Macquarie Infrastructure CO Trust
Form 10-K/A
October 16, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K/A

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2005

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 001-32385
Macquarie Infrastructure Company Trust
(Exact name of registrant as specified in its charter)

Delaware	**20-6196808**
(Jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

Commission File Number: 001-32384
Macquarie Infrastructure Company LLC
(Exact name of registrant as specified in its charter)

Delaware	**43-2052503**
(Jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

125 West 55th Street, 22nd Floor **New York, New York**	**10019**
(Address of principal executive offices)	*(Zip Code)*

(212) 231-1000
(Registrants telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Shares representing beneficial interests in Macquarie Infrastructure Company Trust (trust stock)	New York Stock Exchange

Securities registered pursuant to Section 12 (g) of the Act: None

Indicate by check mark if the registrants are collectively a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrants are collectively not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrants are collectively a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the registrants are collectively a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The aggregate market value of the outstanding shares of trust stock held by non-affiliates of Macquarie Infrastructure Company Trust at June 30, 2005 was $694,472,790 based on the closing price on the New York Stock Exchange on that date. This calculation does not reflect a determination that persons are affiliates for any other purposes.

There were 27,050,745 shares of trust stock without par value outstanding at March 13, 2006.

DOCUMENTS INCORPORATED BY REFERENCE

The definitive proxy statement relating to Macquarie Infrastructure Company Trust s Annual Meeting of Shareholders, to be held May 25, 2006, is incorporated by reference in Part III to the extent described therein.

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EXPLANATORY NOTE

This Annual Report on Form 10-K/ A, or this Amendment, is being filed for the purpose of amending and restating certain notes to our consolidated financial statements and certain other quarterly and segment information contained in our Annual Report on Form 10-K for the year ended December 31, 2005 that was originally filed with the Securities and Exchange Commission on March 15, 2006, as amended by the Form 10-K/ A filed September 29, 2006. The Amendment is being made to revise unaudited quarterly financial information and certain segment information to correct an accounting error in the treatment for interest rate and foreign exchange derivative instruments that did not qualify for hedge accounting during this period. Although the impact of this accounting error on our unaudited quarterly information and certain segment information is material, the cumulative effect is immaterial to our audited consolidated financial statements. As a result, we have not restated our audited financial statements for the year ended December 31, 2005 and other consolidated annual financial information to reflect this error. However, we have restated 2005 financial information for our airport services and airport parking segments to reflect this error. We have also filed today amended and restated Quarterly Reports on Form 10-Q/ A for the quarters ended March 31, 2006 and June 30, 2006 to reflect the same correction of an accounting error related to the accounting treatment for derivative instruments, which include comparative quarterly information for the comparable period in 2005.

This Amendment also corrects our evaluation of disclosure controls and procedures and management s report on internal control over financial reporting as a result of our reassessment of material weaknesses in internal control over financial reporting. Following our initial discovery of errors related to hedge accounting for certain derivatives, on September 13, 2006 our Audit Committee determined that we would amend and restate previously issued unaudited financial statements and other financial information for the first two quarters of 2006 and we initiated a comprehensive review of all of our determinations and documentation related to hedge accounting for derivative instruments, as well as our related processes and procedures. During this process, management had frequent discussions with the Audit Committee members to review the potential impact of these matters and the progress of the comprehensive review and analysis. As a result of that review, management determined that none of our interest rate or foreign exchange derivative instruments qualified for hedge accounting and recommended to the Audit Committee that previously reported 2005 unaudited quarterly financial statements and quarterly financial information, as well as certain 2005 segment financial information should also be restated. The Audit Committee agreed with management s recommendation and determined that previously reported unaudited quarterly financial statements for the quarters ended March 31, 2005, June 30, 2005 and September 30, 2005, quarterly financial information relating to each quarter within 2005 and 2005 financial information for our airport services and airport parking segments should no longer be relied upon. See Note 24 to our consolidated financial statements for a discussion of the nature of this error and the effect of this change in our accounting treatment on our unaudited quarterly financial information for the quarters ended March 31, 2005, June 30, 2005, September 30, 2005 and December 31, 2005 and on our 2005 financial information for our airport services and airport parking segments. See Item 9A Controls and Procedures for further information regarding our reassessment of material weaknesses in internal control over financial reporting.

We also included as exhibits to this Amendment new certifications of our principal executive officer and principal financial officer. Finally, we have included the audited financial statements of Connect M1-A1 Holdings Limited and Subsidiary for the year ended March 31, 2006 which were previously filed with the SEC in our Annual Report of Form 10-K/ A on September 29, 2006.

Except as described above, no attempt has been made in this Amendment to amend or update other disclosures presented in the Annual Report on Form 10-K/ A, and therefore this Amendment does not reflect events occurring after the original filing on March 15, 2006 or amend or update those disclosures, or related exhibits, affected by subsequent events. Accordingly, this Amendment should be read in conjunction with our amended and restated Quarterly Reports on Form 10-Q/ A for the quarters ended March 31, 2006 and June 30, 2006 filed today as well as our other filings with the SEC subsequent to the

original filing of our Annual Report on Form 10-K.

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FORWARD-LOOKING STATEMENTS

We have included or incorporated by reference into this report, and from time to time may make in our public filings, press releases or other public statements, certain statements that may constitute forward-looking statements. These include without limitation those under Risk Factors in Part I, Item 1A, Legal Proceedings in Part I, Item 3, Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7, and Quantitative and Qualitative Disclosures about Market Risk in Part II, Item 7A. In addition, our management may make forward-looking statements to analysts, investors, representatives of the media and others. These forward-looking statements are not historical facts and represent only our beliefs regarding future events, many of which, by their nature, are inherently uncertain and beyond our control. We may, in some cases, use words such as project, believe, anticipate, plan, expect, estimate, intend, should, would, could, potentially, or may or other words that convey future events or outcomes to identify these forward-looking statements.

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we are identifying important factors that, individually or in the aggregate, could cause actual results to differ materially from those contained in any forward-looking statements made by us. Any such forward-looking statements are qualified by reference to the following cautionary statements.

Forward-looking statements in this report are subject to a number of risks and uncertainties, some of which are beyond our control, including, among other things:

- our short operating history;
- our limited ability to remove our Manager for underperformance and our Manager s right to resign;
- our holding company structure, which may limit our ability to meet our dividend policy;
- our ability to service, comply with the terms of and refinance at maturity our substantial indebtedness;
- decisions made by persons who control the businesses in which we hold less than majority control, including decisions regarding dividend policies;
- our ability to make, finance and integrate future acquisitions;
- our ability to implement our operating and internal growth strategies;
- the regulatory environment in which our businesses and the businesses in which we hold investments operate, rates implemented by regulators of our businesses and the businesses in which we hold investments, and our relationships and rights under concessions and contracts with the governmental agencies and authorities;
- changes in patterns of commercial or general aviation air travel, or automobile usage, including the effects of changes in airplane fuel and gas prices, and seasonal variations in customer demand for our businesses;
- changes in electricity or other power costs;
- foreign exchange rate fluctuations;
- changes in general economic or business conditions or economic or demographic trends in the United States and other countries in which we have a presence, including changes in interest rates and inflation;
- environmental risks pertaining to our businesses and the businesses in which we hold initial investments;

our ability to retain or replace qualified employees;

changes in the current treatment of, and our eligibility for, qualified dividend income and long-term capital gains under current U.S. federal income tax law; and

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extraordinary or force majeure events affecting the facilities of our businesses and the businesses in which we hold investments.

Our actual results, performance, prospects or opportunities could differ materially from those expressed in or implied by the forward-looking statements. A description of risks that could cause our actual results to differ appears under the caption Risk Factors in Part I, Item 1A and elsewhere in this report. It is not possible to predict or identify all risk factors and you should not consider that description to be a complete discussion of all potential risks or uncertainties that could cause our actual results to differ.

In light of these risks, uncertainties and assumptions, you should not place undue reliance on any forward-looking statements. The forward-looking events discussed in this report may not occur. These forward-looking statements are made as of the date of this report. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You should, however, consult further disclosures we may make in future filings with the Securities and Exchange Commission.

Exchange Rates

For the purposes of this report, to the extent we have converted foreign currency amounts into U.S. dollars, we have used the Federal Reserve Bank noon buying rate at December 30, 2005 for our financial information and the Federal Reserve Bank noon buying rate at February 6, 2006 for all other information. At December 30, 2005, the noon buying rate of the Australian dollar was USD $0.7342 and the noon buying rate of the Pound Sterling was USD $1.7188. At February 6, 2006, the noon buying rate of the Australian dollar was USD $0.7426 and the noon buying rate of the Pound Sterling was USD $1.7462. The table below sets forth the high, low and average exchange rates for the Australian dollar and the Pound Sterling for the years indicated:

	U.S. Dollar/Australian Dollar			U.S. Dollar/Pound Sterling		
Time Period	**High**	**Low**	**Average**	**High**	**Low**	**Average**
2001	0.5552	0.5016	0.5169	1.4773	1.4019	1.4397
2002	0.5682	0.5128	0.5437	1.5863	1.4227	1.5024
2003	0.7391	0.5829	0.6520	1.7516	1.5738	1.6340
2004	0.7715	0.7083	0.7329	1.8950	1.7860	1.8252
2005	0.7974	0.7261	0.7627	1.9292	1.7138	1.8198

Australian banking regulations that govern the operations of Macquarie Bank Limited and all of its subsidiaries, including our Manager, require the following statements: Investments in Macquarie Infrastructure Company Trust are not deposits with or other liabilities of Macquarie Bank Limited or of any Macquarie Group company and are subject to investment risk, including possible delays in repayment and loss of income and principal invested. Neither Macquarie Bank Limited nor any other member company of the Macquarie Group guarantees the performance of Macquarie Infrastructure Company Trust or the repayment of capital from Macquarie Infrastructure Company Trust.

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Part I

Item 1. *Business*

Macquarie Infrastructure Company Trust, a Delaware statutory trust that we refer to as the trust, owns its businesses and investments through Macquarie Infrastructure Company LLC, a Delaware limited liability company that we refer to as the company. Except as otherwise specified, Macquarie Infrastructure Company, we, us, and our refer to both the trust and the company and its subsidiaries together. The company owns the businesses located in the United States through a Delaware corporation, Macquarie Infrastructure Company Inc., or MIC Inc., and those located outside of the United States through Delaware limited liability companies. Macquarie Infrastructure Management (USA) Inc., the company that we refer to as our Manager, is part of the Macquarie Group of companies. References to the Macquarie Group include Macquarie Bank Limited and its subsidiaries and affiliates worldwide.

GENERAL

The trust and the company were each formed on April 13, 2004. On December 21, 2004, we completed our initial public offering and concurrent private placement of shares of trust stock representing beneficial interests in the trust. Each share of trust stock corresponds to one LLC interest of the company. We used the majority of the proceeds of the offering and private placement to acquire our initial businesses and investments and to pay related expenses.

We own, operate and invest in a diversified group of infrastructure businesses in the United States and other developed countries. We offer investors an opportunity to participate directly in the ownership of infrastructure businesses, which traditionally have been owned by governments or private investors, or have formed part of vertically integrated companies. Our businesses consist of the following:

an airport services business, conducted through Atlantic;

an airport parking business, conducted through Macquarie Parking;

a district energy business, conducted through Thermal Chicago and a 75% controlling interest in Northwind Aladdin; and

a toll road business, through our 50% ownership of the company that operates Yorkshire Link, a 19-mile highway in the United Kingdom.

Our investments consist of:

a 17.5% interest in the holding company that owns South East Water, or SEW, a regulated water utility in southeastern England; and

approximately 4% of Macquarie Communications Infrastructure Group, or MCG, a communications infrastructure fund managed by an affiliate of our Manager.

Additionally, we have entered into an agreement to acquire 100% of The Gas Company, a regulated retail gas distribution company serving Hawaii. We expect to complete this acquisition in the second or third quarter of 2006.

Our Manager

We have entered into a management services agreement with our Manager. Our Manager is responsible for our day-to-day operations and affairs and oversees the management teams of our operating businesses. Neither the trust nor the company have or will have any employees. Our Manager has assigned, or seconded, to the company, on a permanent and wholly dedicated basis, two of its employees to assume the offices of chief executive officer and chief financial officer and makes other personnel available as required. The services performed for the company are provided at our Manager s expense, including the compensation of our seconded officers.

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We pay our Manager a management fee based primarily on our market capitalization. In addition, to incentivize our Manager to maximize shareholder returns, we may pay performance fees. Our Manager can earn a performance fee equal to 20% of the outperformance, if any, of quarterly total returns to our shareholders above a weighted average of two benchmark indices, a U.S. utilities index and a European utilities index, weighted in proportion to our U.S. and non-U.S. equity investments. To be eligible for the performance fee, our Manager must deliver total shareholder returns for the quarter that are positive and in excess of any prior underperformance. Please see the management services agreement filed as an exhibit to this Annual Report on Form 10-K for the full terms of this agreement.

Our Manager is a member of the Macquarie Group, that, together with its subsidiaries and affiliates worldwide, provides specialist investment, advisory, trading and financial services in select markets around the world. The Macquarie Group is headquartered in Sydney, Australia and employs over 7,600 people in 23 countries as of the date of this report. The Macquarie Group is a global leader in advising on the acquisition, disposition and financing of infrastructure assets and the management of infrastructure investment vehicles on behalf of third-party investors.

We believe that the Macquarie Group s demonstrated expertise and experience in the management, acquisition and funding of infrastructure businesses will provide us with a significant advantage in pursuing our strategy. Our Manager is part of the Macquarie Group s Infrastructure and Specialized Funds division, or ISF, which as of December 31, 2005, managed a $23 billion investment portfolio on behalf of retail and institutional investors comprising investments in infrastructure and infrastructure-like businesses. These businesses include toll roads, airports and airport-related infrastructure, communications, media, electric and gas distribution networks, water utilities, aged care, rail and ferry assets. The ISF division has been operating since 1996 and currently has over 340 executives internationally, with more than 50 executives based in the US and Canada.

We expect that the Macquarie Group s infrastructure advisory division, with over 340 executives internationally, including more than 70 executives in North America, will be an important source of acquisition opportunities and advice for us. During 2005, the Macquarie Group globally advised on infrastructure transactions valued at more than $32 billion. The Macquarie Group s infrastructure advisory division is separate from the ISF division. Historically the Macquarie Group s advisory group has presented the various infrastructure investment vehicles in ISF with a significant number of high quality infrastructure acquisition opportunities.

Although it has no contractual obligation to do so, we expect that Macquarie s infrastructure advisory division will present our Manager with similar opportunities. Under the terms of the management services agreement, our Manager is obliged to present to us, on a priority basis, acquisition opportunities in the United States that are consistent with our strategy, as discussed below, and the Macquarie Group is our preferred financial advisor.

We also believe that our relationship with the Macquarie Group will enable us to take advantage of its expertise and experience in debt financing for infrastructure assets. As the typically strong, stable cash flows of infrastructure assets are usually able to support high levels of debt relative to equity, we believe that the ability of our Manager and the Macquarie Group to source and structure low-cost project and other debt financing provides us with a significant advantage when acquiring assets. We believe that relatively lower costs will help us to maximize returns to shareholders from those assets.

Industry

Infrastructure businesses provide basic, everyday services, such as parking, roads and water. We focus on the ownership and operation of infrastructure businesses in the following categories:

User Pays Assets. These assets are generally transportation-related infrastructure that depend on a per use system for their main revenue source. Demand for use of these assets is relatively unaffected by macroeconomic conditions because people use these types of assets on an everyday basis. User pays assets, such as airports and toll roads, are generally owned by government

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entities in the United States. Other types of user pays assets, such as airport- and rail-related infrastructure and off-airport parking, are typically owned by the private sector. Where the private sector owner has been granted a lease or concession by a government entity to operate the business, the business will be subject to any restrictions or provisions contained in the lease or concession.

Contracted Assets. These assets provide services through long-term contracts with other businesses or governments. These contracts typically can be renewed on comparable terms when they expire because there are no or a limited number of providers of similar services. Contracted assets, such as communications towers, district energy systems and contracted power generation plants, are generally owned by the private sector in the United States. Where the private sector owner has been granted a lease or concession by a government entity to operate the business, the business will be subject to any restrictions or provisions contained in the lease or concession.

Regulated Assets. Businesses that own these assets are the sole or predominant providers of essential services in their service areas and, as a result, are typically regulated by government entities with respect to the level of revenue earned or charges imposed. Government regulated revenues typically enable the service provider to cover operating costs, depreciation and taxes and achieve an adequate return on debt and equity capital invested. Water utilities, electric transmission and gas distribution networks are examples of regulated assets. In the United States, regulated assets are generally owned by publicly listed utilities, although some are owned by government entities.

By their nature, businesses in these categories generally have sustainable and growing long-term cash flows due to consistent customer demand and the businesses strong competitive positions. Consistent customer demand is driven by the basic, everyday nature of the services provided. The strong competitive position results from high barriers to entry, including:

high initial development and construction costs, such as the cost to build roads;

difficulty in obtaining suitable land, such as land near or at airports for parking facilities or fixed base operations, or FBOs;

required government approvals, which may be difficult or time-consuming to obtain, such as approvals for a network of communications towers, or approvals to lay pipes under city streets; and

long-term exclusive concessions and customer contracts, such as contracts to provide broadcasting services to broadcast television companies or cooling services to a building.

These barriers to entry have the effect of protecting the cash flows generated by the infrastructure assets owned by these businesses. These barriers to entry largely arise because services provided by infrastructure businesses, such as parking, roads, and water, can generally only be delivered by relatively large and costly physical assets in close proximity to customers. These services cannot be delivered over the internet, and cannot be outsourced to other countries, and are therefore not susceptible to the competitive pressures that other industries, including manufacturing industries, typically face. We do not expect to acquire infrastructure businesses that face significant competition, such as merchant electricity generation facilities.

The prices charged for the use of infrastructure assets can generally be expected to keep pace with inflation. User pays assets typically enjoy pricing power in their market due to consistent demand and limited competition, the contractual terms of contracted assets typically allow for price increases, and the regulatory process that determines revenues for regulated assets typically provides for an inflation adjustment.

Infrastructure assets, especially newly constructed assets, tend to be long-lived, require minimal and predictable maintenance capital expenditures and are generally not subject to major technological change or physical deterioration. This generally means that significant cash flow is often available from infrastructure businesses to service debt, make distributions to shareholders, expand the business, or all three.

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Exceptions exist in relation to much older infrastructure assets. For example, parts of SEW s water network are more than 100 years old and require significant maintenance capital expenditures.

The sustainable and growing long-term cash flows of infrastructure assets mean their capital structures can typically support more debt than other businesses. Our ability to optimize the capital structure of our businesses is a key component in maximizing returns to investors.

Strategy

We have two primary strategic objectives. First, we intend to grow our existing businesses. We intend to accomplish this by:

- pursuing revenue growth and gross operating income improvement;
- optimizing the financing structure of our businesses; and
- improving the performance and the competitive position of our controlled businesses through complementary acquisitions.

Second, we intend to acquire businesses we believe will provide yield accretive returns in infrastructure sectors other than those in which our businesses and investments currently operate. We believe our association with the Macquarie Group is key to the successful execution of our strategy.

Operational Strategy

We will rely on the Macquarie Group s demonstrated expertise and experience in the management of infrastructure businesses to execute our operational strategy. In managing infrastructure businesses, the Macquarie Group endeavors to (1) recruit and incentivize talented operational management teams, (2) instill disciplined financial management consistently across the businesses, (3) source and execute acquisitions, and (4) structure and arrange debt financing for the businesses to maximize returns to shareholders.

We plan to increase the cash generated by our businesses through initiatives to increase revenues and improve gross operating income. We have in place seasoned management teams at each of our businesses who will be supported by the demonstrated infrastructure management expertise and experience of the Macquarie Group in the execution of this strategy.

Improving and expanding our existing marketing programs. We expect to enhance the client services and marketing programs of our businesses. Sophisticated marketing programs relative to those of most other industry participants exist within our airport parking and airport services businesses. We intend to expand these programs and extend them to any facilities that we acquire within those businesses in the future.

Making selective capital expenditures. We intend to expand capacity of our existing locations and improve their facilities through selective capital expenditures. Specifically, we will make expenditures that we believe will generate additional revenues in the short-term. Such opportunities exist, notably, in relation to our district energy business. We generally strive to manage maintenance capital expenditures to keep our assets well- maintained and to avoid any unanticipated maintenance costs over the life of the assets.

Strengthening our competitive position through complementary acquisitions. We intend to selectively acquire and integrate additional FBO and airport parking businesses or facilities. These industry segments are very fragmented and we believe that attractive acquisition opportunities exist within them. We also believe that complementary acquisitions will improve our overall performance by: (1) leveraging our brand and marketing programs in our airport services and airport parking businesses; (2) taking advantage of the size and diversification of our businesses to achieve lower financing costs; and (3) allowing us to realize synergies and implement improved management practices across a larger number of operations. Our acquisition during 2005 of the Las Vegas FBO is an example of this strategy.

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Acquisition Strategy

We expect our acquisition strategy to benefit from the Macquarie Group s deep knowledge and ability to identify acquisition opportunities in the infrastructure area. We believe it is often the case that infrastructure opportunities are not widely offered, well-understood or properly valued. The Macquarie Group has significant expertise in the execution of such acquisitions, which can be time-consuming and complex.

We intend to acquire infrastructure businesses and investments in sectors other than those sectors in which our businesses currently operate, provided we believe we can achieve yield accretive returns. Our pending acquisition of The Gas Company is an example of this strategy. While our focus is on acquiring businesses in the United States, we will also consider opportunities in other developed countries. Generally, we will seek to acquire controlling interests, but we may acquire minority positions in attractive sectors where those acquisitions generate immediate dividends and where our partners have objectives similar to our own. Our acquisitions of SEW and MCG are consistent with this philosophy. We believe that the sectors in which SEW and MCG operate will continue to present attractive acquisition opportunities and that partnering with other Macquarie Group-managed vehicles with experience in those sectors is an appropriate way to pursue opportunities in those sectors.

Acquisition Opportunities

Infrastructure sectors that may present attractive acquisition candidates include, in addition to our initial businesses, electricity transmission and gas distribution networks, water and sewerage networks, contracted power generation and communications infrastructure. We expect that acquisition opportunities will arise from both the private sector and the public (government) sector.

Private sector opportunities. Increasingly, private sector owners of infrastructure assets are choosing to divest these assets for competitive, financial or regulatory reasons. For instance, vertically integrated electric, gas and telecommunications utilities are increasingly disposing of infrastructure assets because a) they wish to concentrate on their core business rather than the infrastructure supporting it, b) they are over-leveraged and wish to pay down debt, c) their capital structure and shareholder expectations do not allow them to finance these assets as efficiently as possible, or d) regulatory pressures are causing an unbundling of vertically integrated product offerings.

Public (government) sector opportunities. Traditionally, governments around the world have financed the provision of infrastructure with tax revenue and government borrowing. Over the last few decades, many governments have pursued an alternate model for the provision of infrastructure as a result of budgetary pressures. This trend towards increasing private sector participation in the provision of infrastructure is well established in Australia, Europe and Canada, and it is just beginning in the United States. We believe private sector participation in the provision of infrastructure in the United States will increase over time, as a result of growing budgetary pressures, exacerbated by baby boomers reaching retirement age, and the significant under-investment (historically) in critical infrastructure systems in the United States.

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U.S. Acquisition Priorities

Under the terms of the management services agreement, the company has first priority ahead of all current and future entities managed by our Manager or by members of the Macquarie Group within the ISF division among the following infrastructure acquisition opportunities within the United States:

Sector	
Airport fixed base operations	
District energy	
Airport parking	
User pays assets, contracted assets and regulated assets (as defined below) that represent an investment of greater than AUD $40 million (USD $29.7 million), subject to the following qualifications:	
Roads:	The company has second priority after Macquarie Infrastructure Group
Airport ownership:	The company has second priority after Macquarie Airports (consisting of Macquarie Airports Group and Macquarie Airports)
Communications:	The company has second priority after Macquarie Communications Infrastructure Group
Regulated Assets (including, but not limited to, electricity and gas transmission and distribution and water services):	The company has second priority after Macquarie Essential Assets Partnership, or MEAP, until such time as MEAP has invested a further CAD $45 million (USD $39.4 million as of February 6, 2006) in the United States. Thereafter the company will have first priority.

The company has first priority ahead of all current and future entities managed by our Manager or any Manager affiliate in all investment opportunities originated by a party other than our Manager or any Manager affiliate where such party offers the opportunity exclusively to the company and not to any other entity managed by our Manager or any Manager affiliate within the ISF division of the Macquarie Group.

Financing

We expect to fund any acquisitions with a combination of new debt at the company or MIC Inc. level, subsidiary non-recourse debt and issuance of additional shares of trust stock. We expect that a significant amount of our cash from operations will be used to support our dividend policy. We therefore expect that in order to fund significant acquisitions, in addition to new debt financing, we will also need to either offer more equity or offer our shares to the sellers of businesses that we wish to acquire.

Our businesses and investments have generally been partially financed with subsidiary level non-recourse debt that is repaid solely from the businesses revenues. The debt is generally secured by the physical assets, major contracts and agreements, and when appropriate, cash accounts. In certain cases, the debt is secured by our ownership interest in that business. This type of financing is referred to as project financing. We have project financing transactions at our airport services and district energy businesses that generally are structured so that all revenues of a project or business are deposited directly with a bank or other financial institution acting as escrow or security deposit agent. These funds are then payable in a specified order of priority usually first to pay operating expenses, senior debt

service, taxes and to fund reserve accounts. Thereafter, subject to the satisfaction of debt service coverage ratios and

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certain other conditions, available funds may be disbursed as dividends or payments under shareholder loans or subordinated debt, where applicable.

These project financing structures are designed to prevent lenders from looking through the operating businesses to us or to our other businesses for repayment, that is, they are non-recourse to us and the other businesses and investments not involved in the specific project or business, unless we specifically agree to assume liability for payment. The debt at our parking business is also non-recourse, although there is no escrow or security deposit agent. These arrangements effectively result in each of our businesses being isolated from the risk of default by any other business we own or in which we have invested.

We do not currently have any debt at the company level. However, we have entered into a revolving credit facility at the MIC Inc. level, currently undrawn, that provides for borrowings up to $250 million primarily to finance acquisitions and capital expenditures pending refinancing through equity offerings at an appropriate time.

OUR BUSINESSES AND INVESTMENTS

Airport Services Business

Business Overview

Our airport services business, or Atlantic, operates fixed-based operations, or FBOs, at eighteen airports and one heliport throughout the United States. FBOs primarily provide fuelling and fuel-related services, aircraft parking and hangarage to owner/operators of jet aircraft in the general aviation sector of the air transportation industry. The business also operates six regional and general aviation airports under management contracts, although airport management constitutes a small portion of our airport services business. Previously, the airport services business consisted of two operating companies, Atlantic and AvPorts. These businesses have been substantially integrated and are now managed as one business. The airport services business had revenue of $201.5 million and operating income of $28.3 million for our 2005 fiscal year, and total assets of $553.3 million at December 31, 2005 and $410.3 million at December 31, 2004. Revenues from our airport services business comprised 66.2% of our total revenues in the 2005 fiscal year.

Our Acquisitions

On the day following our initial public offering, we purchased 100% of the ordinary shares in North America Capital Holding Company, or NACH, the parent company of the Atlantic business, from Macquarie Investment Holdings Inc., a wholly owned indirect subsidiary of Macquarie Bank Limited, for a purchase price of $118.2 million (including transaction costs) plus $130 million of assumed senior debt pursuant to a stock purchase agreement. Prior to our acquisition of NACH, it acquired 100% of the shares of Executive Air Support Inc., or EAS, the parent company of the Atlantic business, and assumed $500,000 of debt pursuant to a stock purchase agreement.

On the day following our initial public offering, we also acquired the AvPorts business from Macquarie Specialised Asset Management Limited, as Trustee for and on behalf of Macquarie Global Infrastructure Funds A and C, and Macquarie Specialised Asset Management 2 Limited, as Trustee for and on behalf of Macquarie Global Infrastructure Funds B and D, for cash consideration of $42.4 million (including transaction costs) and assumption of existing debt.

On January 14, 2005, we acquired all of the membership interests in General Aviation Holdings, LLC, or GAH, which operates two FBOs in California for $53.5 million (including a working capital adjustment, transaction costs, and funding of the debt service reserve). $32 million of the purchase price was funded by an increase in the then senior debt facility of the business with the balance funded by proceeds from our initial public offering.

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On August 12, 2005, we acquired 100% of the membership interests in Eagle Aviation Resources, Ltd., or EAR, a Nevada limited liability company doing business as Las Vegas Executive Air Terminal, or LVE, from Mr. Gene H. Yamagata. LVE is an established FBO operating out of McCarran International Airport in Las Vegas, Nevada under the terms of a 30-year lease granted in 1996. LVE is one of two FBOs at McCarran Airport.

Industry Overview

FBOs predominantly service the general aviation industry. General aviation, which includes corporate and leisure flying, pilot training, helicopter, medivac and certain air freight operations, is the largest segment of U.S. civil aviation and represents the largest percentage of the active civil aircraft fleet. General aviation does not include commercial air carriers or military operations. In order to attract independent operators to service general aviation aircraft, local airport authorities grant FBO operators the right to sell fuel. Fuel sales provide most of an FBO s revenue.

FBOs generally operate in an environment with limited competition and high barriers to entry. Airports have limited physical space for additional FBOs, due in part to safety restrictions that limit construction in the vicinity of runways. Airport authorities generally do not have the incentive to add additional FBOs unless there is a significant demand for capacity, as profit-making FBOs are more likely to reinvest in the airport and provide a broad range of services, which attracts increased airport traffic. The increased traffic generally generates additional revenue for the airport authority in the form of landing and fuel flowage fees. Government approvals and design and construction of a new FBO can also take significant time.

Demand for FBO services is driven by the number of general aviation aircraft in operation and average flight hours per aircraft. Both factors have recently experienced strong growth. According to the Federal Aviation Administration, or the FAA, from 1995 to 2005, the fleet of fixed-wing turbine aircraft, which includes turbojet and turboprop aircraft, increased at an average rate of 5.4% per year. Fixed-wing turbine aircraft are the major consumers of FBO services, especially fuel. Over the same period, the general aviation hours flown by fixed-wing turbine aircraft have increased at an average rate of 5.4% per year. These factors have contributed to an average annual growth rate in general aviation jet fuel consumption of 6.1% from 1995 to 2005. This growth is and has been driven by a number of factors, in addition to general economic growth over the period, which include the following:

- passage of the General Aviation Revitalization Act in 1994, which significantly reduced the product liability facing general aviation aircraft manufacturers;
- dissatisfaction with the increased inconvenience of commercial airlines and major airports as a result of security-related delays;
- growth in programs for the fractional ownership of general aviation aircraft (programs for the time share of aircraft), including NetJets, FlexJet and Flight Options; and
- a tax package passed by Congress in May 2003, which allows companies to depreciate 50% of the value of new business jets in the first year of ownership if the jets were purchased and owned by the end of 2004.

We believe generally that the events of September 11, 2001 have increased the level of general aviation activity. We believe that safety concerns for corporate staff combined with increased check-in and security clearance times at many airports in the United States have increased the demand for private and corporate jet travel.

As a result of these factors, the FAA is forecasting continued growth in general aviation jet fuel consumption, on average, of 8.6% per year from 2005 to 2017.

The growth in the general aviation market has driven demand for the services provided by FBOs, especially fuel sales. The general aviation market is serviced by FBOs located throughout the United States at various major and regional airports. According to *Aviation International News*, there are approximately 4,500 FBOs throughout North America, with generally one to five operators per airport. Most of the FBOs

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are privately owned by operators with only one or two locations. There are, however, a number of larger industry participants, including Signature Flight Support, which is owned by BBA plc.

Strategy

We believe that our FBO business will continue to benefit from the overall growth in the corporate jet market and the demand for the services that our business offers. However, we believe that our airport services business is in a position to grow at rates in excess of the industry as a result of our internal growth, marketing and acquisition strategies.

Internal Growth. We plan to grow revenues and profits by continuing to focus on attracting pilots and passengers who desire full service and quality amenities. We will continue to develop our staff so as to provide a level of service higher than that provided by discount fuel suppliers. In addition, we will make selective capital expenditures that will increase revenues and reinforce our reputation for service and high quality facilities, potentially allowing us to increase profits on fuel sales and other services over time.

Marketing. We plan to improve, expand and capitalize on our existing marketing programs, including our proprietary point of sale system and associated customer information database, and our Atlantic Awards program. Through our marketing programs, we expect to improve revenues and margins by generating greater customer loyalty, encouraging upselling of fuel, cross-selling of services at additional locations to existing customers, and attracting new customers.

Acquisitions. We will focus on acquisitions at major airports and locations where there is likely to be growth in the general aviation market. We believe we can grow through acquisitions and derive increasing economies of scale, as well as marketing, head office and other cost synergies. We believe the highly fragmented nature of the industry and the desire of certain owners for liquidity provide attractive acquisition candidates, including both individual facilities and portfolios of facilities. In considering potential acquisitions, we will analyze factors such as capital requirements, the terms and conditions of the lease for the FBO facility, the condition and nature of the physical facilities, the location of the FBO, the size and competitive conditions of the airport and the forecasted operating results of the FBO.

Business

Operations

We believe our airport services business has high-quality facilities and operations and focuses on attracting customers who desire high-quality service and amenities. Fuel sales represented approximately 71% of our airport services business revenue for 2005. Other services provided to these customers include de-icing, aircraft parking, hangar rental and catering. Fuel is stored in fuel farms and each FBO operates refueling vehicles owned or leased by the FBO. The FBO either maintains or has access to the fuel storage tanks to support its fueling activities. Services are also provided to commercial carriers and include refueling from the carrier s own fuel supplies stored in the carrier s fuel farm, de-icing and ground and ramp handling services.

Our cost of fuel is dependent on the wholesale market price. Our airport services business sells fuel to customers at a contracted price, or at a price negotiated directly with the customer. While fuel costs can be volatile, we generally pass fuel cost changes through to customers.

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Locations

Our FBO facilities operate pursuant to long-term leases from airport authorities or local government agencies. Our airport services business and its predecessors have a strong history of successfully renewing leases, and have held some leases since the 1940s, 1950s and 1960s. The existing leases have an average remaining length of approximately 17 years.

Airport	Other FBOs at Airport	Operated Since	Lease Expiry(1)
Teterboro Airport (Bergen County, NJ)	4	1946	2019
Chicago Midway Airport (Chicago, IL)	2	1969	2020
Philadelphia International Airport (Philadelphia, PA)	None	1955	2026
Republic Airport (Farmingdale, NY)	1	1980	2024
Northeast Philadelphia Airport (Philadelphia, PA)	1	1960	2026
William P. Hobby Airport (Houston, TX)	4	1972	2013
Sikorsky Memorial Airport (Bridgeport, CT)	1	1995	2021
New Orleans Lakefront Airport (New Orleans, LA)	2	1969	2031
Louis Armstrong New Orleans International Airport (New Orleans, LA)	1	1966	2015
Brainard International Airport (Hartford, CT)	None	1988	2020
Louisville International Airport (Louisville, KY)	None	1996	2016
Pittsburgh International Airport (Pittsburgh, PA)	None	1989	2028
Burlington International Airport (South Burlington, VT)	None	2001	2035
Metroport East 34th Street Heliport (New York, NY)(2)	None	1997(3)	2017
Gulfport-Biloxi International Airport (Gulfport, MS)	None	2000	2010
New Castle County Airport (Wilmington, DE)	2	1997	2027
McCarran International Airport (Las Vegas, NV)(4)	1	1996	2025
John Wayne Orange County Airport (Orange County, CA)(5)	1	1992	2014
Palm Springs Airport (Palm Springs, CA)(5)	1	1981	2031

(1) Lease expiries assume Atlantic exercises all its options to extend leases.

(2) Formerly the East 60th Street Heliport, operated since 1968. When the East 60th Street Heliport was closed by the local authority, it was relocated and now operates as the Metroport East 34th Street Heliport.

(3) Atlantic won the tender to significantly upgrade the Metroport East 34th Street Heliport. It is anticipated that the upgrade will take place over 2006-2007. In return, Atlantic was granted a 10-year operating agreement.

(4) Acquired on August 12, 2005.

(5) Acquired on January 14, 2005.

The airport authorities have termination rights in each lease. Standard terms allow for termination if the tenant defaults on the terms and conditions of the lease or abandons the property or if the tenant is insolvent or bankrupt. In addition, Atlantic s FBOs at Chicago Midway, Philadelphia, Northeast Philadelphia, New Orleans International and Orange County may be terminated with notice by the airport authority for convenience. In each case, there are compensation agreements or obligations of the authority to make best efforts to relocate the FBO. Most of the leases allow for the lease to be terminated if there are liens filed against the property. The new operating agreement at Metroport East 34th Street Heliport also contains provisions allowing the authority to terminate the operating

agreement for convenience. In this case, the authority will be obligated to pay compensation to Atlantic equal to the level of Atlantic s unamortized cost of capital expenditure at the heliport.

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Airport Management Contracts

Atlantic manages and operates six airports on behalf of local authorities under management contracts. Under these contracts, Atlantic is responsible for the day-to-day operation of the airfield and terminal and is paid a fixed annual fee for providing these services. The annual fee is paid to Atlantic irrespective of the number of passengers that pass through the airport and, therefore, is unaffected by changes in airport activity. Management contracts accounted for less than 1% of Atlantic s revenue for fiscal 2005.

Atlantic operates six regional or general aviation airports under management contracts at the following locations:

Atlantic City International Airport;

Republic Airport;

Teterboro Airport;

Tweed-New Haven Regional Airport;

Westchester County Airport; and

Albany International Airport.

Marketing

We believe our airport services business has an experienced marketing team and marketing programs that are sophisticated relative to those of other industry participants. Our airport services business marketing activities support its focus on high-quality service and amenities and are intended to generate greater customer loyalty, encourage upselling of fuel, present cross-selling services at additional locations to existing customers, and attract new customers.

Atlantic has established two key marketing programs. Each utilizes an internally-developed point-of-sale system that operates at substantially all locations. This system tracks all aircraft utilizing the airport and records which FBO the aircraft uses. To the extent that the aircraft is a customer of another Atlantic FBO but did not use the Atlantic FBO at the current location, a member of Atlantic s customer service team will send a letter alerting the pilot or flight department of Atlantic s presence at that site and invite them to visit next time they are at that location.

The second key program is the Atlantic Awards program. This program also operates through the point-of-sale system. For each 100 gallons of fuel purchased, the pilot is given a voucher for five Atlantic Awards. The pilot can begin accumulating points after registering the voucher on Atlantic s website. Once 100 Atlantic Awards have been accumulated, the pilot is sent a pre-funded American Express card, branded with Atlantic s logo. The card is recharged each time the pilot registers additional vouchers on Atlantic s website. This program has rapidly gained acceptance by pilots and is encouraging upselling of fuel, where pilots purchase a larger portion of their overall fuel requirement at our locations. These awards are recorded as a reduction in revenue in our consolidated financial statements.

Competition

Competition in the FBO business exists on a local basis at most of the airports at which our airport services business operates. Seven of our FBOs (including the heliport) are the only FBO at that airport, either because of the lack of suitable space at the airfield, or because the level of demand for FBO services at the airport does not support more than one FBO. The remaining twelve FBOs have one or more competitors located at the airport. FBO operators at a particular airport compete based on a number of factors, including location of the facility relative to runways and street access, service, value-added features, reliability and price. Our airport services business positions itself at these airports as a provider of superior service to general aviation pilots and passengers. Staff are provided with comprehensive training on an ongoing basis to ensure high and consistent quality of service. Our airport services business markets to high net worth individuals and corporate flight departments for whom fuel price is of less importance

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than service and facilities. While each airport is different, generally there are significant barriers to entry preventing new FBO competitors from entering the markets in which our airport services business operates, including limited availability of suitable land.

There are nine competitors with operations at five or more U.S. airports, including Signature Flight Support, Landmark Aviation, Million Air Interlink, Trajen and Mercury Air. These competitors tend to be privately held or owned by much larger companies, such as BBA Group plc, The Carlyle Group and Allied Capital Corporation. Some present and potential competitors have or may obtain greater financial and marketing resources than we do, which may negatively impact our ability to compete at each airport or to compete for acquisitions. We believe that the airport authorities from which our airport services business leases space are satisfied with the performance of their FBOs and are therefore not seeking to solicit additional service providers.

Regulation

The aviation industry is overseen by a number of regulatory bodies, the primary one being the FAA. At the FBO level, our airport services business is largely regulated by the local airport authorities through lease contracts with those authorities. Our airport services business must comply with federal, state and local environmental statutes and regulations associated in part with numerous underground fuel storage tanks. These requirements include, among other things, tank and pipe testing for tightness, soil sampling for evidence of leaking and remediation of detected leaks and spills. Our airport services business operations are subject to regular inspection by federal and local environmental agencies and local fire and airline quality control departments. With respect to environmental and compliance requirements, we expect to install fuel farm containment equipment in 2006 and secondary fuel containment equipment for our fuel trucks in 2007 to comply with new fuel farm containment requirements. We do not expect that compliance and related remediation work will have a material negative impact on earnings or the competitive position of our airport services business. To date, our airport services business has not received notice of any cease and abatement proceeding by any government agency as a result of failure to comply with applicable environmental laws and regulations.

Management

The day-to-day operations management of our airport services business is undertaken by individual site managers. Local managers at each site are responsible for all aspects of the operations at their site. Responsibilities include ensuring that customer requirements are met by the staff employed at their sites and that revenue from the sites is collected, and expenses incurred, in accordance with internal guidelines. In order to maximize the revenue earned at the FBOs, local managers are, within the specified guidelines, empowered to make decisions as to fuel pricing and other services. In this way, our airport services business is able to respond to its customers needs efficiently and provide them with high quality service.

Atlantic s operations are managed and overseen by a group of senior personnel who, on average, have over 19 years experience in the aviation industry. Most of the business management team members have been employed at our airport services business (or its predecessors) for over 11 years and have established close and effective working relationships and understanding with local authorities, customers, service providers and subcontractors. These teams are responsible for, among other things, overseeing the FBO operations, setting strategic direction and ensuring compliance with all contractual and regulatory obligations.

Atlantic s head office is in Plano, Texas. The head office provides the business with central management and performs overhead functions, such as accounting, information technology, human resources, payroll and insurance arrangements. We believe our facilities are adequate to meet our present and foreseeable operational needs.

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Employees

As of December 31, 2005, our airport services business employed over 1,080 employees at its various sites. Approximately 18% of employees are covered by collective bargaining agreements. We believe that employee relations at our airport services business are good.

Airport Parking Business

Overview

Our airport parking business is the largest provider of off-airport parking services in the United States, measured by number of facilities, with 31 facilities comprising over 40,000 parking spaces and over 360 acres at 20 major airports across the United States, including six of the ten largest passenger airports. Our airport parking business, operating generally under the names PCA, Avistar or SunPark, provides customers with 24-hour secure parking close to airport terminals, as well as transportation via shuttle bus to and from their vehicles and the terminal. Operations are carried out on either owned or leased land at locations near airports. Operations on owned land or land on which our airport parking business has leases longer in term than 20 years (including extension options) account for a majority of operating income. The airport parking business had revenues of $59.9 million and operating income of $6.5 million for fiscal 2005, and total assets of $288.8 million at December 31, 2005 and $205.2 million at December 31, 2004. Revenues from our airport parking business comprised 19.6% of our total revenues in fiscal 2005.

In 2002, the Macquarie Global Infrastructure Fund, together with other investors, acquired the ten off-airport parking facilities formerly owned and operated by the PCA Group. That transaction closed in December 2002, and the business commenced operations as Macquarie Parking. In October 2003, Macquarie Parking acquired the ten off-airport parking facilities of Airport Satellite Parking LLC, known as Avistar. Since that acquisition was completed, the two businesses have been operated as one merged business. Between October 2003 and December 23, 2004, the business acquired an additional four facilities.

Our Acquisition

On the second day following our initial public offering, we acquired 100% of the ordinary shares in Macquarie Americas Parking Corporation, or MAPC, from the Macquarie Global Infrastructure Fund for cash consideration of $33.8 million (including transaction costs). At that time MAPC owned approximately 83% of the outstanding ordinary membership units in Parking Company of America Airports Holdings LLC, or PCAA Holdings. In turn, PCAA Holdings owned approximately 51.9% of the outstanding membership units in PCAA Parent LLC, or PCAA Parent. PCAA Parent is the 100% owner of a number of subsidiaries that collectively own and operate Macquarie Parking.

On the same day, we also acquired all of the minority interests in PCAA Holdings for $6.7 million and 34.3% of the outstanding membership units in PCAA Parent for $23.3 million (in each case, including transaction costs). As a result of these transactions, we acquired in aggregate 100% of PCAA Holdings and 87.2% of PCAA Parent, and thereby acquired Macquarie Parking. The affairs of PCAA Parent are governed by its LLC agreement. PCAA Parent has a board of directors and PCAA Holdings has the right to appoint all members to the board of directors. Pursuant to the LLC agreement, most major decisions are referred to the board of directors of PCAA Parent, where decisions are made by majority vote.

On October 3, 2005, our airport parking business acquired real property, and personal and intangible assets related to six off-airport parking facilities. These facilities are collectively referred to as SunPark and are located at airports in St. Louis, Philadelphia, Houston, Oklahoma City, Buffalo and Columbus. During 2005, our airport parking business also acquired a facility in Philadelphia, a leasehold facility in Cleveland and exercised the option to purchase previously leased property at existing facilities in Phoenix and Newark. In conjunction with the property acquisition in Phoenix, we consolidated our market presence to two facilities by not renewing the lease on a third facility. We contributed $17.8 million of the equity

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required to finance these transactions. The minority shareholders in our airport parking business did not contribute their full pro rata share of capital related to these acquisitions. As a result, our ownership interest in the airport parking business increased from 87.1% to 87.95%.

Industry Overview

Airport parking can be classified as either on-airport (generally owned by the airport and located on airport land) or off-airport (generally owned by private operators). The off-airport parking industry is relatively new, with the first privately owned parking facilities servicing airports generally only appearing in the last few decades. Industry participants include numerous small, privately held companies as well as on-airport parking owned by airports.

Airports are generally owned by local governments, which often do not operate or market their parking operations as effectively as the privately owned operators, as the parking operations do not form part of the airport s core function. In many cases, on-airport parking facilities are managed by large parking facility management companies pursuant to cost-plus contracts that do not create incentives to maximize profitability. Most airports have historically increased parking rates rapidly with increases in demand, creating a favorable pricing environment for off-airport competitors.

Airport parking facilities operate as self-park or valet parking facilities. Valet parking facilities often utilize deep-stack parking methods that allow for a higher number of cars to be parked within the same area than at a self-parking facility of the same size by minimizing space between parked cars. In addition, valet parking provides the customer with superior service, often allowing the parking rates to be higher than at self-park facilities. However, the cost of providing valet parking is generally higher, due to higher labor costs, so self-parking can be more profitable per car, depending upon land availability at an affordable cost, labor costs and the premium that can be charged for valet service.

The substantial increase in use of the internet to purchase air travel through companies such as Expedia, Orbitz and Travelocity, as well as through airlines own websites, provides a strong co-marketing opportunity for larger off-airport parking operators that provide broad nationwide coverage at the busiest airports. In addition, we believe the highly fragmented nature of the industry provides strong consolidation opportunities for larger off-airport parking operators that benefit from economies of scale and national marketing programs, distribution networks and information systems.

Strategy

We believe that we can grow our airport parking business by focusing on achieving operating efficiencies and internal growth, expanding marketing efforts and complementary acquisitions.

Internal Growth. Our strategy includes:

- increasing the level of services offered to customers, for example, by expanding the offering of free car washes, complimentary beverages, flight information monitors and automated e-ticket check-in services;
- making improvements to our facilities, for example by constructing covered parking;
- expanding capacity at capacity constrained locations, for example, by maximizing capacity at our existing locations through more efficient utilization of space, seeking additional leases at adjacent or nearby properties to existing locations, providing valet parking and utilizing deep-stack parking and installation of vertical stackers; and
- ongoing development of pricing strategies designed to maximize revenue.

Operating Efficiencies. Our business was enlarged with the acquisition of SunPark in October 2005 and we intend to pursue additional complementary acquisitions. We believe there are economies of scale that can be realized due to the increased size, in areas such as combined marketing programs, vehicles and equipment purchases and employee benefits.

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Marketing. We intend to expand and improve our existing marketing strategies. These strategies include the development of an internet reservation capability, opening new distribution channels such as promotional agreements with additional airlines and travel agencies, improving the product offering for corporate accounts and providing personalized web pages and activity reports for corporate accounts. We also intend to integrate our brands and websites.

Acquisitions. We believe we can grow through selective acquisitions and derive benefits from economies of scale, including revenue and marketing, head office, insurance, shuttle buses and other cost synergies. We believe the highly fragmented nature of the industry and the desire of owners for liquidity provide attractive acquisition candidates. Acquiring facilities at major airports where we do not currently have a facility would allow us to expand our nationwide presence, while opportunities in markets where we already have a presence should provide increased operating efficiencies and expanded capacity. These acquisitions can take the form of entering into new leases or purchasing land.

Business

Operations

We believe our size and nationwide coverage and sophisticated marketing programs provide us with a competitive advantage over other airport parking operators. We aim to centralize our marketing activities and the manner in which we sell our services to customers. Individual location operations can focus on service delivery as diverse reservation services and customer and distribution channel relations are managed centrally. Our size and the diversity of our operations enable us to mitigate the risk of a downturn or competitive impact in particular locations or markets. In addition, our size provides us with the ability to take advantage of incremental growth opportunities in any of the markets we serve as we generally have more capital resources to apply toward those opportunities than single facility operators.

Our nationwide presence also allows us to provide one stop shopping to internet travel agencies, airlines and major corporations that seek to deal with as few suppliers as possible. Our marketing programs and relationships with national distribution channels are generally more extensive than those of our industry peers. We market and provide discounts to numerous affinity groups, tour companies, airlines and online travel agencies. We believe most air travelers have never tried off-airport parking facilities, and we use these relationships to attract these travelers as new customers.

Most of our customers fall into two broad categories: business travelers and leisure travelers. Business travelers are typically much less price sensitive and tend to patronize those locations that emphasize service, particularly prompt, consistent and quick shuttle service to and from the airport. Shuttle service is generally provided within a few minutes of the customer s arrival at the parking facility, or the airport, as the case may be. Leisure travelers often seek the least expensive parking, and we offer substantial discounts and coupon programs to attract leisure travelers. In addition to reserved parking and shuttle services, we provide ancillary services at some parking facilities to attract customers to the facility and/or to earn additional revenue at the facility. Such services include car washes or auto repairs, either at no cost to the customer or for a fee.

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Locations

We provide off-airport parking services at the following airports. Each airport is ranked according to the number of passenger enplanements (passengers boarding airplanes) sourced from FAA data for 2004:

				Acres	
Airport	**Facilities**	**(Valet)**	**Ranking**	**Owned**	**Leased**
Hartsfield Jackson Atlanta International	1		1	12.5	
Chicago O Hare International	1	(1)	2	5.9	1.0
Dallas/ Fort Worth International	1		4	0.0	8.0
Denver International	1		5	40.3	0.0
Phoenix Sky Harbor International(a)	2		7	17.3	0.0
John F. Kennedy International	1	(1)	8	2.7	1.7
Newark Liberty International	4	(2)	12	18.1	14.3
San Francisco International	1		13	0.9	9.9
Philadelphia International	3	(3)	17	8.7	1.5
La Guardia International	1	(1)	20	0.0	4.9
Metropolitan Oakland International	3	(1)	31	8.2	19.2
Pittsburgh International	1		32	23.3	29.0
Lambert-St Louis International	2		34	21.3	3.3
Cleveland, Hopkins International	1	(1)	35	0.0	3.6
Memphis International	1		36	8.3	8.0
Houston, William P. Hobby	1		46	9.7	2.5
Bradley International	3	(2)	49	0.0	39.5
Port Columbus International	1		55		18.4
Buffalo Niagara International	1		63	9.4	0.0
Oklahoma City, Will Rogers World Airport	1		69	22.0	0.0
Total	31	(12)		208.6	164.8

(a) As part of our consolidation of the Phoenix market, the lease at Phoenix Executive was not renewed in 2006 and the business was relocated to an existing facility.

Marketing

Our marketing team continually develops new programs designed to maximize revenue growth. These include developing and refining our internet reservation capability, opening new distribution channels, improving the product offering for corporate accounts and providing personalized web pages and activity reports for corporate accounts. For example, our Express Club provides a premium service and discounts for the highest turnover valet customers in return for an annual membership fee. Further, following the events of September 11, 2001, members of the management team of our airport parking business and others established AirportDiscountParking.com, the first nationwide alliance of off-airport parking businesses which have locations at over fifty airports in the United States. Promotional agreements with airlines as well as traditional and internet travel agencies attracted prospective customers to the AirportDiscountParking.com websites for coupons, maps and directions. Since its inception, we believe AirportDiscountParking.com has accelerated the rate at which new customers are attracted to try our parking services for the first time. Marketing initiatives in 2005 included radio advertising and a relationship with Frontier Airlines.

Our facilities operate under various trade names. We use the Parking Company of America name pursuant to a perpetual trademark licensing agreement.

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Competition

Competition exists on a local basis at each of the airports at which we operate. Generally, airport parking facilities compete on the basis of location (relative to the airport and major access roads), quality of facilities (including whether the facilities are covered), type of service provided (self-park or valet), security, service (especially relating to shuttle bus transportation), price and marketing. We face direct competition from the on-airport parking facilities operated by each airport, many of which are located closer to passenger terminals than our locations. Airports generally have significantly more parking spaces than we do and provide different parking alternatives, including self-park short-term and long-term, off-airport lots and valet parking options. However, as the airports are government-owned, competitive dynamics of service and pricing are generally different than those experienced with privately owned competitors. The airports generally do not view parking operations as their core function, and their pricing strategy is often driven by the fiscal state of the airport authority, which often leads to sudden high price increases.

We also face competition from existing off-airport competitors at each airport. While each airport is different, there generally are significant barriers to entry preventing new off-airport competitors from entering the markets in which we operate, including limited availability of suitable land of adequate size near the airport and major access roads, and zoning restrictions. While competition is local in each of the markets in which we operate, we face strong competition from several large off-airport competitors, including companies such as The Parking Spot, ParkNFly, Airport Fast Park and PreFlight Airport Parking (owned by General Electric) that have operations at five or more U.S. airports. In each market in which we operate, we also face competition from smaller, locally owned independent parking operators, as well as from hotels or rental car companies that have their own parking facilities. Some present and potential competitors have or may obtain greater financial and marketing resources than we do, which may negatively impact our ability to compete at each airport or to compete for acquisitions.

Indirectly, we face competition from other modes of transportation to the airports at which we operate, including public transportation, airport rail links, taxis, limousines and drop-offs by friends and family. We face competition from other large off-airport parking providers in gaining access to marketing and distribution channels, including internet travel agencies, airlines and direct mail.

Regulation

Our airport parking business is subject to federal, state and local regulation relating to environmental protection. We own a parcel of real estate that includes land that the Environmental Protection Agency, or EPA, has determined to be contaminated. A third party operating in the vicinity has been identified as a potentially responsible party by the EPA. We do not believe our parking business contributed to this contamination and we have not been named as a potentially responsible party. Nevertheless, we have purchased an environmental insurance policy for the property as an added precaution against any future claims. The policy expires in July 2007 and is renewable.

We transport customers by shuttle bus between the airport terminals and its parking facilities, and its shuttle operations are subject to the rules and policies of the local airport. The airports are able to regulate or control the flow of shuttle buses. Some airport authorities require permits and/or levy fees on off-airport parking operators for every shuttle trip to the terminals. These regulations have not materially affected our airport parking business to date. If fees were to be significantly increased, we would seek to pass the increases on to our customers through higher parking rates, which could result in a loss of customers.

The FAA and Transportation Safety Administration, or the TSA, generally have the authority to restrict access to airports as well as to impose parking and other restrictions near the airport sites. The TSA generally prohibits parking within 300 feet of airport terminals during times of heightened alert. While we believe that existing regulations or the present heightened security at airports may be relaxed in the future, the existing 300 feet rule may benefit us as it has prevented some on-airport competitors from using a number of their existing parking spaces.

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In addition, municipal and state authorities sometimes directly regulate parking facilities. We also may be affected periodically by government condemnation of our properties, in which case we will generally be compensated. We are also affected periodically by changes in traffic patterns and roadway systems near our properties and by laws and regulations (such as zoning ordinances) that are common to any business that deals with real estate.

Management

The day-to-day operations of our airport parking business are managed by an operating management team located at head offices in Downey, California and Newark, New Jersey. Each site is operated by local managers who are responsible for all aspects of the operations at their site. Responsibilities include ensuring that customer requirements are met by the staff employed at their site and that revenue from the sites is collected and expenses incurred in accordance with internal guidelines.

Employees

As of February 28, 2006, Macquarie Parking employed approximately 1,000 individuals. Approximately 22% of its employees are covered by collective bargaining agreements. We believe that employee relations at Macquarie Parking are good.

District Energy Business

Overview

Our district energy business consists of Thermal Chicago and a 75% interest in Northwind Aladdin. We also own all of the senior debt of Northwind Aladdin. The remaining 25% equity interest in Northwind Aladdin is owned by Nevada Electric Investment Company, or NEICO, an indirect subsidiary of Sierra Pacific Resources. The district energy business had revenues of $43.4 million and operating income of $9.4 million for our 2005 fiscal year, and total assets of $245.4 million at December 31, 2005 and $254 million at December 31, 2004. Revenues from our district energy business comprised 14.2% of our total revenues in the 2005 fiscal year.

Thermal Chicago operates the largest district cooling system in the United States. The system currently serves 98 customers under long-term contracts in downtown Chicago and one customer in Chicago outside the downtown area, and has signed contracts with two additional customers expected to start service between 2006 2009. Our district energy business provides chilled water from five modern plants located in downtown Chicago through a closed loop of underground piping for use in the air conditioning systems of large commercial, retail and residential buildings in the central business district. The first of the plants became operational in 1995, and the most recent came on line in June 2002. The total capacity of the downtown system is 83,900 tons of chilled water with deliverable capacity of approximately 94,400 tons due to the reduced rate arrangements with interruptible customers who, when called upon, could meet their own cooling needs during peak times.

The table below provides summary data regarding the capacity of the downtown Chicago plants:

Plant	Capacity (Tons)
P-1	19,200
P-2	21,400
P-3	17,800
P-4	17,500
P-5	8,000

Thermal Chicago also owns a site-specific heating and cooling plant, P-6, that serves a single customer in Chicago outside of the downtown area. The P-6 plant has the capacity to produce 4,900 tons of cooling and 58.2 million British Thermal Units, or BTUs, of heating per hour.

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Northwind Aladdin owns and operates a stand-alone facility that provides cold and hot water (for chilling and heating, respectively) and back-up electricity generation to the Aladdin resort and casino and the adjacent Desert Passage shopping mall in Las Vegas, Nevada. Services are provided to both customers under long-term contracts that expire in 2020 with 90% of cash flows generated from the contract with the Aladdin resort and casino.

The Northwind Aladdin plant has been in operation since 2000 and has the capacity to produce 9,270 tons of chilled water, 40 million BTUs of heating per hour and approximately 5 megawatts of electricity.

Our Acquisition

On the day following our initial public offering, we acquired 100% of the membership interests in Macquarie District Energy Holdings, LLC, or MDEH, the holding company of our district energy business, from Macquarie Investment Holdings Inc., a wholly owned indirect subsidiary of Macquarie Bank Limited, for $67 million (including transaction costs) and assumed $120 million of senior debt that was used partially to finance the acquisition of Thermal Chicago and our interest in Northwind Aladdin.

Prior to our initial public offering, Macquarie District Energy, Inc., or MDE, a wholly owned subsidiary of MDEH, acquired 100% of the shares in Thermal Chicago Corporation, the holding company for Thermal Chicago, from Exelon Thermal Holdings, Inc., a subsidiary of Exelon Corporation, or Exelon, for $135 million plus a working capital adjustment of $2.7 million, with no assumption of debt pursuant to a stock purchase agreement. Prior to our initial public offering, MDE also acquired all of the shares of ETT Nevada, Inc., which owns a 75% equity interest in Northwind Aladdin, and separately all of the senior debt in Northwind Aladdin from a wholly owned subsidiary of Exelon. The acquisition price for the shares and senior debt was $26.1 million plus a working capital adjustment of $2 million. In addition to the purchase prices under the purchase agreements, MDE incurred fees and other expenses of approximately $9 million in connection with the completion of the acquisition of Thermal Chicago and ETT Nevada, Inc. and required cash for debt service reserves of approximately $4 million.

Industry Overview

District energy is the provision of chilled water, steam and/or hot water to customers from a centralized plant through underground piping for cooling and heating purposes. A typical district energy customer is the owner/manager of a large office or residential building or facilities such as hospitals, universities or municipal buildings. District energy systems exist in most major North American and European cities and some have been in operation for over 100 years. District energy is not, however, an efficient option for suburban areas where customers are widely dispersed.

To provide district cooling, the system is filled with water obtained from the municipal system and chilled using electric chillers. Within the plant, a refrigerant gas is compressed into a liquid state. This liquid refrigerant is piped into a larger (less pressurized) chamber, allowing it to expand. The chamber is surrounded by water pipes. As part of the expansion process, the refrigerant absorbs heat from the water in the pipes into the expanding gas, causing the water to be chilled. The chilled water is then sent down a system of underground pipes to buildings where the thermal energy (cold) is transferred into the buildings internal systems. System water does not mix with in-building water; instead the thermal energy is transferred via a heat exchanger. Water is then returned to the plant for re-chilling through the same system. While the process is relatively simple, operating a district energy system at high levels of availability and optimum levels of efficiency is complex. The key operating risks are limited primarily to the availability of electricity (i.e., blackouts) and general system breakdowns (in either plant or distribution systems).

District heating is the provision of steam or hot water through pipes for use as a heating source. The steam is generated through the burning of fuel to boil water in a boiler. The steam is distributed through underground piping. After the steam is used to heat the customer s facility, the condensed steam is returned to the central plant.

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Revenues from providing district energy services under contract are usually comprised of fixed capacity payments and variable usage payments. Capacity payments are made regardless of the actual volume of hot or cold water used. Usage payments are based on the volume of hot or cold water used.

District energy systems are largely unregulated in the United States, although each multi-customer system usually has an agreement with the city in which it operates that provides permission to lay pipes under the streets (generally in the form of a use agreement or concession). The plans for laying these pipes need to be drawn up and provided to the city engineers for approval. Our district energy business is not subject to specific government regulation, however, our downtown Chicago operations are operated subject to the terms of a Use Agreement with the City of Chicago. See Business Thermal Chicago City of Chicago Use Agreement.

Strategy

We believe that we can grow our district energy business internally via capital expenditure and through acquisitions.

Internal Growth. We plan to grow revenues and profits by increasing the output capacity of Thermal Chicago s plants in downtown Chicago and adding new customers to the system. Over the past two years, minor system modifications have been made that increased capacity by 3,000 tons. In addition, efficiencies we have achieved at our plants and throughout our system have created approximately 9,000 additional tons of saleable capacity. A portion of this capacity will be used to accommodate four customers who will convert from interruptible to continuous service in mid-2006. The balance has been sold to new customers contracted in 2005 and early 2006.

We anticipate spending up to $8.4 million over two years starting in 2007 for a system expansion that will increase saleable capacity by an additional 7,000 tons. This additional capacity will be available to serve existing and new customers. We anticipate entering into contracts or letters of intent with customers prior to committing to the capital expenditure.

Acquisitions. We will seek to grow our district energy business through acquisitions of other district energy systems where these acquisitions can be made on favorable economic terms. The ownership of district energy systems in the United States is highly fragmented, and we believe the sector has potential for consolidation. Also, a number of diversified electric utilities with non-core district energy operations may seek to sell their systems. We anticipate that these systems, once acquired, will continue to be operated under the direct control of local management.

Business Thermal Chicago

Operations

Each chilling plant is manned when in operation and has a central control room from which the plant can be operated and customer site parameters can be monitored and controlled. The plant operators can monitor, and in some cases control, the functions of other plants allowing them to cross-monitor critical functions at the other plants. The control room at Plant 2 is set up as the primary system control room with extensive monitoring and control functions and is where the majority of day-to-day system operating decisions are made.

Since the commencement of operations, there have been no unplanned interruptions of service to any customer. Occasionally, we have experienced plant or equipment outages due to electricity loss or equipment failure; however, in these cases we had sufficient idle capacity to maintain customer loads. When maintenance work performed on the system has required customer interruption, we have been able to coordinate our operations for periods of time to meet customer needs. The effect of major electric outages is generally mitigated since both customers and the plants are equally affected; the plants affected by the outages cannot produce cooling and affected customers are unable to use the cooling service.

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Corrective maintenance is typically performed by qualified contract personnel and off-season maintenance is performed by a combination of plant staff and contract personnel.

Electricity Costs

The largest and most variable direct expense of the operation is electricity. As a consequence, operating personnel historically manage this cost in accordance with a strategy that takes into account system hydraulic requirements and the costs and efficiencies of each plant. The efficient use of electricity at each plant will vary based on its design, operation and its electricity rate plan. In addition, at several plants, ice can be made overnight to store thermal energy when electricity costs are generally lower. This ice is then used during the day to chill water when electricity costs are highest.

Electric utility restructuring legislation was adopted in Illinois in December 1997 to provide for a transition to a deregulated generation market scheduled for 2007. The new law provided Illinois electric utilities the opportunity to restructure their businesses, mandated a reduction in rates for residential customers and a rate freeze for customers under bundled rate plans, and allowed customers the opportunity to remain on their bundled rate plan or achieve savings by purchasing electricity supply from alternative retail energy suppliers. The legislation also included a provision for electric utilities, in our case ComEd, to collect a customer transition charge, or CTC, from customers who choose to purchase electricity from an alternative retail energy supplier or those who elect ComEd s Power Purchase Option, or PPO, during the transition period as opposed to the bundled rate plans. The CTC allowed ComEd to recover some of its costs that might otherwise be unrecoverable under market-based rates. Due to the recent rise in market-based cost of power, CTCs have fallen.

Three of Thermal Chicago s plants currently participate in the PPO plan due to the economic advantages of the lower delivery service costs. In the beginning of each calendar year, ComEd calculates the rates to be charged under the PPO plan, including the CTC for each participant, with new rates becoming effective beginning each May. Under the terms of the PPO plan, if the CTC of any participant is reduced to zero, that participant becomes ineligible to purchase electricity under the PPO plan. With the recent high cost of market-based power, ComEd s calculation of our CTCs at the beginning of 2006 is zero. As a result, the three plants will no longer be able to purchase electricity under the PPO plan effective May 2006.

Effective May 1, 2004, ComEd became an integrated member of the PJM interconnection regional transmission organization (PJM). As a result, ComEd began to pass on PJM transmission charges to its customers that procure energy from retail energy suppliers. PJM transmission charges are passed to Thermal Chicago at the one plant currently supplied by a retail energy supply contract. As the PPO contracts with each of our other three plants expire, we expect that ComEd will pass through these costs to these three plants.

We have reviewed our options to purchase power for the remainder of 2006 and have entered into a contract to purchase electricity with a retail energy supplier. Based on an historically normal level of electricity usage, we estimate our electricity costs will increase by $750,000 for the remainder of 2006. We believe we can mitigate this impact through a combination of operational and strategic initiatives and offsets from our contract escalators. Had we remained on the PPO contracts and based on an historically normal level of electricity usage, we estimate our electricity costs would have increased by $1.1 million due to the revised PPO rates determined by ComEd in early 2006.

The Illinois electricity markets are expected to deregulate beginning in January 2007 and we will be required to enter into new electricity purchase arrangements effective at that time. ComEd has proposed a procurement process referred to as a reverse-auction. In a reverse-auction, the independent auction manager sets the opening bid designed to attract more supply than needed and then manages successive rounds of descending bids until just enough supply is committed at the lowest possible price to meet customer needs. Under this process, regulated electric utilities in Illinois will procure electricity on behalf of certain customers in a reverse-auction process and pass through the costs of that electricity to its customers. Large users, including Thermal Chicago Corporation, are typically excluded from this process. Although the Illinois Commerce Commission, or ICC, has approved the proposed reverse-auction process,

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its adoption is still subject to political and legal challenge. On February 24, 2006, legislation to extend the current rate freeze in Illinois for an additional three years was introduced in the Illinois general assembly. However, there is no assurance that such proposed legislation would become law in a timely manner or at all.

The market prices of electricity available to us are likely to reflect prices established in the reverse-auction process. Market prices of electricity in Illinois are also affected by changes in natural gas prices, which have been very volatile, but overall have increased significantly over the past year. We cannot predict the market prices for electricity that we will face beginning in 2007 but we anticipate, based on current market dynamics, that electricity will cost substantially more in 2007 than in the second half of 2006, as discussed above.

In addition, on August 31, 2005, ComEd filed a rate case with the ICC, which seeks, among other things, to increase delivery rates in a manner that we believe disproportionately impacts larger users of electricity. If the rate case is approved as currently proposed, our electricity costs would increase by an additional $2 million annually. We have joined a consortium of large users to challenge ComEd s rate increase. On December 23, 2005, ICC staffers filed an objection to ComEd s initial request to raise its delivery charge. Instead, they are calling for a slight decrease on the basis that the utility is trying to pass on too many administrative and other costs to customers. In addition, the Citizens Utility Board and other government agencies have filed testimony with the ICC refuting ComEd s rationale for an increase in its delivery rates. The results of the rate case are not expected to be known until at least the third quarter of 2006.

Customers

We currently serve 98 customers in downtown Chicago and one outside the downtown area and have signed contracts with two additional customers expected to begin service between 2006 2009. These customers comprise a diverse customer base consisting of retail stores, office buildings, residential buildings, theaters and government facilities. Customers include a number of landmark Chicago buildings. Office and commercial buildings comprise approximately 70% of the customers. No one customer accounts for more than eight percent of total contracted capacity and only three customers account for more than five percent of total contracted capacity each. The top 20% of customers account for approximately 62% of contracted capacity.

Our downtown district energy system has sold 85,492 tons of cooling capacity pursuant to contracts under which it is obligated to provide 72,617 tons of continual service and 12,875 tons of chilling capacity to interruptible customers. Service to interruptible customers may be discontinued at any time and in return interruptible customers pay lower prices for the service. We are able to sell continual service capacity in excess of the capacity of our system because customers do not all use their full capacity at the same time. Because of this diversity in customer usage patterns, we have not had to discontinue service to interruptible customers since the initial phases of system construction. Four interruptible customers will become customers requiring continual service in mid-2006. The total interruptible capacity contracted to these four customers is approximately 6,700 tons and we have the system capacity to accommodate this conversion. The conversion of these customers will lead to revenue increases of approximately $1 million per year as these customers will lose their applicable price discounts.

Customer Contracts General

We enter into contracts with the owners of the buildings to which the chilling service is provided. The terms of customer contracts vary from customer to customer. Approximately half of our customer contracts expire in the period from 2016 to 2020. The weighted average life of customer contracts as of December 31, 2005 is approximately 14 years.

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Customer Contract Expiry

At expiration, 64% of our customer contracts either automatically renew unless our district energy business terminates them or are silent in relation to renewal. This effectively gives us the ability to re-price these contracts at expiry unless our customers choose to use an alternative source for chilled air. The automatic renewal terms range from five to ten years. The rest of the customer contracts provide the customer with the option to renew the contract at the existing contract pricing for similar renewal terms of five to ten years.

Because of a lack of competition from other district energy systems and district energy s advantages over alternative sources of cooling for customers, we believe that a high percentage of our existing contracts will be renewed at expiry. See Competition.

Contract Pricing

Customers pay two charges to receive chilled water services: a fixed charge, or capacity charge, and a variable charge, or consumption charge. The capacity charge is a fixed monthly charge based on the amount of chilled water that we have contracted to make available to the customer. The consumption charge is a variable charge based on the volume of chilled water actually used during a billing period.

Adjustments to the capacity charge and consumption charge occur periodically, typically annually, either based on changes in certain economic indices or, under some contracts, at a flat rate. We make the necessary adjustments and then invoice the customer appropriately. Capacity charges generally increase at a fixed rate or are indexed to the Consumer Price Index, or CPI, which is a broad measure of inflation. Consumption charges are generally indexed to changes in a number of economic indices. These economic indices measure changes in the costs of electricity, labor and chemicals in the region in which we operate. While the indices used vary from contract to contract, consumption charges in 90% of our contracts (by capacity) are indexed to indices weighted at least 50% to increases in the Midwest producer price index for commercial electric power, with the balance indexed to costs of labor and chemicals. Hence 45% or $7.2 million of our 2005 consumption revenue for Thermal Chicago is linked to the Midwest producer price index. This weighting is comparable to the composition of Thermal Chicago s direct expenses, excluding non-cash items, of approximately 50% which are for electricity. The producer price index reflects the cost of electricity across a broad geographic region in the Midwest and, as a result, does not fully reflect changes in electricity costs that occur locally. Changes in this index, which are not in our control, combined with recent significant increases in local power prices, are likely to result in our electricity costs increasing significantly without a corresponding increase in contracted revenues to fully offset the cost. In addition, because our contracts typically adjust consumption charges annually, there is likely to be a significant lag before changes in market prices of electricity are reflected in our contracts overall. We are currently evaluating the components and calculation of the producer price index and alternative contractual price adjustment options to determine whether our contract provisions will allow us to better offset recent increases in electricity costs described above.

Other Contract Terms

Events of Default and Contract Termination. Customer contracts generally permit termination by the customers if, after an appropriate cure period, we fail to provide the chilled water service or otherwise fail to comply with the terms of the contract. We can terminate the contracts if, after an appropriate cure period, customers fail to make payments to us or otherwise fail to comply with the terms of the contract.

Make Whole Payments. Except for four contracts that comprise approximately 3% of capacity sold, if a customer wishes to terminate a contract early or we terminate the contract for customer default, then the customer is required to pay a lump sum. While the formulas vary across contracts, the basic principle is that the lump sum payment enables us to recover a portion of the capital that we invested to provide the service to the customer.

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System Failure Damage. If the chilling system fails for reasons other than temporary shutdown for maintenance or force majeure and we default under our contracts, we are generally liable to some degree for damages to the customer. The most common forms of system failure damages provided by the terms of the customer contracts are:

- capacity charges are abated, typically after three to five consecutive days of no chilled water service;
- our district energy business becomes responsible for all resulting losses and damages; and
- our district energy business becomes responsible for all costs of renting and installing temporary chilling equipment.

Losses and damages are typically defined in the contracts, and in these cases are restricted to physical damages to property, etc. Some contracts are vague in regard to the definitions of losses and damages and therefore give rise to the risk of suit for consequential damages. As a result of these potential damages, we seek to operate with a high level of reliability and an appropriate level of redundancy.

Change of Ownership Assignment. Generally, the customer is required to obtain our consent to assign its obligations under the contract (which may occur if the customer wishes to sell the property to which we provide service). In some cases, the contract may be assigned without our consent, provided that the assignee meets certain credit standards.

Seasonality

Approximately half of our revenues come in the form of capacity charges and half in the form of consumption charges. Consumption revenues are higher in the summer months when the demand for chilled water is at its highest and as a consequence, approximately 80% of consumption revenue is received in the second and third quarters of each year. Consumption payments also fluctuate from year to year depending on weather conditions.

Competition

Thermal Chicago is not subject to substantial competitive pressures. Pursuant to customer contracts, customers are generally not allowed to cool their premises by means other than chilled water service provided by our district energy business. The exception is when we cannot or choose not to provide additional capacity. The customer also may be allowed to operate separate cooling units to be used as back-up for critical operations.

In addition, the major alternative cooling system available to building owners is the installation of a stand-alone water chilling system (self-cooling). While we consider that competition from self-cooling exists, we do not consider that it has a material impact on the likelihood that the current contracts will be renewed at their scheduled maturity. Installation of a water chilling system (or refurbishment of retired systems for customers who once self-cooled) requires significant building reconfiguration and space and capital expenditure by our customers, whereas our district energy business has the advantage of economies of scale in terms of plant efficiency, staff and power sourcing.

We believe competition from an alternative district energy system in the Chicago downtown market is unlikely. There are significant barriers to entry including the considerable capital investment required, the need to obtain City of Chicago consent and the difficulty in obtaining sufficient customers given the number of buildings in downtown Chicago already committed under long-term contracts to the use of the system owned by us.

City of Chicago Use Agreement

We are not subject to specific government regulation, but our downtown Chicago operations are operated subject to the terms of a Use Agreement with the City of Chicago. The Use Agreement establishes the rights and obligations of our district energy business and the City of Chicago for the utilization of certain public ways of the City of Chicago for the operation of our district cooling system. Under the Use

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Agreement, we have a non-exclusive right to construct, install, repair, operate and maintain the plants and facilities essential in providing district cooling chilled water and related air conditioning service to customers. The principal provisions of this agreement are summarized below:

- we are required to pay the City of Chicago annually for the right to use the public ways the greater of (i) $552,000 or (ii) 3% of the total revenue related to the operation, lease, exchange or use of our district cooling system, subject to the City of Chicago s right to adjust compensation every five years. If the compensation rate is adjusted to exceed 4% of total revenue, then we have certain rights, including arbitration, to dispute the rate increase. We also pay certain surcharges for the use of the City of Chicago s tunnels;

- the City of Chicago retains the right to use the public ways for a public purpose and may request that we remove, modify, replace or relocate our facilities at our expense;

- we are required to post a surety bond or provide a letter of credit in the amount of $5 million to ensure our performance obligations;

- the City of Chicago has the right to contract with us and our affiliates for the provision of a chilled water service under no less favorable than the most advantageous terms and conditions offered to and accepted by any of our other customers in similar or identical transactions;

- any expansion of our plants and facilities requires approval by ordinance of the City Council of Chicago; and

- a prior approval of the City Council of Chicago will be required in the event of a change in control or any transfer or assignment of the Use Agreement.

The Use Agreement expires on December 31, 2020. Any proposed renewal, extension or modification of the Use Agreement will be subject to the approval by the City Council of Chicago. Prior to the expiration date, the agreement may be terminated by the City of Chicago for uncured material breaches of its terms and conditions by us. If we install any facilities that are not properly authorized under the Use Agreement or if the district cooling system does not conform with the standards generally applied by the City of Chicago, the City of Chicago may impose upon us liquidated damages in the amount of $6,000 per day if we fail to remove, modify, replace or relocate our facilities when requested by the City of Chicago.

Management

The day-to-day operations of our district energy business are managed by an operating management team located in Chicago, Illinois. Our management team has a broad range of experience that includes engineering, construction and project management, business development, operations and maintenance, project consulting, energy performance contracting, and retail electricity sales. The team also has significant financial and accounting experience.

Business Northwind Aladdin

Customers

Approximately 90% of Northwind Aladdin s cash flows are generated from a long-term contract with the Aladdin resort and casino, with the balance generated from a contract with the Desert Passage shopping mall. The Aladdin resort and casino is located at the center of Las Vegas Boulevard in Las Vegas and includes a 2,567-room hotel, a 100,000 square foot casino and a 75,000 square foot convention and conference facility. Additional buildings are being constructed on the Aladdin property and the Northwind Aladdin plant has the capacity to serve the buildings.

In 2001, the then owner of the Aladdin resort and casino filed for bankruptcy protection under Chapter 11. Pursuant to a settlement agreement approved by the bankruptcy court, Opbiz, LLC, a consortium comprised of Starwood Hotels and Resorts, Robert Earl, the chairman of Planet Hollywood, and Bay Harbor Management acquired the Aladdin resort and casino in September 2004 for approximately

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$600 million including the assumption of debt and equity commitments. Opbiz also assumed the obligations of the Aladdin resort and casino under the contract with Northwind Aladdin.

Contracts

The existing customer contracts with Aladdin resort and casino and the Desert Passage shopping mall both expire in February 2020. At expiry of the contracts, the plant will either be abandoned by us and ownership will pass to the Aladdin resort and casino for no compensation, or the plant will be removed by us at the cost of the Aladdin resort and casino.

Operations

The Northwind Aladdin plant has been in operation since 2000 and has the capacity to produce 9,270 tons of chilled water, 40 million BTUs of heating per hour and approximately 5 megawatts of electricity. The plant is manned 24 hours a day. The plant supplies district energy services to its customers via an underground pipe system.

Northwind Aladdin LLC Limited Liability Company Agreement

Northwind Aladdin LLC s limited liability company agreement, or the operating agreement, dated March 18, 1999 (as amended on March 15, 2002) provides for, among other things, the ownership rights of its members, NEICO, and ETT Nevada, Inc., respectively. The operating agreement provides that the business and affairs of Northwind Aladdin are managed by or under the direction of a board of managers to which ETT Nevada, Inc. is entitled to appoint three members and NEICO is entitled to appoint one member. Provided all members of the board of managers are present, decisions of the board of managers require the approval of three of the four directors, except for certain reserved matters, including approval of the budget and capital calls, which require unanimous approval. With respect to amendments to the operating agreement, the approval of members owning not less than 80% of the interests is required in addition to unanimous board approval. In the event of a deadlock, the dispute is referred to the chief executive officers of the ultimate parent companies of the members and, if the deadlock remains unresolved, the members can elect to exercise a buy-out mechanism.

Employees

Our district energy business has 44 full-time employees and one part-time employee. There are 35 plant staff members employed under the terms of contracts with the International Union of Operating Engineers. On December 19, 2005, contracts covering unionized employees were renewed for another three years effective January 15, 2006. In Las Vegas, the contract term is currently four years and expires on March 31, 2009.

Toll Road Business

Overview

Connect M1-A1 Limited operates the M1-A1 Link Road, or Yorkshire Link, a highway of approximately 19 miles in length that links the M1 and M62 highways south of Leeds and the A1 highway south of Wetherby in England. Connect M1-A1 Limited is responsible under a concession with the U.K. government s Transport Secretary for the design, building, financing and operation of Yorkshire Link, until 2026. Yorkshire Link is part of the U.K. national highway network and provides a major road link for both national and regional traffic. It also serves a local function by providing a bypass around Leeds and access to the East of Leeds area. Connect M1-A1 Limited had revenue of £47.1 million and operating income of £34.4 million during the year ended March 31, 2005.

In return for building and operating Yorkshire Link, Connect M1-A1 Limited receives revenues under a shadow tolling system. Under a shadow tolling system, road users do not pay tolls; instead, the U.K. government pays fees or shadow tolls to Yorkshire Link based on the volume of user traffic on Yorkshire

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Link. Revenue is subject to a predetermined cap, but is protected from reductions in traffic to the extent that projected traffic exceeds the capped revenue level. Traffic has been steadily growing over time.

Our Acquisition

On December 22, 2004 we acquired 100% of Macquarie Yorkshire Limited, or Macquarie Yorkshire, from Macquarie European Infrastructure plc, or MEIP, an entity that is a member of the Macquarie Infrastructure Group, or MIG, for a total purchase price of $84.7 million including transaction costs. MIG is an infrastructure fund managed by the Macquarie Group that is listed on the Australian Stock Exchange.

Macquarie Yorkshire owns 50% of Connect M1-A1 Holdings Limited, or CHL, which owns 100% of Connect M1-A1 Limited. Connect M1-A1 Limited is the holder of the Yorkshire Link concession. The remaining 50% interest in CHL is held by Balfour Beatty, one of the United Kingdom s leading construction companies, concession owners, infrastructure service operators and maintenance providers, for whom the U.K. road sector is a core business.

We set aside a further £1 million (USD $1.9 million) of the cash acquired through our acquisition of Macquarie Yorkshire to cash collateralize a letter of credit of the same amount required by a lender to Connect M1-A1 Limited as security for funding breakage costs on their fixed rate loan. This cash was released in the fourth quarter 2005 when certain financial tests were met by Connect M1-A1 Limited.

Industry Overview

Toll roads exist in almost every developed country in the world. Using user pays tolls to finance the development of essential road infrastructure represents an alternative to imposing general tax increases. Over the past 25 years, governments in various countries, including Australia and the United Kingdom, faced with fiscal pressures and growing needs for new road infrastructure have sought to have the private sector develop new toll roads. This privatization offers several advantages for governments, including allowing a transfer of development risk, the risk of construction time and cost overruns, actual traffic usage and future maintenance costs, to the private sector.

In spite of the trend toward privatization, significant impediments limit new road construction. These include required governmental and environmental permits and approvals, scarcity of available land on which to build and significant time and upfront construction costs. For example, construction of Yorkshire Link took approximately three years and cost approximately £300 million.

Operational toll roads are generally attractive to owners in that road traffic growth, and therefore revenue growth, has historically been quite predictable.

The use of shadow toll road programs has an established history of operations in the United Kingdom. Yorkshire Link is one of eight shadow toll road programs implemented by the U.K. government since 1996 and was one of the first road programs procured under the U.K. government s Private Finance Initiative. As compared to a toll road, the shadow tolling system provides a benefit to owners by not requiring the construction and staffing of tollbooths. Sensors embedded in the road surface count the number of cars and trucks traveling on the road. The U.K. government then pays a shadow toll on the basis of the traffic volume and the only revenues that need to be accounted for are for payments that are received monthly from the Transport Secretary. Drivers, in turn, do not have to contend with the delays caused by tollbooths.

Business

Operations

In March 1996, Connect M1-A1 Limited signed a concession with the Transport Secretary to design, build, finance and operate Yorkshire Link for a 30-year contract term in return for shadow tolling revenues. Pursuant to the concession, Yorkshire Link must be operated and maintained by Connect M1-A1 Limited throughout the 30-year period. The concession expires in 2026, when Connect M1-A1 Limited will no longer be entitled to receive revenues and will not be responsible for the maintenance of Yorkshire Link.

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Construction on Yorkshire Link was completed in 1999, and vehicles began using the road that same year. Yorkshire Link is a mature operational phase road with six years of operational history. Therefore, a base level of traffic has been established, and there is substantial management experience within Connect M1-A1 Limited in operating Yorkshire Link.

Concession Revenue

Pursuant to the concession, shadow toll revenue paid by the Transport Secretary is based on two factors:

Traffic Volume. The volume of traffic using Yorkshire Link is categorized either as heavy goods vehicles, which are vehicles over 17 feet in length, such as trucks, and other vehicles, such as cars and motorcycles. Vehicles are counted by traffic measuring equipment placed along the length of the road. For traffic measurement purposes, the total length of all the sections of Yorkshire Link is 26.3 kilometers (16.4 miles).

Fees. A fee per vehicle-kilometers, or vkms, which varies annually, is determined based upon the type of vehicle and the number of vkms in various (4) bands, pursuant to a formula.

Calculation of Revenue

The amount payable to Connect M1-A1 Limited for each vkm traveled by heavy goods vehicles and other vehicles is determined through the use of bands. Each vehicle category has four traffic volume bands, and different amounts are payable per vkm in each band.

Historical revenue calculations under each band are as follows:

For the concession year ended March 31, 2005, other vehicles traffic was 634.8 million vkms, and revenue calculations were as follows:

Band	vkms (In millions)	Payment (Pence per vkm)	Revenue (£ in millions)
1	0 - 403.1	4.76	£19.2
2	403.1 - 511.1	3.65	3.9
3	511.1 - 653.1	3.19	3.9
4	Over 653.1		
			£27.0

For the concession year ended March 31, 2005, heavy goods vehicles traffic was 148.4 million vkms, and revenue calculations were as follows:

Band	vkms (In millions)	Payment (Pence per vkm)	Revenue (£ in millions)
1	0 - 127.2	13.91	£17.6
2	127.2 - 147.2	10.94	2.2
3	147.2 - 161.2	14.84	0.2
4	Over 161.2		
			£20.0

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For the concession year ended March 31, 2004, other vehicles traffic was 624.8 million vkms, and revenue calculations were as follows:

Band	vkms (In millions)	Payment (Pence per vkm)	Revenue (£ in millions)
1	0 - 395.2	4.79	£18.9
2	395.2 - 503.2	3.60	3.9
3	503.2 - 645.2	3.15	3.8
4	Over 645.2		
			£26.6

For the concession year ended March 31, 2004, heavy goods vehicles traffic was 144.6 million vkms, and revenue calculations were as follows:

Band	vkms (In millions)	Payment (Pence per vkm)	Revenue (£ in millions)
1	0 - 124.1	14.08	£17.5
2	124.1 - 144.1	10.80	2.2
3	144.1 - 158.1	14.64	0.1
4	Over 158.1		
			£19.8

Each year the bands are adjusted and payments per vkm of traffic in the various bands are subject to a series of escalation adjustments as follows:

band 1 increases in size each year by 2% for other vehicles and 2.5% for heavy goods vehicles. Bands 2 and 3 are also increased to maintain a constant width in vkms, and Band 4 has no upper limit. In addition, the payment per vkm of traffic for Band 1 is reduced by an equivalent proportion. The net effect of these changes is that if annual traffic is above Band 1, then the revenue generated from Band 1 remains constant, ignoring the other two revenue adjustments discussed below. The same result applies if annual traffic is above Band 2 and Band 3 revenue generated from those bands remains constant, ignoring the other two revenue adjustments discussed below;

the payments per vkm of traffic in each of the bands are partially indexed to movement in the U.K. Retail Price Index, a measure of inflation in the United Kingdom. Band 1 payments per vkm are escalated by 38% of the Retail Price Index and Bands 2 and 3 by 40% of the Retail Price Index each year;

it should be noted that in the absence of traffic growth or inflation, total revenues will decline through time as a consequence of these band adjustments; and

a final global factor, which varies from time to time, is applied to the payment per vkm of traffic in all bands. This global factor remains constant until September 2007, when it decreases by 0.2% and then increases in September 2010 by 8.9%. In March 2014, this global factor will have the effect of reducing revenue per vkm significantly, and less significant downward revisions will also occur in 2017 and 2020. These global factors

were set in 1996 when the concession was signed, the purpose of which was to ensure that revenues generally followed the underlying cost profile of Connect M1-A1 Limited (as originally projected) and, in particular, its debt service obligations. The current debt repayment schedule recognizes and accommodates these revenue reductions in the future.

Adjustments are also made for lane closure charges and certain other matters, if required. Lane closure charges have been very minor to date, and they have been largely passed through to subcontractors responsible for such lane closures. The calculation is made within a few months after the end of the concession year when all the required variables have been determined.

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Under the concession, the Transport Secretary makes provisional payments to Connect M1-A1 Limited each month, equal to the previous year s traffic payment divided by twelve. In practice, it may take a few months to agree on the final traffic payment for each concession year, in which case monthly provisional payments continue at the prevailing rate. When the payment due to Connect M1-A1 Limited under the concession has been finally calculated, there is an annual reconciliation so that any under- or over-payment to date is corrected. The traffic payment for the year ended March 31, 2005 was £46.162 million. As a result, in the concession year ending March 31, 2006, Connect M1-A1 Limited has provisional payments of approximately £3.93 million (USD $6.86 million) per month. Year to date vehicle kilometers is 2.0% under forecast for heavy goods vehicles and 1.0% under forecast for other vehicles.

Factors Likely to Affect Future Traffic Flows

We believe that there is one new road development, the East Leeds Link, that will affect future traffic flows on Yorkshire Link. It is a new road connecting an existing junction near the midpoint of Yorkshire Link to Leeds city center. We expect that East Leeds Link will slightly increase traffic on Yorkshire Link when it opens. It is scheduled to open in 2008.

The West Yorkshire Local Transport Plan, or LTP, which was published in 2000, sets forth the local context for transportation in which Yorkshire Link operates, although Yorkshire Link also carries longer-distance traffic and is less sensitive to local factors than the surrounding local roads. The target for traffic growth on all roads in West Yorkshire established by the LTP is 5% from 1999 to 2011. This compares with U.K. government forecasts of between 8.5% and 15.2% for the region over the same period.

The LTP also includes plans for the Leeds Supertram network of three tram lines, which may have some negative impact on growth of Yorkshire Link traffic. The lines were programmed to be fully operational in 2007, but the project has been subject to delays and it now looks unlikely to proceed in the foreseeable future.

Operations and Maintenance

Under the terms of the concession, Connect M1-A1 Limited is responsible for the operation and maintenance of Yorkshire Link. Connect M1-A1 Limited is also responsible for the lighting and associated energy costs and the communications systems on the road. The police are responsible for managing traffic flow, although Connect M1-A1 Limited is required to provide assistance in the event of accidents.

The operations and maintenance activity and the management of the concession requirements are managed and coordinated by a small operations team consisting of a staff of six seconded from Balfour Beatty. The cost of the management team is recovered from Connect M1-A1 Limited based on a cost-plus formula. Operations have been substantially subcontracted under contracts of varying duration. There are an additional 14 full-time employees of subcontractor organizations on site. These subcontractor contracts represented approximately 60% of the routine maintenance costs for the 2005 concession year.

Connect M1-A1 Limited has met the operational requirements of the concession over the six years it has operated and maintained Yorkshire Link. The operations and maintenance requirements of the concession can be described in the following categories:

routine operations and maintenance, including landscape management, cleaning work, replacing faulty lighting, repairing fencing and crash barriers resulting from traffic accidents, maintaining the communications and traffic counting equipment, structural inspections, spreading salt and clearing snow and periodically verifying the traffic counting data; and

periodic maintenance, consisting mainly of repair, resurfacing and reconstruction work that is required from time to time to restore basic qualities, such as skid resistance, to the road pavement, and to extend the life of the road by adding extra strength to meet increased traffic loadings.

There are penalty point and warning notice provisions in the concession that may be imposed if there are deficiencies in the way Connect M1-A1 Limited manages its operations and maintenance responsibili-

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ties. Connect M1-A1 Limited has not received any penalty points or warning notices since Yorkshire Link opened.

Traffic Counting

Traffic is counted by traffic measurement equipment, which has been installed in accordance with the specifications of the U.K. Highways Agency. Traffic is counted in each direction at nine sites that lie between each junction of Yorkshire Link. At each site, each lane, including the hard shoulder, is equipped with a pair of electromagnetic inductive loops buried in the roadway. The loops detect passing vehicles and record the passage in a counter unit. The loops also enable the length of vehicles to be measured in order to categorize vehicles into heavy goods vehicles and other vehicles. Software in the roadside equipment compares the output from adjacent lanes and automatically allows for the effects of vehicles straddling lanes. Periodic reports generated from a central computer form the basis of the annual calculation of vkms on which payment to Connect A1-M1 Limited is based. When data is missing or corrupted, a patching procedure to which the U.K. Highways Agency has agreed is used to estimate the missed vehicles. In addition, traffic flows are recorded on video and compared with loop data for consistency.

Warranty for Defects

Connect M1-A1 Limited subcontracted the design and building of Yorkshire Link to a construction joint venture consisting of Balfour Beatty CE Ltd. and Skanska Construction U.K. Ltd. In addition to the construction of the new route, the initial construction works included improvements to sections of the existing road.

The construction joint venture is obligated under a twelve-year warranty for latent defects that expires in 2011. The construction joint venture also has extended the warranty to cover defects in the sections of the road that were in existence when its works began. The construction joint venture has indemnified Connect M1-A1 Limited in respect of any consequential losses, except in relation to the sections of the existing road, and any lane closure charges that may be incurred as a result of such defects. The obligations of the construction joint venture partners are joint and several, and they are supported by guarantees from Balfour Beatty and Skanska AB. Cracking defects have been identified on the road surface on certain sections of Yorkshire Link and these have required resurfacing repairs to be carried out at the construction joint venture s expense. Connect M1-A1 Limited believes any such further defects would be the responsibility of the construction joint venture, which is investigating the problem with the help of its consultants. Connect M1-A1 Limited is waiting to receive a proposal from the construction joint venture as to how the construction joint venture intends to deal with the problem in the longer term.

Employees

Connect M1-A1 Limited has no employees. All operational staff are either employed by Balfour Beatty and seconded to Connect M1-A1 Limited or employed by the various subcontractors.

Shareholders Agreement

We are a party to a shareholders agreement with Balfour Beatty that governs the relationship of the shareholders in CHL (formerly Yorkshire Link (Holdings) Limited) and Connect M1-A1 Limited (formerly Yorkshire Link Limited). The shareholders agreement effectively requires the consent of Macquarie Yorkshire and Balfour Beatty for any decisions relating to these companies.

Based on current shareholdings, Macquarie Yorkshire and Balfour Beatty are each allowed to appoint three directors to the boards of CHL and Connect M1-A1 Limited. Currently, each has appointed two directors. Voting is pro rata with the shareholding being represented. All routine matters are decided by majority vote. Certain matters are reserved and determined on the basis of approval by not less than 90% of total shares. Such matters include amending the shareholders agreement or the constitutional documents of CHL or Connect M1-A1 Limited, the winding up of CHL or Connect M1-A1 Limited, acquisitions and disposals of companies by CHL or Connect M1-A1 Limited, and tendering for new work by CHL or

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Connect M1-A1 Limited. In addition, certain other matters relating to CHL and Connect M1-A1 Limited are reserved, requiring approval of directors appointed by a shareholder holding not less than 49% of the total shares. The shares of CHL and Macquarie Yorkshire are subject to preemption rights, and, in CHL s case, they also are subject to tag-along rights by shareholders owning more than 5% of the total shares.

In addition, the shareholders agreement requires all post-tax profits to be paid to shareholders as dividends, to the extent permitted by law and subject to making prudent reserves.

Our Investment in MCG

Overview

MCG is an investment vehicle that has been listed on the Australian Stock Exchange, or ASX, since August 2002. MCG s mandate is to acquire investments in communications infrastructure, such as broadcast transmission towers, wireless communications towers and satellite infrastructure, around the world. We have invested in MCG because it seeks to provide investors with sustainable dividend yields and the potential for capital growth through investments in communications infrastructure businesses or assets. Currently, MCG has two investments. MCG owns a 100% holding in Broadcast Australia, an Australian television and radio broadcast transmission provider, and a 54% interest in Arqiva (formerly ntl:Broadcast) that it acquired on January 31, 2005. Arquiva is a provider of broadcast transmission and site leasing infrastructure operator in the United Kingdom and the Republic of Ireland.

Our Acquisition

On December 22, 2004 we acquired 16.5 million stapled securities issued by MCG from Macquarie Investments Australia Pty Limited, for a total purchase price of USD $70 million. Our investment represents a 4% interest in Macquarie Communications Infrastructure Group.

Business

Operations

Broadcast Australia is the owner and operator of the most extensive broadcasting tower network in Australia and provides transmission services to the Australian Broadcasting Corporation, or ABC, and Special Broadcasting Service Corporation, or SBS, plus other services to regional television and other media, telecommunications and community organizations. Broadcast Australia operates approximately 600 transmission tower sites located across metropolitan, regional and rural Australia. Broadcast Australia owns or operates under leases at the majority of its sites.

Broadcast Australia derived approximately 87% of its revenue for the fiscal year ended June 30, 2005 from contracts with ABC and SBS. Generally, the contracts with ABC and SBS are over the long term, often 10 to 15 years. ABC and SBS receive most of their funding from the Australian Commonwealth government under a triennial funding arrangement. The funding allocated by the Commonwealth government for the purposes of broadcast transmission cannot be applied to other uses. Revenue from Broadcast Australia increased 14.3% for the fiscal year ended June 30, 2005.

Broadcast Australia is in the process of rolling out digital transmission services that it is contracted to introduce under its agreements with ABC and SBS. Under the agreements, as Broadcast Australia rolls out digital transmission services across its sites, it will earn additional revenue from the provision of digital broadcasts. The rollout of digital transmission will require significant capital expenditure, which is expected to be funded through an existing AUD $150 million Broadcast Australia debt facility. This debt facility has AUD $20 million outstanding at June 30, 2005. It is expected that future drawdowns may be made depending on Broadcast Australia s future capital expenditure requirements. To the extent that the facility is drawn on its maturity date on June 26, 2006, it will need to be renewed or refinanced.

Arqiva is one of the leading national broadcast transmission and site leasing infrastructure operators in the United Kingdom and provides coverage to 98.5% of the U.K. population. It is also the second largest independent wireless site leasing provider. The business comprises three operating divisions. The Media

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Solutions division provides analogue and digital terrestrial transmission services to TV and radio broadcasters and end-to-end satellite transmission and playout services to direct-to-home and other customers. The Wireless Solutions division operates the second largest independent portfolio of wireless towers and sites available for lease in the United Kingdom, providing services to all major mobile network operators and other network owners. The Public Safety division is the largest provider of managed radio communications services to emergency service organizations across the United Kingdom and the Republic of Ireland.

Future Investments

It is expected that MCG will make investments in other communications infrastructure businesses or assets in the future, although it will need to raise new equity to fund any significant acquisitions. It is possible that these investments will be partly funded through the issue of new MCG securities. We may have the opportunity to purchase additional MCG securities in such instances; however, we will have no obligation to do so.

Management

MCG is managed by Macquarie Communications Infrastructure Management Limited, an affiliate of our Manager. MCG s manager earns a base fee and may earn a performance fee. The base fee is calculated and paid quarterly based on the net investment value (market capitalization plus borrowings and commitments less cash and cash equivalents). The performance fee is paid semi-annually if MCG s performance exceeds that of the S&P ASX 200 Industrials Accumulation Index.

Base fees payable by us to our Manager are reduced by the fees paid by MCG to its manager to the extent that they are attributable to our interest in MCG. As a result, there is no duplication of base management fees received by members of the Macquarie Group with respect to MCG.

Trading History

The securities of MCG were listed on the ASX on August 13, 2002 at an issue price of AUD $2.00. The table below outlines the quarterly trading history of MCG securities in Australian dollars from listing through the quarter ended December 31, 2005. Since its inception, MCG has paid distributions per stapled security of AUD $0.075 on February 12, 2003, AUD $0.08 on August 12, 2003, AUD $0.112 on February 12, 2004, AUD $0.118 on August 12, 2004, AUD $0.144 on February 14, 2005, AUD $0.146 on August 12, 2005, and AUD $0.195 on February 13, 2006.

Quarter Ended	High Price	Low Price	Closing Price	Average Daily Volume
		(In Australian dollars)		
September 30, 2002	2.02	1.60	1.96	1,159,347
December 31, 2002	2.23	1.86	2.20	379,341
March 31, 2003	2.61	2.10	2.43	332,041
June 30, 2003	3.61	2.42	2.97	343,859
September 30, 2003	3.14	2.80	2.92	369,734
December 31, 2003	3.26	2.83	3.03	361,148
March 31, 2004	3.52	3.02	3.49	204,070
June 30, 2004	3.73	3.35	3.68	201,911
September 30, 2004	4.71	3.60	4.71	209,211
December 31, 2004	5.91	4.65	5.52	812,698
March 31, 2005	6.44	5.58	5.65	1,458,232
June 30, 2005	6.60	5.75	6.30	1,379,168
September 30, 2005	6.74	5.79	5.93	1,221,338
December 31, 2005	6.04	5.50	5.68	1,030,775

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Our Investment in South East Water

Overview

South East Water, or SEW, is a regulated clean water utility located in southeastern England and is the sole provider of water to almost 600,000 households and industrial customers. It is the second largest water-only company in England, supplying approximately 105 million gallons of water per day to 1.4 million people across two sub-regions. Its supply area covers approximately 1,390 square miles of Kent, Sussex, Surrey, Hampshire and Berkshire.

Our Acquisition

We own 17.5% of SEW through an equivalent holding in Macquarie Luxembourg Water SarL, or Macquarie Luxembourg, the indirect holding company for SEW. We acquired this investment because we believe that the cash yields and total returns available from investments in regulated utilities in the United Kingdom are attractive given the mature and transparent regulatory environment. A 50.1% controlling interest in SEW is held through a controlling interest in Macquarie Luxembourg by the Macquarie European Infrastructure Fund, or MEIF, a vehicle that is managed by an affiliate of our Manager. MEIF is an unlisted infrastructure investment fund focused on making medium-term investments in infrastructure assets in Europe. We believe MEIF s approach to the ownership and oversight of SEW is consistent with our approach. Three other institutional investors, including another investment vehicle managed by the Macquarie Group holding 7.4%, have minority interests in SEW through minority interests in Macquarie Luxembourg. Members of the Macquarie Group are paid fees for providing management services to SEW. The base fees payable by us to our Manager under the management services agreement will be reduced by the portion of such non-performance-based management fees paid by SEW to the Macquarie Group that are attributable to our interest in SEW. As a result, there will be no duplication of base management fees received by members of the Macquarie Group with respect to SEW.

Industry Overview

The water sector of the public utilities industry in England and Wales was privatized by the U.K. government in 1989 and 1990. It consists of ten water and sewerage companies and thirteen water-only companies. Water supply activities in England and Wales are principally regulated by the provisions of the Water Industry Act of 1991 and the Water Act of 2003, which we together refer to as the Water Industry Act, and regulations made under the Water Industry Act. Water-only companies are granted a license pursuant to that legislation. The provisions of the Water Industry Act, together with the license, are administered by the Director General of Water Services, who is aided by the Office of Water Services, or Ofwat. The responsibilities of Ofwat include the setting of limits on allowed water charges and monitoring and enforcing license obligations. From April 1, 2006, regulatory responsibilities will be taken over by the new Water Services Regulation Authority, with an improved board structure. The current Director General of Ofwat has been appointed Chairman of the new body. In addition to compliance with Ofwat regulations, water companies in England and Wales are also required to meet drinking water quality standards monitored by the U.K. Drinking Water Inspectorate and general environmental law enforced by the U.K. Environment Agency.

As water and sewage companies and water-only companies are natural monopolies, the prices that they are allowed to charge their customers for water are regulated by Ofwat. Every five years, Ofwat determines prices for the provision of water services for the upcoming five years based on an inflation and efficiency calculation. On December 2, 2004, Ofwat released its determination with respect to the prices that English and Welsh water companies, including SEW, are permitted to charge for the current price review period, which runs from April 1, 2005 to March 31, 2010. See Business Regulation below.

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Business

Operations

Approximately 70% of SEW s water is supplied from boreholes and aquifers, 20% is supplied from rivers and reservoirs and 10% is supplied under bulk supply contracts with neighboring water utilities Three Valleys Water plc and Southern Water Services Ltd. SEW s security of supply rating from Ofwat, is currently rated C, but improvement is expected through the provision of enhanced bulk supply infrastructure.

SEW has a sophisticated telemetry-based system for monitoring water quality, flows, pressures and reservoir levels. Each water treatment works has a local monitoring system that checks these variables and relays data to an outstation unit that regulates activity levels at the treatment works and feeds data to a centralized operation center at the Haywards Heath headquarters. The headquarters is manned constantly.

SEW balances supply and demand in line with industry best practices and is required to establish a 25-year plan for sustainable water resources acceptable to the U.K. Environment Agency and Ofwat. This plan is a combination of resource development and demand management measures, all of which are assessed on an economic basis before inclusion.

Following one of the driest winters on record, on July 30, 2005 South East Water implemented its first hosepipe ban since 1995. A long, dry summer and persistently low rainfall this winter has meant that the ban is still in force, with a continued minimal impact on the regulatory score. With the drought showing little sign of abating, further water conservation options are under consideration.

Leakage detection and control continues to play an important role in demand management within SEW. SEW had the greatest percentage reduction of leakage levels in the year ended March 31, 2002 compared to any other water company in England and Wales. SEW met its leakage targets for March 2004 and 2005 and is on target to reach Ofwat s economic level of leakage target for March 2006.

In common with other water companies in England and Wales, SEW s assets vary widely in age (with some over 100 years old), size and type but are generally constructed using industry-standard materials and technology in use at the time of their construction. SEW has developed a sophisticated system for the management and replacement of its assets based principally on the assessed risk and consequences of failure. Overall capital investment levels are targeted at maintaining a constant average level of risk across SEW s area of supply. Individual programs aim to reduce risk in high risk areas. Water industry assets tend to be long-lived and SEW s assets are no exception. Major assets are rarely completely replaced; short- to medium-life items (e.g., pumps, electrical switch-gear, instruments) can be replaced several times during the life of a treatment facility and a new plant can be fitted into existing buildings. Higher quality standards are often met by incrementally adding new treatment processes. Further capacity can be met by adding additional process streams to existing facilities. SEW is planning £174 million of investment to improve the reliability of supply and to fund expansion during the April 2005 to March 2010 regulatory period. SEW expects to finance this investment through drawings under its existing debt facilities. As discussed below, pursuant to the approach utilized by Ofwat to determine SEW s pricing, SEW will be entitled to earn sufficient revenue from its customers to enable it to adequately service this increased indebtedness.

Regulation

Ofwat determines the prices that SEW can charge its customers using an approach designed to enable SEW to earn sufficient revenues to recover operating costs, capital infrastructure renewal and taxes and to generate a return on invested capital, while creating incentives for SEW to operate efficiently. The outcome of the regulatory review process is the publication of k-factors by Ofwat for each year in the price review period. The k-factor is the amount that SEW is allowed to adjust its prices for water services for each year relative to inflation. For example, a k-factor of 5% in a given year would mean that SEW is allowed to increase its prices by inflation plus 5% in that year.

The use of the k-factor also is designed to create incentives for water-only companies and water and sewage companies to generate efficiencies that can later be passed on to customers. Performance targets

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are established by reference to a company s individual circumstances and its performance relative to other companies in the sector. Over the course of the current price review period, SEW has improved in all of its key performance areas, including customer service, leakage, water quality and operating efficiency.

In determining the annual k-factors, Ofwat is under a statutory duty to consider:

SEW s ability to properly carry out its functions (including legal obligations such as meeting drinking water quality standards monitored by the Drinking Water Inspectorate);

the revenue SEW will need to finance its functions and earn a reasonable rate of return on its investment needed to meet its legal obligations;

the promotion of efficiency and economy (through rewards and penalties); and

the facilitation of competition.

The following annual k-factors were set for SEW in the 1999 price review for the April 1, 2000 to March 31, 2005 price review period:

Year Ended March 31,	**2001**	**2002**	**2003**	**2004**	**2005**
k-factor (additive to the rate of inflation)	(16.1)%	(1.0)%	(1.5)%	0%	0%

The reduction in prices for the year to March 31, 2001 reflected the return to customers of efficiencies achieved by SEW in the five years prior to March 31, 2000, together with a new target for further efficiencies. SEW has to date outperformed this regulatory target for the 1999 price review period. On December 2, 2004, Ofwat issued its final determination for the April 1, 2005 to March 31, 2010 price review period. The determination establishes an average k-factor over the period of 3.7% (i.e., SEW is permitted to increase prices at an annual rate of inflation plus 3.7%) with the following k-factor for each year in the period:

Year Ended March 31,	**2006**	**2007**	**2008**	**2009**	**2010**
k-factor (additive to the rate of inflation)	15.8%	2.3%	2.2%	0.5%	(1.6)%

Environmental

SEW is required to comply with various environmental legislation, including the U.K. Wildlife and Countryside Act of 1981, and the environmental requirements of the Water Industry Act. These obligations are proactively managed pursuant to SEW s sustainable development policy.

Employees

As of December 2005, SEW had approximately 420 employees. A minority of SEW s employees are members of trade unions.

At January 31, 2005, SEW s defined benefit plans had assets of £106.5 million (USD $189.9 million). At March 31, 2005, SEW had a deficit against the actuarial assessment of liabilities of £15 million (USD $28 million). SEW has taken a number of steps to address this deficit, including closing the plan to new members in July 2002 and increasing employer contributions from 13.8% to 20.0% of pensionable remuneration beginning January 1, 2004 and to 30% beginning April 2005. SEW also increased employee contributions from 6% to 7% of pensionable remuneration beginning January 1, 2004. In addition, SEW raised the age required to qualify for an unreduced pension upon redundancy to 55 for those who were not yet 50 years old by July 1, 2003. Also SEW limited the conditions to qualify for an incapacity pension. Currently, the company is in discussion with its employees, trade unions and staff council to increase member contributions to 8% at April 2006 and 9% at April 2007.

SEW believes they have efficiently managed their defined benefit pension plans. In addition to the measures discussed above, in its final determination Ofwat has permitted SEW to recover half of its deficit as of March 31, 2004 through increased prices. To the extent that future funding costs increase beyond the level of funding provided by Ofwat, these future costs may be recoverable in future pricing.

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On February 3, 2006, the Managing Director resigned. A search is currently underway for her replacement. The company does not expect any material impact to operations as a result.

Shareholders Agreement

Following the acquisition of our interest in SEW, we became a party to a shareholders agreement relating to Macquarie Luxembourg. The other parties to the agreement are MEIF, which holds 50.1% of Macquarie Luxembourg, and three other minority investors, which hold a combined 32.4% of Macquarie Luxembourg including another investment vehicle managed by the Macquarie Group, which holds 7.4%.

We have no influence over the choice of the board of directors of Macquarie Luxembourg. The board of director