Macquarie Infrastructure Group

Macquarie Infrastructure Trust (II)
ARSN 092 863 548

Concise Financial Report
For the Year Ended 30 June 2006

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

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

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

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

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

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

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

This concise financial report has been derived from the full financial report for the year ended 30 June 2006. The full financial report and the auditor's report will be sent to security holders on request, free of charge. Please call Computershare Investor Services Pty Limited on 1800 000 982 and a copy will be forwarded to you.

This concise financial report cannot be expected to provide as full as understanding of the Income Statement, Balance Sheet, Cash Flow Statement and Statement of Changes in Equity of MIG as the full financial report.

Table of Contents

Directors' Report

In respect of the year ended 30 June 2006, the directors of Macquarie Infrastructure Investment Management Limited (the Responsible Entity) submit the following report on the consolidated financial report of Macquarie Infrastructure Trust (II) (MIT(II)). UIG 1013: *Consolidated Financial Reports in relation to Pre-Date-of-Transition Stapling Arrangements* requires one of the stapled entities of an existing stapled structure to be identified as the parent entity for the purpose of preparing consolidated financial reports. In accordance with this requirement, MIT(II) has been identified as the parent of the consolidated group comprising MIT(II) and its controlled entities, Macquarie Infrastructure Trust (I) (MIT(I)) and its controlled entities and Macquarie Infrastructure Group International Limited (MIGIL) and its controlled entities together acting as Macquarie Infrastructure Group (MIG or the Group).

Principal Activities

The principal activity of MIG is investment in toll roads, bridges and tunnels. There were no significant changes in the nature of the Group's activities during the year.

Directors

The following persons were directors of the Responsible Entity during the year and up to the date of this report:
— Mark Roderick Granger Johnson (Chairman)
— Michael Bernard Easson
— Eric Paul McClintock
— Nicholas William Moore
— David Allen Mortimer
— John Stuart Hugh Roberts
— David Anthony Walsh

The following persons were directors of MIGIL during the year and up to the date of this report:
— Robert Andrew Mulderig (Chairman)
— Mark Roderick Granger Johnson
— Dr Peter Dyer
— Jeffrey Gerald Conyers

Distributions

The total distribution for the year ended 30 June 2006 was 21.0000 cents per stapled security (2005: 77.5000 cents per stapled security). An interim distribution of 10.0000 cents per stapled security (2005: 63.7500 cents per stapled security) was paid on 14 February 2006. A final distribution of 11.0000 cents per stapled security (2005: 13.7500 cents per stapled security) was paid on 15 August 2006.

Review and Results of Operations

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

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

	Consolidated 30 June 2006 $'000	Consolidated 30 June 2005 $'000
Revenue and other income from continuing activities	**1,056,604**	1,381,799
Net profit attributable to MIG security holders*	**424,727**	772,640
	Cents	Cents
Basic earnings per stapled security after finance costs to security holders**	**13.37**	38.18
Diluted earnings per stapled security after finance costs to security holders**	**14.09**	37.37

* Before finance costs attributable to MIT(I) security holders. Refer note 1(d).

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

MIG entered into a number of transactions during the year, which are summarised below. A full description of each transaction is contained within the Overview of Major Transactions section in this Concise Financial Report.

- July 2005: A$150.0 million securitisation of future Airport Motorway Group cash flows
- August 2005: Refinancing of Skyway releasing $221.7 million to MIG
- September 2005: Investment in Dulles Greenway totalling A$822.7 million, funded by A$667.5 million Institutional Placement and A$103.3 million Security Purchase Plan
- September 2005: Reinvestment of A$91.6 million performance fees in MIG securities
- December 2005: Acquisition of additional 5% ownership interest in Westlink M7 for A$47.4 million
- December 2005: A$125.0 million securitisation of future Interlink Roads and Statewide Roads cash flows
- February 2006: Financial close on investment in APRR Road Network (MIG's share A$409.4 million)
- March 2006: Sale of Transurban Group securities for net proceeds of A$151.0 million
- March 2006: Settlement reached with the Province of Ontario in respect of all outstanding 407 ETR disputes
- June 2006: Investment in Indiana Toll Road (MIG's share A$506.6 million)

Significant Changes in State of Affairs

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

Events Occurring after Balance Sheet Date

■ *Demerger of Mature Australian Roads*

On 24 July 2006, MIG demerged its interests in the Eastern Distributor, M5 South-West Motorway and M4 Motorway. MIG's interests in the three roads were transferred to the newly established Sydney Roads Group (SRG). The demerger was effected through an in specie distribution of one SRG stapled security for every three MIG stapled securities and an IPO of SRG to raise A$125.0 million of new capital.

In consideration for the transfer of its mature Australian toll road assets to SRG, MIG received 825 million SRG securities and the payment of A$125.0 million in cash.

■ *Refinance of M6 Toll*

On 23 August 2006, MIG completed the refinance of the M6 Toll debt facilities. This is expected to release GBP 393 million (A$974.1 million) to MIG.

Agreement with Macquarie Infrastructure Partners (MIP)

On 23 August 2006, MIG entered into an agreement with MIP to divest up to 50% of its interests in the Dulles Greenway, Indiana Toll Road, Skyway, South Bay Expressway. This is expected to occur prior to 31 December 2006.

Refer to note 34 to the MIG full financial statements for disclosure of events occurring after the balance sheet date.

Likely Developments and Expected Results of Operations

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

Indemnification and Insurance of Officers and Auditors

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

Fees Paid to the Responsible Entity and Adviser

Fees paid to the Responsible Entity and Adviser out of MIG's property during the year are disclosed in Note 28 to the MIG full financial statements.

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

Interests in the Group held by the Responsible Entity and its associates during the year are disclosed in Note 28 to the MIG full financial statements.

Interests in the Group Issued During the Financial Year

The movement in securities on issue in the Group during the year is as set out below:

	Consolidated 2006 '000	Consolidated 2005 '000
Securities on issue at the beginning of the year	**2,164,890**	1,930,528
Securities issued during the year	**310,609**	234,362
Securities on issue at the end of the year	**2,475,499**	2,164,890

Environmental Regulation

The following environmental regulations apply to MIG's controlled assets:

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 Kingdom

Midland Expressway Limited constructed the M6 Toll road under a series of Orders made in 1998 by the Secretary of State for Transport pursuant to his powers under the Highways Act 1980 and the New Roads and Street Works Act 1991. Prior to that, the M6 Toll had been the subject of a full Environmental Impact Assessment that was considered in detail at a Public Inquiry held in 1994 and 1995. The Public Inquiry produced a list of specific environmental commitments and undertakings. There have been no significant breaches of the environmental legislation, commitments and undertakings.

- ***United States of America***

Environmental permission to construct the South Bay Expressway 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 required 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.

The Dulles Greenway was constructed under the terms of a comprehensive agreement with the Virginia Department of Transport and pursuant to the Virginia Highway Corporation Act 1988.

In 1991 Dewberry & Davis LLC (Dewberry) completed an Environmental Report for the Dulles Greenway. A FONSI (Finding of No Significant Impact) indicating an Environmental Impact Statement was not required, was issued by the Army Corps of Engineering in May 1991. The scope of the Environmental Report included construction of a four lane, limited access highway with 6 interchanges designed to accommodate two additional lanes and a rail transit line. Also included in the scope were provisions for two additional interchanges. The existing roadway and the ongoing improvements fall within this scope.

For the ongoing construction projects, Dewberry has and continues to acquire appropriate state (Section 401) and federal (Section 404) environmental permits for impacts to waters of the US including wetlands. These permits require offsite mitigation, which Shirley Contracting Company LLC is responsible for procuring. In addition, Dewberry acquires the Virginia Stormwater Management Program (VSMP) permit for each portion of the overall Dulles Greenway improvements project. Shirley Contracting Company LLC is responsible for onsite compliance with the VSMP permit.

There have been no significant breaches of any environmental legislation commitments or undertakings.

Auditor's Independence Declaration

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

Rounding of Amounts in the Directors' Report and Financial Report

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

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

Mark Johnson.

Mark RG Johnson

Sydney

23 August 2006

John SH Roberts

Sydney

23 August 2006

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

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

Auditor's Independence Declaration

As lead auditor for the audit of Macquarie Infrastructure Trust (II) for the year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) 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 year, which are deemed to include Macquarie Infrastructure Trust (I) and the entities it controlled during the year, and Macquarie Infrastructure Group International Limited and the entities it controlled during the year.

Mark Haberlin
Partner
PricewaterhouseCoopers

Sydney
23 August 2006

Income Statement

	Note	**Consolidated 30 June 2006 $'000**	Consolidated 30 June 2005 $'000
Revenue and other income from continuing activities			
Revenue from continuing activities		**509,128**	523,212
Other income from continuing activities		**547,476**	858,587
Total revenue and other income from continuing activities	2(i)	**1,056,604**	1,381,799
Operating expenses from continuing activities			
Financing costs excluding costs attributable to security holders*		**330,550**	295,953
Other operating expenses		**397,401**	439,104
Total operating expenses from continuing activities before finance costs attributable to security holders*	2(ii)	**727,951**	735,057
Net profit from continuing activities before income tax benefit and finance costs attributable to security holders*		**328,653**	646,742
Income tax benefit		**141,383**	112,781
Net profit from continuing activities after income tax benefit and before finance costs attributable to security holders*		**470,036**	759,523
Finance costs attributable to MIT(I) unitholders*		**107,356**	-
Finance costs attributable to AMT unitholders *		**19,607**	-
Net profit from continuing activities after income tax benefit and finance costs attributable to security holders		**343,073**	759,523
Net profit/(loss) attributable to:			
MIG security holders		**317,371**	772,640
Minority interest		**25,702**	(13,117)
		343,073	759,523
Earnings per security for net profit from continuing activities attributable to MIG security holders:			
Basic earnings per stapled security**		**13.37**	38.18
Diluted earnings per stapled security**		**14.09**	37.37

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

* Refer note 1(c)

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

Balance Sheet

	Note	**Consolidated 30 June 2006 $'000**	Consolidated 30 June 2005 $'000
Current assets			
Cash and cash equivalents		**1,201,734**	1,262,921
Receivables		**126,190**	119,999
Prepayments		**16,108**	20,651
Other assets		**3,350**	2,511
Total current assets		**1,347,382**	1,406,082
Non-current assets			
Receivables		**2,516**	-
Prepayments		**6,954**	9,587
Investments in financial assets	4	**6,430,226**	4,556,059
Property, plant and equipment		**3,025,654**	2,365,751
Tolling concessions	5	**1,858,967**	662,422
Derivative financial instruments		**44,273**	-
Other assets		**-**	38,914
Total non-current assets		**11,368,590**	7,632,733
Total assets		**12,715,972**	9,038,815
Current liabilities			
Payables		**214,380**	275,759
Provisions		**1,092**	3,078
Interest-bearing financial liabilities	6	**299,150**	29,650
Derivative financial instruments		**31,118**	-
Distribution payable		**272,306**	297,673
Current tax liabilities		**1,016**	4,722
Total current liabilities		**819,062**	610,882
Non-current liabilities			
Payables		**175,133**	50,959
Provisions		**2,781**	3,548
Interest-bearing financial liabilities		**4,671,033**	2,846,607
Deferred tax liabilities		**335,071**	477,157
Concession notes		**49,520**	120,000
Derivative financial instruments		**6,792**	-
Other liabilities		**-**	37,288
Total non-current liabilities excluding AMT unitholder interests classified as debt		**5,240,330**	3,535,559
AMT units*		**52,089**	-
Total non-current liabilities		**5,292,419**	3,535,559
Total liabilities		**6,111,481**	4,146,441
Net assets		**6,604,491**	4,892,374
Equity			
MIG security holders' interest			
Contributed equity		**4,770,026**	3,595,768
Reserves	7	**371,706**	(40,815)
Retained profits	8	**1,174,472**	1,252,798
Total MIG security holders' interest		**6,316,204**	4,807,751
Minority interest in controlled entities		**288,287**	84,623
Total equity		**6,604,491**	4,892,374

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

* Refer note 1(c)

Statement of Changes in Equity

	Note	**Consolidated 30 June 2006 $'000**	Consolidated 30 June 2005 $'000
Total equity at the beginning of the year		**4,892,374**	4,920,862
Adjustment to equity upon adoption of AASB 132 and AASB 139, net of tax*		**(390,495)**	-
Restated total equity at the beginning of the financial year		**4,501,879**	4,920,862
Transfer of net assets attributable to security holders from liabilities to equity*		**535,037**	-
Exchange differences on translation of foreign operations		**426,578**	(40,815)
Net profit for the year		**343,073**	759,523
Total recognised income and expense for the year		**1,304,688**	718,708
Transactions with equity holders in their capacity as equity holders:			
Contributions of equity, net of transaction costs paid		**1,103,968**	811,938
Distributions provided for or paid to MIG security holders	3	**(512,856)**	(1,532,471)
Distributions provided for or paid to minority interest		**(6,607)**	(26,663)
Acquisition of further stake in a controlled entity		**8,535**	-
Minority interest contribution of equity		**204,885**	-
		797,925	(747,196)
Total equity at the end of the year		**6,604,492**	4,892,374
Total recognised income and expenses for the year is attributable to:			
MIG security holders		**1,264,937**	731,825
Minority interest		**39,751**	(13,117)
		1,304,688	718,708

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

* Refer note 1(c).

Cash Flow Statement

	Consolidated 30 June 2006 $'000	Consolidated 30 June 2005 $'000
Cash flows from operating activities		
Toll revenue received	**359,358**	274,625
Interest received	**180,097**	180,009
Interest paid	**(68,560)**	(63,016)
Net indirect taxes received/(paid)	**(9,069)**	(14,037)
Payments to suppliers and employees (inclusive of GST)	**(109,672)**	(92,007)
Responsible Entity and Adviser base fees paid	**(112,027)**	(85,056)
Responsible Entity and Adviser performance fees paid	**(13,041)**	(2,076)
Management and secondment fees received	**41**	50
Distributions and dividend income received	**83,822**	55,564
Income taxes (paid)/received	**(18,619)**	(19,828)
Other income received	**14,589**	11,762
Net cash flows from operating activities	**306,919**	245,990
Cash flows from investing activities		
Proceeds from repayment of interest bearing financial assets	**-**	4,239
Proceeds from sale of investments	**-**	1,842,874
Proceeds from exchange of Hills Motorway Group securities	**-**	3,750
Proceeds from sale of Transurban Group securities	**151,043**	-
Proceeds from return of capital from investments	**221,775**	1,636
Payment for purchase of controlled entity net of cash acquired	**(606,977)**	-
Payments for purchase of investments	**(1,392,331)**	(639,709)
Capital expenditure	**(208,667)**	(139,123)
Proceeds from sale of property, plant and equipment	**19**	35
Payment of loan advanced to investments and controlled entities	**(2,516)**	-
Proceeds from repayment of loans advanced to investments/controlled entities	**8,602**	-
Net cash flows from investing activities	**(1,829,052)**	1,073,702
Cash flows from financing activities		
Repayment of bank borrowings	**(463,606)**	(793,333)
Proceeds from bank borrowings	**1,315,594**	1,067,385
Borrowing costs paid	**(139,969)**	(167,946)
Distributions paid to MIG security holders	**(538,222)**	(1,307,195)
DRP proceeds received	**306,469**	805,854
Proceeds from issue of securities	**784,307**	-
Costs of raising capital	**(8,112)**	-
Contributed equity issued to minority interests	**204,666**	-
Distributions paid to minority interests	**(20,742)**	(32,800)
Net cash flows from financing activities	**1,440,385**	(428,035)
Net Increase in cash assets held	**(81,748)**	891,657
Cash and cash equivalents at the beginning of the year	**1,262,921**	417,735
Effects of exchange rate movements on cash and cash equivalents	**20,561**	(46,471)
Cash and equivalents assets at the end of the year	**1,201,734**	1,262,921

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

Overview of Major Transactions

Securitisation of Future Airport Motorway Group (AMG) Cash Flows

On 8 July 2005, MIG introduced new credit facilities in relation to its 71.35% interest in AMG. The A$150.0 million facilities, which terminate on 1 November 2009, are a securitisation of part of the expected future distributions from AMG and are provided to a funding trust wholly owned by MIT(I). MIG drew down on the facilities in full on 30 May 2006 and entered into interest rate swaps to hedge A$120.0 million of the drawn amount. The fixed rate payable under the swaps is 6.24%.

Refinancing of Skyway

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

Investment in Dulles Greenway

MIG reached financial close on its investment in the Dulles Greenway toll road in Virginia in September 2005. The concessionaire of Dulles Greenway is Toll Road Investors Partnership II, L.P. (TRIP II).

On 9 September 2005, MIG invested US$531.7 million (A$710.7 million) to acquire the General Partner, Shenandoah Greenway Corporation and to provide loans to Shenandoah Holdings LLC (SHLLC) and AEI Holdings LLC (AIEHLLC). SHLLC and AIEHLLC own a combined interest of 86.6% of TRIP II. Two-long dated call options are exercisable by a subsidiary of MIT(II) in respect of the issued shares in SHLLC and AIEHLLC.

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

Institutional Placement

On 1 September 2005, MIG raised A$667.5 million, net of underwriting and transaction costs, from an institutional placement of 174.4 million MIG stapled securities at A$3.87 to assist in the funding of MIG's investment in 86.6% of TRIP II and to acquire 100% of the General Partner, Shenandoah Greenway Corporation, which holds a further 0.1% interest in TRIP II.

MIG Security Purchase Plan

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

Reinvestment of Performance Fees

On 12 September 2005 MIG issued a total of 21.9 million (2005: 1.9 million) new stapled securities which were issued at A$4.19 (2005: $3.27) each as a result of the Responsible Entity and Adviser of Macquarie Infrastructure Group International Limited (MIGIL) electing to reinvest performance fees of A$91.6 million (2005: A$6.1 million) in MIG stapled securities.

MIG Ownership in Westlink M7

At completion of construction of the Westlink M7 on 16 December 2005, there was a mandatory redemption of Construction phase Loan Notes with a face value of A$392.0 million and a mandatory reinvestment for the same amount in Subordinated term Loan Notes (SLNs) issued by the Westlink Motorway Partnership. SLNs are debt instruments that accrue interest on a quarterly basis. Interest payments are only able to be made under the provisions of the Loan Note Subscription Agreement. Interest payments are not expected to be made during the first 21 months of operation of the Westlink M7. The interest rate applicable to the SLNs is 11.9% per annum.

On 16 December 2005, MIG exercised its fixed price option to acquire an additional 5.0% equity interest in Westlink M7 for A$47.4 million. This interest was held by Abigroup Limited (2.5%) and Leighton Holdings Limited (2.5%).

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

Securitisation of Future Interlink Roads and Statewide Roads Cash Flows

On 20 December 2005, MIG introduced a new facility in relation to its investment in Interlink Roads (ILR) and Statewide Roads (SWR). The A$125.0 million facility, which terminates on 31 December 2008, is a securitisation of part of the expected future distributions from ILR and SWR and is provided to a funding trust wholly owned by MIT(II). The facility is provided by Westpac Banking Corporation and the Commonwealth Bank of Australia. The facility was drawn to $125.0 million on 31 May 2006. MIG entered into interest rate swaps to hedge 100% of the amount drawn. The fixed rate payable under the swaps is 6.22%.

On 16 June 2006 this facility was increased to $155.0 million.

Acquisition of APRR Road Network

On the 14 December 2005, the Government of France advised that the consortium comprising Eiffage SA (Eiffage), MIG and Macquarie European Infrastructure Fund (MEIF) (together the Consortium) had been selected as preferred bidder to acquire its 74.7% interest in Autoroutes Paris-Rhin-Rhône (APRR), subject to customary regulatory approvals, including European Commission consent. The Consortium acquired this stake on 20 February 2006 and MIG's equity contribution was €252.8 million (A$409.4 million).

Under French law a company that acquires more than 33.3% of voting rights in a French listed company must make a takeover offer for the balance of the shares at the same price as the price offered to the majority shareholders. The Consortium made an offer for the remaining 25.3% shares in APRR. The price offered by the Consortium was €61.00 per share. On 13 April 2006, the Consortium closed its standing offer to minority shareholders and held 81.48% of APRR shares.

MIG has a 25% plus one share interest in the Consortium giving it an effective interest of 20.37% in APRR.

Sale of Transurban Group (TCL) Securities

On 10 March 2006, MIG sold its entire holding of 22,050,000 securities in TCL for A$6.85 per security.

Settlement of 407 ETR Disputes

On 31 March 2006, the 407ETR concession company reached settlement with the Province of Ontario regarding all existing disputes and litigation between the two parties. In particular the Province dismissed its pending appeals of the toll setting and base year disputes and accepted as final and binding all court and arbitration decisions to date.

Acquisition of Indiana Toll Road

On 13 April 2006, MIG and Cintra Concesiones de Infrastructures de Transporte (Cintra) signed the Indiana Toll Road Concession and Lease Agreement for the 75 year lease of the Indiana Toll Road (ITR) with the Indiana Finance Authority.

The purchase price for the lease was US$3.8 billion (A$5.0 billion), with MIG's 50% equity commitment upon financial close being US$374.0 million (A$506.6 million). Financial close was achieved on 29 June 2006.

The ITR, which opened to traffic in 1956, is a 253km (157 mile) long divided highway which runs the full length of northern Indiana. The ITR connects to the MIG-Cintra leased Skyway in the west and with the Ohio turnpike in the east.

Demerger of Mature Australian Roads

On 24 July 2006, MIG demerged its interests in the Eastern Distributor, M5 South-West Motorway and M4 Motorway. MIG's interests in the three roads were transferred to the newly established Sydney Roads Group (SRG). The demerger was effected through an in specie distribution of one SRG stapled security for every three MIG stapled securities and an IPO of SRG to raise A$125.0 million of new capital.

In consideration for the transfer of its mature Australian toll road assets to SRG, MIG received 825 million SRG securities and the payment of A$125.0 million in cash. As a result of the demerger, MIG has divested interests in the Airport Motorway Group and the funding trust associated with the securitisation of AMG cashflows, the M5 South-West Motorway, M4 Motorway and the funding trust associated with the securitisation of Interlink Roads Pty Limited and Statewide Roads Limited cashflows, and of Interlink Roads Pty Limited and Statewide Roads Limited cashflows, and has received proceeds of A$400.0 million.

Overview of Operating Performance

Net profit attributable to MIG security holders for the year ended 30 June 2006 (before finance costs attributable to MIT(I) unit holders) was A$424.7 million (2005: A$772.6 million).

Key drivers of the result for the year were:

- ***Revenue from continuing activities of A$509.1 million (2005: A$523.2 million)***

This includes toll revenue of A$320.5 million (2005: A$242.4 million) in MIG's controlled assets. The increase from 2005 is in part driven by the inclusion of Dulles Greenway's toll revenue following MIG's investment during the year.

Also included is interest income A$175.5 million (2005: A$185.3 million) from short term money market investments held by MIG, and infrastructure bonds and cash held by MIG's controlled assets.

The prior year distribution income of A$55.9 million has no equivalent amount in the current year. From 1 July 2005, distributions from assets are applied directly against the investment and not as distribution income in the Income Statement.

- ***Other income from continuing activities of A$547.5 million (2005: A$858.6 million)***

This mainly comprises revaluation gains on MIG's non-controlled assets of A$487.2 million (2005: A$845.4 million). The main contributors to this gain were Westlink M7, 407 ETR, Eiffarie (APRR), and Skyway with revaluation gains of A$172.5 million, A$130.6 million, A$96.9 million and A$65.9 million respectively.

Valuation increases driven by the operational performance of the assets in 2006 were partially offset by adverse movements in macroeconomic indicators such as rising interest rates. During 2005, movements in macroeconomic indicators were favourable to MIG's valuations.

Also included in other income from continuing activities are revaluation amounts of A$63.9 million relating to derivative financial instruments within the MIG group, primarily interest rate swaps hedging non-recourse debt at MIG's controlled assets.

- ***Financing costs (excluding costs attributable to security holders) of A$330.6 million (2005: A$295.9 million)***

The increase from 2005 is primarily driven by the consolidation of Dulles Greenway's financing costs following MIG's investment during the year.

- ***Other operating expenses of A$397.4 million (2005: A$439.1 million)***

Prior year charges were higher than the current period due to performance fees of A$92.5 million (2006: nil) being due and payable. This impact is partially offset by increased operating expenses, tolling concession amortisation and fixed asset depreciation attributable to the investment in Dulles Greenway during the current year.

- ***Finance costs attributable to MIT(I) unit holders***

Finance costs attributable to MIT(I) unit holders represent the profits attributable to MIT(I) unit holders during the period when MIT(I)'s units were classified as financial liabilities rather than equity under AIFRS. This treatment applied only to the period 1 July 2005 to 22 June 2006. The A$107.4 million finance costs should be added back to the net profit attributable to MIG security holders in order to derive a result that is comparable to 2005 and with future reporting periods.

Income Tax

The benefit for the year was A$141.4 million (2005: A$112.8 million). This is primarily due to the reversal of a deferred income tax liability of A$233.9 million, associated with certain entities for which it is probable that an exemption from UK capital gains tax will apply, being partially offset by a deferred tax liability being recognised on revaluation increments during the year.

Distributions

MIG paid an interim distribution of 10.00 cents per stapled security (2005: 63.75 cents) on 14 February 2006 and declared a final distribution of 11.00 cents per stapled security (2005: 13.75 cents) in respect of the year to 30 June 2006. The final distribution was paid on 15 August 2006.

Discussion and Analysis of Financial Position

Total assets have increased by A$3.7 billion for the year ended 30 June 2006. This has been driven by the investment in Dulles Greenway, revaluations of existing assets, construction progress on South Bay Expressway (SBX), the raising of capital via an institutional placement and funds received from the drawdown of securitisation and debt facilities in the group. Additionally the value of the investment in APRR represents the combined MIG and Macquarie European Infrastructure Fund (MEIF) interests. This is due to MIG's control of the entity through which both MIG and MEIF have invested in APRR.

Total liabilities have increased by A$2.0 billion primarily due to non recourse debt consolidated following the investment in Dulles Greenway, draw downs of non recourse debt to fund construction of SBX, and the drawing down of asset securitisation and MIG level debt facilities.

The movement in equity reflects the result for the period, net foreign exchange gains recognised directly to reserves and the issues of securities. Also reflected is the MEIF minority interest contribution into APRR.

Discussion and Analysis of Statement of Cash Flows

Net cash flows from operating activities were A$306.9 million (2005: A$246.0 million), reflecting higher toll revenue and distribution and dividend income received, offset partially by increased base management and performance fees paid.

The net cash outflow from investing activities of A$1.8 billion was primarily due to the acquisition of investments, offset by proceeds from the sale of Transurban Group securities and the return of capital from Skyway.

Financing cash flows reflect the proceeds from the draw down of debt facilities and proceeds from the issue of securities offset by the distribution paid to security holders.

Notes to the Consolidated Financial Statements

1 Summary of Significant Accounting Policies

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

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

— ***Compliance with International Financial Reporting Standards (IFRS)***

Australian Accounting Standards include AIFRS. Compliance with AIFRS ensures that the consolidated financial statements and notes of MIG comply with IFRS.

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

This financial report is the first MIG financial report to be prepared in accordance with AIFRS. AASB 1: *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* (AASB1) has been applied in preparing these financial statements.

Financial statements of MIG until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the MIG financial report for the year ended 30 June 2006, management has amended certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with AIFRS. The comparative figures are restated to reflect these adjustments.

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

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on MIG's equity and net profit are given in Note 13.

— ***Stapled security***

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

— ***Historical cost convention***

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

— ***Critical accounting estimates***

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The area involving a higher degree of judgement or complexity is related to investments in financial assets. Refer to Note 4 (a) for sensitivities surrounding these.

(b) Consolidated accounts and stapling arrangements

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

1 Summary of Significant Accounting Policies (cont'd)

(b) Consolidated accounts and stapling arrangements (cont'd)

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

In accordance with UIG 1013, consolidated financial statements have been prepared by MIT(II) as the identified parent of MIG and the combined financial report prepared for MIG at 30 June 2004 has been used for the purposed of applying AASB 1 at the date of transition to restate MIG's comparative information. The financial statements of MIT(II) should be read in conjunction with the separate consolidated financial statements of MIT(I) and MIGIL for the year ended 30 June 2006.

(c) Group formation

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

On 20 September 2000, the investment of MIT(II) in Macquarie European Infrastructure plc (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 mutual fund company (incorporated in Bermuda), Macquarie Infrastructure Bermuda Limited (MIBL), above MEI, replacing MEI as the stapled company in the MIG stapled structure. Macquarie Investment Management (UK) Limited is the Adviser of this company.

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

The Trust Constitutions of MIT(I) and MIT(II) were amended on 30 June 2005 to remove their finite life clauses. On 21 November 2005, unitholders voted at the MIG Annual General Meeting to amend the Constitutions further to allow the Responsible Entity discretion to vary the distribution of net income to unitholders, subject to receipt of a private binding income tax ruling from the Australian Taxation Office (ATO) that such amendment would not result in the termination of the trusts. On 20 April 2006 the ATO issued tax ruling CR2006/29 stating that the proposed amendment to the Constitutions of the trusts would not result in the termination of the trusts. On 22 June 2006 these changes were made to the Trust Constitutions of MIT(I) and MIT(II). Accordingly, the units of MIT(I) are classified as equity at 30 June 2006. However, as the units of MIT(I) were classified as a financial liability for the period 1 July 2005 to 22 June 2006, the income which accrued to the units in MIT(I) during this period has been accounted for as an expense and presented in the Income Statement for the year as a finance cost.

Units in AMT are also to be classified as debt on 1 July 2005. Any amounts payable to MIG are eliminated on consolidation but amounts due to minority interests are presented on the balance sheet as amount due to AMT unitholders.

(d) Investments in financial assets

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

Investments have been brought to account by the Group as follows:

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

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

Investments have been brought to account by the Group as follows:

1 Summary of Significant Accounting Policies (cont'd)

(d) Investments in financial assets (cont'd)

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

Interests in unlisted companies and trusts are brought to account at fair value, determined in accordance with a valuation framework adopted by the directors. Discounted cash flow (DCF) analysis is the primary methodology applied in the valuation framework as it is the generally accepted methodology for valuing toll roads, bridges and tunnels and the basis upon which market participants have derived valuations for toll road, bridge and tunnel transactions.

DCF is the process of estimating future cash flows that are expected to be generated by an asset and discounting these cash flows to their present value by applying an appropriate discount rate. The discount rate applied to cash flows of a particular asset comprises the risk free interest rate appropriate to the country in which the asset is located and a risk premium, reflecting the uncertainty associated with the cash flows.

The risk premiums applied to the DCF forecasts for MIG's interests in unlisted securities in companies and trusts are as follows: Eastern Distributor 3.0% (2005: 3.0%), M4 Motorway 2.5% (2005: 2.5%), M5 Motorway 2.50% (2005: 2.50%), M6 Toll 5.00% (2005: 5.50%), 407 ETR 4.00% (2005: 4.20%), Lusoponte 2.80% (2005: 3.09%), Rostock 6.5% (2005: 6.5%), Skyway 6.00% (2005: 6.50%), South Bay Expressway 7.5% (2005: 8.0%), Westlink M7 5.50% (2005: 7.00%), Dulles Greenway 7.5%, Indiana Toll Road 7.80% and APRR 18.00%.

The valuations derived from the DCF analyses are periodically benchmarked to other sources such as recent market transactions to ensure that the DCF valuation for each asset is providing a reliable measure.

Interest, dividends and other distributions received from investments brought to account at fair value are credited against the investments when received.

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

The fair value of financial assets traded in active markets is based on quoted market price at balance date. The quoted market price used for financial assets held by the Group is the closing bid price. Dividends and other distributions are credited against the investment when received.

— ***Interests in interest bearing debt securities***

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

— ***Loans and receivables***

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost. Interest income from loans and receivables is recognised using the effective interest method.

(e) Acquisitions of assets

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

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

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

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

2 Profit for the Year

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

(i) Revenue and other income from continuing activities

	Consolidated 30 June 2006 $'000	Consolidated 30 June 2005 $'000
Revenue from continuing activities		
Distribution and dividend income	**-**	55,932
Interest income:		
Related parties	**1,043**	29,346
Other persons and corporations	**175,521**	185,293
Toll revenue	**320,466**	242,420
Construction contract revenue	**223**	223
Rental income	**4,078**	3,159
Other revenue	**7,797**	6,839
Total revenue from continuing activities	**509,128**	523,212
Revaluation income from continuing activities		
Revaluation of interests in listed securities in companies and trusts	**(7,608)**	50,609
Revaluation of interests in unlisted securities in companies and trusts	**424,643**	785,935
Revaluation of interest bearing financial assets	**68,675**	73,476
Foreign exchange effect of revaluations	**1,475**	(64,596)
Total revaluation income from continuing activities	**487,185**	845,424
Other income from continuing activities		
Net gain on sale of investments and subsidiaries	**-**	55,726
Foreign exchange (loss)	**(3,605)**	(42,563)
Gains on derivative financial instruments	**63,896**	-
Total other income from continuing activities	**60,291**	13,163
Total revaluation and other income from continuing activities	**547,476**	858,587
Total revenue and revaluation and other income from continuing activities	**1,056,604**	1,381,799

2 Profit for the Year (cont'd)

(ii) Operating Expenses from Continuing Activities

	Consolidated 30 June 2006 $'000	Consolidated 30 June 2005 $'000
Financing costs		
Amortisation of capitalised borrowing costs	**1,337**	618
Interest expense	**329,213**	295,335
	330,550	295,953
Other operating expenses		
Amortisation of tolling concessions	**65,036**	44,435
Loss on derivative financial instruments	**197**	-
Depreciation:		
Buildings	**1,137**	1,171
Leasehold improvements	**65,540**	68,424
Motor vehicles	**506**	449
Plant and equipment	**23,256**	15,153
	90,439	85,197
Cost of operations:		
Concession notes – face value	**15,000**	15,000
Effective interest adjustment on concession notes	**(6,843)**	-
Employment costs	**15,119**	15,979
Operating expenses	**54,225**	39,945
Operating lease rentals	**33,367**	30,212
	110,868	101,136
Other operating expenses:		
Consulting and administration fees	**8,113**	4,742
Custodians' fees	**408**	424
Responsible entity's and adviser's base fees	**97,962**	83,283
Responsible entity's and adviser's performance fees	**-**	92,521
Option premium paid	**-**	4,764
Refinancing costs	**-**	8,252
Demerger transaction costs	**10,912**	-
Other expenses	**13,466**	14,350
	130,861	208,336
Total other operating expenses	**397,401**	439,104
Total operating expenses from continuing activities before finance costs attributable to security holders	**727,951**	735,057

3 Distributions Paid and Proposed

The distributions were paid/payable as follows:

	Consolidated 30 June 2006 $'000	Consolidated 30 June 2005 $'000
Interim distribution paid for the half year ended 31 December	**240,550**	1,234,798
Final distribution proposed and subsequently payable for the year ended 30 June	**272,306**	297,673
	512,856	1,532,471
	Cents per stapled security	Cents per stapled security
Interim distribution paid for the half year ended 31 December	**10.0000**	63.7500
Final distribution proposed and subsequently payable for the year ended 30 June	**11.0000**	13.7500
	21.0000	77.5000
Fully franked portion of interim distribution paid for the half year ended 31 December	**1.8898**	1.3144
Fully franked portion of final distribution proposed and subsequently payable for the year ended 30 June	**-**	-
	1.8898	1.3144

4 Investments in Financial Assets

(a) Consolidated

The table below summarises the movements in MIG's investment portfolio during the year ended 30 June 2006.

	Balance at 30 June 2005	AIFRS transition adjustment	Investments	Income from investments Note (i)	Divestment/ repayments	FX effects Note (vii)	Revaluations Note (i)	Balance at 30 June 2006
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Interests in listed securities in companies and trusts								
Stapled securities in Transurban Group **(Note ii)**	156,059	7,993	-	(5,402)	(151,042)	-	(7,608)	**-**
	156,059	7,993	-	(5,402)	(151,042)	-	(7,608)	**-**
Interests in unlisted securities in companies and trusts								
Shares in Interlink Roads Pty Limited	540,783	-	-	(25,084)	-	-	44,365	**560,064**
Shares in Transtoll Pty Limited	10,343	-	-	-	-	-	(8,828)	**1,515**
Investments in Western Sydney Orbital Holding Company Pty Limited	-	-	-	-	-	-	103,793	**103,793**
Investment in 407 International Inc.	2,549,699	-	-	(48,229)	-	327,921	130,670	**2,960,061**
Shares in Lusoponte Concessionária para a Travessia do Tejo S.A.	236,633	-	-	(1,135)	(8,629)	16,048	(8,221)	**234,696**
Partnership interest in Warnowquering GmbH	-	-	-	-	-	-	-	**-**
Shares in Skyway Concession Company Holdings LLC **Note (iii)**	603,199	-	-	-	(221,729)	8,936	65,927	**456,333**
Investment in Financierè Eiffarie SAS **Note (iv)**	-	-	409,363	-	-	28,486	96,937	**534,786**
Shares in Statewide Mobility Partners LLC **Note (v)**	-	-	506,640	-	-	(3,414)	-	**503,226**
	3,940,657	-	916,003	(74,448)	(230,358)	377,977	424,643	**5,354,474**
Interest bearing financial assets								
Investment in WestLink Construction phase Loan Notes **Note (vi)**	459,343	-	-	(13,194)	(459,343)	-	13,194	**-**
Investment in Westlink Subordinated term Loan Notes **Note (vi)**	-	-	506,693	-	-	-	55,481	**562,174**
Investment in Financierè Eiffarie SAS Bonds **Note (iv)**	-	-	686,500	-	(210,171)	37,249	-	**513,578**
	459,343	-	1,193,193	(13,194)	(669,514	37,249	68,675	**1,075,752**
Total investments	4,556,059	7,993	2,109,196	(93,044)	(1,050,914)	415,226	485,710	**6,430,226**

At 30 June 2006, the value of MIG's investments in financial assets is $6,430.2 million. The value of these investments, which are unlisted, have been determined by discounted cash flow analyses in accordance with the valuation framework adopted by the directors and applying specific risk premiums as outlined in Note 1(d). If the risk premiums applied were 0.5% lower/higher, the value of MIG's investments in financial assets would increase/decrease by $855.1 million/ $1,014.3 million respectively. If the traffic levels of the investments were 5% higher/lower, the value of MIG's investments in financial assets would increase/decrease by $932.7 million/$669.5 million respectively.

Notes

(i) Income from investments
Income from the investments are credited directly against the investment when received.

(ii) Sale of Transurban Group Securities
On 10 March 2006, MIG sold its entire holding of 22,050,000 securities in Transurban Group for $6.85 per security.

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

4 Investments in financial assets (cont'd)

(iv) Acquisition of APRR Road Network
On the 14 December 2005, the Government of France advised that the consortium comprising Eiffage SA, MIG and Macquarie European Infrastructure Fund (together the Consortium) had been selected as preferred bidder to acquire its 74.7% interest in Autoroutes Paris-Rhin-Rhône (APRR), subject to customary regulatory approvals, including European Commission consent. The Consortium acquired this stake on 20 February 2006 and MIG's equity contribution was €252.8 million ($409.4 million).

Under French law a company that acquires more than 33.3% of voting rights in a French listed company must make a takeover offer for the balance of the shares at the same price as the price offered to the majority shareholders, in this case the Consortium made an offer for the remaining 25.3% shares in APRR. The price offered by the Consortium was €61.00 per share. On 13 April 2006, the Consortium closed its standing offer to minority shareholders and held 81.48% of APRR shares.

MIG has a 25% plus one share interest in Financiere Eiffarie, the Consortium vehicle, giving it an effective interest of 20.37% in APRR.

As part of the acquisition a subsidiary of MIGIL has subscribed for interest bearing bonds. These bonds bear interest at a fixed margin above the libor rate and have a term of 27 years expiring in 2033. These bonds are designated as financial assets at a fair value through profit or loss.

(v) Indiana Toll Road
On 13 April 2006 ITR Concession Company LLC, the bid vehicle for the Statewide Mobility Partners consortium comprising MIG and Cintra, signed the Indiana Toll Road Concession and Lease Agreement for the 75 year lease of the Indiana Toll Road with the Indiana Finance Authority.

The purchase price for the lease is US$3.8 billion ($5.1 billion), with MIG's 50% equity commitment upon financial close being US$374.0 million ($506.6 million). Financial close was achieved on 29 June 2006.

(vi) MIG's investment in Westlink M7 stapled securities
At completion of construction of the Westlink M7 on 16 December 2005, there was a mandatory redemption of Construction phase Loan Notes (CLNs) of $392.0 million and mandatory reinvestment for the same amount in Subordinated term Loan Notes (SLNs) issued by the Westlink Motorway Partnership. SLNs are debt instruments that accrue interest on a quarterly basis. Interest payments are only able to be made under the provisions of the Loan Note Subscription Agreement. Interest payments are not expected to be made during the first 21 months of operation of the Westlink M7. The interest rate applicable to the SLNs is 11.9% per annum.

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

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

(vii) Foreign Exchange (FX) effects
Where an investment in a toll road company is held by a group entity that has a different functional currency as the asset, FX effects resulting from translation of the group entity's assets and liabilities and are taken to the Foreign Currency Translation Reserve. Where an investment in a toll road company is held by a group entity that has the same functional currency as that of the asset, FX effects resulting from translation of the investment in the books of the group entity are taken through the Income Statement. On the $415.2 million foreign exchange relating to investments in financial assets, $1.5 million was credited to the Income Statement and $413.7 million was taken to the Foreign Currency Translation Reserve.

5 Tolling Concessions

	Consolidated 30 June 2006 $'000	Consolidated 30 June 2005 $'000
Eastern Distributor	**348,208**	356,480
M4 Motorway	**121,678**	155,172
M6 Toll	**131,050**	126,592
South Bay Expressway	**24,760**	24,178
Dulles Greenway	**1,233,271**	-
	1,858,967	662,422

Tolling concessions are amortised over the remaining life of each concession, expiring in February 2010 for the M4 Motorway, July 2048 for the Eastern Distributor, January 2054 for the M6 Toll and February 2056 for the Dulles Greenway. (Refer note 2(ii)).

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.

Consolidated	Eastern Distributor $'000	M4 Motorway $'000	M6 Toll $'000	South Bay Expressway $'000	Dulles Greenway $'000	**Total $'000**
At 1 July 2005	356,480	155,172	126,592	24,178	-	**662,422**
Amortisation for the year	(8,272)	(33,494)	(2,668)	-	(20,602)	**(65,036)**
Acquisition of asset	-	-	-	-	1,245,751	**1,245,751**
Exchange differences	-	-	7,126	582	8,122	**15,830**
Carrying value at 30 June 2006	348,208	121,678	131,050	24,760	1,233,271	**1,858,967**
At 30 June 2006						
Cost	393,964	306,857	137,946	24,760	1,253,873	**2,117,400**
Accumulated amortisation	(45,756)	(185,179)	(6,896)	-	(20,602)	**(258,433)**
Net carrying amount	348,208	121,678	131,050	24,760	1,233,271	**1,858,967**

6 Interest-Bearing Financial Liabilities

	Notes	**Consolidated 30 June 2006 $'000**	Consolidated 30 June 2005 $'000
Current			
Non-recourse loans	b	**69,150**	29,650
Multi-option facility	a	**230,000**	-
		299,150	29,650
Non-current			
Non-recourse loans	b	**4,174,370**	2,393,028
Reset convertible notes (ReCNs)	c	**496,663**	453,359
Finance lease payable		**-**	220
		4,671,033	2,846,607

(a) Credit facilities available to the Group

■ *MIG*

MIG has a multi-option debt facility with Westpac Banking Corporation and the Commonwealth Bank of Australia for a total amount of $500.0 million (2005: $300.0 million). At 30 June 2006, $230.0 million was drawn under the facility. The facility attracts interest at BBSW plus a margin of 0.55% per annum. The facility terminates on 1 November 2007.

Line fees and establishment fees of $4.8 million (2005: $2.7 million) were incurred in relation to the facility during the year.

(b) Non-recourse loans

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

■ *ED Funding Trust (EDFT)*

On 8 July 2005, MIG introduced a new credit facility in relation to MIG's 71.35% interest in AMG. The $150.0 million (2005: nil) facility is a securitisation of part of the expected future distributions from AMG and is provided to EDFT, a funding trust wholly owned by MIT(I). The facility is provided by Westpac Banking Corporation and the Commonwealth Bank of Australia. At 30 June 2006, this facility was fully drawn.

The facility has a term of 4.3 years with a 100.0% bullet repayment on 1 November 2009 or can be repaid earlier without penalty. The facility carries a margin of between 0.7% and 1.5% on a sliding scale depending on interest coverage ratios. MIG has entered into interest rate swap agreements to hedge $120.0 million of the $150.0 million drawn facility. The contracts are settled semi-annually each year commencing on 29 September 2006 to the termination date of the facility on 1 November 2009. Under the swap agreements, MIG is obliged to pay interest at fixed rates at a rate of 6.24% per annum.

■ *M5 Holdings Funding Trust (M5FT)*

On 20 December 2005, MIG introduced a new facility in relation to its investment in Interlink Roads (ILR) and Statewide Roads (SWR). The $125.0 million (2005: nil) facility, which terminates on 31 December 2008, is a securitisation of part of the expected future distributions from ILR and SWR and is provided to a funding trust wholly owned by MIT(II). The facility is provided by Westpac Banking Corporation and the Commonwealth Bank of Australia. The facility was drawn down to $125.0 million on 31 May 2006.

On 16 June 2006 this facility increased to $155.0 million.

The facilities have a term of 3 years with a 100% bullet repayment on 31 December 2008 or can be repaid earlier without penalty. The facilities carry a margin of between 0.65% and 1.45% on a sliding scale depending on interest coverage ratios. MIG has entered into interest rate swap agreements to hedge $125.0 million of the $125.0 million drawn facility. The contracts are settled semi-annually each year commencing on 29 September 2006 to the termination date of the facility on 31 December 2008. Under the swap agreements, MIG is obliged to pay interest at fixed rates at a rate of 6.22% per annum.

6 Interest-Bearing Financial Liabilities (cont'd)

(b) Non-recourse loans (cont'd)

■ *Airport Motorway Group*

A term debt facility of $515.5 million (2005: $515.5 million) is provided by Westpac Banking Corporation to AMT. Interest is payable in arrears and accrues at BBSW plus a margin of 0.375% per annum. The new term debt facility is an interest only loan for a term of five years and will have to be refinanced at that point in time. The facility was fully drawn at 30 June 2006. These project related liabilities are non-recourse to the Group.

A $556.0 million infrastructure loan facility was 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 $847.7 million (2005: $779.1). The facility will be repaid with proceeds from the Deposit Account in August 2011. The facility was fully drawn at 30 June 2006.

A legal right of set-off exists in respect of the specific cash deposit of $847.7 million (2005: $779.1 million), representing collateralisation of liabilities under the infrastructure loan facility.

■ *Statewide Roads Limited and Controlled Entities*

SWR and its controlled entities have a fully utilised facility agreement with the Commonwealth Bank of Australia for $79.7 million (2005: $108.9 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 interest is incurred at the 90 day BBSY rate. Annual line fees of 0.6% (2005: 0.6%) per annum of the facility are payable quarterly. These projects related liabilities are non-recourse to the Group.

■ *Midland Expressway Limited (MEL)*

MEL entered into a facility agreement on 26 September 2000 with Bank of America Securities Limited and Abbey National Treasury Services Plc for £685.0 million ($1,863.2 million). At 30 June 2006, £619.9 million ($1,542.2 million) (2005 £619.9 million ($1,456.8 million)) had been drawn down, incurring interest at a margin 1.2% per annum over the London Inter Bank Offer Rate (LIBOR). The bank loans have certain covenants attached and are secured by way of debenture over MEL's assets. These project related liabilities are non-recourse to the Group.

■ *San Diego Expressway Limited Partnership (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 2006, US$277.6 million ($373.5 million) (2005: US$195.1 million ($256.3 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 1.63% per annum.

SDELP has also received funding by way of a Transportation Infrastructure Finance and Innovation Act (TIFIA) loan in the amount of US$109.0 million ($146.7 million) (2005: US$62.7 million ($83.4 million). The TIFIA loan commitment is for US$140 million plus capitalised interest. The TIFIA loan bears interest at 4.46% (2005: 4.46%) per annum.

6 Interest-Bearing Financial Liabilities (cont'd)

(b) Non-recourse loans (cont'd)

■ *Dulles Greenway*

At 30 June 2006, TRIP II, the concessionaire of the Dulles Greenway, had issued the following debt securities;

(i) 1999 Senior Bonds
The 1999 Senior Bonds comprise US$35.0 million ($47.1 million) Senior Current Interest Bonds, Series 1999A, due 2035 (the 1999A Bonds) and US$297.8 million ($400.7 million) of Senior Zero Coupon Bonds, Series 1999B, due 15 February 2003 through to 2035 (the 1999B Bonds).

Interest accrues on the 1999A Bonds at a rate of 7.125% per annum. Interest is payable semi-annually on each 15 February and 15 August each year. Interest accrues on the 1999B Bonds and compounds semi-annually on 15 February and 15 August each year, at rates ranging from 6.1% to 7.3%, such interest to be paid only at maturity or redemption. Scheduled maturities of the 1999B Bonds are US$15.8 million ($21.3 million) in 2006, US$17.4 million ($23.4 million) in 2007, US$19.1 million ($25.7 million) in 2008, US$23.5 million ($31.7 million) in 2009, US$25.1 million ($33.8 million) in 2010 and US$1.2 billion ($1.6 billion) maturing in years 2011 to 2035.

(ii) 2005 Senior Bonds
The 2005 Senior Bonds comprise US$162.4 million ($218.5 million) of Senior Callable Zero Coupon Insured Dulles Greenway Project Revenue Bonds, Series 2005 due 2045 (the 2005A Bonds), US$53.8 million ($72.4 million) of Senior Callable Zero Coupon Insured Dulles Greenway Project Revenue Bonds, Series 2005B, due 2043 (the 2005B Bonds) and US$174.4 million ($234.7 million) of Senior Callable Zero Coupon Insured Dulles Greenway Project Revenue Bonds, Series 2005C due each 15 February from 2036 to 2056 (the 2005C Bonds).

Interest accrues on the 2005A Bonds and compounds semi-annually on each 15 February and 15 August at rates that will produce yields at maturity of 5.425%, such interest to be paid only at maturity or prior redemption. Interest accrues on the 2005B Bonds and compounds semi-annually on 15 February and 15 August at 5.7%, such interest to be paid only at maturity or prior redemption. Interest accrues on the 2005C Bonds and compounds semi-annually each 15 February and 15 August at rates ranging from 5.55% to 5.65%, such interest only to be paid on maturity or prior redemption.

(c) Reset convertible notes (ReCNs)

The ReCNs were issued by Western Sydney Orbital Funding Trust, a 100% owned subsidiary of MIT(I), to Ontario Teachers Pension Plan (OTPP) in order to fund the investment in WestLink M7. As at 30 June 2006, $490.0 million in ReCNs have been issued. Interest on the ReCNs is calculated at a margin of 2.5% per annum above the 5 year (or period to initial reset date if shorter) swap rate prevailing at the date of issue. The relevant swap rates for the ReCNs on issue as at 30 June 2006 range between 4.81% and 5.99%. Interest may be paid or capitalised into the outstanding principal at the option of the issuer. The decision to pay or capitalise must be made by the issuer in advance of each six-monthly interest payment date. The first coupon, payable at 30 June 2003, was paid in cash, subsequent coupons have been capitalised into ReCNs.

The ReCNs are split into several sub-tranches and are convertible into MIG securities at a discount of 7.5% from the prevailing MIG market price at the option of the holder at an earliest date of 5 years after financial close (14 February 2003). Should the holder choose to convert, conversion takes place over the following 9 months. The total amount convertible is $490.0 million plus any future capitalised interest.

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

Interest-bearing financial liabilities are carried at amortised cost. By allocating the discount at conversion into capital raising costs at 5.0% with the residual being a deferred interest charge, the amortised cost of the ReCNs of $496.7 million differs from the face value of $490.0 million. MIG's minimum total liability in relation to ReCNs, if all future interest is paid, will be $490.0 million.

7 Reserves

	Consolidated 30 June 2006 $'000	Consolidated 30 June 2005 $'000
Movements in foreign currency translation reserve:		
Balance at 1 July 2005	**(40,815)**	-
Currency translation differences during the year	**412,521**	(40,815)
Balance at 30 June 2006	**371,706**	(40,815)

Exchange differences arising on transaction of the foreign controlled entities are taken to the foreign currency translation reserve.

8 Retained Profits

	Consolidated 30 June 2006 $'000	Consolidated 30 June 2005 $'000
Balance at the beginning of the period	**1,252,798**	974,670
Adjustment to retained profits on adoption of AASB 132 and 139*	**(101,402)**	-
Transfer of movement in net assets attributable to security holders from liability to equity*	**210,026**	-
Acquisition of further stake in controlled entity	**8,535**	-
Transfers from contributed equity	**-**	782,409
Net result attributable to security holders	**317,371**	772,640
Distributions paid and proposed*	**(512,856)**	(1,276,921)
Balance at the end of the period	**1,174,472**	1,252,798

* Refer note 1(c).

9 Segment Reporting

The principal activity of MIG during the year was investment in toll roads, tunnels and bridges. The primary basis of segment reporting is geographical.

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

Geographical segments

	Australia $'000	Europe $'000	North America $'000	Total $'000
Consolidated				
30 June 2006				
Segment revenue	514,072	246,111	296,421	1,056,604
Revenue from continuing activities	514,072	246,111	296,421	1,056,604
Segment profit/(loss) from continuing activities before income tax (expense)/benefit	191,388	(48,401)	185,666	328,653
Net profit from continuing activities before income income tax (expense)/benefit and before finance costs attributable to security holders	191,388	(48,401)	185,666	328,653
Segment assets				
Total assets	3,259,366	3,125,880	6,330,726	12,715,972
Segment liabilities				
Total liabilities	2,424,245	2,005,227	1,682,009	6,111,481
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	1,671	4,856	1,896,218	1,902,745
Depreciation and amortisation expense	67,882	57,550	30,043	155,475

	Australia $'000	Europe $'000	North America $'000	Total $'000
Consolidated				
30 June 2005				
Segment revenue	805,583	(136,422)	712,638	1,381,799
Revenue from continuing activities	805,583	(136,422)	712,638	1,391,799
Segment profit/(loss) from continuing activities before income tax (expense)/benefit	379,784	(445,680)	712,638	646,742
Net profit/(loss) from continuing activities before income tax (expense)/benefit and before finance costs attributable to security holders	379,784	(445,680)	712,638	646,742
Segment assets	3,354,363	2,110,692	3,573,760	9,038,815
Total assets				
Segment liabilities	2,431,770	1,471,780	242,891	4,146,441
Total liabilities				
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	151,434	20,224	2,640,926	2,812,584
Depreciation and amortisation expense	68,622	61,010	-	129,632

MIG's only business segment is investment in toll roads, tunnels and bridges and entities in the same industry sector.

10 Business Combination

Acquisition of Dulles Greenway

MIG reached financial close on its investment in the Dulles Greenway toll road in Virginia in September 2005. The concessionaire of Dulles Greenway is Toll Road Investors Partnership II, L.P. (TRIP II). On 9 September 2005, MIG invested US$531.7 million (A$710.7 million) to acquire the General Partner, Shendandoah Greenway Corporation and to provide loans to Shendandoah Holdings LLC (SHLLC) and AEI Holdings LLC (AIEHLLC). SHLLC and AIEHLLC own a combined interest of 86.6% of TRIP II. Two-long dated call options are exercisable by a subsidiary of MIT(II) in respect of the issued shares in SHLLC and AIEHLLC.

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

Dulles Greenway contributed revenues of US$49.5 million ($66.2 million) and a net loss of US$16.9 million ($22.6 million) to the Group for the period from 9 September 2005 to 30 June 2006. If Dulles Greenway had been controlled for the year ended 30 June 2006, it would have delivered a loss to the Group of US$21.3 million ($28.5 million).

Details of the Dulles Greenway acquisition are as follows:

	Acquiree's carrying amount USD $'000	**MIG USD 2005 $'000**	MIG AUD **2005** $'000
Fair value of identifiable net assets of controlled entities at date of acquisition			
Cash and cash equivalents	196,619	196,619	262,816
Receivables	411	411	549
Property, plant and equipment	269,028	324,500	433,751
Tolling concession	-	931,977	1,245,752
Interest-bearing financial liabilities	(764,747)	(764,744)	(1,022,215)
Payables	(5,457)	(5,457)	(7,292)
Net assets	(304,146)	683,306	913,361
Less:			
Minority interests	-	(90,879)	(121,476)
Net identifiable assets acquired	(304,146)	592,427	791,885
Outflow of cash to acquire Shendandoah Greenway Corporation and provide loans to SHLLC and AIELLC, net of cash acquired			
Cash consideration		531,730	710,763
Cash assets acquired		(196,619)	(262,816)
Net outflow of cash		335,111	447,947
Goodwill recognised on acquisition			
Cash consideration		510,000	681,717
Direct costs relating to transaction		21,730	29,046
Deferred consideration		60,697	81,123
Total purchase consideration		592,427	791,886
Fair value of assets acquired		592,427	791,886
Goodwill recognised of acquisition		-	-
Outflow of cash to acquire additional stake of TRIP II from KBR			
Cash consideration		84,500	111,754
Minority interest acquired		(90,879)	(121,476)
Foreign exchange		-	1,187
Residual posted in retained earnings		(6,379)	(8,535)

11 Commitments for Expenditure

Eastern Distributor

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

South Bay Expressway

MIG is committed to make further equity contributions to SDELP due on or before 31 October 2006 of US$127.7 million ($203.8 million).

MIT(I) is the primary party to the South Bay Expressway acquisition agreement, with its obligations under the documents guaranteed by MIT(II), MEI and MIGIL. MIT(II), through its wholly owned subsidiary MIUS, will contribute US$102.7 million ($164.2 million) of the funding and MIT(I) will invest the remaining US$25.0 million ($39.6 million) at construction completion.

Forward foreign exchange contracts have been entered into to hedge US$127.7 million of the above contributions. The applicable hedge rate of contracts outstanding was A$1 = US$0.6267. Details of SDELP’s commitments in relation to the design and construction of South Bay Expressway toll road are detailed in the table below.

	As at 30 June 2006 $'000	As at 30 Jun 2005 $'000
Operating leases and easement commitments		
Commitments in relation to land leased by MEL from the Highways Agency in the UK , Dulles Greenway easement commitments and other non cancellable operating leases are payable as follows:		
Within one year	**33,950**	34,162
Later than one year but not later than five years	**136,962**	135,117
Later than five years	**1,490,785**	1,414,587
	1,661,697	1,583,866
Road maintenance commitments		
Commitments in relation to a maintenance contracts for the M4 Motorway and Dulles Greenway are payable as follows:		
Within one year	**43,269**	1,011
Later than one year but not later than five years	**6,742**	-
	50,011	1,011
South Bay Expressway commitments		
Commitments in relation to the construction management and design and build contracts of the South Bay Expressway are payable as follows:		
Within one year	**213,632**	301,392
Later than one year but not later than five years	**-**	87,698
	213,632	389,090
Indiana Toll Road Commitments		
Letter of credit in relation to the Indiana Toll Road are payable as follows:		
Within one year	**255,649**	-
	255,649	-

12 Contingent Liabilities

Except as discussed elsewhere in this report, MIG had the following contingent liabilities at balance date. No provisions have been raised against these items unless stated below.

- ***M6 Toll***

Outstanding claims against Midland Expressway Limited (MEL) a subsidiary of MIGIL, for construction liabilities amounting to £27.7 million ($68.9 million), have been withdrawn during the year. MEL expects further claims but is unable to quantity the amount. The Group believes that it will defend these claims successfully and that no provisions are necessary in the financial statements as at 30 June 2006.

- ***M4 Motorway***

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

- ***South Bay Expressway***

There are outstanding claims against SDELP for construction liabilities amounting to US$98.6 million ($132.7 million) that are subject to ongoing discussion and adjudication. The Group believes that it will defend these claims successfully and that no provisions are necessary in the financial statements as at 30 June 2006.

- ***Legal Proceedings***

Atlantic Pacific Infrastructure Limited had previously notified a claim against Macquarie European Infrastructure Limited (MEI) in connection with the acquisition in 1999 of assets from Kvaerner plc. The limitation period on these claims expired at the end of June 2006. A provision of £0.09 million ($0.2 million) was released in the year for the anticipated legal costs to defend this action.

- ***Warnow Tunnel***

During the period a restructuring of existing debt was negotiated. Under the restructuring, European Transport Investments (UK) Limited (ETI) a subsidiary of MIGIL, had its existing contingent commitment to make an equity contribution to the Warnow Tunnel amended to form two separate guarantees, totalling €1.19 million ($2.05 million), in the event of a senior debt payment event or default by the Warnow Tunnel. The group believes it is unlikely to have to make these contributions and that no provisions are necessary in the financial statements as at 30 June 2006.

This contingent commitment is backed by an on-demand guarantee, provided through a blocked account into which €1.19 million ($2.05 million) has been deposited.

13 Explanation of Transition to AIFRS

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

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

		1 July 2004		30 June 2005	
	Note	Previous AGAAP	AIFRS	Previous AGAAP	AIFRS
Consolidated		$'000	$'000	$'000	$'000
Current assets					
Cash and cash equivalents		417,735	417,735	1,262,921	1,262,921
Receivables		106,691	106,691	119,999	119,999
Prepayments	4e	24,283	23,832	20,651	20,651
Other assets		3,391	3,391	2,511	2,511
Total current assets		552,100	551,649	1,406,082	1,406,082
Non-current assets					
Prepayments	4e	12,220	12,220	9,587	9,587
Investments in financial assets		5,081,509	5,081,509	4,556,059	4,556,059
Property, plant and equipment	4c,d	2,451,790	2,498,463	2,482,021	2,365,751
Tolling concessions	4a	3,330,436	722,558	3,911,577	662,422
Other assets		23,552	23,552	38,914	38,914
Total non-current assets		10,899,507	8,338,302	10,998,158	7,632,733
Total assets		11,451,607	8,889,951	12,404,240	9,038,815
Current liabilities					
Payables		320,916	320,916	280,290	280,290
Provisions		2,540	2,540	3,997	3,078
Interest-bearing financial liabilities		10,650	10,650	29,650	29,650
Distribution payable		72,395	72,395	297,673	297,673
Current tax liabilities		4,930	4,930	4,722	4,722
Total current liabilities		411,431	411,431	616,332	615,413
Non-current liabilities					
Payables		70,594	70,594	-	-
Provisions	4e	1,050	4,131	584	3,548
Interest-bearing financial liabilities	4d	2,860,098	2,726,717	2,983,923	2,846,607
Deferred tax liabilities	4a	1,299,038	610,832	1,377,951	477,157
Concession notes		105,000	105,000	120,000	120,000
Other liabilities	4d	21,938	40,384	37,288	83,716
Total non-current liabilities		4,357,718	3,557,658	4,519,746	3,531,028
Total liabilities		4,769,149	3,969,089	5,136,078	4,146,441
Net assets		6,682,458	4,920,862	7,268,162	4,892,374
Equity					
MIG security holders' Interest					
Contributed equity		3,821,789	3,821,789	3,595,768	3,595,768
Reserves	4a,c,d,e	1,950,946	-	2,314,475	(40,815)
Retained profits	4a,c,d,e	690,908	974,670	1,110,124	1,252,798
Total MIG security holders' Interest		6,463,643	4,796,459	7,020,367	4,807,751
Minority interest in controlled entities	4a	218,815	124,403	247,795	84,623
Total equity		6,682,458	4,920,862	7,268,162	4,892,374

13 Explanation of Transition to AIFRS (cont'd)

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

Presented for the last reporting period (30 June 2005).

Consolidated	Note	30 June 2005 Previous GAAP $'000	AIFRS $'000
Revenue from continuing activities			
Revaluation of investments		803,542	845,424
Income from investments	4f	3,192,485	326,297
Toll revenue		242,420	242,420
Other revenue	4a,c	189,087	(32,342)
Total revenue from continuing activities		4,427,534	1,381,799
Operating expenses from continuing activities			
Financing costs	4d	307,773	295,953
Other operating expenses	4a,d,f	3,341,101	439,104
Total operating expenses from continuing activities		3,648,874	735,057
Net profit from continuing activities before income tax expense		778,660	646,742
Income tax benefit		112,781	112,781
Net profit from continuing activities after income tax expense		891,441	759,523
Net loss from controlled entities attributable to minority interests		22,287	13,117
Net profit attributable to MIG security holders		913,728	772,640

(3) Reconciliation of Consolidated Cash Flow Statements under previous AGAAP to Cash Flow Statements under AIFRS

The adoption of AIFRS has not resulted in any adjustments to the Consolidated Cash Flow Statement as at the date of transition (1 July 2004) and at the last reporting period (30 June 2005).

13 Explanation of Transition to AIFRS (cont'd)

(4) Notes to the Consolidated reconciliations

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

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

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

	1 July 2004 $'000	30 June 2005 $'000
Decrease in tolling concessions	(2,607,878)	(3,249,155)
Decrease in deferred tax liability	688,206	900,772
Decrease in asset revaluation reserve	1,950,946	2,314,475
Decrease in minority interests	94,413	163,172
Increase in retained profits	(125,687)	(129,262)

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

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

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

c) Foreign currency translation - Recognition of a foreign currency translation reserve
MIG sees differences arising on translation of foreign operations from a functional currency to Australian dollars, the presentational currency of the Group.

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

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

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

Non monetary assets previously recognised at historical rates will not be translated at period closing rates.

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

	1 July 2004 $'000	30 June 2005 $'000
Property, plant and equipment	171,811	(94)
Retained profits	(171,811)	(42,741)
Reserves	-	42,835

13 Explanation of Transition to AIFRS (cont'd)

(4) Notes to the Consolidated reconciliations (cont'd)

d) Lease classification Finance leases now recognised as operating leases

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

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

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

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

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

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

f) Sale of investments

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

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

13 Explanation of Transition to AIFRS (cont'd)

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

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

	Note	AIFRS 30 June 2005	Effect of adoption of AASB 132 & AASB 139	AIFRS 1 July 2005
		$'000	$'000	$'000
Consolidated				
Current assets				
Cash and cash equivalents		1,262,921	-	1,262,921
Receivables		119,999	-	119,999
Prepayments		20,651	-	20,651
Other assets		2,511	-	2,511
Total current assets		1,406,082	-	1,406,082
Non-current assets				
Prepayments		9,587	-	9,587
Investments in financial assets	5(b)	4,556,059	7,993	4,564,052
Property, plant and equipment		2,365,751	-	2,365,751
Tolling concessions		662,422	-	662,422
Other assets	5(a)	38,914	(20,744)	18,170
Total non-current assets		7,632,733	(12,751)	7,619,982
Total assets		9,038,815	(12,751)	9,026,064
Current liabilities				
Payables		280,290	-	280,290
Provisions		3,078	-	3,078
Interest-bearing financial liabilities		29,650	-	29,650
Distribution payable		297,673	-	297,673
Current tax liabilities		4,722	-	4,722
Total current liabilities		615,413	-	615,413
Non-current liabilities				
Provisions		3,548	-	3,548
Interest-bearing financial liabilities	5(c)	2,846,607	6,853	2,853,460
Deferred tax liabilities	5(a),(c)	477,157	17,972	495,129
Concession notes	5(c)	120,000	(78,636)	41,364
Other liabilities	5(a)	83,716	24,504	108,220
Total non-current liabilities excluding security holder interest classified as debt*		3,531,028	(29,307)	3,501,721
MIT(I) units	5(d)	-	354,962	354,962
AMT units		-	52,089	52,089
Total non-current liabilities		3,531,028	377,744	3,908,772
Total liabilities		4,146,441	377,744	4,524,185
Net assets		4,892,374	(390,495)	4,501,879

13 Explanation of Transition to AIFRS (cont'd)

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

	Note	AIFRS 30 June 2005 $'000	Effect of adoption of AASB 132 & AASB 139 $'000	AIFRS 1 July 2005 $'000
Equity				
MIG security holders' Interest				
Contributed equity	5(d)	3,595,768	(254,720)	3,341,048
Reserves	5(d)	(40,815)	-	(40,815)
Retained profits	5(a),(b),(c),(d)	1,252,798	(101,402)	1,151,396
Total MIG security holders' Interest		4,807,751	(356,122)	4,451,629
Minority interest in controlled entities		84,623	(34,373)	50,250
Total equity		4,892,374	(390,495)	4,501,879

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

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

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

	1 July 2005 $'000
Other assets	(20,744)
Other liabilities	(24,504)
Deferred tax liability	5,619
Retained earnings	39,146
Minority interest	483

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

b) Listed securities - No deduction of specified risks
Under AASB139, financial instruments classified as available for sale, are measured at fair value with changes recognised directly in equity until the underlying asset is derecognised. MIG's previous practice of deducting estimated selling costs and allowing for specified risks, such as liquidity risk, from the market value of listed investments was no longer permitted. This resulted in as additional $7,993,000 being recognised in the carrying value of these investments.

13 Explanation of Transition to AIFRS (cont'd)

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

c) Financial liabilities - Application of effective interest rate

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

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

	1 July 2005 $'000
Interest bearing financial liabilities	(6,853)
Concession notes	78,636
Deferred tax liability	(23,591)
Retained earnings	(32,421)
Minority interest	(15,771)

d) Compound financial instruments – Classification of security holder funds

The Trust Constitutions of MIT(I) and MIT(II) were amended on 30 June 2005 to remove their finite life clauses. On 21 November 2005, unitholders voted at the MIG Annual General Meeting to amend the Constitutions further to allow the Responsible Entity discretion to vary the distribution of net income to unitholders, subject to receipt of a private binding income tax ruling from the Australian Taxation Office (ATO) that such amendment would not result in the termination of the trusts. On 20 April 2006 the ATO issued tax ruling CR2006/29 stating that the proposed amendment to the Constitutions of the trusts would not result in the termination of the trusts. On 22 June 2006 these changes were made to the Trust Constitutions of MIT(I) and MIT(II). Accordingly, the units of MIT(I) are classified as equity at 30 June 2006. However, as the units of MIT(I) were classified as financial liability for the period 1 July 2005 to 22 June 2006, the income which accrued to the units in MIT(I) during this period has been accounted for as an expense and presented in the Income Statement for the year as a finance cost.

Units in AMT are also to be classified as debt on 1 July 2005. Any amounts payable to MIG are eliminated on consolidation but amounts due to outside equity interests are presented on the balance sheet as amounts due to AMT unitholders.

Statement by the Directors of the Responsible Entity of the Trusts

In the directors' opinion:

The financial statements and notes set out on pages 8 to 39 are in accordance with the Trust constitution and Corporations Act 2001, including:

a) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
b) giving a true and fair view of Macquarie Infrastructure Group (as defined in note 1(b)) and consolidated entity's financial position as at 30 June 2006 and of its performance, as represented by the result of its operations and cash flows, for the financial year ended on that date; and
c) there are reasonable grounds to believe that the Trust and consolidated entities will be able to pay their debts as and when they become due and payable.

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

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

Mark RG Johnson	**John SH Roberts**
Sydney	Sydney
23 August 2006	23 August 2006

PricewaterhouseCoopers
ABN 52 780 433 757

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

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

Audit opinion

In our opinion, the concise financial report of Macquarie Infrastructure Trust (II) for the year ended 30 June 2006 complies with Australian Accounting Standard AASB 1039 - Concise Financial Reports.

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

Scope

The concise financial report and directors' responsibility

The concise financial report comprises the consolidated balance sheet, consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity, notes to the financial statements, and the directors' declaration for Macquarie Infrastructure Trust (II) for the year ended 30 June 2006.

The directors of Macquarie Infrastructure Investment Management Limited are responsible for the preparation and presentation of the financial report in accordance with Australian Accounting Standard AASB 1039 - Concise Financial Reports.

Audit approach

We conducted an independent audit of the concise financial report in order to express an opinion on it to the unitholders of Macquarie Infrastructure Trust (II). Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the concise 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 explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

We also performed an independent audit of the full financial report of the Macquarie Infrastructure Trust (II) for the financial year ended 30 June 2006. Our audit report on the full financial report was signed on 23 August 2006, and was not subject to any qualification.

In conducting our audit of the concise financial report, we performed procedures to assess whether in all material respects the concise financial report is presented fairly in accordance with Australian Accounting Standard AASB 1039 - Concise Financial Reports.

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

- testing that the information included in the concise financial report is consistent with the information in the full financial report, and
- examining, on a test basis, information to provide evidence supporting the amounts, and other disclosures in the concise financial report which were not directly derived from the full financial report. Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the concise financial report.

Independence

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

PricewaterhouseCoopers

Mark Haberlin
Partner

Sydney
23 August 2006