



Macquarie Infrastructure Trust (II)

Financial Report

For the year ended 30 June 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 Bermuda Limited ARBN 112 684 885 (MIBL).

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.

Macquarie Investment Management (UK) Limited ("MIM UK") registered number 3976881 is the advisor of MIBL. MIM UK is a wholly owned subsidiary of Macquarie Bank Limited. Investments in MIG are not deposits with or other liabilities of Macquarie Bank Limited, 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 MIBL, 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 advisor of MIBL are entitled to fees for so acting. Macquarie Bank Limited and its related corporations (including MIIML and MIM UK) together with their officers and directors and officers and directors of MIBL may hold stapled securities in MIG from time to time.

The MIT(II) consolidated 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 accounting standards in relation to stapled structures. The responsibility for preparation of the consolidated financial report and any financial information contained in this financial report rests solely with the directors of MIIML.

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Directors' Report

In respect of the year ended 30 June 2005, the directors of Macquarie Infrastructure Investment Management Limited (the Responsible Entity) submit the following report on the consolidated entity consisting of Macquarie Infrastructure Trust (II) (MIT (II) or the Trust) and the entities it controlled at the end of or during the year (the Group or consolidated entity), made out in accordance with a resolution of the directors.

Principal Activities

The principal activity of the consolidated entity is investment in infrastructure projects. The investment policy of the consolidated entity is to invest funds in accordance with the provisions of the MIT(II) Constitution.

There were no significant changes in the nature of the consolidated entity's activities during the year.

Directors

The following persons held office as directors of the Responsible Entity during the whole of the year and up to the date of this report, unless otherwise stated:

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

Review and Results of Operations

The performance of the Trust and its controlled entities, as represented by the results of their operations, was as follows:

	Consolidated Year ended 30 June 2005 \$'000	Consolidated Year ended 30 June 2004 \$'000
Revenue from ordinary activities	819,393	328,783
Net result attributable to unitholders of MIT(II)	25,970	11,276
Total changes in equity other than those resulting from transactions with owners as owners	246,311	178,679

Revenue from ordinary activities for the year to 30 June 2005 includes the proceeds of \$411.6 million received from selling down MIT(II)'s stake in Cintra Concessions de Infraestructuras de Transporte S.A. (Cintra) through an initial public offering (IPO).

The net result for the year ended 30 June 2005 includes a performance fee expense payable to the Responsible Entity of \$22.7 million (2004: \$1.6 million) inclusive of non-recoverable GST, as described in Note 29 to the financial statements.

■ Cintra IPO

On 4 June 2004, Macquarie Infrastructure Group (MIG) and Grupo Ferrovial (Ferrovial) signed an agreement to list Cintra through an IPO on the Spanish Stock Exchanges during the fourth quarter of the 2004 calendar year, subject to market conditions remaining favourable.

On 25 October 2004, the parties finalised and executed binding underwriting documentation for the IPO of Cintra at a price of €8.24 per share. The shares were listed on the Spanish Stock Exchanges on 27 October 2004.

Net cash proceeds from the Cintra IPO to MIG were €1.02 billion (A\$1.7 billion MIT(II)'s share being \$0.4 billion). In addition, as part of the agreement to list, MIG exchanged a portion of its interest in Cintra (53.82 million shares) for a 13.87% direct equity interest in the 407ETR. This has given MIG a 30% direct interest in 407ETR.

■ Acquisition of Skyway

On 28 October 2004, Skyway Concession Company LLC, a company 100% owned by the Skyway Concession Company Holdings LLC, the bid vehicle for a MIG – Cintra consortium signed the Chicago Skyway Concession and Lease Agreement for the 99 year lease of the Chicago Skyway (Skyway) with the City of Chicago.

The City of Chicago approved the sale of Skyway to the MIG-Cintra consortium for US\$1.8 billion (\$2.3 billion).

MIG was committed to make a contribution of equity of US\$373.5 million and a contribution towards development costs of \$23.5 million (\$526.8 million) being a 45% interest in Skyway Concession Company Holdings LLC. MIT(II)'s portion of this contribution was US\$224.1 million (\$299.4 million). This amount was paid on financial close, achieved on 25 January 2005.

Skyway has been in operation since 1959 and has an established traffic and revenue history. It is a 12.5 kilometre divided elevated roadway, with a significant bridge over the Calumet River and connects the Indiana East-West Toll Road and Dan Ryan Expressway.

■ Refinancing of Interlink Roads (M5 Motorway) Debt Facilities

On 3 June 2005, MIG announced the refinancing of the debt in relation to the M5 Motorway in Sydney, Australia. Interlink Roads Pty Ltd (Interlink) holds the tolling concession for the M5 Motorway. MIG has a 50% interest in Interlink.

The refinancing has resulted in new debt facilities of \$540 million (which will be drawn to \$500 million) and a reset of the interest rate swaps. The new \$500 million debt facility is a five-year, interest only facility, with repayment due in 2010 and replaces the previous \$485 million facility.

The new debt has a credit rating from Moody's of A2 and from Fitch of A, and has interest margins of 32.5 basis points, which is less than half that on the previous facility.

■ 407ETR

As disclosed in Note 10(iv) to the financial statements, the 407ETR concession company and the Government of Ontario, Canada, are presently engaged in a series of disputes.

407ETR 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.

Significant Changes in State of Affairs

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

Distributions

The distribution for the year ended 30 June 2005 was 1.3144 cents per unit (2004: 7.5000 cents). An interim distribution of 1.3144 cents per stapled security (2004: 3.7500 cents) was paid on 10 February 2005. No final distribution (2004: 3.7500 cents) was paid by MIT(II).

Events Occurring after Reporting Date

A full description of events occurring after reporting date are contained in Note 34 to the financial statements.

Since the end of the year, the directors of the Responsible Entity are not aware of any other matter or circumstance not otherwise dealt with in the financial report that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

Likely Developments and Expected Results of Operations

Further information on likely developments in the operation of the consolidated entity and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the consolidated entity.

Indemnification and Insurance of Officers and Auditors

No insurance premiums are paid for out of the assets of the Trust in regard to insurance cover provided to either the Responsible Entity or auditors of the Trust. So long as the officers of the Responsible Entity act in accordance with the Trust Constitution and the Law, the officers remain indemnified out of the assets of the Trust against any losses incurred while acting on behalf of the Trust. The auditors of the Trust are in no way indemnified out of the assets of the Trust.

Fees Paid to the Responsible Entity and Associates

Fees paid to the Responsible Entity out of Trust property during the year are disclosed in Note 29 to the financial statements.

No fees were paid out of Trust property to the directors of the Responsible Entity or the advisor during the year.

Interests in the Trust held by the Responsible Entity, its directors and its associates during the year are disclosed in Note 29 to the financial statements.

Interests in the Group issued during the financial year

The movement in units on issue in the Trust during the year is as set out below:

	Consolidated 2005 '000	Consolidated 2004 '000
Units on issue at the beginning of the year	1,930,528	1,901,288
Units issued during the year	234,362	29,240
Units on issue at the end of the year	2,164,890	1,930,528
	\$'000	\$'000
Value of assets		
Value of Trust assets at 30 June	4,443,000	3,564,064

The value of the Trust's assets is derived using the basis set out in Note 1 to the financial statements.

Environmental Regulation

■ Australia

The operations of the Eastern Distributor and M4 Motorway are required to comply with various Acts including the Protection of the Environment Operations Act, NSW Heritage Act, Waste Minimisation and Management Act, and Environmentally Hazardous Chemicals Act. There have been no significant breaches of these Acts.

■ United States of America

Environmental permission to construct the South Bay Expressway (formerly SR125 South) was successfully concluded with the approval of the Environmental Impact Report/Statement in January 2000, issuance of the Federal Highway Administration Record of Decision in June 2000 and the issuance of the resource agency permits: Army Corps of Engineers Section 404 permit, U.S. Fish and Wildlife Service Biological Opinion, California Department of Fish and Game 2080 Consistency Determination and 1603 Streambed Alteration Agreement, and the Regional Water Quality Control Board 401 Certification. In addition, the project requires compliance with Section 106 of the National Historic Preservation Act. The environmental approvals require both offsite and onsite mitigation. During the design and construction phases, the construction contractor, Otay River Constructors (a joint venture of Washington Group International Inc. and Fluor Enterprises Inc.) is contractually responsible for ensuring onsite compliance with all environmental legislation, commitments and undertakings.

In addition to scrutiny by State and Federal Agencies, the project-wide environmental obligations are monitored by EDAW, an environmental consulting firm employed by the San Diego Expressway Limited Partnership. The environmental commitments are the subject of monthly review. There have been no significant breaches of the environmental legislation, commitments and undertakings.

Australian Equivalents to International Financial Reporting Standards (A-IFRS)

All Australian reporting entities will be required to adopt A-IFRS for accounting periods beginning on or after 1 January 2005. MIT(II)'s first financial reports prepared under A-IFRS will be the 31 December 2005 Interim Report and the 30 June 2006 Financial Report. Comparatives as at 31 December 2004 and 30 June 2005 respectively will be required.

As disclosed in Note 33, the adoption of A-IFRS will result in different accounting policies for some of MIT(II)'s assets, which are expected to decrease MIT(II)'s reported net assets by 0.8 billion as at 30 June 2005.

Rounding of Amounts in the Directors' Report and Financial Report

The Trust is a registered scheme 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.

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.

Signed in accordance with a resolution of the directors of Macquarie Infrastructure Investment Management Limited.



Mark RG Johnson
Director

Sydney
24 August 2005



John SH Roberts
Director

Sydney
24 August 2005

Auditors' Independence Declaration

As lead auditor for the audit of Macquarie Infrastructure Trust (II) for the year ended 30 June 2005, I declare that, to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Macquarie Infrastructure Trust (II) and the entities it controlled during the period.



Mark Haberlin
Partner
PricewaterhouseCoopers

24 August 2005

Statements of Financial Performance

	Note	Consolidated 2005 \$'000	Consolidated 2004 \$'000	Parent Entity 2005 \$'000	Parent Entity 2004 \$'000
Revenue from ordinary activities					
Revaluation of investments		124,841	28,972	288,448	174,667
Income from investments		152,702	157,335	67,769	83,156
Toll revenue		137,514	131,593	-	-
Proceeds from sale of investments and subsidiaries		412,407	-	412,407	-
Other revenue		(8,071)	10,883	(3,692)	(2,028)
Total revenue from ordinary activities	2(i)	819,393	328,783	764,932	255,795
Operating expenses from ordinary activities					
Borrowing costs expense		(167,166)	(158,925)	(872)	(84)
Book value of securities disposed		(413,493)	-	(413,493)	-
Other operating expenses		(196,210)	(151,517)	(45,708)	(19,357)
Total operating expenses from ordinary activities	2(ii)	(776,869)	(310,442)	(460,073)	(19,441)
Net result from ordinary activities before income tax expense					
		42,524	18,341	304,859	236,354
Income tax expense	3	(29,851)	(29,097)	(52,645)	(52,092)
Net result from ordinary activities after income tax expense					
		12,673	(10,756)	252,214	184,262
Net result from controlled entities attributable to outside equity interest		13,297	22,032	-	-
Net result attributable to unitholders of MIT(II)		25,970	11,276	252,214	184,262
Net increase in asset revaluation reserve	23	220,341	167,403	-	-
Total revenues, expenses and valuation adjustments attributable to unitholders of MIT(II) recognised directly in equity					
		220,341	167,403	-	-
Total changes in equity other than those resulting from transactions with owners as owners					
		246,311	178,679	252,214	184,262

The above Statements of Financial Performance should be read in conjunction with the accompanying notes

Financial Report

As at 30 June 2005

Statements of Financial Position

	Note	Consolidated 2005 \$'000	Consolidated 2004 \$'000	Parent Entity 2005 \$'000	Parent Entity 2004 \$'000
Current assets					
Cash assets	6	248,491	231,471	182,777	167,219
Receivables	7	113,357	97,317	8,686	877
Prepayments	8	5,010	6,376	189	96
Other assets	9	2,511	2,773	-	-
Total current assets		369,369	337,937	191,652	168,192
Non-current assets					
Receivables	7	267,601	50,000	424,831	204,426
Prepayments	8	9,587	12,220	-	-
Investments	10	1,154,325	915,213	1,706,823	1,504,700
Fixed assets	13	917,105	838,042	-	-
Tolling concessions	14	1,693,802	1,391,882	-	-
Other assets	9	31,211	18,770	-	-
Total non-current assets		4,073,631	3,226,127	2,131,654	1,709,126
Total assets		4,443,000	3,564,064	2,323,306	1,877,318
Current liabilities					
Payables	15	127,730	97,477	33,159	6,403
Provisions	16	1,186	971	-	-
Interest-bearing liabilities	17	29,650	10,650	-	-
Distribution payable	18	-	72,395	-	72,395
Tax liabilities	19	4,630	4,830	258	-
Total current liabilities		163,196	186,323	33,417	78,798
Non-current liabilities					
Payables	15	654	4,531	-	-
Provisions	16	584	799	-	-
Interest-bearing liabilities	17	1,217,230	1,119,895	-	-
Tax liabilities	19	548,157	461,621	377,947	328,462
Concession notes	20	120,000	105,000	-	-
Other liabilities	21	31,211	18,770	-	-
Total non-current liabilities		1,917,836	1,710,616	377,947	328,462
Total liabilities		2,081,032	1,896,939	411,364	407,260
Net assets		2,361,968	1,667,125	1,911,942	1,470,058
Equity					
MIT(II) unitholders' interest					
Contributed equity	22	1,140,127	924,998	1,150,714	935,585
Reserves	23	732,149	511,808	-	-
Undistributed operating surplus	24	61,334	60,823	761,228	534,473
Total MIT(II) unitholders' interest		1,933,610	1,497,629	1,911,942	1,470,058
Outside equity interest in controlled entities	25	428,358	169,496	-	-
Total equity		2,361,968	1,667,125	1,911,942	1,470,058

The above Statements of Financial Position should be read in conjunction with the accompanying notes

Financial Report

For the Year Ended 30 June 2005

Statements of Cash Flows

	Note	Consolidated 2005 \$'000	Consolidated 2004 \$'000	Parent Entity 2005 \$'000	Parent Entity 2004 \$'000
Cash flow from operating activities					
Toll revenue received		151,360	144,455	-	-
Interest received		112,086	107,098	16,341	19,818
Interest paid		(63,015)	(57,918)	-	-
Indirect taxes (paid)/received		(10,417)	(8,304)	1,452	3,934
Payments to suppliers and employees		(45,846)	(34,250)	(9,756)	(1,960)
Responsible Entity base fees paid		(19,906)	(17,110)	(19,906)	(17,110)
Responsible Entity performance fees paid		(156)	(21,502)	(156)	(21,502)
Distributions and dividends received		28,149	43,094	46,678	63,339
Income taxes (paid)/received		(18,542)	(16,557)	-	270
Other income received		5,201	5,916	55	381
Net cash flows from operating activities	26(i)	138,914	144,922	34,708	47,170
Cash flows from investing activities					
Payments for purchases of investments		(313,074)	(51)	(327,023)	(51)
Proceeds from IPO of Cintra		403,907	-	403,907	-
Capital expenditure		(137,343)	(87,160)	-	-
Proceeds from sale of fixed assets		35	21	-	-
Net cash flows from investing activities		(46,475)	(87,190)	76,884	(51)
Cash flows from financing activities					
Loans advanced to MIT(I)		(485,557)	(6,220)	(485,557)	(6,220)
Repayment of borrowings by MIT(I)		273,557	222,000	273,557	222,000
Proceeds from MIT(I) for issue of Distribution Reinvestment Plan capital		190,471	-	190,471	-
Repayment of bank borrowings		(319,046)	(369,724)	-	-
Proceeds from bank borrowings		435,772	431,553	-	-
Repayment of loan to Airport Motorway Trust		(70,800)	(64,283)	-	-
Loans (advanced to)/received from MEI and MIBL		(1,600)	(17,287)	(1,600)	(17,287)
Loan (repaid to)/received from MEIL Holdings Pty Limited		-	(35,000)	-	(35,000)
Loan (repaid to)/received from Macquarie Infrastructure US Pty Limited (MIUS)		-	-	-	(65,776)
Proceeds from buyback of shares by MIUS		-	-	-	61,063
Distribution paid		(66,112)	(112,575)	(66,112)	(112,575)
Distributions paid to outside equity interests interests in controlled entities		(19,115)	(16,824)	-	-
Borrowing costs paid		(8,044)	(8,244)	(1,943)	(287)
Net cash flows from financing activities		(70,474)	23,396	(91,184)	45,918
Net increase in cash assets held		21,965	81,128	20,408	93,037
Cash assets at the beginning of the year		231,471	151,083	167,219	74,182
Exchange rate movements		(4,945)	(740)	(4,850)	-
Cash assets at the end of the year	26(ii)	248,491	231,471	182,777	167,219
Financing arrangements	28				
Non cash financing and investing activities	26(iii)				

The above Statements of Cash Flows should be read in conjunction with the accompanying notes

Notes to the Financial Statements

1 Summary of Significant Accounting Policies

The significant policies which have been adopted in the preparation of the financial statements are stated to assist in a general understanding of this report.

(a) Basis of Preparation

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views, the requirements of the Trust Constitution and the Corporations Act 2001 in Australia.

The accounting policies adopted are consistent with those of the previous year unless otherwise disclosed. This report is prepared on the going concern basis in accordance with the historical cost convention, except as otherwise stated.

(b) Aggregated Financial Statements

The units of MIT(I), the units of MIT(II) and the shares of Macquarie European Infrastructure plc (MEI) were combined and issued as stapled securities in 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.

The units of MIT(I), the units of MIT(II) and the shares of MIBL are combined and issued as stapled securities in Macquarie Infrastructure Group (MIG or the Group). The units of the Trusts and shares of the Company cannot be traded separately and can only be traded as stapled securities. None of the entities have acquired or control the others. In accordance with Urgent Issues Group Abstract 13: The Presentation of the Financial Report of Entities whose Securities are 'Stapled', aggregated financial statements have been prepared for MIG as well as individual consolidated entity financial statements for MIT(I), MIT(II) and MIBL. The aggregated financial statements combine the financial statements of the Trusts and the Company for the year ended 30 June 2005. Transactions between the entities have been eliminated in the aggregated financial statements of MIG.

The financial statements of MIT(II) should be read in conjunction with the aggregated financial statements of MIG.

(c) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by MIT(II) as at 30 June 2005 and the results of all controlled entities for the year then ended. MIT(II) and its controlled entities are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full. Outside equity interests in the results of the controlled entity are shown separately in the Statements of Financial Performance and Statements of Financial Position respectively.

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

(d) Investments

Investments, other than those in controlled entities, are revalued at each reporting date to their net market values. Changes in the net market values of investments (both positive and negative) have been recognised in investment revenue from ordinary activities as shown in the Statements of Financial Performance for the year.

1 Summary of Significant Accounting Policies (cont'd)

Investments have been brought to account as follows:

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

Unlisted interests in companies and trusts which are not controlled are brought to account at directors' estimates of net market 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 Statements of Financial Performance when receivable.

Investment acquisition costs are capitalised into the value of the investment at the time of purchase. Additions and other expenditure on investments which are capital in nature are capitalised as incurred.

(e) Investments in Associates

Interests in associates have been accounted for at net market value as noted above. Supplementary information is included in the notes to the financial statements to the extent required by AASB 1016: Accounting for Investments in Associates.

(f) Fixed Assets

MIT(II) has two classes of fixed assets – Property, plant and equipment and leasehold improvements. Fixed assets are carried at the lower of cost and recoverable amount.

— **Property, plant and equipment**

This comprises integrated land, buildings, leasehold improvements and plant and equipment used by MIT(II)'s controlled entities in exercising their tolling concession rights.

— **Leasehold improvements**

Costs directly associated with the construction and improvement of the M4 Motorway, Eastern Distributor toll roads, including borrowing costs incurred up to the date of commencement of operations of the road, have been capitalised into leasehold improvements.

Costs directly associated with the construction of the South Bay Expressway, including preliminary expenses, borrowing costs and foreign exchange translation gains and losses are being capitalised as incurred until the operation of the road commences.

— **Recoverable amount**

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal. The directors of the Responsible Entity regularly review the carrying amount of fixed assets to ensure they do not exceed their recoverable amount. In determining the recoverable amount, the expected net cash flows are discounted to their present value using a market determined, risk adjusted rate. The discount rates used range from 7.67% to 11.95% depending on the stage in the lifecycle of each asset.

(g) Tolling Concessions

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

Subsequent to their initial recognition as assets, tolling concessions are measured at fair value. Fair value is defined as the amount for which assets could be exchanged between willing parties in an arm's length transaction. Revaluations are made with sufficient regularity to ensure that the carrying amount of each asset does not differ materially from its fair value at the reporting date. A half-yearly assessment of each asset's fair value is made by the directors, on the basis of a discounted cash flow analysis.

Revaluation increments are credited directly to the asset revaluation reserve in the consolidated entity, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as an expense in the net result, the increment is recognised immediately as revenue in the net result.

1 Summary of Significant Accounting Policies (cont'd)

Revaluation decrements are recognised immediately as expenses in the net result, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same class of assets they are debited directly to the asset revaluation reserve.

Revaluation increments and decrements are offset against one another within a class of non-current assets, but not otherwise.

Potential tax liabilities have been brought to account in relation to the net revaluation increments recorded in the asset revaluation reserve.

(h) Prepayments

Prepaid lease rentals for the right to use the land on which the M4 Motorway is situated have been capitalised.

(i) Depreciation and Amortisation of Non-Current Assets

Non-current assets are amortised on a straight-line basis over the period of the right to use the assets in accordance with contractual arrangements entered into by the controlled entities.

— *Property, plant and equipment*

Depreciation is calculated to write off the net cost of property, plant and equipment over its estimated useful life. Estimates of remaining useful life are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives of plant and equipment are as follows:

Plant and equipment	3 – 15 years
Buildings	15 years
Leasehold improvements	the lease term

— *Leasehold improvements*

Amounts recorded as leasehold improvements relating to the M4 Motorway and the Eastern Distributor, including preliminary expenses and borrowing costs, are amortised over the estimated remaining term of the right granted to operate the relevant road, being until February 2010 and July 2048 respectively. Costs associated with the construction of service centres on the M4 Motorway are amortised over the remaining lease term being until February 2017. The period of amortisation of leasehold improvements will be reassessed annually.

Amounts recorded as leasehold improvements relating to the South Bay Expressway will be amortised over the concession period once the road becomes operational.

— *Tolling concessions*

Tolling concessions are amortised over the remaining life of each concession, expiring in February 2010 for the M4 Motorway and July 2048 for the Eastern Distributor.

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.

— *Prepayments*

Prepaid lease rentals are amortised over the lease term of the M4 Motorway.

(j) Receivables

Receivables are recorded at their net fair values and current receivables are generally received within 30 days of becoming due and receivable. The carrying amounts of non-current receivables are regularly reviewed to ensure they do not exceed their recoverable amounts

A provision is raised for any doubtful debts based on a review of all outstanding amounts at year end. Bad debts are written off in the period in which they are identified.

1 Summary of Significant Accounting Policies (cont'd)

(k) Payables

Liabilities are recognised when MIT(II) becomes obliged to make future payments as a result of a purchase of assets or services, whether or not billed. Trade creditors are generally settled within 30 days.

(l) Interest-Bearing Liabilities

Borrowings are recognised when issued at the amount of the net proceeds received and carried at this amount until the liabilities are settled. Interest on the borrowings is recognised as an expense as it accrues over the period of the loan.

(m) Concession Notes

Concession Notes representing non-interest bearing long-term debt have been issued to the Roads and Traffic Authority of NSW by the Group as required under the terms of the Eastern Distributor Project Deed. The Concession Notes are issued annually in August. The unexpired portion of the expense has been capitalised in Deferred Expenditure and, amortised and capitalised into Leasehold Improvements up to the date of part completion. Post commencement of operations, the expense has been recognised in the Statements of Financial Performance.

(n) Revenue

Investment revenue represents changes in the net market value of investments in unlisted securities. Revenue relating to these investments is brought to account as described in Note 1(d). Interest income is recognised as it accrues and toll revenue is recognised when the service is provided. Other revenue is recognised when the fee in respect of services provided is receivable.

(o) Income Tax

Pursuant to the provisions of Division 6C of Part III of the Income Tax Assessment Acts, MIT(II) is currently treated as a company for income tax purposes. Accordingly, MIT(II) recognises income tax using the liability method of tax effect accounting. Provision is made for taxes on gains which could arise in the event of a sale of revalued assets for the amounts at which they are stated.

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 the head entity of the tax consolidated group, recognises current and deferred 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 and deferred tax amounts arising in relation to its own transactions, events and balances.

The deferred tax balances recognised by MIT(II) in relation to wholly-owned entities joining the tax consolidated group are measured based on their carrying value at the level of the tax consolidated group before the implementation of the tax consolidation regime.

(p) Foreign Currency Transactions

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction or, where forward contracts have been arranged, at the contractual rate. At balance date, amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current at that date, or at a contractual rate if applicable. Resulting exchange differences are brought to account in determining the result for the year.

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.

1 Summary of Significant Accounting Policies (cont'd)

(q) Cash Flows

For the purpose of the Statements of Cash Flows, cash assets include deposits held at call with banks and investments in money market instruments which are readily convertible to cash on hand and are subject to an insignificant risk of change in value.

(r) Comparative Figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

(s) Significant Terms and Conditions of Investments

MIT(II)'s investment in Airport Motorway Group (AMG) is held in shares in Airport Motorway Holdings Pty Limited (AMH). The shares of AMH and the units of Airport Motorway Trust (AMT), which are held by MIT(I), are combined and issued as linked securities in AMG. The units and shares cannot be traded separately and may only be traded as linked securities.

MIT(II)'s investment in the WestLink Motorway Group (WestLink) is held via shares in WSO Co. Pty Limited. The shares in WSO Co Pty Limited along with the interest in the WestLink Motorway Partnership, shares in WestLink Motorway Limited and the shares in WSO Finance Pty Limited which are held by MIT(I), are combined and issued as linked securities in WestLink. They cannot be traded separately and may only be traded as linked securities.

(t) Goods and Services Tax (GST)

The amount of GST incurred by the Trust that is not recoverable from the Australian Taxation Office (ATO) is recognised as an expense or as part of the cost of acquisition of an asset. The Trust qualifies for Reduced Input Tax Credits at the rate of 75% on various services such as responsible entity fees and custodian fees. These expenses have been recognised in the Statements of Financial Performance net of the amount of GST recoverable from the ATO.

Receivables and payables are stated at amounts inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the Statements of Financial Position. Cash flows are shown in the Statements of Cash Flows gross of any applicable GST.

(u) Trust Formation and Termination

MIT(II) was established on 18 July 1996. The provisions of the Trust Constitution to terminate on its 80th anniversary has been removed.

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

On 20 September 2000, MIT(II)'s investment in 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.

(v) Distributions

Provision is made for the amount of any distribution declared, determined or publicly recommended by the directors on or before the end of the financial year but not distributed at balance date.

Financial Report

For the Year Ended 30 June 2005

2 Net Result from Ordinary Activities

The net operating result from ordinary activities before income tax includes the following specific items of revenue and expense:

(i) Operating Income

	Note	Consolidated 2005 \$'000	Consolidated 2004 \$'000	Parent Entity 2005 \$'000	Parent Entity 2004 \$'000
Revaluation of investments	10				
Interests in unlisted securities in companies and trusts		132,964	25,976	301,598	164,762
Foreign exchange effect of revaluations		(8,123)	2,996	(13,150)	9,905
		124,841	28,972	288,448	174,667
Income from investments					
Distribution and dividend income		27,298	43,094	45,827	63,339
Interest income					
Related parties		11,793	15,073	11,715	14,951
Other persons and corporations		113,611	99,168	10,227	4,866
		152,702	157,335	67,769	83,156
Toll revenue					
Toll revenue		137,514	131,593	-	-
		137,514	131,593	-	-
Proceeds from sale of investments and subsidiaries					
Proceeds from IPO of Cintra		411,556	-	411,556	-
Proceeds from final distribution of Horizon Energy Investment Group		851	-	851	-
		412,407	-	412,407	-
Other revenue					
Construction contract revenue		223	223	-	-
Consulting revenue		512	27	-	-
Foreign exchange (loss)/gain		(13,042)	4,511	(3,756)	(2,396)
Rental income		3,159	2,853	-	-
Other income		1,077	3,269	64	368
		(8,071)	10,883	(3,692)	(2,028)
Total revenue from ordinary activities		819,393	328,783	764,932	255,795

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For the Year Ended 30 June 2005

2 Net Result from Ordinary Activities (cont'd)

(ii) Operating Expenses

	Consolidated 2005 \$'000	Consolidated 2004 \$'000	Parent Entity 2005 \$'000	Parent Entity 2004 \$'000
Borrowing costs expense				
Related parties	90,565	88,435	-	-
Other persons and corporations	76,601	70,490	872	84
	167,166	158,925	872	84
Book value of securities disposed				
Horizon Energy Investment Group	680	-	680	-
Cintra	412,813	-	412,813	-
	413,493	-	413,493	-
Other operating expenses				
Amortisation of tolling concessions	67,207	57,197	-	-
Depreciation:				
Buildings	45	45	-	-
Leasehold improvements	25,294	28,187	-	-
Motor vehicles	58	45	-	-
Plant and equipment	1,323	1,233	-	-
	26,720	29,510	-	-
Cost of operations:				
Concession notes	15,000	15,000	-	-
Employment costs	4,903	4,640	-	-
Operating expenses	25,155	21,486	-	-
Operating lease rentals	1,568	2,633	-	-
	46,626	43,759	-	-
Administration expenses:				
Consulting and administration fees	257	434	151	245
Custodian's fees	233	179	233	179
Responsible Entity's base fees	20,555	16,230	20,555	16,230
Responsible Entity's performance fees	22,716	1,597	22,716	1,597
Option premium paid	8,252	-	-	-
Other expenses	3,644	2,611	2,053	1,106
	55,657	21,051	45,708	19,357
Total other operating expenses	196,210	151,517	45,708	19,357
Total operating expenses from ordinary activities	776,869	310,442	460,073	19,441

* Option cost relating to Skyway (refer Note 29)

Financial Report

For the Year Ended 30 June 2005

3 Income Tax Expense

Prima facie income tax on the net result from ordinary activities is reconciled to the income tax expense charged in the Statements of Financial Performance as follows:

	Consolidated 2005 \$'000	Consolidated 2004 \$'000	Parent Entity 2005 \$'000	Parent Entity 2004 \$'000
Net result from ordinary activities before income tax expense	42,524	18,341	304,859	236,354
Prima facie income tax on net result from ordinary activities	12,757	5,502	91,458	70,906
Tax effect of permanent differences:				
Non-assessable income	-	(4,590)	-	(4,590)
Non-deductible tolling concession amortisation	20,162	17,159	-	-
Non-deductible depreciation	2,166	2,116	-	-
Non-deductible interest expense	20,535	18,876	-	-
Dividends effectively not liable to tax	(8,090)	(8,338)	(13,748)	(14,412)
Foreign exchange losses not liable to tax	5,048	-	2,140	-
Deferred income tax liability not previously recognised	1,842	-	-	-
Reversal of deferred tax on revaluations of investments sold free of tax	(35,602)	-	(35,602)	-
Prior year tax losses utilised	9,505	(875)	9,239	-
Sundry items	(230)	(1,413)	(842)	188
Income tax adjusted for permanent differences	28,093	28,437	52,645	52,092
Under provision in prior year	1,758	660	-	-
Aggregate income tax expense	29,851	29,097	52,645	52,092
Aggregate income tax expense comprises:				
Current taxation provision	18,566	18,233	-	-
Deferred income tax provision	9,527	10,204	52,645	52,092
Under provision in prior year	1,758	660	-	-
	29,851	29,097	52,645	52,092

Prima facie income tax on the net result from ordinary activities is calculated at the rate of 30% (2004: 30%)

	Consolidated 2005 \$'000	Consolidated 2004 \$'000	Parent Entity 2005 \$'000	Parent Entity 2004 \$'000
The potential future income tax benefit (at 30%) at 30 June in respect of tax losses not brought to account is:	69,241	22,780	78,268	22,780

This benefit for tax losses will only be obtained if:

- a) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, or
- b) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation, and
- c) no changes in the tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

MIT(II) and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2003. The accounting policy on implementation of the legislation is set out in Note 1 (o).

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For the Year Ended 30 June 2005

3 Income Tax Expense (cont'd)

The consolidated future income tax benefit not brought to account includes 100% of the tax losses of all controlled entities excluding Airport Motorway Holdings Pty Limited (AML) regardless of the economic interest held by MIT(II) in the controlled entity.

AML has unused tax losses at balance date of \$106.5 million (2004: \$120.4 million). The provision for deferred income tax has been reduced by \$32.3 million in respect of future income tax benefits attributable to these tax losses.

Included in the tax position for AML are deductions in respect of Concession Notes that have been issued to the Roads and Traffic Authority of NSW pursuant to AML's lease of the Eastern Distributor. AML has legal advice that a deduction is allowable upon issue of the Concession Notes and AML's taxable income/(loss) has been calculated on this basis. Deductions in respect of Concession Notes totalling \$118.0 million have been claimed from the opening of the Eastern Distributor until 30 June 2005 (2004: \$103.0 million). If AML were not able to claim an immediate tax deduction for the Concession Notes it would result in AML's unused tax losses at 30 June 2005 of \$106.5 million (2004: \$120.4 million) reducing to the amount of \$2.0 million (2004: \$30.9 million).

AML originally sought in July 2002 to have its claim for deductions in respect of Concession Notes confirmed by the Australian Taxation Office (ATO) in relation to the years ended 30 June 1998 and 30 June 1999. This claim was disallowed by the ATO in March 2004. AML lodged an appeal with the Federal Court in May 2004.

4 Remuneration of Auditors

	Consolidated 2005 \$	Consolidated 2004 \$	Parent Entity 2005 \$	Parent Entity 2004 \$
Amounts paid or payable to PricewaterhouseCoopers for:				
Audit services	419,687	289,013	284,351	157,279
Other services*	221,510	228,802	64,045	64,003
	641,197	517,815	348,396	221,282
Amounts paid or payable to other auditors of controlled entities for:				
Audit services	63,300	43,062	-	-
Other services	105,394	20,308	81,934	-
	168,694	63,370	81,934	-

* Other services supplied by PricewaterhouseCoopers included provision of taxation compliance services of \$214,112 (2004: \$225,446) and trust compliance services of \$5,033 (2004: \$3,356).

Of the amounts paid or payable to PricewaterhouseCoopers, \$198,827 (2004: \$160,943) related to the provision of services to San Diego Expressway in LP, USA.

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For the Year Ended 30 June 2005

5 Distribution Paid and Proposed

The distributions were paid/payable as follows:

	Consolidated 2005 \$'000	Consolidated 2004 \$'000	Parent Entity 2005 \$'000	Parent Entity 2004 \$'000
Interim distribution paid for the half-year ended 31 December	25,459	72,239	25,459	72,239
Final distribution proposed and subsequently paid for the year ended 30 June	-	72,395	-	72,395
	25,459	144,634	25,459	144,634
	Cents per unit	Cents per unit	Cents per unit	Cents per unit
Interim distribution paid	1.3144	3.7500	1.3144	3.7500
Final distribution proposed and subsequently paid	-	3.7500	-	3.7500
	1.3144	7.5000	1.3144	7.5000
Fully franked portion of interim distribution	1.3144	1.1843	1.3144	1.1843
Fully franked portion of final distribution	-	1.0501	-	1.0501

■ Franked Distributions

The franked portions of distributions proposed as at 30 June 2005 will be franked out of existing franking credits.

	Consolidated 2005 \$'000	Consolidated 2004 \$'000	Parent Entity 2005 \$'000	Parent Entity 2004 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2004: 30%)	14,787	6,496	47	2,940

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of current tax liability,
- franking debits that will arise from the payment of distributions recognised as a liability at the reporting date,
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date, and
- franking credits that may be prevented from being distributed in subsequent financial years.

6 Cash Assets

	Consolidated 2005 \$'000	Consolidated 2004 \$'000	Parent Entity 2005 \$'000	Parent Entity 2004 \$'000
Cash at bank	29,773	36,712	304	2,939
Short term money market investments	212,414	191,228	182,473	164,280
US Treasury bills	6,304	3,531	-	-
	248,491	231,471	182,777	167,219

The short term money market investments outstanding at year end mature within 19 days (2004: 30 days) and pay interest between 5.58 – 5.73% (2004: 5.44%) per annum. The US Treasury bills mature within 1 day (2004: 60 days) and pay interest at 2.60% (2004: 0.75%) per annum.

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For the Year Ended 30 June 2005

7 Receivables

	Consolidated 2005 \$'000	Consolidated 2004 \$'000	Parent Entity 2005 \$'000	Parent Entity 2004 \$'000
Current				
GST recoverable	2,607	735	2,461	701
Interest receivable	96,131	88,357	-	-
Trade receivables	5,618	7,561	2,795	-
Provision for doubtful debts	(20)	(20)	-	-
Receivable from MEI	3,379	176	3,379	176
Other receivables	5,642	508	51	-
	113,357	97,317	8,686	877
Non-current				
Loan to MIT(I)	267,601	50,000	267,601	50,000
Loans to controlled entities	-	-	157,230	154,426
	267,601	50,000	424,831	204,426

Interest receivable includes interest of \$96.1 million (2004: \$88.4 million) on the AML infrastructure loan facility. The interest was received in July 2005 (refer also to Note 28).

At 30 June 2005, the Trust was due \$267.6 million (2004: \$50.0 million) from MIT(I) under a \$300.0 million facility agreement dated 20 December 2001. Interest on the loan is calculated at floating market rates plus a margin of 3% per annum and is payable quarterly in arrears. The loan is repayable on 15 January 2027, unless otherwise determined by the parties to the loan agreement. During the year ended 30 June 2005, MIT(I) received repayments under the facility totalling \$273.6 million from MIT(I) (2004: \$222.0 million) and \$491.2 million (2004: nil) was borrowed.

8 Prepayments

	Consolidated 2005 \$'000	Consolidated 2004 \$'000	Parent Entity 2005 \$'000	Parent Entity 2004 \$'000
Current				
Prepaid lease rentals	2,633	2,633	-	-
Prepaid expenses	2,377	3,743	189	96
	5,010	6,376	189	96
Non-current				
Prepaid lease rentals	9,587	12,220	-	-

9 Other Assets

	Note	Consolidated 2005 \$'000	Consolidated 2004 \$'000	Parent Entity 2005 \$'000	Parent Entity 2004 \$'000
Current					
Deferred expenditure on concession notes		2,014	2,014	-	-
Other		497	759	-	-
		2,511	2,773	-	-
Non-current					
Deferred foreign exchange contract loss	21	31,211	18,770	-	-

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For the Year Ended 30 June 2005

10 Investments

(i) Consolidated

	Balance at 2004	Investments/ (Divestments)	FX Effects	Revaluations Note (i)	Balance at 2005
	\$'000	\$'000	\$'000	\$'000	\$'000
Interests in unlisted securities in companies and trusts					
Stapled securities in Horizon Energy Investment Group (Note ii)	680	(680)	-	-	-
Shares in Interlink Roads Pty Limited	489,730	-	-	51,053	540,783
Shares in Transtoll Pty Limited	8,733	-	-	1,610	10,343
Shares in Cintra Concesiones de Infraestructuras de Transporte, S.A. (Cintra) (Note iii)	298,079	(291,270)	(6,809)	-	-
Direct investment in 407 International, Inc. (Note iv)	117,991	(120,588)	2,597	-	-
Shares in MIG Investments Australia Pty Ltd (Skyway) (Note v)	-	526,809	(3,911)	80,301	603,199
Total investments	915,213	114,271	(8,123)	132,964	1,154,325

(ii) Parent Entity

	Balance at 2004	Investments/ (Divestments)	FX Effects	Revaluations Note (i)	Balance at 2005
	\$'000	\$'000	\$'000	\$'000	\$'000
Interests in unlisted securities in companies and trusts					
Stapled securities in Horizon Energy Investment Group (Note ii)	680	(680)	-	-	-
Shares in M5 Holdings Pty Limited	431,561	-	-	43,972	475,533
Shares in MIT(II) Holdings Pty Limited	28	-	-	-	28
Shares in Airport Motorway Holdings Pty Limited	491,551	-	-	152,975	644,526
Investment in Macquarie Infrastructure (Luxembourg) S.A. (MILSA) (Note iii)	298,079	(291,270)	(6,809)	-	-
Investment in Macquarie Infrastructure (Toll Route) S.A. (Note iv)	117,991	(120,588)	2,597	-	-
Investment in Macquarie Infrastructure US Pty Limited	164,810	5,697	(8,938)	55,418	216,987
Shares in MIG Investments Australia Pty Ltd (Skyway) (Note v)	-	320,516	-	49,233	369,749
Total investments	1,504,700	(86,325)	(13,150)	301,598	1,706,823

Notes

(i) Distributions received

Revaluations of investments are calculated net of any distributions received from the investments.

(ii) Horizon Energy Investment Group

On 31 March 2005, a final distribution of \$0.9 million was received from Horizon Energy Investment Trust. This distribution was wholly a return of capital and the units were cancelled on the same date.

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For the Year Ended 30 June 2005

10 Investments (cont'd)

(iii) Divestment of Cintra and additional investment in 407

On 25 October 2004, MIG and Grupo Ferrovial finalised and executed binding underwriting documentation for the initial public offering (IPO) of Cintra at a price of €8.24 per share. The divestment was transacted in two separate parts:

- the exchange of 11.99% (53.82 million shares) of Cintra for a 13.87% (107.49 million shares) equity interest in 407 International on 26 October 2004;
- the sale of the remaining 28.01% (125.73 million shares) through an IPO when Cintra listed on the Spanish Stock Exchanges on 27 October 2004. MIG raised net funds of €1.02 billion (\$1.74 billion, MIT(II)'s share being \$0.41 billion) through the IPO.

MIG's interest in Cintra was held through Macquarie Infrastructure (Luxembourg) S.A. (MILSA). On 2 November 2004, MEI acquired the remaining 50% interest of MILSA from MIT(I) and MIT(II).

On 9 September 2004, MILSA established a 100% subsidiary, Macquarie Infrastructure Canada Inc. (MICI), a company incorporated in Canada, with an initial share capital of C\$2.

On 26 October 2004, MILSA sold 53.82 million shares in Cintra (11.99% interest) to MICI in exchange for C\$824,629,000 issued share capital of MICI. MICI subsequently exchanged these Cintra shares for a 13.87% (107.49 million shares) equity interest in 407 International.

On 2 November 2004, MEI acquired the remaining share capital of Macquarie Infrastructure (Toll Route) S.A. (MITRSA), the holding company for MIG's initial investment in 407 International, from MIT(I) and MIT(II).

Following the exchange for Cintra shares, the Group owns 30% of 407 International directly, representing MIG's entire investment in 407 International. The indirect ownership held through Cintra was sold down through the IPO.

(iv) Valuation of 407ETR

Following the IPO of Cintra, MIT(II) has no interest in 407ETR.

	As at 30 June 2005 \$'000	As at 30 June 2004 \$'000
Direct investment in 407ETR	-	1,043,563
Indirect interest in 407ETR (via Cintra)	-	1,672,684
Total interest in 407ETR	-	2,716,247

(v) Investment in Skyway

On 28 October 2004, the Skyway Concession Company LLC, a company 100% owned by the Skyway Concession Company Holdings LLC, signed the Chicago Skyway Concession and Lease Agreement for the 99 year lease of the Chicago Skyway (Skyway) with the City of Chicago.

The City of Chicago approved the sale of Skyway to the MIG-Cintra consortium for US\$1.8 billion (\$2.3 billion).

MIG was committed to make a contribution of equity of US\$373.5 million and development costs of US\$23.5 million (\$526.8 million in total) being a 45% interest in Skyway Concession Company Holdings LLC. MIT(II)'s portion of this contribution was US\$224.1 million (\$299.4 million). This amount was paid on financial close, achieved on 25 January 2005. MIG's interest is held by MIG Chicago Holdings LLC a company 100% owned by MIT(II).

MIT(II) holds its investment in Skyway through MIG Chicago Holdings LLC. This is a 100% subsidiary of MIG Holdings (US) LLC which has issued non voting B shares to MIT(I) which amounts to 40% of its issued capital. MIT(II)'s investment in MIG Holding (US) LLC is through MIG Investments Australia, a 100% subsidiary of MIT(II).

Skyway has been in operation since 1959 and has an established traffic and revenue history. It is a 12.5 kilometre divided elevated roadway, with a significant bridge over the Calumet River and connects the Indiana East-West Toll Road and Dan Ryan Expressway.

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For the Year Ended 30 June 2005

11 Investments in Associates

Name of associate	Principal activity	Balance date	Ownership interest	
			2005 %	2004 %
Horizon Energy Investment Limited (HEIL)	Investment in power partnership	30 June	-	50.7
Horizon Energy Investment Trust (HEIT)	Investment in power partnership	30 June	-	50.7
Interlink Roads Pty Limited (Interlink)	Investment in toll road	30 June	50.0	50.0
WSO Co. Pty Limited	Toll road operator	30 June	40.0	40.0
Skyway Concession Company Holdings LLC (incorporated in USA)	Holding company	31 December	45.0	-
Skyway Concession Company LLC (incorporated in USA)	Toll road operator	31 December	45.0	-

The proportion of voting power held in the other associates disclosed above are in proportion to the ownership interest held.

The above associates have not been equity accounted in accordance with AASB 1016: Accounting For Investments in Associates, as the investments in the groups to which they belong are measured at net market value and changes in net market value are recognised as revenues or expenses in the Statements of Financial Performance in the financial year in which the changes occur. Refer also to Note 10.

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12 Investments in Controlled Entities

Name of Controlled Entity	Country of incorporation	Ownership interest	
		2005 %	2004 %
Airport Motorway Construction Company Pty Limited	Australia	71.4	71.4
Airport Motorway Holdings Pty Limited	Australia	71.4	71.4
Airport Motorway Limited (AML)	Australia	71.4	71.4
AJL Nominees Pty Limited	Australia	100.0	100.0
Australian Facilities Management Pty Limited (AFM)**	Australia	25.3	25.3
Californian Transportation Ventures, Inc. (CTV)	USA	100.0	100.0
Davjan Pty Limited	Australia	100.0	100.0
Devome Pty Limited	Australia	75.0	75.0
European Transport Investments Pty Limited	Australia	100.0	100.0
Focufu Pty Limited	Australia	100.0	100.0
ISI Nominees Pty Limited	Australia	100.0	100.0
LH Nominees Pty Limited	Australia	100.0	100.0
Lodco Pty Limited	Australia	100.0	100.0
M4 Holdings No. 1 Pty Limited	Australia	100.0	100.0
M4 Holdings Pty Limited	Australia	100.0	100.0
M5 Holdings Pty Limited	Australia	100.0	100.0
Macquarie 125 Holdings, Inc.	USA	100.0	100.0
Macquarie Infrastructure Australia Pty Ltd	Australia	100.0	100.0
Macquarie Infrastructure US Pty Limited (MIUS)	Australia	100.0	100.0
MIG - Western Sydney Orbital Holding Company Pty Limited	Australia	100.0	100.0
MIG Chicago Holdings LLC***	USA	60.3	-
MIG Holdings (US) LLC***	USA	60.3	-
MIG Investments Australia Pty Ltd	Australia	100.0	-
Millba Pty Limited	Australia	100.0	100.0
MIT(II) Holdings Pty Limited	Australia	100.0	100.0
San Diego Expressway Limited Partnership (SDELP)	USA	100.0	100.0
Statewide Environmental Pty Limited	Australia	50.6	50.6
Statewide Rail Pty Limited	Australia	50.6	50.6
Statewide Roads (M2) Pty Limited	Australia	50.6	50.6
Statewide Roads (M4) Pty Limited	Australia	50.6	50.6
Statewide Roads Limited	Australia	50.6	50.6
Statewide Water and Waste Pty Limited	Australia	50.6	50.6
SWR Constructors Pty Limited	Australia	50.6	50.6
SWR Engineers Pty Limited	Australia	50.6	50.6
SWR Operations Pty Limited	Australia	50.6	50.6
SWR Properties Pty Limited	Australia	50.6	50.6
SWR Services Pty Limited	Australia	50.6	50.6
Transtoll Pty Limited (Formerly TransCore Australia Pty Limited)*	Australia	61.0	61.0

* MIT(II) effectively holds 61.0% of the issued capital in Transtoll Pty Limited (Transtoll). The assets and liabilities and the results of Transtoll have not been consolidated in the financial report as the net assets and results of the entity are considered immaterial to the financial results of MIT(II). The investment in Transtoll is measured at net market value.

** MIT(II) controls AFM through its controlling interest in Statewide Roads Limited.

*** MIT(II) holds 100.0% of the Class A voting issued capital in MIG Holdings (US) LLC. This is 60.3% of the issued capital.

13 Fixed Assets

	Consolidated 2005 \$'000	Consolidated 2004 \$'000	Parent Entity 2005 \$'000	Parent Entity 2004 \$'000
Property, plant and equipment				
Plant and equipment, at cost	17,100	15,667	-	-
Less: Accumulated depreciation	(10,176)	(9,070)	-	-
	6,924	6,597	-	-
Buildings, at cost	783	783	-	-
Less: Accumulated depreciation	(433)	(388)	-	-
	350	395	-	-
Leasehold improvements, at cost	1,114,894	1,010,679	-	-
Less: Accumulated depreciation	(205,270)	(179,785)	-	-
	909,624	830,894	-	-
Motor vehicles, at cost	372	325	-	-
Less: Accumulated depreciation	(165)	(169)	-	-
	207	156	-	-
Total carrying amount at end of year	917,105	838,042	-	-

Reconciliations of the carrying amounts of each class of fixed assets at the beginning and end of the current financial year are set out below.

	Plant and equipment \$'000	Buildings \$'000	Leasehold improvements \$'000	Motor vehicles \$'000	Total Consolidated \$'000
Property, plant and equipment					
Carrying amount at beginning of year	6,597	395	830,894	156	838,042
Additions	1,658	-	104,024	130	105,812
Disposals	(8)	-	-	(21)	(29)
Depreciation/amortisation expense	(1,323)	(45)	(25,294)	(58)	(26,720)
Carrying amount at end of year	6,924	350	909,624	207	917,105

14 Tolling Concessions

	Consolidated 2005 \$'000	Consolidated 2004 \$'000	Parent Entity 2005 \$'000	Parent Entity 2004 \$'000
At directors' valuation				
Eastern Distributor	1,278,495	1,002,993	-	-
M4 Motorway	212,492	232,184	-	-
South Bay Expressway	202,815	156,705	-	-
	1,693,802	1,391,882	-	-

Tolling concessions are amortised over the remaining life of each concession, expiring in February 2010 for the M4 Motorway and July 2048 for the Eastern Distributor.

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.

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For the Year Ended 30 June 2005

15 Payables

	Consolidated 2005 \$'000	Consolidated 2004 \$'000	Parent Entity 2005 \$'000	Parent Entity 2004 \$'000
Current				
Deferred construction contract revenue	254	254	-	-
Interest payable	67,245	62,474	-	-
GST payable	1,025	1,060	-	-
Responsible Entity's base fees payable	6,298	4,144	6,298	4,144
Responsible Entity's performance fees payable	24,378	1,714	24,378	1,714
South Bay Expressway project creditors	16,770	21,379	-	-
Loan from Interlink Roads Pty Limited	4,531	-	-	-
Sundry creditors and accruals	5,054	5,159	2,483	545
Trade creditors	2,175	1,293	-	-
	127,730	97,477	33,159	6,403
Non-current				
Loans from related entities	654	-	-	-
Loan from Interlink Roads Pty Limited	-	4,531	-	-
	654	4,531	-	-

16 Provisions

	Consolidated 2005 \$'000	Consolidated 2004 \$'000	Parent Entity 2005 \$'000	Parent Entity 2004 \$'000
Current				
Employee entitlements	941	834	-	-
Other provisions	245	137	-	-
	1,186	971	-	-
Non-current				
Employee entitlements	130	122	-	-
Other provisions	454	677	-	-
	584	799	-	-
The aggregate employee entitlements liability comprises:				
Current provisions	941	834	-	-
Non-current provisions	130	122	-	-
	1,071	956	-	-

The average number of employees during the year was 60 (2004: 62).

MIT (II) Provisions reconciliation

Movements in each class of provision during the financial year, other than employer benefits, are set out below.

	Maintenance \$'000	Deferred Revenue \$'000	Total \$'000
Consolidated - 2005			
Carrying amounts at start of year	137	677	814
Additional provisions recognised	108	-	108
Utilisation of provisions	-	(223)	(223)
Carrying amount at the end of the year	245	454	699

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17 Interest-Bearing Liabilities

	Consolidated 2005 \$'000	Consolidated 2004 \$'000	Parent Entity 2005 \$'000	Parent Entity 2004 \$'000
Current				
Non-recourse loans	29,650	10,650	-	-
Non-current				
Loan from Airport Motorway Trust	799,246	779,481	-	-
Non-recourse loans	417,984	340,414	-	-
	1,217,230	1,119,895	-	-

The consolidated financial statements incorporate interest-bearing liabilities raised to finance the construction of infrastructure assets. These project-related liabilities are non-recourse to the Trust. Details of the individual facilities are included in Note 28.

As at 30 June 2005, AML has borrowed \$799.2 million (2004: \$779.5 million) from Airport Motorway Trust. These funds were used to finance the construction of the Eastern Distributor. Interest on the loan accrues at 12.25% per annum and capitalises to the principal balance of the loan quarterly in arrears.

18 Distribution Payable

	Consolidated 2005 \$'000	Consolidated 2004 \$'000	Parent Entity 2005 \$'000	Parent Entity 2004 \$'000
Current				
Provision for distribution				
Balance at the beginning of the year	72,395	71,298	72,395	71,298
Provided for during the year	25,459	144,634	25,459	144,634
Paid during the year	(97,854)	(143,537)	(97,854)	(143,537)
Balance at the end of the year	-	72,395	-	72,395

19 Tax Liabilities

	Consolidated 2005 \$'000	Consolidated 2004 \$'000	Parent Entity 2005 \$'000	Parent Entity 2004 \$'000
Current				
Provision for income tax	4,630	4,830	258	-
Non-current				
Provision for deferred income tax	548,157	461,621	377,947	328,462

The consolidated provision for deferred income tax has been reduced by \$32,267,000 in respect of a future income tax benefit attributable to tax losses. The future income tax benefit does not take into effect the impact of any unfavourable ruling in relation to the treatment of concession notes held by AML, as disclosed in Note 3.

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For the Year Ended 30 June 2005

20 Concession Notes

	Consolidated 2005 \$'000	Consolidated 2004 \$'000	Parent Entity 2005 \$'000	Parent Entity 2004 \$'000
Non-current				
Concession notes	120,000	105,000	-	-

Concession notes representing non-interest bearing long term debt, have been issued to the Roads and Transport Authority of NSW by AML for the right to build and levy tolls on the Eastern Distributor. The concession notes are issued annually in August (refer also to Note 27).

21 Other Liabilities

	Note	Consolidated 2005 \$'000	Consolidated 2004 \$'000	Parent Entity 2005 \$'000	Parent Entity 2004 \$'000
Non-current					
Foreign exchange hedge contract payable	9, 27	31,211	18,770	-	-
		31,211	18,770	-	-

22 Contributed Equity

	Consolidated 2005 \$'000	Consolidated 2004 \$'000	Parent Entity 2005 \$'000	Parent Entity 2004 \$'000
On issue at the beginning of the year	924,998	900,685	935,585	911,452
Issued pursuant to:				
DRP on 13 August 2003	-	4,021	-	4,021
Reinvestment of performance fees on 28 August 2003	-	16,790	-	16,790
DRP on 13 February 2004	-	3,322	-	3,322
DRP on 13 August 2004	3,532	-	3,532	-
Reinvestment of performance fees on 31 August 2004	1,558	-	1,558	-
DRP on 10 February 2005	210,039	-	210,039	-
On issue at the end of the year	1,140,127	924,998	1,150,714	935,585
	Number of units '000	Number of units '000	Number of units '000	Number of units '000
On issue at the beginning of the year	1,930,528	1,901,288	1,930,528	1,901,288
Issued pursuant to:				
DRP on 13 August 2003	-	4,955	-	4,955
Reinvestment of performance fees on 28 August 2003	-	20,132	-	20,132
DRP on 13 February 2004	-	4,153	-	4,153
DRP on 13 August 2004	4,550	-	4,550	-
Reinvestment of performance fees on 31 August 2004	1,862	-	1,862	-
DRP on 10 February 2005	227,950	-	227,950	-
On issue at the end of the year	2,164,890	1,930,528	2,164,890	1,930,528

23 Reserves

	Consolidated 2005 \$'000	Consolidated 2004 \$'000	Parent Entity 2005 \$'000	Parent Entity 2004 \$'000
Asset revaluation reserve	732,149	511,808	-	-
Movements in asset revaluation reserve:				
Balance at the beginning of the year	511,808	344,405	-	-
Increment on revaluation of non-current assets	378,435	260,260	-	-
Deferred tax provided on revaluation increments	(80,164)	(49,323)	-	-
Outside equity interest in revaluation reserve	(77,930)	(43,534)	-	-
Net increase in asset revaluation reserve	220,341	167,403	-	-
Balance at the end of the year	732,149	511,808	-	-

The asset revaluation reserve is used to record increments and decrements on the revaluation of tolling concessions as described in Note 1(g).

24 Undistributed Operating Surplus

	Note	Consolidated 2005 \$'000	Consolidated 2004 \$'000	Parent Entity 2005 \$'000	Parent Entity 2004 \$'000
Balance at the beginning of they year		60,823	194,212	534,473	494,845
Net result attributable to unitholders of MIT (II)		25,970	11,276	252,214	184,262
Retained losses of controlled entity on (consolidation)/deconsolidation		-	(31)	-	-
Distributions paid and proposed	18	(25,459)	(144,634)	(25,459)	(144,634)
Balance at the end of the year		61,334	60,823	761,228	534,473

25 Outside Equity Interest in Controlled Entities

	Consolidated 2005 \$'000	Consolidated 2004 \$'000	Parent Entity 2005 \$'000	Parent Entity 2004 \$'000
Contributed equity	216,439	3,092	-	-
Reserves	453,122	375,192	-	-
Undistributed operating deficit	(241,203)	(208,788)	-	-
	428,358	169,496	-	-

The balance in reserves includes the outside equity interest in fair value adjustments recognised on acquisition of controlled entities.

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For the Year Ended 30 June 2005

26 Cash Flow Information

(i) Reconciliation of net result from ordinary activities to net cash inflow from operating activities

	Consolidated 2005 \$'000	Consolidated 2004 \$'000	Parent Entity 2005 \$'000	Parent Entity 2004 \$'000
Net result from ordinary activities	12,673	(10,756)	252,214	184,262
Revaluation of investments	(124,841)	(28,972)	(288,448)	(174,667)
Expenses relating to financing activities	7,950	8,040	1,850	84
Interest capitalised to loans	84,963	88,435	(5,601)	-
Concession notes	15,000	15,000	-	-
(Profit)/loss on sale of investments	1,086	-	1,086	-
Depreciation and amortisation	93,927	86,707	-	-
Changes in assets and liabilities				
(Increase)/decrease in receivables	(11,232)	(8,550)	(7,737)	2,651
Decrease/(increase) in other assets	9,218	1,662	680	(44)
Increase/(decrease) in provision for income tax	1,519	2,425	-	270
Increase in provision for deferred income tax	18,306	19,878	56,401	54,565
Increase/(decrease) in payables	30,911	(28,569)	24,263	(19,951)
(Decrease) in other liabilities	(566)	(378)	-	-
Net cash inflow from operating activities	138,914	144,922	34,708	47,170

(ii) Reconciliation of cash assets

Cash assets at the end of the year as shown in the Statements of Cash Flows is reconciled to the related items in the Statements of Financial Position as follows:

	Consolidated 2005 \$'000	Consolidated 2004 \$'000	Parent Entity 2005 \$'000	Parent Entity 2004 \$'000
Cash at bank	29,773	36,712	304	2,939
Money market investments	212,414	191,228	182,473	164,280
US Treasury bills	6,304	3,531	-	-
Cash assets	248,491	231,471	182,777	167,219

(iii) Non-cash financing and investing activities

During the financial year, a portion of unit holders participated in MIG's Distribution Reinvestment Plan. Of the total distributions paid during the year of \$97.9 million, \$31.7 million (30 June 2004: \$7.3 million) is not reflected in the Statements of Cash Flows on the basis that it has been reinvested in MIT(II).

Responsible Entity and Manager performance fees of \$1.6 million (2004: \$71.8 million) were applied to a subscription for 1,862,630 (2004: 20,131,794) new MIG stapled securities at an issue price of \$3.2682 each (2004: \$3.5650) in August 2004. Of this amount \$1.56 million (2004: \$16.8 million) related to the issue of stapled securities by MIT(II). This transaction is not reflected in the Statements of Cash Flows.

27 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. The concession notes have been brought to account as described in Note 1(m) and Note 20. Due to uncertainty in determining when the concession note liability will be paid, it has not been included in the analysis disclosure.

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For the Year Ended 30 June 2005

27 Commitments for Expenditure (cont'd)

■ South Bay Expressway

MIG is committed to make further equity contributions to SDELP due on or before 31 October 2006 of US\$134.2 million which will be due later than one year but not more than five years.

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

Forward foreign exchange contracts have been entered into to hedge US\$106.9 million of MIT(II)'s commitment. The average hedge rate achieved was A\$1= US\$0.6228. Taking this hedge into account, the Australian dollar equivalent of the minimum funding required by MIT(II) is \$174.6 million. As a consequence of movements in exchange rates, the consolidated entity has recognised a foreign exchange hedge contract payable and matching deferred foreign exchange contract loss of \$31.2 million in accordance with AASB 1012.

Details of South Bay Expressway commitments in relation to the design and construction of the South Bay Expressway toll road are detailed below.

■ WestLink M7

Western Sydney Orbital Funding (Options) Trust (WSOFOT), a 100% subsidiary of MIT(I), and MIG-Western Sydney Orbital Holding Company Pty Limited (WSOHC), a 100% subsidiary of MIT(II), have entered into put and call option agreements with both Abigroup Limited (Abigroup) and Leighton Holdings Limited (Leightons). Under these options, in general terms, WSOFOT and WSOHC are entitled and obligated to purchase a 2.5% interest in WestLink M7 from each of Abigroup and Leightons for a total net consideration of \$47.35 million, after Completion of Stage 1. Completion of Stage 1 occurs when the Motorway is opened to the public, announced to be in April 2006.

	As at 30 June 2005 \$'000	As at 30 June 2004 \$'000
Operating leases		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	880	436
Later than one year but not later than five years	659	1,135
Later than five years	-	871
	1,539	2,442
M4 Motorway maintenance contract		
Commitments in relation to a maintenance contract are payable as follows:		
Within one year	1,011	813
Later than one year but not later than five years	-	251
	1,011	1,064
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	151,733	124,093
Later than one year but not later than five years	48,047	232,972
	199,780	357,065

28 Credit Facilities

■ MIG

MIG has multi-option debt facilities with Westpac Banking Corporation and the Commonwealth Bank of Australia for a total amount of \$300.0 million (2004: \$100.0 million). The facilities can be utilised to invest in infrastructure assets and if utilised, would attract interest at market rates plus margins of 0.9% per annum.

Line fees and establishment fees of \$0.9 million (2004: \$0.1 million) were incurred by MIT(II) in relation to the facilities during the year.

■ Airport Motorway Group

A \$556 million (2004: \$556 million) infrastructure loan facility has been entered into by AML to fund construction payments. The facility is certified by the Development Allowance Authority to qualify for concessional tax treatment under Division 16L of the Income Tax Assessment Act 1936. The loan is secured by a deposit account with Macquarie Bank Limited and Westpac Banking Corporation equal to the amount of the loan. The facility accrues interest at 8.8% per annum payable annually in arrears. The bond value increases by the coupon rate of 8.8% each year commencing on 7 July 2001. Amounts drawn and interest capitalised under the facility amount to a value of \$779.1 million (2004: \$716.1 million). The facility will be repaid with proceeds from the Deposit Account in August 2011. The facility was fully drawn at 30 June 2005.

A legal right of set-off exists in respect of the specific cash deposit of \$779.1 million (2004: \$716.1 million), representing collateralisation of liabilities under the infrastructure loan facility.

■ Statewide Roads Limited (SWR) and Controlled Entities

SWR and its controlled entities have a fully utilised facility agreement with the Commonwealth Bank of Australia for \$108.9 million (2004: \$119.5 million) which is secured by a registered equitable mortgage over the assets of the controlled entity Statewide Roads (M4) Pty Limited. The facility agreement provides for the payment of inter-group management fees and dividends on ordinary shares under normal commercial terms and conditions.

The amount of the facility reduces in accordance with an agreed schedule as repayments are made and incurs interest at the 90 day BBSY rate. Annual line fees of 0.6% (2004: 0.6%) per annum of the facility are payable quarterly. These project related liabilities are non-recourse to the Trust.

■ SDELP

SDELP's senior bank debt comprises a construction loan of up to US\$400.0 million and a term loan of up to US\$340.0 million. At 30 June 2005, US\$195.1 million (\$256.3 million) (2004: US\$132.5 million (\$189.4 million)) of the construction loan had been drawn down.

The construction loan will be partially repaid by means of an equity injection once the project has achieved construction completion and certain other conditions have been met (the Conversion Date). The remaining outstanding balance of the construction loan shall convert into the term loan on this date. Conversion Date is expected to occur approximately 3.5 years after the Closing Date of 22 May 2003. The construction loan has a maximum term of approximately 5.5 years.

The term loan final maturity date will fall on the earlier of (a) 15 years after the Conversion Date or (b) 18.5 years after the Closing Date. The term loan will begin to be amortised after the first four years of operations of the South Bay Expressway. During years 5-7 of operations there will be a partial cash sweep (that is, year 5: 50%; year 6: 70%; and year 7: 90% of the cash flow available to shareholders) followed by a planned refinancing. If such refinancing does not take place, an 8-year period of full cash sweep of the available cash flow will be triggered.

Interest is accruing on the senior bank debt at a rate of LIBOR plus a margin of 1.625% per annum.

SDELP has also received funding by way of a Transportation Infrastructure Finance and Innovation Act (TIFIA) loan in the amount of US\$62.7 million (\$83.4 million) (2004: US\$29.4 million (\$42.1 million)). The TIFIA loan commitment is for US\$140 million plus capitalised interest. The TIFIA loan bears interest at 4.46% (2004: 4.46%).

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29 Related Party Disclosures

■ Responsible Entity

The Responsible Entity of the Trust is Macquarie Infrastructure Investment Management Limited, a wholly owned subsidiary of Macquarie Bank Limited (MBL).

■ Directors

Macquarie Infrastructure Investment Management Limited

The following persons held office as directors of the Responsible Entity during the whole of the year and up to the date of this report, unless otherwise stated:

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

During the year, no director of the Responsible Entity has received or become entitled to receive any benefit because of a contract made by MIT(II) with a director or with a firm of which a director is a member, or with an entity in which the director has a substantial interest except at terms set out in the Trust Constitution.

During the year, MIT(II) paid fees totalling \$50,313 (2004: \$21,846) to Mallesons Stephen Jaques, from which firm David Walsh retired from as Partner. The fees were paid for services provided by the firm on normal arm's length terms.

The Responsible Entity is responsible for the preparation of the MIT(II) financial report. Details of the remuneration of each director of the Responsible Entity are set out in the following table. The remuneration disclosed, except where otherwise noted, only includes amounts paid or payable by related parties of MIT(II) to the directors in connection with the management of affairs of MIT(II). Comparative information of the detailed remuneration disclosures is not provided as this is the first year that AASB 1046: Director and Executive Disclosures by Disclosing Entities applies.

	Primary		Equity	Post employment	Total
	Salary & Fees	MBL Profit Share	MBL Options	Restricted Profit Share	
	(\$)	(\$)	(\$)	(\$)	
Director					
Mark Roderick Granger Johnson*	226,054	1,211,036	112,209	480,362	2,029,661
Michael Bernard Easson	47,500	-	-	-	47,500
Eric Paul McClintock	47,500	-	-	-	47,500
Nicholas William Moore*	508,621	11,945,954	679,339	5,086,183	18,220,097
David Allen Mortimer	47,500	-	-	-	47,500
John Stuart Hugh Roberts*	13,455	153,393	4,177	-	171,025
David Anthony Walsh	47,500	-	-	-	47,500

* Mark Johnson, Nicholas Moore and John Roberts are employees of MBL. The MBL profit share pool and option entitlements are determined and allocated to individual employees annually. The MBL profit share and option amounts included in these disclosures are in respect of the year ended 31 March 2005 and also include restricted amounts. *Mark Johnson and Nicholas Moore are specified executives of MBL. Due to their broad range of responsibilities within MBL there is no meaningful basis upon which to allocate their remuneration to the individual entities of which they are directors.

■ Controlled Entities

Income paid or payable in respect of the financial year, to all directors of each Australian entity in the consolidated entity, by the entities of which they are directors was \$50,000 (2004: \$50,000).

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For the Year Ended 30 June 2005

29 Related Party Disclosures (cont'd)

■ Directors' interests in stapled securities

The number of stapled securities held directly, indirectly or beneficially by directors or their director-related entities at the date of this report are:

	2005 number	2004 number
Mark Roderick Granger Johnson	811,619	809,531
Michael Bernard Easson	346	289
Eric Paul McClintock	62,451	49,201
Nicholas William Moore	804,759	718,683
David Allen Mortimer	483,560	415,088
John Stuart Hugh Roberts	208,587	208,587
David Anthony Walsh	25,000	12,000
	2,396,322	2,213,379

■ Other staff holdings of stapled securities

Employees of MBL (including those who are or were directors), associated with the management of MIG, also hold stapled securities in MIG at the date of this report.

■ Responsible Entity's fees

Under the terms of the Trust Constitution, fees paid or payable (inclusive of non-recoverable GST) to the Responsible Entity of the Trust were:

	Consolidated 2005 \$'000	Consolidated 2004 \$'000	Parent Entity 2005 \$'000	Parent Entity 2004 \$'000
Base fee	20,555	16,230	20,555	16,230
Performance fee	22,716	1,597	22,716	1,597
	43,271	17,827	43,271	17,827

The base fee is calculated as 1.25% per annum of the adjusted market capitalisation of MIG up to \$3.00 billion at the end of each quarter. For adjusted market capitalisation in excess of \$3.00 billion, the fee is calculated at 1% per annum.

The performance fee is calculated with reference to the performance of the accumulated security price of MIG compared with the performance of the S&P/ASX 300 Industrials Accumulation Index.

Fees are apportioned between MIT(I), MIT(II) and MIBL based on each entity's share of the net assets of MIG. The net market values of the assets are used in the calculation of this apportionment.

29 Related Party Disclosures (cont'd)

For the year ended 30 June 2005, a total performance fee of \$77.7 million (excluding GST and Value Added Tax (VAT)) was calculated for MIG, \$20.8 million of which was attributable to MIT(II). This fee is payable in three equal instalments, with the first instalment having become due and payable on 30 June 2005. Payment of the second and the third instalment of the 2005 fee will become due and payable on 30 June 2006 and 30 June 2007 should the performance criteria be met during the respective financial year.

For the year ended 30 June 2004, no new performance fee was earned by the Responsible Entity and Advisor.

For the year ended 30 June 2003, a total performance fee of \$197.0 million (excluding GST and Value Added Tax (VAT)) was calculated for MIG, \$44.9 million of which was attributable to MIT(II). This fee is payable in three equal instalments, with the first instalment having become due and payable on 30 June 2003. The performance criteria for payment of the second instalment were not met during the current financial year. The third instalment of the 2003 fee was due and payable on 30 June 2005.

■ Custodian's fees

Under the terms of the Custody Agreement, fees paid or payable to the Custodian were \$232,911 (2004: \$178,942).

■ Other transactions

MBL and companies within the MBL Group have undertaken various transactions with, and performed various services for MIT(II) and its controlled entities. Fees paid to MBL are approved solely by the independent directors on the board of the Responsible Entity and where appropriate, external advice is sought by the directors to ensure that the fees and terms of engagement are representative of arm's length transactions.

MBL received a fee of \$508,928 from MIT(II) for financial advisory work in relation to the IPO of Cintra.

MIG Holdings (US) LLC entered into a put option with MBL under which it could have elected to put 49% of its interest in MIG Chicago Holdings LLC to MBL at par value. The premium paid for this option was US\$6.5 million (\$8.3 million). As this option was not exercised, the premium has been written off in the year.

The Responsible Entity holds 8,958,672 (2004: 8,958,672) stapled securities. Distributions totalling \$6,942,970 (2004: \$671,900) were payable by MIG to the Responsible Entity for the year ended 30 June 2005.

During the financial year, MIT(II) reimbursed MBL \$254,158 (2004: \$561,673), representing out-of-pocket expenses incurred by the Responsible Entity in the performance of its duties.

As at 30 June 2005, the Trust and its controlled entities held funds totalling \$1,739,477 (2004: \$11,113,240) on deposit with MBL. The Trust earns interest on deposits at commercial rates. Interest income from these deposits totalling \$451,894 (2004: \$405,926) was included in the determination of the net result from ordinary activities for the Trust for the year ended 30 June 2005.

MIT(II) utilises the services provided by MBL's foreign exchange department from time to time on arms length terms.

■ Transactions in previous financial years

SDELP entered into two asphalt hedge contracts with MBL to hedge US\$8.9 million of its asphalt commitments.

For the year ended 30 June 2002, a total performance fee of \$18.3 million (excluding GST and VAT) was calculated for MIG, \$4.7 million of which was attributable to MIT(II). This fee is also payable in three equal instalments, with the first instalment having become due and payable on 30 June 2002 and the second on 30 June 2003. The performance criteria for payment of the third instalment were met during the 2004 financial year and a liability of \$1.6 million (excluding GST) was accrued at 30 June 2004. The non-executive directors of the Responsible Entity elected that the third instalment of the 2002 performance fee be reinvested in MIG stapled securities.

All of the above amounts represent payments on normal commercial terms made in relation to the provision of goods and services.

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For the Year Ended 30 June 2005

30 Segment Reporting

The principal activity of MIT(II) during the year was investment in infrastructure projects.

The primary basis of segment reporting is geographical. Within Europe, MIT(II) derives revenues from the United Kingdom, Germany and Portugal, and until the sale of Cintra, Spain. North American results and assets pertain to the United States of America and until the sale of MITRSA, Canada. Inter-segmental transactions are undertaken on normal arm's length terms.

MIT(II) invests in toll road businesses, this includes the construction and operation of toll roads and investment in entities in the same industry sector. Other assets are connected with the electricity generating industry. The principal activities of MIT(II)'s controlled entities, AML, Statewide Roads Limited, SDELP and MIG Investments Australia Pty Ltd were the construction and operation of the Eastern Distributor and M4 Motorway in Sydney, Australia, the South Bay Expressway in San Diego, USA, and Skyway in Chicago, USA, respectively.

	Australia	Europe	North America	Total
	\$'000	\$'000	\$'000	\$'000
Geographical segments 2005				
Segment revenue	333,781	413,420	72,192	819,393
Revenue from ordinary activities	333,781	413,420	72,192	819,393
Segment result	(28,413)	(1,255)	72,192	42,524
Net result from ordinary activities before income tax	(28,413)	(1,255)	72,192	42,524
Depreciation and amortisation of segment assets included in segment result	93,927	-	-	93,927
Acquisition of tangible segment assets during the year	(3,606)	961	657,318	654,673
Segment assets	3,240,302	-	1,202,698	4,443,000
Total assets	3,240,302	-	1,202,698	4,443,000
Segment liabilities	1,694,293	-	386,739	2,081,032
Total liabilities	1,694,293	-	386,739	2,081,032
Geographical segments 2004				
Segment revenue	298,847	17,612	12,324	328,783
Revenue from ordinary activities	298,847	17,612	12,324	328,783
Segment result	(11,595)	17,612	12,234	18,341
Net result from ordinary activities before income tax	(11,595)	17,612	12,234	18,341
Depreciation and amortisation of segment assets included in segment result	86,707	-	-	86,707
Acquisition of tangible segment assets during the year	1,256	68	89,237	90,561
Segment assets	2,733,246	298,079	532,739	3,564,064
Total assets	2,733,246	298,079	532,739	3,564,064
Segment liabilities	1,639,571	-	257,368	1,896,939
Total liabilities	1,639,571	-	257,368	1,896,939

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30 Segment Reporting (cont'd)

	Toll roads \$'000	Other assets \$'000	Total \$'000
Business segments 2005			
Segment revenue	819,222	171	819,393
Revenue from ordinary activities	819,222	171	819,393
Acquisition of tangible segment assets during the year	654,673	-	654,673
Segment assets	4,443,000	-	4,443,000
Total assets	4,443,000	-	4,443,000
Business segments 2004			
Segment revenue	332,852	(4,069)	328,783
Revenue from ordinary activities	332,852	(4,069)	328,783
Acquisition of tangible segment assets during the year	90,561	-	90,561
Segment assets	3,563,384	680	3,564,064
Total assets	3,563,384	680	3,564,064

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31 Additional Financial Instruments Disclosure

(i) Interest Rate Risk

Changes in market interest rates affect the level of future cash flows. The table below details the exposure of the financial assets and liabilities of MIT(II) and its controlled entities to interest rate risk. The amount shown represents the book value of financial assets and liabilities. The interest rate shown is the effective interest rate or weighted average effective interest rate in respect of a class of financial assets or liabilities. For floating rate instruments the rate is the current market rate and for fixed interest rate instruments the rate is the historical rate.

	Weighted average interest rate	Floating interest rate	Fixed interest rate maturing in:			Non-interest bearing	Total Consolidated
			1 year or less	1 to 5 years	Over 5 years		
	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2005							
Assets							
Cash assets	5.5	29,773	218,718	-	-	-	248,491
Receivables	8.5	267,601	-	-	-	113,357	380,958
Investments in unlisted securities		-	-	-	-	1,154,325	1,154,325
Total financial assets		297,374	218,718	-	-	1,267,682	1,783,774
Liabilities							
Payables		-	-	-	-	128,384	128,384
Interest-bearing liabilities	9.9	58,875	-	-	1,188,005	-	1,246,880
Provision for distribution		-	-	-	-	-	-
Provision for taxation		-	-	-	-	4,630	4,630
Concession notes		-	-	-	-	120,000	120,000
Interest rate swaps*	4.2%	(294,580)	-	50,000	244,580	-	-
Total financial liabilities		(235,705)	-	50,000	1,432,585	253,014	1,499,894
Net financial assets/(liabilities)		533,079	218,718	(50,000)	(1,432,585)	1,014,668	283,880
2004							
Assets							
Cash assets	5.3	36,712	194,759	-	-	-	231,471
Receivables	8.2	50,000	-	-	-	97,317	147,317
Investments in unlisted securities		-	-	-	-	915,213	915,213
Total financial assets		86,712	194,759	-	-	1,012,530	1,294,001
Liabilities							
Payables		-	-	-	-	102,008	102,008
Interest-bearing liabilities	10.0	351,064	-	-	779,481	-	1,130,545
Provision for distribution		-	-	-	-	72,395	72,395
Provision for taxation		-	-	-	-	4,830	4,830
Concession notes		-	-	-	-	105,000	105,000
Interest rate swaps*	3.8	(266,242)	-	-	266,242	-	-
Total financial liabilities		84,822	-	-	1,045,723	284,233	1,414,778
Net financial assets/(liabilities)		1,890	194,759	-	(1,045,723)	728,297	(120,777)

*Notional principal amounts

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For the Year Ended 30 June 2005

31 Additional Financial Instruments Disclosure (cont'd)

Net financial assets/(liabilities) can be reconciled to net assets in the Consolidated Statements of Financial Position as follows:

	Note	Consolidated 2005 \$'000	Consolidated 2004 \$'000
Net financial assets/(liabilities)		283,880	(120,777)
Non financial assets and liabilities:			
Prepayments	8	14,597	18,596
Fixed assets	13	917,105	838,042
Tolling concessions	14	1,693,802	1,391,882
Other assets	9	33,722	21,543
Provision for deferred income tax	19	(548,157)	(461,621)
Other liabilities	21	(31,211)	(18,770)
Other provisions	16	(1,770)	(1,770)
Net assets per the Statement of Financial Position		2,361,968	1,667,125

■ Interest rate swaps

SWR and SDELP have entered into interest rate swap contracts that entitle them to receive interest at monthly intervals at floating rates on a notional principal amount and oblige them to pay interest at a fixed rate on the same amount. The interest rate swap contracts allow SWR and SDELP to raise long term borrowings at a floating rate and effectively swap them into fixed rates.

SWR entered into interest rate swap agreements to hedge the borrowing of funds. The contracts are settled monthly in arrears until January 2008. Under these swap agreements SWR is obligated to pay interest at fixed rates at the rate of between 5.72% and 5.79% per annum.

SDELP has entered into interest rate swap agreements to hedge the borrowing of funds. The contracts are settled monthly in arrears until December 2011. Under these swap agreements, SDELP is obliged to pay interest at fixed rates at the rate of 3.8225% per annum.

At 30 June 2005, the notional principal amounts and periods of expiry of SWR's interest rate swap contracts are:

	As at 30 June 2005 \$'000	As at 30 June 2004 \$'000
1 - 5 years	50,000	-

At 30 June 2005, the notional principal amounts and periods of expiry of SDELP's interest rate swap contracts are:

	Consolidated 2005 \$'000	Consolidated 2004 \$'000
5 – 10 years	244,580	266,242

(ii) Credit Risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. In accordance with AASB 1033: Presentation and Disclosure of Financial Instruments, the amount at risk excludes the value of any collateral or other security provided by the counterparty.

The credit risk on financial assets of MIT(II), excluding investments in associates, which have been recognised on the Consolidated Statement of Financial Position, is the carrying amount net of any provision for doubtful debts.

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For the Year Ended 30 June 2005

31 Additional Financial Instruments Disclosure (cont'd)

	Financial Institutions \$'000	Corporates \$'000	Other \$'000	Total Consolidated \$'000
2005				
Assets				
Cash assets	248,491	-	-	248,491
Receivables	96,131	281,683	3,144	380,958
Total assets subject to credit risk	344,622	281,683	3,144	629,449
Investments in securities				
Investments in unlisted securities	-	1,154,325	-	1,154,325
Total investment in securities	-	1,154,325	-	1,154,325
Total financial assets	344,622	1,436,008	3,144	1,783,774
2004				
Assets				
Cash assets	231,471	-	-	231,471
Receivables	88,357	57,514	1,446	147,317
Total assets subject to credit risk	319,828	57,514	1,446	378,788
Investments in securities				
Investments in unlisted securities	-	915,213	-	915,213
Total investment in securities	-	915,213	-	915,213
Total financial assets	319,828	972,727	1,446	1,294,001

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For the Year Ended 30 June 2005

31 Additional Financial Instruments Disclosure (cont'd)

(iii) Foreign Exchange Risk

The Trust is exposed to foreign exchange risk as a result of investments denominated in foreign currencies.

At the reporting date, the Trust's exposure to foreign exchange rate movements on its international investments was as follows (Australian dollars are included for the purposes of reconciliation to the Consolidated Statement of Financial Position).

	Australian dollar equivalent of:			Australian Dollars \$'000	Total \$'000
	US Dollars \$'000	Euros \$'000	Canadian Dollars \$'000		
2005					
Assets					
Financial assets					
Cash assets	6,480	-	-	242,011	248,491
Receivables	1,712	-	-	379,246	380,958
Investments in unlisted securities	603,199	-	-	551,126	1,154,325
Non financial assets					
Prepayments	255	-	-	14,342	14,597
Fixed assets	357,026	-	-	560,079	917,105
Tolling concessions	202,815	-	-	1,490,987	1,693,802
Other assets	31,211	-	-	2,511	33,722
Total assets	1,202,698	-	-	3,240,302	4,443,000
Financial liabilities					
Payables	18,348	-	-	110,036	128,384
Interest-bearing liabilities	338,758	-	-	908,122	1,246,880
Distribution payable	-	-	-	-	-
Provision for income tax	-	-	-	4,630	4,630
Concession notes	-	-	-	120,000	120,000
Non financial liabilities					
Provision for deferred income tax	-	-	-	548,157	548,157
Other liabilities	31,211	-	-	-	31,211
Other provisions	-	-	-	1,770	1,770
Total liabilities	386,739	-	-	1,694,293	2,081,032
Net assets	815,959	-	-	1,546,009	2,361,968

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For the Year Ended 30 June 2005

31 Additional Financial Instruments Disclosure (cont'd)

	Australian dollar equivalent of:			Australian Dollars \$'000	Total \$'000
	US Dollars \$'000	Euros \$'000	Canadian Dollars \$'000		
2004					
Assets					
Financial assets					
Cash assets	4,262	-	-	227,209	231,471
Receivables	5,933	-	-	141,384	147,317
Investments in unlisted securities	-	298,079	117,991	499,143	915,213
Non financial assets					
Prepayments	240	-	-	18,356	18,596
Fixed assets	247,608	-	-	590,434	838,042
Tolling concessions	156,705	-	-	1,235,177	1,391,882
Other assets	18,770	-	-	2,773	21,543
Total assets	433,518	298,079	117,991	2,714,476	3,564,064
Liabilities					
Financial liabilities					
Payables	25,858	-	-	76,150	102,008
Interest-bearing liabilities	231,510	-	-	899,035	1,130,545
Distribution payable	-	-	-	72,395	72,395
Provision for income tax	-	-	-	4,830	4,830
Concession notes	-	-	-	105,000	105,000
Non financial liabilities					
Provision for deferred income tax	-	-	-	461,621	461,621
Other liabilities	18,770	-	-	-	18,770
Other provisions	-	-	-	1,770	1,770
Total liabilities	276,138	-	-	1,620,801	1,896,939
Net assets	157,380	298,079	117,991	1,093,675	1,667,125

Forward foreign exchange contracts have been entered into to hedge US\$131.9 million of MIT(II)'s commitment to fund equity contributions in relation to the South Bay Expressway for which the timing is known. The average hedge rate achieved was A\$1 = US\$0.6264. The spot exchange rate at 30 June 2005 was A\$1 = US\$0.7611.

At 30 June 2005, the details of the outstanding contracts are:

	Buy US Dollars US\$'000	Sell Australian Dollars \$'000
2005		
Maturity profile:		
1-5 years	106,918	171,682
2004		
Maturity profile:		
1-5 years	106,918	171,682

31 Additional Financial Instruments Disclosure (cont'd)

As these contracts are hedging anticipated future purchases, any unrealised gains and losses on the 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 (refer Note 27).

(iv) Market Risk

Market risk is the risk that the value of the Trust's investment portfolio will fluctuate as a result of changes in market prices and interest rates. This risk is managed by ensuring that all activities are transacted in accordance with overall investment strategy and within approved limits.

SDELP is subject to market risk relating to the oil products it requires for the asphalt of the South Bay Expressway. Two asphalt hedge contracts have been entered into during the period to mitigate this risk. The fair value of these hedge contracts is disclosed in Note 31(vi).

As these contracts are hedging anticipated future purchases, any unrealised gains and losses on the 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.

(v) Liquidity and Cash Flow risk

Liquidity risk is the risk that the Trust will experience difficulty in either realising assets or otherwise raising sufficient funds to satisfy commitments associated with financial assets. Cash flow risk is the risk that the future cash flows derived from holding financial assets will fluctuate. As set out in Note 1(d), the directors' valuations incorporate market value adjustments where there is liquidity risk to a particular market or counterparty.

(vi) Net Fair Values

Financial instruments recognised in the Statements of Financial Position

The net fair values of cash and cash equivalents and non-interest bearing monetary financial assets and liabilities of MIT(II) approximate their carrying values.

The net fair values of other monetary assets and financial liabilities approximate their carrying values.

The net fair values of equity investments traded on organised markets and non-traded equity investments are brought to account as detailed in Note 1(d).

Financial instruments not recognised in the Statements of Financial Position

The aggregate net fair value of interest rates swaps held by SWR as at 30 June 2005 is a liability of \$219,398 (2004: nil).

The aggregate net fair value of interest rate swaps held by SDELP as at 30 June 2005 is an asset of \$7,577,949 (2004: \$27,370,430).

The aggregate net fair value of the asphalt hedges held by SDELP as at 30 June 2005 is an asset of \$8,967,896 (2004: \$1,839,701).

The valuations of these transactions reflect the estimated amounts which SWR and SDELP expect to pay or receive to terminate the contracts (net of transaction costs) or replace the contracts at their current market rates as at 30 June 2005. The valuations are based on independent market quotations and are determined using accepted valuation techniques.

32 Contingent Liabilities

■ 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. SWR's bankers have issued a performance guarantee for \$5 million in support of the entity's obligations.

■ South Bay Expressway

There are outstanding claims against SDELP for construction liabilities amounting to US\$60.4 million that are subject to ongoing discussions and adjudication. The group believes that it will defend these claims successfully and that no provisions are necessary in the financial statements as at 30 June 2005.

■ Performance fees

Pursuant to the provisions of the Trust Constitution, MIT(II) may become liable for the payment of the second and third instalments of the 2005 performance fee calculated for the year ended 30 June 2005. The payment of this instalment is dependent upon meeting certain conditions with respect to the market performance of the stapled security (refer also to Note 29).

	2005 \$'000	2004 \$'000
2005 fee		
Second instalment	7,623	-
Third instalment	7,623	-
2003 fee		
Third instalment	-	16,452
	15,246	16,452

The amounts included above are inclusive of GST at 10%. However, MIT(II) currently qualifies for a Reduced Input Tax Credit of 75% of the GST payable (refer also to Note 1(t)). No new fee was earned in 2004.

33 Impact of Adopting Australian Equivalents to International Financial Reporting Standards (A-IFRS)

MIT(II) will be required to prepare financial reports using Australian accounting standards that are equivalent to International Financial Reporting Standards (A-IFRS) and their related pronouncements for all periods beginning on or after 1 January 2005.

The first MIT(II) financial report to be prepared in accordance with A-IFRS will be the half year financial report for the period ending 31 December 2005. A-IFRS also require MIT(II) to restate comparative period balances. To facilitate this, the opening Statement of Financial Position of MIT(II) at 1 July 2004 will be restated to amounts reflecting the application of IFRS. Transitional adjustments will be reflected either as a reclassification of assets or liabilities, or an adjustment of the opening undistributed operating surplus.

The A-IFRS conversion project, which commenced during 2003, has identified the impact that A-IFRS will have on the accounting and reporting of the entity. Management continue to work with A-IFRS specialists to ensure that the interpretation of the standards and application to the entity is as intended. The impact of assessment has been completed as has quantification of the impact. The following are the significant topics that are expected to impact MIT(II) following the adoption of A-IFRS.

The International Financial Reporting Interpretations Committee (IFRIC) is responsible for interpreting the application of IFRS and the provision of timely guidance on financial reporting issues not specifically addressed in IFRS. The IFRIC is currently considering how service concessions, such as tolling concession arrangements in MIT(II)'s investee entities, should be recognised and measured in accordance with IFRS. Current discussions suggest that there may be a significant change in the way service concessions are accounted for. MIG has not considered these draft pronouncements and has only used existing guidance to determine its treatment of service concessions under A-IFRS.

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For the Year Ended 30 June 2005

33 Impact of Adopting A-IFRS (cont'd)

Although the adjustments disclosed in this note are based on managements best knowledge of expected standards and interpretations, current facts and circumstances, these may change. For example, amended or additional standards of interpretations may be issued by the AASB and the IASB. Therefore until the Group prepares its first full A-IFRS financial statements, the possibility cannot be excluded and the accompanying disclosures may have to be adjusted.

■ Impact on the Statement of Financial Position

	Note	Existing GAAP As at 30 June 2005 \$'000	Effect of Change \$'000	A-IFRS As at 30 June 2005 \$'000
Current assets				
Cash assets		248,491	-	248,491
Receivables		113,357	-	113,357
Prepayments		5,010	-	5,010
Other assets		2,511	-	2,511
Total current assets		369,369	-	369,369
Non-current assets				
Receivables		267,601	-	267,601
Prepayments		9,587	-	9,587
Investments		1,154,325	-	1,154,325
Fixed assets		917,105	-	917,105
Tolling concessions	a	1,693,802	(1,146,737)	547,065
Other assets		31,211	-	31,211
Total non-current assets		4,073,631	(1,146,737)	2,926,894
Total assets		4,443,000	(1,146,737)	3,296,263
Current liabilities				
Payables		127,730	-	127,730
Provisions		1,186	-	1,186
Interest-bearing liabilities		29,650	-	29,650
Distribution payable		-	-	-
Tax liabilities	c	4,630	-	4,630
Total current liabilities		163,196	-	163,196
Non-current liabilities				
Payables		654	-	654
Provisions		584	-	584
Interest-bearing liabilities		1,217,230	-	1,217,230
Tax liabilities	a, c	548,157	(313,036)	235,121
Concession notes		120,000	-	120,000
Other liabilities		31,211	-	31,211
Total non-current liabilities		1,917,836	(313,036)	1,604,800
Total liabilities		2,081,032	(313,036)	1,767,996
Net assets		2,361,968	(833,701)	1,528,267
Equity				
MIT(II) unit holders' interest				
Contributed equity		1,140,127	-	1,140,127
Reserves	a	732,149	(732,149)	-
Undistributed operating surplus	a	61,334	64,672	126,006
Total MIT(II) unit holders' interest		1,933,610	(667,477)	1,266,133
Outside equity interest in controlled entities	a	428,358	(166,224)	262,134
Total equity		2,361,968	(833,701)	1,528,267

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For the Year Ended 30 June 2005

33 Impact of Adopting A-IFRS (cont'd)

■ Impact on the Statement of Financial Performance

	Note	Existing GAAP Year ended 30 June 2005 \$'000	Effect of Change \$'000	A-IFRS Year ended 30 June 2005 \$'000
Revenue from ordinary activities				
Revaluation of investments		124,841		124,841
Income from investments		152,702		152,702
Tolling revenue		137,514	-	137,514
Proceeds from sale of investments and subsidiaries	f	412,407	(412,407)	-
Other revenue	a	(8,071)	7,402	(15,743)
Total revenue from ordinary activities		819,393	(419,809)	399,584
Operating expenses from ordinary activities				
Borrowing costs expense		(167,166)	-	(167,166)
Book value of securities disposed	f	(413,493)	412,407	(1,086)
Other operating expenses	a	(196,210)	25,440	(170,770)
Total operating expenses from ordinary activities		(776,869)	437,847	(339,022)
Net result from ordinary activities before income tax expense		42,524	18,038	60,562
Income tax benefit/(expense)		(29,851)	-	(29,851)
Net result from ordinary activities after income tax expense		12,673	18,038	30,711
Net loss from controlled entities attributable to outside equity interest		13,297	-	13,297
Net result attributable to security holders of MIT(II)		25,970	18,038	44,008
Net increase/(decrease) in asset revaluation reserve	a	220,341	(220,341)	-
Total changes in equity other than those resulting from transactions with owners as owners		246,311	(202,303)	44,008

33 Impact of Adopting A-IFRS (cont'd)

(a) Intangible assets Restrictions on revaluation

Under AASB138: Intangible Assets, MIG's tolling concessions can no longer be revalued, but will be 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-A-IFRS revaluations reported by MIG are reversed and the tolling concessions are held at their original acquisition cost less amortisation to date.

If the policy required by AASB138 had been applied as at 30 June 2005, the tolling concessions would reduce by \$1,146,737,000, deferred income taxation liability would reduce by \$313,036,000, the asset revaluation reserve would reduce by \$220,341,000, outside equity interests would reduce by \$166,224, while the undistributed operating surplus would increase by \$64,672,000.

The result for the year would increase by \$18,038,000 being \$25,440,000 of reduced amortisation and \$7,402,000 of increased foreign exchange losses. The asset reserve movement would also be eliminated.

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

(b) Financial Instruments

MIG will be taking advantage of the exemption available under AASB1:First-time Adoption of Australian Equivalents to International Financial Reporting Standards to apply AASB132: Financial Instruments: Presentation and disclosure and AASB139: Financial Instruments: Recognition and Measurement only from 1 July 2005. This allows the group to apply any previous Australian generally accepted accounting principles to the comparative information on the financial instruments within the scope of AASB132 and AASB139 for the 30 June 2006 financial report.

— Hedging and derivatives **New categories of assets and liabilities may be recognised**

Under AASB139, all derivative contracts, whether used for hedging purposes or not, will need to be carried at fair value. Current Australian accounting standards do not require the recognition of all such instruments at fair value.

External derivative contracts that economically hedge MIG's risks will be treated for accounting purposes as either fair value or cash flow hedges if the strict criteria are met, or as non-hedging derivatives.

If derivative contracts are not accounted for as hedges, movements in the fair value of these instruments will be reflected in the Statement of Financial Performance, creating volatility that is not reflected under current Australian accounting standards. If hedge accounting is applied, this volatility will be minimised.

Regardless of whether or not hedge accounting is used, the fair value of all derivatives will impact net assets. If a derivative is accounted for as a fair value hedge, the net asset movement caused by the derivative will be offset by the fair value movement of the item being hedged to the extent the derivative is an effective hedge.

Previously as required under AASB1012: Foreign Currency Translation, MIG has deferred the recognition of an exchange loss due to the hedging of the commitment to make further equity contributions to SDELP. This is no longer appropriate under AASB139, so the deferred foreign exchange contract loss and foreign exchange contract payable; will be removed.

(c) 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 A-IFRS adoption.

33 Impact of Adopting A-IFRS (cont'd)

(d) Unitholders funds Classified as liabilities instead of equity

A-IFRS requires that issued securities be classified as a financial liability if those securities create an obligation for the issuing entity to deliver cash at a fixed point in time, even though that payment may not be for a very long time and the amount may depend on the net asset value.

The constitution of MIT(II) has been amended to remove finite life provisions requiring the Trust to sell its assets and, after satisfying liabilities other than repayment of unitholders' funds, pay the remaining amount to investors on or before its 80th anniversary removing the obligation for MIT(II) to deliver cash to its unitholders on redemption of the units.

In the context of the issued units of MIT(II), the amendment of the constitution means that unitholders' funds will be classified as equity.

(e) Statement of Cash Flows

No material impacts are expected on the Statement of Cash Flows.

(f) Sale of investments

AASB118: Revenue requires the proceeds on sale of securities and the book value of securities sold to be netted and disclosed as a gain or loss on sale of investments.

(g) Impairment Testing

More rigorous impairment tests will be applied when indications of impairment arise.

Assets for which changes in fair value are not reflected in the statement of financial performance will need to be assessed for indications of impairment on at least an annual basis, and tested for impairment only when indications of impairment arise.

An asset is considered impaired if the recoverable amount of the investment is less than the carrying value of the asset. The valuations performed for the purpose of market value accounting under Australian accounting standards will be sufficient for impairment testing purposes under A-IFRS.

As at 30 June 2005, no impairment adjustments are required.

34 Events Occurring After Reporting Date

■ Distribution Reinvestment Plan

A portion of stapled security holders participated in MIG's Distribution Reinvestment Plan for the final distribution paid on 12 August 2005. Of the distribution declared, \$19.3 million (2004: \$3.5 million) was reinvested in MIT(II).

■ Skyway Refinance

On 17 August 2005, MIG announced the refinancing of debt in relation to Skyway. The refinancing resulted in the issue of US\$1.55 billion of new debt facilities to replace the existing facilities of US\$1.02 billion. The financing structure provided an immediate return of US\$168 million of cash to MIG.

Other than as disclosed above, there are no matters or circumstances that have arisen since the end of the financial year 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 years.

Statement by the Directors of the Responsible Entity of the Trust

In the directors' opinion:

The financial statements and notes set out on pages 6 to 47 are in accordance with the Trust Constitution and the Corporations Act 2001, including:

- (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (ii) giving a true and fair view of the Trust and consolidated entity's financial position as at 30 June 2004 and of their performance, as represented by the result of its operations and its cash flows, for the financial year ended on that date.
- (iii) there are reasonable grounds to believe that the Group 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 required by Section 295A of the Corporations Act 2001.

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



John SH Roberts

Sydney
24 August 2005

Independent Audit Report to the unitholders of Macquarie Infrastructure Trust (II)

Audit Opinion

In our opinion, the financial report of Macquarie Infrastructure Trust (II) (MIT(II)):

- gives a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of MIT(II) and the consolidated entity (defined below) as at 30 June 2005 and of their performance for the year ended on that date; and
- is presented in accordance with the Corporations Act 2001, Accounting Standards, the Trust Constitution and other mandatory professional reporting requirements in Australia, and the Corporations Regulations 2001.

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report and directors' responsibility

The financial report comprises the statements of financial position, statements of financial performance, statements of cash flows, accompanying notes to the financial statements, and the directors' declaration for both MIT(II) and the consolidated entity, for the year ended 30 June 2005. The consolidated entity comprises both MIT(II) and the entities it controlled during that year.

The directors of Macquarie Infrastructure Investment Management Limited, the Responsible Entity of MIT(II), 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.

Audit approach

We conducted an independent audit in order to express an opinion to the unit holders of MIT(II). Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanations of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Accounting Standards, the Trust Constitution and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of MIT(II)'s and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

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

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

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

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Independence

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

PricewaterhouseCoopers

PricewaterhouseCoopers

M Haberlin

Mark Haberlin
Partner

Sydney
24 August 2005