsible Entity discretion to vary the distribution of net income to unitholders, subject to receipt of a private binding income tax ruling from the Australian Taxation Office (ATO) that such amendment would not result in a material adverse consequence to the tax position of the Trusts. This amendment was required in order that MIT(I) units would continue to be presented as equity under AIFRS.

As at 31 December 2005 a ruling had not been received and the proposed change had not been made to the MIT(I) constitution. As a result, the MIT(I) units, which are compound instruments at 31 December 2005, have been classified as financial liabilities. Accordingly the net profit attributable to MIT(I) unitholders has been classified as a financing cost and is shown separately on the face of the Income Statement.

Statement by the Directors of the Responsible Entity of the Trusts

In the directors' opinion:

The financial statements and notes set out on pages 6 to 36 are in accordance with the Trust constitution and Corporations Act 2001, including:

- a) complying with Accounting Standards, the Corporations Regulation 2001 and other mandatory professional reporting requirements; and
- b) giving a true and fair view of Macquarie Infrastructure Group (as defined in note 1(b)) and consolidated entity's financial position as at 31 December 2005 and of its performance, as represented by the result of its operations and cash flows, for the financial period ended on that date; and
- c) there are reasonable grounds to believe that the Trust and consolidated entity will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the chief executive officer and chief financial officer as required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the directors.



Mark RG Johnson

Sydney
23 February 2006



John SH Roberts

Sydney
23 February 2006

Independent Review Report to the security holders of Macquarie Infrastructure Trust (II) (MIT(II))

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Macquarie Infrastructure Trust (II):

- does not give a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of Macquarie Infrastructure Group (defined below) as at 31 December 2005 and of its performance for the half-year ended on that date, and
- is not presented in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134: *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, the *Corporations Regulations 2001* and the Trust Constitutions.

This statement must be read in conjunction with the rest of our review report.

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration of Macquarie Infrastructure Trust (II) (the consolidated entity) for the half-year ended 31 December 2005.

The consolidated entity comprises Macquarie Infrastructure Trust (II) (MIT(II)) and the entities it controlled during that half-year, including Macquarie Infrastructure Trust (I) (MIT(I)) and the entities it controlled during that half-year and Macquarie Infrastructure Group International Limited (MIGIL) and entities it controlled during that half-year.

The directors of Macquarie Infrastructure Investment Management Limited are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review in order for the directors of the Responsible Entity to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements. For further explanation of a review, visit our website <http://www.pwc.com/au/financialstatementaudit>.

We performed procedures in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report does not present fairly, in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134: *Interim Financial Reporting*, other mandatory financial reporting requirements in Australia and the Trust Constitutions, a view which is consistent with our understanding of the consolidated entity's financial position, and its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which included:

- inquiries of the responsible entity's and MIGIL's personnel, and
- analytical procedures applied to financial data.

Our procedures include reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit, and accordingly, we do not express an audit opinion.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.



PricewaterhouseCoopers



Mark Haberlin
Partner

Sydney
23 February 2006