

MACQUARIE INFRASTRUCTURE GROUP INTERNATIONAL LIMITED
EC35715

FINANCIAL REPORT 30 JUNE 2007



MACQUARIE

During the year under review, Macquarie Infrastructure Group (MIG) comprises Macquarie Infrastructure Trust (I) (MIT(I)) ARSN 092863780, Macquarie Infrastructure Trust (II) (MIT(II)) ARSN 092863548 and Macquarie Infrastructure Group International Limited (MIGIL) ARBN 094 142 891.

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 (MIMUK) registered number 3976881 is the advisor for MIGIL. MIMUK 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 MIGIL, nor any member of the Macquarie Bank Group, including MIIML and MIMUK, 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 in MIG and MIMUK as the advisor to MIGIL are entitled to fees for so acting. MBL and its related corporations (including MIIML and MIMUK) together with their officers and directors and officers and directors of MIGIL hold stapled securities in the MIG from time to time.

Financial Report

Year Ended 30 June 2007

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Financial Report

Year Ended 30 June 2007

Directors' Report

The Directors of Macquarie Infrastructure Group International Limited (MIGIL or the Company) submit the following report in respect of the year ended 30 June 2007.

Directors

The following persons held office as Directors of the Company during the year and up to the date of this report:

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

Secretary

The following person held office as company secretary of the Company during the year and up to the date of this report:

- Roslyn O'Brien

Principal Activities and Results

This financial report has prepared in accordance with International Financial Reporting Standards (IFRS).

The principal activity of the Company and its subsidiaries (together the Group) is to invest in toll roads, bridges and tunnels. During the year, the Group formed part of Macquarie Infrastructure Group (MIG). MIG is a triple stapled security which during the year comprised a unit in each of two Australian trusts, Macquarie Infrastructure Trust (I) (MIT(I)) and Macquarie Infrastructure Trust (II) (MIT(II)) and an ordinary share of the Company. MIGIL is a mutual fund company incorporated and domiciled in Bermuda.

The Group results for the year are set out below and in more detail in the attached financial statements.

	30 June 2007	30 June 2006
	AUS \$'000	AUS \$'000
Total revenue and other income	1,747,729	367,098
Profit attributable to MIGIL equity holders	848,795	297,485

Financial Report

Year Ended 30 June 2007

Review of the Business

■ **M6 Toll**

Debt Refinancing

MIG completed a debt refinancing of the M6 Toll on 24 August 2006. Following the refinancing, the previous £619.9 million (\$1.54 billion) debt facility was replaced by new facilities of £1.03 billion (\$2.55 billion) and new interest rate swaps. As part of the refinancing a group restructure was undertaken. Macquarie Motorways Group Limited (MMG), a new 100% owned subsidiary of the Company, was incorporated on 18 July 2006. The new facilities and interest rate swaps are held by MMG.

After repaying the previous debt facility and incurring debt arranging and refinancing fees the additional cash assets generated by the group was £358.0 million (\$887.5 million). A further £34.0 million (\$84.3 million) of restricted cash assets were released from the refinancing. \$500.0 million of the proceeds was used by MIG to repay the standby facilities drawn in connection with the acquisition of the Indiana Toll Road, with the remainder being applied to the security buy-back (refer below).

Outstanding Claims

Midland Expressway Limited (MEL) settled its dispute with CAMBBA Construction Group over the final contract price via a settlement agreement signed on 12 March 2007. The amount due as a result of the final settlement was within the accrual previously booked to settle the claim. The unutilised part of the accrual has been retained to finalise unfinished contract works.

■ **Divestment of 50% interest in Dulles Greenway**

On 15 December 2006, the Company sold its loan to Shenandoah Holdings LLC to Macquarie Infrastructure Partners (MIP), for proceeds of US\$281.6 million (\$360.4 million). This formed part of a divestment by MIG of 50% of its interests in its US assets to MIP.

■ **Security buy-back**

On 3 October 2006, MIG commenced an on-market buy-back of up to \$500.0 million of MIG securities. Following the successful completion of the sale of US assets to MIP, and having received the required approvals from ASIC and MIG security holders, MIG also announced on 18 December 2006 an expanded on market buy-back of up to a further \$500.0 million.

As at 30 June 2007, MIG had bought back 179,261,530 MIG securities for total consideration of \$636.2 million of which \$527.0 million was payable by MIGIL. MIGIL paid brokerage of \$0.9 million to Macquarie Bank Limited during the period in connection with the buy back. In accordance with approval received from ASIC on 10 August 2007, the buy-back will conclude no later than 10 August 2008.

■ **Distribution Reinvestment Plan**

On 15 August 2006, MIGIL issued 55,504,517 ordinary shares under the MIG Distribution Reinvestment Plan (DRP). The net equity raised, including share premium, was \$118.4 million.

A portion of stapled security holders participated in MIG's Distribution Reinvestment Plan for the distribution paid on 14 February 2007. All of the securities allocated as part of the Distribution Reinvestment Plan were sourced from on-market purchases of existing securities.

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Year Ended 30 June 2007

■ *Conversion of Reset Convertible Notes (ReCNs)*

On 13 November 2006, Ontario Teachers' Pension Plan Board (OTPP) exercised their right to convert all outstanding ReCNs, with face value of \$490.0 million together with accrued interest of \$14.7 million into MIG stapled securities. The ReCNs were issued by a wholly owned subsidiary of MIT(I) to fund its investment in Westlink M7, an Australian Toll Road.

On 15 November 2006, MIGIL issued 165,048,894 stapled securities to OTPP in accordance with the terms of the ReCNs Deed Poll. The net equity raised, including share premium, was \$426.7 million.

In the opinion of the Directors, there were no other significant developments within the Company and its controlled entities that occurred during the year.

By order of the Board



R Mulderig
Chairman
22 August 2007

Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

Financial Report

Year Ended 30 June 2007

Independent Auditors' Report to the Members of Macquarie Infrastructure Group International Limited.

We have audited the accompanying consolidated financial statements of Macquarie Infrastructure Group International Limited and its subsidiaries (the 'Group') which comprise the consolidated balance sheet as at 30 June 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and the related notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 90 of the Bermuda Companies Act 1981 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

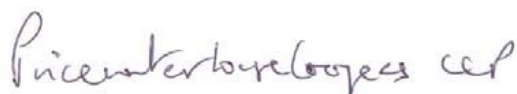
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 30 June 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

The directors are responsible for the maintenance and integrity of the MIG website, which houses the Group's consolidated financial statements. The work carried out by PricewaterhouseCoopers LLP does not involve consideration of the maintenance or integrity of the MIG website and, accordingly, PricewaterhouseCoopers LLP does not accept responsibility for any changes that have occurred to the Group's consolidated financial statements since they were initially presented on the MIG website.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London

22 August 2007

Financial Report

Year Ended 30 June 2007

Consolidated Income Statement

	Note	30 June 2007 AUS \$'000	30 June 2006 AUS \$'000
Revenue and other income from continuing activities			
Revenue from continuing activities		210,047	144,544
Other income from continuing activities		1,537,682	222,554
Total revenue and other income from continuing activities	2(i)	1,747,729	367,098
Operating expenses from continuing activities			
Financing costs		(175,995)	(101,355)
Other operating expenses		(181,891)	(174,108)
Total operating expenses from continuing activities	2(ii)	(357,886)	(275,463)
Profit from continuing activities before taxation		1,389,843	91,635
Taxation (expense)/benefit	3	(407)	246,685
Profit from continuing activities after taxation		1,389,436	338,320
Profit attributable to:			
MIGIL equity holders		848,795	297,485
Minority interest		540,641	40,835
		1,389,436	338,320

The above Consolidated Income Statement should be read in conjunction with the accompanying notes on pages 9 to 34.

Financial Report

Year Ended 30 June 2007

Consolidated Balance Sheet

	Note	30 June 2007 AUS \$'000	30 June 2006 AUS \$'000
Current assets			
Cash and cash equivalents	5	1,445,359	326,087
Receivables	6	3,687	6,058
Prepayments		2,708	2,768
Other assets		-	513
Total current assets		1,451,754	335,426
Non-current assets			
Investments in financial assets	7	5,396,544	4,886,652
Property, plant and equipment	9	1,435,207	1,538,127
Tolling concessions	10	48,461	51,993
Derivative financial instruments	14	254,791	-
Total non-current assets		7,135,003	6,476,772
Total assets		8,586,757	6,812,198
Current liabilities			
Trade and other payables	11	(96,500)	(40,135)
Distribution payable to MIGIL equity holders	4	(251,679)	(91,411)
Total current liabilities		(348,179)	(131,546)
Non-current liabilities			
Trade and other payables	11	(111,746)	(83,941)
Provisions	12	(2,339)	(2,498)
Interest-bearing financial liabilities	13	(2,638,396)	(1,795,773)
Derivative financial instruments	14	-	(6,750)
Deferred tax liability	16	(76,437)	-
Total non-current liabilities		(2,828,918)	(1,888,962)
Total liabilities		(3,177,097)	(2,020,508)
Net assets		5,409,660	4,791,690
Equity			
Equity attributable to MIGIL equity holders			
Contributed equity	15	6,024,212	6,006,310
Reserves	16	(2,768,182)	(2,637,886)
Retained profits	17	1,499,009	1,163,489
		4,755,039	4,531,913
Minority interest	18	654,621	259,777
Total equity		5,409,660	4,791,690

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes on pages 9 to 34.

This financial information was approved by the Board of Directors on 22 August 2007 and was signed on its behalf by:


R Mulderig
Chairman


P Dyer
Director

Financial Report

Year Ended 30 June 2007

Consolidated Statement of Changes in Equity

	30 June 2007 AUS \$'000	30 June 2006 AUS \$'000
Total equity at the beginning of the year	4,791,690	2,572,653
Adjustment to equity on adoption of IAS 32 and IAS 39	-	543,594
Exchange differences on translation of foreign operations	(335,512)	418,954
Movement in cash flow hedging reserve	180,062	-
Profit for the year	1,389,436	338,320
Total recognised income and expense for the year	1,233,986	1,300,868
Transactions with equity holders		
Issue of share capital, net of transaction costs paid	118,197	804,694
Securities cancelled pursuant to security buy-back	(526,998)	-
Securities issued pursuant to conversion of ReCNs	426,704	-
Equity contributions from minority interest	-	204,886
Distributions provided for or paid to ordinary share holders	(513,274)	(91,411)
Distributions provided for or paid to minority interest	(120,645)	-
Total equity at the end of the year	5,409,660	4,791,690
Total recognised income and expense for the year is attributable to:		
MIGIL equity holders	718,500	1,245,976
Minority interest	515,486	54,892
	1,233,986	1,300,868

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes on pages 9 to 34.

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Year Ended 30 June 2007

Consolidated Cash Flow Statement

	30 June 2007 AUS \$'000	30 June 2006 AUS \$'000
Cash flows from operating activities		
Toll revenue received	169,684	139,742
Interest received	109,933	47,088
Payments to suppliers and employees (inclusive of VAT)	(57,343)	(42,512)
Management fees paid	(71,364)	(76,530)
Performance fees paid	-	(9,321)
Dividend income received	258,465	49,366
Income taxes paid	(284)	(101)
Other income received	8,994	5,710
Net cash flows from operating activities	418,085	113,442
Cash flows from investing activities		
Proceeds from disposal of interest bearing financial assets	360,419	-
Payments for purchase of investments	-	(1,765,730)
Purchase of tangible fixed assets	(1,861)	(5,189)
Proceeds from sale of tangible fixed assets	12	19
Repayment of loans	-	210,678
Proceeds from return of capital from investments	-	8,602
Net cash flows from investing activities	358,570	(1,551,620)
Cash flows from financing activities		
Issue of ordinary share capital	118,423	752,212
On-market buyback	(526,998)	-
Equity contributions from minority interest	-	204,666
Debt contributions from minority interest	-	278,761
Borrowing costs paid	(139,059)	(93,486)
Proceeds from borrowings	2,479,104	-
Repayment of borrowings	(1,536,820)	(38,921)
Repayment of related entity loans	466,810	164,526
Distributions paid to MIGIL equity holders	(353,005)	(465,523)
Distributions paid to minority interests	(102,147)	-
Net cash flows from financing activities	406,308	802,235
Net increase/(decrease) in cash assets held	1,182,963	(635,943)
Cash assets at the beginning of the year	326,087	941,745
Effects of exchange rate movements	(63,691)	20,285
Cash assets at the end of the year	1,445,359	326,087

The above Consolidated Cash Flow Statement should be read in conjunction with the accompanying notes on pages 9 to 34.

Notes to the Consolidated Financial Statements

1 Summary of Significant Accounting Policies

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

(a) Basis of Preparation

This financial report has been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

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 years presented, unless otherwise stated.

— *Critical accounting estimates*

The preparation of financial statements in conformity with IFRS 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, which are measured at directors' estimates of fair value. 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 MIGIL's investments in financial assets as at 30 June 2007 are as follows: 407 ETR 3.5% (2006: 4.0%), Lusoponte 2.8% (2006: 2.8%), Warnow Tunnel 5.0% (2006: 6.5%), Dulles Greenway 7.0% (2006: 7.5%), and APRR 8.0% (2006: 18.0%). Details of significant changes in risk premiums are provided in Note 7.

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.

— *Historical cost convention*

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

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by MIGIL at 30 June 2007 and the results of all controlled entities for the year then ended. The effects of all transactions between entities in the consolidated Group are eliminated in full. Minority interests in the results and equity are shown separately in the Income Statement and the Balance Sheet respectively. Minority interests are those interests in partly owned subsidiaries, which are not held directly or indirectly by MIGIL.

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

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Year Ended 30 June 2007

1 Summary of Significant Accounting Policies (cont'd)

(c) Investments in financial assets

MIGIL has designated its non-controlled investments in toll road companies as financial assets at fair value through profit or loss. Investments in financial assets are revalued at each reporting date, or when there is a change in the nature of the investment, to their fair values in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. Changes in the fair values of investments in financial assets, both positive and negative have been recognised in the Income Statement for the year.

Investments have been measured as follows:

— *Interests in unlisted securities in companies*

MIGIL, as a mutual fund company, has taken advantage of the exemption available under IAS 28 *Investments in Associates*, and designated those infrastructure investments that are associated undertakings, as financial assets at fair value through profit or loss in line with IAS 39. They are not equity accounted as otherwise required by IAS 28.

Unlisted interests in companies (including investments in associates) which are not controlled are measured at the directors' estimates of fair value, determined in accordance with a discounted cash flow analysis.

Adjustments to the fair value of interests in unlisted securities in companies are recognised in the Income Statement.

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

— *Interests in interest bearing debt securities*

Interests in interest bearing debt securities are measured at fair value. Adjustments to the fair value of debt securities are recognised in the Income Statement.

(d) Intangible assets - tolling concessions

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

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

(e) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Cost represents purchase cost and in the case of the construction of the M6 Toll all expenses that are directly attributable to bringing the road into final condition. These expenses include finance costs up to Permit to Use which have been capitalised in accordance with IAS 16 *Property, Plant and Equipment*

Depreciation rates are selected based on expected economic lives of the assets, taking into account the expected rate of technological developments, market requirements and expected use of the assets. The selected rates are regularly reviewed to ensure they remain appropriate to the Group's circumstances. Depreciation of tangible fixed assets commenced at Permit to Use for the M6 Toll or the date of acquisition if later on the following bases over their respective estimated useful lives:

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Year Ended 30 June 2007

1 Summary of Significant Accounting Policies (cont'd)

(e) Property, plant and equipment (cont'd)

Asset Description	Asset Classification	Estimated Useful Life	Depreciation basis
Road Infrastructure	M6 Toll Road	50 years	Vehicle usage basis
Roadbase	M6 Toll Road	15 years	Vehicle usage basis
Wearing Course	M6 Toll Road	8 years	Vehicle usage basis
Road Buildings Infrastructure	M6 Toll Road	50 years	Straight line basis
Non Road Buildings including Motorway Service Area	Short Leasehold Land and Buildings	50 years	Straight line basis
Masts and Columns	Plant and Machinery	12 years	Straight line basis
Office Furniture and Fittings	Plant and Machinery	10 years	Straight line basis
Signage	Plant and Machinery	6 years	Straight line basis
Vehicles and Maintenance Equipment	Plant and Machinery	5 years	Straight line basis
IT Equipment	Plant and Machinery	3 years	Straight line basis
Toll Collection System	Plant and Machinery	3 years	Straight line basis

(f) Impairment of assets

The carrying amount of intangible assets and property, plant and equipment is assessed periodically to determine whether there are indications of any impairment of the value beyond what is expressed in the amortisation or depreciation charges. If that is the case, an impairment charge is taken against the recoverable amount of the assets, if that is lower than the carrying amount.

The recoverable amount of the asset is determined as the higher of the net selling price and the value in use. If it is not possible to determine a recoverable amount for the individual assets, the assets are assessed together in the smallest group of assets for which a reliable recoverable amount can be determined in an overall assessment.

(g) Acquisition of assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or 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. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

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.

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.

(h) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

1 Summary of Significant Accounting Policies (cont'd)

(i) Inventories

Inventories are valued at the lower of cost and net realisable value.

(j) Post retirement benefits

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income over the employees' expected average remaining working lives.

Past service costs are recognised immediately in income, unless the changes to the pension scheme are conditional on the employees remaining in service for a specified time. In this case, the past service costs are amortised on a straight-line basis over this period.

(k) Interest bearing liabilities

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

(l) Derivative financial instruments

The Group enters into interest rate swap agreements.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates its interest rate swap agreements as hedges of highly probable forecast transactions (cash flow hedges).

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

— Cash flow hedges

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

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

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

1 Summary of Significant Accounting Policies (cont'd)

(l) Derivative financial instruments (cont'd)

— *Fair value estimation*

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

(m) Income tax

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

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

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

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

Deferred tax liabilities are not recognised on revaluation increments above investment cost for tax paying entities as an exemption is available from capital gains tax on disposal of certain entities. See Note 3(d).

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

(n) Foreign currency translation

— *Functional and presentation currency*

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

— *Transactions and balances*

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

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Year Ended 30 June 2007

1 Summary of Significant Accounting Policies (cont'd)

(n) Foreign currency translation (cont'd)

— *Group companies*

The results and financial position of all of the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

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

(o) Revenue and other income recognition

Revaluation of investments in financial assets represents changes in the fair value of investments in unlisted securities and interest bearing debt securities. Income relating to these investments is brought to account as described in Note (c) above.

Interest income from investments not brought to account at fair value is recognised as it accrues and toll revenue is recognised when the service is provided. Other revenue is recognised when the fee in respect of services provided is receivable.

Toll revenue and other revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of value added tax (VAT).

(p) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

(q) Segment reporting

A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments.

(r) Value added tax (VAT)

All income and expense items are presented in the financial statements net of VAT. Receivables and payables are stated at amounts inclusive of VAT. The net amount of VAT recoverable from H.M. Revenue & Customs is included in receivables in the Balance Sheet. Cash flows relating to VAT are included in the Cash Flow Statement on a gross basis.

(s) Rounding of amounts

Amounts in the Directors' Report and the Financial Report have been rounded to the nearest thousand dollars, unless otherwise indicated.

1 Summary of Significant Accounting Policies (cont'd)

(t) Provisions

Provisions are recognised when: the group has present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligations; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

(u) Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group for accounting periods beginning on or after 1 July 2007 or later periods but which the Group has not yet adopted. The significant ones are as follows:

IFRS 7, *Financial Instruments: Disclosures* (effective from 1 July 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit, liquidity and market risk, including sensitivity analysis to market risk. The Group does not expect any additional disclosures will be required.

IFRS 8, *Operating Segments* (effective from 1 July 2009). This standard will require the entity to adopt the 'management approach' to disclosing information about its reportable segments. Generally, the financial information will be reported on the same basis as it is used internally by the chief decision maker for evaluating operating segment performance and deciding how to allocate resources to operating segments. Such information may be prepared using different measures to that used in preparing the income statement and balance sheet, in which case reconciliations of certain items will be required.

IFRIC 12, *Service Concession Arrangements* (effective from 1 July 2008). IFRIC 12 will require concession arrangements that fall within its scope to either be accounted for as a financial asset or an intangible asset depending on the consideration the operator receives from the grantor. A financial asset is recognised if the operator has an unconditional contractual right to receive cash or another financial asset from the grantor. If the consideration the operator receives from the grantor is a right to charge users, an intangible asset is recognised.

(v) Comparative figures

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

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Year Ended 30 June 2007

2 Profit for the Year

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

(i) Revenue and other income from continuing activities

	30 June 2007 AUS \$'000	30 June 2006 AUS \$'000
Revenue from continuing activities		
Interest income:		
Related parties	142	-
Other persons and corporations	62,976	24,084
Toll revenue	136,299	115,682
Other revenue	10,630	4,778
Total revenue from continuing activities	210,047	144,544
Other income from continuing activities		
Revaluation of interests in unlisted securities in companies	1,439,443	219,393
Revaluation of interest bearing financial assets	141,110	(7,001)
Foreign exchange effect of revaluations	(5,912)	1,476
Total revaluation income	1,574,641	213,868
Foreign exchange loss	(57,348)	(4,679)
Net gains on derivative financial liabilities	20,389	13,365
Total other income from continuing activities	1,537,682	222,554
Total revenue and other income from continuing activities	1,747,729	367,098

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Year Ended 30 June 2007

2 Profit for the Year (cont'd)

(ii) Operating expenses from continuing activities

	30 June 2007 AUS \$'000	30 June 2006 AUS \$'000
Financing costs		
Interest expense	173,498	97,242
Amortisation of capitalised borrowing costs	2,497	4,113
	175,995	101,355
Other operating expenses		
Amortisation of tolling concessions	1,079	1,046
Depreciation		
Plant and machinery	10,533	13,953
Land and buildings	1,131	1,092
M6 Toll road	20,203	26,146
	31,867	41,191
Cost of operations:		
Employment costs	14,857	10,220
Operating expenses	9,550	11,487
Operating lease rentals	33,055	33,367
	57,462	55,074
Other operating expenses:		
Consulting and administration fees	22,327	3,636
Manager's and adviser's base fees	65,169	67,226
Other expenses	3,987	5,935
	91,483	76,797
Total other operating expenses	181,891	174,108
Total operating expenses from continuing activities	357,886	275,463

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Year Ended 30 June 2007

3 Taxation

Under existing laws of Bermuda, the Company is not required to pay taxes on either income or capital gains. Controlled entities of MIGIL are subject to taxes in their jurisdictions.

The income tax for the financial year differs from the amount calculated on the profit from ordinary activities. The differences are reconciled as follows:

	30 June 2007 AUS \$'000	30 June 2006 AUS \$'000
(a) Profit before taxation	1,389,843	91,635
Prima facie taxation charge on profit before taxation at Bermuda tax rate of 0% (2006 – 0%)	-	-
Factors affecting tax charge:		
Overseas tax	407	40
Reversal of deferred tax on revaluations of investments	-	(246,725)
Aggregate income tax expense/(benefit)	407	(246,685)
	30 June 2007 \$'000	30 June 2006 \$'000
(b) Income tax expense		
Aggregate income tax expense/(benefit) comprises:		
Current taxation provision	407	40
Over provision in prior year	-	(246,725)
	407	(246,685)
Income tax expense is attributable to:		
Profit from continuing operations	407	40
Aggregate income tax expense	407	40
Deferred income tax benefit included in income tax expense comprises:		
Decrease in deferred tax liabilities	-	(246,725)
(c) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	1,151,493	889,653
Potential tax benefit of unused tax losses	345,448	266,896

d) Revision of estimate

On adoption of IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 at 1 July 2005 a deferred tax liability was recognised for all revaluation increments above investment cost for tax paying entities.

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

The Group consider that from 30 June 2006 it is probable that the SSE would have been satisfied and that no tax would be likely to be payable in the event of disposals of Lusoponte and 407ETR. Accordingly, the deferred tax liabilities recognised in connection with these assets at 1 July 2005 were reversed in the year ended 30 June 2006. The net effect of the change in the prior year was to increase the taxation benefit by \$246.7 million.

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Year Ended 30 June 2007

4 Distributions Paid and Proposed

The distributions were paid/payable as follows:

	30 June 2007 AUS \$'000	30 June 2006 AUS \$'000
Interim distribution paid for the half year ended 31 December	261,595	-
Final distribution paid/payable for the year ended 30 June	251,679	91,411
	513,274	91,411

5 Cash and Cash Equivalents

	30 June 2007 AUS \$'000	30 June 2006 AUS \$'000
Cash at bank	90,994	153,696
Short term money market investments	1,354,365	172,391
	1,445,359	326,087

(a) Short term money market investments

The short term money market investments outstanding at the year end mature within 90 days and pay interest between 5.23% and 6.50% per annum.

The majority of the cash at bank balance is held in accounts earning money market rates of interest.

(b) Cash not available for use

Cash at bank and short term money market investments include amounts that have restrictions on their use. This includes restricted amounts relating to MMG's debt service obligations, equity commitments to Warnowquerung GmbH & Co (Warnow Tunnel), blocked deposits required under MEL's concession agreement obligations and other blocked deposits following the capital reduction of MEI in January 2005 amounting to \$52.9 million (2006: \$138.8 million).

6 Receivables

	30 June 2007 AUS \$'000	30 June 2006 AUS \$'000
Other receivables	2,950	4,355
Receivables from related parties	737	1,703
	3,687	6,058

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Year Ended 30 June 2007

7 Investments in Financial Assets

MIGIL, as a mutual fund company, has taken advantage of the exemption available under IAS 28, and designated those infrastructure investments that are associated undertakings, as financial assets at fair value through profit or loss in line with IAS 39, see note 1(c).

MIGIL's investments in associates are disclosed in the table below.

Name of associate	Principal activity	2007 ownership %	2006 ownership %
(i) 407 International Inc. (incorporated in Canada)	Toll road operator	30.0	30.0
(i) 407 ETR Concession Company Limited (incorporated in Canada)	Toll road operator	30.0	30.0
(ii) Gestiponte-Operação e Manutenção das Travessias do Tejo S.A. (incorporated in Portugal)	Investment in toll bridges	30.6	30.6
(ii) Lusoponte Concessionária para a Travessia do Tejo S.A. (incorporated in Portugal)	Holding company	30.6	30.6
(iii) Financière Eiffarie SAS (incorporated in France)	Holding company	25.0	25.0
(iii) Eiffarie SAS (incorporated in France)	Investment in toll road network	25.0	25.0
(iii) Autoroutes Paris-Rhin-Rhône, including subsidiaries and associates (incorporated in France)	Toll road network operator	20.4	20.4
(iv) Warnowquerung GmbH & Co. KG (limited partnership incorporated in Germany)	Investment in toll tunnel	70.0	70.0
(iv) Warnowquerung Verwaltungsgesellschaft GmbH (incorporated in Germany)	General Partner of partnership	70.0	70.0
(v) PROMAC Holdings SA deCV	Holding company	40.0	-

The fair values attributed to these investments are disclosed below.

	Balance at 30 June 2006	Returns from Investments Note (i)	Investments/ (Divestments)	FX Effects Note(v)	Revaluations	Balance at 30 June 2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Interests in unlisted securities in companies						
(i) Investment in 407 International Inc. (407 ETR)	2,960,063	(35,245)	-	(236,585)	351,035	3,039,268
(ii) Shares in Lusoponte Concessionária para a Travessia do Tejo S.A. (Lusoponte)	234,696	(5,985)	-	(17,691)	5,947	216,967
(iii) Investment in Financière Eiffarie SAS (APRR) Note (iii)	534,785	(217,234)	-	(56,975)	1,080,030	1,340,606
(iv) Partnership interest in Warnowquerung GmbH (Warnow Tunnel) Note (ii)	-	-	-	-	2,431	2,431
	3,729,544	(258,464)	-	(311,251)	1,439,443	4,599,272
Interest bearing financial assets						
(iii) Investments in Financière Eiffarie SAS Bonds (APRR) Note (iii)	513,578	(40,933)	-	(36,755)	43,045	478,935
Investments in Dulles Greenway Subordinated Loans Note (iv)	643,530	(6,733)	(360,419)	(56,106)	98,065	318,337
	1,157,108	(47,666)	(360,419)	(92,861)	141,110	797,272
Total Investments	4,886,652	(306,130)	(360,419)	(404,112)	1,580,553	5,396,544

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Year Ended 30 June 2007

7 Investments in Financial Assets (cont'd)

At 30 June 2007, the total value of MIGIL's investments in financial assets is \$5,396.5 million. The values 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(a). If the risk premiums of the investments were 0.5% lower/higher, the value of MIGIL's investments in financial assets would increase/decrease by \$517.0 million and \$441.8 million respectively. If all revenue forecasts were 5% higher/lower, the value of MIGIL's investments in financial assets would increase/decrease by \$596.9 million and \$590.4 million respectively.

Notes

(i) Returns from investments

Distributions or receipts from investments are credited directly against the investment when received.

(ii) Warnow Tunnel

A 20 year extension to the original 30 year concession was formally granted by the City of Rostock in February 2007. Distributions to equity are forecast to occur in the later years of the concession. As a result, this investment now has a positive valuation.

(iii) Financière Eiffarie

The risk premium applied in the valuation of Financière Eiffarie (APRR) at 30 June 2006 was 18.0%, reflecting the acquisition price of the asset. The risk premium was revised to 12.0% at 31 December 2006, reflective of the fact that the asset was in a transition phase operationally, and to 8.0% at 30 June 2007, bringing it more into line with the risk premiums used in valuing MIGIL's other assets.

The Group's interest in APRR is held through Macquarie Autoroutes de France SA (MAF), a company owned 50% plus one share by the Group and 50% less one share by Macquarie European Infrastructure Fund (MEIF). The Group's interest in MAF is subject to put and call options granted in favour of MEIF. These options include provisions that enable MEIF to sell its interest in MAF to the Group or purchase the Group's interest in MAF at fair market value in the event that a MBL Group entity ceases to be the manager of MAF.

In addition, Eiffage SA has a call option over MAF's shares in Financière Eiffarie, exercisable at fair value in the event that a MBL Group entity ceases to be the manager of MAF.

(iv) Dulles Greenway

On 15 December 2006, the Company sold its loan to Shenandoah Holdings LLC to Macquarie Infrastructure Partners (MIP), for proceeds of US\$281.6 million (\$360.4 million). This formed part of a divestment by MIG of 50% of its interests in its US assets to MIP.

(v) Foreign exchange (FX) effects

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

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Year Ended 30 June 2007

8 Subsidiaries

Name of controlled entity	Country of incorporation	2007 ownership %	2006 ownership %
European Transport Investments (UK) Limited (ETI) (iii)	UK	100.0	100.0
MAF Finance Sarl (MFS) (iv)	Luxembourg	50.2	50.2
Macquarie (UK) Projects Limited (i)	UK	100.0	100.0
Macquarie Autoroutes de France SAS (MAF) (iv)	France	50.0	50.0
Macquarie European Infrastructure Limited (MEI)	UK	100.0	100.0
Macquarie Green Bermudian Holdings Limited	Bermuda	100.0	100.0
Macquarie Infrastructure (Luxembourg) S.A. (ii)	Luxembourg	100.0	100.0
Macquarie Infrastructure (Toll Route) S.A. (ii)	Luxembourg	100.0	100.0
Macquarie Infrastructure (UK) Limited (MIUK)	UK	100.0	100.0
Macquarie Infrastructure Canada Inc	Canada	100.0	100.0
Macquarie Mexico Holdings SA de CV	Mexico	100.0	-
Macquarie Midland Holdings Limited (MMHL) (i)	UK	100.0	100.0
Macquarie Motorways Group Limited (MMG)	UK	100.0	-
MIBL Finance Luxembourg SarL (MFLS) (iv)	Luxembourg	100.0	100.0
Midland Expressway Limited (MEL)	UK	100.0	100.0
MIG Holdings Limited	Bermuda	100.0	100.0
MIG Investments Limited (ii)	Bermuda	100.0	100.0
Tipperhurst Limited (i)	UK	100.0	100.0

Notes

(i) Company dormant

(ii) Company in liquidation

(iii) ETI has a 70% shareholding in Warnowquerung GmbH & Co.KG (Warnowquerung), the owner of the Rostock Fixed Crossing concession. The agreement is structured such that any decision made in regard to the financial and operational policies of Warnowquerung requires 75% of the voting members to proceed, as a result MIGIL is not deemed to control Warnowquerung.

(iv) MFS and MAF were incorporated during the prior year as part of the APRR acquisition. MFLS has a 50% plus one share interest in MAF which gives MIGIL control over the financial and operating policies of MAF. Consequently the results and the financial position of MAF are consolidated in this financial report.

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Year Ended 30 June 2007

9 Property, Plant and Equipment

	Plant and machinery	Short leasehold land and buildings	M6 Toll Road	Total
	AUS \$'000	AUS \$'000	AUS \$'000	AUS \$'000
Cost				
As at the beginning of the year	94,125	57,326	1,484,150	1,635,601
Additions	1,027	-	341	1,368
Disposals	(71)	(6)	-	(77)
Foreign currency exchange differences	(5,077)	(2,911)	(70,474)	(78,462)
As at the end of the year	90,004	54,409	1,414,017	1,558,430
Depreciation				
As at the beginning of the year	(37,057)	(2,922)	(57,495)	(97,474)
Charge for the year	(10,533)	(1,131)	(20,203)	(31,867)
Eliminated on disposal	42	-	-	42
Foreign currency exchange differences	2,143	182	3,751	6,076
As at the end of the year	(45,405)	(3,871)	(73,947)	(123,223)
Net Book Value				
As at the end of the year	44,599	50,538	1,340,070	1,435,207
Net Book Value				
As at the beginning of the year	57,068	54,404	1,426,655	1,538,127

10 Intangible Assets

Tolling Concessions

	30 June 2007 AUS \$'000
Cost	
As at the beginning of the year	54,178
Foreign currency exchange differences	(2,014)
As at the end of the year	52,164
Amortisation	
As at the beginning of the year	(2,185)
Charge for the year	(1,079)
Foreign currency exchange differences	(439)
As at the end of the year	(3,703)
Net Book value	
As at the end of the year	48,461
Net Book value	
As at the beginning of the year	51,993

Tolling concessions represent the right to levy tolls in respect of the M6 Toll.

Tolling concessions are amortised over the remaining life of each concession, the M6 Toll concession expires in January 2054.

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Year Ended 30 June 2007

11 Trade and Other Payables

	30 June 2007 AUS \$'000	30 June 2006 AUS \$'000
Current		
Trade creditors	16,384	16,402
Payables to related parties	43,564	483
Distributions payable to minority interest	15,896	-
Other payables	6,211	4,458
Accruals and deferred income	14,445	18,792
	96,500	40,135
Non-Current		
MEL land fund operating lease obligations (see note 21)	111,746	83,941
	111,746	83,941

12 Provisions

	30 June 2007 AUS \$'000	30 June 2006 AUS \$'000
Non-current		
Defined benefit plan deficit	2,339	2,498
	2,339	2,498

Movement in provisions

Movements in each class of provisions during the financial year are set out below:

	Defined benefit plan AUS \$'000
Provisions	
As at the beginning of the year	2,498
Additions during the year	3,134
Utilised during the year	(3,153)
Foreign currency exchange differences	(140)
As at the end of the year	2,339

No significant uncertainty exists over the provisions.

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Year Ended 30 June 2007

13 Interest Bearing Financial Liabilities

	Note	30 June 2007 AUS \$'000	30 June 2006 AUS \$'000
Non-current			
MEL bank debt	(i)	-	1,542,216
MMG bank debt	(i)	2,368,533	-
Less issue costs	(i)	(23,206)	(3,640)
Accrued interest rate swap liability (see note 14)		53,602	-
Loan from minority interest	(ii)	239,467	257,197
		2,638,396	1,795,773

Notes

(i) M6 Toll debt refinancing

MIGIL completed a debt refinancing of the M6 Toll in August 2006. Following the refinancing, the previous £619.9 million (\$1.47 billion) debt facility held by MEL was replaced by new facilities of £1.03 billion (\$2.44 billion) and new interest rate swaps. As part of the refinancing, a group restructure was undertaken. MMG, a new 100% owned subsidiary of MIGIL, was incorporated on 18 July 2006. The new facilities and interest rate swaps are held by MMG. The new nine-year facilities are due for repayment in 2015 and comprise a £1.00 billion (\$2.37 billion) term loan and a £30.0 million (\$71.1 million) capital expenditure facility. Interest rate hedging has been put in place in relation to 100% of the face value of the new loan for the next 30 years (refer to note 14).

The new facilities are held under a facilities agreement with Calyon acting as the facilities agent. Interest on the drawn facilities is charged at a floating rate at a margin over the London Inter Bank Offer Rate (LIBOR). At 30 June 2007 the term loan was fully drawn and the capital expenditure facility had not been utilised. The facilities have certain covenants attached and are secured by way of a debenture over MEL's assets.

Using the proceeds of the new loan facility and other inter group financing, MMG purchased 100% of the issued share capital of Macquarie Infrastructure (UK) Limited (MIUK) from Macquarie European Infrastructure Limited (MEI). Both MIUK and MEI are 100% owned subsidiaries of MIGIL. MIUK has a 30.61% shareholding in Lusoponte Concessionaria para a Travessia do Tejo S.A. MMG also purchased a 10% interest in MIBL Finance Luxembourg SA, a 100% owned subsidiary of MIGIL. Through this interest, MMG now has a 5% interest in Macquarie Autoroutes de France SAS, MIGIL's holding company for its investment in Autoroutes Paris-Rhin-Rhône.

MMG also acquired 100% of the issued share capital of MEL from Macquarie Midland Holdings Limited, a 100% owned subsidiary of MIGIL. MEL has the concession to develop, operate and maintain the M6 Toll.

A Commitment fee of £0.05 million (\$0.12 million) was paid to Calyon during the year calculated as a percentage of the margin applicable to the capital expenditure facility in respect of the lenders available commitment.

An Arrangement fee of £10.8 million (\$26.8 million) was incurred in relation to the new facilities. This fee has been capitalised against the proceeds of the bank debt and is being charged to the income statement over the period of the borrowings using the effective interest method.

(ii) Loan from minority interest

The loan from MEIF Luxembourg Holdings S.A. has a nominal value of €150.0 million (\$239.5 million) and interest is charged at a floating rate at a margin over the Euro Inter Bank Offer Rate (EURIBOR). The loan is due for repayment in 2033.

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Year Ended 30 June 2007

14 Derivative Financial Instruments

Instruments used by the Group

At 30 June 2007 the Group has used derivative financial instruments in order to hedge exposure to fluctuations in interest rates in accordance with the Group's financial risk management policies (refer to note 22).

Interest rate swap contracts – cash flow hedges

MMG has entered into a 30 year interest rate hedge, such that all floating rate payments due on the new £1.00 billion term loan (refer to note 13) have been fixed. The swap contracts entered into have structured fixed payments at levels that increase from period to period. The levels of fixed payments start at a low rate and then increase over 20 years until they reach a plateau rate for the remainder of the term. The swap contracts are currently being settled on a six monthly basis.

The interest rate swap contracts have been designated and qualify as an effective cash flow hedge. At the balance sheet date these contracts were assets with a fair value of £107.6 million (\$254.8 million) and have been disclosed as derivative instrument financial assets in the balance sheet. The fair value movement of the swaps in the year was a gain of £107.6 million (\$254.8 million) which has been recognised in the statement of changes in equity in the cash flow hedging reserve.

A liability of £22.6 million (\$53.6 million) has been recognised in interest bearing financial liabilities (refer to note 13) to reflect the low level of fixed payments currently being paid under the swap contracts. The interest rate attaching to this liability is 3.5%.

At 30 June 2007, the notional principal amounts and periods of expiry of MMG's interest rate swap contracts are:

	2007	2006
	AUS \$'000	AUS \$'000
1 – 5 years	-	1,092,600
25 - 30 years	2,368,533	-

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15 Contributed Equity

Authorised shares

	30 June 2007 AUS \$'000	30 June 2006 AUS \$'000
68,000,000,000 Ordinary Shares of A\$0.01 each	680,000	680,000
1 A special share of A\$1.00 each	-	-
1 B special share of A\$1.00 each	-	-

Allotted, called up and fully paid

	30 June 2007 AUS \$'000	30 June 2006 AUS \$'000
2,516,791,271 Ordinary Shares of A\$0.01 each	25,168	24,755
Share Premium on Ordinary Shares	5,999,044	5,981,555
1 A special share of A\$1.00 each	-	-
1 B special share of A\$1.00 each	-	-
	6,024,212	6,006,310

The rights attaching to each class of shares of the Company are as follows:

■ **Ordinary shares**

Holders of ordinary shares are entitled to one vote per share on all matters except the appointment and removal of directors in respect of whom the right to appoint or remove is vested in the A special shareholder or the B special shareholder. The shares are participating and non redeemable.

■ **A special share**

The A special share is to be held by the Advisor, its successors or assignees. The shareholder is entitled to appoint up to 50% of the directors of the Company and to appoint any one of such directors to be managing director. The A special shareholder has no rights of participation in the profits of the Company and assets of the Company on a winding up.

The A special shareholder may, after consulting with the Company, request the Company to redeem or repurchase the A special share at par, by giving notice to the Company and delivering the relevant share certificate to the Company.

The Company may redeem or repurchase the A special share at par:

- with the consent of the A special shareholder following notice to the A special shareholder
- without consent of the A special shareholder following notice to the A special shareholder upon unstapling or upon termination of the advisory agreement.

■ **B special share**

The B special share is to be held by the MIT(II) Trustee, its successors or assignees. The shareholder is entitled to appoint up to 25% of the directors of the Company. The B special shareholder has no rights of participation in the profits of the Company and assets of the Company on a winding up.

The B special shareholder may, after consulting with the Company, request the Company to redeem or repurchase the B special share at par, by giving notice to the Company and delivering the relevant share certificate to the Company.

The Company may redeem or repurchase the B special share at par:

- with the consent of the B special shareholder following notice to the B special shareholder
- without consent of the B special shareholder following notice to the B special shareholder upon unstapling or upon termination of the advisory agreement.

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Year Ended 30 June 2007

15 Contributed Equity (cont'd)

Share issuances and cancellations

	30 June 2007 AUS \$'000	30 June 2006 AUS \$'000
On issue at the beginning of the year	6,006,310	5,201,616
Issued pursuant to:		
DRP on 12 August 2005	-	48,955
Institutional placement on 1 September 2005	-	456,455
Reinvestment of performance fees in securities on 12 September 2005	-	54,396
Security purchase plan on 12 October 2005	-	70,648
DRP on 14 February 2006	-	174,719
DRP on 15 August 2006	118,423	-
Conversion of ReCNs on 15 November 2006	426,704	-
Cancelled pursuant to:		
Security buy-back: 3 October 2006 – 30 June 2007	(526,998)	-
Costs incurred in the raising/buy-back of capital	(227)	(479)
On issue at the end of the year	6,024,212	6,006,310
		Number of ordinary shares '000
On issue at the beginning of the year	2,475,499	2,164,890
Issued pursuant to:		
DRP on 12 August 2005	-	17,594
Institutional placement on 1 September 2005	-	174,419
Reinvestment of performance fees in securities on 12 September 2005	-	21,862
Security purchase plan on 12 October 2005	-	26,732
DRP on 14 February 2006	-	70,002
DRP on 15 August 2006	55,505	-
Conversion of ReCNs on 15 November 2006	165,049	-
Cancelled pursuant to:		
Security buy-back: 3 October 2006 – 30 June 2007	(179,262)	-
On issue at the end of the year	2,516,791	2,475,499

(i) On 3 October 2006, MIG commenced an on-market buy-back of up to \$500.0 million of MIG securities. Following the successful completion of the sale of US assets to MIP, and having received the required approvals from ASIC and MIG security holders, MIG also announced on 18 December 2006 an expanded on market buy-back of up to a further \$500.0 million.

As at 30 June 2007, MIG had bought back 179,261,530 MIG securities for total consideration of \$636.2 million of which \$527.0 million was payable by MIGIL. MIGIL paid brokerage of \$0.9 million to Macquarie Bank Limited during the period in connection with the buy back. In accordance with approval received from ASIC on 10 August 2007, the buy-back will conclude no later than 10 August 2008.

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Year Ended 30 June 2007

16 Reserves

	30 June 2007 AUS \$'000	30 June 2006 AUS \$'000
Movements in foreign currency translation reserve:		
Balance at the beginning of the year	364,081	(40,816)
Currency translation differences during the year	(310,358)	404,897
Balance at the end of the year	53,723	364,081
Movements in cash flow hedging reserve:		
Balance at the beginning of the year	-	-
Increase in fair value of interest rate swap contracts	256,499	-
Deferred tax liability recognised on interest rate swap contracts	(76,437)	-
Balance at the end of the year	180,062	-
Movements in other reserve:		
Balance at the beginning of the year	(3,001,967)	(3,001,967)
Movements in other reserve during the year	-	-
Balance at the end of the year	(3,001,967)	(3,001,967)
Total reserves at the end of the year	(2,768,182)	(2,637,886)

On 11 January 2005, the High Court in London sanctioned a scheme of arrangement under the UK Companies Act to insert the Company as the parent of the Group, whose former parent was MEI. The balance in other reserves represents the difference between the Company's shareholders' funds and the Group shareholders' funds on application of the scheme of arrangement.

17 Retained Profits

	30 June 2007 AUS \$'000	30 June 2006 AUS \$'000
Balance at the beginning of the year	1,163,489	413,820
Adjustment to retained earnings on adoption of IAS 32 and IAS 39	-	543,594
Profit for the year (net of distributions paid/payable)	335,520	206,075
Balance at the end of the year	1,499,009	1,163,489

18 Minority Interest

	30 June 2007 AUS \$'000	30 June 2006 AUS \$'000
Balance at the beginning of the year	259,777	-
Profit attributable to minority interest	540,641	40,835
Equity contributions from minority interest	-	204,886
Foreign exchange differences attributable to minority interest	(25,152)	14,056
Distributions provided for or paid to minority interest	(120,645)	-
Balance at the end of the year	654,621	259,777

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19 Defined Benefit Pension Scheme

MIUK operates a defined benefit pension scheme, the MIUK Pension Plan (the Plan) which commenced on 1 April 2000. The scheme is operated for employees who were previously part of the Kvaerner Pension Schemes.

As explained in the accounting policies set out in note 1(j) on page 12, the Group operates the Plan providing benefits on final pensionable pay. A liability or asset in respect of this pension scheme is recognised in the balance sheet, and is measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of the pension scheme's assets at that date and any unrecognised past service cost.

The net liability recognised in the balance sheet is \$2.3 million (2006: \$2.5 million)

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

No further disclosures have been made due the small number of employees in the Plan.

20 Related Party Disclosures

■ Adviser

The adviser of MIGIL is Macquarie Investment Management (UK) Limited (MIMUK or the Adviser), a wholly owned subsidiary of Macquarie Bank Limited (MBL). The registered office of the advisor is No 1 Ropemaker Street, London EC2Y 9HD.

■ Key Management Personnel

The following are key management personnel of the Group:

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

Key Management Personnel are defined in IAS 24: *Related Party Disclosures* as those having authority and responsibility for planning, directing and controlling the activities of the entity. The directors of MIGIL meet the definition of Key Management Personnel as they have this authority in relation to the activities of MIGIL. These powers have not been delegated by the directors of MIGIL. Accordingly, there are no other Key Management Personnel of MIGIL.

Directors' fees of \$199,000 were paid or payable by the Group to Jeffrey Gerald Conyers, Robert Andrew Mulderig and Dr Peter Dyer for the year ended 30 June 2007 (2006: \$158,000).

The compensation paid to directors of MIGIL who are not employees of MBL is determined with reference to current market rates for directorships of similar entities. The level of compensation is not related to the performance of MIGIL.

The number of MIG stapled securities held directly, indirectly or beneficially by the key management personnel or their related entities during the financial year are set out below:

	Stapled Securities			
	Balance at the start of the year	Received during the year on exercise of options	Other charges during the year	Balance at the end of the year
Jeffrey Gerald Conyers	-	-	-	-
Dr Peter Dyer	-	-	-	-
Mark Roderick Granger Johnson	811,619	-	112	811,731
Robert Andrew Mulderig	-	-	-	-
	811,619	-	112	811,731

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Year Ended 30 June 2007

20 Related Party Disclosures (cont'd)

■ Fees paid to MIMUK

Under the terms of the Management Agreement between MEI and MIMUK as manager and between the Company and MIMUK as Advisor, fees paid or payable to MIMUK by the Group were:

	30 June 2007 AUS \$'000	30 June 2006 AUS \$'000
Base fees	65,169	67,226
Performance fees	-	(88)
	<u>65,169</u>	<u>67,138</u>

The base fee is calculated as 1.25% per annum of the first \$3 billion of MIG adjusted market capitalisation and at 1.00% per annum on MIG adjusted market capitalisation over \$3 billion at the end of each quarter.

The performance fee is calculated with reference to the performance of the accumulated security price of MIG compared with the performance of the S&P/ASX 300 Industrials Accumulation Index. For the years ended 30 June 2007 and 30 June 2006, no new performance fee was calculated for MIMUK and no instalments of performance fees relating to previous periods became payable.

Fees are apportioned between MIT(I), MIT(II) and the Company based on each entity's share of the net assets of MIG (further adjusted for cash and investment commitments in the case of the base fee). The fair values of the assets are used in the calculation of this apportionment. Fees are calculated in Australian Dollars and invoiced in Pound Sterling based on the exchange rate prevailing on the invoice date.

As at 30 June 2007 the Group had a receivable balance with MIMUK of Nil (2006 \$1,268,877)

■ Associated undertakings

During the year loan interest of \$39,239,045 (2006: \$16,622,818) was charged by the Group to associated companies in the normal course of business. Interest is charged at a floating rate at a margin over the EURIBOR. Details of associated companies are set out in note 7.

■ Other transactions

Interest of \$142,173 (2006: \$2,064,045 expense) was charged to MIT(II) by the Group during the year.

As at 30 June 2007 the Group had a receivable balance with MIT(I) of \$413,247 (2006: \$434,057) and with a subsidiary of MIT(I) of \$323,313 (2006: Nil). The group also had payable balance with MIT(II) of \$43,564,452 (2006: \$482,524).

Advisory fees of £6,175,000 (\$15,407,221) were paid to Macquarie Bank Limited in connection with the M6 Toll refinancing.

All securities in relation to the DRP on 14 February 2007 were purchased on-market by Macquarie Securities (Australia) Limited (MSAL), a subsidiary of Macquarie Bank Limited. Brokerage of \$98,803 was paid to MSAL in connection with the on-market sourcing.

MIGIL paid brokerage of \$869,546 to MSAL during the year in connection with the security buy-back.

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21 Segment Reporting

The principal activity of MIGIL during the year was investment in toll roads, tunnels and bridges. The primary basis of segment reporting is geographical. At the date of this report MIGIL had investments in Europe, Canada and the United States of America.

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

Geographical Segments

	Europe AUS \$'000	Australia AUS \$'000	North America AUS \$'000	Total AUS \$'000
Year ended 30 June 2007				
Segment revenue and other income	1,298,487	142	449,100	1,747,729
Total revenue and other income	1,298,487	142	449,100	1,747,729
Segment profit	940,601	142	449,100	1,389,843
Profit before taxation	940,601	142	449,100	1,389,843
Segment assets	5,228,415	737	3,357,605	8,586,757
Segment liabilities	2,881,853	295,244	-	3,177,097
Capital expenditure	1,346	-	-	1,346
Depreciation and amortisation expense	32,946	-	-	32,946
Year ended 30 June 2006				
Segment revenue and other income	243,428	-	123,670	367,098
Total revenue and other income	243,428	-	123,670	367,098
Segment profit	(26,944)	(5,091)	123,670	91,635
Profit before taxation	(26,944)	(5,091)	123,670	91,635
Segment assets	3,207,946	434	3,603,818	6,812,198
Segment liabilities	1,928,615	91,893	-	2,020,508
Capital expenditure	4,857	-	-	4,857
Depreciation and amortisation expense	42,237	-	-	42,237

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22 Operating Lease Commitments

	30 June 2007 \$'000	30 June 2006 \$'000
Commitments under non-cancellable operating leases expiring:		
Within one year	33,525	32,831
Later than one year but not later than five years	117,196	131,141
Later than five years	1,406,065	1,390,944
	1,556,786	1,554,916

The Group leases land from the Highways Agency in respect of the M6 Toll. The lease payments are established via a formula set out by the Highways Agency, which settles all costs associated with the purchase by the Highways Agency of that land, and interest on those costs at 6% real per annum. Lease payments will be made from 2010 to 2054.

23 Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments in the form of interest rate swaps to hedge certain risk exposures.

■ **Market risk**

(a) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to the Euro, Pound Sterling, United States Dollar and Canadian Dollar.

The Group does not hedge the foreign exchange exposure on investments due to their long-term horizon.

(b) Price risk

The Group is not exposed to equity securities price risk or commodity price risk.

(c) Fair value interest rate risk

Refer below.

■ **Credit risk**

The Group has no significant concentration of credit risk. Derivative counterparties and cash transactions are limited to high quality financial institutions. Counterparty limits are set at \$200 million.

■ **Liquidity risk**

The Group has a prudent liquidity policy to ensure that it maintains sufficient cash and cash equivalents to meet its obligations.

■ **Cash flow and fair value interest rate risk**

The Group's significant interest-bearing assets include cash and cash equivalents and interest bearing debt securities. See note 5 for details of interest rates attaching cash and cash equivalents. See note 7 for details of interest rates and maturity attaching to the interest bearing debt securities.

The Group's interest-rate risk arises from long-term borrowings. The Group has long term borrowings issued at floating interest rates. For floating rate exposures, the Group partially hedges the exposure by entering into interest rate swaps, whereby the Group agrees with its counterparties to exchange at specified intervals the difference between the fixed contract rates and floating rate amounts calculated by reference to the agreed notional principal amounts.

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Year Ended 30 June 2007

24 Contingent Liabilities

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

■ ***Warnow Tunnel***

ETI, a subsidiary of MIGIL, has made two separate guarantees, totalling €1.19 million (\$1.77 million), in the event of a senior debt payment event or default by Warnowquerung. The Group believes it is unlikely to have to make these contributions and that no provisions are necessary in the financial statements as at 30 June 2007.

This contingent commitment is backed by an on-demand guarantee, provided through a blocked account into which €1.19 million (\$1.77 million) has been deposited.

25 Events Occurring After Balance Sheet Date

■ ***Distribution Reinvestment Plan***

A portion of stapled security holders participated in MIG's Distribution Reinvestment Plan for the distribution paid on 14 August 2007. All of the securities allocated as part of the Distribution Reinvestment Plan were sourced from on-market purchases of existing securities.

