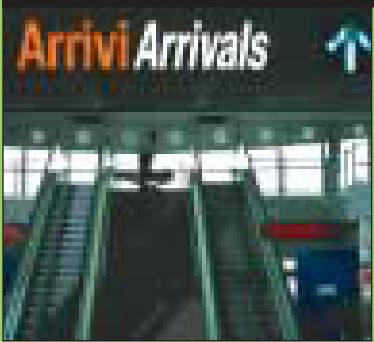
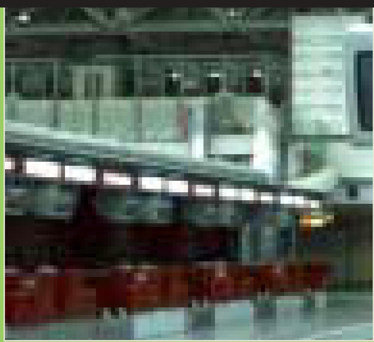
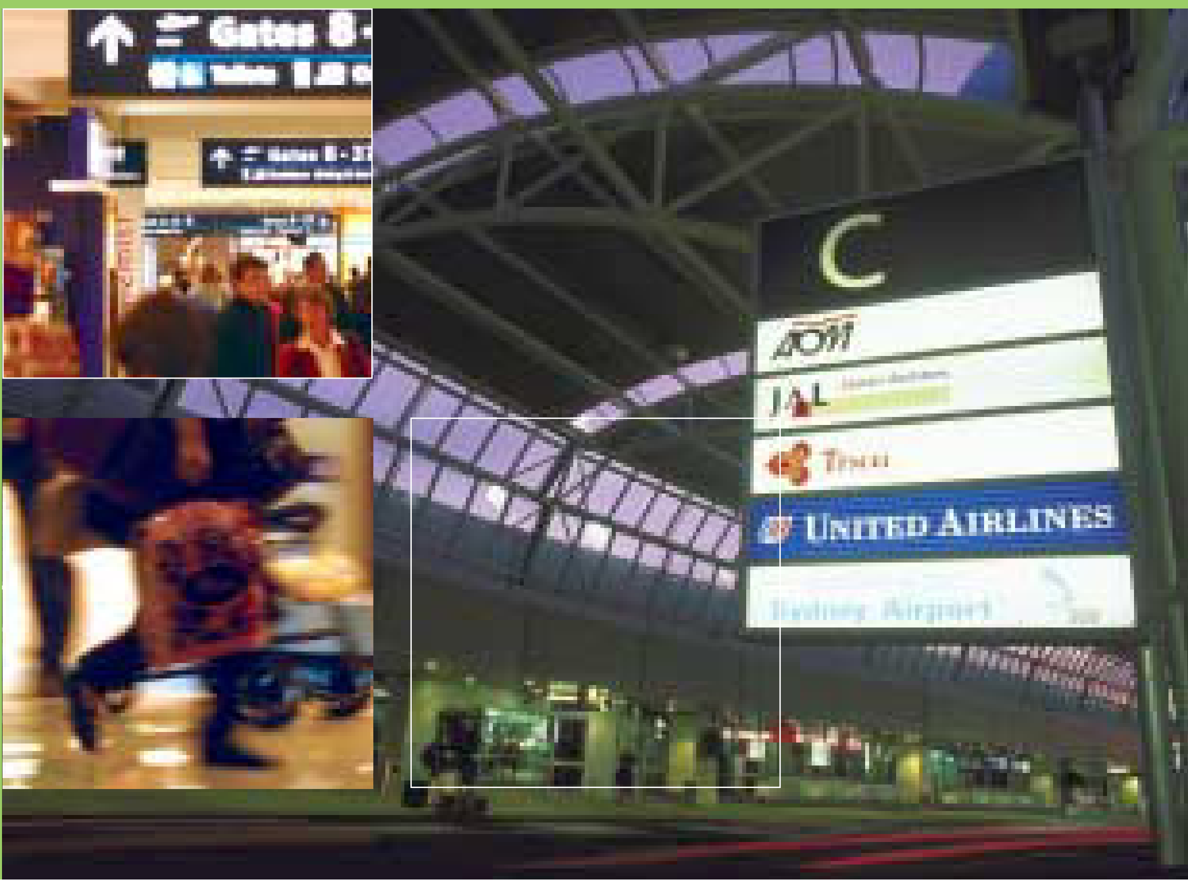
A non-renounceable Priority Entitlement Offer of 375 million Fully Paid Securities at an Issue Price of $1.50 per Fully Paid Security and an Institutional Placement of approximately 54 million Fully Paid Securities at an Issue Price of $1.53 per Fully Paid Security to raise $645 million. A placement of 12.5 million Fully Paid Securities to Macquarie Bank Limited at $2.00 per Fully Paid Security to raise $25 million.

MACQUARIE AIRPORTS
PROSPECTUS

MACQUARIE







Sydney Kingsford Smith Airport
Aeroporti di Roma

Special Notice

Investments in Macquarie Airports ("MAp") are not deposits with or other liabilities of Macquarie Bank Limited ACN 008 583 542 ("Macquarie") or of any entity in the Macquarie Bank Group and are subject to investment risk, including possible delays in repayment and loss of income and capital invested. Macquarie Airports Holdings (Bermuda) Limited ("MAHBL") (which is not a member of the Macquarie Bank Group) nor any member of the Macquarie Bank Group including Macquarie Airports Management Limited ("Macquarie Airports Management") and Macquarie Investment Management (UK) Limited ("MIMUK") guarantees any particular rate of return on Securities (including Fully Paid Securities) or the performance of MAp, nor do they guarantee the repayment of capital from MAp. This offer does not take into account the investment objectives, financial situation and particular needs of the investor. Before making an investment in MAp, the investor or prospective investor should consider whether such an investment is appropriate to their particular investment needs, objectives and financial circumstances and consult an investment adviser if necessary.

This document is important and requires your immediate attention. It should be read in its entirety. If you are in doubt as to the course you should follow, you should consult your stockbroker, solicitor, accountant or other professional adviser without delay.

This Prospectus dated 18 July 2002, was lodged with the Australian Securities & Investments Commission ("ASIC") on that day. ASIC and the Australian Stock Exchange Limited ("ASX") take no responsibility for the contents of this Prospectus. No Fully Paid Securities will be allotted or issued on the basis of this Prospectus later than 13 months after the date of this Prospectus. No person is authorised to give any information or to make any representation in connection with the Priority Entitlement Offer described in this Prospectus which is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by MAHBL or Macquarie Airports Management in connection with the Priority Entitlement Offer.

The distribution of this Prospectus in jurisdictions outside Australia and New Zealand may be restricted by law and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. This Prospectus does not constitute an offer in any jurisdiction in which, or to any person to whom it would not be lawful to make such an offer.

The Securities have not been and will not be, registered under the US Securities Act of 1933 and may not be offered or sold in the United States or to, or for the account or benefit of a US person (as defined in Regulation S under the Securities Act).

No prospectus has been filed with the Registrar of Companies pursuant to the Public Offers of Securities Regulations 1995 on the grounds that the Securities are not being offered or sold to the public in the UK as a result of the Securities being offered to no more than fifty (50) persons in the UK. Additionally, the content of this Prospectus has not been approved by an authorised person in the UK and accordingly it may not be communicated to any person in the UK unless that person is of a kind described in Article 19 of Article 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 or is a person to whom this Prospectus may otherwise be lawfully communicated. The communication of this Prospectus to any other person in the UK is unauthorised and may contravene the Financial Services and Markets Act 2000.

This document has not been registered with the Registrar of Companies in Hong Kong. Accordingly, the document may not be circulated or distributed in Hong Kong to any person other than a person who is a Security Holder as at the Record Date. Nor may any of the Securities be offered or sold in Hong Kong by means of this document or any other document, other than to persons whose ordinary business it is to buy or sell shares or debentures, whether as principal or agent, or in other circumstances which do not constitute an offer or sale of the Securities to the public in Hong Kong.

Macquarie Airports Management, as responsible entity of the trusts comprised in MAp, and MIMUK, as adviser to MAHBL, are entitled to fees for so acting. Macquarie and its related corporations (including Macquarie Airports Management and MIMUK) together with their officers and directors may hold Securities in MAp from time to time.

Exposure Period

The Corporations Act prohibits the processing of Applications in the seven day period after the date of lodgement of the Prospectus. This period may be extended by ASIC by up to a further seven days. This period is an exposure period to enable the Prospectus to be examined by market participants prior to the raising of funds. Applications received during the exposure period will not be processed until after the expiry of that period. No preference will be conferred on Applications received during the exposure period.

Electronic Prospectus

This Prospectus may be viewed online at www.macquarie.com.au/airports. Applicants under the Public Offer using the Application Form attached to the electronic version of this Prospectus must be located in Australia. Persons who receive the electronic version of this Prospectus should ensure that they download and read the entire Prospectus. A paper copy of this Prospectus will be provided free of charge to any person who requests a copy by contacting Macquarie Airports Management or the Underwriters, by mail or in person, during the period of the Offer.

Definitions

A number of words and terms used in this Prospectus have defined meanings that appear in Section 15, Glossary.

Financial Amounts

All financial amounts contained in this Prospectus are expressed in Australian dollars unless otherwise stated. Where amounts in euros have been converted into Australian dollars, an A$/€ exchange rate of 0.57 has been used. Where amounts in pound sterling have been converted into Australian dollars, an A$/£ exchange rate of 0.37 has been used. These exchange rates were current as at 5 July 2002.

Photographs and Diagrams

The assets depicted in photographs in this Prospectus are not necessarily assets of MAp. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale.

Privacy

The Application Form and Priority Entitlement Form accompanying this Prospectus require you to provide information that may be personal information for the purposes of the Privacy Act 1988 (as amended). MAp (and the Registry on its behalf) collects, holds and uses that personal information in order to assess your application, service your needs as an investor, provide facilities and services that you request and carry out appropriate administration.

The information may also be used from time to time to inform you about other Macquarie Bank Group products or services which MAp considers may be of interest to you. If you do not want your information used for this purpose, please indicate so on the Priority Entitlement Form or Application Form.

Access to information may also be provided to other Macquarie Bank Group companies and to MAp's agents and service providers on the basis that they deal with such information in accordance with MAp's privacy policy.

If you do not provide the information requested of you in the Application Form and Priority Entitlement Form, Computershare will not be able to process your application for Fully Paid Securities or administer your holding of Securities appropriately.

Under the Privacy Act 1988 (as amended), you may request access to your personal information held by (or on behalf of) MAp. You can request access to your personal information by telephoning or writing to the Registry as follows:

Computershare Investor Services Pty Limited
60 Carrington Street
Sydney NSW 2000
Telephone: 1300 850 505

MAp has adopted the Macquarie privacy policy. You can obtain a copy of that policy by visiting the Macquarie website at www.macquarie.com.au.

Underwriters

This Offer (other than the Macquarie Placement) has been fully underwritten by the Joint Lead Managers, Macquarie Equity Capital Markets Limited and UBS Warburg Australia Limited.

In the three months since listing on ASX, MAp has acquired a significant interest in Sydney Airport and has agreed to acquire a significant interest in Rome Airport

CONTENTS

Summary

Summary of the Priority Entitlement Offer, Institutional Placement and the Macquarie Placement

Issue Price for the Priority Entitlement Offer[1]	$1.50 per Fully Paid Security
Issue Price for the Institutional Placement	$1.53 per Fully Paid Security
Issue Price for the Macquarie Placement	$2.00 per Fully Paid Security

Eligible Security Holder Priority Entitlement	Three Fully Paid Securities for every Four Partly Paid Securities held

Amount to be raised by the Priority Entitlement Offer	$562.5 million
Amount to be raised by the Institutional Placement	$82.5 million
Amount to be raised by the Macquarie Placement	$25 million
Total Offer proceeds	$670 million

1 Investors should note that Fully Paid Securities issued under this Prospectus are fully paid. Securities issued under the IPO Prospectus dated 4 March 2002 ("Partly Paid Securities") are partly paid to $1.00 with the Final Instalment of $1.00 per Security payable on 1 October 2002, at which time the Securities will be fully paid and rank equally in all respects with Fully Paid Securities.

Summary of Key Dates

Record Date to Determine Priority Entitlement to Fully Paid Securities	Wednesday 17 July 2002

Latest Time for Receipt of Priority Entitlement Forms and Payment in Full for Initial Allocation	Tuesday 6 August 2002, 5.00 pm (AEST)
Allotment of Fully Paid Securities under Initial Allocation	Tuesday 13 August 2002
Quotation of Fully Paid Securities under Initial Allocation	Wednesday 14 August 2002

Latest Time for Receipt of Priority Entitlement and Application Forms and Payment in Full for Final Allocation	Tuesday 27 August 2002, 5.00 pm (AEST)
Allotment of Fully Paid Securities under Final Allocation	Thursday 5 September 2002
Quotation of Fully Paid Securities under Final Allocation	Friday 6 September 2002

These dates are indicative only and are subject to change. MAp reserves the right to amend this indicative timetable. MAp reserves the right, subject to the Corporations Act and the Listing Rules, to extend the latest date for receipt of Priority Entitlement and Application Forms or to cancel the Priority Entitlement Offer without prior notice.

Priority Entitlement and Application Forms must be received by that time by Computershare Investor Services ("Registry"), together with a cheque or bank draft in Australian currency for the amount of the application money, payable to "Trust Company of Australia Ltd ACF MAp Group Subscriptions Account" and crossed "Not Negotiable". A loose leaf Priority Entitlement Form is enclosed with copies of this Prospectus sent to Eligible Security Holders.

Defined terms and abbreviations included in the text of this Prospectus are explained in the Glossary at the back of this Prospectus.

Questions relating to the Priority Entitlement Offer can be directed to MAp's Investor Relations Team on 1800 181 895, the Joint Lead Managers, your stockbroker or other financial adviser.

Questions relating to any aspect of your individual holding in MAp should be directed to MAp's registry, Computershare Investor Services on 1800 022 060.

Eligible Security Holders have the opportunity to apply for Fully Paid Securities by one of two dates. Applicants who apply for Fully Paid Securities by 6 August 2002 will have their securities allotted by 13 August and will be able to trade those securities on ASX from 14 August 2002 (the "Initial Allocation"). Eligible Security Holders and Applicants who apply for Fully Paid Securities by the later date of 27 August 2002 will have their securities allotted by 5 September 2002 and will be able to trade those securities on ASX from 6 September 2002 (the "Final Allocation").

From 1950 to 2001 global airline traffic growth

MAp

MAp offers investors exposure to the dynamic global airport sector

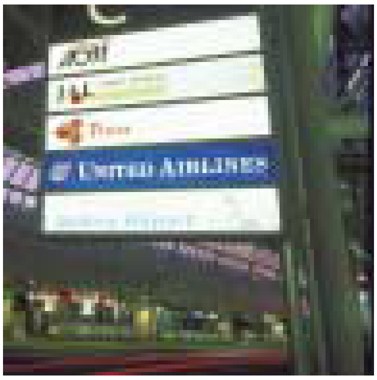
Airport and Management Expertise MAp has access to a highly experienced team of executive staff. The majority of the team has at least 10 years of experience (and some have over 20 years) of direct airport management and airport business planning at major international airports such as Heathrow, Gatwick, Schiphol, Rome, Sydney, Melbourne, Barcelona, Athens and Berlin. This team has advised airport purchasers, owners and operators in over 30 countries including the UK, the US, Australia, New Zealand, South Africa, Canada, Poland, Germany, the Netherlands, Italy, Portugal, Spain, Greece and Indonesia.

has averaged **9.8%** per annum.

Sydney

MAp acquired a total beneficial interest of 44.7 per cent in Sydney Airport for $903 million on 28 June 2002. **Purchase Price** Sydney Airport's Enterprise Value* implied by the purchase price is 14.3 times the forecast EBITDA for the year ending 30 June 2003. Sydney Airport is the only international airport and the major domestic airport servicing Sydney and the state of New South Wales. Sydney Airport accounts for approximately 50 per cent of Australia's international traffic.

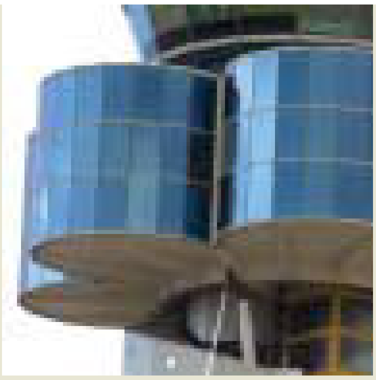
*See Glossary for definition.

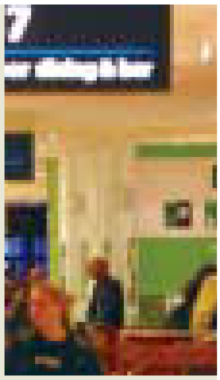


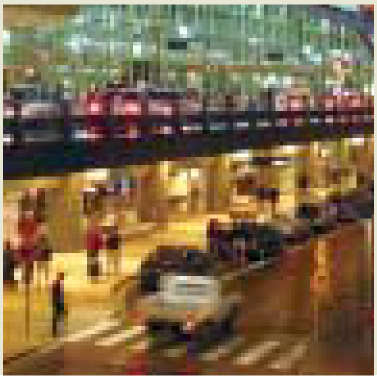
Sydney Airport handled over 26 million passengers in 2001.

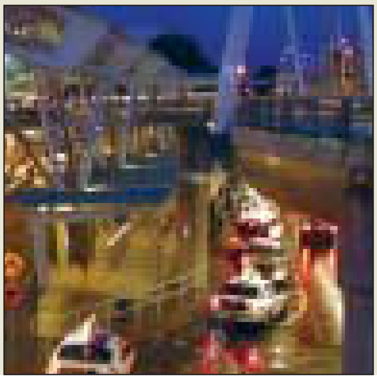
Sydney Airport services approximately 50% of international traffic to and from Australia.

Primary Gateway to Australia









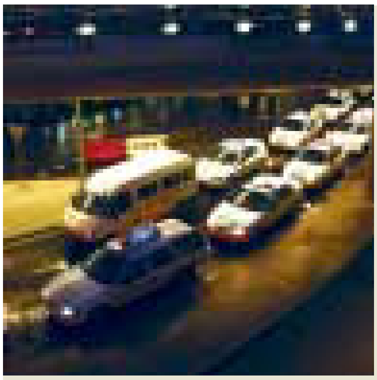
Sydney Airports Corporation undertook a major expansion and refurbishment of its international terminal, taxiways and aprons and retail space in preparation for the Sydney 2000 Olympic Games, at a cost of approximately $640 million. The high quality of the resulting facilities is demonstrated by Sydney Airport's industry awards and its ranking in international passenger opinion surveys.

High Quality Assets

International traffic growth averaged 7.0% per annum

Strong and Stable Passenger Growth

Over the 16 calendar years from 1985 to 2001 international traffic growth at Sydney Airport averaged 7.0 per cent per annum. Domestic traffic growth at Sydney Airport has averaged 6.2 per cent per annum over the same period. Sydney is a leading tourist destination and features in six of the top 10 international routes from Australia. Sydney Airport is exposed to relatively strong long term regional GDP growth, a major driver of traffic growth.



from 1985 to 2001

Significant Shareholder Rights

MAp, together with other Macquarie managed entities, has the ability to appoint up to five directors (out of a maximum of 10) to the board of Southern Cross Holdings, the owner of Sydney Airport, and is entitled to nominate two members (out of a maximum of seven) to the Sydney Airport strategy committee. Helen Nugent, the Chairman of MAp, has been appointed Chairman of Sydney Airports Corporation.

There are a number of growth opportunities at Sydney Airport such as the further development of retailing, the provision of additional car parking products, the implementation of a focused approach to property development within operational constraints and the potential to significantly increase operating efficiencies.

Significant Potential Upside

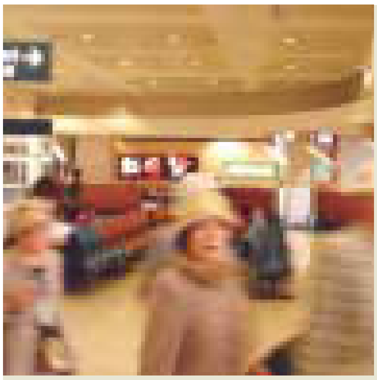
From 1 July 2002, Sydney Airport is free to set its own aeronautical prices, subject to contractual constraints, price monitoring by the ACCC and compliance with normal competition and consumer legislation. This provides the opportunity to further develop a business partnership approach with the airlines using the airport which is expected to be mutually beneficial.

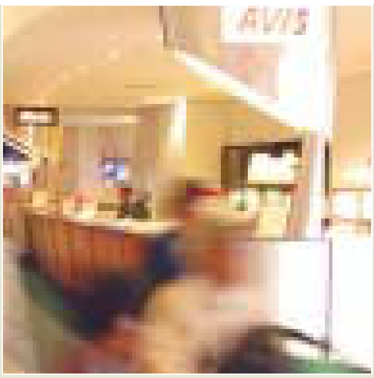
Light Handed Regulation

Strong operational track record

The current management team of Sydney Airport has a strong operational track record as evidenced by its successful redevelopment of the international terminal, management of the Sydney 2000 Olympic Games traffic, effective handling of regulatory changes, the management of the impact of September 11, 2001 and the financial collapse of Ansett.

Experienced Management Team





Rome

Unique opportunity MAp has agreed to acquire a total beneficial interest of 28.0 per cent in Aeroporti di Roma S.p.A. ("AdR") for $542 million (including acquisition transaction costs). AdR owns Rome Airport. **Purchase Price** AdR's Enterprise Value* implied by the purchase price is 9.6 times the forecast EBITDA for the year ending 31 December 2003.

Primary Gateway to Italy

More than 26 million passengers in 2001.

*See Glossary for definition.

AdR will enhance MAp’s geographical diversity

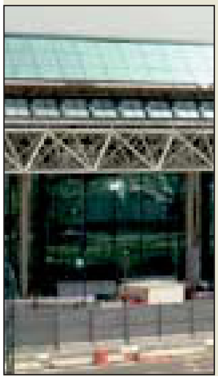

AdR is the concessionaire for Fiumicino and Ciampino airports which together comprise Rome Airport. Rome Airport is the primary gateway to Italy and is Europe’s sixth largest airport system, handling 26.3 million passengers in 2001.

Commercial Upside

Retail spend per passenger is approximately 50 per cent lower at Fiumicino than comparable European airports such as Gatwick, Heathrow, Charles de Gaulle and Schiphol. MIMUK believes that the implementation of a revised retail business plan can bring passenger spend rates into line with comparable European airports over the medium to long term.

Growth Asset

According to World Bank data, in 1998, the propensity to fly in Italy was significantly lower than the average trips per head of population for other major European countries. MIMUK believes that as the Italian aviation industry develops there is significant potential for traffic growth in Italy as the propensity to fly moves closer to the European average.



Rome is a leading international

Large and Attractive Catchment Area

Fiumicino and Ciampino airports are the only commercial airports serving Rome. The immediate Rome catchment area has a population of approximately 5.2 million. Rome is the political, historic and religious capital of Italy as well as a leading international tourist destination.

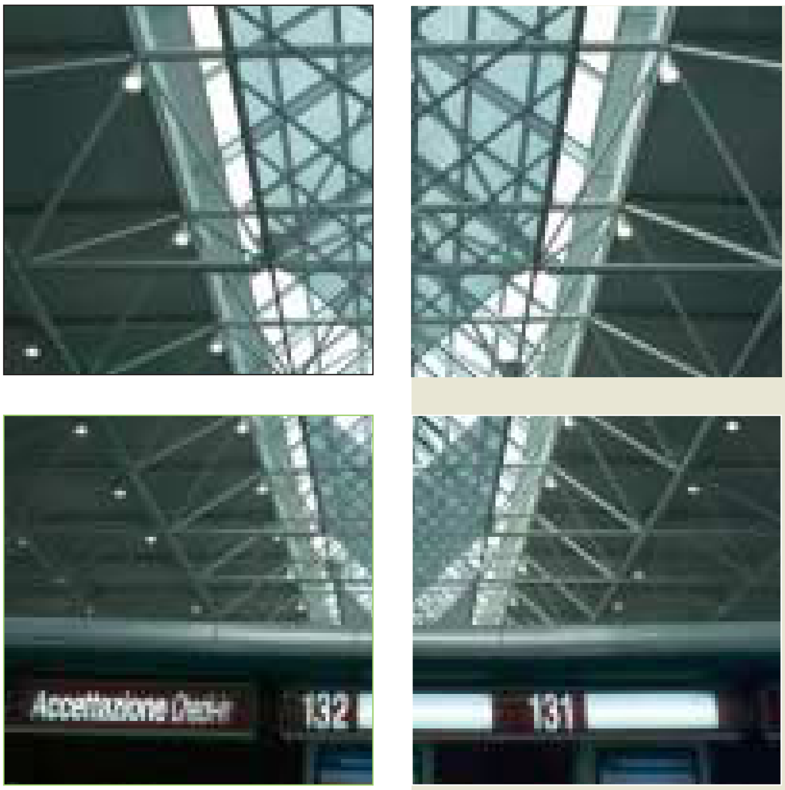
Low cost airlines

Ciampino is developing as a low cost airline base for Go and Ryanair, with Ryanair introducing new routes and frequencies at this airport. MIMUK believes that this has the potential to significantly increase traffic at this airport.

tourist destination.

As the largest single beneficial shareholder in AdR, MAp will have the opportunity to contribute to key strategic, commercial, operational and financial decisions through representation (through MALSA) on the board of AdR.

Strategic Influence



Capacity for growth

Three terminals at Fiumicino have been upgraded within the last five years. Capacity has been created for throughput of approximately 37 million passengers per year, 45 per cent above 2001 passenger throughput.

Macquarie Airports
Chairman's Letter

18 July 2002

Dear Investor,

At the time of listing, MAp owned an initial investment in Macquarie Airports Group Limited ("MAG") which owned interests in Bristol and Birmingham airports in the UK. The board of Macquarie Airports Management Limited ("MAML") stated in the IPO Prospectus that it would seek to make further acquisitions in order to meet MAp's objective of investing in a worldwide portfolio of airports.

Since listing MAp has been successful in securing two exciting investments, namely interests in Sydney and Rome airports. These acquisitions represent a significant development for MAp. Both acquisitions have been secured at prices which compare favourably with other recent airport sales and MAp has been able to secure significant interests in both airports.

On 25 June 2002, the Australian Commonwealth Government announced that the Southern Cross Consortium was successful in its bid for Sydney Airport. As a member of the Southern Cross Consortium, MAp has acquired a 40.4 per cent stake in Sydney Airport for $815 million. MAp has acquired a further 4.3 per cent indirect interest in Sydney Airport through its investment in MAG. MAp's total beneficial interest in Sydney Airport is 44.7 per cent.

As the major international gateway into Australia, Sydney Airport is Australia's busiest passenger airport, with a share of around 50 per cent of Australia's international traffic and around 26 per cent of Australia's domestic traffic.

On 16 July 2002, MAp announced it had entered into a conditional agreement to acquire an interest of 19.8 per cent in AdR (the concessionaire of Rome Airport) for $382 million (including acquisition transaction costs). MAp will also acquire an 8.2 per cent indirect interest in AdR through its investment in MAG. On completion, MAp's total beneficial interest in AdR will be 28.0 per cent.

Rome Airport is the largest airport system in Italy, handling around 30 per cent of Italy's international traffic and around 28 per cent of Italy's domestic traffic. Rome Airport is the sixth largest airport system in Europe.

To fund these acquisitions and to repay short term borrowings, MAp proposes to raise $670 million pursuant to this Prospectus. Under the Priority Entitlement Offer, Security Holders will be able to purchase three additional MAp Fully Paid Securities for every four MAp Partly Paid Securities held at the Record Date, at a price of $1.50 per Fully Paid Security.

Macquarie Bank Limited has agreed to subscribe for 12.5 million Fully Paid Securities at an issue price of $2.00 per Security (a premium of 50 cents per Fully Paid Security to the Issue Price), amounting to $25 million. A further 53.9 million Fully Paid Securities will be allocated to institutional investors at the Issue Price of $1.53.

Macquarie Equity Capital Markets Limited and UBS Warburg Australia Limited have fully underwritten the Priority Entitlement Offer and the Institutional Placement.

The Final Instalment of $1.00 for each Security purchased as part of MAp's IPO in April this year (which amounts to an additional $500 million), is payable on 1 October 2002. This will be used to repay MAp's remaining short term borrowings.

Following this capital raising, MAp's focus will be on consolidating the benefits from these recent acquisitions. The board of MAp is not currently considering any further acquisitions or capital raisings.

Further details of the Offer, Sydney Airport and Rome Airport are contained in this Prospectus. I encourage you to read this Prospectus carefully.

I commend this Offer to you and thank you for your continued support.

Yours faithfully

Helen Nugent
Chairman
MACQUARIE AIRPORTS MANAGEMENT LIMITED

1

Macquarie Airports
Section 1 Overview of the Offer



1.1 The Acquisitions

	Percentage Interest	$ million
Sydney Acquisition		
MAp's interest	40.4%	815
MAp's indirect interest through MAG	4.3%	88
Total beneficial MAp interest in Southern Cross Holdings	**44.7%**	**903**
Rome Acquisition		
MAp's interest (including acquisition transaction costs)	19.8%	382
MAp's indirect interest through MAG	8.2%	160
Total beneficial MAp interest in AdR (on completion of acquisition)	**28.0%**	**542**
Total Cost		**1,445**

Acquisition of Sydney Airport

On 25 June 2002, the Commonwealth Government announced that the Southern Cross Consortium was successful in its bid for Sydney Airport via the acquisition of all the shares in Sydney Airports Corporation. As a member of the Southern Cross Consortium, MAp has acquired 40.4 per cent of the Ordinary Equity in Sydney Airport through a special purpose vehicle Southern Cross Australian Airports Trust ("SCAAT") for $815 million (the "Sydney Acquisition"). The Sydney Acquisition was completed on 28 June 2002. Sydney Airport's Enterprise Value* implied by the purchase price is 14.3 times the forecast EBITDA for the year ending 30 June 2003.

Through its MAG shareholding MAp has also acquired a 4.3 per cent indirect interest in Sydney Airport for $88 million. MAp's total beneficial interest in Sydney Airport is therefore 44.7 per cent.

See Section 3 for further details on the Sydney Acquisition and Sydney Airport.

*See Glossary for definition.

Acquisition of Rome Airport

On 16 July 2002, MAp announced it had entered into a conditional agreement with MAG and GIF to acquire a 44.7 per cent shareholding in AdR for consideration of approximately $842 million (excluding acquisition transaction costs) through a special purpose vehicle, Macquarie Airports Luxembourg S.A. ("MALSA") (the "Rome Acquisition").

MAp will acquire a 44.3 per cent shareholding in MALSA for $382 million (including acquisition transaction costs), representing a direct interest in AdR of 19.8 per cent. In addition, MAG will acquire a 50.1 per cent shareholding in MALSA representing a direct interest in AdR of 22.4 per cent. GIF will acquire the balance of shares in MALSA.

Through its MAG shareholding, MAp will also acquire an additional 8.2 per cent indirect interest in AdR. MAp's total beneficial interest in AdR is therefore 28.0 per cent. AdR's Enterprise Value* implied by the purchase price is 9.6 times the forecast EBITDA for the year ending 31 December 2003.

Additionally, MAp also has a right of first refusal to purchase a further $10 million interest in AdR, should it be sold by GIF.

AdR holds the concessions until 2044 to operate, maintain, manage and develop the two airports that together comprise Rome Airport:

– Leonardo da Vinci Airport at Fiumicino in Rome ("Fiumicino") – Rome's principal airport with throughput of 25.6 million passengers in 2001. Fiumicino is located approximately 30 kilometres from the city centre of Rome and has four runways and three terminals; and

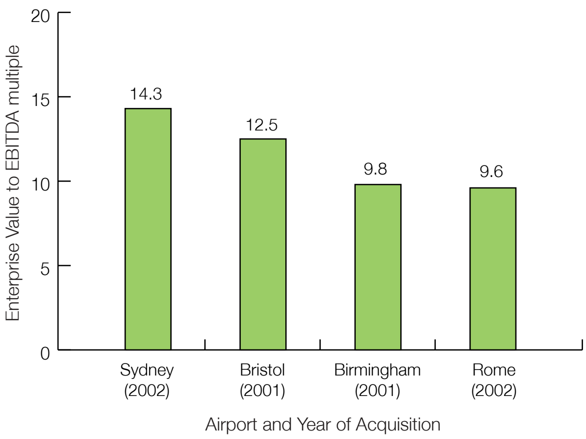
– G.B. Pastine Airport at Ciampino in Rome ("Ciampino") – Rome's second airport with throughput of 0.7 million passengers in 2001. Ciampino is situated 15 kilometres from the city centre of Rome and has one runway and a single commercial terminal.

AdR is currently 95.9 per cent owned by Leonardo Holding S.A. (“Leonardo”) and 4.1 per cent by four local authorities in the Lazio region and other holders. Leonardo is owned by four Italian industrial companies: Gemina S.p.A. (42 per cent), Falck S.p.A. (31 per cent), Compagnia Italpetroli S.p.A. (16 per cent) and Impregilo S.p.A. (11 per cent). On completion of the Rome Acquisition, Leonardo will hold a 51.2 per cent interest in AdR and MAG, MAp and other co-investors (through MALSA) will hold 44.7 per cent. The remaining 4.1 per cent will continue to be held by four local authorities in the Lazio region and other holders.

See Section 4 for further details regarding the Rome Acquisition and AdR.

1.2 MAp’s Airport Acquisitions

The chart below shows the Enterprise Value to EBITDA multiples for MAp’s airport investments. The weighted average Enterprise Value to EBITDA multiple for MAp’s portfolio of acquisitions is 12.4 times.



Calculation of Multiples

The weighted average Enterprise Value to EBITDA acquisition multiple for MAp’s portfolio is calculated based on the percentage of MAp’s portfolio (both direct and indirect interests) held in Sydney, Rome, Bristol and Birmingham airports respectively.

The Enterprise Value to EBITDA multiples shown in the above chart are calculated based on the Enterprise Values* at the date of each acquisition and the following EBITDA figures:

– for Sydney Airport – forecast EBITDA for the year ending 30 June 2003 as described in Section 3 of this Prospectus;

– for Bristol and Birmingham airports – actual EBITDA results for the year ended 31 March 2002; and

– for AdR – forecast EBITDA for the year ending 31 December 2003 as described in Section 4 of this Prospectus.

* See Glossary for the definition of Enterprise Value, Sydney Enterprise Value and AdR Enterprise Value.

1.3 Funding of the Acquisitions

The Sydney Acquisition has been funded by available cash, short term borrowings against MAp's Final Instalment of $500 million which is due on 1 October 2002 and a Letter of Credit provided by Macquarie. The Rome Acquisition will be funded by this Offer.

Funds raised by the Offer meet all of MAp's current investment requirements. No further investments or capital raisings are currently being contemplated by MAp.

Sources and Applications of Funds	**$ million**
Sources of Funds	
Priority Entitlement Offer	563
Institutional Placement	82
Macquarie Placement	25
Final Instalment Bridging Facility	500
Letter of Credit	130
Cash on hand	341
Total	**1,641**
Applications of Funds	
Sydney Airport	
MAp's direct interest in Southern Cross Holdings	815
MAp's indirect interest in Southern Cross Holdings through MAG	88
Rome Airport	
MAp's direct interest in MALSA (including acquisition transaction costs)	382
MAp's indirect interest in MALSA through MAG	160
Working Capital	41
Net borrowing and other costs to 30 June 2002	5
Expenses of the Offer	20
Repayment of Borrowings	130
Total	**1,641**

1.4 The Offer

This Prospectus relates to the Macquarie Placement, an Institutional Placement and Priority Entitlement Offer and Public Offer to raise up to $670 million. This Offer (other than the Macquarie Placement) has been fully underwritten by Macquarie Equity Capital Markets Limited and UBS Warburg Australia Limited to $645 million.

Macquarie Placement

MAp has agreed to issue 12.5 million Fully Paid Securities at an Issue Price of $2.00 per Fully Paid Security to Macquarie Bank Limited (the "Macquarie Placement"). This represents a 50 cent per Fully Paid Security premium to the Issue Price. The Macquarie Placement will be completed subject to Security Holder approval to be sought at an Extraordinary General Meeting. These Fully Paid Securities will be issued pursuant to this Prospectus.

Institutional Placement

MAp has agreed to issue approximately 54 million Fully Paid Securities to institutional investors at an Issue Price of $1.53 per Fully Paid Security, to raise a total of $82 million. These Fully Paid Securities will be issued pursuant to this Prospectus, and will be allotted at the Initial Allocation.

Priority Entitlement Offer

This Prospectus also relates to the Priority Entitlement Offer in which MAp is making an offer of up to 375 million Fully Paid Securities to Security Holders at a price of $1.50 per Fully Paid Security to raise up to $563 million.

Certain institutional Security Holders have been invited to make an irrevocable offer to apply for their pro-rata entitlements under the Priority Entitlement Offer. Those institutional Security Holders and other institutional investors have also been invited to make irrevocable offers to apply for any Fully Paid Securities not taken

up by those institutional Security Holders entitled to them. These offers will be dealt with separately and Fully Paid Securities will be allotted to these institutional Security Holders and other institutional investors at the Initial Allocation. All other Security Holders wishing to invest will need to complete the Priority Entitlement Forms accompanying this Prospectus.

Eligible Security Holders who are registered holders as at 5.00 pm (AEST) on Wednesday 17 July 2002 will receive an entitlement allocation under this Prospectus. Your entitlement allocation is non-renounceable and cannot be transferred and is based on your Security holding as at the Record Date.

Your pro-rata entitlement equates to three Fully Paid Securities for every four Partly Paid Securities you held at the Record Date. In calculating entitlements to Fully Paid Securities, fractional entitlements have been rounded to the nearest whole number of Fully Paid Securities. A detailed timetable for the Priority Entitlement Offer is set out at the front of this Prospectus. Investors should be aware that the final closing date and time for the Registry to receive Applications is 5.00 pm (AEST) on Tuesday 27 August 2002 (subject to variation).

Public Offer

This Prospectus also relates to a general offer of the Fully Paid Securities which are not subscribed for by Eligible Security Holders or institutional investors under the Priority Entitlement Offer (the "Public Offer"). Applications for the Public Offer can only be satisfied to the extent that there is a shortfall in subscription of the Priority Entitlement Offer, and no additional Securities will be made available for public applicants.

The Public Offer is made only to residents of Australia.

Timetables, restrictions on issue and other relevant provisions of this Prospectus regarding the Offer also apply to the Public Offer.

1.5 Fully Paid Securities

Securities issued under this Prospectus will be fully paid. Partly Paid Securities are partly paid to $1.00 with a Final Instalment of $1.00 per Partly Paid Security payable on 1 October 2002. Until the Final Instalment is paid, Fully Paid Securities will trade as a separate class of securities on ASX. When the Final Instalment is paid, all Securities will be fully paid and will trade as a single class. Partly Paid Securities and Fully Paid Securities will rank equally in all respects with regard to the rights attaching to these securities, however rights will be pro-rata to the percentage paid up value of the securities.

1.6 The Final Instalment on Partly Paid Securities

Security Holders who are registered as the holders of the Partly Paid Securities on the Final Instalment Record Date will be required to pay the Final Instalment of $1.00 per Security by 1 October 2002, subject to MAp's right to defer or cancel the Final Instalment.

As detailed in the IPO Prospectus, if Security Holders do not pay the amount of the Final Instalment, MAp may take action to recover the amounts owing. While amounts are outstanding, voting and distribution rights may be suspended. MAp may also forfeit and resell the relevant Partly Paid Securities, in which case Security Holders will be liable for the amount outstanding plus interest (calculated from 1 October 2002) as well as the costs and expenses associated with the forfeiture and disposal. If a Security is forfeited, any unpaid distributions will also be forfeited.

MAp may apply any proceeds from the resale of Partly Paid Securities to pay up the amount of the Final Instalment.

1.7 Distributions to Security Holders

Distribution Policy

Distributions to Security Holders will be payable half yearly in arrears in February and August in respect of the preceding six month periods ending 31 December and 30 June.

Macquarie Airports Management is required under the Trust Deed of MAT1 to distribute at least the taxable income of MAT1 to Security Holders each year.

MAT1 will distribute all of its taxable income in respect of each six month period. The distribution policy for MAT2 and MAHBL will be determined by Macquarie Airports Management and the directors of MAHBL respectively each year.

Forecast Distributions

Securities issued under this Offer will not participate in the June 2002 distribution, but will participate in full in the December 2002 distribution.

Macquarie Airports Management and MAHBL forecast distributions for each of the six month periods to 30 June 2003 as shown in the table below. These distributions may comprise both an income component (representing dividends from investments and interest) and a capital component.

	6 months to 31 Dec 2002	6 months to 30 June 2003
Distribution per Fully Paid Security[1] (Cents)	4.0	2.9
Annualised Yield (based on $1.50 Issue Price)	7.0%[2]	3.9%
Annualised Yield above normalised[3]	4.0%	3.9%

1 Paid in respect of the six month period ending June and December, respectively, of each year. Dividends are expected to be paid in February and August following each distribution period.

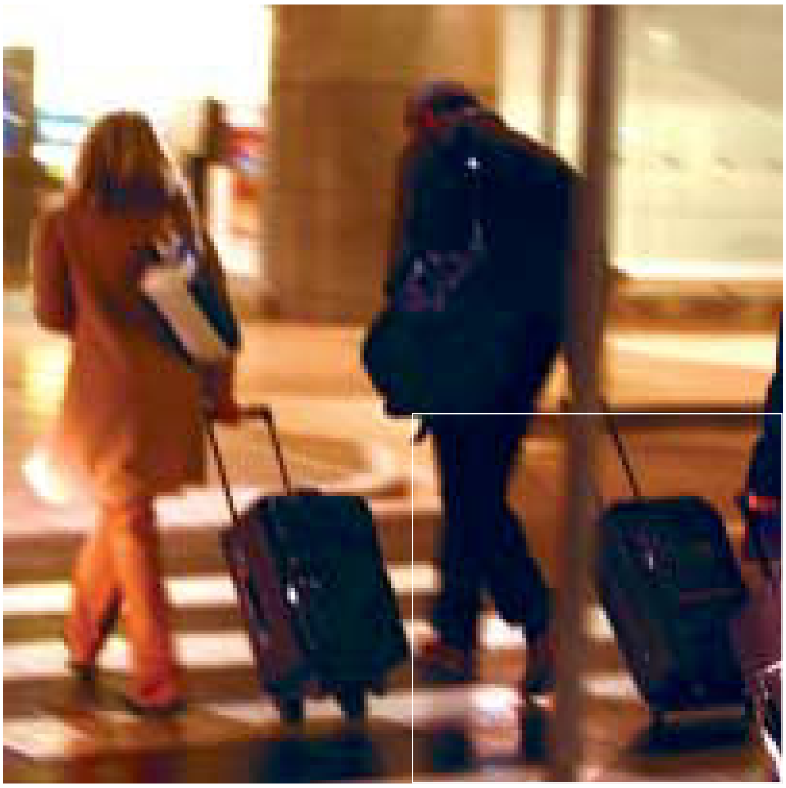
2 Annualised yield assuming payment of the Issue Price by investors under the Offer on 13 August 2002.

3 Annualised yield adjusted for the exclusion of one-off underwriting fee income of $28.5 million received in July 2002 and one-off borrowing costs associated with the acquisitions of $13.5 million.

The forecast distributions reflect the net cashflow expected to be received by MAp in each of the respective periods from its investments, interest on surplus funds and after payment of all cash costs paid or accrued at the end of each period. Distributions in any 12 month period may vary due to timing of dividends from investments.

See Section 7.4 of this Prospectus for the forecast distribution assumptions.

If returns from MAp's investments are greater than those forecast, Macquarie Airports Management and MAHBL may, at their discretion, consider making a distribution which is higher than the forecast distribution. If returns from the investments are lower than those forecast, Macquarie Airports Management and MAHBL may make distributions which are lower than forecast distributions, or no distributions at all. The level of distributions to be paid by Macquarie Airports Management and MAHBL will be dependent on achievement of the business plans of each of the airports in which MAp invests, including those investments made by MAG.



MAp may also, at its discretion, consider returning capital to Security Holders.

Macquarie Airports Management and MAHBL can give no assurance for the six month periods ending 31 December 2002 and 30 June 2003 or for any future period regarding the payment of distributions as actual events might differ from the assumptions used in assessing the anticipated ability of MAp to pay those distributions. In addition, the forecasts above should not be taken as implied forecasts for future periods beyond 30 June 2003 of returns to Security Holders.

1.8 Implications of the Rome Acquisition not Proceeding

Completion of the Rome Acquisition is subject to the satisfaction of a number of conditions precedent. The key conditions precedent are:

1. anti-trust clearance from the Commission of the European Union or the Anti-Trust Authority of Italy, as required; and
2. all necessary consents, approvals and waivers from governmental authorities (to the extent required), including the consent of the Italian privatisation agency, Istituto per la Ricostruzione Industriale S.p.A. ("IRI"), the previous public owner of 51.2 per cent of AdR sold to Leonardo in July 2000.

A summary of the documents detailing the conditions precedent are set out in Section 11 of this Prospectus.

Although MAp has no reason to believe that the Rome Acquisition will not proceed, there can be no certainty that the necessary waivers and consents will be obtained and that the other conditions will be satisfied. If the Rome Acquisition does not proceed, MAp may invest any funds raised through the Offer in other suitable investment opportunities. In the event MAp does not identify other suitable investment opportunities within a reasonable period of time, subject to satisfying legal and ASX requirements, MAp may make a capital return to Security Holders.

MAp may have already entered into or will enter into agreements to hedge its foreign exchange exposure in relation to the Rome Acquisition. In the event that the Rome Acquisition does not proceed, MAp will close out this foreign exchange position and, as a result, MAp may realise a foreign exchange gain or loss.

1.9 Acceptance and Payment

How to Accept

If you wish to take up part of, all of, or more than your Priority Entitlement

The number of Fully Paid Securities for which you have a Priority Entitlement is shown on the accompanying orange Priority Entitlement Form.

In all cases please complete the Priority Entitlement Form accompanying this Prospectus in accordance with the instructions set out in the form. In particular, if you do not indicate the number of Fully Paid Securities for which you wish to subscribe, or if there is a discrepancy between the amount of the cheque and the number of Fully Paid Securities indicated, MAp may treat you as applying for as many Fully Paid Securities as your accompanying cheque or bank draft will pay for.

Applications must be made on the orange Priority Entitlement Form accompanying this Prospectus and not the green Application Form in the back of this Prospectus. Applications must be accompanied by payment in full of $1.50 per Fully Paid Security applied for.

You may wish to apply for only part of your Priority Entitlement. If you decide to apply for only part of your Priority Entitlement, you should complete the orange Priority Entitlement Form, nominating the number of Fully Paid Securities you wish to apply for, with payment in full of $1.50 per Fully Paid Security.

You may apply for as many Fully Paid Securities as you wish on your Priority Entitlement Form. However, if you apply for more Fully Paid Securities than your Priority Entitlement as shown on the Priority Entitlement Form, this additional amount may be subject to scale back.

If you wish to have your Fully Paid Securities allocated for early trading on ASX

Eligible Security Holders have the opportunity to apply for their Priority Entitlement by no later than 6 August 2002, in order to participate in the Initial Allocation. Securities allotted under the Initial Allocation are expected to commence trading on ASX by 14 August 2002. All Applications under the Public Offer, Applications for more than your Priority Entitlement and Priority Entitlement Applications received after 6 August 2002 will be allocated under the Final Allocation. These securities are expected to commence trading on ASX by 6 September 2002.

If you wish to subscribe for Fully Paid Securities and you are not a Security Holder (limited to Australian residents)

Members of the public may apply for Fully Paid Securities by using the Application Form in the back of this Prospectus. However, they will not be entitled to a Priority Entitlement and may be subject to scale back as set out below.

The closing date and time for receiving Applications under the Public Offer is 5.00 pm (AEST) on 27 August 2002 (subject to variation). Application Forms must be received by the Registry by this time, even if lodged through a stockbroker. Applicants are encouraged to submit their Application Form as soon as possible.

Allocation Policy

All Eligible Security Holders are entitled to receive their Priority Entitlement.

As set out above, Eligible Security Holders may apply for more than their Priority Entitlement and members of the public may apply for Fully Paid Securities pursuant to this Prospectus.

While it is expected that Eligible Security Holders will be given priority over general public applicants in respect of Fully Paid Securities applied for in excess of their Priority Entitlement, any amount by which Applications from Eligible Security Holders exceed their Priority Entitlements may be scaled back, at MAp's discretion, in such manner as MAp considers is reasonable in the circumstances (including, without limitation, to address situations where it is considered that Applications may be inflated or made on behalf of third parties or for on-sale).

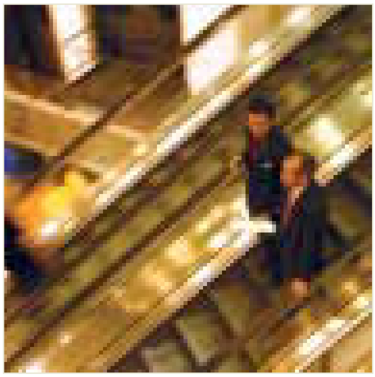
No Eligible Security Holder is assured of receiving any Fully Paid Securities applied for in excess of their Priority Entitlement.

Allotment

Allotment of Fully Paid Securities pursuant to the Institutional Placement and to certain institutional Security Holders under the Priority Entitlement Offer as described in Section 13, is expected to be made on or around 13 August 2002. Allotment of Fully Paid Securities pursuant to Priority Entitlement Forms is expected on or around 13 August 2002 or on or around 5 September 2002 depending on whether the Application is dealt with under the Initial Allocation or the Final Allocation (as described earlier). Allotment of Fully Paid Securities pursuant to Application Forms for the Public Offer is expected to be made on or around 5 September 2002.

ASX Quotation

Application for quotation of Fully Paid Securities on ASX will be made no later than seven days after the date of this Prospectus. Subject to approval being granted, quotation of the Fully Paid Securities is expected to commence within two business days of the relevant allotment date.



Payment

Priority Entitlement Forms and Application Forms must be completed in accordance with the instructions outlined on the Priority Entitlement and Application Forms.

Cheques and drafts should be payable to "Trust Company of Australia Ltd ACF MAp Group Subscriptions Account" and crossed "Not Negotiable". Do not forward cash. Receipts for payment will not be issued. Payment will only be accepted in Australian currency and cheques or bank drafts must be drawn on or payable at an Australian bank.

Application Monies and Interest

Monies received from an Applicant for Fully Paid Securities offered pursuant to this Priority Entitlement Offer will be held by the Custodian in a bank account ("Account") established and kept by the Custodian solely for the purpose of depositing the Application Monies until those corresponding Fully Paid Securities are issued.

To the extent that any Application for Fully Paid Securities is not satisfied in whole, Application Monies will be refunded without interest. MAp reserves the right to cancel the Priority Entitlement Offer at any time, in which case all Application Monies will be refunded without interest. To the fullest extent permitted by law, each Applicant agrees that such Application Monies will not bear interest as against the Custodian, irrespective of whether or not all or any of the Fully Paid Securities applied for by the Applicant are issued to that Applicant.

Overseas Security Holders

This Prospectus does not constitute an offer or invitation to subscribe for Fully Paid Securities in any jurisdiction where, or to any person to whom, it would not be lawful to make such an offer or invitation or issue this Prospectus. It is the responsibility of any applicant to ensure compliance with any laws of any country relevant to their Applications. The Public Offer is only made to residents in Australia and may only be accepted by residents in Australia.

No action has been taken to register or qualify the Fully Paid Securities or the Priority Entitlement Offer, or otherwise permit a Public Offering of the Fully Paid Securities, in any jurisdiction outside Australia and New Zealand. The Fully Paid Securities have not been, and will not be, registered under the US Securities Act of 1933 (the "Securities Act") and may not be offered or sold in the US or to, or for the account or benefit of, US persons.

The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and anyone who receives this Prospectus should seek advice on and observe any such restrictions. Neither this Prospectus nor the accompanying Application forms may be sent to investors in the US or otherwise distributed in the US.

No prospectus has been filed with the Registrar of Companies pursuant to the Public Offers of Securities Regulations 1995 on the grounds that the Securities are not being offered or sold to the public in the UK as a result of the Securities being offered to no more than fifty (50) persons in the UK. Additionally, the content of this Prospectus has not been approved by an authorised person in the UK and accordingly it may not be communicated to any person in the UK unless that person is of a kind described in Article 19 or Article 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 or is a person to whom this Prospectus may otherwise be lawfully communicated. The communication of this Prospectus to any other person in the UK is unauthorised and may contravene the Financial Services and Markets Act 2000.

If the Applicant is resident in Hong Kong, the Applicant represents and warrants that it intends to purchase the Fully Paid Securities for investment purposes only and not with a view to resale in Hong Kong.

The entitlements of Security Holders with registered addresses outside Australia or New Zealand (other than those to whom offers are made as described in Section 13.3) will form part of the shortfall and will be dealt with in accordance with the allocation policy described above.

Handling Fee
A handling fee of one per cent of the Application monies (inclusive of GST) on Fully Paid Securities issued pursuant to this Priority Entitlement Offer and Public Offer will be paid by MAp to Participating Organisations of ASX and registered financial planners up to a maximum amount of $500 per individual Application, on Priority Entitlement Forms and Application Forms bearing their stamp. If an individual Application is on behalf of more than one beneficial holder, a list of beneficial holders must be provided in order to receive up to a maximum amount of $500 per beneficial holder. However, no handling fee is payable on any Application which exceeds 50,000 Fully Paid Securities. Where an Applicant lodges more than one Application, the fee is only payable on one Application.

1.10 Foreign Ownership Restriction Advice

In order to ensure compliance with the foreign ownership restrictions applicable under the Airports Act with regard to investment in Federal Airports, MAp has limited foreign ownership to no more than 39.99 per cent or such lower amount as MAp specifies to Security Holders as necessary to avoid a breach or potential breach of ownership restrictions under the Airports Act, or to avoid any non-compliance or potential non-compliance under the Airports Regulations in connection with:

– an airport operator company (as defined in the Airports Act); or

– a holding company of an airport operator company,

in which MAp has a direct or indirect investment, where the breach, potential breach, non-compliance or potential non-compliance arises in whole or part because of the foreign ownership levels in MAp.

The directors of Macquarie Airports Management and MAHBL have certain powers to enforce this limit including the power to request information from Security Holders, to require the disposal of a Security and to transfer Securities.

Section 11 of the IPO Prospectus contains a summary of the constituent documents of MAT1, MAT2 and MAHBL relating to foreign ownership restrictions as at the date of the IPO Prospectus. Since that date the foreign ownership restrictions have been expanded to enable MAp to limit foreign ownership as necessary to prevent Macquarie Airports Management from becoming a foreign person for the purposes of the Airports Act by reason of the levels of foreign ownership in MAp.

1.11 Enquiries

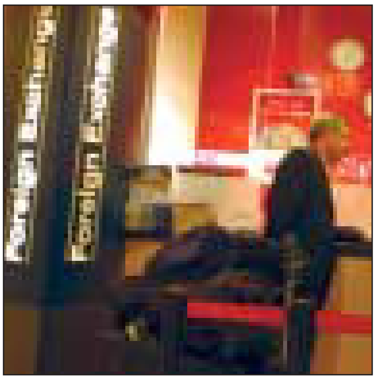
This document is important and requires your immediate attention. It should be read in its entirety. If you are in doubt as to the course you should follow, you should consult your stockbroker, solicitor, accountant or other professional adviser.

Questions relating to the Priority Entitlement Offer can be directed to MAp's Investor Relations Team on 1800 181 895, your stockbroker or other financial adviser.

Questions relating to any aspect of your individual holding in MAp should be directed to MAp's registry, Computershare Investor Services, on 1800 022 060.

2

Macquarie Airports
Section 2 Overview of MAp



2.1 Introduction

MAp is Australia's only listed internationally diversified airport fund, providing exposure to the dynamic global aviation market.

In its IPO Prospectus, MAp stated that its intention was to acquire a portfolio of assets that would provide investors with a combination of capital growth through improved business and capital management and stable long term cash yields.

MAp's initial investment was a 36.7 per cent shareholding in MAG. MAG is an unlisted airports investment fund focusing on airport investment opportunities in OECD member countries and similar countries with investment grade credit ratings with a focus on Europe and the UK. In September and December 2001 respectively, MAG purchased interests in two regional airports in the UK, Bristol International Airport and Birmingham International Airport, investing a total of €190 million. Since then MAG has invested or agreed to invest a further €374 million to acquire interests in Sydney and Rome airports and has now fully committed its available funds.

Since listing on ASX, MAp has invested or agreed to acquire interests in Sydney and Rome airports, diversifying its portfolio geographically. MAp has now invested or committed to invest a total of $1,580 million in international airports in Sydney, Rome, Bristol and Birmingham.

Macquarie Airports Management expects that the worldwide trend towards privatisation, coupled with Macquarie's international network of industry contacts, will continue to provide MAp with opportunities over the medium to long term period.

MAp's Investment Strategy

In its IPO Prospectus, MAp stated its strategy to acquire airports with the following characteristics:

– dominant market position – airports which have a strong market position in a significant catchment area and are expected to benefit from advantages such as low existing market shares, additional airline services or changing travel preferences and aircraft technologies;

– under-developed commercial activities – airports which have under-developed retail, car parking and property development activities or which have unexploited opportunities relating to aeronautical revenues;

– availability of significant shareholding – airports where MAp can influence the key strategic, commercial and financial decisions of the airport and apply its expertise into the business;

– potential to increase returns to equity by optimising capital structure – airports which offer significant opportunities to enhance cashflows to equity through aggressive capital management; and

– capable operational management – airports which have experienced and capable operational management teams.

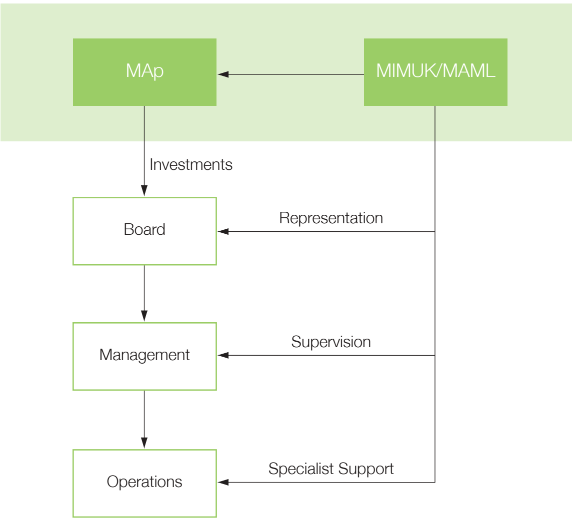
MAp has followed this strategy in agreeing to acquire its interests in Sydney Airport and Rome Airport. MAp intends to continue to follow its acquisition strategy in assessing future airport acquisition opportunities as they arise. However, MAp is not currently contemplating any further acquisitions or capital raisings.

Ongoing Management of Investments

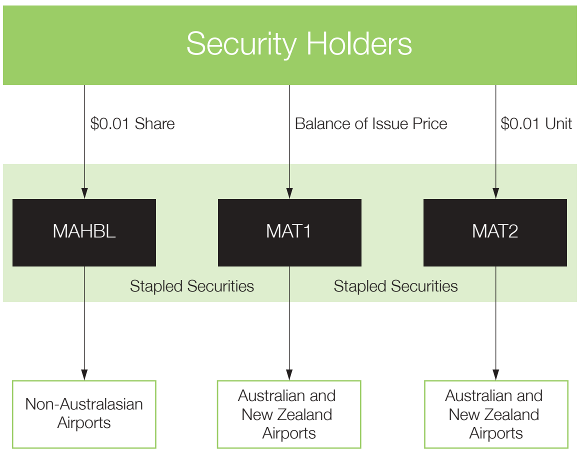
In most cases, MAp seeks to acquire significant shareholdings in order to provide MAp with influence over the key strategic, commercial and financial decisions of the airport in which MAp has invested.

MAp seeks board representation, input into the business planning process and the ability to meet with management regularly to review progress against targets. It will also identify opportunities to provide or procure specialist technical support for management as required.

Management Process



MAp's Structure
MAp's structure is as follows:



MAp consists of three entities:

– MAHBL, a company incorporated in Bermuda, which holds shares in MAG and may acquire and hold co-investments with MAG. MAHBL is advised by MIMUK.

– Macquarie Airports Trust 1 ("MAT1"), an Australian registered managed investment scheme, is the vehicle used by MAp to acquire non-controlling interests in airports.

– Macquarie Airports Trust 2 ("MAT2"), an Australian registered managed investment scheme, is the vehicle used by MAp to acquire controlling interests, or interests which could become controlling interests, in airports.

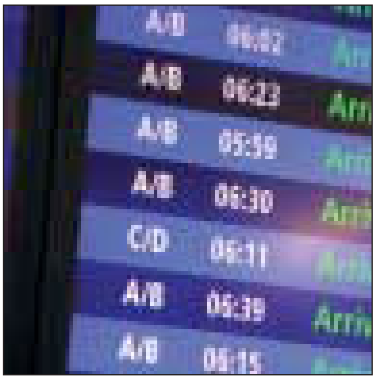
The responsible entity for each of MAT1 and MAT2 is Macquarie Airports Management.

Each Security issued by MAp consists of one share in MAHBL, one unit in MAT1 and one unit in MAT2. Shares in MAHBL, units in MAT1 and units in MAT2 are stapled and are not able to be traded independently.

The fully paid issue price for units in MAT1 under the IPO Prospectus was $1.98. The issue price for shares in MAHBL and units in MAT2 under the IPO Prospectus was $0.01 each.

Further details of the structure of MAp, funding arrangements between MAHBL, MAT1 and MAT2 and the taxation implications of an investment in MAp are set out in Section 9.

MAp's Management Team
MAT1 and MAT2 are managed by Macquarie Airports Management. Macquarie Airports Management is the Responsible Entity for the Trusts and makes all investment decisions and provides operational input into the assets of MAT1 and MAT2 once purchased.



Macquarie Airports Management, led by its Managing Director, Kerrie Mather, is drawn from Macquarie's team of executives which possesses an outstanding combination of expertise in the strategic and commercial management of airports.

In October 2000, Macquarie acquired the Portland Group, a UK based advisory firm specialising in the strategic and commercial development of airports. The Portland Group specialised in developing business plans for airports to maximise commercial revenues (retail, car parking and property) within the long term operational constraints of airports. The Portland Group also provided consultancy services to airports in over 30 countries including the UK, the US, Australia, New Zealand, Indonesia, South Africa, Canada, Poland, Germany, Italy, Greece, Spain, Portugal and the Netherlands.

Martyn Booth, co-founder of the Portland Group, has been appointed as specialist adviser to Macquarie Airports Management and is a director of MAHBL, Sydney Airports Corporation and Southern Cross Holdings.

Relationship between MAp, MAG and Macquarie

Under the terms of MIMUK's appointment as adviser to MAG, all Australasian airport investment opportunities must be offered to MAG in priority to all other managed funds established or advised by members of the Macquarie Bank Group, including MAp. However, the foreign ownership provisions in the Airports Act may limit MAG's ability to make direct controlling investments in Australian airports. As a result of the Sydney and Rome Acquisitions, MAG's available funds are fully committed.

MAp and MAG have entered into formal co-investment and first right of refusal arrangements. For further information see Section 11 of the IPO Prospectus (Additional Information), which contains a summary of these arrangements.

Macquarie Investment Banking Group ("Macquarie IBG") specialises in originating, structuring and advising on infrastructure transactions. Macquarie IBG has one of the world's largest infrastructure advisory groups with over 370 executives in 12 countries. In 2001, Macquarie IBG advised on infrastructure projects with a total value of over $20 billion. *Project Finance International* magazine rated Macquarie No.1 in the Asia/Pacific region and No.3 globally for infrastructure advisory mandates won in 2001.

Co-investment with MAG

MAHBL has entered into an equity co-investment deed with MAG under which MAp is entitled to invest alongside MAG, in conjunction with other MAG co-investors, in circumstances where MAG has identified an opportunity that it cannot, or declines to, take advantage of to the fullest extent possible. MIMUK will manage co-investments on behalf of co-investors. MIMUK may receive management fees as agreed on a case by case basis with co-investors.

The acquisition of an aggregate interest of 44.7 per cent shareholding in AdR is the first co-investment between MAp, MAG and other co-investors. Information on co-investment fees in relation to the Rome Acquisition is provided later in this Section. While both MAp and MAG have invested in Sydney Airport this is not a co-investment under the terms of the Co-investment Deed as MAp retained the right to invest independently in Sydney Airport.

Related Party Transactions

Macquarie IBG will be engaged from time to time to advise MAp, and the project vehicles in which it invests, in relation to particular transactions. Arm's length fees will be payable for these advisory mandates. Macquarie IBG frequently acts as the financial adviser to consortia on infrastructure projects. Macquarie IBG's role typically includes developing a financial plan, devising a detailed financial model, creating the most appropriate corporate and operating structures, arranging the required funds and developing and implementing financial enhancements.

MAp may wish to make investments in transactions where Macquarie IBG acts as adviser to a third party. Macquarie IBG may also, from time to time, act as principal in a transaction. There are no formal arrangements or obligations requiring Macquarie IBG to introduce transactions to MAp. MAp is under no obligation to take up an investment opportunity presented by Macquarie IBG.

While Macquarie Airports Management will have a strong relationship with other areas of Macquarie IBG, strict “Chinese Walls” policies are in place between Macquarie Infrastructure and Specialised Funds (“Macquarie ISF”) and other divisions of Macquarie to guard against the disclosure of confidential information.

Macquarie has committed to invest approximately $98.3 million in MAG of which approximately $61.4 million has been invested, pursuant to MAG’s initial calls.

In addition, Macquarie may provide short term finance to MAp from time to time. Any such loans will be on market terms.

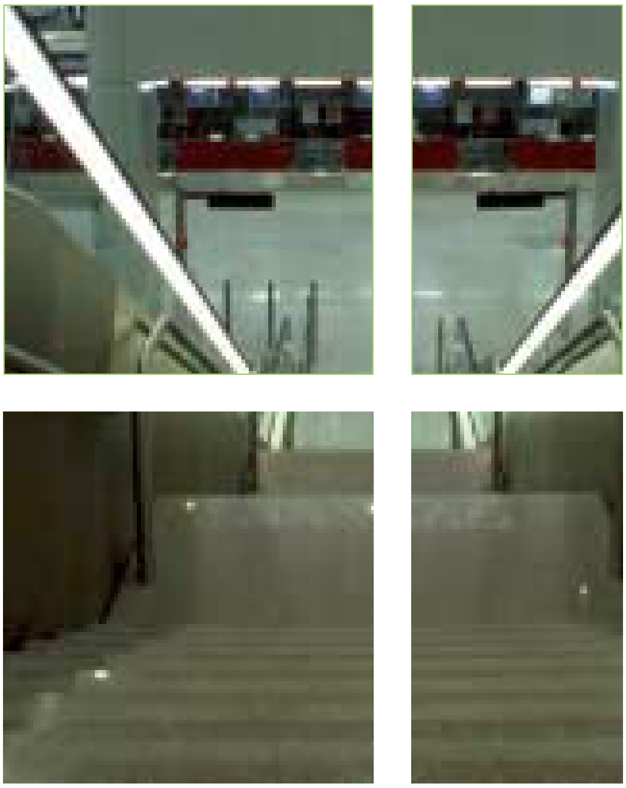
The independent directors of Macquarie Airports Management have developed guidelines for fees payable to Macquarie IBG in relation to advisory services (i.e. services outside the scope of the management role of Macquarie Airports Management) to ensure that any fees payable can be benchmarked against market practice where possible.

Management Fees

Subject to Security Holder approval and subject to obtaining applicable ASX waivers, MAp has agreed with Macquarie Airports Management and MIMUK that from 1 July 2002 until the first quarter end at which the volume weighted average price of Fully Paid Securities traded on ASX for the last 15 trading days of a quarter reaches $2.01 per Security, the Base Fees payable (including any management fees payable to the Macquarie Bank Group in respect of co-investments) will be applied to a subscription for newly issued Securities at an issue price per Security of $2.00. From that time all Base Fees will be paid in cash.

The remuneration of Macquarie Airports Management and MIMUK comprises a Base Fee and a Performance Fee. Macquarie Airports Management and MIMUK will meet all of the costs of directors, staff and premises in providing their management services to MAp. MAT1, MAT2 and MAHBL will meet all other costs of MAp.

There are no fees payable to Macquarie Airports Management or to MIMUK, in relation to amounts invested in MAG or in cash or cash equivalents.



The calculation of the fees payable to Macquarie Airports Management and MIMUK is as follows:

Base Fee

The Base Fee is payable quarterly in arrears and is calculated as follows:

- 1.50 per cent per annum of the first $500 million of Net Investment Value; plus
- 1.25 per cent per annum of the next $500 million of Net Investment Value; plus
- 1.00 per cent per annum of the Net Investment Value in excess of $1,000 million.

Net Investment Value for any quarter equals:

- the average market capitalisation of MAp over the last 15 trading days of the quarter; plus
- the amount of any external borrowings of MAp at the end of the quarter; plus
- the amount of any firm commitments by MAp to make further investments at the quarter end; less
- cash balances of MAp at the quarter end.

While MAp holds an investment in MAG, amounts paid up on MAG Shares (if MAG is unlisted) or the market value of MAG Shares (if MAG is listed) held by MAp at the end of the quarter will be deducted from the calculation of Net Investment Value.

While MAp holds any co-investments with MAG (pursuant to the equity co-investment deed), to the extent that MAp's co-investments attract separate management fees payable to Macquarie Bank Group, amounts paid up on any such co-investments with MAG made by MAp will be included in the calculation of Net Investment Value and MAp's proportionate share of the co-investment management fee will be rebated against the Base Fee payable by MAp.

Performance Fee

Macquarie Airports Management and MIMUK will receive a Performance Fee, calculated half yearly in arrears if the performance of the Securities exceeds the performance of the MSCI World Transportation Infrastructure Index (excluding MAG and MAp) ("Benchmark Index"). The Benchmark Index will be calculated based on the local currency performance of stocks which comprise the Benchmark Index. As a result, the performance of the Benchmark Index will not be affected by currency movements.

The Performance Fee equals 20 per cent of the Return above the Benchmark Return. The Performance Fee is calculated on an accumulation basis. If the Return is less than the Benchmark Return in any period, the deficit is carried forward and included in calculating whether the Return exceeds the Benchmark Return for subsequent periods.

If the Return for a period is less than zero, but the Return for the period exceeds the Benchmark Return, the Performance Fee is not paid and any surplus is carried forward and included in calculating whether the Return exceeds the Benchmark Return for subsequent periods.

The Performance Fee for each year is calculated as follows:

Performance Fee = 20 per cent x (Return – Benchmark Return) where:

Return for a period equals:

- the average market capitalisation of MAp over the last 15 trading days of the previous period, multiplied by;
- the movement in the accumulation index for the Securities (Securities Index) over the relevant period expressed as a percentage, based on the average daily closing value of this index over the last 15 trading days of the period compared with the

average daily closing value of this index over the last 15 trading days of the previous period.

Benchmark Return for a period equals:

– the average market capitalisation of MAp over the last 15 trading days of the previous period, multiplied by;

– the movement in the MSCI World Transportation Infrastructure accumulation index (excluding MAp and MAG) ("Benchmark Index") over the relevant period expressed as a percentage, based on the average daily closing value of this index over the last 15 trading days of the period compared with the average daily closing value of this index over the last 15 trading days of the previous period.

The first Performance Fee has been calculated in respect of the period from the listing of MAp (2 April 2002) to 30 June 2002 and no Performance Fee will be payable with respect to this period. For this period the market capitalisation of MAp is the number of Securities issued under the IPO Prospectus multiplied by the Initial Instalment of $1.00 paid on the Partly Paid Securities. In determining the Performance Fee payable in respect of the first period, the initial value of the Securities Index on the date of listing is 1.0 and the initial value of the Benchmark Index is the closing value on the last trading day prior to listing.

The Performance Fee is payable to Macquarie Airports Management and MIMUK in cash. Subject to the Corporations Act and ASX Listing Rules, Macquarie Airports Management and MIMUK will apply to invest the Performance Fee in Securities. The independent directors of Macquarie Airports Management will assess the impact of the Application on Security Holders at that time. The decision to accept or reject the Application will be made by the independent directors acting in the interests of Security Holders.

The issue price of the Securities will be the greater of:

– the net asset backing of MAp at the end of the period; and

– the volume weighted average market price for the Securities over the last 15 trading days of the period.

While MAp holds an investment in MAG or any co-investments with MAG (pursuant to the equity co-investment deed), any performance fees earned by MIMUK in respect of those investments of MAp for a period will be:

– added to the Return in that period when determining the amount of the Performance Fee in that period and when determining whether the Performance Fee is payable in respect of that period; and

– rebated against, and only to the extent of, the amount of the Performance Fee (if any) payable by MAp in respect of that period.

In accordance with the requirements of the Listing Rules waiver, the right of Macquarie Airports Management to subscribe for Securities is subject to Security Holder approval every three years.

Co-investment Fees

As contemplated under the Equity Co-Investment Deed (entered into between MAG and MAHBL), MIMUK may be appointed as the adviser in respect of a co-investment.

In future, should management and performance fees become payable to MIMUK in respect of a co-investment the following will apply:

– in calculating the MAp Base Fee, the amount paid up on MAp's co-investment will be included in the Net Investment Value, and MAp's proportionate share of Base Fees payable to the Macquarie Bank Group will be rebated in full to MAp. This will ensure that the Base Fee is paid at the reducing scale of rates as outlined in the sections above;

– in calculating the MAp Performance Fee (as outlined earlier in this Section), MAp's proportionate share of any performance fees payable to MIMUK pursuant to the MALSA Advisory Agreement will be:

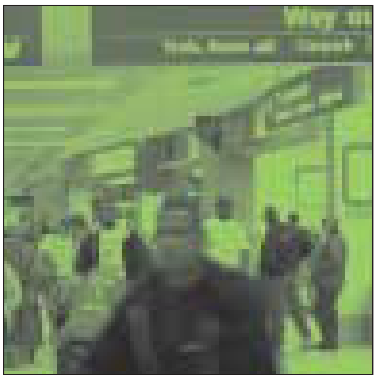
  - added to the Return in that period when determining the amount of the Performance Fee in that period and when determining whether the Performance Fee is payable in respect of that period; and
  - rebated against, and only to the extent of, the amount of the Performance Fee (if any) payable by MAp in respect of that period.

MIMUK has waived its right to receive fees under the MALSA Advisory Agreement under the current shareholding structure of MALSA, as the Macquarie Bank Group receives separate management fees in respect of the management of MAp, MAG, GIF A and GIF B.

As a result, amounts invested in MALSA by MAp will be included in the Net Investment Value of MAp and will attract Base Fees in MAp at the reducing scale as outlined in the preceding Sections.

Hedging Policy

Investments by MAp in overseas countries will result in changes in the Australian dollar value of assets as currency exchange rates change. MAp currently does not intend to hedge foreign exchange exposure on



overseas investments. However, commitments to make investments in foreign currencies may be hedged as close as possible to the time of making the commitment or raising the required capital.

Borrowing
MAp does not intend to use long term borrowings. However, MAp may use short term borrowings to finance acquisitions and working capital. Accordingly, MAp has raised $500 million in bridging finance, which is to be repaid from a portion of the proceeds of the Offer and a portion of the proceeds of the Final Instalment. The bridging finance has been used to provide MAp with funds to settle a portion of its acquisition of Sydney Airport. In addition, Macquarie has provided a letter of credit for $130 million to Southern Cross Holdings as Security for MAp's equity commitment to the Southern Cross Holdings bid to acquire Sydney Airport. This Letter of Credit has been drawn in favour of Southern Cross Holdings for the acquisition of Sydney Airport and will be repaid from the proceeds of the Final Instalment after the bridging finance has been repaid.

MAp's Investment in MAG
MAHBL subscribed for 220 million shares in MAG on 31 March 2002 at a price of €1.0239 per share, comprising the original issue price of MAG Shares of €1.0000 per share plus an additional amount of €0.0239 per share ("Additional Amount") reflecting the roll forward of MAG's investments at MAG's target Internal Rate of Return.

The breakdown of MAp's investment in MAG is set out in the following table:

	Per MAG Share €	$[1]	Total $ million[1]
Original issue price of MAG Shares	1.0000	1.7544	386
Additional Amount	0.0239	0.0419	9
Total issue price to MAp	**1.0239**	**1.7963**	**395**
Initial call by MAG[2]	0.3645	0.6395	140
Call by MAG in relation to the Rome Acquisition[3]	0.0423	0.0742	16
Future call by MAG in relation to funding the balance of the Rome Acquisition	0.3702	0.6495	144
Call by MAG in relation to the Sydney Acquisition[4]	0.2417	0.4239	93
Uncalled	0.0052	0.0092	2
Total	**1.0239**	**1.7963**	**395**

1 Euros have been converted into Australian dollars at an A$/€ exchange rate of 0.57.

2 The actual initial call by MAG, based on the A$/€ exchange rate at the time, was for approximately $133 million.

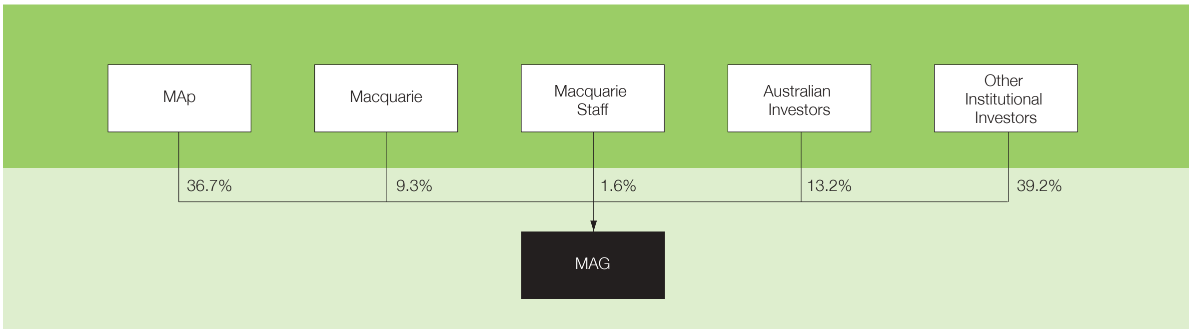
3 This call represents the 10 per cent deposit payable on signing the conditional agreement for MALSA to acquire a 44.7 per cent of the issued share capital of AdR.

4 The actual call by MAG in relation to the Sydney Acquisition, based on the actual A$/€ exchange rate at the time, was for approximately $88 million.

2.2 Update on MAG

Overview
MAG is an unlisted investment vehicle established in August 2001 to make equity investments in airports in OECD member and similar countries with investment grade credit ratings, with a focus on Europe and UK. MIMUK (a wholly-owned subsidiary of Macquarie) has been appointed by MAG to identify, analyse,

Ownership of MAG



recommend and execute investments as directed by the MAG board on behalf of MAG.

Macquarie owns 56 million shares in MAG. Macquarie is restricted from selling its MAG Shares prior to September 2004 unless all MAG shareholders are provided with an opportunity to sell down pro-rata with Macquarie. Subject to this provision, it is expected that Macquarie will sell up to three million MAG Shares to its staff.

Distribution Policy

While MAG is unlisted, it may distribute up to 100 per cent of its Surplus Cash in respect of each distribution period to MAG shareholders and/or use the Surplus Cash to pay performance fees to MIMUK.

Management and Board

MAG is advised by MIMUK as described above. MIMUK is paid a base fee and a performance fee for these services.

There are seven directors on the MAG board. Two of those directors are nominated by MIMUK. A further three are nominated (one each) by the largest three MAG shareholders as at September 11, 2001. The remaining two directors are elected by shareholders from time to time from candidates nominated by MIMUK and/or the shareholders. It is proposed that a representative of MAp will be nominated as a candidate for election to the MAG board at the first annual general meeting of MAG. This is expected to take place prior to 31 December 2002.

Listing of MAG on ASX

On the basis that it maximises the value and liquidity of MAG shares, MIMUK is bound by the terms of the MAG Advisory Agreement to present a proposal to the MAG board to list MAG on both a recognised European Stock Exchange and ASX. MAG shareholders will be invited to vote on a listing proposal within 12 months from the time 75 per cent of Fund Commitments have been drawn and invested or on September 11, 2004, whichever is earlier. The listing will proceed unless shareholders holding two thirds of MAG Shares vote against it. On completion of the Sydney Acquisition and the Rome Acquisition, MAG will be fully invested.

While no assurance can be given that MAG will list on either a recognised European Stock Exchange or ASX, should MAG list on ASX, subject to the approval of shareholders in MAG and Security Holders, MAG and MAHBL may amalgamate and Security Holders may be able to exchange their shares in MAHBL for MAG Shares. Further details of this process are included in Section 9, MAp Structure and Taxation Summary.

Should MAG remain unlisted by September 11, 2008, MAG's assets will be realised over the subsequent three years and the net proceeds of the sale returned to shareholders.

MAG's Investments

Including the Sydney Acquisition MAG has invested $612.9 million (including costs) to date, and has signed a conditional agreement to invest a further $421.9 million in AdR. At completion of the Rome Acquisition MAG will be fully invested, having invested $1,047.1 million (including currency movements) or 99.5 per cent of its committed capital: 24.2 per cent in Sydney Airport, 41.2 per cent in Rome Airport, 23.1 per cent in Birmingham Airport and 11.0 per cent in Bristol Airport.

MAG has made four investments:

- Sydney Airport – MAG acquired an 11.7 per cent interest in Southern Cross Holdings on 28 June 2002.
- AdR – MAG signed conditional agreements to acquire an indirect interest of 22.4 per cent in AdR for $421.9 million in July 2002, with expected settlement in the fourth quarter of 2002.
- Bristol Airport – MAG acquired a 50 per cent equity interest in Bristol Airport from Macquarie for $105.7 million in September 2001; and

– Birmingham Airport – MAG acquired a 24.1 per cent equity interest in Birmingham Airport for $227.0 million in December 2001.

More detailed descriptions of Bristol Airport, Birmingham Airport, Sydney Airport and Rome Airport are included in this Prospectus.

2.3 Update on Bristol Airport

On 24 January 2001, Bristol International Airport Limited, the holding company of Bristol Airport, was acquired from FirstGroup plc and Bristol City Council by Tidefast Limited ("Tidefast"), a company ultimately owned 50 per cent by Macquarie and 50 per cent by Cintra Concesiones de Infraestructuras de Transporte, S.A. ("Cintra").

The price paid to the vendors by Macquarie and Cintra to acquire Bristol Airport of $633.8 million represented a multiple of 12.5 times EBITDA for the 12 months to 31 March 2002.

Macquarie acquired its 50 per cent equity interest in Bristol Airport for $94.6 million. Macquarie transferred its 50 per cent equity interest to MAG on 3 September 2001 for $105.7 million, representing Macquarie's original purchase price plus an agreed amount for holding costs and stamp duty.

In January 2002, Grupo Ferrovial, the parent company of Cintra, created Ferrovial Aeropuertos to manage its airport interests and Cintra's 50 per cent holding in Bristol has since been transferred to that company.

Go Fly Limited ("Go"), one of the UK's principal low-cost airlines, commenced international operations at Bristol Airport in May 2001, adding domestic routes in September 2001.

Passenger Traffic Growth

Traffic at Bristol Airport continues to grow strongly with passenger numbers in May 2002 up 33.9 per cent on the same month last year and up 39 per cent on the previous corresponding 12 month period. This largely reflects the impact of the continued expansion of low-fare scheduled services provided by Go.

For the financial year to 31 March 2002, the total number of passengers using Bristol Airport was 33.5 per cent higher than in the previous corresponding period. This compares with an average decline in passenger numbers of 2.4 per cent for the top five UK airports (Heathrow, Gatwick, Manchester, Stansted and Birmingham) over the same period.

As can be seen from the table below, strong growth in Bristol Airport's passenger volumes was recorded in each major market segment.

Bristol Airport Passenger Traffic in 2001 and 2002
Year ended 31 March

Passenger Movements ('000)	2001	2002	Increase
Scheduled Domestic	422	624	47.9%
Scheduled International	545	904	65.9%
Charter	1,172	1,326	13.1%
Total	2,139	2,854	33.5%

Excluding the effect of Go's operations, in the 12 months to March 2002, Bristol Airport recorded passenger growth of 7.3 per cent compared with the corresponding period to March 2001.

The growth in passenger traffic at Bristol Airport over the six years to March 2002 reflects its increasing share of the southwest UK air passenger market. This is a result of the expansion of air services from Bristol Airport and increasing air travel demand within its catchment area.

Location and Catchment Area

Bristol Airport is approximately 14 kilometres from Bristol by road. It is located 207 kilometres west of London and 174 kilometres south of Birmingham. Bristol Airport's core catchment area is southwest England, a region with a population of approximately 5.1 million. In addition, Bristol Airport captures traffic from Wales, a country with a population of approximately three million.

With over 2.8 million passengers in the year to March 2002, Bristol Airport is significantly larger than the other airports in its catchment area, namely Cardiff, Exeter and Bournemouth. Bristol Airport's major competitors for passengers from south west England are Heathrow for domestic and international scheduled services and Gatwick for charter services. There are major capacity constraints at Heathrow and Gatwick

Bristol Airport Historical Passenger Traffic 1997 to 2002
Year ended 31 March

Passenger Movements ('000)	1997	1998	1999	2000	2001	2002	Compound Annual Growth Rate 1997-2002
Domestic Scheduled	268	337	361	362	422	624	18.4%
International Scheduled	289	436	460	505	545	904	25.6%
IT Charter	861	891	1,002	1,109	1,172	1,326	9.0%
Total	1,418	1,664	1,823	1,976	2,139	2,854	15.0%

Airports due to a shortage in runway slot capacity and delays in building new infrastructure.

Principal Facilities

The principal facilities at Bristol Airport are summarised in the table below.

Facility	Description
Runways and taxiways	A single runway of 2,011 metres in length capable of handling B757s and B767s, five associated taxiways, and 21 all-weather stands.
Terminals	A new terminal with a capacity of over 4.5 million passengers per annum was opened in March 2000 at a cost of $73 million. The terminal has 31 check-in desks and 17 retail outlets, with four car hire concessions outside the terminal.
Car parks	7,235 spaces, comprising 4,460 long term spaces, 440 short term spaces, 209 business spaces and 2,126 premium spaces.
Other buildings and facilities	These include off-site air freight, aircraft and facilities maintenance, hangars, flight catering, aviation fuel terminal, air traffic control, fire services and other commercial premises.

Airlines and Route Network

Bristol Airport services a range of generally short haul (less than three hours) destinations in the UK, Ireland and Europe. Flights to these destinations are currently operated by:

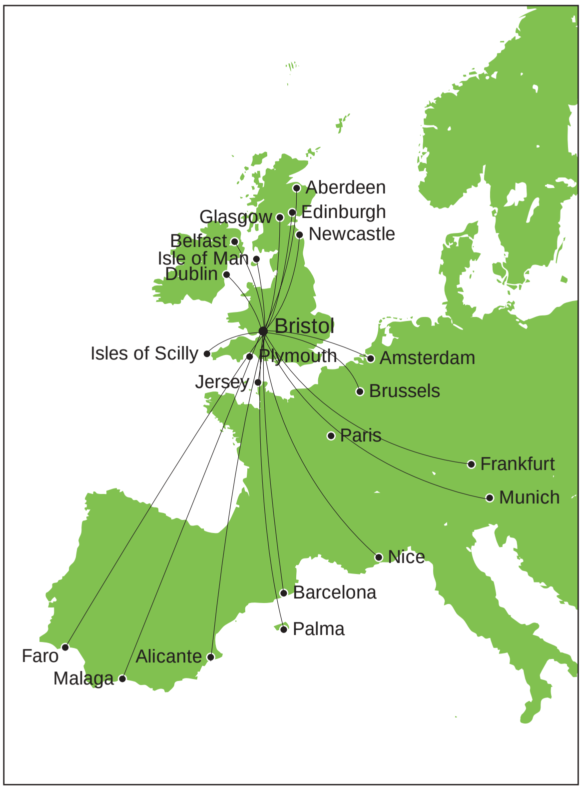
– low cost airlines – Go and Ryanair;

– inclusive tour charter airlines – such as Britannia, Air 2000, My Travel and JMC; and

– scheduled airlines – CitiExpress (a subsidiary of British Airways), KLM, British European Airways, and SN Brussels Airlines.

Bristol Airport currently services 25 scheduled domestic and international destinations. It serves 41 summer charter destinations and eight additional winter destinations. Bristol Airport's direct scheduled route network for summer 2001 is illustrated in the following diagram:

Bristol Airport Scheduled Route Network for UK Summer 2001



Significant Capacity for Expansion

Bristol Airport opened a new terminal in 2000 which has capacity to handle in excess of 4.5 million passengers per annum. It also completed a substantial airport development program during 2001, including:

– completion of a new air traffic control tower equipped with upgraded air navigation equipment;

– installation of a new CAT III instrument landing system which permits aircraft to land and take off in low visibility conditions. This is expected to reduce the number of diversions from Bristol Airport and improve the reliability of services; and

– expansion of the number of aircraft stands to 21, to permit growth in the number of aircraft that can be handled.

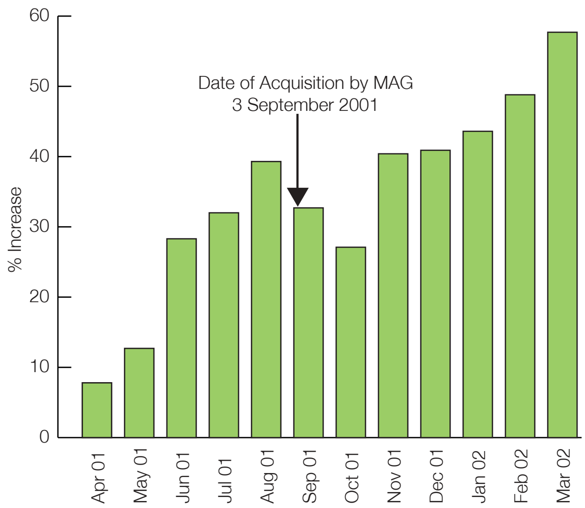
Business Developments Since Acquisition

Since Macquarie's acquisition of its interest in Bristol Airport, two notable factors contributing to the improvement in performance of Bristol Airport have been the commencement of operations by Go, and the increase in commercial revenues.

New Airline Drives Additional Traffic

As can be seen from the chart below, since Macquarie's acquisition of its interest in Bristol Airport in January 2001, Bristol Airport has benefited from a significant increase in passenger traffic. With the exception of the charter sector, this growth has largely been driven by the decision by Go to commence operations at Bristol in May 2001. Since May 2001 over one million passengers have travelled with Go through Bristol Airport.

Bristol Airport - Year on year improvement in monthly traffic numbers 12 months to 31 March 2002



New Management Initiatives

Since Macquarie's acquisition of an interest in Bristol Airport and subsequent transfer to MAG, a number of new management initiatives have been implemented at Bristol Airport. These included a strategic review of all major asset areas of the airport, leading to the development and implementation of revised budgets and business plans. The impact of these initiatives has been reflected in the improved performance of Bristol Airport's commercial businesses. The following sections describe some of these initiatives in more detail.

Aircraft Fuelling

Bristol Airport has historically been a direct supplier of aircraft fuelling, with these operations undertaken on its behalf on a contracted basis. EU directives on the supply of ground handling and related services require airports with more than two million passengers to open such services to competition. Bristol Airport exceeded this passenger threshold in 2001 and invited tenders in November 2001 to provide aircraft fuelling. Contracts were awarded to two competing international fuel suppliers. These suppliers took over fuelling operations at Bristol Airport on 1 May 2002 and the airport itself has now withdrawn from the fuelling market. Bristol Airport retains the right to re-enter the market should either fuel supplier breach the terms of its agreement with the airport.

Car Parking

Bristol Airport has seen significant growth in its car parking operations with the number of parking spaces growing by over 26 per cent from 5,729 at the time of acquisition by Macquarie to 7,235 today. MIMUK, together with executive management, recognised that increased revenue and operating efficiencies could be achieved through a partnership with a specialist car park operator.

A tender was issued on 23 November 2001 and a contract was signed on 27 May 2002 to transfer Bristol Airport's car park management to a specialist international car park operator.

The operator has been awarded a management contract which ensures that Bristol retains control over the strategic direction of the business, pricing and investment decisions. The operator receives a base operating fee and incentive bonuses based on performance targets. MIMUK anticipates that this initiative will deliver additional profits to the airport.

Retail Development

Following the rapid and significant growth in traffic at the airport a review of the retail strategy has commenced and specialist airport retail designers have been appointed to identify incremental retail opportunities both in the medium term, by focussing on the existing departures lounge, and in the longer term through the development of additional lounge space.

Financial Information

Historic EBITDA – Bristol Airport

For the 12 months to 31 March 2002, unaudited EBITDA at Bristol Airport increased by 32.0 per cent over the previous corresponding period.

Bristol Airport Historic EBITDA in 2001 and 2002
Year ended 31 March

($ million)	2001	2002	Increase/ (Decrease)
Revenue	84.3	96.1	14.0%
Operating Costs (Excluding depreciation)	45.8	45.3	(1.1%)
EBITDA	38.5	50.8	32.0%

All amounts converted at an A$/£ exchange rate of 0.37.

The historical EBITDA of Bristol Airport for the period financial year 1998 to financial year 2002 is presented in the table below.

Bristol Airport Historic EBITDA in 1998 to 2002

Year ended 31 March ($ million)	1998	1999	2000	2001	2002
Revenue	60.1	68.3	71.4	84.3	96.1
Operating Costs (Excluding depreciation)	41.5	37.5	40.5	45.8	45.3
EBITDA	18.6	30.8	30.9	38.5	50.8
EBITDA Margin	31%	45%	43%	46%	53%

All amounts converted at an A$/£ exchange rate of 0.37.

In the above tables, revenue has been adjusted to include only the net margin on fuel sales and operating costs have been adjusted to exclude the cost of fuel sales. This reflects more accurately the operational trading position of Bristol Airport relative to other airports. Bristol Airport signed fuel supply outsourcing contracts with two suppliers effective from 1 May 2002.

The operating costs for 1998 exclude approximately $37 million in redundancy and pension costs and costs associated with the write down of the value of the original passenger terminal. The redundancy costs arose from Bristol Airport's outsourcing of apron services, security and refuelling services. The operating costs for 2001 exclude $3 million in exceptional items being costs associated with the write down of assets, reorganisation costs and environmental costs.

The relatively modest improvement in EBITDA in 2000, an increase of only $0.1 million from 1999, was due largely to the loss of European Union ("EU") duty free sales in this year. This was a one off change that affected all airports in the EU.

The figures for 2002 are affected by the events of September 11, 2001. Despite this, Bristol Airport recorded a substantial increase in passenger volumes for the year to 31 March 2002 and a 32 per cent increase in EBITDA.

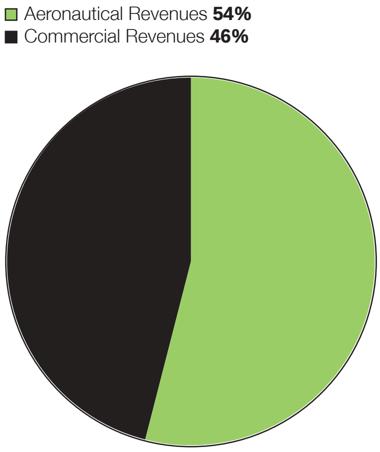
Borrowings

As at 31 March 2002, Bristol Airport and associated entities had approximately $511 million of external debt outstanding. Approximately $505 million of this debt is at the Tidefast parent entity level and the remainder is in the Bristol Airport entity itself. This represents consolidated gearing of approximately 70.8 per cent based on the MAG acquisition price. The debt service coverage ratio for March 2002 was 1.88 based upon higher than expected net cash flows and lower debt draw downs during the year leading to lower interest costs.

Revenue Profile

Over half the revenues at Bristol Airport are derived from aeronautical charges with the remainder being a diversified mix of airline services, retail, car parking and property. Revenues at Bristol Airport are not subject to regulation.

Bristol Airport Revenue Mix in financial year 2002



Operating Costs

Between financial year 1998 and financial year 2002 total operating costs increased by only 9.1 per cent, despite the opening of the new terminal and a 71 per cent increase in passenger numbers. The per passenger efficiency gains have been achieved through outsourcing, organisational restructuring and realignment of salary scales. Outsourced activities currently include ground handling, aircraft refuelling, terminal cleaning and security. MIMUK believes there is significant scope to increase traffic at Bristol Airport without a corresponding increase in total costs (in real terms). This is expected to lead to a further reduction in unit costs.

Capital Expenditure

A major capital expenditure program was completed in 2002. At the time of acquisition, an independent review of the condition of Bristol Airport's assets was completed. Following the announcement by Go of its selection of Bristol Airport as its second UK operational base, an additional review has confirmed that the airport still has sufficient capacity to handle the forecast passenger volumes to 2006/2007, without requiring significant additional capital expenditure. The size and timing of future capital expenditure requirements may vary if a significant increase in planned passenger volumes occurs. The further development of facilities includes the extension of terminal and apron areas and is incorporated into MIMUK's capital expenditure forecasts.

Opportunities for Growth
From 1991 to 2001 traffic at Bristol Airport grew by 13.1 per cent, approximately twice the rate of increase in passenger numbers at UK airports as a whole, which grew by 6.6 per cent per annum over the same period. This growth was primarily due to additional domestic and international scheduled services designed to capture traffic originating in the southwest of England and by-passing the congested London airports. MIMUK believes that Bristol Airport will continue to enjoy above average traffic growth rates for the following reasons:

Strength of Catchment Area
Bristol Airport is the largest airport in a large and affluent catchment area and is likely to gain in market share from a shift in services from London airports. This arises from three factors:

- capacity constraints at London airports;
- natural deconsolidation of services as new routes and growth develops away from the national commercial centres; and
- effect of regional jets on attractiveness of direct services from regional airports.

Go Acquired by easyJet
Go is expected to further enhance the growth of Bristol Airport not only through its direct contribution to passenger numbers, but also by increasing public awareness of the airport and its convenience for potential passengers in the region.

On 16 May 2002 easyJet, the European low fare carrier, announced its conditional takeover of Go. This acquisition will create the largest low fares airline in Europe by passenger volume. The easyJet takeover is subject to regulatory approval which is expected to be completed by 31 July 2002.

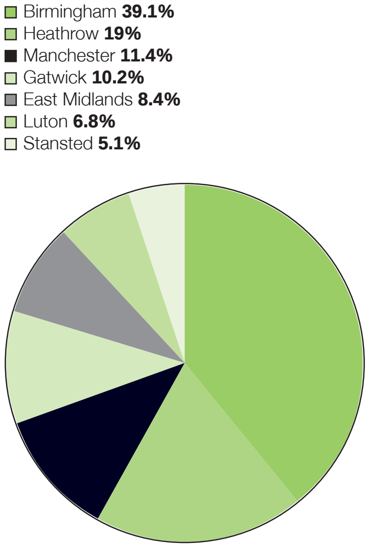
There have been no indications given to MIMUK that the current strategy for Go at Bristol Airport will be changed.

2.4 Update on Birmingham Airport
Birmingham Airport is the leading airport in the Midlands region due to its central location, excellent transport access and extensive route network. It is the fifth largest airport in the UK.

MAG purchased a 24.125 per cent equity interest in Birmingham Airport Holdings Limited, the holding company for Birmingham Airport for $227.0 million on 20 December 2001. The Enterprise Value implied by this purchase price was 9.8 times EBITDA for the financial year ended 31 March 2002, which is significantly below comparable airport sales.

Passenger Traffic
In 2000 Birmingham Airport provided for only 39.1 per cent of the passenger market in the Midlands region (within one hour's drive of the airport). There is, therefore, significant potential for Birmingham Airport to meet a greater percentage of local demand through the continued expansion of its route network for scheduled and chartered services. Furthermore, Birmingham Airport's main competitors are Heathrow and Gatwick Airports, where there are constraints on capacity, and Manchester Airport.

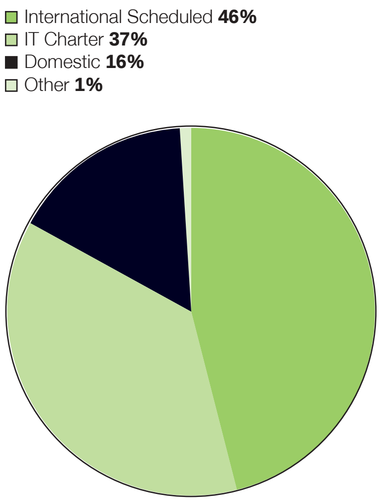
Midlands Regional Market Share by Airport



Like many regional UK airports, Birmingham Airport was relatively insulated from the effects of the events of September 11, 2001 due to:

- Low proportion of long haul international traffic (7 per cent in financial year 2000) including low exposure to transatlantic (3 per cent in financial year 2000) and Far Eastern (0 per cent in financial year 2000) traffic, which were the two sectors most severely affected; and
- High proportion of UK resident traffic (82 per cent in financial year 2000).

Birmingham Airport Passengers by Type in 2001



Low cost airlines have recently commenced operations at East Midlands Airport. This is not expected to have a material effect on passenger traffic at Birmingham Airport.

Passenger Traffic Growth

Birmingham Airport has delivered a compound annual growth rate for passenger traffic of 7.0 per cent from financial year 1997 to financial year 2002. This growth rate is significantly higher than the average for UK airports. The compound annual growth for traffic at UK Airports was 5.9 per cent from calendar year 1996 to calendar year 2001.

The 1997-2002 average increase in international scheduled traffic of 8.8 per cent per annum has been as a result of new services and higher frequency of flights.

Passenger traffic at Birmingham Airport in May 2002 was 2.3 per cent below the traffic of May last year reflecting the continuation of the effect of September 11. Domestic passenger traffic in May 2002 was up 0.6 per cent on the same month last year and was up 7.9 per cent in the last 12 months (moving annual total).

Following a successful rebranding, British European, the second largest domestic carrier saw traffic increases of up to 97 per cent on its Birmingham-Edinburgh service in April and increases of 39 per cent on all its services.

Despite the events of September 11, financial year 2002 traffic growth at Birmingham Airport was 0.6 per cent higher than for the previous corresponding period. This compares favourably with an average decline in passenger numbers of 2.4 per cent for the top five UK airports over the same period. Because MAG acquired its shareholding in Birmingham Airport on 20 December 2001, it was able to factor this lower growth into the acquisition price which it paid to acquire its stake in Birmingham Airport.

Location and Catchment Area

Birmingham Airport is located 190 kilometres northwest of London and 174 kilometres north of Bristol. The airport is approximately 16 kilometres east of Birmingham city centre and 29 kilometres west of Coventry city centre.

Birmingham Airport has excellent road access to London, the North West and Wales via the M5, M6 and M42 motorways. Access will be further improved when the M6 Toll Road opens in 2004. Birmingham Airport is currently linked to Birmingham International railway station via a shuttle service. A fixed tracked-transit link to Birmingham International is due to be commissioned in 2003. The tracked-transit link will mean that Birmingham Airport will be directly connected by rail to the UK's national rail network.

Due to its transport access and extensive route network, Birmingham Airport draws 37 per cent of its traffic from neighbouring regions.

After London, Birmingham is the second largest city in the UK with a city centre population of one million. The population of Coventry, neighbouring Birmingham, is approximately 300,000. Birmingham Airport's core catchment area, within a one hour drive time, has a population of over seven million.

Birmingham Airport Passenger Traffic: 1997 to 2002
Year ended 31 March

Passenger Movements ('000)	1997	1998	1999	2000	2001	2002	Compound Annual Growth Rate 1997-2002
Domestic Scheduled	961	1,088	1,196	1,139	1,232	1,187	4.3%
International Scheduled	2,358	2,645	2,976	3,089	3,525	3,597	8.8%
IT Charter	2,096	2,306	2,544	2,773	2,863	2,881	6.6%
Transit/Other	110	120	99	81	92	96	N/A
Total	5,525	6,159	6,815	7,082	7,712	7,761	7.0%

Facilities

The principal facilities at Birmingham Airport are described in the table below:

Facility	Description
Runways and taxiways	Single runway of 2,605 metres supporting large aircraft including B757s and B767s
Terminals	Two passenger terminals with a total capacity of 10 million passengers per annum. A project to link the two terminals, creating additional processing facilities, commercial space and stands was completed in 2001.
Car parks	Over 10,900 public car parking spaces including 3,771 within on-site multi-storey car parks.
Other buildings and facilities	Novotel operates a 196 room hotel adjacent to the terminals. General aviation and cargo facilities are operated by external companies.

Airlines and Route Network

Birmingham Airport has a route network to over 100 domestic and international destinations. Over 50 of these routes are operated by scheduled services. 25 scheduled airlines operate from Birmingham Airport with no dominant operator.

Airlines operating from Birmingham Airport include:

- inclusive tour charter airlines – there are 28 charter airlines operating services from Birmingham Airport to over 50 holiday destinations; and
- scheduled Airlines – there are 25 scheduled airlines servicing 54 destinations including Amsterdam, Barcelona, Dublin, Brussels, Paris, Frankfurt, New York, Chicago, Dubai, Frankfurt and Toronto. Airlines operating these services include Aer Lingus, British Airways, Emirates, Continental Airlines, American Airlines and Ryanair.

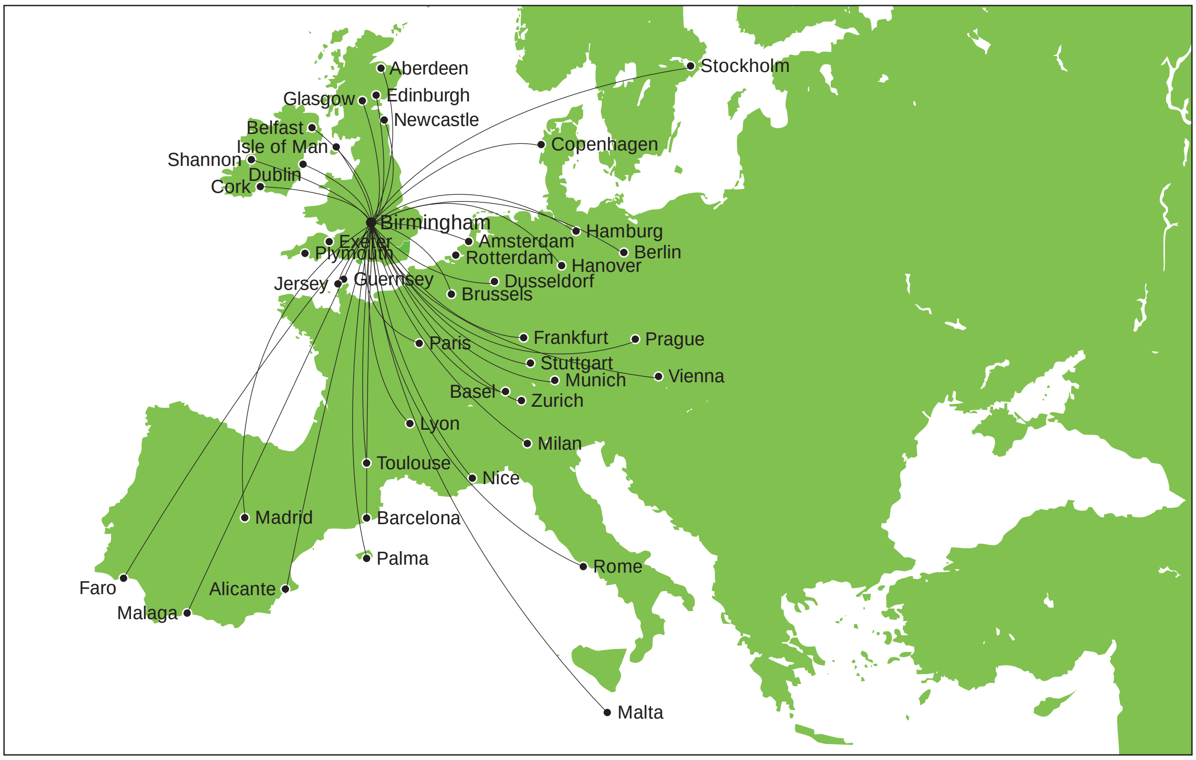
British Airways franchisee partner Maersk has announced an expansion of their route network from Birmingham Airport. From June 2002 Maersk will launch new services to Athens, Geneva and Venice and increase services to Nice, Toulouse and Bordeaux.

New Management Initiatives

Airline Development Strategy

A review of airline development strategy is underway at Birmingham Airport. There are opportunities to expand Birmingham's airline base profitability. Birmingham Airport has opened discussions with a number of carriers to establish interest in establishing a base for growth at the airport.

Birmingham Scheduled Route Network for Europe



Car Parking

Following a review, changes have been made to Birmingham Airport's car parking contract, car parking charges and overall product offering, achieving a significant improvement in car parking revenues. These changes have resulted in a 26.3 per cent increase in car parking revenue per passenger for financial year 2002 over the previous corresponding period.

Retail

Development of retail opportunities is continuing at Birmingham Airport. Recent new catering contract awards, improved and new retail outlets have contributed to a 12.7 per cent increase in retail revenue per passenger for financial year 2002 over the previous corresponding period.

Financial Information

Historic EBITDA – Birmingham Airport

The historical EBITDA of Birmingham Airport for the period 1998 to 2002 are presented in the table below. Despite the impact of September 11, 2001, unaudited EBITDA for the year ended 31 March 2002 increased and the EBITDA margin remained at 46 per cent.

Birmingham Airport Historic EBITDA in 1998 to 2002

Year ended 31 March ($ million)	1998	1999	2000	2001	2002
Revenue	210.0	230.6	232.3	255.3	263.9
Operating Costs	120.9	122.2	124.6	137.5	143.7
EBITDA	89.2	108.4	107.7	117.8	120.1
EBITDA Margin	42%	47%	46%	46%	46%

All amounts converted at an £/A exchange rate of 0.37.

The operating costs in the above table exclude losses on the disposal of fixed assets. Losses on disposal of fixed assets were between $3 million and $5.2 million in each of 1998, 1999 and 2000 and $0.2 million in 2001 and 2002.

The slight decrease in EBITDA in 2000 was largely due to the loss of European Union duty free sales.

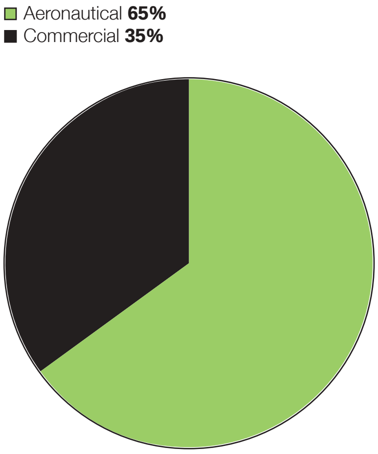
Borrowings

Birmingham Airport has net debt outstanding of approximately $246.5 million. This represents consolidated gearing of 21.0 per cent based on MAG's acquisition price and provides for an EBITDA/Interest Coverage Ratio of approximately 6.8 times, based on EBITDA for the year ended 31 March 2002. In addition, Birmingham Airport already has in place a $278.4 million revolving bank debt facility, which is currently undrawn.

Revenue Profile

Nearly two-thirds of the revenues at Birmingham Airport are derived from aeronautical charges with the remainder being a diversified mix of airline services, retail, car parking and property. Revenues at Birmingham Airport are not subject to price control.

Birmingham Airport Revenue Breakdown for financial year 2002



Operating Costs

Costs were relatively constant at Birmingham Airport between financial year 1998 and financial year 2000. The increase in costs from financial year 2001 was primarily due to the increase in terminal space in that year. Between March 1998 and March 2002 costs declined by 5.7 per cent on a per passenger basis.

Capital Expenditure

Birmingham Airport has recently completed a number of major projects that have expanded and improved key operational assets, including:

- construction of the new terminal link;
- installation of new check-in and baggage facilities;
- construction of additional aprons for aircraft parking and improved taxiway configuration; and
- construction of new office accommodation and car parks.

This expenditure has provided significant additional capacity in the key areas of passenger processing, aircraft parking and car parking.

Opportunities for Growth

MIMUK believes that there is significant potential for future traffic and earnings growth at Birmingham Airport, based on key features outlined below:

Ease of Access and Increasing Market Share

Existing access to Birmingham Airport is expected to be improved by the construction of the M6 Toll Road (which is expected to open in 2004). Growth in Birmingham Airport's market share is anticipated to result from improved access to outlying regions which is expected to drive demand for additional services from Birmingham Airport at the expense of major competing airports such as Heathrow, Gatwick and Manchester. Growth in the use of regional jets is expected to further encourage this development.

Commercial Business Initiatives

MIMUK believes that there is still considerable scope for Birmingham Airport to increase commercial revenues from each of the following businesses:

- retail – through improved retail management, increased marketing, introduction of additional specialist shops and optimisation of retail mix, commensurate with the size and profile of current and future passenger levels;
- car parking – resulting from the recent renegotiation of Birmingham Airport's share of car park revenues with the concessionaire, development of new car park products and expansion of pre-booking facilities to increase market share; and
- property – MIMUK believes that growth opportunities exist through further development of adjacent sites and efficient implementation of lease renewals, rent reviews and active marketing of the property portfolio. This together with the implementation of a property development strategy for identifying the commercial opportunities for hotel, service station and office facilities provides the opportunity for continued revenue growth in this area.

There are a number of developments that are expected to further drive traffic and revenue growth that are common to both Birmingham and Bristol Airports as UK regional airports. These include strength of catchment area and GDP growth, the growing strength of regional airports in the UK, natural deconsolidation of airport services, capacity constraints at major airports and increased popularity of regional jets.

3

Section 3 Details of the Sydney Acquisition

3.1 Sydney Airport Background

Sydney Airport was officially established in 1920 on 162 hectares in Mascot and is one of the world's oldest airports. In 1935, Mascot Aerodrome was declared an international airport and in 1936 was renamed Kingsford Smith Aerodrome in honour of Sir Charles Kingsford Smith.

In 1988 the Federal Airports Corporation, a Commonwealth statutory corporation, took over the ownership and operation of Sydney Airport. Key events in Sydney Airport's history since then include:

– International terminal upgrade and commission of new facilities in 1992;

– opening of the third runway in 1994;

– Commonwealth legislation introduced in 1996 in relation to the slot management system and limiting aircraft movements to 80 per hour;

– introduction of the Long Term Operating Plan in 1997 to manage noise whilst maximising flights over Botany Bay;

– Sydney Airport 2000 Project was opened in advance of the Sydney 2000 Olympic Games and included a significant expansion and improved access to the international terminal;

– the ACCC decision in May 2001 to accept a dual-till location specific approach, leading to a 97 per cent increase in average aeronautical charges at Sydney Airport; and

– the Commonwealth Government decision to subject aeronautical revenue to price surveillance rather than price control from July 2002.

Following the successful privatisation of the majority of major city airports in Australia in 1997 and 1998, ownership of Sydney Airport was transferred under a 50 year lease (with an additional 49 year option) on 1 July 1998 to Sydney Airports Corporation, a public company wholly-owned by the Commonwealth Government.

In December 2000 the Commonwealth Government announced its intention to privatise Sydney Airport through the trade sale of the shares in Sydney Airports Corporation. Following the events of September 11, 2001 and the financial collapse of Ansett on 14 September 2001, the Minister for Finance and Administration deferred the sale until early 2002.

On 11 March 2002, the Commonwealth Government announced that the sale process had recommenced. Three consortia submitted final and binding bids to the Commonwealth Government on 12 June 2002. Southern Cross was announced as the preferred purchaser by the Commonwealth Government on 25 June 2002 and executed the Sale Agreement with the Commonwealth on 25 June 2002. Completion of Southern Cross' purchase of the shares in Sydney Airports Corporation occurred on 28 June 2002.

3.2 Description of the Acquisition of MAp's Interest In Sydney Airport

MAp, through Macquarie Airports (Sydney) Holdings Limited ("MASH"), a wholly-owned subsidiary of Macquarie Airports Trust No.2 ("MAT2"), has subscribed for 72.8 per cent of the units in Southern Cross Australian Airports Trust ("SCAAT") at a cost of $815 million. SCAAT has subscribed for 55.6 per cent of the stapled securities issued by Southern Cross Holdings at a cost of $1,120 million. SCAAT is a registered managed investment scheme.

The remaining unitholders in SCAAT are financial investors including MAG, the Macquarie Global Infrastructure Funds (A) and (B) ("GIF") and the Motor Trades Association of Australia Superannuation Fund ("MTAA").

In conjunction with other members of the Southern Cross Consortium, Macquarie Airports Management, as Responsible Entity for SCAAT, entered into an agreement with the Commonwealth Government ("Share Sale Agreement") to purchase all of the shares of Sydney Airports Corporation for a consideration of $4,233 million.

Macquarie Airports Management, in its capacity as Responsible Entity for SCAAT, has entered into an agreement with the other shareholders of Southern Cross Holdings ("Southern Cross Shareholders Agreement"), which governs the relationship between the shareholders of Southern Cross Holdings. Under this agreement, MAp together with Macquarie managed entities are entitled to appoint five out of a maximum of 10 directors, to the board of Southern Cross Holdings.

MAp, through its $815 million investment in SCAAT, has an interest of approximately 40.4 per cent in Southern Cross Holdings. Through its investment in MAG, MAp has a further 4.3 per cent indirect interest in Southern Cross Holdings, providing MAp with a total beneficial interest of 44.7 per cent.

Investors in Southern Cross Holdings

The other investors in Southern Cross Holdings, either directly or through subsidiaries or affiliates, are Ferrovial Aeropuertos SA 19.6 per cent, HOCHTIEF Airport GmbH ("Hochtief") 14.9 per cent, Abbey National 5.0 per cent and Ontario Teachers' Pension Plan Board 5.0 per cent.

Investment Highlights

The key investment attributes of Sydney Airport include:

– **Primary Gateway to Australia** – Sydney Airport is the only international and the major domestic airport servicing Sydney and the state of NSW. Sydney Airport accounts for approximately 50 per cent of Australia's international traffic.

– **Strong and Stable Passenger Growth** – Over the 16 calendar years from 1985 to 2001 international traffic growth at Sydney Airport averaged 7.0 per cent per annum. Domestic traffic growth at Sydney Airport has averaged 6.2 per cent per annum over the same period. Sydney is Australia's largest business population centre, is a leading tourist destination and features in six of the top 10 international routes from Australia. Sydney Airport is exposed to relatively strong long term regional GDP growth, a major driver of traffic growth. NSW is the largest state economy in Australia, accounting for over a third of Australia's GDP.

– **Light Handed Regulation** – From 1 July 2002 Sydney Airport is free to set its own prices, subject to contractual constraints and disclosure of information pursuant to the price monitoring regime and competition and consumer legislation. This provides the opportunity to further develop a business partnership approach between Sydney Airport and its customers, the airlines.

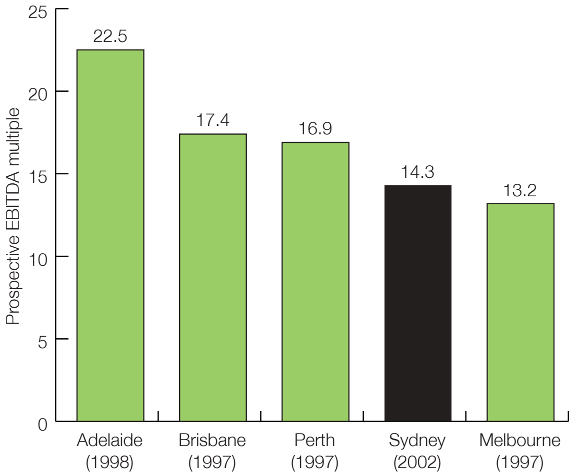
– **High Quality Assets** – Sydney Airports Corporation undertook a major expansion and refurbishment of its international terminal, taxiways and aprons and retail space in preparation for the Sydney 2000 Olympic Games, at a cost of approximately $640 million. The high quality of the resulting facilities is demonstrated by Sydney Airport's industry awards and its ranking in international passenger opinion surveys.

– **Significant Potential Upside** – There are a number of growth opportunities at Sydney Airport such as the further development of retailing, the provision of additional car parking products, the implementation of a focused approach to property development within operational constraints and the potential to significantly increase operating efficiencies.

– **Significant Shareholder Rights** – MAp together with Macquarie managed entities have the ability to appoint up to five directors (out of a maximum of 10) to the board of Southern Cross Holdings. MAp is entitled to nominate two members (out of a maximum of seven) to the Sydney Airport strategy committee.

– **Experienced Management Team** – The current management team of Sydney Airport has a strong operational track record as evidenced by its successful redevelopment of the international terminal, management of the Sydney 2000 Olympic Games traffic, effective handling of regulatory changes and management of the impact of September 11, 2001 and financial collapse of Ansett.

Comparable Australian Airport Acquisitions



The prospective EBITDA multiples, other than Sydney, in the above chart are calculated based on the Enterprise Value implied by the purchase price in each case and the following EBITDA figures:

– for Sydney Airport – forecast EBITDA for the year ending 30 June 2003 as described in Section 3 of this Prospectus;

– for Adelaide Airport – actual EBITDA for the year ended 30 June 1999; and

– for Brisbane, Perth and Melbourne airports – actual EBITDA for the year ended 30 June 1998.

Sydney Airport's Enterprise Value* implied by the purchase price is 14.3 times the forecast EBITDA for the year ending 30 June 2003. This compares favourably with the major Phase 1 and Phase 2 airport privatisations, as demonstrated in the chart above.

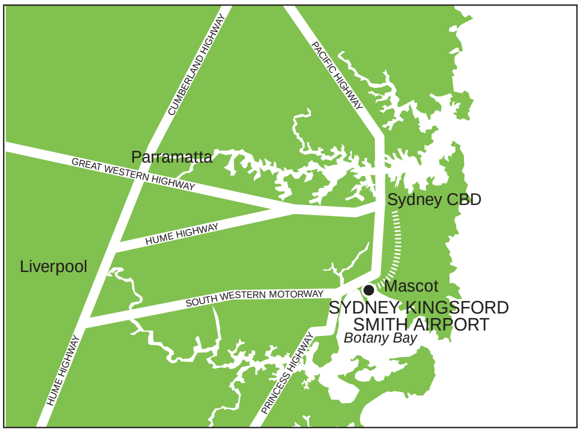
*See Glossary for definition.

3.3 Profile of Sydney Airport

Sydney Airport has facilities for international, domestic and regional passenger airlines and general aviation traffic. Sydney Airport handled over 26 million passengers and over 500,000 tonnes of airfreight in the 2001 financial year.

Location

Sydney Airport is located eight kilometres south of Sydney's central business district ("CBD") and has rail and road infrastructure links to the population and business centres of Sydney. Connection times with the Sydney CBD and the population centre of western Sydney have improved significantly with the completion of the Eastern Distributor and the M5 East Motorway and the recent opening of the Airport Rail Link. Sydney Airport was Australia's first capital city airport to have a direct rail link.



Layout and Facilities

Layout

Sydney Airport is located on a site of 887 hectares with twin north-south runways extending into Botany Bay on reclaimed land, and an east-west runway.

Facilities

The principal facilities at Sydney Airport include:

Facility	Description
Runways and taxiways	Three runway system: – main north-south runway (3,962 metres); – parallel north-south runway (2,438 metres); and – east-west runway (2,529 metres).
Terminals	One international terminal and three domestic terminals (the Qantas terminal maintained and operated by Qantas, the former Ansett Sydney Terminal ("Ansett Terminal") recently acquired by Sydney Airports Corporation and the smaller Domestic Express Terminal also owned and operated by Sydney Airports Corporation. Three international and two domestic freight terminals, and one terminal operated by DHL which handles both international and domestic freight.
Car parks	Six car parks providing public and staff parking.
Other buildings and facilities	A range of other aviation and/or commercial property facilities, such as maintenance hangars, airline lounges and 138 retail outlets and services.

Sydney Airport 2000 Project

Opened in advance of the Sydney 2000 Olympic Games, the Sydney Airport 2000 Project included a significant expansion of the international terminal (including additional gates and passenger processing facilities, a major increase in retail space and baggage reclaims) and improved surface access to the international and domestic precincts.

Capacity

The International Air Transport Association ("IATA") has forecast that Sydney Airport's existing runway configuration is sufficient to meet demand until at least 2020. IATA's Independent Traffic Report for Sydney Airport is contained in Section 10 of this Prospectus.

Airlines and Route Network

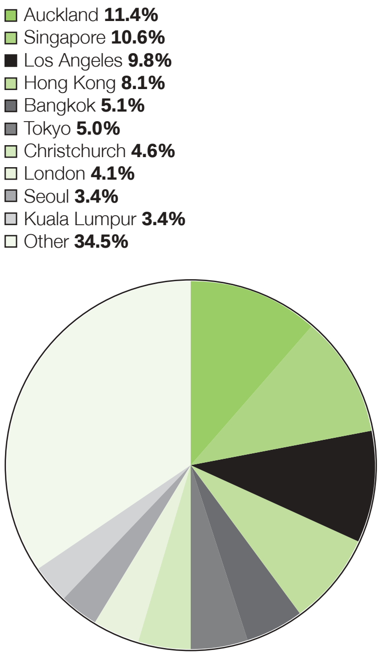
Sydney Airport is Australia's largest airport. It services 31 international, seven domestic and regional passenger airlines and 11 dedicated freight carriers. In addition, a number of other airlines are represented at Sydney Airport through codeshare and alliance partnerships.

Sydney Airport is the operating base for Qantas, Australia's principal domestic and international carrier. Qantas serves all major domestic destinations and, through subsidiaries, also serves the intra-NSW regional network. Qantas is a member of the OneWorld alliance with partners including British Airways, Cathay Pacific and American Airlines.

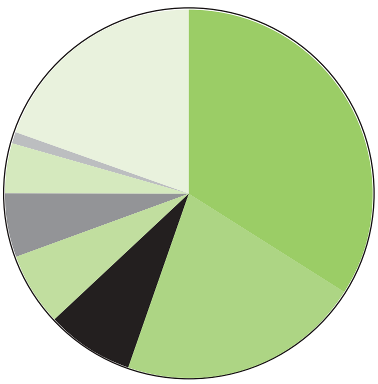
Australia's other major domestic carrier is Virgin Blue, which services interstate destinations. Virgin Blue is a low-fare carrier which began operating in August 2000. Air New Zealand is the highest frequency foreign carrier serving Sydney Airport. Other carriers providing international services at Sydney Airport include United Airlines, British Airways and the major Asian carriers.

In addition to interstate services, Sydney Airport has a comprehensive network of services to regional NSW. Services within NSW are largely provided by subsidiaries or code-sharing partners of Qantas, and Hazelton and Kendall (which are currently being acquired by Australiawide).

Sydney Airport International Passenger Routes in 2000



Sydney Airport Domestic Passenger Routes in 2000



3.4 Factors Affecting Sydney Airport

The Emergence of Virgin Blue and the Collapse of Ansett

Ansett was placed in voluntary administration on 12 September 2001. The administrator operated very limited flights from late September to early March, prior to Ansett being permanently grounded from 5 March 2002. Qantas and Virgin Blue reacted quickly to start filling the gap in the Australian aviation market, progressively increasing their capacity to take up routes previously served by Ansett, increasing frequencies on existing routes and using larger aircraft on other routes.

IATA believes that the success of Virgin Blue and the financial collapse of Ansett has left a more efficient industry that will provide sustainable price competition, a better spread of frequencies from a passenger perspective (rather than two carriers operating at very similar times), more efficient slot utilisation and more viable routes.

The Australian domestic aviation industry is discussed in detail in the IATA Independent Traffic Report contained in Section 10 of this Prospectus. Sydney Airport's regulatory environment is discussed in the Independent Regulatory Review Report in Section 10.

Developments in World Aviation Markets

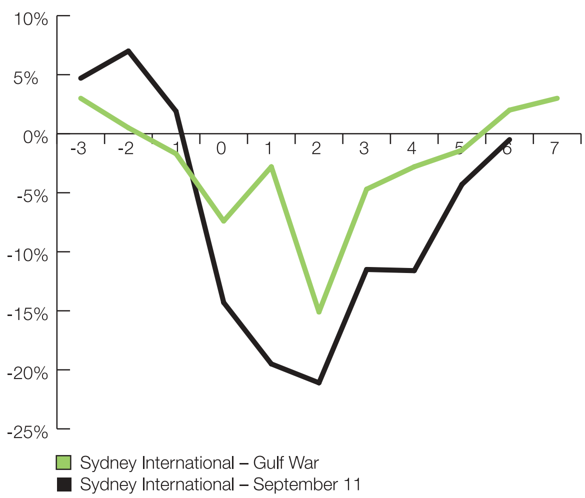
The events of September 11, 2001 affected air travel demand globally. However, world traffic has recovered close to the levels prevailing prior to the September 11, 2001 events.

IATA has examined the effects of the Gulf War (in 1991) and the events of September 11, 2001.

September 11 has had a larger initial impact on Sydney International traffic. Relative to the recovery from the Gulf War, the recovery from September 11 has been supported by the stronger economic conditions prevailing, particularly in Australia. In contrast to 1991-1992 when most OECD nations were in recession, economic growth in the medium term is generally expected to be strong in Australia and improving worldwide (except for Japan).

Further analysis is provided in the IATA Independent Traffic Report contained in Section 10.

Sydney Airport International Monthly Passenger Volume Changes: comparing September 11 with the Gulf War



Regulation

Economic Regulation

Until recently Sydney Airport has been subject to regulation of its aeronautical revenue with pricing controls on aeronautical charges administered by the ACCC. Non-aeronautical revenues have not been subject to regulation.

Following a recent decision by the Commonwealth Government, from 1 July 2002 aeronautical charges at capital city airports will be subject to price surveillance rather than price control. Non-aeronautical revenues will remain unregulated. The Government has reserved the right to reintroduce price regulation if it believes airports have unjustifiably increased aeronautical charges under the new regulatory regime.

The key impact of these changes is that Sydney Airport will no longer be required to seek approval from the ACCC for any proposed aeronautical services price increases. Instead, there will be extensive monitoring by the ACCC of prices, costs and other financial information related to aeronautical services. The ACCC will also continue to monitor quality of service. In addition, airports will be subject to the generic provisions of the National Access Regime contained in Part IIIA of the *Trade Practices Act 1974* (Cth).

The new regulatory regime offers the opportunity for Sydney Airport to develop long term commercial arrangements with airlines covering prices, investment and traffic throughput.

Section 10 contains an Independent Regulatory Report by Deloitte Touche Tohmatsu on economic regulation.

Operational Controls

Like many other major airports worldwide, Sydney Airport is subject to a number of legal and administrative controls designed to limit noise levels for Sydney Airport's community. These include:

– a night curfew which prevents movements with limited exceptions between 11.00 pm and 6.00 am (*Sydney Airport Curfew Act 1995*);

– a maximum limit of 80 planned movements in any one hour (the *Sydney Airport Demand Management Act 1997*);

– the Long Term Operating Plan administered by Airservices Australia (responsible for air traffic control and airspace management) is designed to facilitate "noise sharing" at Sydney Airport, effectively by making use of the east-west runway during off peak periods. Using the east-west runway reduces overall capacity.

In determining its business plan for Sydney Airport, Southern Cross Holdings used IATA's forecasts of traffic movements which factored in these operational constraints.

Acquisition of Ansett Domestic Terminal

In May 2002, Sydney Airports Corporation agreed to acquire the Ansett Terminal building from Ansett's administrator. The transaction was completed on 1 July 2002.

Sydney Airports Corporation is currently in discussions with Virgin Blue, Qantas and Australiawide regarding the use of the terminal and the provision for access by additional airlines in the future.

Subject to finalising negotiations with the airlines, relevant approvals and other preparatory activities in the terminal, Sydney Airports Corporation expects to re-open the Ansett Terminal in September 2002.

It is expected that the acquisition of the Ansett Terminal will provide further business opportunities and planning flexibility. Direct revenues to be generated from the Ansett Terminal include terminal usage charges, retail revenues, valet car parking revenues and property rentals. Indirect business opportunities include an improved ability to foster competition in the domestic market through the provision of access to the facility and the deferral or avoidance of infrastructure costs associated with the expansion of other existing facilities.

3.5 Passenger Traffic

Passenger traffic is the key business driver for Sydney Airport.

Key Features of Sydney Airport Traffic

Key characteristics of international traffic at Sydney Airport include:

– diversity of international destinations, with the largest route representing only 11.4 per cent of total passengers and the largest 10 routes representing only 66 per cent of total passengers;

– a high proportion of leisure passengers, the sector generally more responsive to economic growth;

– a mix of foreign (60 per cent) and Australian resident (40 per cent) passengers;

– sustained strong growth of 7.0 per cent per annum over the period 1985 to 2001; and

– progressive recovery from the events of September 11, 2001.

Key characteristics of domestic traffic at Sydney Airport include:

– diversity of destinations relative to other Australian airports, with Sydney-Melbourne representing only 34 per cent of total domestic passengers and the largest seven destinations representing 80 per cent of total domestic passengers;

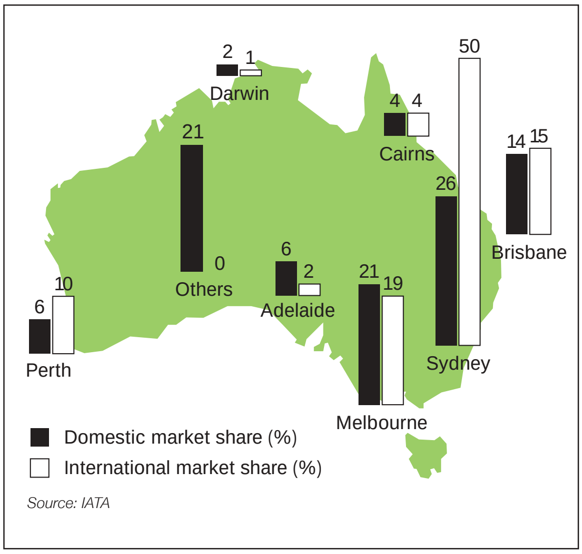
– a high proportion of leisure passengers; and

– a balanced mix between Sydney resident, other Australian resident and foreign resident passengers.

Sydney Airport Market Share

While Australia has a large number of small airports, seven major Australian airports handle over 99 per cent of international traffic and over 75 per cent of domestic traffic. Sydney Airport is the dominant airport of these seven, with approximately 50 per cent of international traffic and 26 per cent of domestic traffic.

Passenger traffic market share of Australian airports in 2000*



*2001 figures are not available for domestic market share.

Sydney Airport - Historic Traffic Growth

International traffic at Sydney Airport has shown sustained strong growth in both passengers and airline services.

International passengers grew by 7.0 per cent per annum between 1985 and 2001, and by 7.1 per cent per annum between 1995 and 2000. International airlines responded to this growth in demand by increasing frequencies by 7.8 per cent per annum between 1995 and 2000 (exceeding passenger growth over this period), and by introducing new routes.

By contrast, domestic traffic at Sydney Airport and in Australia in general is relatively more mature and has historically demonstrated slower passenger growth and more developed route networks, with competition between Ansett and Qantas formerly based on frequency rather than on price. However, IATA believes that the entry of Virgin Blue and the financial collapse of Ansett will result in a more efficient industry that will provide sustainable price competition, a better spread of frequencies (from a passenger perspective), more efficient slot utilisation and more viable routes. This is expected to support growth in domestic traffic through Sydney Airport.

Over the 16 years from 1985 to 2001, domestic traffic at Sydney Airport grew, on average, by 6.2 per cent per annum. The 1989 pilots' strike resulted in a decline in passengers in that year, although traffic recovered quickly after the end of the strike. The strong growth in 2000 was due to both the entry of two low cost airlines, Virgin Blue and Impulse, as well as the Olympic Games in September.

Based on traffic figures provided by Sydney Airports Corporation, in the 2001 calendar year passenger traffic grew by 0.5 per cent to 25.4 million passengers. This represented a 3.7 per cent decrease in international passenger numbers and a 2.7 per cent increase in domestic passengers. Recent data demonstrates that both international and domestic passengers are recovering following September 11 and the collapse of Ansett and shows clear parallels with the recovery following the Gulf War.

Traffic Forecasts

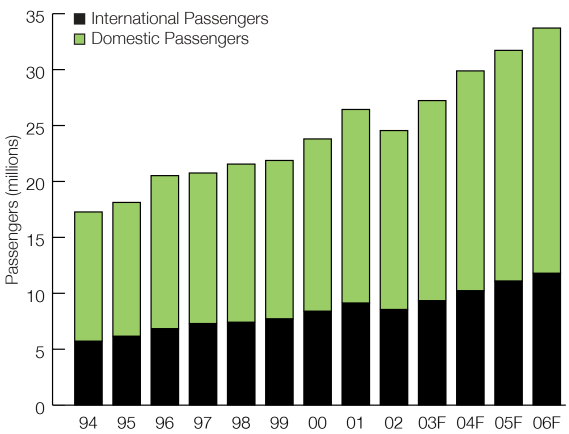
IATA produced an independent forecast of traffic at Sydney Airport for the Southern Cross Consortium dated May 2002. Details of the IATA forecasts, assumptions and methodology are provided in the IATA Independent Traffic Report contained in Section 10.

IATA has forecast that both international and domestic passenger traffic will return close to their long term growth trends by 2005. This implies strong growth in the 2003-2005 financial years as both international and domestic traffic recover from the effects of September 11 and the collapse of Ansett.

The following chart shows historic traffic growth and IATA's forecasts for the 2002-2006 financial years.

The projected growth rates for international and domestic traffic for the 2000-2020 period are 4.9 per cent per annum and 4.6 per cent per annum. This compares with the historical average growth rates between 1985 and 2001 of 7.0 per cent per annum and 6.2 per cent per annum respectively.

Sydney Airport Historic and Forecast Traffic for financial years 1994 to 2006



3.6 Historical Financial Information

The pro forma consolidated historical results for Southern Cross Holdings for the years ended 30 June 2000 and 30 June 2001 and the six months ended 31 December 2001 are shown in the table below. The pro forma historical results are based on the adjusted consolidated historical operating results of Sydney Airports Corporation.

The pro forma historical earnings for these periods have been adjusted for the following:

– aeronautical revenue has been increased to reflect the current aeronautical pricing structure based on the ACCC decision in May 2001 regarding aeronautical charges as if the pricing structure had been operative since 1 July 1999;

– Sydney Airports Corporation incurred expenditure relating to the privatisation process and the ACCC decision which has been excluded from the pro forma historical financial information on the basis that it is non-recurring expenditure;

– the results of, and transactions with, certain controlled entities which owned three other airports in the Sydney region and were disposed of during the year ended 30 June 2001, have been excluded.

The Investigating Accountant's Report in Section 11 contains further details of these adjustments.

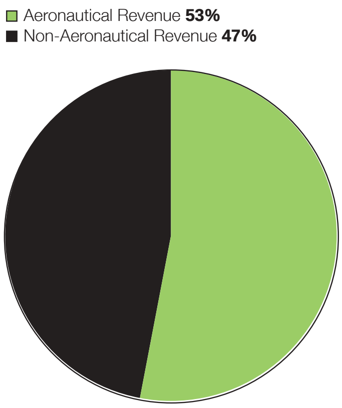
Pro Forma Consolidated Historical Results of Southern Cross Holdings

($ million)	Year ended 30 June 2000 Pro forma	Year ended 30 June 2001 Pro forma	Half year ended 31 Dec 2001
Aeronautical revenue	185.5	218.3	104.1
Non-aeronautical revenue	211.2	246.8	127.4
Total revenue	396.7	465.1	231.5
Total passengers (million)	23.8	26.4	12.4
Revenue per passenger	$16.67	$17.62	$18.67
Total operating expenses	118.5	137.6	68.5
EBITDA	278.2	327.5	163.0
EBITDA margin	70.1%	70.4%	70.4%
EBITDA per passenger	$11.69	$12.41	$13.15

Revenue

Revenue is derived from two main business streams – aeronautical and non-aeronautical. Total pro forma revenue per passenger was $17.62 in the 2001 financial year, an increase of 5.7 per cent on the previous year.

Sydney Airports Corporation Revenue for financial year 2001 (pro forma)



Aeronautical Revenues

Aeronautical revenues are derived from charges applying to a range of aviation activities. The main charges are an international Passenger Services Charge ("PSC"), a runway charge and an aircraft parking charge.

The international PSC applies to most arriving and departing international passengers. The runway charge is a weight-based charge (minimum charges apply to small aircraft) which applies to all aircraft except for international passenger aircraft. The aircraft parking charge is a time-based charge which predominantly applies to international passenger aircraft. Under the regulatory regime which applied until 1 July 2002, aeronautical charges could be increased, with ACCC approval, as a result of capital expenditure which increases the capacity or service quality of the airport, or as a result of increases in government-mandated security expenses or for other reasons. Since 1 July 2002, price surveillance rather than formal price controls apply.

Pro forma aeronautical revenues (including aeronautical security recovery revenue) increased by 17.7 per cent from $185.5 million in the 2000 financial year to $218.3 million in the 2001 financial year. This increase resulted largely from increased traffic volumes and an increase in security recovery revenue as a result of enhanced security requirements.

Aeronautical revenues in the half year to 31 December 2001 did not show a significant decline despite the impact of September 11, 2001 and the collapse of Ansett.

Non-aeronautical Revenue

Non-aeronautical revenue comprises retail revenue, property revenue and commercial trading revenue which includes car parking and car rental.

Retail Revenue

Sydney Airport's retail activities include duty free, news and gifts, specialist retail, currency exchange, food and beverage and other retail services.

There are currently 138 retail outlets in the international terminal at Sydney Airport. Sydney Airports Corporation also manages retailing in the Domestic Express Terminal but following the acquisition of the former Ansett Terminal these stores are expected to close in September 2002, with a larger retail operation starting in the Ansett Terminal.

Retail revenue increased 25 per cent to $117.2 million in the 2001 financial year. This represents an increase in revenue per passenger from $3.95 to $4.44. The increase was achieved as a result of higher spend rates following the completion of the Sydney Airport 2000 Project (which expanded retail space from 12,000m^2 to 18,000m^2) and increased product offerings within an improved retail environment. Duty free revenues accounted for 70 per cent of total retail revenues.

In the half year to 31 December 2001, retail revenue showed the resilience of the Sydney Airport retail operations in a difficult year. Although international passenger volumes were down 10 per cent over the previous year for this period, retail revenue per passenger increased.

Property Revenue

Revenues are generated from the Domestic Terminal Lease and infrastructure contracts, international terminal rentals, aviation sites, non-aviation sites, outgoings and other miscellaneous property income. Sydney Airports Corporation manages a total lettable area of 963,000m^2.

In the 2001 financial year, total property revenues were $67.2 million, representing an increase of 11.1 per cent over the 2000 financial year. This was mainly due to the rents received from the additional facilities and accommodation opened following the completion of the Sydney Airport 2000 Project.

In the half year to 31 December 2001, property revenues were $37.2 million, a 10 per cent increase over the same period in the previous year, representing the impact of the new facilities.

In May 2002, Sydney Airports Corporation acquired the Ansett Terminal from the administrators for approximately $200 million. The rents previously generated from Ansett are expected to be replaced by other terminal related revenues.

Commercial Trading Revenue

The main commercial trading activities of Sydney Airport include car parking, car rental, external advertising and licenses and management of commercial ground transportation.

Commercial trading revenue including car parking and car rental revenue increased 8.5 per cent to $58.6 million in the 2001 financial year, but in revenue per passenger terms declined by 1.8 per cent.

In the half year to 31 December 2001, commercial trading revenue per passenger increased 10 per cent over the previous year, despite an 8 per cent fall in passengers. This was as a result of a more favourable customer profile (fewer overseas visitors and domestic leisure passengers) that boosted car park yields.

Car Parking
Sydney Airports Corporation operates international short term, domestic short term, domestic express short term and long term car parks and staff parking. In addition, Sydney Airports Corporation has developed its own brand "Pronto!" to provide valet services to passengers. A total of 6,843 car park spaces are provided for public parking, 1,892 for staff parking and 651 for car rental parking. A car park management contract has been undertaken by Wilson Parking.

Following the acquisition of the Ansett Terminal, the domestic express car park and Pronto! Valet at the domestic express terminal are expected to close in September 2002 with the business from these products transferring to the domestic short term car park.

Car park revenues in the 2001 financial year were $49 million, an increase of 7.5 per cent over the 2000 financial year but a decrease of 3.1 per cent in terms of per passenger revenue. The main reasons for this reduction were a reduced propensity to park following disruption caused by the Sydney Airport 2000 Project and the impact of price increases introduced in February 2000, July 2000 and January 2001.

Car Rental
Sydney Airports Corporation provides licences to six car rental operators at Sydney Airport: Avis, Hertz, Budget, Thrifty, Delta Europcar and Redspot. Car rental revenues to Sydney Airports Corporation come from:

– Licensed car rental desks in the international and domestic express terminals, in return for which the operators pay a percentage of sales turnover underpinned by a minimum guarantee. In the domestic terminals, a separate desk fee is paid to the airlines but Sydney Airports Corporation receive the percentage fee from all sales. Following recommissioning of the Ansett Terminal, it is intended that desk site rents will come directly to Sydney Airports Corporation in addition to the percentage fees.

– Licensed ready bays in the international, domestic and domestic express car parks for which a separate "bay fee" is payable.

Separate lease agreements have been entered into by some operators to lease sites within the airport to locate their support and back-up facilities.

External Advertising
Sydney Airports Corporation has awarded contracts for operators to develop advertising opportunities in external areas of the airport site, i.e. the south-east, south-west and north-east precincts. Revenues are achieved from a percentage of the sales generated, underpinned by a minimum guarantee.

Operating Costs
The main cost categories for Sydney Airport are shown below.

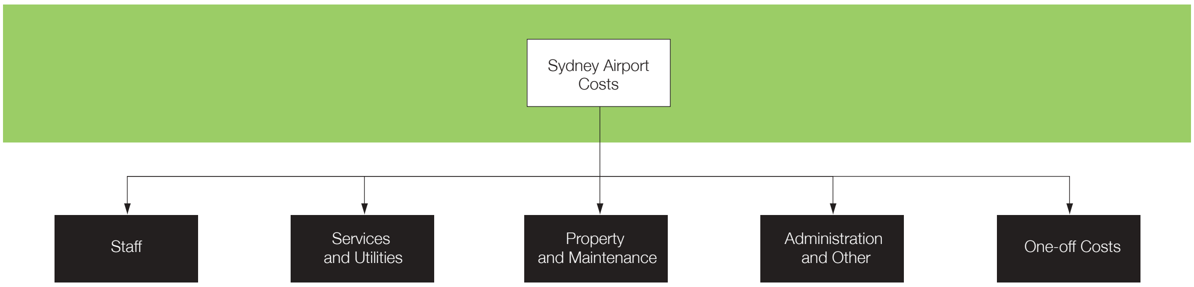
– Staff Costs – includes wage and salary costs, and other employee related costs such as superannuation, training, redundancy and uniforms;

– Services and Utilities – includes major outsourced services, such as contract cleaning and security in addition to the standard utility type costs such as electricity, gas and telecommunications;

– Property and Maintenance – primarily maintenance expenditure;

– Administration and Other – includes insurance, bad and doubtful debts and marketing, though the largest single item in 2001 was consultancy and legal costs; and

– One-off Costs – costs which by their nature are unlikely to recur. These were exceptionally high in 2001 as a result of factors such as the Sydney 2000 Olympic Games, privatisation, airline litigation and research work associated with regulatory price submissions to ACCC.



Between 1999 and 2001 costs at Sydney Airport increased rapidly as a result of:

- the increased size of facilities – particularly the international terminal;
- further direct airport responsibility for security;
- new costs such as apron bus services; and
- the high level of one-off costs in 2001 itself.

In the first six months of 2002 Sydney Airports Corporation management made savings, partly as a result of its Business Alignment Program, which was introduced in the wake of the events of September 11, 2001 and the collapse of Ansett. The savings included:

- reductions in staff full time equivalents through a combination of terminating the contracts of contract and temporary staff and some voluntary redundancies. In practice, the need to pay redundancy costs reduced the impact of initial savings;
- savings in general administration and other costs, principally arising from a reduction of consulting and professional service charges and marketing costs, offset by substantial Ansett bad debt charges; and
- savings in maintenance costs through deferring routine/non-emergency maintenance.

From the 2003 financial year onwards Sydney Airport will face additional costs (and associated revenue) arising from its acquisition of the Ansett Terminal.

3.7 Forecast Financial Information

The financial forecasts presented below are for Southern Cross Holdings and not for MAp. The financial forecasts set out below have been prepared by Macquarie Airports Management in order to give investors a guide to the future performance of Southern Cross Holdings.

Pro Forma Consolidated Southern Cross Holdings Forecast EBITDA for financial years 2002 and 2003

Year ending 30 June ($ million)	2002	2003
Total revenue	455.6	534.1
Revenue per passenger	$18.98	$19.61
Total operating expenses	141.1	156.7
EBITDA	**314.5**	**377.4**
EBITDA margin	69%	71%
EBITDA per passenger	$13.10	$13.88

Forecast Assumptions

The forecast information has been prepared on the basis of the key assumptions detailed below. This information is intended to assist potential investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur.

Potential investors should be aware that the timing of actual events and the magnitude of their impact might differ from that assumed in preparing the forecast information, and that this may have a positive or negative effect on Southern Cross Holdings' actual financial performance. Potential investors are advised to review the key assumptions in conjunction with the sensitivity analysis set out later in this Section.

The forecasts for the year ending 30 June 2002 are based on audited results to 31 December 2001 and forecast results for the six months to 30 June 2002.

Traffic

Passenger numbers in the year ending 30 June 2002 are forecast to be lower than 2001 due to the impact of the events of September 11 and the Ansett collapse.

Year ended 30 June Passengers (millions)	2002	2003
International passengers	8.5	9.3
Domestic passengers	15.5	17.9
Total Passengers	**24.0**	**27.2**
Annual Passenger Growth Rates[1]		
International	(7.5)%	10.5%
Domestic	(10.4)%	15.5%
Total	**(9.4)%**	**13.7%**

1 Growth on corresponding period in the previous year.

The anticipated growth in passengers in the year ending 30 June 2003 is driven by the anticipated recovery in traffic following September 11 and the collapse of Ansett. Key assumptions underlying this recovery include the replacement of capacity on domestic routes and a rebound in traveller confidence.

The traffic assumptions used in the preparation of the financial forecasts are generally taken from the IATA Independent Traffic Report contained in Section 10 of this Prospectus.

A small number of the traffic assumptions used in the financial forecasts differ from those contained in the IATA Independent Traffic Report. These revisions have been made to reflect recent data which was not available at the time the Independent Traffic Report was prepared by IATA.

International passenger volumes have been reduced in the 2002 financial year from 8.55 to 8.45 million to reflect actual results until 31 May 2002 of 7.78 million and an implied forecast for June 2002 of 0.67 million, which is consistent with the average over the most recent three months. International passenger assumptions are unchanged from those in the IATA Independent Traffic Report in future years.

Domestic passenger volumes have been reduced in the 2002 financial year from 16.0 to 15.5 million to reflect actual results until 31 May 2002 of 14.27 million and an implied forecast for June 2002 of 1.23 million, which is consistent with the average over the most recent three months. Domestic passenger assumptions are unchanged from those in the Independent Traffic Report in future years.

Domestic landed tonnes have been reduced in the 2002 financial year from 6.24 to 5.76 million to reflect actual results until 31 May 2002 of 5.32 million and a forecast for June 2002 of 0.44 million, which is consistent with the average over the most recent three months. Domestic landed tonnes remain below the IATA forecast in future years to reflect the slower increase in capacity.

Aeronautical Revenue

Aeronautical revenue is forecast to grow primarily as a result of the forecast increase in traffic.

Other than changes arising from increases in the costs of terrorism insurance and security, aeronautical charges are expected to remain close to current levels throughout the forecast period. Full details of the assumptions underlying aeronautical charges are included in the Independent Regulatory Review Report in Section 10 of this Prospectus.

Non-aeronautical Revenue

Non-aeronautical revenue is derived from retail revenue, property revenue and commercial trading revenue. Total commercial revenue (excluding property) per passenger spend has been forecast as follows:

Year ended 30 June

	2002	2003
Commercial revenue per passenger spend ($)	7.30	7.61
Total passengers (millions)	**24.0**	**27.2**

The main reasons for the anticipated strong growth in commercial per passenger spend are as follows:

Duty Free Revenue

Duty free revenue is forecast to be $12.20 per outbound international passenger and $5.28 per inbound international passenger in financial year 2002. In the 2003 financial year the revenue per inbound and outbound passenger is expected to grow in real terms by 2.3 per cent and 8.5 per cent respectively as a result of improved contracts with retailers.

Other Retail Revenue

Other retail revenue includes other international terminal retail revenue, domestic express terminal retail revenue and Ansett Terminal revenue. It is forecast to increase as a result of passenger growth, increased per passenger spend and the reopening of the Ansett Terminal in September 2002.

Car Parking

Car parking revenue comprises income received in relation to the international car park, the domestic car park and staff car park. Overall average car parking revenue per passenger is forecast to fall in the first 12 months as the percentage of Australian residents and business passengers in the overall passenger mix falls.

Property Revenue

Property revenue is based on existing leases and includes rental from terminal leases (international, domestic and infrastructure leases), rental of hangar spaces, freight terminals, maintenance fees and corporate aviation workshops. Allowance has been made for revenue from airlines using the Ansett Terminal. Property revenue is forecast to increase by 9 per cent in the year ending 30 June 2003.

Operating Expenditure

Operating expenditure is forecast to increase by 11 per cent in the year ending 30 June 2003. The most significant movements in forecast operating expenses are as follows:

- staff numbers are forecast to increase slightly due to the additional staff required to operate the Ansett Terminal with the consequent increase in total staff costs of 5 per cent in the year ending 30 June 2003;
- services and utilities expenses are based on historical rates and are forecast to increase 18 per cent in the year ending 30 June 2003, primarily as a result of operating the Ansett Terminal and due to the full year effect of additional security measures adopted after the events of September 11, 2001;

– maintenance expense is based on historical information and is forecast to increase by 35 per cent in the year ending 30 June 2003 due to deferral of maintenance costs in 2002 and the acquisition of the Ansett Terminal; and

– insurance costs are forecast to increase from \$2.5 million in the year ending 30 June 2002 to \$11.4 million in the year ending 30 June 2003. The forecast increase reflects the rise in the cost of terrorism insurance, the rise in general insurance premiums and the additional insurance costs related to the Ansett Terminal.

Acquisition of Ansett Terminal

The forecasts include the forecast earnings from the newly acquired Ansett Terminal. The Ansett Terminal is assumed to commence operations from 15 September 2002 with Qantas and Virgin Blue entering into arrangements for the use of certain Ansett Terminal facilities. Delays in the expected opening of the Ansett Terminal should not have a significant impact on EBITDA for the year ending 30 June 2003.

General Assumptions

Inflation is assumed to be 2.75 per cent in each forecast year.

There is no material change in the regulatory regime and no material change in Australian Accounting Standards, exposure drafts or pronouncements.

Capital Expenditure

The capital expenditure program for Sydney Airport over the next two years includes:

– routine replacement and maintenance capital expenditure;

– airport development related capital expenditure in areas such as terminals, stands and airfield equipment; and

– commercial capital expenditure related to retail, car parking and property.

There is also an element of continuing environmental-related capital expenditure in areas such as land remediation.

Major projects over the long term include:

– airfield lighting including centre line spacing, nose in guidance systems (NIGS) and guard lighting;

– electrical supply substation and cabling;

– aircraft stands both in the domestic and international areas;

– Ansett Terminal refurbishment and preparation for reopening;

– land acquisition costs and site preparation for parcels of land to the north of Sydney Airport; and

– car park development.

Sensitivity Analysis

The table below illustrates the effect of changes in key assumptions on the forecast EBITDA for Sydney Airport.

Care should be taken in interpreting these sensitivities. These sensitivities treat each movement in the variables in isolation whereas in reality the movements would be interdependent. The effects of movements may be offset or compounded by movements in other variables. Accordingly, the effect on financial forecasts presented for each sensitivity is not intended to indicate the likely range of outcomes to be experienced with respect to each sensitivity.

Sensitivities ($ million)	Year ending 30 June 2003 EBITDA
EBITDA	377.4
Impact on EBITDA	
1. 1% increase in international and domestic passengers	3.6
2. 1% decrease in international and domestic passengers	(3.6)
3. 1% decrease in operating expenditure	1.6
4. 1% increase in operating expenditure	(1.6)
5. 1% increase in non-aeronautical passenger spend	1.9
6. 1% decrease in non-aeronautical passenger spend	(1.9)

3.8 Opportunities for Growth

Traffic - Low Cost International

There is additional potential for traffic growth if a low cost international airline commences services to Sydney Airport. Currently no low cost international airlines operate to or from Sydney Airport. However, Qantas' new international low cost subsidiary, Australian Airlines, will commence operations between Cairns Airport and select Asian destinations from 27 October 2002. Qantas intends for Australian Airlines to eventually expand operations to all major Australian capital cities. Virgin Blue is also considering expanding its low cost operations into international routes.

Traffic - Airline Marketing

Another opportunity for traffic growth is marketing to airlines for the establishment of new routes and higher frequencies.

Retail Development

Sydney Airports Corporation developed a comprehensive retail offering following completion of the Sydney Airport 2000 Project. As a result, there is now an opportunity to expand the marketing of Sydney Airport retailing through the development of an airport brand and more comprehensive promotion of retailing to both customers on-airport and to potential customers off-airport.

Growth can be achieved through improving the product and merchandise mix to meet the needs of the customer profile, supported by further introduction of branded operations. This will be achieved at the time of contract renewals and also with the opening of new retail space.

Whilst the amount of retail space is sufficient until around 2006, there are opportunities to refine customer flows through the terminal and to maximise customer dwell times in high passenger spend areas such as in the departures airside concourses.

Projects to expand the arrivals duty free shops would be expected to create growth. It may also be possible to increase such revenues through an agreed strategy for growth with Nuance (Sydney Airport's sole duty free operator), including product and layout enhancements and the joint development of "Downtown Duty Free" sales.

With the acquisition of the Ansett Terminal, a comprehensive retail offering can be planned to meet the needs of the domestic passenger profile. This can be done by applying the expertise gained in the international terminal to generate a new incremental revenue stream.

Car Parking

Increasing airport users' propensity to park is a significant growth opportunity at Sydney Airport. The strategy to achieve this involves managing car parking as a commercial business, supported by the introduction of new car parking products, the creation of car park brands such as "Drive N Fly", and marketing and enhancement of customer service levels to improve perceptions of the Sydney Airport car park offering.

Property Development

Sydney Airport is on a commercially attractive site and now has excellent road and rail links to the city centre. Sydney Airport will also benefit from the establishment of the South Sydney region as a prime development zone. It is also an important economic generator in its own right, attractive to aviation-related or travel-dependent businesses. This provides opportunities for rental growth.

The shortage of available land on the airport site supports a strong location premium which is expected to increase with traffic growth. Future traffic growth at Sydney Airport will therefore result in property development opportunities.

Growth will be targeted through the development of business partner relationships with all tenants, to ensure that their future property needs are met, enabling users to operate effectively in support of the achievement of traffic growth at Sydney Airport.

The acquisition of the Ansett Terminal will also result in property revenue opportunities in the terminal.

4

4.1 Background

AdR holds the concessions until 2044 to operate, maintain, manage and develop the Fiumicino and Ciampino airports in Rome.

Fiumicino is Rome's principal airport and Italy's largest airport in terms of passenger numbers. Ciampino is Rome's second airport and is mainly used for low-cost scheduled flights, charter flights, express courier companies and private aircraft. It is also a support base for government flights and operations of the Italian Air Force.

In 2001 the combined throughput of Fiumicino and Ciampino was 26.3 million passengers, making Rome Airport the largest airport system in Italy and the sixth largest in Europe.

Prior to June 2000, 54.2 per cent of AdR was owned by the Italian Government through IRI, with the remainder listed on the Milan stock exchange. In July 2000 Leonardo, whose shareholders comprise Gemina S.p.A., Falck S.p.A., Compagnia Italpetroli S.p.A. and Impregilo S.p.A., acquired 51.2 per cent of AdR from the Italian Government through a wholly-owned subsidiary, Leonardo S.p.A. The remaining 3.0 per cent shareholding was transferred to four local authorities in the Lazio region.

Pursuant to the privatisation agreement with IRI and as required by Italian law, Leonardo (through Leonardo S.p.A.) subsequently made a public tender offer for the remaining shares in AdR, increasing its shareholding in AdR to 93.6 per cent.

Leonardo (through Leonardo S.p.A.) acquired a further 2.3 per cent shareholding in AdR through on market purchases and a further tender offer. By the end of March 2001, Leonardo (through Leonardo S.p.A.) had acquired a 95.9 per cent shareholding in AdR. As of 29 March 2001, AdR shares ceased to be listed on the Milan stock exchange.

In May 2001, AdR was merged by way of statutory merger into Leonardo S.p.A. and the incorporating company was renamed AdR. After the statutory merger Leonardo held 95.9 per cent of AdR, with the remaining 4.1 per cent held by the four local authorities and other holders.

4.2 Description of the Rome Acquisition

On 15 July 2002, MALSA executed a conditional agreement to acquire a 44.7 per cent shareholding in AdR from Leonardo.

The terms of the Rome Acquisition are:

- a purchase price of €480 million (excluding acquisition transaction costs);
- a deposit of €48 million upon execution of the Share Purchase Agreement;
- completion of the acquisition by no later than 10 January 2003, at which time the balance of the purchase price will be paid; and
- MALSA to receive the pro-rata share of any dividend declared by AdR in respect of profits arising in the year ended 31 December 2001.

The current shareholders of MALSA are MAG (50.1 per cent), MAp (36.8 per cent), Macquarie (7.5 per cent) and GIF (5.6 per cent). MAp has entered into an agreement with Macquarie to purchase Macquarie's shares in MALSA for value prior to the completion of the Rome Acquisition.

MAp will own a 44.3 per cent shareholding in MALSA for $382 million (including acquisition transaction costs), representing an interest in AdR of 19.8 per cent. In addition, MAG will own a 50.1 per cent shareholding in MALSA. Through MAp's 36.7 per cent shareholding in MAG, MAp will effectively own a further 8.2 per cent indirect interest in AdR.

Each investor in MALSA will contribute funds in the proportions of 15 per cent equity and 85 per cent convertible loans in accordance with the share subscription agreements and convertible loan agreements with MALSA. The MALSA shares are stapled to the convertible loans such that one cannot be transferred without the other.

The MALSA Shareholders' Agreement and MALSA Articles of Association set out the management and governance arrangements for MALSA. They also set out rights in relation to the sale or transfer of MALSA shares by any MALSA shareholder. The board of MALSA will have a maximum of nine directors, of whom five will be nominated by MAG and two will be nominated by MAp. MALSA will be advised by MIMUK under the MALSA Advisory Agreement.

Further details of the terms of the MALSA Shareholders' Agreement, MALSA Advisory Agreement, MALSA convertible loan agreement and MALSA share subscription agreement are provided in Section 12.

Acquisition Structure at Completion

The ownership structures of MALSA and AdR at completion of the Rome Acquisition are shown in the diagram below.

Conditions Precedent

The acquisition is subject to a number of conditions precedent, including:

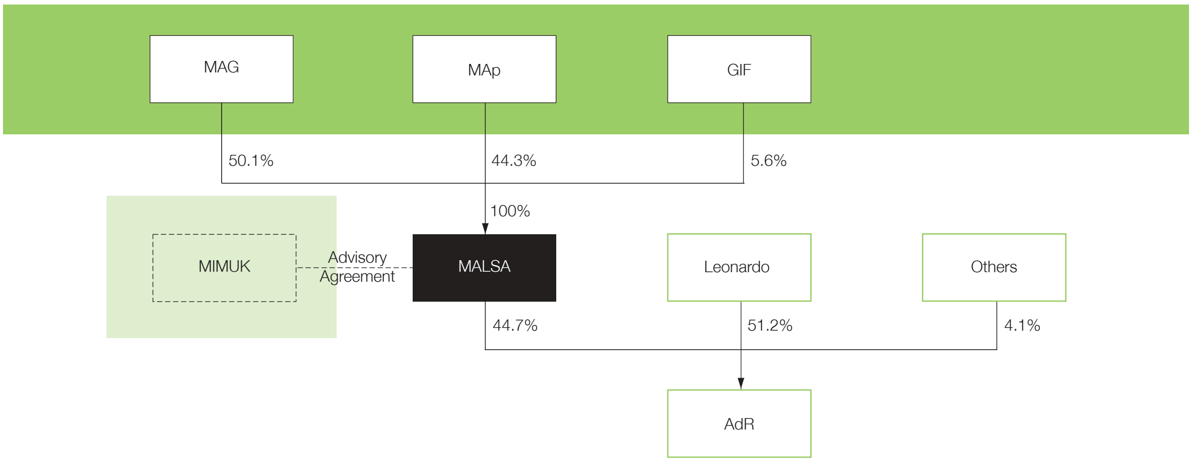
- anti-trust clearance from the Commission of the European Union or the Anti-Trust Authority of Italy, as required; and
- all necessary consents, approvals and waivers from governmental authorities (if and to the extent required), including the consent of IRI.

Investment Highlights

MIMUK considers that the Rome Acquisition represents an attractive opportunity due to the following factors:

- **Purchase price** – AdR's Enterprise Value implied by the purchase price is 9.6 times the forecast EBITDA for the year ending 31 December 2003.
- **Primary gateway to Italy** – AdR is the concessionaire for Fiumicino and Ciampino airports which together comprise Rome Airport. Rome Airport is the primary gateway to Italy and is Europe's sixth largest airport system, with throughput of 26.3 million passengers in 2001.
- **Large and attractive catchment area** – Fiumicino and Ciampino airports are the only commercial airports serving Rome. The immediate Rome catchment area has a population of 5.2 million. Rome is the political, historic and religious capital of Italy as well as a leading international tourist destination.
- **Growth asset** – According to World Bank data, in 1998, the propensity to fly in Italy was 0.47 air trips per head of population. This was significantly lower than the average of 0.70 air trips per head of population for other major European countries. MIMUK believes there is significant potential for traffic growth in Italy as the propensity to fly moves closer to the European average.
- **Capacity for expansion** – Three terminals at Fiumicino have been upgraded within the last five years, adding capacity for total throughput of up to 37 million passengers per year, approximately 45 per cent above 2001 passenger throughput.

MALSA and AdR Ownership Structure at Completion



– **Strategic involvement** – MAp will have the opportunity (through MALSA) to contribute to key strategic, commercial, operational and financial decisions through representation on the board of AdR.

– **Diversification for MAp** – AdR will enhance MAp's geographical diversity.

– **Commercial upside** – Retail spend per passenger is approximately 50 per cent lower at Fiumicino than comparable European airports such as Gatwick, Heathrow, Charles de Gaulle and Schipol. MIMUK believes that the implementation of a raised retail business plan can bring passenger spend rates into line with comparable European airports over the medium to long term.

Strategic Influence
MALSA, MAG and Macquarie have entered into a shareholders agreement with Leonardo and its shareholders which will become effective upon completion of the Rome Acquisition ("AdR Shareholders' Agreement"). The AdR Shareholders' Agreement will provide MALSA with the opportunity to participate in key strategic, commercial, operational and financial decisions.

Under the terms of the AdR Shareholders' Agreement, certain operational, commercial and financial matters must be approved by both MALSA and Leonardo as described in Section 12.2. These include:

– the removal of any directors in the absence of just cause;

– the removal of statutory auditors and appointment of external auditors;

– the approval of dividend distributions (except for a dividend distribution of 100 per cent of operational reserves (net of working capital and accrual requirements) as stated in AdR's annual accounts as approved by shareholders:

– the approval or amendment of a new business plan;

– the approval or amendment of AdR's annual budget;

– the approval of related party transactions;

– any decision in excess of €15 million (to the extent it is not contemplated in the business plan or annual budget) with regard to:

  • the sale or purchase of shares and assets;

  • capital expenditure;

  • the assumption of medium/long term financial indebtedness (other than transactions which are part of the refinancing package); and

  • any commencement or settlement of litigation.

– the granting of any encumbrance over the business or revenues of AdR (except in the ordinary course of business);

– the change in accounting principles and policies of AdR;

– the prepayment, waiver or variation of rights for any financing facility or agreement;

– the removal of the Managing Director or the revocation of his/her powers;

– the establishment of any executive committee or variation to employee benefits; and

– delegation to any person other than the Managing Director.

The board of AdR will have 13 directors. Seven of these directors will be nominated by Leonardo, four will be nominated by MALSA, one will be nominated by the local authority shareholders and one will be the Managing Director.

AdR will also have a Strategy Group comprising eight members to advise the board of AdR on key strategic, commercial, operational and financial matters. Two members will be nominated by Leonardo, two by MALSA and four will be senior executives of AdR.

The AdR Shareholders' Agreement is described in more detail in Section 12.

4.3 Profile of Rome Airport

Location and Catchment Area
Fiumicino is located approximately 30 kilometres west of the centre of Rome on the Tyrrhenian Coast. Fiumicino airport is linked to Rome by motorway and rail connections. It is also linked to the Milano-Napoli motorway. Ciampino is located 15 kilometres south of the centre of Rome.

Fiumicino and Ciampino are the only commercial airports serving Rome and the Lazio region. The immediate Rome catchment area has a population of 5.2 million. Rome itself has a population of 2.7 million and is the largest city in Italy. Rome is the political, historic and religious capital of Italy as well as a leading international tourist destination.

Layout and Facilities

Fiumicino

Fiumicino airport has three connected terminals. Terminal A handles only domestic traffic, Terminal B handles predominantly intra-EU traffic and Terminal C handles all other international passengers.

AdR has invested significantly in infrastructure at Fiumicino airport, with an intra-EU pier and an extra-EU satellite terminal completed in 1999, and a new domestic terminal completed in 2000.

Fiumicino

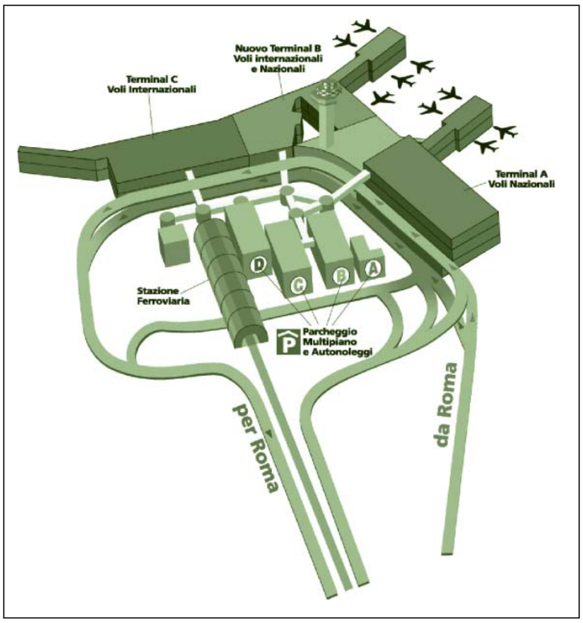
Facility	Description
Runways and taxiways	Four runways suitable for all aircraft currently in service worldwide. Three of these runways are 3.9 km long while the fourth is 3.2 km long.
Terminals	Three linked terminals which cover a total surface area of approximately 290,000 square metres. Terminal capacity has been created for throughput of approximately 37 million passengers per year, 45 per cent above 2001 passenger throughput.
Car parks	Four covered public-use multi-storey car parks, with space for approximately 4,400 cars, a long stay facility with approximately 3,900 spaces, and nine other car parks reserved for companies working at the airport.
Other buildings and facilities	Approximately 19,200 square metres of retail space comprising 84 shops and 25 bars and restaurants.

Ciampino

Ciampino airport consists of a single commercial terminal, with provision for segregated international and domestic operations.

Facility	Description
Runways and taxiways	Single runway 2.2 km long which is suitable for most aircraft typically used by charter and low-cost carriers.
Terminals	The terminal has a capacity of about two million passengers per annum, more than double the throughput of 0.7 million in 2001. The site offers scope for significant enhancement of terminal facilities, the cost of which has been provided for in capital expenditure estimates.
Car parks	One car park with approximately 490 spaces.
Other buildings and facilities	700 square metres of retail space with 10 shops and six bars and restaurants.

Fiumicino Airport

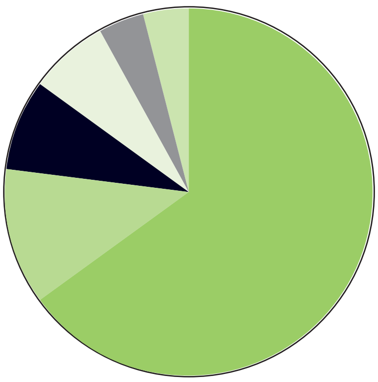


Airlines and Route Network

Airlines operating at Fiumicino and Ciampino serve a wide range of domestic and international destinations.

Rome Airport Destinations in 2001

- Europe **65%**
- Africa **12%**
- Asia **8%**
- Middle East **7%**
- North America **4%**
- Latin America **4%**



Scheduled Airlines

Fiumicino is served by approximately 90 airlines and Ciampino is served by four airlines. Alitalia accounts for 79 per cent of domestic passenger traffic and 31 per cent of international passenger traffic at Fiumicino where it has its main operational base.

In addition to Alitalia, Fiumicino is also served by major European carriers including Air France, British Airways and Lufthansa. Fiumicino is also served by other major long haul airlines such as American Airlines, Cathay Pacific, Delta and Emirates.

Low Fare Airlines

Ciampino is the base for low-fare carriers serving Rome. Low-fare services are provided to Paris-Orly by Corsair and London-Stansted by Go. Ryanair commenced services to London-Stansted in April 2002 and Brussels-Charleroi in June 2002.

4.4 Passenger Traffic

AdR reported traffic for 2000 and 2001 (including transit passengers) as follows:

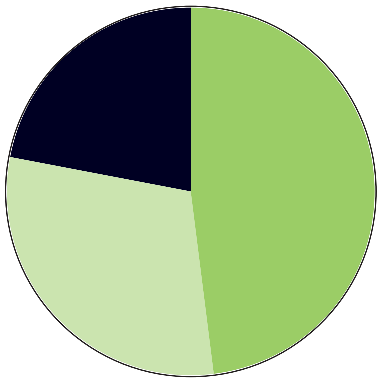
Rome Airport Passenger Traffic in 2000 and 2001
Year ended 31 December

Passenger Movements (millions)	2000	2001	Increase/ (Decrease)
Domestic	12.5	12.3	(2.0%)
Intra-EU	8.2	8.3	0.5%
Extra-EU	6.3	5.7	(9.9%)
Total Passengers	**27.1**	**26.3**	**(3.1%)**

The decline in passenger numbers in 2001 is largely attributable to the decline in traffic following the events of September 11, 2001 and an accident at Milan-Linate in October 2001.

A breakdown of passenger traffic at Rome Airport in 2001 is shown below.

- Domestic **47%**
- Intra-EU **31%**
- Extra-EU **22%**



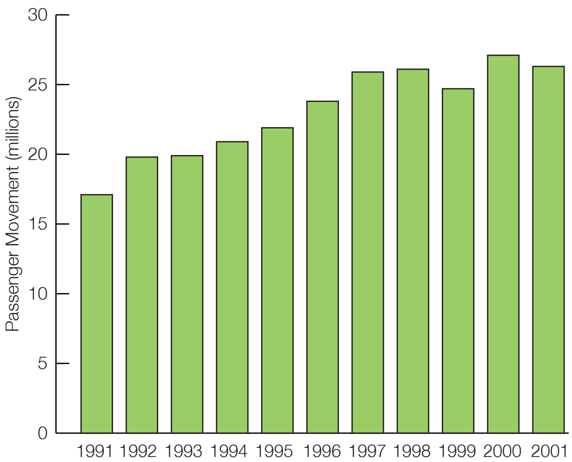
Rome Airport Passenger Traffic in 2001
Domestic traffic is the largest market segment, reflecting Rome's central location in Italy, its role as the administrative capital of Italy and its importance as a business and leisure destination. Rome-Milan is the main route, accounting for 13 per cent of total passenger traffic.

Fiumicino is a major hub for Italy with passengers transferring to and from domestic and international flights. 27 per cent of all passengers at Fiumicino make connecting flights.

Historic Traffic Growth

The chart below illustrates traffic development from 1991 to 2001:

Rome Airport Total Passenger Traffic from 1991 to 2001



From 1991 to 2001, traffic grew at an average rate of 4.4 per cent per annum. This period had two distinct phases. In the first phase (1991-98), which includes the period of traffic recovery after the Gulf War, AdR traffic grew an average of 6.2 per cent per annum.

During the second phase (1998-01), traffic increased marginally (by an average of 0.3 per cent per annum). This was due to:

– the transfer of some Alitalia long-haul services to Milan-Malpensa in 1998 and 1999. The decline in Alitalia services has been largely offset by the growth in services by other carriers;

– the events of September 11, 2001; and

– disruption to domestic traffic following an accident on the ground at Milan-Linate airport in October 2001, in which a light aircraft collided with a commercial airliner during a period of poor weather, resulting in a temporary increase in weather-related cancellations on domestic routes.

Traffic at Fiumicino fell significantly following the events of September 11, 2001. The decline was most pronounced in October 2001 and November 2001, when total traffic fell 19.5 per cent compared to the previous corresponding period. However in May 2002, traffic was only 5 per cent lower than the previous corresponding period.

4.5 Financial Information

EBITDA

The financial information presented in this section relates to Rome Airport only and not to MAp. The historic and forecast earnings of Rome Airport for 2000 to 2003 are shown in the table below. The historical information is based on the adjusted historical information of AdR. The forecast earnings are based on MIMUK assumptions as detailed in Section 4.7. These figures relate to revenue and costs relating to Fiumicino and Ciampino only and exclude revenue and earnings of AdR's other assets.

Comparable data prior to 2000 is unavailable as a result of structural changes to AdR, including the transfer of handling services to AdR Handling.

Rome Airport Historic and Forecast EBITDA for 2000 to 2003

Year ending 31 December ($ million)	**2000[1]**	**2001**	**2002**	**2003**
Total Revenue	711.2	754.6	819.0	898.5
Total Passengers (millions)	27.1	26.3	27.3	29.8
Revenue per passenger	$26.24	$28.69	$30.00	$30.15
Total operating expenses[2]	462.8	435.0	409.2	424.4
EBITDA	**248.4**	**319.6**	**409.8**	**474.1**
EBITDA Margin	34.9%	42.4%	50.0%	52.8%
EBITDA per Passenger	$9.16	$12.16	$15.03	$15.88

1 The results for 2000 exclude items of revenue and costs relating to handling services provided to Alitalia until 30 June 2000 and performed by AdR Handling after 13 March 2000. Revenues and costs for these activities were $91.2 million and $74.2 million respectively.

2 The results for 2000 have been normalised to exclude extraordinary revenue and costs which increased EBITDA by $56.5 million.

The forecast growth in EBITDA per passenger between 2000 and 2003 is 24.0 per cent per annum. MIMUK expects further increases in EBITDA per passenger in the future based on the opportunities for growth discussed in Section 4.8.

Revenue Profile

Total revenues comprise two categories, aeronautical and non-aeronautical. Total revenue for 2001 was $754.6 million, of which 55 per cent was aeronautical revenue. Total revenue increased by 6.1 per cent in 2001 despite a decrease in passenger numbers of 3.1 per cent.

Aeronautical Revenue

Aeronautical revenues are derived from charges applying to a range of aviation activities. The main categories of aeronautical revenue are airport charges, handling and cargo fees, centralised infrastructure charges, security charges and access fees.

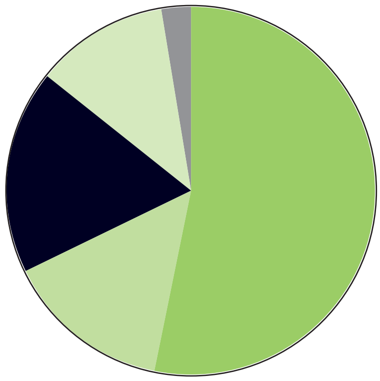
Airport charges are derived from passenger charges, take-off/landing fees and parking charges and represented 53.2 per cent of aeronautical revenues in 2001. Passenger charges are levied on most departing passengers and represent 31.2 per cent of aeronautical revenues. The take-off/landing fees are weight-based charges which apply to most aircraft. There is a differential for small aircraft (under 25 tonnes) and for flights outside the EU. Take-off/landing fees represent 20.0 per cent of total of aeronautical revenues. The parking charge is a time-based charge which applies to most aircraft. Parking charges represent 2.0 per cent of total aeronautical revenues.

Handling and cargo fees represent revenues from passenger handling (mainly at Ciampino) and cargo handling at both Fiumicino and Ciampino. Centralised infrastructure charges are levied by the airport for usage of infrastructure related to handling activities such as check in desks and loading bridges. Security charges relate to passenger search and hold baggage screening. Access fees relate to payments by handling companies for the right to operate at the airport.

Aeronautical revenues increased from $401.2 million in 2000 to $411.4 million in 2001. This increase resulted mainly from an increase in airport charges averaging 7.5 per cent on 1 March 2001.

Rome Airport Aeronautical Revenues in 2001

Airport Charges **53.2%**
Handling/Cargo **14.6%**
Centralised Infrastructure **17.9%**
Security Fees **11.7%**
Access Fees **2.6%**

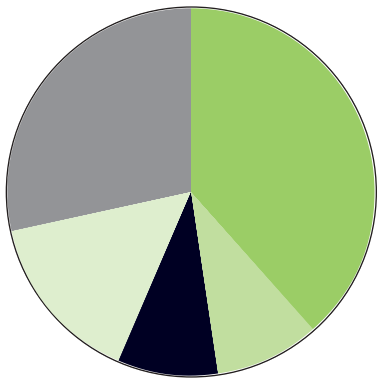


Non-aeronautical Revenue

Non-aeronautical revenues consist of retail revenues, car parking charges, advertising, rents and utilities, and other charges. Non-aeronautical revenues increased from $310.0 million in 2000 to $343.2 million in 2001, with increases in each component of non-aeronautical revenues despite a decrease in passenger numbers of 3.1 per cent.

Rome Airport Non-aeronautical Revenues in 2001

Retail **38.4%**
Car Parking **9.2%**
Advertising **8.8%**
Rent and Utilities **15.1%**
Other **28.5%**



Retail

Retail revenues are derived from sales from directly managed retail operations and fees from concessionaire shops, restaurants and bars. Retail revenues represented 38.4 per cent of non-aeronautical revenues in 2001. Direct retail operations represented 25.4 per cent of non-aeronautical revenues, concessionaire shops represented 9.8 per cent and restaurants and bars represented 3.2 per cent. 13 new retail outlets opened and eight were refurbished in 2001.

Retail revenues increased by 4.2 per cent in 2001 despite a fall of 3.1 per cent in passenger numbers which reflects the increased number of retail units, including luxury branded retailers in the landside domestic terminal at Fiumicino.

Car Parking

Car parking revenues are derived from short stay, long stay and staff parking facilities operated by AdR. Car parking revenues represented 9.2 per cent of non-aeronautical revenues in 2001.

Revised car parking prices were implemented in October 2001 which are expected to improve car parking revenue per passenger in 2002.

Advertising

Advertising revenues are derived from sites both within and outside the terminals, including trolleys, billboards, poster sites and in-store promotions. Advertising revenues represented 8.8 per cent of non-aeronautical revenues in 2001.

Advertising revenues increased by 57.3 per cent in 2001, primarily as a result of additional advertising space in the new domestic terminal.

Rents and Utilities

Rents and utilities revenues are received from approximately 84,000 square metres of lettable space. Rents and utilities revenues represented 15.1 per cent of non-aeronautical revenues in 2001.

Rents and utilities revenues increased 14.8 per cent in financial year 2001 primarily as a result of increased lettable space at Fiumicino.

Other

Other non-aeronautical revenues comprise revenues from vehicle maintenance, bureaux de change, car rental, fuel sales, hotels, and staff and inflight catering. These other non-aeronautical revenues represented 28.5 per cent of non-aeronautical revenues in 2001.

Operating Cost Profile

Operating costs comprise four main categories – personnel, cost of goods sold, the concession fee, and maintenance and other costs.

Total operating costs decreased by 6.1 per cent in 2001. This was primarily due to a 7.8 per cent reduction in staff numbers from 2,514 in 2000 to 2,318 in 2001 and lower maintenance and other costs resulting from the renegotiation of contracts.

Personnel costs relate to wage and salary costs, as well as contributions to employee benefit schemes. Personnel costs represented 47.9 per cent of total operating costs in 2001.

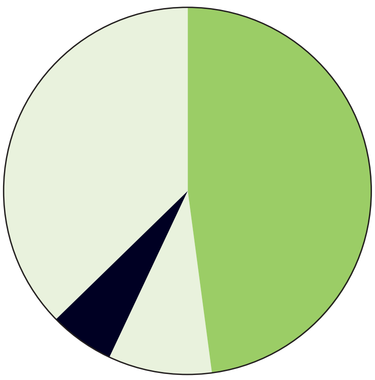
Cost of goods sold relate to goods sold through AdR's directly managed retail outlets. Cost of goods sold represented 9.1 per cent of total operating costs in 2001.

The concession fee represents a payment to the Italian Government which is set at 10 per cent of passenger, landing/take-off, parking and most security fees. The concession fee represented 5.7 per cent of total operating costs in 2001.

Maintenance and other costs includes maintenance, raw materials, cleaning, utilities, heating, ancillary services, consultants, rents, leasing and general expenses. Maintenance and other costs represented 37.3 per cent of total operating costs in 2001.

Rome Airport Operating Costs in 2001

- Personnel **47.9%**
- Cost of Goods Sold **9.1%**
- Concession Fee **5.7%**
- Maintenance and other costs **37.3%**



Capital Expenditure

The capital expenditure program for Rome Airport separates capital expenditure into a number of different components. These are infrastructure, maintenance, information technology, Ciampino airport, and other.

Historically a significant proportion of capital expenditure at Fiumicino and Ciampino has been funded by the Italian Government. Between 1998 and 2001, total Rome Airport capital expenditure was $804.4 million, of which $412.5 million was financed by the Italian Government, and $391.9 million by AdR.

MIMUK forecasts capital expenditure at Rome Airport of $275.8 million between 2002 and 2003, of which $54.9 million is expected to be funded by the Italian Government.

Major Projects

In November 2000, the refurbished domestic terminal was opened. This provided approximately 55,000 square metres of space on three levels, including shopping areas, a restaurant and VIP lounges.

Initial work has started on the Pier C project at Fiumicino. This will provide additional international passenger capacity, restructure a number of aprons and taxiways, and deliver an improved baggage handling system.

Borrowings

As at 31 December 2001, AdR had total long term debt outstanding of $2,991 million and net debt of $2,858 million. Of AdR's total debt outstanding, $2,868 million represented a syndicated senior bank debt facility established in August 2001. AdR has long term credit ratings of A- and A3 from Standard & Poor's and Moody's Investor Services, respectively.

AdR is currently seeking to refinance its total debt, principally through a $2,632 million capital markets bond issue, of which approximately 80 per cent is intended to be credit wrapped. The balance of the total debt outstanding will be refinanced using bank debt facilities. AdR's total debt outstanding will not increase significantly as a result of the refinancing. AdR expects to complete the refinancing by 31 December 2002.

4.6 Non-core Assets

AdR holds other airport-related investments and subsidiaries, which are summarised below. MIMUK estimates that the collective value of AdR's other airport-related investments and subsidiaries is approximately $184.2 million which represents less than 5 per cent of AdR's total Enterprise Value.

- Airports Company South Africa Limited ("ACSA") – operates nine airports in South Africa. AdR, through AdR Invest BV, has a 55.8 per cent shareholding in AdR IASA which owns a 20 per cent shareholding in ACSA. AdR has entered into put and call arrangements with the other shareholders of AdR IASA which may result in AdR acquiring the remaining shares in AdR IASA. AdR IASA also owns a call option to acquire or subscribe for a further 10 per cent shareholding in ACSA;
- AdR Handling S.p.A. – a joint venture with Menzies Aviation Group offering handling services at Fiumicino and Ciampino. AdR has a 51 per cent shareholding;
- Aeroporti di Genova S.p.A. – a regional airport in northern Italy (1.0 million passengers in 2001). AdR has a 15 per cent shareholding;
- Società Aeroportuale Calabrese S.p.A. – manages Lamezia Terme Airport, a regional airport in southern Italy (0.8 million passengers in 2001). AdR has a 17 per cent shareholding; and
- other – AdR is involved in the promotion and development of Fiumicino through its interest in AdR Sviluppo S.r.l. (100 per cent) and holds other investments including Edindustria S.p.A (9 per cent) and Alinsurance S.r.l. (6 per cent).

4.7 Forecast Information

The forecast information has been prepared on the basis of numerous assumptions, including the key assumptions detailed in the following sections. This information is intended to assist potential investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur.

Potential investors should be aware that the timing of actual events and the magnitude of their impact might differ to that assumed in preparing the forecast information, and that this may have a positive or negative effect on AdR's actual financial performance. Potential investors are advised to review the key assumptions in conjunction with the sensitivity analysis set out later in this Section.

Forecast Assumptions

Traffic Growth

Traffic growth of 3.8 per cent is assumed in 2002 which includes a gradual recovery following the events of September 11, 2001 and low-cost carrier traffic development at Ciampino.

Rome Airport Historic Traffic and Forecasts by MIMUK for 2000 to 2002

Passenger Movements (millions) (including transfers)	2000 (actual)	2001 (actual)	2002 (forecast)	2003 (forecast)
Domestic	12.6	12.3	13.0	13.6
Intra-EU	8.2	8.3	8.6	9.9
Extra-EU	6.3	5.7	5.7	6.4
Total	27.1	26.3	27.3	29.8

For 2002 the key assumptions used in deriving the traffic forecast were:

- between January and April, actual traffic data was used;
- between May and August, the planned number of aircraft movements (based on slot requests from airlines) was combined with the current increase in airline load factors of 5 per cent;
- between September and December passenger growth rates of 3 per cent were assumed compared with the corresponding months in 2000; and
- additional traffic at Ciampino was assumed to result from new Ryanair services.

For 2003 the key assumptions used in deriving the traffic forecast were:

- growth assumed at Ciampino due to route development by low-cost carriers;
- an econometric forecast using standard industry multipliers; and
- adjustment for recovery from September 11, 2001.

Aeronautical Revenues

A 3.8 per cent increase in aeronautical revenue per passenger is assumed in 2002 which is mainly due to the full-year effect of an increase in aeronautical charges in 2001 and the introduction of security charges in 2002. In 2003 a 2.2 per cent decrease in aeronautical revenue per passenger compared to 2002 is forecast due to changes in the passenger mix.

Non-aeronautical Revenues

An increase of 5.5 per cent in 2002 and 3.2 per cent in 2003 in non-aeronautical revenues per passenger is assumed. These changes are largely due to yield improvements in retail activities and higher car parking charges.

Operating Costs

A fall of 5.9 per cent in operating costs is assumed in 2002 as a result of a reduction in maintenance costs largely arising from the renegotiation of contracts. Operating costs are forecast to increase by 3.7 per cent in 2003 due to the increase in passenger traffic.

Sensitivity Analysis

The financial forecasts are sensitive to variations in the assumptions used. A summary of the effects that variations in certain assumptions have on forecast EBITDA for Rome Airport is included in the table below.

Care should be taken in interpreting these sensitivities. These sensitivities treat each movement in the variables in isolation whereas in reality the movements would be interdependent. The effects of movements may be offset or compounded by movements in other variables. Accordingly, the effect on financial forecasts presented for each sensitivity is not intended to indicate the likely range of outcomes to be experienced with respect to each sensitivity.

4.8 Opportunities for Growth

Low-fare Services

MIMUK believes that Rome is an attractive market for low-fare carriers with a large population and world class tourist attractions, and that the low-fare market provides significant opportunities for traffic development at Rome Airport.

Sensitivities ($ million)	Year ending 31 December 2002 EBITDA	Year ending 31 December 2003 EBITDA
EBITDA	409.8	474.1
Impact on EBITDA		
1. 1% increase in international and domestic passengers	6.8	7.4
2. 1% decrease in international and domestic passengers	(6.8)	(7.4)
3. 1% decrease in operating expenditure	4.1	4.2
4. 1% increase in operating expenditure	(4.1)	(4.2)
5. 1% increase in non-aeronautical passenger spend	3.2	3.7
6. 1% decrease in non-aeronautical passenger spend	(3.2)	(3.7)
7. 1 Euro cent increase in A$/€ exchange rate from 0.57	(7.1)	(8.2)
8. 1 Euro cent decrease in A$/€ exchange rate from 0.57	7.3	8.5

MIMUK expects Ryanair to rapidly expand their services to Rome Airport. As an example, Ryanair began services from Brussels-Charleroi in April 2002 and increased to 20 flights per day (to all destinations) by summer 2002. Existing destinations served by Ryanair that might attract services to Rome Airport include Frankfurt-Hahn, Paris-Beauvais, Dublin and Glasgow-Prestwick.

MIMUK also believes that easyJet is likely to be interested in expanding services at Rome following its acquisition of Go and its option to purchase Deutsche BA. Destinations that easyJet might serve from Rome include Paris-Orly, London-Gatwick, Liverpool and Munich.

Other Services

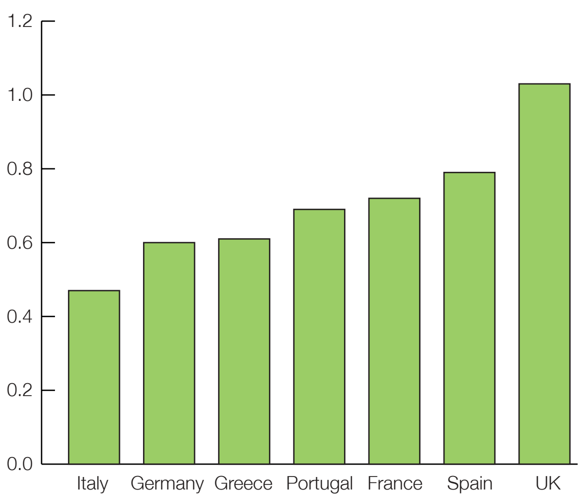
In addition to low-fare services, further market developments are expected in the full service scheduled sectors. Long-haul carriers are selectively adding capacity at Fiumicino to fill gaps in the market left by Alitalia's relocation of services to Milan-Malpensa in 1998 and 1999. Since January 2002, significant extra capacity has been added on routes to Buenos Aires, Kuala Lumpur, Singapore and Tokyo.

In addition, US carriers are returning to the Fiumicino market. American Airlines restarted its service to Chicago and Northwest Airlines restarted its service to Detroit. In partnership with Alitalia, Skyteam member Delta has recently added a summer service to Cincinnati.

Low Propensity to Fly in Italy

MIMUK considers that Italy's air traffic market is less mature than other European countries. This is evidenced by the low propensity to fly of its population.

Total air trips per head of population by country in 1998



As the preceding chart illustrates, the propensity of the Italian population to fly is lower than other European countries. Increased commercialisation and competition in the Italian market may lead to an increase in Italy's propensity to fly relative to other European countries.

Favourable Regulatory Environment

To date, there has been no formal system of economic regulation governing the setting of airport charges in Italy. Charges were set by the Ministry of Transport on a system-wide approach across all Italian airports. Any changes to charges were authorised by the Ministry of Transport in consultation with the airports and interested parties. To date, the Ministry of Transport has carried out this function without reference to any objective regulatory measures of the type developed in the UK, Australasia and elsewhere.

ENAC, the Italian regulator for civil aviation, has published a regulatory framework to govern the future of aeronautical charges at Italian airports.

Under the new regulatory framework, tariffs will be determined in accordance with the following principles:

– Dual Till Cost Recovery – airport tariffs will be set to fully recover operating costs and an appropriate return on capital associated with aeronautical activities;

– Alignment with EU Average – airport tariffs will be increased progressively to align them with the EU average; and

– CPI – "X" – airport tariffs will be increased annually at inflation less an assumed efficiency factor "X".

MIMUK believes that implementation of the regulatory formula could result in significant upside to the level of aeronautical charges. However, the potential benefits have not been included in the acquisition base case due to uncertainties about the timing and details of the implementation of the new framework.

Retail Development

The relatively low retail spend rate per passenger at Rome Airport provides an opportunity for revenue growth. MIMUK believes that the spend rate for Rome Airport, being approximately 50 per cent lower than at comparable European airports, is largely due to:

– shops not being in passenger through routes;

– shops having physical barriers to entry; and

– there being no critical mass of retail outlets.

The opportunity exists to alter the mix of airside retail outlets, restaurants and bars resulting in an expansion space for shops and the introduction of additional branded retail outlets. A significant proportion of the existing retail concessions expire within the next five years. Reconfiguration, refurbishment and other layout improvements should improve the retail revenue per passenger. In addition a significant increase in retail space will occur with the completion of the Pier C development in 2006.

Car Parking
Possible opportunities exist to develop the product and pricing structures to increase car parking revenue per passenger towards European benchmark levels.

Property Development
Current occupancy levels of offices and hotels suggest the potential for further business and office developments and additional hotels. AdR anticipates office block developments and two new hotels could be completed by 2006.

Introduction of Specialist Operators
AdR directly manages some retail activities. The opportunity exists to introduce a specialist third-party operator to manage and develop AdR's direct retail business which might improve margins and revenues per passenger.

The new arrangement with a third party advertising operator may realise greater advertising revenues.

4.9 Italian Aviation Market

Italian Aviation Market Passenger Traffic in 2001

International
International traffic accounted for 51 per cent of all traffic in Italy in 2001. This traffic is a mixture of business and leisure. Leisure traffic is attracted to Italy by the host of world-class tourist destinations including Rome, Venice, Florence and Pisa. As with other markets in Europe there is also traffic related to "visiting friends and relatives" generated by Italian populations living abroad and vice versa. In 2001, Fiumicino handled over 13 million international passengers.

Domestic
There were over 40 million domestic passenger movements in Italy in 2001. Domestic air travel is driven by Italy's geography, the widely dispersed population, strong family links and the split of administrative and financial capitals between Rome and Milan respectively. In 2001, Fiumicino handled over 12 million domestic passengers and was the largest airport for domestic services in Italy.

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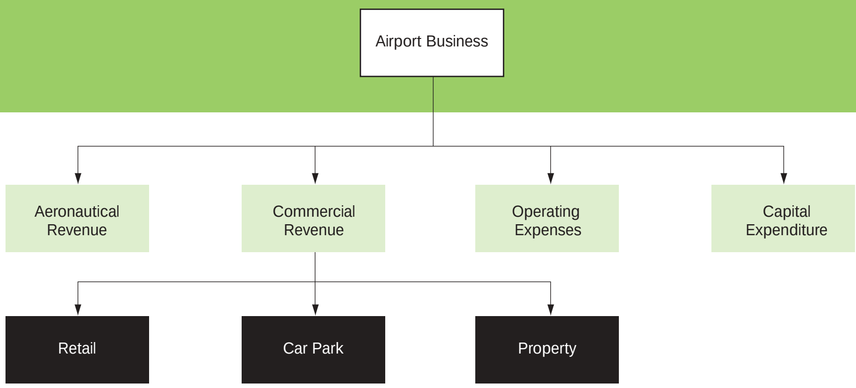


5.1 Key Value Drivers of Airports

Airports provide aeronautical services to airlines, including the provision of runways and taxiways, aprons and airport terminal buildings. Airports also support a wide range of commercial activities such as retailing, car parking and the provision of property for aeronautical related commercial purposes.

The key value drivers for airports shown in the diagram above are described in more detail in the following paragraphs.

Aeronautical Revenue

Revenue from aeronautical activities is generated through charges levied for the use of airport infrastructure such as runways, taxiways, aprons and terminals. Some airports also provide airport services such as air traffic control and ground handling. These services may also be outsourced to specialist providers. Charges for these facilities and services are generally based on the number and size of aircraft movements and the number of passenger movements. Key drivers for aeronautical revenues include:

– traffic growth – increases in passenger movements or in the number and size of aircraft movements will increase aeronautical revenues; and

– fees charged to airlines – the level of aeronautical charges is driven by airport costs, the charges at alternative or comparable airports and commercial considerations such as attracting high value traffic.

At some airports, aeronautical charges are subject to economic regulation.

Commercial Revenue

Retail

Revenue from retail operations at airports is generated from lease or concession agreements with retailers in the terminals owned by the airport. Typically, the airport receives rentals based on a tenant's turnover, possibly in addition to a fixed sum or guaranteed minimum rent.

Key drivers of retail revenue include:

– traffic growth – an increase in the number of passengers will usually generate a proportional increase in retail turnover;

– traffic mix – international passengers tend to have higher spend rates than domestic passengers because they generally have longer "dwell times" in the terminal and access to duty free and tax free purchasing (except for intra-European Union traffic); and

– quality of the offering – a high quality mix of offerings tailored to the requirements of passengers can increase passenger spending.

Car Parking

Car parking revenue is generated by the collection of car parking charges from passengers and meeters and greeters. Car park management is either undertaken directly by the airport or contracted out to a third party.

Key drivers of car parking revenues include:

– traffic growth – an increase in the number of passengers will typically result in a proportional increase in the number of car park customers; and

– propensity to park – passengers' propensity to park, rather than use alternative forms of transport, is based on convenience and price. Car park offerings must therefore take into account the availability and price of alternative forms of transport to and from the airport.

Property

Property revenue is generated by the rental of property for aeronautical-related purposes such as office-based administration, warehousing, freight forwarding and aircraft maintenance, as well as from non-aeronautical commercial activities on airport land, such as hotel developments and business complexes.

Key drivers of property revenue include:

– traffic growth – as air traffic increases, the number and range of parties who require premises at the airport normally increases; and

– location – airport companies generally own the land surrounding the airport. The value of this land for non-aeronautical purposes will depend on the general demand for property in that area and the relative advantages of an on-airport location.

Operating Expenses

Operating expenses are typically dominated by four items: labour, maintenance, utilities and capital depreciation charges. Airports are predominantly fixed-cost businesses, with the majority of expenses linked to the cost of operating and maintaining fixed assets, such as terminals and runways, rather than traffic volume. Therefore, as traffic grows, airports usually demonstrate increases in productivity against their fixed-cost bases. Once capacity constraints are reached, the expansion of facilities such as terminals may result in a step increase in costs such as labour, maintenance, utilities and capital depreciation charges.

Capital Expenditure

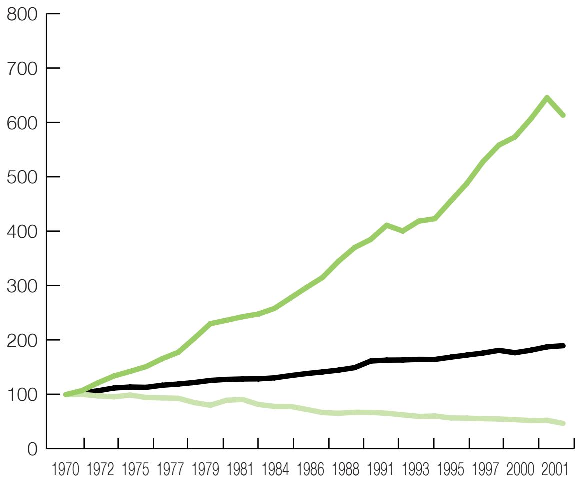
Capital expenditure at airports can generally be classified as either capacity-related or replacement capital expenditure. Capacity-related capital expenditure at airports generally relates to large, long-life assets such as runways and terminals. An attractive feature of airports is that capacity-related capital expenditure is required only if traffic at the airport is growing. Capacity-related capital expenditure is typically recovered through increases in aeronautical charges and through increased traffic volume.

Replacement capital expenditure is related to the condition of the fixed assets with levels of expenditure tending to be relatively predictable and low compared with the total value of the assets.

5.2 Passenger Traffic Growth

Passenger traffic is the key driver of airport profitability and has historically demonstrated a consistent pattern of growth. The chart below shows a comparison of the growth in global revenue passenger kilometres (RPKs), real airfares and real GDP between 1970 and 2001. Air traffic growth has historically averaged more than twice real GDP growth and has been relatively resilient to downturns in economic conditions, such as recessions.

Comparison of Growth in Traffic, Real Airfares and Real GDP 1970-2001



Since the end of World War II, global traffic has increased in all years except 1991, when global traffic declined by 2.6 per cent as a result of a combination of a worldwide recession and the Gulf War, and 2001 where it declined by approximately 5 per cent as a result of the events of September 11, 2001. Traffic growth, as measured by revenue passenger kilometres, has averaged 9.8 per cent per annum over the period 1950-2001.

Drivers of Long Term Traffic Growth
The key drivers of air traffic growth are GDP growth, falling real air fares and airline deregulation.

GDP Growth
GDP growth stimulates leisure traffic growth as the disposable income of individuals increases. In addition, business traffic increases as economic activity stimulates trade and the resultant need to travel for business purposes.

The relationship between historical growth in RPKs and GDP varies between regions, but averages approximately two times.

Air Fares
Air traffic has increased as air fares have become more affordable. Growth in leisure traffic tends to be more sensitive to changes in air fares than growth in business traffic. In the US, for example, real air fares (per seat kilometre) have declined by an average of 2.2 per cent per annum between 1970 and 1999. The fall in real airfares worldwide is mainly due to reductions in airline costs caused by technological improvements and increased levels of operational efficiency.

Industry sources expect that both air fares and airline costs worldwide will continue to decline in real terms, albeit more slowly than in the past. The decrease in airline costs is expected to be partially offset by an increase in security costs following the events of September 11, 2001.

Airline Deregulation
Historically, the provision of air services has been heavily regulated. Regulators could control routes operated, frequency, capacity, the number of airlines and the fares charged. In certain markets these controls have been reduced or removed to the extent that the only constraints are those controlling safety and security.

The US effectively pioneered domestic deregulation from 1978. Other markets have followed, most notably the European Union from 1997. A number of US-to-Europe markets have also been deregulated with bi-lateral agreements, which control the entry of new carriers, frequencies and services, replaced with more liberal "open-skies" policies. The effects of deregulation are still developing in Europe and are expected to have a positive impact on traffic growth for some years.

Deregulation stimulates traffic growth in three ways:

– conventional carriers can increase frequencies and introduce new routes, thereby increasing service levels and the level of competition;

– low cost scheduled carriers (such as Virgin Blue in Australia, Southwest Airlines in the US and Go in the UK) can enter the market, further increasing competition and services provided; and

– airlines can introduce differential fares to maximise revenues and load factors.

5.3 Regulation

Australian Regulation
For information on regulation of Australian airports, see the Regulatory Report by Deloitte Touche Tohmatsu in Section 10.

Regulation in Other Jurisdictions
A variety of regulatory systems have been applied elsewhere in the world.

At New Zealand airports the system is similar to that being introduced in Australia. There are no price controls, although airports are required to publish fully transparent cost justifications for any price increases and the government retains powers to introduce further regulation should it see fit to do so.

At major UK airports (Heathrow, Gatwick, Stansted and Manchester) there is a CPI-X formula applied only to aeronautical charges, although income and costs from non-aeronautical activities are taken into account in setting the CPI-X formula. This method of regulation is sometimes described as a single till system. The UK regulator, the Civil Aviation Authority, has proposed a move to dual till regulation, though the UK regulatory process is complex and the Competition Commission, which advises CAA, supports retaining a single till system.

Other UK airports have no price controls, although the government has powers to introduce them if required. In practice, no new airport has been designated for price control in the 15 years since the relevant act was passed and proposals that regulation should be introduced at Edinburgh and Glasgow (owned by BAA) and at Luton have been rejected.

At some European airports, such as Vienna, there are forms of CPI-X regulation. At others, such as those in France, Germany and Italy, there is no fixed formula. The airport makes proposals to government agencies for price increases prior to their implementation.

Within the industry there has been active discussion by regulators, airports and airlines on downgrading the importance of formal price regulation and replacing it with direct commercial agreements between airports and airlines – as occurs at UK regional airports.

6

6.1 Management Overview

MAT1 and MAT2 (the "Trusts") are managed by Macquarie Airports Management, the responsible entity of the Trusts. Macquarie Airports Management is responsible for all investment decisions of the Trusts, and the operational input into the Trust's assets once purchased.

MAHBL is advised by MIMUK. Under the terms of the advisory agreement, MIMUK makes recommendations to MAHBL in respect of prospective investments and manages the day to day business affairs of MAHBL.

Macquarie Airports Management

Macquarie Airports Management's executive team draws together a range of expertise in the strategic and commercial management of airports, transaction origination and execution and infrastructure funds management, led by its Managing Director, Kerrie Mather.

Managing Director – Kerrie Mather

Kerrie Mather is an Executive Director of Macquarie with 20 years' experience across a range of areas including infrastructure advisory on airports, tollroads, other infrastructure and various other investment banking business. Kerrie joined Macquarie in 1986 and became an Executive Director in 1998. Prior to joining Macquarie, Kerrie worked for the Commonwealth Government for four years, where she was a member of a team that project managed the completion of a range of large construction projects. Kerrie was involved in the establishment of MAp and has recently completed the acquisition of Sydney Airport for MAp, had roles as financial and business adviser to Adelaide Airport and has advised a major airline and its alliance partners on airport terminal strategies at a number of major Australian airports. Additionally, she has had experience in running Macquarie's portfolio of leasing and lending assets and also in establishing and managing a number of businesses, including in leasing and technology. Kerrie has played a key role in developing Macquarie IBG's airport specialty. Kerrie is a director of Sydney Airports Corporation Limited and Southern Cross Holdings.

Specialist Adviser – Martyn Booth

Martyn Booth is a key executive of MIMUK, the UK based adviser to Macquarie Airports Group and to MAHBL. Martyn is a director of Sydney Airports Corporation Limited and Southern Cross Holdings. In his role as Specialist Adviser to Macquarie Airport Management, he provides strategic input to Macquarie Airports Management with regard to the sourcing and analysis of investment opportunities and the commercial and operational strategies developed by Macquarie Airports Management to enhance the value of airports once purchased.

Executive Staff of Macquarie Airports Management

Macquarie Airport Management's executive team is drawn from the Macquarie ISF Division and includes:

Name	Resume	Role
Stephen Mentzines Division Director, Macquarie	Stephen is the Chief Operating Officer of Macquarie's specialised infrastructure funds management business. Since joining Macquarie in 1998, he has had a wide range of experience across the Investment Banking Group, including commercial and business management, asset and risk management and projects. Stephen is a chartered accountant, having worked with KPMG in both Sydney and London. Prior to Macquarie, he worked at Westpac Banking Corporation as financial controller of a number of the major operating divisions and change programs.	Risk Management, Business planning, Commercial management
Christopher Voyce Division Director, Macquarie	Christopher joined Macquarie in 1994 and since that time has gained extensive experience in the structuring and financing of infrastructure projects. He has advised on mergers and acquisitions, project and corporate debt raising and valuations. Christopher played a leading role in the establishment of MAG and was a core member of the team which advised Sydney Airports Corporation on its initial $1.4 billion borrowing program in 1999.	Investment appraisal and negotiation
Timothy Stiel Associate Director, Macquarie	Tim is a chartered accountant and is responsible for the investment structuring and taxation affairs of Macquarie's ISF division. He was previously a director at PricewaterhouseCoopers in its Taxation and Legal Services Division.	Investment structuring, Taxation
Christine Williams Division Director, Macquarie	Christine is a qualified solicitor with over 10 years' experience in the funds management industry. She joined Macquarie in 1998 to work in Macquarie's ISF division in a company secretary/general counsel role and is responsible for the legal and regulatory compliance of Macquarie's Australian based listed and wholesale infrastructure funds including MIG.	Legal and regulatory compliance
Lisa Fraser Associate Director, Macquarie	Lisa is a chartered accountant and joined the Financial Operations division of Macquarie in 1993. In October 1998 Lisa transferred to Macquarie's ISF division. She is now the financial officer for the listed and wholesale infrastructure funds managed by ISF.	Finance
Erica Sibree Manager, Macquarie	Erica joined Macquarie in 1998 where she developed and managed the Bank's investor relations function, overseeing communications to the investment community including Macquarie's acquisition of the Bankers Trust Investment Bank in 1999 and the September 2001 $500 million capital raising.	Investor Relations

Macquarie Airports Management and MAHBL has access to the following executives employed by Macquarie and based in Macquarie's ISF London office. Their previous positions prior to joining Macquarie are listed below:

Name	Resume	Role
Dr Richard Sharp Associate Director, Macquarie	Partner, Portland Group Assistant Director Corporate Strategy, BAA Regulatory Review Manager, BAA Business Development Manager, BAA Privatisation Manager, BAA	Airport strategy Aeronautical charges Investment appraisal Business planning
Marcus Balmforth Associate Director, Macquarie	Commercial Director at Luton Airport Group Head of Retailing (Shops), BAA Group Marketing Manager, BAA Heathrow Retail Manager, BAA Senior Retail Manager, Sears plc	Airports strategy Commercial and retail strategy and development Cost restructuring, airport marketing and business planning
Simon Morris Associate Director, Macquarie	Partner, Portland Group Senior Project Manager, DDV Telecommunication Financial Analysis Manager, British Telecom Consultant, KPMG Finance Manager, BAA	Financial analysis and business appraisal
Charles Williams Senior Manager, Macquarie	Consultant, Portland Group Business Development Manager, BAA International Corporate Strategy Manager, BAA MMC Manager, BAA Business Development Manager, Heathrow Airport Corporate Planner, BAA	Traffic Forecasts Analysis of aeronautical charges and cost productivity
Anthony Keating Senior Manager, Macquarie	Consultant, Portland Group Head of Management Consulting, British Aerospace Consultancy Services (BAeCS), Business Development Executive, BAeCS Chief Executive, Inner City Development Agency	Organisational reviews and management restructuring, business planning, managing public sector interface
Doug Benham Senior Manager, Macquarie	Consultant, Portland Group Director of Business Development, World Duty Free, BAA Pacific Retail director, BAA Retail Strategy Manager, BAA Commercial Manager, Heathrow Terminal 4	Retail analysis and planning Retail strategy and business planning Commercial revenue growth strategies

Macquarie Airports Holdings (Bermuda) Limited (MAHBL)

MAHBL has entered into an Advisory Agreement with MIMUK under which MIMUK has agreed to act as adviser to MAHBL. A summary of the key terms of the Advisory Agreement is included in Section 11 of the IPO Prospectus.

MIMUK has been issued with an A Special Share which entitles it to appoint the Managing Director and other director(s) constituting up to 50 per cent of the MAHBL board.

Macquarie Airports Management, as responsible entity of MAT1, has been issued with a B Special Share which entitles it to appoint director(s) constituting up to 25 per cent of the MAHBL board while the entities are stapled.

Relationship Between MAHBL and the Trusts (MAT1 and MAT2)

Macquarie Airports Management, as Responsible Entity and manager of the Trusts, MAHBL, and its adviser MIMUK, have entered into a Stapling Deed which governs the cooperation, investment policy, the making of investments, capital raising, borrowings, financial reporting, continuous disclosure and certain other administrative matters for the three stapled entities with a view to ensuring consistency in the management of MAp. For further information, see Section 11 of the IPO Prospectus, which contains a summary of the key terms of the Stapling Deed.

6.2 Directors

Directors of Macquarie Airports Management Limited

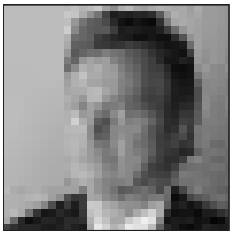
The board of Macquarie Airports Management has responsibility for corporate governance and the operation of the responsible entity. The directors of Macquarie Airports Management who are employed by Macquarie are Nicholas Moore, Anthony Kahn, Kerrie Mather and Gregory Osborne. Helen Nugent and Trevor Gerber are external directors. Helen Nugent is Chairman. Curriculum vitae for each of these directors is as follows.

Helen Nugent, BA (Hons), MBA (Harvard), PhD (Qld)
Chairman

Helen Nugent is a Non-Executive Director of Australia Post, TAB Queensland Limited and Macquarie Bank, as well as being Chairman of Funds SA and Swiss Re Australia Group. She is also Deputy Chair of the Australia Council. She was recently appointed as Chairman of Sydney Airports Corporation Limited and a director of Southern Cross Holdings. Helen was previously director of Strategy at Westpac Banking Corporation (Westpac) and was part of the executive team reporting to Mr Bob Joss that, post 1991, turned Westpac's financial performance around. Prior to joining Westpac, Helen was a partner with McKinsey and Company working with clients in high fixed asset industries such as mining, aluminium, automobiles, glass and paper. She has also been a Professor in Management and director of the MBA Program at the Australian Graduate School of Management where she taught courses in strategic management.

Kerrie Mather, BA, M Comm
Executive Director, Macquarie

Kerrie Mather's resume is set out in Section 6.1.

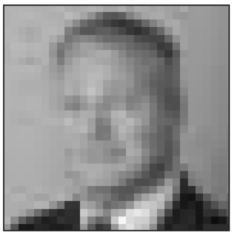


Nicholas Moore, B Comm, LLB, CA
Executive Director, Macquarie

Nicholas Moore is the Head of Macquarie's Investment Banking Group. Macquarie is Australia's largest investment banking business which has developed a global leadership position in a number of businesses including infrastructure, advising on more than $20 billion of transactions per annum and managing more than $10 billion of infrastructure assets. Nicholas joined Macquarie in 1986 and was appointed as Head of Macquarie's Asset and Infrastructure Group in 1997. Nicholas has been primarily responsible for the development of the infrastructure, structured finance and leasing businesses of the group. Prior to joining Macquarie, Nicholas practised as a Chartered Accountant specialising in the provision of taxation advice to the finance industry. Nicholas is a director of Hills Motorway Limited and Macquarie Infrastructure Investment Management Limited ("MIIML"), the responsible entity of the trusts comprised in the Macquarie Infrastructure Group ("MIG").

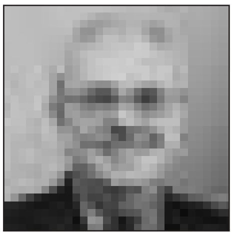
Anthony Kahn, B Comm, B Acc, CA, ASIA
Executive Director, Macquarie

Anthony Kahn joined Macquarie in 1985. In 1998, Anthony became the Head of the Infrastructure and Specialised Funds Division. Anthony has also been the Managing Director of MIIML, which manages the Australian trusts comprised in MIG, since 1998. In this time MIG has grown from a market capitalisation of $500 million to over $5 billion. In the 12 months to 30 June 2001, MIG was the best performing stock on ASX 100. Anthony is also a director of Macquarie Airports Group, Macquarie Specialised Asset Management Limited and Hills Motorway Management Limited.



Gregory Osborne, B Comm, M App Fin, CA
Executive Director, Macquarie

Gregory Osborne has 16 years' experience in the banking and finance industry. Gregory joined Macquarie in 1992 after working for Security Pacific Australia Limited for eight years. Prior to that, Gregory worked for Pricewaterhouse for four years, where he practised as a Chartered Accountant specialising in the finance and insurance industries. Gregory is a director of several infrastructure investment vehicles including Macquarie North American Infrastructure, Inc., Detroit and Canada Tunnel Corporation and Macquarie Korean Infrastructure Corporation. Gregory is the Managing Director of Macquarie Specialised Asset Management Limited ("MSAM"). MSAM is the responsible entity (and trustee, respectively) of one registered and one unregistered managed investment scheme, which each hold interests in MAG.



Trevor Gerber, B Acc, CA
Non-Executive Director

Trevor was with Westfield Holdings Limited for 14 years, until 1999, as Group Treasurer and subsequently as director of Funds Management responsible for Westfield Trust and Westfield America Trust. He is a consultant to the Westfield Group, Ernst & Young and Medina Serviced Apartments. Trevor is a director of Hamilton Island Limited, Macquarie ProLogis Management Limited and Macquarie Countrywide Management Limited. He is an investment committee member of the Australian Property Mezzanine Debt Fund, and Chairman of the management committee of the Australian Property Development Fund No. 1.

Directors of MAHBL
The board of MAHBL has responsibility for corporate governance and the administration of MAHBL. The directors of MAHBL are Martyn Booth, Edith Conyers, Sharon Beesley and Trevor Gerber.

Martyn Booth, BA
Executive Director, Macquarie
Martyn Booth co-founded the Portland Group in 1994 following 13 years with BAA plc. During this time his roles included director of Corporate Strategy, Head of Finance at Heathrow Airport and General Manager of Privatisation. Martyn also held the position of Economic Adviser to HM Treasury.

Edith G. Conyers, BA
General Manager and director,
Forum Fund Services Ltd
Edith Conyers joined Forum Fund Services as General Manager in September 1997 and has over 10 years offshore funds industry experience. Prior to that, she held the position of General Manager of International Corporate Management of Bermuda Limited, a wholly-owned subsidiary of Bermuda Commercial Bank Limited, specialising in offshore fund administration and management of exempted companies in Bermuda. Edith acts as director of a number of offshore funds and companies.

Sharon A. Beesley, BA, LLM
Executive Director, ISIS Limited
Sharon Beesley is an executive director and founding shareholder of ISIS Limited. ISIS works as a consultant to a number of institutions which are structuring their businesses or financings using Bermuda as a base, as well as fund managers wishing to launch or restructure offshore investment funds. In addition ISIS is licensed in Bermuda as an insurance intermediary, focusing on structuring and sourcing finance-related insurance products for the Bermuda insurance and reinsurance markets. Before joining ISIS, Sharon worked for several years in London and Hong Kong with Linklaters & Alliance and was head of banking with Mello Jones & Martin, a Bermudian law firm.

Trevor Gerber, B Acc, CA
Non-Executive Director
Trevor Gerber's resume is set out earlier in this Section.

6.3 Compliance Committee and Custodian

Compliance Committee
The Corporations Act requires that either that half of the responsible entity's board be independent or that a compliance committee, with a majority of independent members, be appointed. Because less than half of its directors are independent, Macquarie Airports Management has established a compliance committee for MAT1 and MAT2, the functions of which include monitoring Macquarie Airports Management's adherence to an approved compliance plan and regularly assessing the adequacy of that plan. The compliance committee has a duty to report any breach or suspected breach of the Corporations Act or of the relevant constitution to Macquarie Airports Management and, if necessary, to ASIC. Members of the compliance committee have director-like duties to the unit holders in each Trust in respect of their role in monitoring regulatory compliance. The members of the compliance committee are:

Kerrie Mather
Kerrie Mather's resume is set out in Section 6.1.

Allan Cowper (External)
Allan Cowper has more than 20 years' experience in corporate trust administration and compliance. He has held senior compliance roles in the financial services industry over that period and is currently a member of various compliance committees for listed and unlisted managed investment schemes.

Ray Kellerman (External)
Ray Kellerman has worked in the financial services industry for more than 15 years. He has acted in legal and compliance roles in the areas of funds management, corporate and structured finance, infrastructure and project finance. Ray is a compliance committee member for numerous equity and property based managed investment schemes.

Custodian
Macquarie Airports Management has appointed Trust Company of Australia Limited as Custodian of the assets of MAT1 and MAT2.

Administrator
MAHBL has appointed Forum as corporate administrator for the purposes of performing corporate administration services.

6.4 Ongoing Reporting to Security Holders

It is MAp's policy to provide timely and accurate information to all stakeholders, including Security Holders and regulators. Under the terms of the Stapling Deed, Macquarie Airports Management, MAHBL and MIMUK are obliged to exchange relevant information and co-ordinate ASX releases and financial reporting.

Security Holders will receive an annual report and concise financial statements and a half yearly update. These reports will keep Security Holders informed of MAp's performance and operations. Annual general meetings will be held each year, and resolutions ratifying any placements in the previous year will be proposed at those meetings.

Systems are currently being put in place to enable Security Holders to elect to obtain automated notification of all ASX releases. Newsletters will be sent to Security Holders from time to time.

7

7.1 Use of Proceeds

The Offer is intended to raise a maximum of $670 million, which will be used as detailed below:

Use of Proceeds

	$ million
MAp's direct interest in MALSA (including acquisition transaction costs)	382
MAp's indirect interest in MALSA through MAG[1]	158[1]
Repayment of Borrowings	130
Total	**670**

1 MAp's total indirect interest in MALSA through MAG is $160 million, funded by cash of $2 million and Offer proceeds of $158 million.

7.2 MAp Pro Forma Statement of Financial Position

MAp is comprised of two Australian trusts, MAT1 and MAT2, and one Bermudian company, MAHBL. The units in MAT1 and MAT2 and the shares in MAHBL are stapled pursuant to the Stapling Deed and under the Bye-Laws for MAHBL and constitutions for MAT1 and MAT2 as summarised in Section 11.9 of the IPO Prospectus. Each Security in MAp comprises one unit in MAT1, one unit in MAT2 and one share in MAHBL. The units in the Trusts and shares in MAHBL cannot be traded separately and can only be traded as a stapled security. MAp will be required to prepare aggregated financial statements combining the financial statements of the Trusts and MAHBL. Transactions between the entities will be eliminated in the aggregated financial statements of MAp.

The following Pro Forma Statement of Financial Position for MAp has been prepared as at 30 April 2002 incorporating the following assumptions:

- the issue of approximately 441 million Fully Paid Securities through the Macquarie Placement, Institutional Placement and Priority Entitlement Offer. Total amount raised of $670 million in accordance with the Offer outlined in this Prospectus;
- the payment of approximately $160 million (€92 million) for an indirect interest in AdR through MAG;
- payment of approximately $382 million (€220 million) (including acquisition transaction costs) for an interest in AdR;
- the payment of approximately $88 million for an indirect interest in Sydney Airport through MAG;
- payment of approximately $815 million for an interest in Sydney Airport;
- the payment of underwriting and fund raising costs of approximately $20 million which has been deducted from Security Holders' equity;
- utilisation of a $500 million bridging facility drawn to finance the Sydney Airport investment;
- utilisation of a $130 million Letter of Credit facility in order to fund the balance of the Sydney Acquisition to be repaid utilising funds raised through the Final Instalment;
- the consolidation of SCAAT (see Section 3 for Sydney Airport acquisition structure), which includes $305 million in outside equity interests (as SCAAT is not wholly-owned by MAp);
- the receipt of the Final Instalment of $500 million;
- repayment of the $500 million bridging facility;
- the receipt of $29 million underwriting income in relation to the investment in Sydney Airport; and
- the payment of $5 million of selling expenses in relation to the Final Instalment, deducted from Security Holders' funds.

Macquarie Airports Pro Forma Statement of Financial Position

($ million)	Actual 30/04/02	Pro Forma 30/04/02
Current Assets		
Cash assets	341.2	68.5
Receivables	0.1	0.1
Total Current Assets	**341.3**	**68.6**
Non-current Assets		
Other Financial Assets	134.1	1,885.0
Total Non-current Assets	**134.1**	**1,885.0**
Total Assets	**475.4**	**1,953.6**
Current Liabilities		
Payables	1.3	1.3
Total Current Liabilities	**1.3**	**1.3**
Total Liabilities	**1.3**	**1.3**
Net Assets	**474.1**	**1,952.3**
Equity		
Security Holders' funds	472.8	1,617.5
Retained profits	1.3	29.8
Outside Equity Interests	–	305.0
Total Equity	**474.1**	**1,952.3**

Commitments to Invest

MAp has a commitment to pay future calls on MAG shares up to their fully paid value.

The total maximum amount of future calls payable by MAp on MAG Shares is approximately €83 million, or $146 million, including an amount of $144 million to fund the balance of the Rome Acquisition. The Pro Forma Statement of Financial Position assumes that this final call has been made. This will be funded from the proceeds of the Offer.

7.3 Significant Accounting Policies of MAp

The following significant accounting policies adopted by MAp are intended to assist in providing investors with an understanding of how the performance of MAp will be presented in its financial reports each reporting period:

Investments

MAp's investments are revalued as at each reporting date to their net market values in accordance with AASB 1030: Application of Accounting Standards to Financial Year Accounts and Consolidated Accounts of Disclosing Entities Other than Companies. Changes in the net market values of investments (both positive and negative) are recognised in investment revenue from ordinary activities in the statement of financial performance each year.

The value of investments are brought to account as follows:

Interests in Listed Securities in Companies and Trusts

Non-controlling interests in listed companies and trusts will be brought to account at net market value, after deducting selling costs and allowing for any specific risks or circumstances such as liquidity risk, credit risk, or escrow periods. Dividends and other distributions will be recognised in the Statement of Financial Performance when receivable.

Interests in Unlisted Securities in Companies and Trusts

Non-controlling interests in unlisted companies and trusts will be brought to account at directors' estimates of net market value determined in accordance with either a discounted cash flow analysis, option pricing model, or by reference to the current market value of substantially similar interests, as appropriate. Dividends and other distributions will be recognised in the Statement of Financial Performance when receivable.

Interest Bearing Financial Assets

Interests in interest bearing public and other debt securities will be brought to account at net market value. Adjustments to the net market value of public and other debt securities will be recognised in the Statement of Financial Performance. Other interest bearing financial assets will be accounted for on an accruals basis.

Investment acquisition costs will be capitalised into the value of the investment at the time of purchase.

Additions and other expenditure on investments which are capital in nature will be capitalised as incurred.

Investments in Associates

Interests in associates which have been accounted for at net market value will not be equity accounted.

Supplementary information will be included in the notes to the financial statements to the extent required by AASB 1016: Accounting for Investments in Associates.

Hedge of Specific Investments

To the extent that any cash is held on deposit in Euros specifically to meet MAp's firm commitment to invest in a call on MAG Shares, any exchange gain or loss on the cash deposit will be offset against the exchange gain or loss incurred on the commitment to invest in the call on MAG Shares.

Foreign Exchange Gains or Losses
As investments of MAp are revalued to net market value each six months, any foreign exchange gain or loss on a foreign investment will be recognised in the Statement of Financial Performance each reporting period.

7.4 Future Distributions

Distribution Policy
Distributions to Security Holders will be payable half yearly in arrears in February and August in respect of the preceding six month periods ending 31 December and 30 June.

Macquarie Airports Management is required under the Trust Deed of MAT1 to distribute at least the taxable income of MAT1 to Security Holders each year.

MAT1 will distribute all of its taxable income in respect of each six month period. The distribution policy for MAT2 and MAHBL will be determined by Macquarie Airports Management and the directors of MAHBL respectively each year.

Forecast Distributions
Securities issued under this Offer will not participate in the June 2002 distribution, but will participate in full in the December 2002 distribution.

Macquarie Airports Management and MAHBL forecast distributions for each of the six month periods to 30 June 2003 in the table below. These distributions may comprise both an income component (representing dividends from investments and interest) and a capital component.

	6 months to 31 Dec 2002	6 months to 30 June 2003
Distribution per Fully Paid Security[1] (Cents)	4.0	2.9
Annualised Yield (based on $1.50 Issue Price)	7.0%[2]	3.9%
Annualised Yield above normalised[3]	4.0%	3.9%

1 Paid in respect of the six month period ending June and December, respectively, of each year. Dividends are expected to be paid in February and August following each distribution period.

2 Annualised yield assuming payment of the Issue Price by investors under the Offer on 13 August 2002.

3 Annualised yield adjusted for the exclusion of one-off underwriting fee income of $28.5 million received in July 2002 and one-off borrowing costs associated with the acquisitions of $13.5 million.

The forecast distributions payable reflect the net cashflow expected to be received by MAp in each of the respective periods from its investments, interest on surplus funds and after payment of all cash costs paid or accrued at the end of each period. Distributions in any 12 month period may vary due to timing of dividends from investments.

Forecast Distribution Assumptions
The forecast distributions are derived from the following sources:

– Distributions from Southern Cross Holdings which are based on the following assumptions:
  - the forecast EBITDA of Southern Cross Holdings to June 2003 prepared on the assumptions shown in Section 3.7, Forecast Financial Information;
  - capital expenditure of $102 million for the 12 months to 30 June 2003 which will be funded from free cashflows and cash reserves in accordance with senior debt documentation;
  - interest paid to senior debt and on FLIERS in the forecast period from reserves and available cash;
  - all available cash is distributed to the shareholders of Southern Cross Holdings subsequent to the end of each quarter; and
  - no tax is payable by Southern Cross Holdings in the period;

– Distributions from AdR, which are based on the following assumptions:
  - the payment of the 2001 dividend from AdR in October 2002 (this assumes the completion of the Rome Acquisition occurs prior to the date of declaration of the AdR dividend). If completion of the Rome Acquisition occurs subsequent to the date of declaration of the AdR dividend, the cost of MAp's investment in AdR will be reduced by this amount and will be available for distribution as capital to investors;
  - the payment of the 2002 dividend from AdR in April 2003 which is based on the forecast EBITDA and assumptions shown in Section 4.7, Forecast Information;
  - no significant changes in the rates and timing of income tax payable in the forecast period;
  - interest is paid on the level of borrowings as described in Section 4.5, Financial Information; and
  - capital expenditure as described in Section 4.5, Financial Information;

– Forecast dividends from MAG which are based on the following assumptions:
  - expected dividends to be paid by MAG of $3.5 million in July 2002 and $6.4 million in January 2003. The dividends will be based on distributions received in the prior six month period from MAG's investments in Bristol Airport, Birmingham Airport, Sydney Airport and AdR after allowing for expenses incurred in the management of and operation of MAG;

– Other MAp assumptions include:
  - receipt of underwriting fee income of $28.5 million earned in relation to MAp's investment in Southern Cross Holdings in July 2002;
  - payment of interest on facilities prior to repayment soon after receipt of the Final Instalment on 1 October 2002 and other costs by MAp;
  - interest income earned on cash balances of MAp at a rate of 4 per cent per annum; and
  - Management fees payable by MAp to Macquarie Airports Management and MIMUK being settled by the issue of Securities for each of the September 2002, December 2002, March 2003 and June 2003 quarters at $2.00 per Security (based on the assumption that the MAp volume weighted average Security price for the last 15 trading days of each quarter does not exceed $2.00).

Sensitivities

The distribution forecasts are sensitive to the assumption that the average volume weighted Security (as per definition) price for the last 15 trading days of each quarter is equal to or less than $2.00 and accordingly management fees are paid for in Securities. If the average volume weighted Security price for the last 15 trading days of each quarter is $2.01 (and management fees are paid in cash) the forecast distributions would be as follows:

	6 months to 31 Dec 2002	6 months to 30 June 2003
Distribution per Stapled Security	3.0 cents	1.9 cents

If returns from MAp's investments are greater than those forecast, Macquarie Airports Management and MAHBL may, at their discretion, consider making a distribution which is higher than the forecast distribution. If returns from the investments are lower than those forecast, Macquarie Airports Management and MAHBL may make distributions which are lower than forecast distributions, or no distributions at all.

The level of distributions to be paid by Macquarie Airports Management and MAHBL will be dependent on achievement of the business plans of each of the airports in which MAp invests, including those investments made by MAG.

MAp may also, at its discretion, consider returning capital to Security Holders.

Macquarie Airports Management and MAHBL can give no assurance for the six month periods ending 31 December 2002 and 30 June 2003 or for any future period regarding the payment of distributions as actual events might differ from the assumptions used in assessing the anticipated ability of MAp to pay those distributions. In addition, the forecasts above should not be taken as implied forecasts for future periods beyond 30 June 2003 of returns to Security Holders.

7.5 Financing Facilities

In order to fund the Sydney and Rome Acquisitions, it was necessary for MAp to obtain a $500 million bridging finance facility and a $130 million Letter of Credit facility. MAp made a drawdown of $500 million on a bridging finance facility during June 2002. The cash was utilised to fund MAp's investment in Sydney Airport, made during June 2002. It is the intention to utilise $130 million of the cash to be received under this Offer and $370 million of the Final Instalment due on 1 October 2002, to repay this facility. The terms of the facility provide for repayment by 16 October 2002.

MAp made a drawdown of $130 million on the Letter of Credit facility during June 2002. The cash was utilised to partly fund MAp's investment in Sydney Airport, made during June 2002. It is the intention to utilise a portion of the cash to be received from the Final Instalment to repay this facility after repayment of the bridge facility on 16 October 2002. The terms of the facility provide for repayment by 6 June 2003, or a later date as may be agreed with the financier.

Distribution Reinvestment Plan

MAp may offer a distribution reinvestment plan ("DRP") to Security Holders commencing after all Securities are fully paid. Under the DRP, Security Holders will remain entitled to distributions in respect of Securities which they have nominated to participate in the DRP; however, the distributions applicable to these Securities will be applied to pay for additional fully paid Securities in MAp. If the DRP is implemented, Macquarie Airports Management and MAHBL will have the discretion to offer the Securities at a discount of up to 10 per cent to the prevailing market price.

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Owning securities in MAp will expose Security Holders to a number of risks. These include general risks related to investing in equity securities, risks inherent in investing in airports, risks associated with the Sydney and Rome Acquisitions, risks relating to infrastructure investments (including airports), and risks specific to an investment in MAp.

8.1 General Risks

The price of Securities on ASX may rise or fall due to numerous factors including:

– general economic conditions, long term inflation rates, exchange rates and interest rates;

– movements in the general market for stocks listed on ASX and/or other international stock markets; and

– changes to government regulation and policies.

An investment in MAp should be regarded as speculative and none of Macquarie Airports Management as Responsible Entity of each of the Trusts, MAHBL, any of the directors of Macquarie Airports Management or MAHBL nor any other party associated with the preparation of this Prospectus guarantees that any specific objectives of MAp will be achieved or that any particular performance of MAp or the Securities, including those offered under this Prospectus, will be achieved.

8.2 Risks Applicable to Airports

There are a number of factors which will affect the performance of investments in the airport sector and accordingly returns on an investment in MAp. Examples are set out below:

Passenger and Aircraft Movements

The key drivers of airport revenues are passenger traffic and the number of aircraft movements and size of aircraft. The number of passengers using airports may be affected by a number of factors including general economic conditions, demographic changes, changes in taste or fashion, overall airline costs (including, for example, fuel costs) industrial action in the aviation sector (airport, airline or air traffic control), the number of airlines using the airport, mergers among airlines, competition from other airports, competition from other types of transport, competition between airlines, competition from alternative destinations, the price of airline tickets, quality of surface transport access, currency exchange rates, mix of domestic and international passengers, terrorist acts and sovereign and political risk. Aeronautical revenue is generated through charges levied for the use of airport infrastructure, with charges typically levied on the basis of total aircraft weight and passenger volumes. Aeronautical revenue is therefore dependent on the number of aircraft movements, aircraft type (as it affects their weight) and number of passengers using the airport.

Non-aeronautical Revenues

Non-aeronautical revenues include retailing, car parking and property. Retail revenues are driven by passengers and their propensity to spend in the shops provided at the airport. There is a risk that the expected levels of expenditure will not be achieved as a result of passenger profile changes, economic factors or the reduced competitiveness of the airport retail offering. The main driver of car park revenues is the propensity of passengers and other airport users to park their cars at the airport. There is a risk that the expected propensity levels will not be achieved as a result of competition from other modes of transport and lower utilisation rates of the airport car parks. There is a risk that expected revenues will not be achieved as a result of a reduced demand from users.

Regulatory and Other Public Policy Changes
For many airports, a substantial proportion of revenue is generated from regulated activities. There is a risk that airport revenues could be adversely affected by increased economic regulation of those airports, and/or the application of existing regulations for example, through a reduction in price caps on aeronautical charges or an increase in the number of services which are subject to regulation. There is also a risk that economic regulation will be introduced at airports which currently are not regulated. Apart from changes to regulatory pricing, airport revenues could be affected by changes to government aviation policy, including route licensing, security, immigration, safety airport development and provision of capacity together with changes in tax, duty and other regulatory regimes which affect the retail operation of airports.

Operational Risk
The operation of an airport is a complex undertaking and involves many risks which include the effect of poor weather, variable aircraft movements, traffic congestion, reliance on technical equipment, airline hub requirements and procedures and design limitations. Since the general incidences of these factors have applied historically, any impact is reflected in past performance. However, it is possible that the importance of these factors will increase over time – possibly driven by increases to the overall level of traffic. These and other factors could significantly affect revenues or significantly increase operating costs and could potentially impact the economic viability of airports.

Competition from Other Airports and Modes of Transport
An airport's market share may be adversely affected by competing airports developing or increasing their capacity or expanding their catchment area. The expansion and development of surface transport links, for example, motorways and high-speed rail, which improve access and reduce travelling time between airports and their major catchment areas may also affect airport market share.

Improvements in Communications Technology
Significant improvements are being made over time to the quality and affordability of communications links such as video-conferencing and in consequence meetings through remote link ups are becoming increasingly common. There is a danger that business meetings at remote sites may be increasingly regarded as unnecessary, and that as a result the business related component of travel is reduced in importance.

Political Risk
Passenger traffic may be affected by the sovereign or political risk of the destination country or region. Major disturbances such as wars, riots, strikes, blockades and acts of terrorism, have the potential to adversely affect passenger traffic.

Environmental Risks
Airports can have a substantial environmental impact. Land acquisition to build or expand an airport may be difficult. Community and environmental groups may raise protests which may be successful in attracting publicity and persuading governments to take action. Airports may attract opposition from environmental groups in relation to issues such as air pollution, noise pollution, poor visual impact and effects on flora and fauna. There is a risk that affected parties may attempt to limit the activities of an airport, its hours of operation or its impact on the surrounding community, through lobbying and political pressure, through litigation, or through direct action. Changes in environmental and planning regulations (for example, in relation to noise control, hours of operation, night curfews and the ability to develop and extend surface access to airports) may prevent or restrict development of airport assets and result in increased capital and operational expenditure.

Airlines
Any actions by airlines which affect passenger numbers could adversely affect the financial performance of airports. Decisions on the timing of services, the prices of airline seats, the aircraft used and the detailed routings may impact on traffic levels at airports. The decisions of airlines are particularly important where they have a major presence at the airport, such as Qantas at Sydney or Go at Bristol. The airline industry is highly competitive and airlines may be subject to a high level of commercial and financial risks, sometimes leading to bankruptcies or mergers. When this occurs passenger traffic at airports is disrupted in the short term, and potentially reduced over the long term as lower competition decreases pressure to improve services and decrease airfares.

Accidents
Airports are exposed to the risk of accidents, including aircraft crashes. Such accidents may result in injury or loss of human life, damage to airport infrastructure and short or long term closure of part or all of an airport's facilities and may have an ongoing impact on passenger traffic levels.

Terrorism
International aviation has been subject from time to time to terrorist actions, the most notable being September 11. Airport operations include anti-terrorism measures, some of which (such as passenger search or hold baggage screening) may have an effect on passenger flows.

An increase in perceived terrorism risk may lead to heightened security measures resulting in higher costs for airports (which may or may not be recoverable through aeronautical charges) and congested passenger facilities, which may reduce airport capacity and impact negatively on areas such as retailing.

There is a risk that major terrorism events may lead to a temporary cessation of flights to some (or all) destinations. Such events may also lead to a reduction in propensity to travel which may apply to limited destinations or globally. Terrorism events may also lead to further increases in insurance costs or in reduced insurance availability.

It is also possible that an airport in which MAp has an interest, or aircraft on the ground at an airport in which MAp has an interest, may be subject to a terrorist attack. There is a risk of damage to airport assets and possible suspension of operations through some or all of the airport.

8.3 Risks Specific to MAp

Discount Rates
The investments in which MAp will have a significant stake may be unlisted. These assets will be valued using a variety of methods, including discounted cash flows. The valuations will therefore be particularly sensitive to the choice of discount rate used. Macquarie Airports Management and MAHBL intend to use market determined discount rates, adjusted for the level of risk, in performing the valuations. The valuation of MAp's assets, and as a consequence, its reported results, will be susceptible to movements in comparable discount rates, which for infrastructure assets may be volatile given the relatively small number of investments available for comparison.

Liquidity Risks
MAp may invest in assets that are not listed on a stock exchange or for which there are only a limited number of potential investors. As a consequence, the realisable value of an asset may be less than the full value indicated by its future cashflows.

Foreign Currency Risks
Adverse movements in currency exchange rates have the potential to reduce investment returns. Investments will be denominated in multiple currencies and therefore their values may fluctuate as a result of changes in currency exchange rates. Securities will be denominated in Australian dollars, and therefore will be subject to any fluctuation in the rate of exchange between the Australian dollar and the domestic currency of each investment. Such fluctuations may have an adverse effect on the value, price or income of an investment in MAp. MAp currently does not intend to hedge foreign exchange exposure on overseas investments. However, commitments to make investments which are denominated in foreign currencies may be hedged as close as possible to the time of making the commitment or raising the required capital.

Investment Strategy
Macquarie Airports Management and MAHBL are seeking to realise an above average rate of return from equity investments. Therefore, MAp's investments will generally involve a higher degree of risk than investments in bonds.

If MAp makes only a limited number of investments, poor performance by one or a few of MAp's investments could severely affect the total returns to Security Holders.

Reliance on the Manager
Security Holders will have no control over the day-to-day operations, including investment decisions, of MAp. Security Holders must rely entirely on Macquarie Airports Management, MAHBL and MIMUK, to advise on the conduct and affairs of MAp. Security Holders must rely on the judgment of Macquarie Airports Management, MAHBL and MIMUK, their delegates and, in particular, on the judgment of their respective principals, officers and employees. MAp's success depends in large part on the performance of Macquarie Airports Management. The loss of a key principal or officer or any personnel by Macquarie Airports Management could have an adverse effect on MAp.

Potential for Conflict of Interest
Macquarie comprises a large number of entities operating in a broad range of businesses. Although processes exist for actively managing any conflicts of interest, there is a risk that the resolution of such conflicts may lead to outcomes which are disadvantageous to MAp and its investors.

Taxation Risk
The tax rules or their interpretation in relation to an investment in MAp may change. In particular both the level and basis of taxation may change. In addition an investment in MAp may involve tax considerations which may differ for each Security Holder. Each prospective Security Holder is encouraged to seek professional tax advice in connection with any investment in MAp.

Amalgamation of MAHBL and MAG
As described in Section 9, it is intended that MAHBL and MAG will amalgamate upon listing of MAG. As MAHBL does not control MAG no assurance can be given that MAG shareholders will approve this amalgamation.

8.4 Risks Associated with the Sydney Acquisition
There are risks involved with the Sydney Acquisition and the performance of Sydney Airport. An overview of some of these factors is provided below.

Traffic
There is a risk that near term traffic forecasts may not be achieved if the recovery from September 11 does not continue as anticipated or there is another event similar to September 11, or in relation to domestic traffic forecasts, if Virgin Blue is unable to compete with Qantas as anticipated in the IATA Independent Traffic Report contained in Section 10.

The Ansett Terminal
Following the acquisition of the former Ansett terminal by Sydney Airports Corporation in May 2002, negotiations have been taking place with Qantas, Virgin Blue and Australiawide with regard to the terms and conditions to be agreed for operating from the terminal. As at the date of this Prospectus, negotiations are continuing. There is therefore a risk that no agreement will be reached with the airlines with regard to occupancy, and that the operational opening of the terminal will be delayed or that the expected financial terms of occupancy will vary from those currently being forecast. This would also affect retail, property, car parking, capital expenditure and operating expenditure forecasts for the Ansett Terminal.

Future Regulation and Regulatory Risk
Regulation restricting Sydney Airport's activities and/or pricing could be put in place by the Commonwealth Government. Such regulation could limit, inter alia:

- the availability of slots at Sydney Airport (for noise management, regional service, national security, or other reasons);
- the activities that Sydney Airport is able to undertake. This includes the possibility that Sydney Airport may be required to withdraw from certain activities;
- Sydney Airport's ability to determine the pricing of aeronautical or aeronautical related services;
- Sydney Airport's ability to control access to the airport; and
- Sydney Airport's ability to earn profit from services that are currently unregulated (by the imposition of specified cost allocations, cross subsidy requirements, or otherwise).

There is also a danger that regulation may require Sydney Airport to undertake investments (for environmental, anti-terrorism, noise protection, or other purposes) or otherwise restrict Sydney Airports Corporation's ability to manage the business of Sydney Airport on an independent commercial basis.

Litigation Risk
There is a dispute pending between Sydney Airports Corporation and Baulderstone Hornibrook Engineering Pty Limited and others in relation to rectification works on the parallel runway seawall and the millstream wall. Sydney Airports Corporation is seeking (amongst other things) to enforce a warranty obligation in the contract works agreement. Rectification costs could be in the range of $50 to $100 million. Sydney Airports Corporation has lodged a summons in the Supreme Court of NSW and while this is not expected by Sydney Airports Corporation, there is a risk that it may lose the case or is unable to recover any judgment or its full legal costs. There is a risk that, should the airport lose its case, the costs could reach the full cost of the rectification works plus legal costs of Sydney Airports Corporation and the defendants in excess of the amount provided by Sydney Airports Corporation.

A claim against Sydney Airports Corporation of approximately $12 million has been made by Haskins, a company recently placed into voluntary administration. While this is being challenged there can be no assurance that Sydney Airports Corporation will be successful in defending this claim.

Capital Expenditure

The primary drivers of anticipated capital expenditure are increased capacity requirements, improved service, enhanced safety and security, commercial opportunities, changed site use requirements and the reinvestment requirement associated with asset ageing. Various other factors could necessitate capital expenditure in excess of the amounts anticipated. These include greater than expected growth in activity, changes in site use (triggered by changes in traffic distribution, the requirements of customers, security issues, aircraft sizes, airline alliances, or otherwise), losses in excess of insurance cover (in the event of fire, aviation accident, natural disaster, terrorism or other risk events) and costs of structural problems with airport facilities and infrastructure not covered by warranties.

Where these costs relate to aeronautical activities, they would be expected to be recoverable from aeronautical charges. However there remains a risk that for regulatory or commercial reasons, Sydney Airport is unable to raise its charges sufficiently for full recovery. To the extent that future charges are determined by direct contracts with airlines, there is an additional risk that future capital costs may not be recoverable for contractual reasons.

Operational Expenditure

Operational expenditure includes labour, services and utilities, car park management, property and maintenance as well as administration and other costs; including land and property taxes. Operational expenditure excludes all depreciation, amortisation, capital expenditure, borrowing costs and all taxes except those mentioned above.

There is a risk that operational expenditure budgeted by Southern Cross will be insufficient to meet operating demands or that operational expenditure is too high, leading to inefficiencies. The level of operational expenditure is partly driven by traffic growth and therefore it is necessary to plan for increases reflecting the expected development in passenger traffic.

There is a risk that Southern Cross fails to make anticipated savings or that new, unanticipated cost sources emerge.

Gearing and Interest Rate Risk

Southern Cross has external senior debt of approximately $3.75 billion excluding shareholder loans from Southern Cross Holdings. Southern Cross has entered into interest rate hedging arrangements with the senior lenders and Macquarie for seven years. Beyond this period Southern Cross will enter into an appropriate hedging program (which will be agreed with the senior lenders) in order to continue to prudently manage its exposure to interest rate movements. However, there will remain a risk on refinancing that movements in interest rates may adversely affect Southern Cross. More generally there is a risk that future hedging over the time periods sought may be expensive or unavailable.

Southern Cross will not hedge 100 per cent of its interest rate exposure. Given its highly geared capital structure, it is possible that movements in interest rates may adversely affect Southern Cross, including its ability to meet debt service obligations.

Industrial Relations

When services are transferred from the public to private sector there is the potential for industrial disputation at the time of transfer and possible ongoing labour disputes.

The transfer of services from the public to the private sector in the context of the acquisition of Sydney Airport requires that certain existing agreements, negotiated between Sydney Airports Corporation and its employees, be observed. These include periods of guaranteed employment. Any attempts to change these agreements or not comply with them will almost certainly result in industrial disputation in the post privatisation period. However, even where the agreements are adhered to, it is always possible that industrial disputation may arise as a result of perceived changes in the relationship between the existing workforce and Sydney Airports Corporation. Sydney Airport's operations are influenced by the industrial climate of various third parties including airlines.

Insurance Risk
Third party liability terrorism insurance for Sydney Airport is currently covered by an indemnity from the Commonwealth Government, issued through the Department of Transport and Regional Services ("DOTARS"). The current indemnity has been extended to 29 July 2002. The indemnity satisfies Sydney Airports Corporation's obligations to maintain a certain level of Airport Owners and Operators Liability ("AOOL") Insurance as a condition of the Airport Lease dated 30 June 1998 between the Commonwealth Government and Sydney Airports Corporation.

DOTARS has acknowledged in a letter dated 18 April 2002, that in view of the efforts taken by Sydney Airports Corporation to purchase terrorism cover, DOTARS is prepared to continue to provide an indemnity in respect of third party liability war and terrorism insurance on the condition that Sydney Airports Corporation uses "every endeavour" to procure a replacement for the terrorism cover from the commercial insurance market. Under the terms of the current indemnity, the Commonwealth Government may cancel this indemnity seven days after third party liability insurance for the currently insured limit becomes available, or by giving seven days notice to Sydney Airports Corporation.

On 10 May 2002, the Minister for Transport and Regional Services announced that a new indemnity regime will apply, which will be extended for three months at a time until a suitable long term solution is established. The Commonwealth Government intends to review the need for the indemnity cover in December 2002. The Commonwealth Government has indicated it intends to charge for this indemnity, although at this time the charging regime has not been finalised. This was to take effect on 1 July 2002, however on 5 July 2002, DOTARS advised the introduction of these new arrangements had been deferred until 29 July 2002.

For third party liability insurance, whilst the charging regime is still under consideration, the current proposal is for the cost of $0.10 to be applied to all departing passengers from Sydney Airport for $2 billion of coverage.

Sydney Airports Corporation's Industrial Special Risk ("ISR") policy covers loss and or damage to Sydney Airports Corporation owned property and business interruption following loss and or damage to property. Following the events of September 11, 2001, ISR policies have either restricted or excluded cover for incidents arising from acts of terrorism.

On 19 June 2002 the Commonwealth Government instructed Sydney Airports Corporation to purchase ISR terrorism insurance in the amount of $500 million with effect from 30 days from the completion of the sale of Sydney Airports Corporation. It is a requirement of the Sydney Airport lease that Sydney Airports Corporation hold ISR terrorism insurance. ISR terrorism cover will not be available for chemical, biological or nuclear events and business interruption will probably be limited to 12 months cover. Sydney Airports Corporation is exposed to terrorist incidents not covered by the terms of the policy.

Sydney Airports Corporation is exposed to incidents where its insurance policies may not respond due to the incident falling outside the terms and conditions of the policy. Where a policy does respond, the sum insured may prove to be inadequate for all claims.

Lease Termination
The land comprising Sydney Airport is leased to Sydney Airports Corporation until 30 June 2048 with an option for a further term of 49 years. If Sydney Airports Corporation breaches use or access provisions as detailed in Section 11 of this Prospectus, the Commonwealth Government must notify Sydney Airports Corporation and if the breach persists the Commonwealth Government may terminate the airport lease.

Capacity Constraints
In 2001, Sydney Airport handled approximately 317,000 aircraft and 26.4 million passenger movements. Sydney Airport is subject to operating restrictions including a jet curfew, a levy to fund noise insulation measures, operational noise amelioration measures based principally on runway use patterns designed to spread aircraft noise, and an aircraft movement cap.

There can be no guarantee that Sydney Airport is able to provide capacity to meet demand in the long term. On the demand side, this may arise from higher than anticipated traffic; on the supply side an inability to provide capacity in line with the airport's full potential may be caused by new operating restrictions (on safety security or noise grounds) through adverse patterns of traffic, or non-approval of developments.

Second Sydney Airport and Other Airports
The development of an additional airport in the Sydney Basin may affect the operations of Sydney Airport. An additional airport may draw passengers and airlines away from Sydney Airport, reducing airport throughput and limiting business activities. Similarly, there is the possibility of competition from other airports and destinations as passenger preferences change and tourism preferences alter. Southern Cross has the first right of refusal to build and operate any second major airport within 100 kilometres of the Sydney central business district. There is a risk that, should Southern Cross fail to exercise their right of first refusal on the second Sydney airport, other parties will seek to develop it. The Commonwealth Government has stated publicly that it does not believe that a second airport will be necessary within the next 10 years, and will review Sydney's airport needs again in 2005.

Funding Risk
The current debt package for Southern Cross allows the debt providers to increase the cost of debt should the debt providers not be able to syndicate the senior debt within six months of 28 June 2002. Should the cost of senior debt rise, there can be no guarantee that Southern Cross will generate sufficient funds to pay distributions to equity. Senior debt includes a $1.5 billion 364 day bridge facility expected to be refinanced through a credit wrapped capital markets issue. Pursuant to the senior debt documentation, there is a risk that should the bridge finance not be refinanced in an acceptable manner within this period, equity distributions may be stopped, or in a worst case scenario, a further injection of equity may be required to prevent an event of default. Southern Cross has sought to minimise this risk by progressing the capital markets takeout by obtaining investment credit ratings from Standard & Poor's and Moody's and commencing discussions with three monoline insurers.

8.5 Risks Associated with the Rome Acquisition

Revocation of Concession
The Italian Ministry of Transport retains the right to revoke all airport concessions, including AdR's, on public interest grounds. To exercise this right the Ministry of Transport is required to state the grounds on which the public interest requires revocation and provide a suitable notice period. AdR would then be entitled to compensation, although the provisions determining the amount of compensation would not adequately compensate AdR. MIMUK is not aware of any precedent for the revocation of a concession in the Italian aviation sector.

Litigation
AdR operates large and complex businesses, both directly and through its subsidiaries, which to date has given rise to litigation. The material litigation has been reviewed during acquisition due diligence and taken into account in determining the purchase price.

AdR has made an assessment of the exposure arising from these claims and has provided €16.0 million in its audited accounts for the year ended 31 December 2001. There can be no guarantee that this provision will be adequate.

Refinancing Risk
As at 31 December 2001, AdR had total debt outstanding of $2,991 million which it expects to refinance by 31 December 2002, principally through a capital market bond issue of which approximately 80 per cent will be credit wrapped. If the existing debt cannot be refinanced in an acceptable manner within this period, equity distributions by AdR to its shareholders could be delayed.

Alitalia
Alitalia, the national flag carrier of Italy, accounts for 55 per cent of Rome Airport's total passengers and as such the performance of Alitalia has the potential to influence the performance of AdR.

Alitalia has had financial difficulties in recent years (caused in part by undercapitalisation, an inappropriate fleet structure and a split hub operation between Milan-Malpensa and Fiumicino) which were further exacerbated by the events of September 11, 2001.

Following the events of September 11, 2001 Alitalia announced a significant restructuring program which includes:

– a $2.5 billion equity and convertible bond issue and $649 million which was received from the Italian Government in late 2001; and

– some loss making routes were withdrawn but this has only slightly reduced the number of Alitalia long-haul flights at Fiumicino. Alitalia's fleet is to be modernised and selected non-core assets will be divested. Staff costs are to be reduced through reduced staff numbers.

MIMUK believes that this restructuring program will underpin the performance of Alitalia.

Competition with Milan-Malpensa

In 1998 and 1999, Alitalia moved its long-haul hub from Fiumicino to the newly built Milan-Malpensa. This move caused a reduction in traffic at Fiumicino.

Although there is the potential for further transfers of traffic from Milan-Malpensa to Fiumicino, MIMUK believes the restructuring program announced by Alitalia has not led to any further reductions in long-haul frequencies at Fiumicino. Additionally, other carriers have increased their long-haul frequencies at Fiumicino by 13 per cent in 2002.

Insurance

Historically the General Third Party Liability insurance purchased by airport operators has included cover for liability arising from acts of terrorism. However, following the events of September 11, 2001, all insurance policies accepted as new business or renewed since this time have excluded terrorism cover. In order for airport operators to maintain operations, an aviation liability terrorism cover "buy-back" facility has been developed in the European market, providing cover up to a limit of indemnity of US$50 million on an annual basis. EU governments are then providing an additional indemnity for all losses in excess of the US$50 million cover limit. AdR has elected not to purchase the first US$50 million of terrorism buy-back cover on its understanding that the Italian Government has agreed to provide a full indemnity for this risk to AdR. The EU has granted authority for individual member states to continue with existing schemes. The Italian Government has announced they will extend the indemnity for Italian airports until 31 October 2002. Leonardo has undertaken to procure an independent review of the position immediately after completion of the transaction and to implement any recommendations made in the review to ensure appropriate cover is in place.

8.6 Risks Applicable to Infrastructure Assets

There are a number of risks associated with investing in infrastructure assets (including airport infrastructure). These risks include:

Interest Rate Risk

Businesses that borrow money are potentially exposed to adverse interest rate movements that may increase the financial risk inherent in those businesses. Whilst this risk may be reduced through interest rate hedging, such as interest rate swaps or other mechanisms, there is sometimes residual exposure. Movements in interest rates may affect the appropriate discount rate to be used to value investments.

Inflation Risk

Depending on the cash flows for a business and their escalation factors, equity returns can be affected by changes in the rate of inflation.

Documentation Risk

Infrastructure projects are usually governed by a complex series of legal documents and contracts. As a result, the risk of dispute over interpretation or enforceability of the documentation may be higher than for other equity investments.

Licences and Permits Risks

There is a risk that a project does not have, or might not obtain, permits necessary for the construction or operation of the project. Permits or special rulings may be required on taxation, financial and regulatory-related issues. Licences and permits have to be maintained over the project's life. Care must be taken to ensure that all of the requirements of these licences and permits are met on an ongoing basis.

Force Majeure Risk

Force majeure is the term generally used to refer to an event beyond the control of a party claiming that the event has occurred, including acts of God, fire, flood, earthquakes, war and strikes. Some force majeure risks are uninsurable and to the extent that such events occur there may be adverse effects on the business.

8.7 Other Risks

The above list of risk factors ought not to be taken as exhaustive of the risks faced by MAp, MAHBL, Macquarie Airports Management, the Trusts or by Security Holders. The above factors, and other risks not specifically referred to above, may in the future materially affect the financial performance of MAp and the value of Securities offered under this Prospectus. Therefore, no assurances or guarantees of future profitability, distributions, payment of dividends, return of capital or performance of MAp or its Securities can be provided by Macquarie Airports Management or MAHBL.

Section 9 MAp, Sydney and Rome Financial Structure and Taxation Summary

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Section 9 MAp, Sydney and Rome Financial Structure and Taxation Summary

The comments in this section are intended only as a very broad guide to the likely Australian income tax and Bermudian tax consequences of an investment in MAp. Except where indicated otherwise, the comments are based on the law in force at the date of this Prospectus. The comments do not address the circumstances of all kinds of investors and are not advice to any existing or prospective investors. They should not be relied upon by any investor or prospective investor; such persons should (if necessary) obtain their own advice specific to their own circumstances.

9.1 MAp Structure

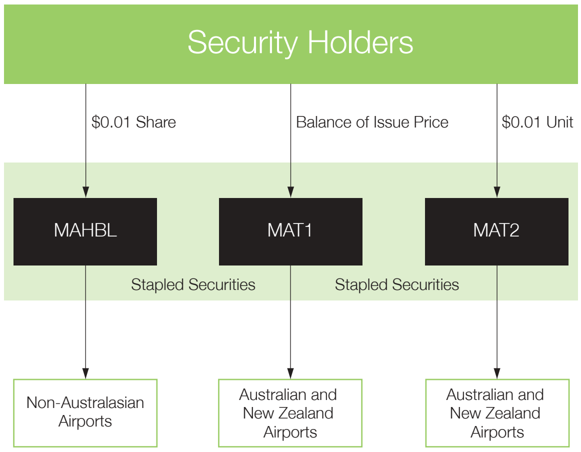
Overview

MAHBL and Macquarie Airports Management are proposing to issue Fully Paid Securities. The Fully Paid Securities will be quoted as a separate security from the Partly Paid Securities until the final instalment on the Partly Paid Securities is paid. A Fully Paid Security will consist of one unit in MAT1, one unit in MAT2 and one share in MAHBL.

The Partly Paid Securities are paid to 50 per cent. The Final Instalment of $1.00 per Partly Paid Security will be payable on 1 October 2002.

Financing Structure

The financing structure for MAT1, MAT2 and MAHBL is as follows:



Raising funds substantially through MAT1 facilitates the efficient allocation of funds between the stapled entities. To finance MAHBL's investment in MAG, MAT1 has subscribed for redeemable preference shares ("RPS") in MAHBL. To finance MAHBL's investment in the Rome Acquisition and further investment in MAG, MAT1 will subscribe for further RPS in MAHBL.
To finance MAT2's investment in the Sydney Acquisition, MAT1 will provide funds to a controlled entity of MAT2, in the form of redeemable preference shares ("Sydney RPS").

The RPS in MAHBL will hold a priority entitlement to effectively all of the income and capital of MAHBL and will only be redeemed in the event that MAG resolves to list and Security Holders approve the amalgamation of MAHBL with MAG or to effect a return of capital following a capital distribution by MAG.

Whilst the RPS remain on issue, ordinary shareholders in MAHBL are unlikely to receive any dividends or cash distributions.

MAG Listing

At the direction of the MAG board, MIMUK shall use its reasonable endeavours to assist MAG in obtaining listings on two stock exchanges on the basis that it maximises the value and liquidity of MAG once listed. One stock exchange will be a recognised European Stock Exchange and the other will be ASX. MIMUK will present a proposal to the MAG board regarding a listing on these exchanges. The listing proposal will be made at the earlier of 11 September 2004 or as soon as practicable after 75 per cent of MAG's Fund Commitments have been drawn and invested.

On receipt of the first listing proposal, the MAG board will convene a meeting of MAG shareholders to consider the board's recommendation and vote on the proposal.

The first listing proposal shall be adopted unless shareholders holding two thirds or more of MAG Shares on issue vote against the proposal, in which case subsequent listing proposals shall be prepared by MIMUK at the direction of the MAG board and will be considered by the MAG board and the MAG shareholders in each subsequent 12 month period.

No assurance can be given that a listing application will be made or, if an application is made, that a listing will be obtained.

If MAG lists on ASX, the RPS may be refinanced by a new issue of MAHBL shares to Security Holders (financed by a return of capital from MAT1), MAHBL may be destapled from MAT1 and MAT2, and subject to the approval of shareholders in MAG and Security Holders MAHBL may be amalgamated with MAG under Bermudian law. Security Holders may exchange their interest in shares in MAHBL for direct interests in MAG shares.

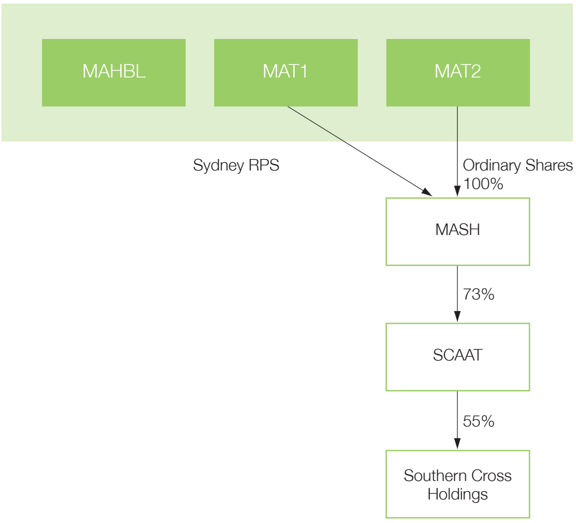
9.2 Final Instalment on the Partly Paid Securities

The Final Instalment of $1.00 per Partly Paid Security will be payable on 1 October 2002. After the Final Instalment on the Partly Paid Securities is paid, the Fully Paid Securities and Partly Paid Securities will be quoted as a single class of securities.

9.3 Structure of the Sydney Acquisition

MAT1 has subscribed for non-voting Sydney RPS with a term of 30 years in Macquarie Airports (Sydney Holdings) Pty Limited ("MASH"). MAT2 has subscribed for all the ordinary shares in MASH. MASH has in turn used the funds received from MAT1 and MAT2 to subscribe for units in SCAAT. SCAAT has subscribed for the stapled ordinary and redeemable preference shares to be issued by Southern Cross Airports Corporation Holdings Pty Ltd ("Southern Cross Holdings").

The structure and flow of funds outlined above is broadly detailed in the diagram below.

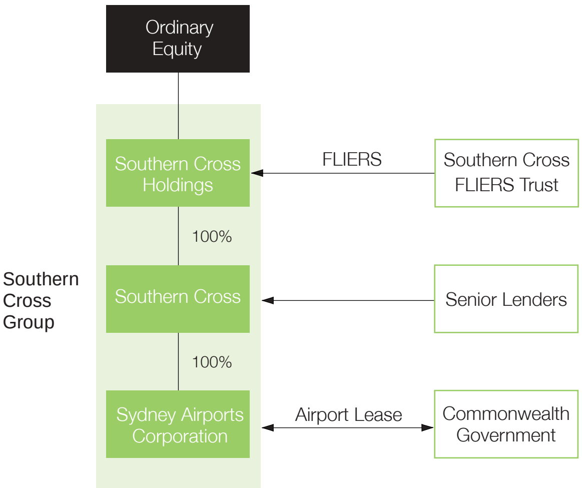


The Sydney RPS are non-voting and carry a priority entitlement to a 15 per cent cumulative return. The Sydney RPS subscribed for by MAT1 in MASH should be treated as a debt instrument for tax purposes. Dividend payments made in respect of the non-voting Sydney RPS should be treated as interest and be tax deductible to MASH. MAT1 should include the dividends as assessable income (unfranked) when received.

As SCAAT should be treated as a trust not subject to Division 6C (which requires a public trading trust to be treated for tax purposes as a company), the trustee will not be subject to tax provided the taxable income of the trust is fully distributed in each year of income.

As from the year MAT2 is a "public trading trust" for purposes of Division 6C of the 1936 Act the trustee of MAT2 will be taxed on MAT2's income and gains as if MAT2 were a company.

Southern Cross Structure



The Southern Cross Group is comprised of three companies namely, Southern Cross Holdings, Southern Cross Airports Corporation Limited ("Southern Cross"), and Sydney Airports Corporation. The role of each of these companies within the Southern Cross Group is as follows:

- **Southern Cross Holdings** – Investors in Southern Cross Holdings hold stapled securities comprising redeemable preference shares and ordinary shares. Investors in Southern Cross Holdings are set out in Section 3. Southern Cross Holdings has also issued $600 million of Floating IPO Exchangeable Reset Securities, known as "FLIERS".
- **Southern Cross** – the funding structure includes monies borrowed from the banking and capital markets.
- **Sydney Airports Corporation** – holds a lease over Sydney Airport and a licence from the Commonwealth to operate Sydney Airport.

This dual holding company structure has been established for the following reasons:

- it simplifies the security mechanisms for the financing arrangements with the banking group; and
- it enables the efficient repatriation of profits to Southern Cross Holdings shareholders.

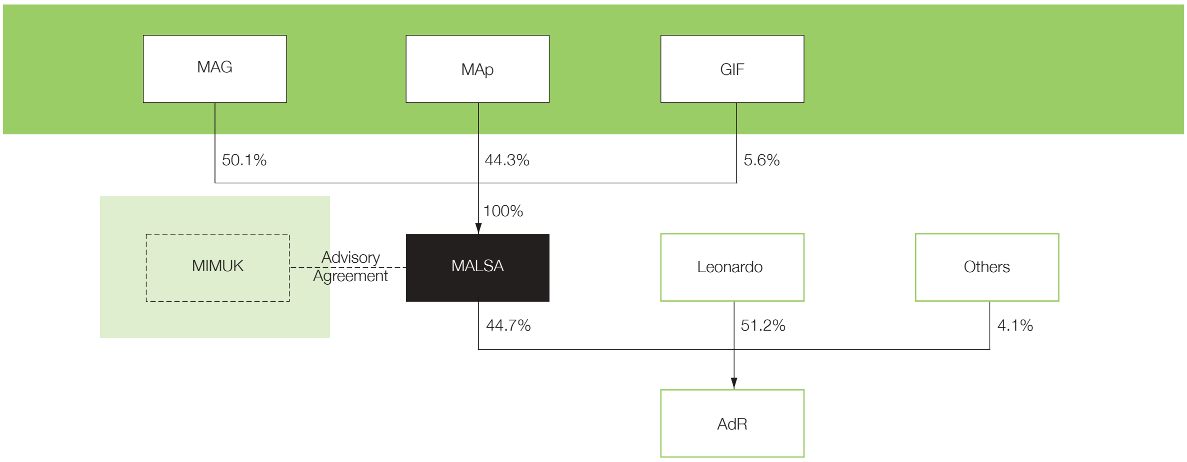
The following funding structure was used to effect the acquisition of Sydney Airport:

- Southern Cross Holdings issued ordinary shares to the value of $504 million stapled to $1,511 million of redeemable preference shares (together termed "Ordinary Equity") and $600 million of FLIERS;
- Southern Cross Holdings loaned $2,439 million to its wholly-owned subsidiary, Southern Cross. The term of the loan to Southern Cross is 46 years and interest is payable to Southern Cross Holdings at the rate of 18 per cent per annum. Obligations in respect of this loan are subordinated to any payments due to senior debt and Sydney Airports Corporation guarantees this loan. However, the amount recoverable from Sydney Airports Corporation under the guarantee is limited to $1,000 million;
- Southern Cross Holdings set aside $68 million in cash reserves to establish FLIERS reserves; and
- Southern Cross obtained $3,750 million in external senior debt from the senior lenders.

Southern Cross utilised these funds to:

- acquire all the shares in Sydney Airports Corporation for $4,233 million;
- loan Sydney Airports Corporation $1,449 million to allow it to repay existing debt and establish cash reserves of $140 million; and
- pay transaction and debt issue costs of approximately $299 million including stamp duty on the acquisition.

MALSA and AdR Ownership Structure at Completion



FLIERS

FLIERS are a type of convertible reset preference share which were issued by Southern Cross Holdings to Southern Cross FLIERS Trust on completion of the acquisition of Sydney Airport. FLIERS carry a cumulative preferred unfranked dividend at a margin over the Bank Bill Rate which is paid quarterly in arrears.

Southern Cross Holdings may redeem FLIERS on the first reset date (which is the fifth anniversary of the FLIERS issue date) at a 7.0 per cent premium to the issue price. FLIERS have a 10 year maturity. FLIERS rank in priority to ordinary and other preference shareholders in Southern Cross Holdings for the payment of dividends and for a return of capital on winding up.

9.4 Proposed Structure for the Rome Acquisition

The shares in AdR will be purchased from Leonardo by a Luxembourg incorporated special purpose company called Macquarie Airports (Luxembourg) S.A. ("MALSA").

The shareholders in MALSA will be MAG (50.1 per cent), MAp (44.3 per cent) and Macquarie Global Infrastructure Funds (A) and (B) (GIF) (5.6 per cent).

Pursuant to individual subscription agreements and loan agreements between investors and MALSA, each investor will contribute funds into MALSA in the form of stapled equity and convertible loans.

MAp will also invest in MALSA by virtue of its shareholding in MAG. Pursuant to MAp's 36.7 per cent shareholding in MAG, MAp is required to contribute $160 million for its proportion of the funds MAG requires to finance its 50.1 per cent interest in MALSA.

The management of MALSA and the relationship between the shareholders of MALSA is governed by the MALSA Shareholders Agreement. It also describes pre-emptive rights in relation to the sale of MALSA shares by any MALSA shareholder.

Further details of the terms of the Convertible Loans, Subscription Agreement and MALSA Shareholding Agreement are provided in Section 11 of this Prospectus.

9.5 Australian Tax Considerations

Section 11 of this Prospectus contains a letter from Deloitte to the directors of Macquarie Airports Management and MAHBL which provides a summary of the Australian income and capital gains tax consequences for an Australian resident Security Holder investing in Fully Paid Securities.

9.6 Bermudian Tax Consequences

Under current Bermudian law, MAHBL will not be subject to any income, withholding or capital gains taxes in Bermuda. MAHBL has received from the Minster of Finance of Bermuda, pursuant to the Exempted Undertaking Tax Protection Act 1966, an undertaking that MAHBL (and its shareholders) will be free of any Bermudian legislation imposing taxes computed on profits or income, or computed on any capital assets, gains or appreciation, or any tax in the nature of estate duty or inheritance until 28 March 2016, except insofar as such tax applies to persons ordinarily resident in Bermuda and holding Shares. Similarly, Security Holders who are not residents or deemed residents of Bermuda will not be subject to any Bermudian taxation as a result of them acquiring Shares.

MAHBL is liable to pay in Bermuda an annual registration fee based upon its assessable share capital which, at current rates, will not exceed $55,000.

10

10.1 Independent Traffic Report - Sydney Airport

20 June 2002

The Directors
Macquarie Airports Holdings (Bermuda) Limited

The Directors
Macquarie Airports Management Limited
(As Responsible Entity for Macquarie Airports Trust (i) and (II))

Dear Directors,

IATA Report on Air Traffic at Sydney (Kingsford Smith) Airport ("Sydney Airport")
You have requested that we prepare a report on the current state of the aviation industry with reference specifically to Sydney Airport and our views on likely traffic development at Sydney Airport for the next 30 years. This report has been prepared for inclusion in the prospectus dated on or about 18 July 2002 for the offer of securities in Macquarie Airports.

Declaration
The International Air Transport Association ("IATA") plays a leading role in the development of standards and innovative measures relating to the aviation industry and is also responsible for the gathering and reporting of key statistical information. The Air Transport Consultancy Section of IATA is an independent unit of specialists providing expert solutions to the aviation industry.

As the recognised representative organisation of over 260 of the world's airlines, IATA is at the forefront of commercial aviation activities. The Air Transport Consultancy Section consists of seven staff members in addition to specialists and analysts with a broad range of industry experience. It brings a global perspective to projects through its unique access to key industry data and by bringing airlines and airports together to plan for the future. It provides independent advice on strategic and operational issues to key decision makers within the industry.

Its clients include several airports authorities for which the group has completed a wide range of work, including several feasibility studies for the third Paris airport, and work on Terminal 5 at London's Heathrow Airport. Other clients include airlines, civil aviation authorities, government authorities, regional organisations, the European Commission (DG-XIII and DG-VII), Eurostat and Inmarsat.

IATA is also responsible for the production and publication of a series of leading industry documents and studies such as the World Air Transport Statistics ("WATS") and the Global Airport Monitor where, incidentally, Sydney Airport was ranked as the best airport in its category in 2000.

1 Introduction

IATA has produced a comprehensive independent traffic forecast for Sydney Airport. The forecast has been constructed on the basis of a comprehensive bottom-up analysis that examined the many components of Sydney Airport's traffic activity. The research team benefited from access to unique statistical information that enabled the construction of sound estimates for, as an example, transfer passengers versus local passengers. The forecasts were verified and reconciled with forecasts produced by a top down approach.

The forecast concentrates on three areas for the period 2000-2020:

– traffic growth for both passengers and cargo;

– growth in aircraft movements and MTOW tonnage for both passenger and cargo aircraft; and

– a busy day and hourly profile analysis for 2000, 2005, 2010 and 2020.

The forecast was made first under an environment free of any capacity constraints for Sydney Airport (the "unconstrained forecast"). All physical and regulatory constraints were then considered in developing a constrained forecast.

In addition to the 20 year forecast, we also estimated the potential long term forecast of traffic growth to 2030.

Sensitivity tests were made to assess the level of uncertainty associated with economic growth trend assumptions.

2 Key Highlights

In 2000, Sydney Airport handled over 25 million passengers, of which nearly nine million passengers were international and the remaining 16 million were domestic passengers.

Over the last 15 years, international and domestic traffic has grown by an average of 7.5 per cent and 6.4 per cent per annum respectively.

In 2000, 26.3 per cent of domestic Australian passengers and approximately 50 per cent of total Australian international passengers used Sydney Airport. Transfer traffic accounted for 20.3 per cent of Sydney Airport passengers.

Based on traffic figures provided by Sydney Airport Corporation Limited ("SACL"), in 2001 traffic grew by 0.5 per cent over the previous year to 25,367,400 passengers. International passenger volumes declined by 3.7 per cent to 8,657,700 and domestic traffic continued to grow, rising 2.7 per cent to 16,709,800 passengers. Growth recorded in 2001 was moderate when compared with previous years, but given the exceptional circumstances which affected the industry in 2001, Sydney has fared comparatively well relative to other large international airports. In addition to the terrorist attacks, Sydney Airport was also affected by the demise of Ansett and a fall from the high traffic volumes recorded during the Sydney Olympics.

Recent data demonstrates that both international and domestic passengers are recovering strongly following September 11 and the collapse of Ansett, demonstrating clear parallels with the recovery following the Gulf War.

The short term forecast anticipates a recovery in traffic growth by 2004, although it is expected that most routes will show substantial recovery during 2003.

Projection of domestic passenger traffic on a year by year basis between 2000 and 2005 to and from Sydney Airport under an unconstrained environment (coupon origin-destination)

	Melbourne		Brisbane		Canberra		NSW Regionals		Rest of Australia		Total Domestic	
	pax (000)	% change	pax (000)	% change	pax (000)	% change	pax (000)	% change	pax (000)	% change	pax (000)	% change
2000	5,528.8		3,475.0		908.0		1,424.0		4,929.7		16,265.5	
2001	5,550.4	0.4%	3,904.0	12.3%	861.2	-5.2%	1,333.1	-6.4%	5,061.1	2.7%	16,709.8	2.7%
2002	5,577.7	0.5%	3,942.6	1.0%	862.7	0.2%	1,370.9	2.8%	5,147.6	1.7%	16,901.6	1.1%
2003	6,260.1	12.2%	4,288.7	8.8%	943.1	9.3%	1,495.5	9.1%	5,731.5	11.3%	18,718.8	10.8%
2004	6,866.7	9.7%	4,623.6	7.8%	1,019.4	8.1%	1,605.9	7.4%	6,204.0	8.2%	20,319.5	8.6%
2005	7,313.1	6.5%	4,873.8	5.4%	1,092.3	7.2%	1,681.9	4.7%	6,510.2	4.9%	21,471.3	5.7%

Projection of international passenger traffic on a year by year basis to and from Sydney Airport under an unconstrained environment (coupon origin-destination)

	International Regional		International Regional Hubs		International Long-Haul		Total International	
	pax (000)	% change	pax (000)	% change	pax (000)	% change	pax (000)	% change
2000	4,114.8		2,547.0		2,299.0		8,987.8	
2001	4,057.4	-1.4%	2,506.5	-2.6%	2,093.7	-8.9%	8,657.6	-3.7%
2002	4,219.8	4.0%	2,455.0	-2.1%	2,236.4	6.8%	8,911.1	2.9%
2003	4,567.1	8.2%	2,797.00	13.9%	2,517.1	12.6%	9,881.3	10.9%
2004	4,950.6	8.4%	3,060.7	9.4%	2,718.1	8.0%	10,729.5	8.6%
2005	5,344.6	8.0%	3,240.7	5.9%	2,920.5	7.4%	11,505.8	7.2%

The unconstrained long term forecast for total passenger traffic capacity at Sydney Airport is 63.5 million passengers by 2020 compared with 25 million passengers in 2000. Of this, 40.0 million will be domestic passengers and 23.5 million will be international passengers.

The projected average annual growth for domestic traffic for the period 2000-2020 is 4.6 per cent compared with average annual growth of 6.4 per cent recorded in the period 1985-2000. The growth forecast is supported by the assumption of continued Australian economic growth and also, in the first five years, by the stimulatory effects of Virgin Blue on the domestic market.

The projected average annual growth for international traffic for the period 2000-2020 is 4.9 per cent per annum compared with average annual growth of 7.5 per cent achieved in the period 1985-2000.

Overall passenger growth at Sydney Airport is expected to remain strong (although significantly slower than the last 15 years), with international growth exceeding domestic growth over the forecast period. Nevertheless the relative contribution of the domestic market to total traffic will remain much larger than that of the international market.

Preparation of the constrained forecast assumed that there will be natural demand for some NSW regional services to develop at another airport in the Sydney Basin, such as Bankstown. The emergence over time of this second relief airport will free some slots at Sydney Airport. However, this development is not necessary for the carriers to meet future passenger demand within the regulatory framework.

The constrained forecast (base scenario) is for 62.8 million passengers in 2020, only around 760,000 below the unconstrained forecast. The small difference between the forecasts highlights the ability of the industry to cope with the constraints at Sydney Airport through larger aircraft size, higher load factors and use of off-peak slots. Significantly, the international and interstate unconstrained passenger traffic forecast is almost unchanged by the assumed partial shift of NSW regional traffic from Sydney Airport to Bankstown. Such a development is expected to affect just 26 per cent of total NSW Regional traffic for the whole Sydney Basin and only 1.2 per cent of overall passenger demand at Sydney Airport.

Projection of annual total passenger traffic at Sydney Airport under an unconstrained environment

	Domestic (000 pax)	% growth	International (000 pax)	% growth	Total (000 pax)	% growth
2000	16,265.5		8,987.8		25,253.3	
2005	21,471.3	5.7%	11,505.8	5.1%	32,977.1	5.5%
2010	27,085.4	4.8%	14,847.1	5.2%	41,932.5	4.9%
2015	33,010.1	4.0%	18,724.3	4.7%	51,734.4	4.3%
2020	40.053.4	3.9%	23,509.1	4.7%	63,562.5	4.2%

Projection of annual total passenger traffic at Sydney Airport under a constrained environment

	Domestic (000 pax)	% growth	International (000 pax)	% growth	Total (000 pax)	% growth
2000	16,265.5		8,987.8		25,253.3	
2005	21,471.3	5.7%	11,505.8	5.1%	32,977.1	5.5%
2010	26,853.4	4.6%	14,846.8	5.2%	41,700.2	4.8%
2015	32,537.3	3.9%	18,723.2	4.7%	51,260.5	4.2%
2020	39,295.0	3.8%	23,506.7	4.7%	62,801.8	4.1%

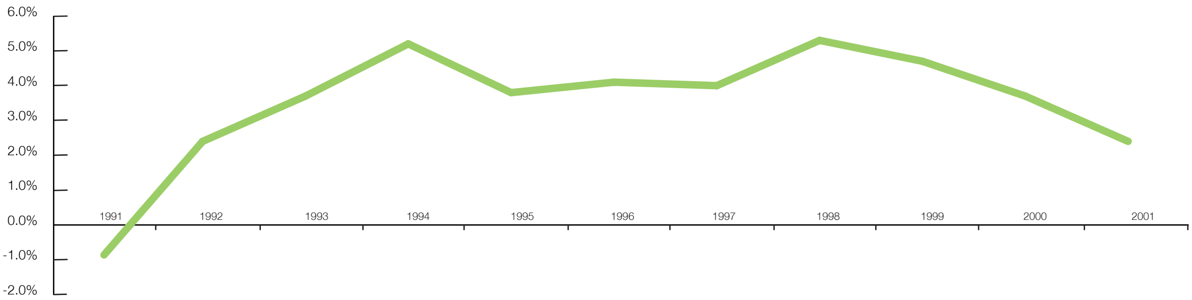
We have performed a sensitivity test to assess the risks associated with forecast assumptions. The test assumed that the Australian economy would grow more or less quickly compared with the base case. We estimate that growth at 0.6 per cent per annum above the base case would see traffic volumes increase 15 per cent above the base case forecast for 2020, while growth at 0.6 per cent per annum below the base case would see traffic volumes decrease 13 per cent from the base case forecast for 2020.

3 Socio-Economic Profile of Australia and New South Wales

Australia is a stable democratic country with a highly developed and open economy. The fortunes of Australia have changed over the years. Competitiveness has improved in an environment of low inflation, increased fiscal flexibility, declining interest rates and increased productivity. Notwithstanding the economic links to Asia and, consequently, its exposure to the turmoil during the Asian financial crisis, Australia has done remarkably well, even when compared to the performance of the world's most dynamic economies. In fact, the Australian economy was one of the OECD's top performers during the 1990s and one of Asia's largest economies.

In 2001, the Australian economy outperformed most other developed economies.

Percentage Change in Australian Real GDP



Source: World Bank

In the period 1991-2001, average annual Australian real GDP growth was 3.9 per cent and Australia was one of the best performing global economies. The graph immediately above illustrates the limited impact of the recent Asian recession on Australian economic growth.

New South Wales, of which Sydney is the capital city, is the largest economy in Australia and accounts for over a third of Australia's GDP. It is expected to continue to record strong economic growth over the forecast period.

1999 Real GDP per capita (1995, US$ millions)

Singapore	26,071
Japan	25,006
Australia	**21,516**
New Zealand	13,558
Malaysia	4,526
Thailand	2,130
Philippines	1,138
Indonesia	962
India	477
Vietnam	342

4 The Australian Air Traffic Market

4.1 Passenger Market

Australia's geographical remoteness and the substantial distances that separate major cities mean that air travel is a vital link to and within the country. Despite its small population, the high propensity of Australians to fly means that Australia has one of the largest domestic markets in Asia.

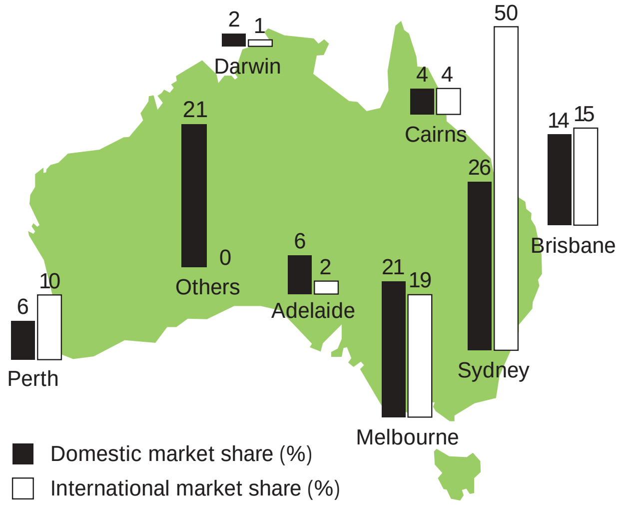
In 2000, Australia was the fourth largest Asia/Pacific country in terms of domestic passenger volumes behind Japan, China and Chinese Taipei but before Korea and India.

In terms of international passengers, Australia was in eighth position among the Asia/Pacific countries behind Japan, Hong Kong, Singapore, Chinese Taipei, Thailand, Korea and China, but before India, Malaysia and the Philippines.

Comparison of recent Australian traffic growth with that of other countries in the region relied on IATA databases covering the period 1985-1999. As the following table shows, domestic traffic in Australia grew more rapidly than in New Zealand, Japan or Indonesia but less rapidly than in Korea, Chinese Taipei, Thailand and China over this period. International traffic growth was, however, more moderate in Australia compared with many other Asia/Pacific countries, especially Vietnam, China, Chinese Taipei, Korea and Japan.

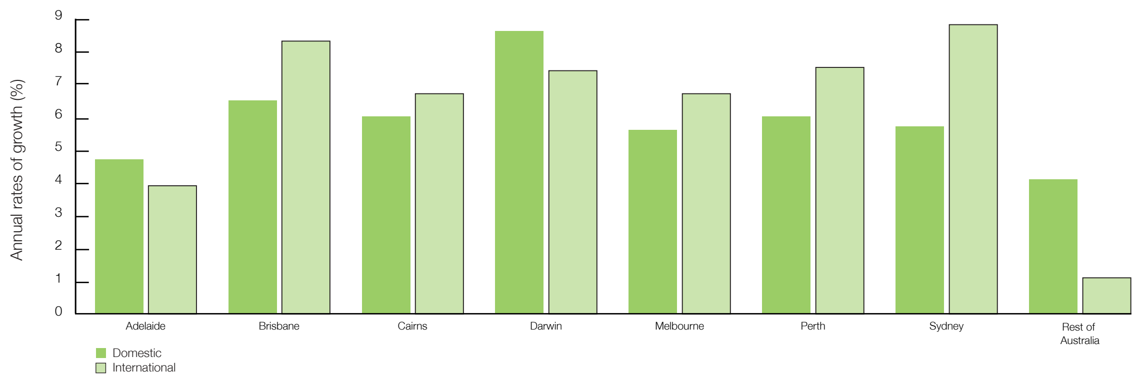
Australia has a large number of airports relative to its small population. However, seven major airports handle approximately 99 per cent of the international traffic and 75 per cent of domestic traffic. Sydney Airport is the largest airport in Australia and represents the international gateway for the country. In 2001, Sydney Airport handled 49 per cent of all international passengers to and from Australia, a level that has remained steady for some years. Melbourne, Brisbane and Perth are the only other significant international airports.

Market share for Sydney Airport versus other Australian airports in passenger traffic in 2000



Source: IATA

Past growth in passenger traffic (1991-2000)



Domestically, Sydney Airport also has a dominant position handling well over a quarter of all domestic Australian passenger movements in 2000, meaning that one out of every two domestic passengers either boards or ends their flight at Sydney Airport.

4.2 Recent Trends for Australia

4.2.1 The Collapse of Ansett

The collapse of Ansett in early 2002 has left Qantas and the smaller Virgin Blue to serve the large Australian domestic market. Prior to its collapse, Ansett and Qantas had competed in the domestic market on frequency and not so much on price. Following the closure of Ansett, the pattern of domestic traffic at Sydney Airport, and in Australia generally, changed significantly with fewer flights operated by larger aircraft and with higher load factors.

The domestic duopoly with its emphasis on competition by frequency has been replaced by a dominant conventional carrier (Qantas) and a low-cost carrier (Virgin Blue) competing on main routes by price. In general, we expect Virgin Blue to provide direct competition to Qantas on the large domestic routes while some smaller routes will be served only by Qantas and its regional partners. Given that Qantas has a dominant position in the domestic market we expect the ACCC to closely monitor Qantas to ensure no breaches of competition law. IATA believes that Virgin Blue will remain a low-cost carrier, and that it will continue to compete with Qantas on price.

Until August 2001, international passenger volumes at the three largest Australian airports and for Australia as a whole had recorded positive growth. In general, the growth was slightly slower than in past years due in part to the worldwide economic slowdown. In September 2001, Sydney Airport experienced a sharp fall in traffic volumes while other Australian airports continued to record growth. This fall-off was most likely to be due to the higher traffic volumes associated with the Sydney Olympics in the previous year that persisted for several months following the event.

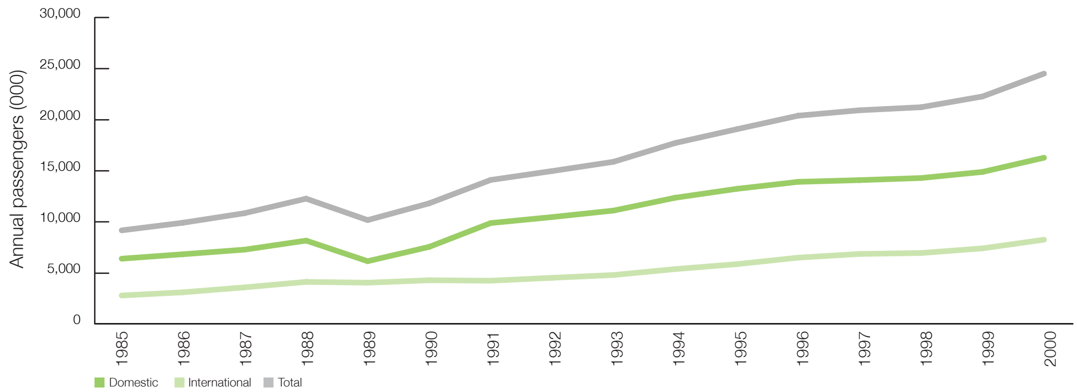
In 2001, the three main domestic airports all had positive domestic passenger growth prior to the month of September. In September, the collapse of Ansett and the terrorist attacks had negative effects on passenger flows. Brisbane Airport, which is the operational base of Virgin Blue, recorded the highest growth last year. Both domestic and international passenger volumes are recovering strongly in the first quarter of 2002.

5 Traffic Development at Sydney Airport

5.1 Passenger Traffic

During the last 15 years, domestic passenger volumes in Sydney grew steadily, averaging 6.4 per cent per annum. The 1989 pilot strike resulted in a decline in passengers for that year, although the traffic recovered quickly after the end of the strike. Other events, such as the entry and exit of low-cost Compass and Compass II, had some short term impact but the long term growth rate was reasonably steady over the last decade.

Past evolution of Sydney Airport annual passenger movements



During the last quarter of 2000 two low-cost carriers entered the domestic market serving both the Sydney-Melbourne and Sydney-Brisbane routes[1]. Even though these carriers entered towards the later part of the year, their impact on the volume of annual passengers was evident: over the last 15 years, average annual growth was 6.4 per cent but between 1999 and 2000 it was 9.4 per cent. This was partially due to the Olympics in September, but was mostly due to the entry of the low-cost airlines.

Annual growth in international passenger traffic averaged 7.5 per cent between 1985 and 2000. Overall, the international markets have grown faster than the domestic market. Whilst the pilot strike marginally affected international passenger flows in 1989, the primary event which affected the international market was the Olympics held in September 2000. In fact, between 1999 and 2000, the increase in international passenger traffic was probably around 500,000 passengers.

In 2001, total passenger volumes were 25.4 million. Of this 16.7 million were domestic passengers and 8.7 million were international passengers. Overall this represents a 0.5 per cent growth compared to last year: (3.7) per cent internationally and 2.7 per cent domestically. The average annual passenger growth at Sydney Airport between 1985 and 2000 is summarised in the next table.

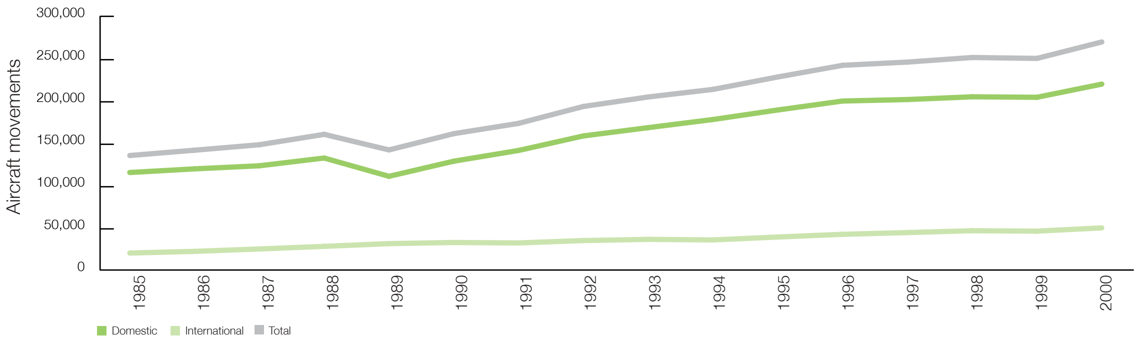
Annual growth 1985-2000

Domestic	6.4%
International	7.5%
Total	**6.8%**

5.2 Aircraft Movements

Whereas domestic passenger traffic grew at an average annual rate of 6.4 per cent per annum between 1985 and 2000, the number of domestic passenger aircraft movements grew by only 4.4 per cent per annum during the same period. The higher rate of passenger growth is due to an increase in the average number of passengers per flight (from 55 in 1985 to 74 in 2000). This represents an average annual rate of growth of 2.0 per cent in passengers per aircraft over the 15 year period[2].

Past evolution of Sydney Airport annual passenger aircraft movements



International passengers per aircraft grew at a slower rate over the period. Annual growth averaged 1.2 per cent which, when combined with average annual passenger aircraft growth of 6.2 per cent, saw international passenger traffic grow at an average annual rate of 7.5 per cent for the period 1985-2000. In 2001, total passenger aircraft movements declined by 3.6 per cent to 262,369. International movements fell 1.6 per cent to 50,397 and domestic movements were down 4.1 per cent to 211,972. The international decline is due largely to reduced traffic after September 11 while the domestic decline is due largely to the Ansett collapse.

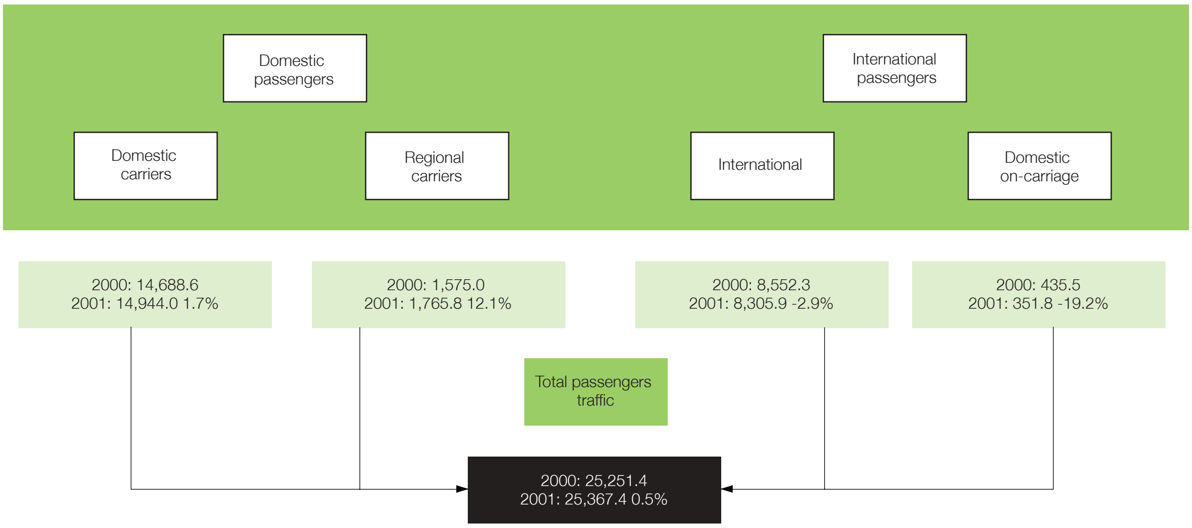
Although they represent a substantial part of the overall operations at Sydney Airport, the share of smaller aircraft (under 19 seats) has declined steadily since the mid 1990s[3]. In 1994, this category represented 17 per cent of operations but had declined to 12 per cent by 2000. During the same period, category "1" aircraft (typically 35 seats turboprops) increased their share of operations from 20 per cent to 26 per cent. This suggests that regional carriers, over time, are replacing smaller aircraft with larger ones. Category "3" (typically 100 seat jets) has also declined while category "4" has increased. Growth in this category reflects the introduction of the Boeing B-777, Airbus A-330 and A-340.

5.3 Recent Trends at Sydney Airport

The recent development of traffic out of Sydney Airport has been dominated by September 11 and the collapse of Ansett. These are one-off events and an important comparison for September 11 can be found in the Gulf War, while the collapse of Ansett is mirrored by what happened several years ago in the Canadian market.

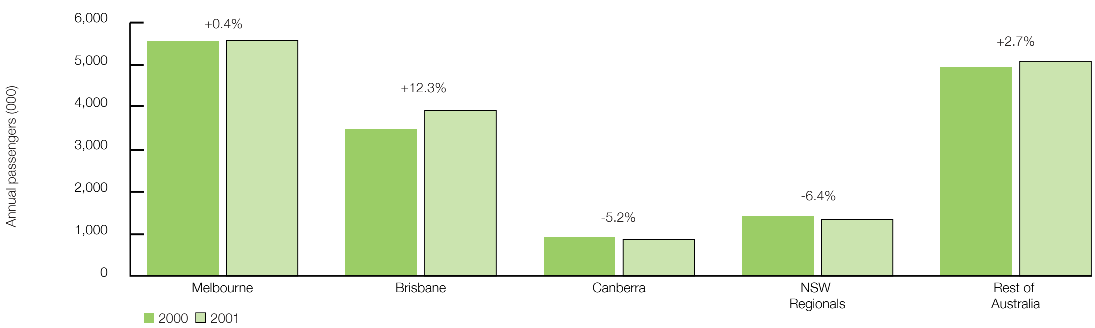
Sydney Airports Corporation figures show that, last year, total traffic grew by 0.5 per cent to 25,367,400 passengers. When compared with previous years, this represents moderate growth for Sydney Airport but given the exceptional circumstances which affected the industry following September 11, Sydney Airport has fared comparatively well compared to other large international airports. More specifically, international traffic declined while domestic traffic continued to grow.

On a per route basis, various routes had various growth rates. For example, the Sydney-Brisbane market clearly benefits from Virgin Blue. On the international market, the long-haul route (which contains the US market) declined the most in 2001.

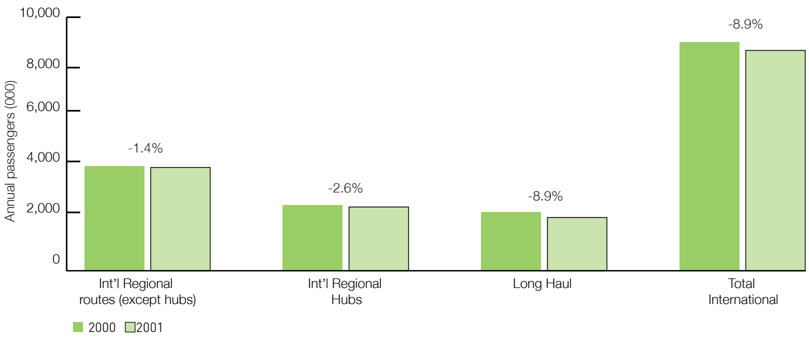


Source: Sydney Airports Corporation and IATA

Domestic Pax (2000 Vs 2001)

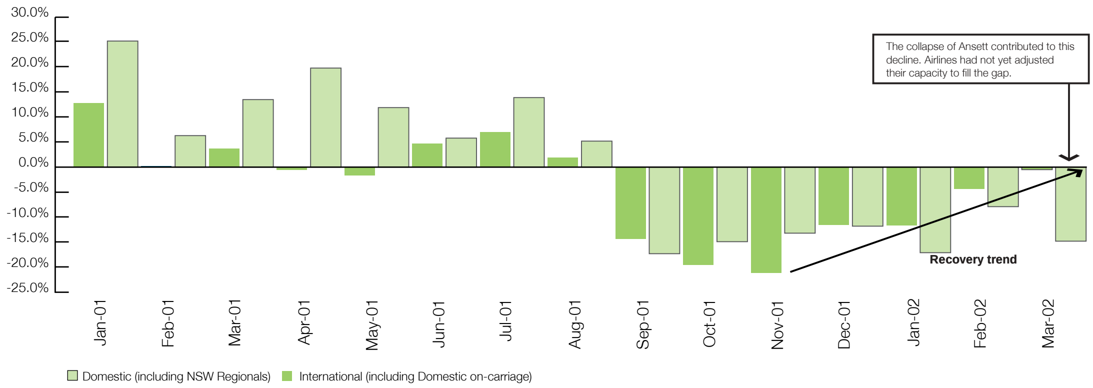


International Pax (2000 Vs 2001)



As the following table shows, recent data confirms a strong recovery in both international and domestic passenger volumes at Sydney Airport.

Monthly development of Sydney Airport passenger traffic since January 2001

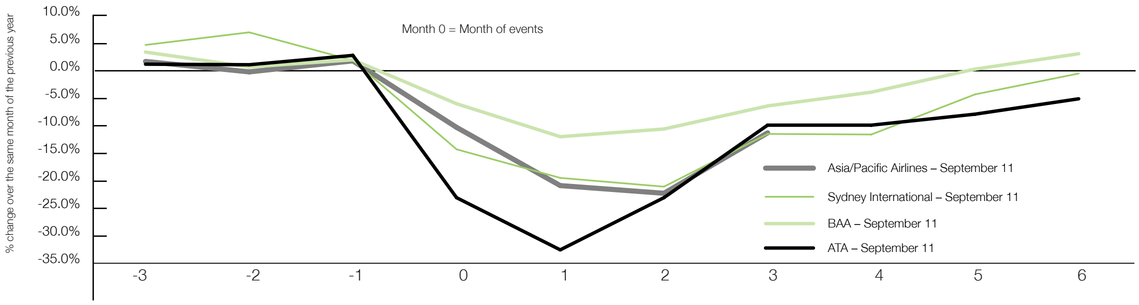


5.4 Comparison between the Gulf War and September 11 and the Short Term Recovery

The last dramatic event to affect the airline industry was the Gulf War in 1991. At that time, and for the first time in aviation history, year-over-year worldwide passenger traffic fell. Despite the obvious differences between the two events, the Gulf War, and the industry's subsequent development, provides a framework for understanding the pattern of recovery that is likely after September 11.

The following chart compares how various regions around the world, including Sydney Airport, were affected by the September terrorist attacks. As may be expected, the US market was the most affected (illustrated by the black line – ATA[4]) where one month after the events, traffic was down by nearly 35 per cent. Other markets such as the UK[5] market (green line) were much less affected by the dramatic events and have since recovered.

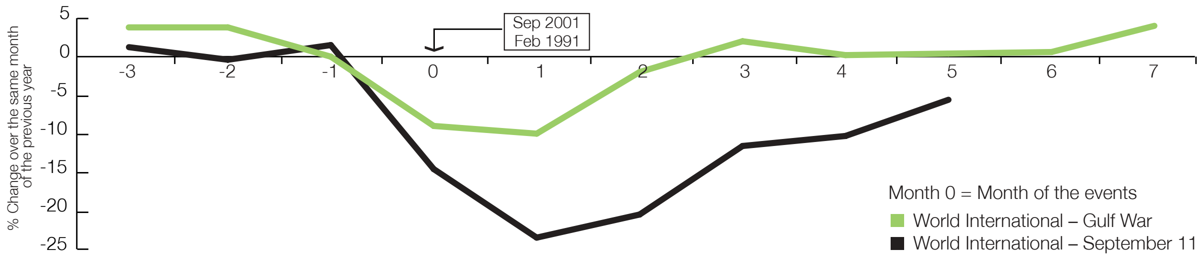
Monthly evolution of traffic trend - comparing the impact of September 11 on Australian international traffic with other world regions



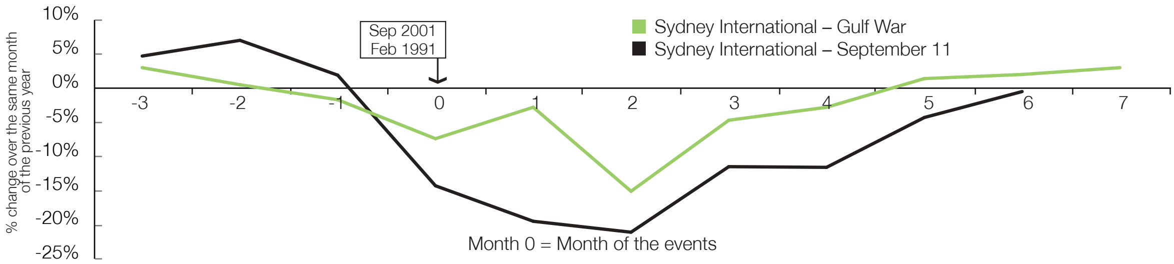
Australia is somewhere in the middle but, unlike other world markets, Australia had to also deal with the collapse of Ansett and the effect of the Olympics. Were it not for these events, the decline recorded after September would have been less pronounced. Sydney Airports Corporation estimates that the effect of the Olympics was responsible for around 5 per cent of the decline in international traffic between September 2001 and January 2002.

The comparison between the Gulf War and September 11 is apparent for both Sydney and the world. In both cases, September 11 has had a larger initial impact with stronger recovery following both events. Relative to the recovery from the Gulf War, the recovery from September 11 is expected to be supported by the stronger economic conditions particularly in Australia. In contrast to 1991-1992, where the world was in recession, economic growth is expected to be strong in Australia and improving worldwide (except for Japan).

Monthly evolution of traffic trends - comparing September 11 with the Gulf War: World International passengers



Monthly evolution of traffic trends - comparing September 11 with the Gulf War: Sydney International passengers



Both Sydney and the World are recovering quickly from those events and international traffic growth in Sydney from March 2001 to March 2002 was almost zero. We fully expect the recovery trend to continue.

5.5 The Collapse of Ansett

The collapse of Ansett today leaves Qantas and the smaller Virgin Blue to serve the large Australian domestic market. Essentially, when Qantas and Ansett competed on the domestic market they competed head to head on frequency and less on price.

Following the closure of Ansett, the pattern of domestic traffic in Sydney, and in Australia, has changed significantly with fewer flights operated with larger aircraft with higher load factors. Following the collapse of Ansett, Qantas has responded by increasing aircraft size on many routes such as replacing B-767s with B-747s on Perth-East Coast routes; replacing B-737s with B-767s on many routes and BAe146s with B-717s on thinner routes. Virgin Blue is also planning significant increases in capacity.

In several other markets, Qantas now competes head to head with Virgin Blue not on frequency but instead on price. Therefore, the domestic duopoly with its emphasis on competition by frequency has been replaced by a dominant conventional carrier (Qantas) and a low-cost carrier (Virgin Blue) competing on main routes by price. This represents a fundamental change in the Australian market.

In general, we expect Virgin Blue to provide direct competition to Qantas on the large domestic routes while some smaller routes will be served only by Qantas and its regional partners. Given that Qantas has a dominant position in the domestic market we expect the ACCC to closely monitor Qantas to ensure that there is no breach of competition laws.

Parallels may be drawn between the current Australian experience and that of Canada three years ago. At that time the market evolved from a duopoly (Air Canada and Canadian Airlines) competing on frequency to a full service carrier (Air Canada) facing stiff competition from a low-cost carrier (WestJet). After three years, Canadian passenger volumes continue to increase.

Overall, the collapse of Ansett has left a more efficient industry that will provide sustainable price competition, increased frequencies, more efficient slot utilisation and more viable routes. IATA expects the ACCC, Virgin Blue and the threats of the entry of a third airline and re-regulation to prevent Qantas from abusing its dominant position.

6 Forecast Methodology

To develop the forecast for Sydney Airport, three key steps were followed:

– produce a 20 year unconstrained passenger demand;

– to forecast the unconstrained passenger demand we used two separate forecast methodologies. The first to forecast the short term recovery trends and the second for the long term;

– produce a typical busy day forecast (taking into account the prevailing regulatory environment); and

– construct the constrained forecast.

6.1 Step 1 - Unconstrained Forecast

The forecast methodology was based on the use of a comprehensive bottom-up model that isolates each traffic component. Over 150 different routes were analysed and for each of them the difference between pure local versus transfer traffic was considered. For each route, we also identified the various factors which are likely to influence traffic including, yield, tourism, economic growth by region, airline alliances, average aircraft size, load factors and emergence of competing airports.

This bottom-up approach also used, as an input, traffic forecasts contained in the comprehensive IATA traffic forecast database covering nearly 2,000 unduplicated country-pairs for the period 1985 to 2015. The database contains historical information from 1985 to 1999 and a forecast from 2000 to 2015. These traffic forecasts were constructed through the undertaking of a worldwide survey among all IATA member airlines (including Qantas and Ansett and all of the international airlines which operate at Sydney Airport) and were used by the research team as a guideline.

In order to measure as accurately as possible the short- to medium-term effects of the collapse of Ansett and the impact of the events of September 11, 2001, we constructed quarterly traffic figures for each year from 2000 to 2004 for each route area.

The construction of quarterly figures for 2002 was based on (a) preliminary traffic results revealed by Sydney Airports Corporation for the first quarter of the year; and (b) capacity trends between the second and third quarters of the year compared with the same period of 2001, adjusted to reflect significant improvements in passenger load factors achieved by airlines.

The methodology was complemented by a top-down approach forecasting passenger figures based on Australian GDP. Many regressions were tried but this was the one that provided the most accurate statistical fit.

The overall results between the two approaches (top-down and bottom-up) were reasonably similar but reconciliation was made between the two approaches to develop final projections by route.

6.1.1 Short Term Forecast

In order to measure as accurately as possible the short term effects of the collapse of Ansett and with the impact of the events of September 11, 2001, we constructed bottom-up quarterly traffic figures for each year between 2000 to 2004 by route area.

For the years 2000 and 2001, actual statistical figures were used to examine growth trends by route and by quarter. This gave us the opportunity to examine seasonal trends.

The construction of quarterly figures for 2002 was based on (a) preliminary traffic results disclosed by Sydney Airports Corporation for the first quarter of the year; and (b) capacity trends between the second and third quarters of the year compared with the same period of 2001, adjusted to reflect significant improvements in passenger load factors achieved by airlines.

The construction of quarterly figures for 2003 and 2004 were made in accordance with the following principles:

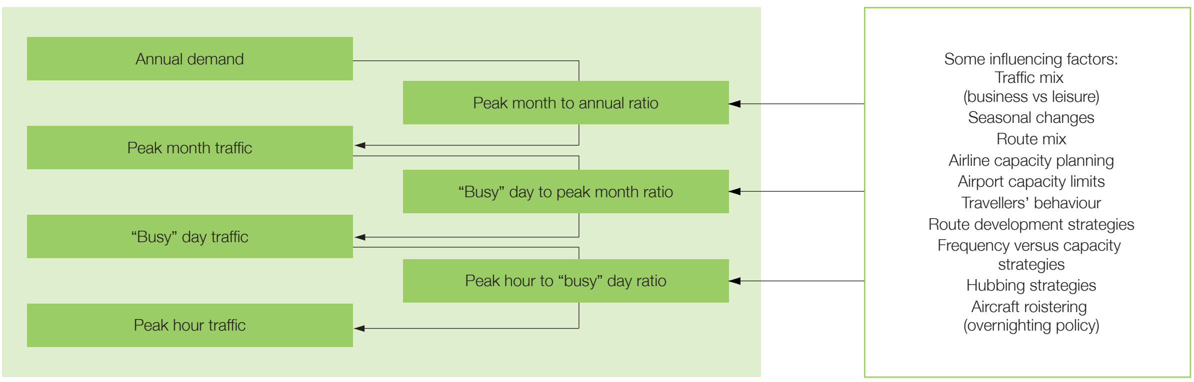
– Rates of growth for any particular quarter should be strong when the same quarter of the previous year has experienced a decline (for example if Quarter 3 of 2001 shows a decline of 25 per cent, it is likely that the same quarter of the next year would show a stronger rebound than if the decline was only 1 per cent).

– Ensure that seasonality returns to historical trends by 2004, since there is no reason to believe that this pattern will change (it was fairly stable in the 10 years to 2000). It means that growth by quarter over the period 2002-2004 should ensure that the percentage distribution of traffic by 2004 returns to the patterns of 2000.

6.2 Step 2 - Busy Day Forecast

The busy day for the base year was developed from information provided by the airline schedules found in the Official Airline Guide (OAG) and also from information provided by ACA.

A model has been developed by the IATA project team to incorporate this data and display the flow of traffic (aircraft movements and passengers) by time of the day in order to identify the peak hour.



The method used by IATA incorporated the identification of each flight (arrival and departure) during the typical busy day and full details concerning the characteristics of the flight (local time, seats, local versus direct transit passenger, origin/destination area, etc.).

The projection of total passenger traffic for a typical "busy" day is developed by, first, determining the historical ratio of "busy" day traffic to total annual traffic and, second, applying this calculation to the projection of annual traffic as shown in the illustration.

The busy day analysis took into account the regulatory framework and, on a route by route basis, the average aircraft size and load factor.

6.3 Step 3 - Constrained Forecast

Development of the constrained forecast was based on the regulatory framework that applies to Sydney Airport. In order to derive the constrained forecast, we started with the busy day projections. After having identified the limits in growth resulting from capacity limits, the difference between the constrained and unconstrained demand during that busy day was identified and then extrapolated across the full year.

The constrained forecast assumes that future terminal and apron capacity will be available to meet demand.

7 Forecast Assumptions

7.1 Economic Growth

Consensus Economics' projection of Australian economic growth was employed to produce the unconstrained passenger and cargo forecasts (short term projections made by Consensus Economics were produced in February 2002 and long term projections in October 2001).

Real GDP growth for Australia

Period	
2000-05	3.4%
2005-10	3.5%
2010-15	3.3%
2015-20	3.3%
2000-10	3.4%

The IATA team had to choose between a number of groups that produce 20 year economic outlooks and concluded that Consensus Economics, a group of Australian specialists that includes local banks, had the best and most generally accepted understanding of the Australian economy.

7.2 Visitor Arrivals Growth

An additional influencing variable were projections of visitor arrivals to Australia based on data from the Tourism Forecast Council of Australia and the WTO (World Tourism Organisation). This projection has an important influence not only on international traffic but also on domestic traffic, since we took into account the fact that a significant proportion of travellers on the domestic network are foreign visitors combining a stop-over in Sydney with another city in Australia during their journey to the country.

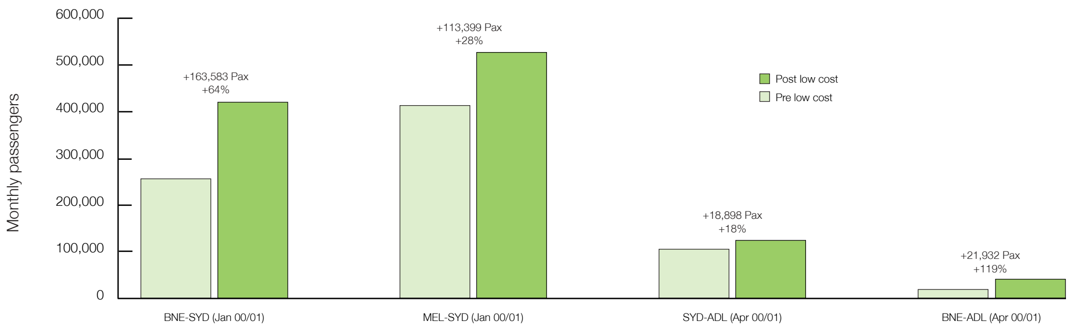
Projected growth rates for visitor arrivals to Australia

Period	
2000-05	5.3%
2005-10	8.0%
2010-15	6.1%
2015-20	5.8%
2000-10	6.6%

7.3 The Emergence of Low-Cost Airlines

In our forecast, we assumed the operation of a domestic low-cost carrier in Australia over the next 20 years for the following reasons. Between 1999 and 2000, Virgin Blue has grown quickly and this trend continued in 2001.

The domestic passenger demand in Australia is today large enough to support the entry of a low-cost carrier. The collapse of Ansett enabled Virgin Blue to quickly increase its market share in Australia and to date Virgin Blue has proven very profitable.



7.4 Development of Transfer Traffic

We have assumed that, with the stronger position of Qantas and its oneworld alliance at Sydney Airport, the hub function will be enhanced during the first five years of the forecast period. However, after 2005, it is assumed that, with growing competition from other airports in Australia, in particular Melbourne and Brisbane, the share of domestic-international transfer traffic will grow less rapidly than pure local traffic. The situation of Sydney Airport vis-a-vis the major international travel markets of the region will not favour an extensive development of international-international transfer traffic at Sydney Airport, which was found to be very small in 2000.

Melbourne Airport had started to develop as a secondary hub for Star Alliance but the collapse of Ansett means that, in the short term, the development of Melbourne Airport as a hub will slow. This should enable Sydney Airport to increase its hub function for the first five years of the forecast period.

7.5 Evolution of the Passenger Load Factors

Load factors will improve over the 15 year forecast period, reflecting improvements in airline productivity and the introduction of more direct flights, as opposed to multi-stop flights. This will also be affected by higher load factors. These assumptions are well within the industry standards for a constrained airport.

Assumptions regarding the passenger load factors during the busy day

			Projections	
	2002 Est.	**2005**	**2010**	**2020**
Melbourne	85.0%	81.0%	84.0%	87.0%
Brisbane	81.0%	80.0%	83.0%	87.0%
Canberra	75.0%	75.0%	76.0%	81.0%
NSW Regionals	81.0%	79.0%	79.5%	80.0%
Rest of Australia	80.0%	79.5%	81.5%	84.0%
International Regional	75.0%	72.0%	74.0%	76.0%
International Regional Hubs	85.0%	78.0%	80.0%	81.0%
International Long-Haul	68.0%	70.0%	74.0%	79.0%

The new price competition dynamic between Qantas and Virgin Blue is also expected to marginally increase load factors.

7.6 Evolution of Aircraft Mix

It is assumed that major routes such as Sydney-Melbourne, already have adequate service frequency and that future growth will be met to a large extent by an increase in the average aircraft size rather than an increase in frequency. It is worth noting that the Sydney-Melbourne route is one of the most important city-pairs in the world in terms of passenger traffic volumes. Other domestic routes will also see a growth in average aircraft size but not to the same extent as the Sydney-Melbourne route.

International routes will also experience an increase in average aircraft size. Specifically, it was assumed that the very large aircraft Airbus A-380 will be used by airlines at Sydney Airport after 2005.

In addition, the collapse of Ansett now enables Qantas and Virgin Blue to compete more on price than frequency. In the short term, this is expected to enable carriers, especially Qantas, to deploy larger aircraft. Assumptions include recognition of the purchase of new, larger aircraft by Qantas as well as an assumption that the A-380 will operate from Sydney Airport.

Assumptions regarding the average aircraft size (passenger seats) during the busy day

			Projections	
	2002 Est.	2005	2010	2020
Melbourne	219.2	220.0	238.0	312.0
Brisbane	158.5	154.0	177.0	236.0
Canberra	65.7	66.0	70.0	77.0
NSW Regionals	32.8	34.0	36.0	42.3
Rest of Australia	151.6	152.0	156.0	184.5
International Regional	238.8	255.0	275.0	327.5
International Regional Hubs	356.9	360.0	387.3	470.8
International Long-Haul	354.8	363.0	384.8	431.0

7.7 Development of NSW Regional Operations

In the base scenario (constrained), it was assumed that NSW Regional operators will find opportunities to develop services at another airport in the Sydney Basin, most likely to be Bankstown. This will be to cater to pure local origin-destination traffic whilst Sydney will continue to handle the large majority of NSW traffic, essentially for preserving the connecting possibilities between these NSW regional flights and the other route areas.

7.8 The Regulatory Framework

It was assumed that the regulatory framework applying to Sydney Airport, including the 80 movement per hour limit, will remain in place during the whole forecast period. In addition, the current curfew and LTOPs are assumed to remain during the forecast period.

8 Baseline Annual Forecast for Sydney Airport 2000-2020

8.1 Short Term Recovery Trends

As the following table shows, we expect both domestic and international passenger volumes to return to their long term growth trend by 2005. For both domestic and international markets we expect full year recovery to occur in 2003 and to a lesser degree in 2004. The most significant traffic declines occurred in the fourth quarter of 2001 and the first quarter of 2002 and these periods are expected to see the highest growth rates in the future.

Projection of annual passenger traffic at Sydney Airport

		International Passengers (including Domestic on-carriage)				Domestic Passengers (including NSW Regionals)				Total Passengers			
Calendar Year	Financial Year	Calendar Year	% growth	Financial Year	% growth	Calendar Year	% growth	Financial Year	% growth	Calendar Year	% growth	Financial Year	% growth
2000	2000-2001	8,987.8		9,131.7		16,265.5		17,304.8		25,253.3		26,436.5	
2001	2001-2002	8,657.6	-3.7%	8,549.7	-6.4%	16,709.8	2.7%	16,001.2	-7.5%	25,367.4	0.5%	24,550.9	-7.1%
2002	2002-2003	8,910.3	2.9%	9,336.5	9.2%	16,876.4	1.0%	17,895.3	11.8%	25,786.8	1.7%	27,231.8	10.9%
2003	2003-2004	9,878.1	10.9%	10,227.9	9.5%	18,824.6	11.5%	19,657.3	9.8%	28,702.7	11.3%	29,885.2	9.7%
2004	2004-2005	10,725.6	8.6%	11,098.7	8.5%	20,388.3	8.3%	20,619.7	4.9%	31,113.9	8.4%	31,718.4	6.1%
2005	2005-2006	11,505.8	7.3%	11,788.9	6.2%	21,471.3	5.3%	21,927.2	6.3%	32,977.1	6.0%	33,716.1	6.3%

8.2 Long Term Domestic Passenger Traffic

Domestic passenger traffic is forecast to increase from 16.3 million passengers in 2000 to 40.0 million by 2020 under an unconstrained forecast (no capacity limit imposed on Sydney Airport).

Projection of annual domestic passenger traffic at Sydney Airport under an unconstrained environment

	Melbourne		Brisbane		Canberra		NSW Regionals		Rest of Australia		Total Domestic	
	(000 pax)	% growth	(000 pax)	% growth	(000 pax)	% growth	(000 pax)	% growth	(000 pax)	% growth	(000 pax)	% growth
2000	5,528.8		3,475.0		908.0		1,424.2		4,929.7		16,265.5	
2005	7,313.1	5.8%	4,873.8	7.0%	1,092.3	3.8%	1,681.9	3.4%	6,510.2	5.7%	21,471.3	5.7%
2010	9,226.6	4.8%	6,106.0	4.6%	1,218.7	3.2%	2,028.8	3.8%	8,442.4	5.3%	27,085.4	4.8%
2015	10,947.9	3.5%	7,322.6	3.7%	1,494.2	3.1%	2,425.4	3.6%	10,820.0	5.1%	33,010.1	4.0%
2020	12,986.8	3.5%	8,710.8	3.5%	1,729.0	3.0%	2,877.6	3.5%	13,749.2	4.9%	40,053.4	3.9%

Several factors explain this growth. The first, and most important, is the continued economic growth of Australia. Second, especially for the first five years, the continued participation of a low-cost airline on domestic routes. Third, a share of domestic passengers are actually international visitors flying on domestic routes. For example, a visitor might land at Sydney Airport, spend a few days in Sydney, then take a domestic flight to another Australian destination. Today, it is estimated that 15 per cent of domestic passengers fall under this category and as more international visitors come to Australia their impact on domestic routes will increase.

8.3 Long Term International Passenger Traffic

We expect international passenger traffic to increase from nine million passengers in 2000 to 23.5 million in 2020. The strongest growth is expected to be achieved by routes to and from Asia/Pacific (except the four large hubs of Bangkok, Kuala Lumpur, Singapore and Hong Kong), driven in part by the emerging economies of China and Vietnam.

Projection of annual international passenger traffic at Sydney Airport under an unconstrained environment

	Regional		Regional Hub		Long-Haul		Total International	
	(000 pax)	% growth	(000 pax)	% growth	(000 pax)	% growth	(000 pax)	% growth
2000	4,114.9		2,574.0		2,298.9		8,987.8	
2005	5,344.6	5.4%	3,240.7	4.7%	2,920.5	4.9%	11,505.8	5.1%
2010	7,084.8	5.8%	4,034.1	4.5%	3,728.3	5.0%	14,847.1	5.2%
2015	9,243.5	5.5%	4,900.2	4.0%	4,580.7	4.2%	18,724.3	4.7%
2020	12,048.9	5.4%	5,822.0	3.5%	5,638.2	4.2%	23,509.1	4.7%

For the regional route area, growth is expected to be stronger in 2010 compared with 2005. This reflects the fact that emerging markets, most notably China, are expected to see the strongest growth during this time frame. The long-haul route area is also expected to grow faster in 2010 compared with 2005. In this case it is directly linked to the rebound of traffic following September 11. The largest market in this route area is to/from the USA. This route area was the most affected by the events and we believe that it will take this route more time (compared to the other routes) to rebound from the events.

8.4 Total Constrained and Unconstrained Forecasts

The difference between the constrained and unconstrained traffic forecasts for 2020 is just 760,000. This reflects a partial shift of NSW regional traffic from Sydney Airport to a secondary airport, such as Bankstown, as a result of natural O&D demand in Sydney's west. As a result, we expect a marginal reduction in transfer traffic due to the impact of the split of NSW operations between two airports.

The collapse of Ansett in March 2002 has freed several slots in Sydney enabling the airport to meet passenger demand over the next 20 years. It should be noted that if, for whatever reason, a secondary airport was not operational over the next 20 years, that Sydney Airport could accommodate all of the unconstrained passenger demand.

Projection of annual total passenger traffic at Sydney Airport under an unconstrained environment

	Domestic		International		Total	
	(000 pax)	% growth	(000 pax)	% growth	(000 pax)	% growth
2000	16,265.5		8,987.8		25,253.3	
2005	21,471.3	5.7%	11,505.8	5.1%	32,977.1	5.5%
2010	27,085.4	4.8%	14,847.1	5.2%	41,932.5	4.9%
2015	33,010.1	4.0%	18,724.3	4.7%	51,734.4	4.3%
2020	40,053.4	3.9%	23,509.1	4.7%	63,562.5	4.2%

Projection of annual total passenger traffic at Sydney Airport under a constrained environment

	Domestic		International		Total	
	(000 pax)	% growth	(000 pax)	% growth	(000 pax)	% growth
2000	16,265.5		8,987.8		25,253.3	
2005	21,471.3	5.7%	11,505.8	5.1%	32,977.1	5.5%
2010	26,853.4	4.6%	14,846.8	5.2%	41,700.2	4.8%
2015	32,537.3	3.9%	18,723.2	4.7%	51,260.5	4.2%
2020	39,295.0	3.8%	23,506.7	4.7%	62,801.8	4.1%

8.5 Aircraft Movements

Total commercial aircraft movements at Sydney Airport (passenger and cargo aircraft) amounted to nearly 270,000 in 2000.

Projection of annual total passenger aircraft movements at Sydney Airport under a constrained environment

	Domestic		International		Total	
	movements	% growth	movements	% growth	movements	% growth
2000	219,648		49,808		269,456	
2005	224,022	0.4%	56,590	2.6%	280,612	0.8%
2010	241,766	1.5%	65,900	3.1%	307,666	1.9%
2015	259,400	1.4%	75,900	2.9%	335,300	1.7%
2020	274,200	1.1%	86,170	2.6%	360,370	1.5%

This figure is forecast to increase to 360,000 by 2020. The growth in international aircraft movements is expected to be stronger than for domestic aircraft movements.

This means that the average number of passengers per flight (dividing the number of passengers by the number of passenger aircraft movements, after removing cargo aircraft) is going to increase fairly rapidly in the domestic network, in particular on the main trunk routes. Following the collapse of Ansett, Qantas is likely to operate as a monopoly on some domestic routes enabling it to increase aircraft size (as opposed to frequencies).

The increase in passengers per flight is a result of the combined effect of improvements in the passenger load factors and the introduction of larger aircraft.

8.6 Cargo Forecast

The amount of domestic and regional air cargo traffic carried on cargo aircraft is expected to be 262,904 tonnes by 2020.

Domestic Cargo on Dedicated Freighter Aircraft

Tonnes	2000	2005	2010	2020
Traffic on cargo aircraft	15,107	19,049	21,509	27,428
All traffic	123,960	151,000	183,997	262,904
Cargo aircraft	12.2%	12.6%	11.7%	10.4%

The key assumptions were:

- Australian Air Express would continue to be the only carrier offering scheduled, domestic cargo services throughout the forecast period, on the same routes as currently operated;
- cargo aircraft operations by third level regional carriers and aircraft would also continue throughout the forecast period; and
- main growth areas for domestic air cargo are expected to be routes other than the main trunks, which means that the market share of traffic carried on domestic cargo aircraft is likely to reduce throughout the forecast period since it is not expected that cargo aircraft will be deployed on such routes.

For the international market, total cargo is expected to be greater than 800,000 annual tonnes by 2020.

International Cargo on Dedicated Freighter Aircraft

Tonnes	2000	2005	2010	2020
Traffic on cargo aircraft	74,273	79,919	91,977	114,656
All traffic	346,464	450,978	559,834	843,577
Cargo aircraft	21.4%	17.7%	16.4%	13.6%

Source: IATA Analysis

Although the amount of traffic carried on cargo aircraft is expected to increase during the forecast period, the overall share of this traffic as a percentage of total international traffic is anticipated to decrease. This is because the types of passenger aircraft that are expected to operate on international routes will offer additional cargo capacity that will lead to a reduction in market share for the amount of traffic carried on cargo aircraft.

9 Long Term Demand Forecast for 2025 and 2030

The long term demand analysis was done for both 2025 and 2030, and was conducted for passenger traffic. Unfortunately economic data does not extend beyond 20 years. Therefore, for this part of the analysis we relied on our experience and benchmarks with other mature airports.

Under the long term forecast, both domestic and international growth will be slower than that which was experienced during the first 20 years. This reflects the maturing of long term growth rates. Nevertheless, the growth experienced by these two markets will be different. The domestic market is more mature, although not fully developed. As a result, its rate of growth is expected to be lower than in the international market.

In the long term, the impact of hourly aircraft movement constraints on total passenger volumes became more apparent, as illustrated in the following two tables. In the unconstrained forecast overall demand in 2030 is expected to be 86 million passengers but, due to constraints, Sydney Airport will only be able to handle 80.5 million passengers annually in 2030.

Projection of coupon origin-destination passenger traffic at Sydney Airport - unconstrained forecast

	2000	2020		2025		2030	
Destination	**pax (000)**	**pax (000)**	**% growth**	**pax (000)**	**% growth**	**pax (000)**	**% growth**
Melbourne	5,529	12,987	4.4%	14,480	2.2%	15,831	1.8%
Brisbane	3,475	8,711	4.7%	9,807	2.4%	10,828	2.0%
Canberra	908	1,729	3.3%	1,937	2.3%	2,128	1.9%
NSW	1,424	2,878	3.6%	3,256	2.5%	3,612	2.1%
Rest of Australia	4,929	13,749	5.3%	16,568	3.8%	19,300	3.1%
Total domestic	16,265	40,053	4.6%	46,048	2.8%	51,699	2.3%
Regional (Asia)	4,115	12,049	5.5%	15,087	4.6%	18,533	4.2%
Regional – Hub	2,574	5,822	4.2%	6,717	2.9%	7,636	2.6%
Long-Haul	2,299	5,638	4.6%	6,827	3.9%	8,187	3.7%
Total international	8,988	23,509	4.9%	28,630	4.0%	34,3563	.7%
Total	25,253	63,562	4.7%	74,678	3.3%	86,055	2.9%

Projection of coupon origin-destination passenger traffic at Sydney Airport - constrained forecast

	2000	2020		2025		2030	
Destination	**pax (000)**	**pax (000)**	**% growth**	**pax (000)**	**% growth**	**pax (000)**	**% growth**
Melbourne	5,529	12,983	4.4%	14,094	1.7%	15,002	1.3%
Brisbane	3,475	8,709	4.7%	9,631	2.0%	10,316	1.4%
Canberra	908	1,728	3.3%	1,893	1.8%	1,982	0.9%
NSW	1,424	2,129	2.0%	2,333	1.9%	2,473	1.2%
Rest of Australia	4,929	13,746	5.3%	16,225	3.4%	18,128	2.2%
Total domestic	16,265	39,295	4.5%	44,176	2.4%	47,902	1.6%
Regional (Asia)	4,115	12,048	5.5%	14,892	4.3%	17,657	3.5%
Regional – Hub	2,574	5,821	4.2%	6,555	2.4%	7,189	1.9%
Long-Haul	2,299	5,638	4.6%	6,714	3.6%	7,782	3.0%
Total international	8,988	23,507	4.9%	28,162	3.7%	32,627	3.0%
Total	25,253	62,802	4.7%	72,337	2.9%	80,529	2.2%

10 Sensitivity Analysis for Sydney Airport 2010 and 2020

In this section, using the baseline forecast, we have performed a sensitivity analysis to measure the probable variation and risk attached to the baseline forecasts for economic growth. The test measures the impact of higher and lower economic growth.

Total passenger projections (in thousands)

		Pessimist	**Economic Growth Baseline**	**Optimist**
	2000	25,253.3	25,253.3	25,253.3
	2010	38,402.2	41,932.5	45,779.5
	2020	55,259.2	63,562.5	73,015.0
Annual Growth		4.0%	4.7%	5.5%
Difference in Percentage Points		-0.7%		0.7%
Absolute Difference		(8,303.2)		9,452.6

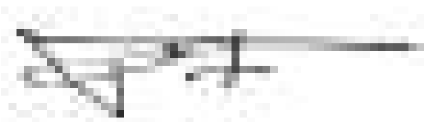
In the baseline scenario, Australian GDP is expected to grow annually by 3.4 per cent. In the pessimistic scenario it is expected to increase annually by 2.8 per cent and 4.0 per cent in the optimistic scenario. The following chart shows the variation in terms of passengers in 2010 and in 2020 under the baseline, pessimistic and optimistic scenarios. Between the pessimistic and baseline forecast we have a variation of approximately 8.3 million passengers, and between the optimistic and baseline forecast we see a difference of approximately 9.5 million passengers. The pessimistic scenario represents an annual growth rate of 4.0 per cent, compared with 4.7 per cent for the baseline and 5.5 per cent for the optimistic scenarios respectively.

The sensitivity test assumed GDP growth of +/- 1 per cent from the baseline forecasts for the first five years, and +/- 0.5 per cent thereafter.

11 Conclusion

IATA believes that the underlying drivers of air travel remain intact and expects sustained traffic growth in the long term, although the continued recovery of traffic to the long term trend line will be dependent, among other things, on continued economic growth. In the short term IATA expects that international traffic should continue to recover post September 11 in a manner similar to the recovery which followed the Gulf War. Domestically, the collapse of Ansett has resulted in a domestic market which is expected to be more efficient and more competitive than the duopoly which existed prior to 2001. The new competitive landscape is expected to support long term passenger growth in part due to the relative strength of both Qantas and Virgin Blue.

Yours faithfully,



Georges Francois Dormoy

Assistant Director, Air Transport Consultancy Services

IATA

1 Virgin Blue entered the Sydney-Melbourne market after the Olympics and Impulse entered the Sydney-Brisbane route shortly before the Olympics.

2 Figures include regional passengers.

3 The aircraft categories have been defined as following: 0: 0-10 tons; 1: 10-20 tons; 2: 20-50 tons; 3: 50-100 tons; 4: 100-200 tons; 5: 200-400 tons and 6: over 400 tons.

4 ATA: Airline Transportation of America.

5 We would normally have taken AEA (Association of European Airlines) as opposed to BAA plc figures to represent the European market as opposed to the UK market but unfortunately the data from AEA is distorted due to the fact that both AEA members, Sabena and Swiss Air, collapsed at the end of 2001 and their traffic has been replaced by non-AEA members SN Brussels Airlines and Crossair (Swiss).

10.2 Independent Traffic Report - Rome Airport

Aviation Economics

James House, LG2, 22/24 Corsham Street, London N1 6DR
Tel: +44 (0)20 7490 5215 Fax: +44 (0)20 7490 5218
E-mail: info@aviationeconomics.com

10 July 2002

The Directors
Macquarie Airports Holdings (Bermuda) Limited

The Directors
Macquarie Airports Management Limited
(As responsible entity for Macquarie Airports Trust (I) and (II))

Dear Directors,

Introduction
You have requested that we prepare a long term traffic forecast for Aeroporti di Roma (AdR) for inclusion in a prospectus you propose to issue in relation to the acquisition of a shareholding in ADR.

Scope and Basis of Report
In this report Aviation Economics analyses and forecasts passenger traffic for AdR for the period 2002-2020. In producing this forecast we have used our knowledge of the European air transport market, and recovery trends since the events of September 11th, to assess publicly available material relating to Aeroporti di Roma and its aviation market.

Declaration
Aviation Economics is a specialist consultancy based in London. Aviation Economics' expertise is in airline and airport strategy and finance and has undertaken such work for a wide portfolio of clients, including banks, airlines, airports, aircraft manufacturers, Civil Aviation Authorities and other government bodies. It is also the publisher of the influential monthly newsletter, "Aviation Strategy". The involvement of Aviation Economics in the preparation of this Prospectus is limited solely to the preparation of this report.

Disclaimer
The information contained within this document has been obtained from sources that we believe to be reliable. However, whilst all reasonable care has been taken to ensure that the facts stated are accurate and the opinions and commentary given are fair and reasonable, we do not hold ourselves responsible for its completeness or accuracy. No representation, warranty, guarantee or undertaking, express or implied, is made to the fairness, accuracy or completeness of any information, projections or opinions contained in this document or upon which any such projections or opinions have been based.

Aviation Economics' Traffic Forecast for Aeroporti di Roma

1. Introduction to the Forecast

The passenger forecast for Aeroporti di Roma contained in this report has been produced by Aviation Economics using standard industry methodology and covers the period up to 2020. Passenger numbers are split out into domestic, intra-EU and extra-EU for both Fiumicino and Ciampino airports. Base data was sourced from publicly available information. The forecast is designed to be consistent with our view of the development of air traffic in the European market, and with our knowledge of the Rome market.

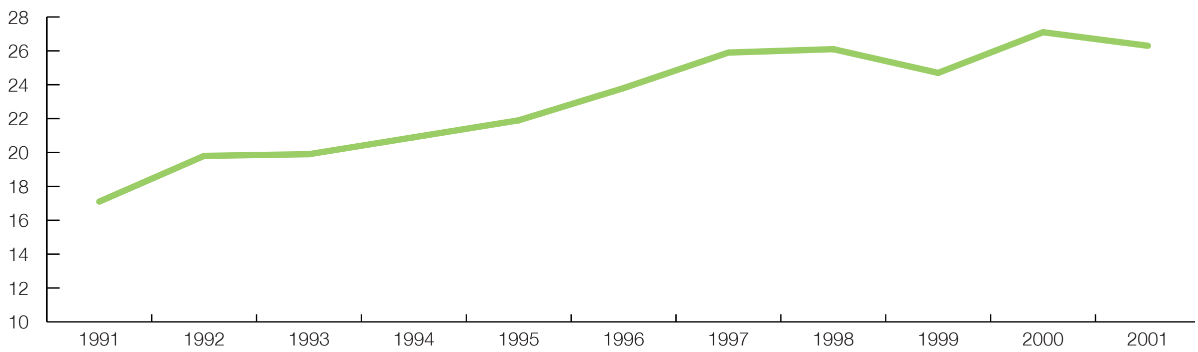
2. The Rome Airport System

Aeroporti di Roma (AdR) holds an exclusive concession for the management and development of Rome's airport system up to 2044. AdR is comprised of Fiumicino's "Leonardo da Vinci" Airport (Fiumicino or FCO) and "Giovan Battista Pastine" Airport (Ciampino or CIA). In 2001 FCO handled 25.1 million passengers and CIA 0.7 million.

AdR: Historic Passenger Growth (1988-2001)

The evolution of passenger traffic at AdR over a 11 year period to December 2001 is summarised in the graph and table below.

AdR Traffic Growth (passengers millions)



	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
AdR Pax (m)	17.1	19.8	19.9	20.9	21.9	23.8	25.9	26.1	24.7	27.1	26.3
Annual change		15.8%	0.5%	5.0%	4.8%	8.7%	8.8%	0.8%	-5.4%	9.7%	-3.0%

Source: AdR Website Note: Includes Transits

Over the period 1991-2001, AdR has grown at a compound annual growth rate of 4.4 per cent per annum, approximately at the average for major European airports. This period includes a protracted recession in the Italian economy during the early 1990s.

Two events contained in the historic figures require comment. The first, relates to the effect of the Gulf War which is apparent in the depressed passenger total for 1991 and the sharp recovery in 1992. The second is the decline recorded in 1998 as a result of Alitalia's decision to split its hub operation between Rome Fiumicino and Milan Malpensa in 1999 and the subsequent recovery in 2000.

Both events relate to the impact of substantial external factors upon passenger traffic at AdR and provide some indication of the AdR's market resilience and its ability to recover growth. The average growth over the period 1991-1998 was 6.2 per cent, which may provide a better indication of the growth prior to the events noted above.

The figure for 2001 is specifically impacted by the effects of September 11th. Current traffic levels for the first quarter of 2002 and comment on AdR's recovery from September 11th are discussed in Section 5 below – "Forecast Methodology and Assumptions".

3. Rome Traffic Characteristics

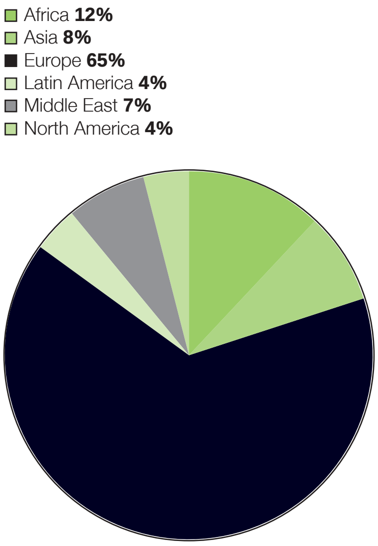
3.1 By Destinations

Approximately 47 per cent (in passenger numbers) of AdR traffic was domestic, 31 per cent intra-EU and 22 per cent extra-EU in 2001. The prime route is Rome-Milan accounting for about 13 per cent of total traffic, followed by Rome-London (6 per cent) and Rome-Paris (5 per cent).

There are 118 non-stop destinations from FCO, broken down as follows:

Region	No. of destinations
Africa	14
Asia	10
Europe	76
Latin America	5
Middle East	8
North America	5
Total	**118**

Non-stop Destinations Served from AdR



Source: ATI

This compares with 185 destinations served from Amsterdam and 125 from Zurich, suggesting that AdR is comparatively underserved and has potential for expanding its network further.

3.2 By Carriers

As well as Alitalia AdR's home based carrier, Rome Fiumicino (FCO) is a base airport for Alitalia Express, AZZURRAair, Air One and Blue Panorama. Currently some 88 airlines serve FCO plus four carriers at CIA. The airlines are classified as follows:

Airlines serving AdR	
AEA carriers	19
Other European	33
North American	4
Latin American	2
Middle Eastern	8
African	11
Asian	11
Total	**88**

Source: ATI

Note: AEA = Association of European Airlines (generally the flag-carriers)

4. Strengths, Weakness and Opportunities

Strengths

– Rome is a major European city, a popular holiday destination and important administrative centre, providing AdR with a catchment area of about 25 million.

– It is one of two main bases for Alitalia, which, is terms of passengers carried, is Europe's fourth largest carrier after Lufthansa, British Airways and Air France. Alitalia is a member of the SkyTeam global alliance, which includes Air France, Delta and Korean.

– AdR is an uncongested airport system, which has recently undertaken important capital investment.

– The business travel segment is strong, accounting for an estimated 65 per cent of domestic passengers and 45 per cent of total traffic.

– Rome is well positioned as a hub to southern Italy, the Middle East and Eastern Europe from intercontinental long-haul traffic.

Weaknesses

– In 1998 Alitalia made the decision to split its hub operations and relocate services from Rome to Malpensa.

– Alitalia is financially weak and reported losses of over €1 billion for 2001. Recent reports do however indicate an improvement in its financial position, the airline nearly halving its operating losses for the first quarter of 2002.

– The propensity to fly in Italy is low: according to the World Bank the average number of flights per capita per annum is 0.47 compared to the European average of 0.7. This may also be considered an opportunity.

Opportunities

– Rome is a major target for low-cost carriers with the potential for Ryanair to expand its operations at CIA, while easyJet, having recently agreed a take-over of Go, will also very probably expand in this market. Such carriers are typically achieving 25 per cent plus passenger growth rates in today's European market.

– AdR traffic recovered quickly in after Alitalia's relocation of services to Milan, with other long-haul carriers filling the gaps left at Rome by Alitalia. Rome remains underserved compared to European airports with similar catchment areas, and should be able to capture more long-haul, particularly US services with more proactive marketing.

– With the ongoing liberalisation of the Italian market and the entry of low-cost carriers the propensity to fly should increase.

– Alitalia is restructuring and may emerge as a more competitive carrier, capable of expanding into new markets and increasing frequencies in existing markets. Alternatively, if Alitalia has to radically downsize, the Rome market will be opened up to new more dynamic competitors.

5.1 Forecast Methodology

Aviation Economics has taken a top-down approach to forecasting AdR's traffic growth for the period to 2020. In the short term we have factored in a traffic recovery which assumes a recovery of traffic to the long term trend. In the longer term we have used GDP as the key traffic driver. The forecast takes into account market specific factors, such as the growth of low-cost carriers (LCC) at CIA and the introduction of high-speed trains between Rome and Milan.

5.2 Assumptions – Organic Growth

Organic traffic growth is driven by projected real GDP growth. We have assumed average GDP forecast is 2.33 per cent for the period to 2010 reflecting an anticipated 2 per cent pa growth in the Italian economy (one-third weighting) and 2.5 per cent for the EU as a whole (two-thirds weighting – some two-thirds of traffic to/from Rome is generated abroad mostly in Europe). These forecasts are consistent with the OECD Economic Outlook of December 2001.

Income elasticities, 1 for business travel and 2 for leisure travel, are incorporated into the model as is a price elasticity of -1 for leisure travel. These are industry-standard for the European market.

5.3 Assumptions – Route Development

The model factors in new route development, by both traditional airlines and low-cost carriers (LCCs) at the two airports. Traffic growth at CIA in the short and medium term is directly related to projected route development by LCCs, with a rapid build-up of frequencies in 2003/04 and 4-5 frequencies added per year up to 2010. This is consistent with plans announced by the LCCs and their normal pattern of growth in Europe.

Most of the LCC growth is assumed to be intro-EU based at CIA. Initially some 75 per cent of the LCC growth is assumed to be new traffic with 25 per cent cannibalised from the traditional carriers' traffic. This cannibalisation rate is slowly increased to 30 per cent in the period to 2010.

5.4 Rail Competition

The impact of the introduction of high-speed train services between Rome and Milan in 2006 is factored in, with a 30 per cent traffic loss assumed on Rome-Milan routes.

5.5 Recovery post September 11th

Reflecting past experience of AdR's general market resilience and its ability to recover from the impact of significant external events, recovery from the events of September 11th is predicated on the assumption that traffic will rebound to the long term trend with the traffic "lost" as a direct result of the September 11th attacks being recaptured during 2002 to 2004. Aviation Economics has taken this approach in its published global airline forecasts in its industry newsletter "Aviation Strategy", the latest being February 2002. This type of rebound effect is particularly supported by evidence of AdR's traffic recovery following the Gulf War.

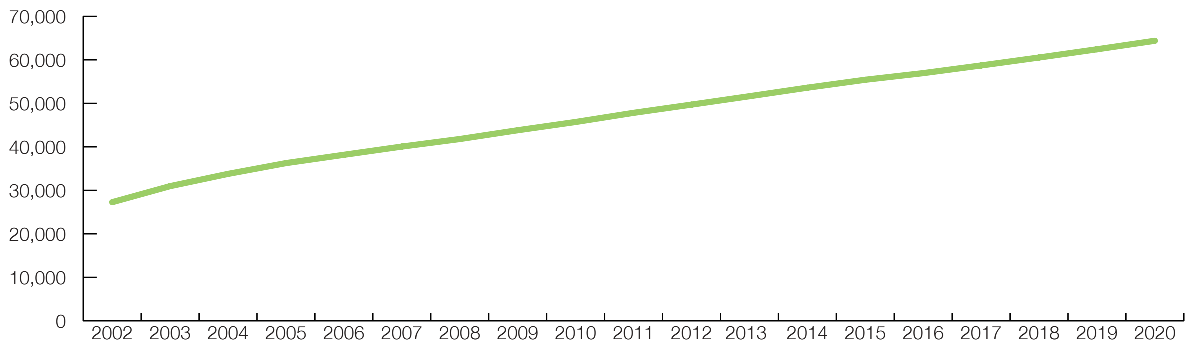
The latest traffic statistics posted by AdR show a fall in passenger numbers of 7.8 per cent in the first quarter of this year compared to traffic declines of 20 per cent recorded in October and November last year in the wake of September 11th. AdR is therefore on the expected European recovery track.

6. The Forecast

Aviation Economics' forecast envisages an increase in total AdR traffic from 26.3 million passengers in 2001 to 63.9 million in 2020. The annual growth rate for the period to 2010 is estimated at 5.4 per cent and is then set at 3.5 per cent for the next 10 years. The overall traffic growth rate in the earlier period is boosted by a predicted rapid expansion of low-cost carrier activity at Rome CIA.

Aviation Economics' passenger forecast to 2020 for AdR both as an airport "system" is summarised in the chart and tables set out below.

AdR Long Term Traffic Forecast (Pax millions)



The forecast envisages the following total annual passenger volumes and annual growth rates for AdR as a whole:

AdR System Forecast Total Passenger Volumes

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
AdR System Passengers (millions)	27.3	31.0	33.8	36.3	38.2	40.1	41.8	43.8	45.7	47.8
Change	3.8%	13.5%	9.1%	7.3%	5.3%	4.9%	4.3%	4.8%	4.3%	4.6%

	2012	2013	2014	2015	2016	2017	2018	20192	2020
AdR System Passengers (millions)	49.7	51.6	53.6	55.2	56.9	58.7	60.5	62.4	64.4
Change	4.0%	3.9%	3.8%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%

The forecast for Fiumicino shows the predicted recovery in traffic in 2003 and 2004, returning passenger volumes to their long term growth trend. The forecast compound average growth rate for the ten year period 2000-2010 is 4.1 per cent per annum, which is slightly below the historic (1988-2001) rate of 4.3 per cent per annum and well below the historic growth of 6.2 per cent per annum reported for 1991-1998. The forecast growth rate then drops to an average of 3.4 per cent per annum for the period 2011-2020.

Breakdown of Forecast Total Passenger Volumes
Fiumicino and Ciampino 2002-2005

	2002	2003	2004	2005
Fiumicino Passengers (millions)	25.8	28.2	30.3	31.9
Change	2.7%	9.3%	7.2%	5.3%
Ciampino Passengers (millions)	1.0	2.3	3.1	4.0
Change	43.8%	125.8%	34.4%	28.2%

The forecast for Ciampino shows high growth rates for the period 2002-2005. This is the result of the start-up and rapid development of new low-cost services from this airport, based upon service patterns and low-cost developments at other European airports. This growth in passenger volumes takes place from a very low traffic base and so produces high percentage growth figures.

Conclusion

Aviation Economics' outlook is realistic and achievable, taking into account both the short term recovery from the events of September 11th, the entry of the low-cost carriers into the Rome market and the likely long term trend in passenger growth arising from economic factors such as GDP growth and income and price elasticities.

I present this report to you.

Keith McMullan
Managing Director
Aviation Economics

10.3 Independent Regulatory Review Report

Deloitte Touche Tohmatsu
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Deloitte Touche Tohmatsu

15 July 2002

The Directors
Macquarie Airports Management Limited
Level 11
1 Martin Place
Sydney NSW 2000
Australia

The Directors
Macquarie Airports Holdings (Bermuda) Limited
Washington Mall 1
22 Church Street
Hamilton HM 11
Bermuda

Dear Directors,

MACQUARIE AIRPORTS - INDEPENDENT REGULATORY REVIEW REPORT

1 Introduction

We have prepared this report and its Annexures for inclusion in the Prospectus to be issued on or around 18 July 2002, regarding the proposed issue of Fully Paid Securities, in Macquarie Airports ("MAp"), to raise approximately $670.0 million.

MAp is a stapled entity comprising two Australian managed investment schemes, Macquarie Airports Trust 1 ("MAT1") and Macquarie Airports Trust 2 ("MAT2") and a Bermudian company, Macquarie Airports Holdings (Bermuda) Limited ("MAHBL"). Macquarie Airports Management Limited ("MAML") is the Responsible Entity for both MAT1 and MAT2. The units in MAT1 and MAT2 and the shares in MAHBL have been stapled pursuant to the Stapling Deed.

This report addresses airport regulation in Australia generally and in particular Sydney Airport. This report does not cover the regulation of airports in Italy or the impact of any government imposed restrictions on the operation of Aeroporti di Roma SpA ("AdR") and Rome Airport.

A number of defined words and items used in this report have the same defined meaning as set out in the Glossary contained in this Prospectus.

Deloitte Touche Tohmatsu

2 Background to Regulation of Australian Airports

2.1 Introduction

In Australia, airports have been subject to differing levels of independent regulation under a "dual-till" approach to asset regulation, which have ranged from:

– direct price control regulation where price changes (usually rises) can only be implemented with approval from the Australian Competition and Consumer Commission ("ACCC"); to

– price rises based on a set established percentage usually linked to the Consumer Price Index ("CPI"); to

– price-monitoring where price rises do not require independent approval but must be justifiable by the airport operator; and recently to

– no independent economic regulation.

2.2 Dual Till Approach

The dual till approach divides the aeronautical activities of an airport into aeronautical services and aeronautical related services. In the case of Australian airports only the aeronautical services have been subject to independent price control regulation. This type of regulated versus non-regulated services approach is similar to that used in respect of other monopoly regulated infrastructure assets in Australia, particularly the electricity industry's distribution and transmission regulatory regimes.

Non-aeronautical services provided by airports such as retail shops are not subject to regulation.

Under the dual till approach the key issues are:

– Delineation of aeronautical versus aeronautical related and non-aeronautical services;

– Identification of direct costs relating to aeronautical and aeronautical related and non-aeronautical services; and

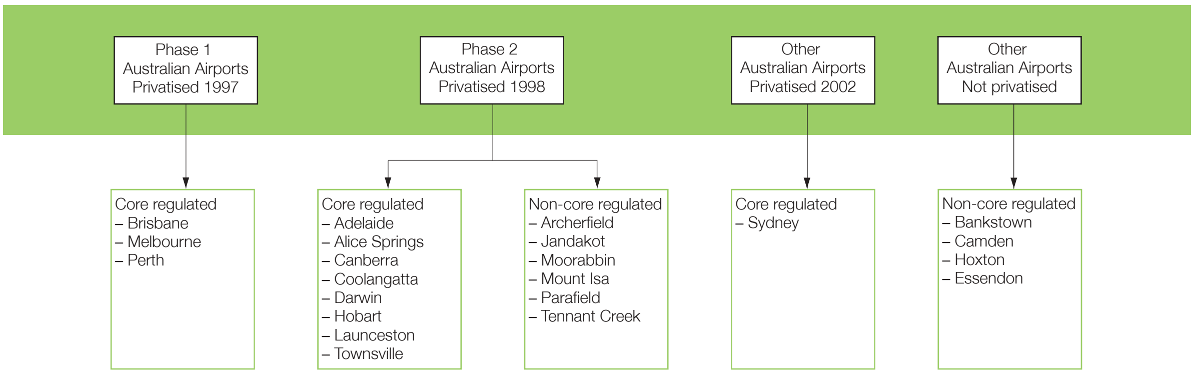
– The allocation of common costs between aeronautical and aeronautical related and non-aeronautical services.

2.3 Regulation of Australian Airports

2.3.1 Airport Categories

A further layer of complexity in the airport industry exists where Australian airports have been regulated under differing regimes. Airports can be divided into a number of categories, depending on their regulatory status and the timing of their privatisation. Previously 17 Australian airports have been privatised in two stages with Sydney Airports Corporation recently privatised through its sale to Southern Cross Holdings.

The non core-regulated airports are covered by the general provisions of the Airports Act, but not by the provisions relating to prices oversight, quality of service monitoring, third party access and public reporting. These latter provisions have impacted the core-regulated airports only.



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2.3.2 Core-regulated Airports – Phase 1 and Phase 2 Airports (prior to 1 July 2002)
Prior to 5 October 2001, the core-regulated airports were regulated differently depending on whether they were Phase 1 or Phase 2 core-regulated airports or Sydney Airport. The Phases 1 and 2 core-regulated airports were subject to a CPI-X price cap for their aeronautical services under direction from the Australian Treasurer made pursuant to section 20 of the *Prices Surveillance Act 1983* (the "PS Act"). A CPI-X price cap is simply a regime whereby the airport operator can increase its prices for aeronautical services annually by a percentage equal to the Consumer Price Index less a fixed percentage set by the Australian Commonwealth Government (to reflect productivity improvements).

On 5 October 2001 the Australian Commonwealth Government announced changes to the regulation of Phase 1 and Phase 2 core-regulated airports that affect these airports between 5 October 2001 and 1 July 2002 only. These changes had no impact in relation to Sydney Airport and have not been detailed herein.

2.3.3 Core-regulated Airports – Sydney Airport
Sydney Airport's aeronautical services were not subject to a CPI-X price cap regime, rather, they were subject to direct prices surveillance by the ACCC pursuant to section 22 of the PS Act under which the airport was required to seek approval from the ACCC for any increase in prices.

Non-aeronautical services, referred to above, were further split into two categories – aeronautical-related services and unregulated services. For the Phase 1 and 2 core-regulated airports and Sydney Airport aeronautical-related services were subject to price monitoring by the ACCC.

2.4 Necessary New Investment
In addition to the price changes under the CPI-X price caps, the airports subject to price control (including Sydney Airport) were able to increase prices above the price cap for expenditure that qualified as Necessary New Investment ("NNI"). Broadly, qualifying NNI expenditure is capital expenditure that increases the capacity or quality of the service provided. Capital expenditure that seeks to restore an asset to its prior capacity or quality is not considered qualifying NNI expenditure. The ACCC had responsibility to assess price increases for NNI according to certain criteria.

2.5 Government Mandated Security Charges
Airports subject to price control were able to pass-through cost increases that resulted from changes in Government-mandated security requirements. The resulting price increases from the cost pass-throughs required ACCC approval before they could be imposed.

2.6 ACCC May 2001 Sydney Airports Corporation Decision
The way in which the ACCC intended to deal with Sydney Airport's price regulatory regime was outlined in the report handed down by the ACCC in May 2001. This report detailed its final decision on the proposed Sydney Airports Corporation price increases, indicating that the ACCC would not object to average price increases of 97 per cent ("the ACCC's May 2001 Decision").

The ACCC's May 2001 Decision was based on the building block approach (as used in other regulated industries in Australia such as electricity and gas transmission) and confirmed the use of the dual-till approach to the regulation of prices for Sydney Airport.

In simple terms, the building block approach permits a regulated asset owner (in this case Sydney Airports Corporation) to charge a regulated price for the provision of aeronautical services that is based on expected volumes, or in the case of Sydney Airport, where the following charges (referred to as the MTOW related charges) were established:

– Runway charge based on aircraft movements (takeoffs and landings) (international and domestic);

– International terminal usage charge;

– Passenger screening charge (international only);

– Baggage screening charge (international only); and

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– Counter terrorist first response charge (international and domestic).

These regulated price charges are effectively set to cover:

– Operating expenditure;

– A return of capital (depreciation); and

– A return on capital (a weighted average cost of capital calculation applied to the regulated asset base).

This methodology is referred to as a cost of service regulation, whereby the variables used to determine the price or tariff charged were determined in the ACCC's May 2001 Decision process.

2.7 Passenger Services Charge

After the ACCC's May 2001 Decision, a number of international airlines began proceedings against Sydney Airports Corporation in relation to the price increase (and other related issues). As part of the settlement of the proceedings, Sydney Airports Corporation proposed the introduction of a Passenger Services Charge ("PSC") for international and domestic passengers to replace the regulatory charges previously established. In the ACCC's May 2001 Decision, the PSC was proposed to replace all of the charges set out above in Section 2.6.

Sydney Airports Corporation requested ACCC approval for this proposed change in late 2001 as part of the settlement of the airline litigation. In assessing the proposed charges the ACCC accepted the international PSC on the basis that it was forecast to be revenue neutral to Sydney Airports Corporation and had the acceptance of the airlines that would be affected by the change. The ACCC objected to the domestic PSC due to strong concerns expressed by Virgin Blue, even though it was forecast to be revenue neutral to Sydney Airports Corporation.

As a result, Sydney Airports Corporation introduced the international PSC in its pricing structure, whereas domestic airlines are (as at the date of this report) charged at regulatory charges established in the ACCC's May 2001 Decision.

2.8 Australian Airport Regulation Post 1 July 2002

On 13 May 2002 the Australian Commonwealth Government released the Productivity Commission's ("PC") final report into the Price Regulation of Airport Services (the "PC Airports Report") and the Australian Commonwealth Government's response. The Australian Commonwealth Government's response will cause significant changes to the regulation of the four main Australian airports – Brisbane, Melbourne, Perth and Sydney – from 1 July 2002. Previously these airports have been subject to price caps or price surveillance, however under the changes outlined they will move to a price monitored regulatory regime.

The key attributes of the price-monitoring regime are as follows:

– It is a more light-handed style of airport regulation, with no direct price control over prices by the ACCC;

– The regime would be introduced for a probationary period of five years;

– Towards the end of the five year period an independent public review would be conducted to determine whether there should be any further price regulation of airports, whether the current price monitoring regime should continue or whether direct price control regulation should be reintroduced;

– The Government has reserved the right to bring forward this review or reintroduce price controls if there appears to have been unjustifiable price increases;

– Information requirements would be specified at the commencement of the five year period and would need to be formally audited;

– Quality of service monitoring would continue; and

– Voluntary commercial agreements would be encouraged.

Deloitte Touche Tohmatsu

3 Scope of Report

We have reviewed the reasonableness of the assumptions upon which the forecast aeronautical revenue in respect of Sydney Airport for the half-year ending 30 June 2002 and the year ending 30 June 2003 are based. MAML, in its capacity as Responsible Entity for MAT1 and MAT2 and MAHBL have used these assumptions, which are based on information provided by Southern Cross Holdings to estimate the forecast revenue in relation to aeronautical and aeronautical related services.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. Our review was limited to enquires of MAML and MAHBL management, Southern Cross Holdings management and their advisers concerning Southern Cross Holdings plans for price setting in relation to the provision of aeronautical and aeronautical related services at Sydney Airport. Our procedures included examination on a test basis, of evidence supporting each of the assumptions that are used to calculate the passenger services charge and other MTOW related charges applied to aircraft and/or passenger movements to estimate the forecast revenue in relation to aeronautical and aeronautical related services to be provided at Sydney Airport.

In addition, we have examined the detailed report prepared by the International Air Transport Association ("IATA Report") concerning forecast aircraft movements (takeoffs and landings) and passenger movements (embarking and disembarking) at Sydney Airport. In our report we have relied on the IATA Report for forecast aircraft and passenger movements at Sydney Airport. To the extent we have used this report in assessing the assumptions upon which the forecast aeronautical revenue included in the forecasts for Sydney Airport for the half-year ending 30 June 2002 and the year ending 30 June 2003 are based, we disclaim all responsibility for the information contained in the IATA Report.

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

4 Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that in respect of the half-year ending 30 June 2002 and the year ending 30 June 2003:

i) the key regulatory assumptions set out in Annexure A do not provide a reasonable basis for the preparation of the forecast aeronautical revenue of Sydney Airport; and

ii) the regulatory methodology used to calculate the price charges in relation to the provision of aeronautical and aeronautical related services at Sydney Airport is inappropriate.

The actual price charges for the provision of aeronautical and aeronautical related services at Sydney Airport could be different. As detailed in the section on key regulatory risks set out in Annexure B of our Report, the Australian regulatory environment in respect of airports generally could change as a result of factors outside the control of the directors of MAML or MAHBL. Accordingly, we express no opinion as to whether the forecast aeronautical revenue for Sydney Airport will be achieved.

Yours faithfully

DELOITTE TOUCHE TOHMATSU

James H W Riddell
Partner

Deloitte Touche Tohmatsu

Annexure A - Key Regulatory Assumptions

MAML and MAHBL have made a number of regulatory assumptions based on information provided by Southern Cross Holdings in estimating the forecast aeronautical revenues for Sydney Airport that are broadly described in the following table:

Key Assumption	Comment
Status Quo based on the principles outlined in the ACCC May 2001 Decision, which incorporates: – Constant nominal prices – Price increases for NNI – Price increases for security measures – Price increase for increased terrorism insurance cost	Whilst Sydney Airport moves to a price monitored regime from 1 July 2002, Southern Cross Holdings plans to mitigate the risk of reintroduction of price control regulation by undertaking "shadow regulation" and consultation with its airline partners, where: – Base prices are proposed to remain constant in nominal terms, consistent with ACCC's May 2001 Decision; and – Prices are forecast to increase due to increased Government-mandated security requirements, to recover to necessary new investment and increased terrorism insurance costs.
Sydney Airport can increase charges to deal with unexpected events	Sydney Airport will be allowed to increase charges only if justified with reference to total aeronautical costs.
NNI criteria to remain applicable.	Southern Cross Holdings assumes the current distinction between NNI and other capital expenditure that occurs under the pre 1 July 2002 price control regime.
Land value maintained using the ACCC's preferred methodology of indexed historic cost	Whilst the Productivity Commission strongly backed the opportunity cost approach, the adoption of land value based on indexed historic cost is unlikely to be challenged and is consistent with the ACCC's May 2001 Decision.
No allowance at this time, for: – Increasing charges by CPI – Peak (or congestion) pricing – Changes to revenue through negotiated contracts with airlines	All envisaged by the Government and are potential options available to Southern Cross Holdings over time.

Annexure B - Key Regulatory Risks

Information Disclosure and Public Pressure

Under the price-monitoring regime that will apply to Sydney Airport from 1 July 2002 there will be a requirement for greater disclosure of information. In addition there will be greater public pressure on Sydney Airport to justify any price increase to both its customers and the ACCC.

To this end, Southern Cross Holdings is proposing to implement a policy of "shadow regulation", in consultation with its airline partners, whereby pricing adjustments will be based on previous regulatory regimes, which should reduce future challenges to price increases.

Re-introduction of Price Control Regulation

The price-monitoring regime has been introduced for a probationary period of five years, at the end of which an independent review will be undertaken. In addition, the Government has reserved the right to bring forward the review and re-introduce price controls if there is evidence of unjustifiable price increases.

To mitigate this risk, Southern Cross Holdings has proposed a policy of "shadow regulation" and consultation with its airline partners. That is, forecast aeronautical charges have been estimated as if Sydney Airport was still being regulated. This shadow regulation approach mitigates the risk in two ways:

1. By charging at "regulated" price levels it reduces the likelihood of price controls being reintroduced; and
2. If price controls are reintroduced, as charges would already be based on regulation, the adjustments to charges would likely be minimal.

Section 11 Independent Expert Financial Reports

11

11.1 Investigating Accountants' Report

Deloitte Touche Tohmatsu
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18 July 2002

The Directors
Macquarie Airports Management Limited
Level 15
1 Martin Place
Sydney NSW 2000
Australia

The Directors
Macquarie Airports Holdings (Bermuda) Limited
Washington Mall 1
22 Church Street
Hamilton HM 11
Bermuda

Dear Directors

MACQUARIE AIRPORTS - INVESTIGATING ACCOUNTANTS' REPORT

Introduction

We have prepared this Report and its Annexures for inclusion in the Prospectus to be issued on or around 18 July 2002, regarding the proposed issue of Fully Paid Securities in Macquarie Airports ("MAp") to raise approximately $670.0 million.

A number of defined words and terms used in this Report have the same defined meaning as set out in the Glossary contained in this Prospectus.

Background

MAp is a stapled entity comprising two Australian managed investment schemes, Macquarie Airports Trust 1 ("MAT1") and Macquarie Airports Trust 2 ("MAT 2") and a Bermudian company, Macquarie Airports Holdings (Bermuda) Limited ("MAHBL"). Macquarie Airports Management Limited ("MAML") is the Responsible Entity for both MAT1 and MAT2. The units in MAT1 and MAT2 and the shares in MAHBL have been stapled pursuant to the Stapling Deed.

Each Security in MAp comprises one unit in MAT1, one unit in MAT2 and one share in MAHBL. The units in the Trusts and the shares in MAHBL cannot be traded separately and can only be traded as a stapled Security. The Securities issued under this Prospectus are fully paid.

Securities issued under the original Prospectus dated 4 March 2002 ("Partly Paid Securities") are partly paid to $1.00 pending payment of a Final Instalment of $1.00 per Security at which time they will also be fully paid and rank equally in all respects with Fully Paid Securities issued under this Offer.

In accordance with Australian mandatory professional reporting requirements, MAp is required to prepare aggregated financial statements, which combine the individual consolidated financial statements of each of the Trusts and MAHBL. Transactions between these entities are eliminated in the aggregated financial statements of MAp.

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Prior to the proposed issue of Fully Paid Securities pursuant to this Prospectus, MAp's existing assets comprise investments in cash and other liquid assets and a 36.7 per cent interest in Macquarie Airports Group Limited ("MAG"). MAG is an unlisted investment vehicle established in August 2001 to make equity investments in airports primarily in OECD member countries with a focus on Europe and the UK.

MAp intends to use the net proceeds from the proposed issue to acquire a 44.3 per cent interest in Macquarie Airports (Luxembourg) SA ("MALSA"), which has invested in Aeroporti di Roma SpA ("AdR"). This shareholding represents an effective 19.8 per cent indirect interest in AdR. AdR holds the concession until 2044 for the management and development rights of the airports comprising the Rome Airport System.

MAp's associate MAG is also proposing to acquire an interest in MALSA, which will be funded by an equity call made on its shareholders, including MAp.

MAp has utilised cash and short term financing facilities to acquire a 72.8 per cent interest in Southern Cross Australian Airports Trust ("SCAAT"). SCAAT has a 55.6 per cent non-controlling interest in Southern Cross Airports Corporation Holdings Limited ("Southern Cross Holdings"), which acquired on 28 June 2002, all of the issued shares in Sydney Airports Corporation Limited ("Sydney Airports Corporation"). Sydney Airports Corporation has management and operational control of Sydney Airport through a long-term lease with the Commonwealth Government.

It is intended that these short term financing facilities will be repaid using a portion of the proceeds from the proposed issue and the proceeds receivable from the Final Instalment in respect of the Partly Paid Securities due on 1 October 2002.

MAp's associate MAG has also acquired an interest in SCAAT, which has been funded by an equity call made on its shareholders, including MAp.

The Annexures to our Report contain the following:

– Annexure A contains the pro forma Aggregated Statement of Financial Position of MAp as at 30 April 2002 and notes thereto; and

– Annexure B contains a reconciliation of the pro forma financial information contained in this Report to the Statement of Financial Position of MAp as at 30 April 2002 as included in a special purpose financial report of MAp reviewed by Deloitte Touche Tohmatsu ("Deloitte") as at that date.

Scope

You have requested that we prepare an Investigating Accountants' Report reviewing the following financial information:

– The pro forma Aggregated Statement of Financial Position of MAp as at 30 April 2002 assuming completion of all of the proposed transactions as at that date as disclosed in Note 1 of Annexure A of this Report; and

– Notes (including significant accounting policies) to the above pro forma Aggregated Statement of Financial Position of MAp as at 30 April 2002, as set out in Annexure A of this Report.

The pro forma financial information has been prepared by the directors of MAML and MAHBL respectively and is based on the accounting policies set out in Note 2 of Annexure A of this Report.

The historical financial information in respect of MAp upon which the pro forma financial information is based has been reviewed by Deloitte for the financial period from 4 March 2002 (being the date MAp was established) to 30 April 2002 in accordance with Australian Auditing Standards applicable to review engagements. We did not perform an audit and accordingly did not express an audit opinion. Our review statement was unqualified.

In our role as Investigating Accountant for the purposes of the Prospectus, we have reviewed the pro forma financial information in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the pro forma Aggregated Statement of Financial Position of MAp as at 30 April 2002 is not presented fairly in accordance with Australian Accounting Standards, other mandatory professional reporting requirements, being Urgent Issues Group Consensus Views and the accounting policies described in Note 2 of Annexure A of this Report.

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Our review of the pro forma financial information has been conducted in accordance with Australian Auditing Standards applicable to review engagements. Our review procedures were limited primarily to enquiries of the directors and senior management of MAML and its advisers and the directors and senior management of MAHBL, a review of the proposed transactions and their impact on the pro forma Aggregated Statement of Financial Position of MAp as at 30 April 2002, and an evaluation of MAp's accounting policies. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and accordingly we do not express an audit opinion.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the pro forma financial information set out in Annexure A of this Report, does not present fairly the pro forma state of affairs of MAp as at 30 April 2002, assuming completion of all of the proposed transactions as at that date as disclosed in Note 1 of Annexure A of this Report, presented on a basis materially consistent with:

– the accounting policies adopted by MAp as set out in Note 2 of Annexure A;

– the Corporations Act 2001 including Australian Accounting Standards, and the Corporations Regulations 2001; and

– other mandatory professional reporting requirements, being Urgent Issues Group Consensus Views.

Subsequent Events

Subsequent to 30 April 2002 and up to the date of this Report, nothing has come to our attention that would cause us to believe that material transactions or events outside the ordinary course of business of MAp have occurred, other than the matters dealt with in this Report or in the Prospectus, which would require comment on, or adjustment to, the information contained in this Report, or which would cause the information contained in this Report to be misleading.

Yours faithfully

DELOITTE TOUCHE TOHMATSU

James H W Riddell
Partner

Deloitte
Touche
Tohmatsu

Annexure A

Macquarie Airports Pro Forma Aggregated Statement of Financial Position

	Note	30 April 2002 $ million
Current assets		
Cash Assets	3	68.5
Receivables	4	0.1
Total current assets		68.6
Non-current assets		
Other Financial Assets	5	1,885.0
Total non-current assets		1,885.0
Total assets		1,953.6
Current liabilities		
Payables	7	1.3
Interest-bearing Liabilities	8	–
Total current liabilities		1.3
Total liabilities		1.3
Net assets		1,952.3
Equity		
Security Holders' Funds	9	1,617.5
Retained Profits	10	29.8
Outside Equity Interest	11	305.0
Total equity		1,952.3

Notes to and forming part of the pro forma Aggregated Statement of Financial Position are set out on the following pages.

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Macquarie Airports Notes to the Pro Forma Aggregated Statement of Financial Position

1. Basis for Preparation of the Pro Forma Aggregated Statement of Financial Position

The pro forma Aggregated Statement of Financial Position as at 30 April 2002 has been prepared as if the following proposed transactions had taken place as at 30 April 2002:

Pro forma	$ million
Proceeds from issue of Fully Paid Securities	670.0
The payment of underwriting and establishment costs which have been deducted directly from Security Holders Funds	20.3
Proceeds from Final Instalment of 500 million Partly Paid Securities	500.0
The payment of a selling fee in respect of the Final Instalment of Partly Paid Securities which has been deducted directly from Security Holders Funds	5.0
Acquisition of an interest in MALSA, which has invested in AdR	382.2
The payment of a committed equity call to MAG to fund its acquisition of an interest in MALSA, which has invested in AdR	160.3
Acquisition of an interest in SCAAT, which has invested in Southern Cross Holdings	815.0
The payment of a committed equity call to MAG to fund its acquisition of an interest in SCAAT, which has invested in Southern Cross Holdings	87.8
Direct costs incurred in relation to the MAp's acquisition of an interest in AdR and Sydney Airport, included in the cost of the investment	0.6
Drawdown on Final Instalment Bridging Facility	500.0
Drawdown on Letter of Credit	130.0
Subscription for an interest in SCAAT by external parties, which has been invested in Southern Cross Holdings	305.0
Repayment of Final Instalment Bridging Facility	500.0
Repayment of Letter of Credit	130.0
Underwriting fee received by MAp pursuant to the acquisition of Sydney Airport by Southern Cross Holdings	28.5

2. Summary of Significant Accounting Policies

(a) Basis of Accounting

The pro forma Statement of Financial Position as at 30 April 2002 has been drawn up in accordance with the requirements prescribed by the Corporations Act 2001, including applicable Australian Accounting Standards and the Corporations Regulations 2001, the requirements of the relevant constitutions of each of the entities that form part of MAp and other mandatory professional reporting requirements, being Urgent Issues Group Consensus Views.

This Report does not comply with all of the disclosure requirements prescribed by the Corporations Act 2001, applicable Australian Accounting Standards and Urgent Issues Group Consensus Views but, in our opinion, contains adequate information for the purpose of the Prospectus.

(b) Investments

The Responsible Entity will revalue MAp's non-controlled investments as at each reporting date to their net market values in accordance with Australian Accounting Standard AASB 1030: "Application of Accounting Standards to Financial Year Accounts and Aggregated Accounts of Disclosing Entities Other than Companies". Changes in the net market values of investments (both positive and negative) will be recognised as investment revenue from ordinary activities in the Statement of Financial Performance each year.

The value of investments will be brought to account as follows:

(i) Interests in listed securities in companies and trusts

Non-controlling interests in listed companies and trusts will be brought to account at net market value, after deducting selling costs and allowing for any specific risks or circumstances such as liquidity risk, credit risk or escrow periods. Dividends and other distributions will be recognised in the Statement of Financial Performance when receivable.

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(ii) Interests in Unlisted Securities in Companies and Trusts
Non-controlling interests in unlisted companies and trusts will be brought to account at the Responsible Entity's estimates of net market value determined in accordance with either a discounted cashflow analysis, option pricing model, or by reference to the current market value of substantially similar interests, as appropriate. Dividends and other distributions will be recognised in the Statement of Financial Performance when receivable.

(iii) Interest-bearing Financial Assets
Interests in interest-bearing public and other debt securities will be brought to account at net market value. Other interest-bearing financial assets will be accounted for on an accruals basis.

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

(iv) Investments in Associates
Interests in associates which have been accounted for at net market value will not be equity accounted. However, supplementary disclosure information is provided to the extent required by Australian Accounting Standard AASB 1016: "Accounting for Investments in Associates".

(v) Hedge of Specific Investments
To the extent that cash is held on deposit in foreign currencies to meet certain commitments, any exchange gain or loss on the cash deposit will be offset against the exchange gain or loss incurred on the relevant commitment.

(vi) Foreign Exchange Gains or Losses
As investments of MAp are revalued to net market value each six months, any foreign exchange gain or loss on a foreign investment will be recognised in the Statement of Financial Performance each reporting period.

(c) Income Tax
Pursuant to the provisions of Division 6C of the Income Tax Assessment Act 1936 ("the Act"), it is intended that MAT2 will be treated as a company for income tax purposes. Accordingly, MAT2 and MAHBL will recognise income tax using the liability method of tax effect accounting. Provision is made for taxes on gains which could arise in the event of a sale of revalued assets for the amounts at which they are stated.

MAT1 is not liable for income tax under the Act, provided that the taxable income of MAT1 is fully distributed to Security Holders each year. Accordingly, income tax and tax effect accounting will not be applied in relation to MAT1.

(d) Principles of Aggregation
The pro forma Aggregated Statement of Financial Position as at 30 April 2002 has been prepared by combining the consolidated financial statements of all the entities that comprise the aggregated entity, being MAT1 and its controlled entities, MAT2 and its controlled entities and MAHBL and its controlled entities as defined in Accounting Standard AASB 1024 "Consolidated Accounts". The pro forma Aggregated Statement of Financial Position includes the information and results of each controlled entity from the date on which MAp obtains control and until such time as MAp ceases to control such entity.

In preparing the pro forma Aggregated Statement of Financial Position, all intercompany balances and transactions within the aggregated entity have been eliminated in full.

3. Cash Assets

	$ million
Cash Assets – general	66.5
Cash Assets – to meet future MAG commitments	2.0
	68.5

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4. Receivables

	$ million
Interest receivable	0.1
	0.1

5. Other Financial Assets (Non-current)

	$ million
Partly paid ordinary shares in Associate (MAG) – not quoted on a stock exchange:	
At cost	382.2
Fully paid securities in Associate (MALSA) – not quoted on a stock exchange:	
Convertible loan notes at cost(i)	325.1
Ordinary shares at cost	57.4
	382.5
Fully paid shares in Associate (Southern Cross Holdings) – not quoted on a stock exchange(ii):	
Redeemable preference shares at cost(iii)	840.2
Ordinary shares at cost	280.1
	1,120.3
	1,885.0

(i) The investment in MALSA is via convertible loan notes and ordinary shares in the ratio of 85 per cent/15 per cent respectively. These instruments are effectively stapled instruments by virtue of the provisions of the MALSA Shareholders Agreement, referred to in Section 12 of the Prospectus. The convertible loan notes have no coupon and a term of 42 years. However, six months after initial drawdown of the convertible loan notes, MAp is able to convert this loan into preference shares at a predetermined conversion amount.

(ii) This investment in Southern Cross Holdings is held through SCAAT, a controlled entity in which MAp has a 72.8 per cent interest. Refer Note 13.

(iii) The investment in Southern Cross Holdings through SCAAT is via stapled redeemable preference shares and ordinary shares. The redeemable preference shares have a cumulative coupon (effective interest rate) of 13.5 per cent and have a term of 30 years to redemption.

6. Investments in Associates

Name of Associate	Principal Activities of Associate	MAp's Ownership Interest in Associate %	Carrying Amount of Investment in Associate $ million	Reporting Date of Associate
Macquarie Airports Group Limited	Holding company for investments in airports	36.7	382.2	31 Dec
Macquarie Airports (Luxembourg) SA	Holding company for investment in Rome Airport	44.3	382.5	31 Dec
Southern Cross Airports Corporation Holdings Limited(i)	Holding company of Sydney Airport	55.6	1,120.3	30 June

(i) Southern Cross Holdings has not been consolidated into the financial statements of MAT2 and therefore included in the aggregated statement of financial position of MAp as at 30 April 2002 because of the Southern Cross Holdings Shareholders' Agreement. The provisions of this Shareholders' Agreement require a 75 per cent majority to pass significant resolutions by both the shareholders of Southern Cross Holdings and its board of directors. Accordingly, MAp's 55.6 per cent interest in Southern Cross Holdings is insufficient to enable MAp to have the capacity to control the operating and financial decisions of Southern Cross Holdings.

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	Pro forma MAG[(a)] 31 Dec 01 $ million	Pro forma MALSA[(b)] 30 Jun 02 $ million	Pro forma Southern Cross Holdings[(c)] 31 Dec 01 $ million
Total Assets	1,480.8	842.1	6,454.5
Total Liabilities	(397.4)	(715.8)	(5,971.2)
Total Equity	1,103.4	126.3	483.3

(a) Pro forma adjustments have been made to the audited statement of financial position of MAG at 31 December 2001 to reflect the completion of its proposed acquisitions of interests in AdR and Southern Cross Holdings, as if those transactions were completed on 31 December 2001.

(b) Pro forma adjustments have been made to the statement of financial position of MALSA at 30 June 2002 to reflect the issue of equity to MAp and MAG and the acquisition of an interest in AdR. Convertible loan notes issued by MALSA and stapled to its ordinary shares are included in Total Liabilities.

(c) Pro forma adjustments have been made to the statement of financial position of Southern Cross Holdings at 31 December 2001 to reflect the acquisition (via its wholly-owned controlled entity) of all of the issued shares in Sydney Airports Corporation and the issue of equity to the shareholders of Southern Cross Holdings. Redeemable preference shares issued by Southern Cross Holdings and stapled to its ordinary shares are included in Total Liabilities.

7. Accounts Payable

	$ million
Management fee payable	0.1
Accrued expenses	1.2
	1.3

8. Interest-bearing Liabilities

	$ million
Opening balance	–
Draw down on Final Instalment Bridging Facility[(a)]	500.0
Draw down on Letter of Credit[(b)]	130.0
Repayment of Letter of Credit	(130.0)
Repayment of Final Instalment Bridging Facility	(500.0)
	–

(a) The directors of MAML, the Responsible Entity for MAT1 and MAT2 and the directors of MAHBL arranged a Final Instalment Bridging Facility of $500 million with Abbey National Treasury Services plc ("ANTS") and Credit Agricole Indosuez Australia Limited, which has been used to fund, in part, its acquisition of an interest in SCAAT prior to the receipt of funds from the issue of Fully Paid Securities or the Final Instalment due from the holders of the Partly Paid Securities.

Interest is charged on this facility at Bank Bill rate plus an average margin of 0.8 per cent per annum.

The borrowings are repayable on the earlier of (i) the date of receipt of proceeds from the Final Instalment and (ii) 16 October 2002, being the termination date of the facility. The transaction parties have undertaken that while there is an amount outstanding under the facility or available commitment, the minimum net tangible assets will be at least equal to $200 million as at 30 June and 31 December in each year. The pro forma Aggregated Statement of Financial Position has been prepared on the assumption that the Final Instalment Bridging Facility has been drawn and repaid as described in Note 1 of Annexure A of this Report.

(b) The directors of MAML, the Responsible Entity for MAT1 and MAT2 and the directors of MAHBL arranged a Letter of Credit of $130 million with Macquarie Bank Limited, which was used to support the obligation of MAp to subscribe for shares in Southern Cross Holdings. Interest was charged on this facility at the Bank Bill rate plus a margin of 1.0 per cent. The pro forma Aggregated Statement of Financial Position has been prepared on the assumption that the letter of credit facility has been drawn and repaid as described in Note 1 of Annexure A of this Report.

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9. Securities on Issue

	$ million
500,000,000 Stapled Partly Paid Securities, partly paid to $1.00 per Security	500.0
Final Instalment of $1.00 per Stapled Partly Paid Security	500.0
12,500,000 Stapled Fully Paid Securities, fully paid to $2.00 per Security [a]	25.0
53,921,569 Stapled Fully Paid Securities, fully paid to $1.53 per Security [b]	82.5
375,000,000 Stapled Fully Paid Securities, fully paid to $1.50 per Security [c]	562.5
Issue costs – Partly Paid Securities	(32.2)
Issue costs – Fully Paid Securities	(20.3)
	1,617.5

(a) Issue price will represent $1.98 per unit in MAT1 and $0.01 per unit in MAT2 and $0.01 per ordinary share in MAHBL.

(b) Issue price will represent $1.51 per unit in MAT1 and $0.01 per unit in MAT2 and $0.01 per ordinary share in MAHBL.

(c) Issue price will represent $1.48 per unit in MAT1 and $0.01 per unit in MAT2 and $0.01 per ordinary share in MAHBL.

In respect of the 500 million Partly Paid Securities issued pursuant to MAp's original prospectus dated 4 March 2002, a Final Instalment of $1.00 per Security remains outstanding and is due to be called by MAp on 1 October 2002. A selling fee of 1 per cent of the Final Instalment will be payable to the Underwriters of the Partly Paid Securities when the Final Instalment is received. Accordingly, the pro forma Aggregated Statement of Financial Position has been prepared on the assumption that the Final Instalment has been received, and the 1 per cent selling fee has been paid to the Underwriter of the Partly Paid Securities, by MAp as described in Note 1 of Annexure A to this report.

MAHBL has also issued a Special Share to Macquarie Investment Management (UK) Limited, which entitles it to appoint the Managing Director of MAHBL and other directors constituting up to 50 per cent of the MAHBL board. MAHBL has also issued a B Special Share to MAML, which entitles it to appoint directors constituting up to 25 per cent of the MAHBL board while the entities are stapled. Holders of these shares are not entitled to any dividends and are entitled to the par value of those shares on a winding up of MAHBL.

10. Retained Profits

	$ million
Balance at beginning of financial period	–
Net Profit for the period	29.8
Balance at end of financial period	29.8

Pro forma net profit for the period includes $28.5 million in underwriting fees earned by MAp pursuant to the acquisition of an interest of Sydney Airport by Southern Cross Holdings.

11. Outside Equity Interest

	$ million
Outside equity interest	
– Contributed equity in SCAAT	305.0
	305.0

12. Commitments

	$ million
Commitment to fully pay partly paid shares in MAG	2.0
	2.0

MAp has a commitment to future calls of Euro 0.0052 per MAG share.

13. Controlled Entities

MAp has one controlled entity as follows:

Name of Entity	Country of Incorporation	MAp's Ownership Interest in Associate %
Southern Cross Australian Airports Trust ("SCAAT")	Australia	72.8

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Annexure B

Introduction

A reconciliation that explains the pro forma adjustments between the Statement of Financial Position of MAp as at 30 April 2002, as reviewed by Deloitte Touche Tohmatsu and the pro forma Statement of Financial Position of MAp as at 30 April 2002, as disclosed in Annexure A, is shown below.

The pro forma adjustments reflect the completion of transactions contemplated by MAp and as detailed in Note 1 of Annexure A of this Report and the completion of related transactions contemplated by MAG and as detailed in Note 6 of Annexure A of this Report.

Aggregated Statement of Financial Position - 30 April 2002

	Actual MAp $ million	Pro forma Adjustments $ million		Pro forma MAp $ million
Current Assets				
Cash Assets	341.2	(272.7)	(a)	68.5
Receivables	0.1	–		0.1
Non-Current Assets				
Other Financial Assets	134.1	1,750.9	(b)	1,885.0
Current Liabilities				
Payables	(1.3)	–		(1.3)
Non Current Liabilities				
Interest-bearing liabilities	–	–	(c)	–
Net Assets	474.1	1,478.2		1,952.3
Equity				
Security Holders Funds	(500.0)	(1,170.0)	(d)	(1,670.0)
Issue Costs	27.2	25.3	(e)	52.5
Retained Profits	(1.3)	(28.5)	(f)	(29.8)
Outside Equity Interest	–	(305.0)	(g)	(305.0)
Total Equity	(474.1)	(1,478.2)		(1,952.3)

The pro forma adjustments are described on the following pages:

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Pro Forma Adjustments

(a) Reconciliation of movement in MAp's cash balances:

Cash Movement Reconciliation	Amount $ million
Opening cash assets as at 30 April 2002	341.2
Receipts:	
Proceeds from drawdown of MAp's Final Instalment Bridging Facility	500.0
Proceeds from drawdown on MAp's Letter of Credit	130.0
Proceeds from the issue of Fully Paid Securities	670.0
Proceeds from the Final Instalment received in respect of the Partly Paid Securities	500.0
Proceeds from outside equity investors in SCAAT	305.0
Proceeds from underwriting fee received pursuant to acquisition of Sydney Airport by Southern Cross Holdings	28.5
Payments:	
Payment of underwriting and establishment costs	(20.3)
Payment of selling fee on Final Instalment of Partly Paid Securities	(5.0)
Payment of direct costs of acquisition capitalised to the investments	(0.6)
Payment for MAp's investment in MALSA	(382.2)
Payment of MAp's committed equity call to MAG to fund its investment in MALSA	(160.3)
Payment for investment in SCAAT which has invested in Southern Cross Holdings	(1,120.0)
Payment of MAp's committed equity call to MAG to fund its investment in SCAAT which has invested in Southern Cross Holdings	(87.8)
Repayment of MAp's Letter of Credit	(130.0)
Repayment of MAp's Final Instalment Bridging Facility	(500.0)
Closing pro forma cash assets as at 30 April 2002	68.5

(b) Reconciliation of movement in MAp's other financial assets:

Other Financial Assets Movement Reconciliation	Amount $ million
Opening other financial assets as at 30 April 2002	134.1
Payment for MAp's investment in MALSA	382.2
Payment of MAp's committed equity call to MAG to fund its investment in MALSA	160.3
Payment for investment in SCAAT which has invested in Southern Cross Holdings	1,120.0
Payment of MAp's committed equity call to MAG to fund its investment in SCAAT	87.8
Payment of direct costs of acquisition capitalised to the investments	0.6
Closing pro forma other financial assets as at 30 April 2002	1,885.0

(c) Drawdown of $500.0 million in MAp's Final Instalment Bridging Facility and $130.0 million in MAp's Letter of Credit, and the subsequent repayment of both facilities.

(d) Proceeds of $670.0 million from issue of Fully Paid Securities together with the proceeds of $500.0 million from the Final Instalment in respect of the Partly Paid Securities issued by MAp.

(e) Payment of $20.3 million in underwriting and establishment costs relating to the issue of Fully Paid Securities by MAp, and $5.0 million in selling fees associated with the Final Instalment of Partly Paid Securities.

(f) Proceeds from underwriting fee of $28.5 million received pursuant to acquisition of Sydney Airport by Southern Cross Holdings.

(g) Outside Equity Interest in SCAAT of $305.0 million.

11.2 Independent Taxation Report

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Deloitte Touche Tohmatsu

5 July 2002

The Directors
Macquarie Airports Management Limited
1 Martin Place
SYDNEY NSW 2000

The Directors
Macquarie Airports Holdings (Bermuda) Limited
Washington Mall I
22 Church Street
HAMILTON HM11
BERMUDA

Dear Sirs,

MACQUARIE AIRPORTS ("MAp")

You have requested that we provide a summary of the Australian taxation issues relevant to Australian resident Security Holders ("Security Holders") of investing in Fully Paid Securities to be issued under an institutional placement and priority entitlement offer by MAp. The funds raised by the issue of the Fully Paid Securities will, in part, fund the acquisition of interests in Sydney and Rome Airports.

This advice is based on the Australian taxation laws applicable as at the date of this advice. During the life of the Fully Paid Securities, the taxation laws of Australia and/or interpretation may change.

The following is a general summary of the Australian taxation implications of investing in the Fully Paid Securities. It is not a substitute for independent advice on investors' specific circumstances. Further, the analysis relates only to Security Holders who hold Fully Paid Securities as a capital asset. Security Holders who hold Fully Paid Securities in the course of carrying on a business of trading or dealing in securities could have different tax results and should seek their own advice on the taxation consequences. Security Holders which either individually, or with associates, hold a 10 per cent or greater interest in MAHBL should seek their own advice.

Security Holders not tax resident in Australia should seek independent advice about their particular taxation implications of investing in the Fully Paid Securities.

Unless otherwise indicated, all references in this letter to legislative provisions are to the provisions of the *Income Tax Assessment Act 1936* ("ITAA 1936") and the *Income Tax Assessment Act 1997* ("ITAA 1997"). Defined terms are as defined in the MAp Prospectus, unless otherwise indicated.

In addition, this summary is based on the assumptions that MAT1 and MAT2 will be resident trust estates, and that each of MAHBL, MAG, MALSA will not be residents of Australia for Australian tax purposes.

General

Each Fully Paid Security will consist of one share in MAHBL, one unit in MAT1 and one unit in MAT2. Shares in MAHBL, units in MAT1 and units in MAT2 will be stapled and will not be able to be traded independently of each other. However, the Australian income and capital gains tax consequences of investing in a Fully Paid Security arise on an entity by entity basis.

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MAT1

Division 6C effectively taxes trusts falling within the definition of a "public trading trust" as companies. MAT1 should not currently be a public trading trust based on our understanding that MAT1 neither:

- conducts any business other than an "eligible investment business" as defined in Division 6C of the Act; nor
- controls, nor have the ability to control, directly or indirectly, the affairs or operations of any entity which does not carry on an "eligible investment business".

We understand that the interests MAT1 holds (or intends to hold) in entities undertaking trading business will not provide MAT1 with control of the entities. For example the Redeemable Preference Shares ("RPS") held in MASH and MAHBL as part of the investment in MAG and the acquisition of interests in Sydney and Rome Airports are non-voting and therefore do not give MAT1 the requisite control to bring it within Division 6C. This is the position even if MAp, via MAT2 or MAHBL, has control of an entity or entities undertaking the airport businesses.

On the basis that MAT1 is not, and will not become, a public trading trust, Macquarie Airports Management Limited, as the Responsible Entity of MAT1, will not be liable for income tax in relation to MAT1, provided that the income of MAT1 (as determined under the Constitution of MAT1) is fully distributed to Security Holders each year.

Security Holders who are individuals will be required to include their proportion of the net income of MAT1 (calculated under the Act) in their assessable income and will be subject to tax at marginal rates. Security Holders which are companies or superannuation funds will be taxed at the applicable rate in respect of their proportion of the net income of MAT1 (calculated under the Act).

The net income of MAT1 (calculated under the Act) will generally be subject to tax in the hands of the Security Holders in the same income year as the net income is derived by MAT1, irrespective of when the distributions are actually received by the Security Holders.

The character of each component of net income will be retained on distribution to the Security Holders, i.e. dividend income, capital gains, foreign source income and exempt income. The non-voting RPS subscribed for by MAT1 in MASH for the Sydney Airport acquisition should be treated as debt instruments under the Debt Equity Rules. MAT1 should include the dividends as assessable income (unfranked) when received. To the extent distributions to non-residents include such dividends, that amount will be treated as interest and subject to 10 per cent withholding tax.

Where MAT1 makes a distribution to a Security Holder which does not form part of the Security Holder's assessable income, the Security Holder's cost base in its units in MAT1 may be required to be reduced by the amount of the non-assessable distribution. In such circumstances, if the amount of the non-assessable distribution exceeds an investor's cost base in its units in MAT1, the Security Holder will make a capital gain equal to the excess.

MAT2

From and including the first year in which MAT2 acquires a controlling interest in an airport business, or otherwise undertakes activities which do not fall within the definition of "eligible investment business", MAT2 will constitute a "public trading trust" within the meaning of Division 6C. As such, the provisions of Division 6C will operate to tax MAT2 on a similar basis to a company, at the prevailing corporate tax rate.

Distributions of profits by MAT2 will be required to be included in the assessable income of Security Holders (including amounts reinvested in additional units by way of any distribution reinvestment plan). Such distributions may be franked by MAT2 in broadly the same manner as company dividends, such that a Security Holder may be entitled to imputation credits, if any, attaching to such franked distributions. For a Security Holder to be entitled to any such imputation credits, the Security Holder must satisfy the requirements contained in the provisions known as the "45 day holding rules" in Division 1A of Part IIIAA, or qualify for an exemption or franking rebate ceiling under such provisions. The general summary below assumes that these requirements will be satisfied or that an exemption or franking rebate ceiling will apply.

The tax treatment of franked distributions to Security Holders will depend upon the tax profile of the Security Holders. The tax law dealing with imputation has been amended with effect from 1 July 2002. This has some impact on the taxation treatment of dividends received by companies, life insurance companies and non-complying superannuation funds.

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In general terms, the taxation treatment of distributions will be as follows:

Individuals – The distribution plus any imputation credit attached will be included in an individual's assessable income. A franking rebate for the amount of the imputation credit will be available to offset tax payable on the individual's taxable income, or as a tax refund to the extent that the imputation credits exceed the individual's total tax liability.

Companies –The distribution plus any imputation credit will be included in assessable income. A franking rebate for the amount of the imputation credit will be available to offset tax payable on the company's taxable income. Companies will be able to credit their franking accounts with the franked amount of the distribution.

Trustees (excluding trustees of superannuation funds) – If resident beneficiaries of a trust are presently entitled to a distribution of the net income for the year in which it is derived by the trust, no tax liability should arise for the trustee; the franked distribution should flow through to, and be subject to tax in the hands of, the beneficiaries according to their particular tax profiles (providing the trust has positive net income and subject to the beneficiary satisfying the 45 day holding rules mentioned above).

Life insurance companies (where the Fully Paid Securities are assets of a statutory fund) and **superannuation funds** – The distribution plus any imputation credit attached will be included in the assessable income, with a franking rebate available to offset tax payable on the taxable income. In the case of life companies and complying superannuation funds, a refund of excess imputation credits will arise to the extent that the imputation credits exceed the total tax liability. With non-complying superannuation funds it is proposed to deny any right to a refund of imputation credits.

MAHBL

We are advised that MAHBL's Board conducts the affairs of MAHBL such that it is not a resident of Australia for taxation purposes. Accordingly, and provided that MAHBL does not carry on business in Australia either directly or through a branch, agency or other place situated in Australia, MAHBL will not be subject to Australian tax on its income or capital gains (other than Australian source income and capital gains in respect of assets connected with Australia).

MAHBL being resident outside Australia is potentially subject to Australia's Controlled Foreign Companies ("CFC") regime – Part X of the 1936 Act. Attribution of its income to Australian tax can arise if Australian residents hold a controlling interest in MAHBL. We are advised that MAHBL is controlled to the extent necessary to invoke the provisions of Part X due to the holding of RPS by MAT1.

Consequently, where an Australian resident Security Holder has an associate inclusive control interest of at least 10 per cent in MAHBL (directly or indirectly) there could be income arising to the Australian resident under the CFC provisions.

Any Security Holder that either individually, or with its associates, has a 10 per cent or greater interest in MAHBL should seek their own advice.

On the basis that all income earned by MAHBL (at least for sometime) is expected to be used to meet dividends payable on the RPS, it is expected that attribution is unlikely to result in any additional assessable income to MAT1. Dividends which would otherwise be assessable will be treated as exempt to the extent income has previously been attributed. It will however be important that the dividends are paid within the same income year as attribution.

On the basis that the interests held by MAT1 in MAHBL are subject to the CFC provisions there should be no liability to MAT1 or Security Holders under Australia's Foreign Investment Fund ("FIF") regime (Part XI of the 1936 Act).

If the CFC rules do not apply to a Security Holder's interest in MAHBL, the FIF rules will apply. Accordingly, those Security Holders would be required to calculate, and include in assessable income, their "FIF income" in relation to MAHBL unless one of the exemptions from the FIF rules applied.

There are various exemptions from the FIF rules. Relevantly, there is an exemption for listed foreign companies principally engaged in eligible activities. Whether a foreign company is engaged in eligible activities is determined by reference to the classification afforded to the foreign company by the stock exchange on which it is listed. On the basis of our instructions that the Fully Paid Securities will be included by ASX in a class of entities

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designated as being engaged in "infrastructure" activities, the exemption from the FIF rules in respect of listed foreign companies engaged in eligible activities should, in our opinion, be available to the Security Holders in respect of the shares in MAHBL comprising a component of a Fully Paid Security. Hence, Security Holders should not be required to include any FIF income in assessable income in consequence of holding the shares in MAHBL comprising a component of a Fully Paid Security.

Amalgamation of MAG and MAHBL

The amalgamation of MAHBL and MAG which may occur in consequence of MAG listing on ASX would involve (amongst other things) the exchange of MAHBL shares for MAG shares. Where the technical requirements of the Act were satisfied, scrip for scrip rollover should be available to Security Holders who would otherwise recognise a capital gain in respect of the share exchange. In consequence, Security Holders who choose to claim rollover relief should not realise any capital gain in respect of the share exchange and should inherit a cost base in their shares in MAG equal to the cost base which they held in their shares in MAHBL.

As MAG is a non-resident of Australia it will be necessary to consider whether MAG is a CFC or FIF at the time. Whether the FIF exemption for listed foreign companies engaged in eligible activities would apply to MAG shares will depend on the activities of MAG and the designation by the ASX at that time.

Disposal of Securities

Each Security will consist of three separate assets for capital gains tax purposes. Security Holders who are initial subscribers for Fully Paid Securities will have a cost base in the individual securities equal to the costs of acquisition (generally the issue price) apportioned in accordance with the par value of each Security. Security Holders who are subsequent acquirers of Fully Paid Securities will be required to apportion the cost of acquiring the Fully Paid Securities across the three underlying CGT assets on a reasonable basis.

A disposal of Fully Paid Securities may give rise to a capital gain or loss to the extent that the capital proceeds received on disposal exceed or are less than the cost base of the Security Holder in the underlying securities comprising the Fully Paid Securities, respectively. Again, whilst the Fully Paid Securities are stapled, the allocation of capital proceeds across the three underlying securities would be required to be made on a reasonable basis.

Depending upon a Security Holder's particular tax profile and the period of time the Fully Paid Securities have been held (see below), any capital gain arising on a disposal of the Fully Paid Securities may be eligible for discount capital gains treatment: in particular, a 50 per cent discount applies to individuals and trusts, and a 33.3 per cent discount applies to complying superannuation entities. To qualify for these discounts, the Security Holder must hold the Fully Paid Securities for at least 12 months prior to disposal and, in addition, must not dispose of the Fully Paid Securities under an agreement made within 12 months of acquiring the Fully Paid Securities.

Tax File Number Quotation

Security Holders will be able to quote their Tax File Number ("TFN") when applying for Fully Paid Securities. Disclosure of a TFN is not mandatory however if a TFN is not quoted, unless there is an exemption from the TFN provisions, this may result in an amount of tax being deducted from the distributions from MAT1 and MAT2 at the highest marginal tax rate plus Medicare Levy (currently 48.5 per cent).

Yours faithfully

DELOITTE TOUCHE TOHMATSU LIMITED

Neil Ward
Director

11.3 Independent Review of Financial Forecasts

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15 July 2002

The Directors	The Directors
Macquarie Airports Management Limited	Macquarie Airports Holdings (Bermuda) Limited
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Sydney NSW 2000	Hamilton HM 11
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REVIEW OF FINANCIAL FORECASTS

Introduction

This report has been prepared at the request of the directors of Macquarie Airports Management Limited ("MAML") and Macquarie Airports Holdings (Bermuda) Limited ("MAHBL") for inclusion in a Prospectus to be issued by Macquarie Airports ("MAp"). Deloitte Corporate Finance Pty Limited is wholly owned by Deloitte Touche Tohmatsu and holds the appropriate dealer's licence for the issue of this report.

A number of defined words and terms used in this report have the same meaning as set out in the Glossary contained in this Prospectus.

The Directors of MAML and MAHBL are responsible for the presentation and preparation of the forecasts of the EBITDA for Rome Airport for the years ending 31 December 2002 and 31 December 2003, the EBITDA for Sydney Airport for the years ending 30 June 2002 and 30 June 2003 and the forecast distributions for the six month periods ending 31 December 2002 and 30 June 2003 as set out in Sections 3, 4 and 7.4 of the Prospectus ("the Forecasts") and the information contained therein, including the assumptions on which they are based.

Scope of Report

We have reviewed the Forecasts together with the assumptions on the Forecasts as set out in Sections 3, 4 and 7.4 of the Prospectus in order to give a statement thereon to the directors of MAML and MAHBL.

Our review of the Forecasts has been conducted in accordance with Australian Auditing Standards applicable to review engagements. Our review was limited to enquiries as to the process used in preparing the Forecasts and discussion with management and directors of, and advisers to MAML and MAHBL of the factors considered in determining the assumptions. Our procedures included examination, on a test basis, of evidence supporting the assumptions, amounts and other disclosures in the Forecasts and the evaluation of accounting policies used in the Forecasts.

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These procedures have been undertaken in order to state whether:

i) anything has come to our attention which causes us to believe that the directors' assumptions do not provide a reasonable basis for the preparation of the Forecasts; and

ii) in all material respects, the Forecasts are properly prepared on the basis of those assumptions and are on a basis consistent with the accounting policies adopted and used by MAp and in accordance with applicable Australian Accounting Standards and mandatory professional reporting requirements.

Our review is substantially less in scope than an audit examination conducted in accordance with Australian Auditing Standards. In addition, prospective financial information, such as the Forecasts, relates to events and actions that have not yet occurred and may not occur. While evidence may be available to support the assumptions on which the Forecasts are based, those assumptions are generally future orientated and therefore speculative in nature. Accordingly, actual results may vary from the financial information presented in the Prospectus and such variations may be material.

Directors' Financial Forecasts

The Forecasts have been prepared by MAML and MAHBL in order to provide prospective investors with a guide to the future earnings of Rome Airport for the years ending 31 December 2002 and 31 December 2003, and Sydney Airport for the years ending 30 June 2002 and 30 June 2003 as well as the forecast distributions for the six month periods ending 31 December 2002 and 30 June 2003. The Forecasts have been prepared using assumptions summarised in the Prospectus which are based on best estimate assumptions relating to future events that the management of MAML and MAHBL expect to occur.

The sensitivity analysis set out in Sections 3 and 4 of the Prospectus demonstrates the impacts on the forecast results of changes in key assumptions. The prospective financial information is therefore only indicative of the results which may be achievable.

Prospective investors should be aware of the material risks and uncertainties relating to an investment in MAp, which are detailed in the Prospectus, and the inherent uncertainty relating to the prospective financial information.

Statement

Based on our review:

i) nothing has come to our attention which causes us to believe that the assumptions, as set out in the Prospectus, do not provide a reasonable basis for the preparation of the Forecasts;

ii) the Forecasts are properly prepared on the basis of those assumptions; and

iii) the Forecasts are presented on a basis consistent with the accounting policies adopted and used by MAp and are presented in accordance with applicable Australian Accounting Standards and mandatory professional reporting requirements.

Actual results are likely to be different from the Forecasts since anticipated events frequently do not occur as expected and the variations may be material. Accordingly, we express no opinion as to whether the Forecasts will be achieved.

Yours faithfully

DELOITTE CORPORATE FINANCE PTY LIMITED

Johan Duivenvoorde
Director

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12.1 Sydney Acquisition

Sale Agreement

Purpose

The Sale Agreement documents the terms and conditions governing the sale of the issued share capital of Sydney Airports Corporation by the Commonwealth Government to Southern Cross. The Sale Agreement is entered into by the Commonwealth Government, Southern Cross and each member of the Southern Cross Consortium (the *Consortium Entity*) and imposes:

- on Southern Cross and each Consortium Entity, resale restrictions;
- on Southern Cross and each Consortium Entity, cross-ownership restrictions between Sydney Airport and each of Bankstown Airport, Camden Airport and Hoxton Park Airport; and
- requirements on Southern Cross and each Consortium Entity to provide to the Commonwealth Government information, amongst other things, about Sydney Airports Corporation, the Sydney Airport site and the business activities of Sydney Airports Corporation and Southern Cross for a period of two years after 28 June 2002, being the completion date of the sale (the *Completion Date*).

Disclosure to the Commonwealth Government

For a period of two years after the Completion Date, Southern Cross and each Consortium Entity must provide to the Commonwealth Government copies and details of agreements regarding (amongst other things) Sydney Airports Corporation, the airport site and the business activities of Sydney Airports Corporation and Southern Cross within 10 business days of entering into the relevant agreement.

Employees

Southern Cross will procure that Sydney Airports Corporation will not terminate the employment of any Sydney Airports Corporation employee covered by the Sydney Airport Enterprise Agreement 2001-2003 due to compulsory redundancy at any time within one year after the Completion Date. In respect of all other Sydney Airports Corporation employees, Southern Cross will procure that Sydney Airports Corporation does not terminate their employment due to compulsory redundancy within six months after the Completion Date.

Re-sale restrictions

For a period of two years after the Completion Date, Southern Cross and each Consortium Entity will not:

- dispose of the legal or beneficial interest in any equity securities in Sydney Airports Corporation or in any entity interposed between the Consortium Entity and Sydney Airports Corporation;
- issue any equity securities or transfer any equity interest in either Sydney Airports Corporation or in any entity interposed between the Consortium Entity and Sydney Airports Corporation (the *interposed entity*) (except in respect of an issue of equity securities in the interposed entity, where the relative percentages of the beneficial ownership of the equity securities in the interposed entity as they exist on the Completion Date are maintained); or
- permit an interposed entity to transfer any equity interest in either Sydney Airports Corporation or any other interposed entity.

The re-sale restrictions do not apply to the following:

- disposal or issue of specified equity securities that are the subject of underwriting commitments provided that in the case of any disposal or issue of more than a 10 per cent equity interest in Southern Cross Holdings, such disposal or issue has been notified to the Commonwealth Government and the Commonwealth Government does not oppose the disposal or issue;

- transfers or issues pursuant to an initial public offering;
- transfers required to comply with the ownership provisions of the Airports Act;
- transfers within a corporate group;
- certain transfers within the Hochtief group companies and Macquarie Bank Group provided that there is no substantial change of beneficial ownership effected by the transfer and provided that if a transfer will result in any person having a beneficial interest in more than 10 per cent of the equity securities in Sydney Airports Corporation or Southern Cross or in any interposed entity (which represent an economic interest in Sydney Airports Corporation of more than 10 per cent), such transfer is notified to the Commonwealth Government and the Commonwealth Government does not oppose the transfer;
- transfers required where there is a change of trustee or responsible entity, provided the transferee is not a foreign person and there is no change in the underlying beneficial interests;
- transfers required where there is a change of custodian;
- transfers to a managed investment scheme, collective investment scheme or other fund of which the transferor is manager, trustee or responsible entity or is investment manager or adviser under a then current investment management agreement provided that there is no substantial change of beneficial ownership effected by the transfer and provided that if a transfer will result in any person having a beneficial interest in more than 10 per cent of the equity securities in Sydney Airports Corporation or Southern Cross or in any interposed entity (which represent an economic interest in Sydney Airports Corporation of more than 10 per cent), such transfer is notified to the Commonwealth Government and the Commonwealth Government does not oppose the transfer;
- disposals to a Consortium Entity or to a person who was a member of a consortium that bid in competition to Southern Cross for the shares in Sydney Airports Corporation; and
- transfers by a holder of a charge or mortgage (obtained with the Commonwealth Government's consent) over equity securities in Sydney Airports Corporation or any interposed entity, pursuant to an exercise of a power of sale, and transfers to or by the specified debt financier of an indirect equity investor.

Cross-ownership restrictions

Southern Cross and each Consortium Entity will not cause an unacceptable cross-ownership situation between Sydney Airport and Bankstown, Camden and Hoxton Park Airports to arise during a period of five years from the date of the Sale Agreement, 25 June 2002; and at any time following the five year period without providing two months notice to the Australian Competition and Consumer Commission.

An unacceptable cross-ownership situation:

- has the meaning given to that expression in section 50 of the Airports Act as if, in section 49 of the Airports Act:
  - references to Melbourne (Tullamarine) Airport were references to Bankstown Airport;
  - references to Brisbane Airport were references to Camden Airport;
  - references to Perth Airport were references to Hoxton Park Airport; and
  - all pairs of airport operator companies which include an airport lessee company or an airport management company for Sydney West Airport were deleted from the table; and also
- means the situation where any person having either a particular type of stake of more than 15 per cent in, or practical control of, the airport-operator company of any of Bankstown Airport, Camden Airport or Hoxton Park Airport also has a particular type of stake of more than 15 per cent in, or practical and control of, the airport-operator company of Sydney Airport, where:
  - "stake" has the meaning given to that term in the Schedule to the Airports Act; and
  - a person is taken to have "practical control" of an airport-operator company in circumstances where the Transport Minister would be entitled to make a declaration that the person has such practical control for the purposes of the Airports Act under section 55 of the Airports Act; and

Subject to the first of the two points above, "pair of airport-operator companies" has the meaning given to that expression in section 49 of the Airports Act.

Second Sydney airport

During a period that expires on the earlier of the termination of the lease of the airport site between the Commonwealth Government and Sydney Airports Corporation dated 1 July 1998 and 30 years after the Completion Date, the Commonwealth Government must not seek to develop or operate a second major airport within 100 kilometres of the Sydney central business district without first offering to a Southern Cross common controlled company (whilst Southern Cross controls 100 per cent of Sydney Airports Corporation) a right of first refusal; that is, the opportunity to develop and operate the second major airport. The Commonwealth Government may bring legislation before Parliament to amend section 18 of the Airports Act (including the enactment of provisions which would, subject to its contractual obligations, enable the Commonwealth Government to develop and/or operate a second major airport itself or offer the opportunity to develop and/or operate a second major airport to a person other than a Southern Cross common controlled company) and Southern Cross may not object unless the change is one directed at subverting Southern Cross' contractual rights.

If the Commonwealth Government intends for a second major airport to be developed and operated, the Commonwealth Government must advise Southern Cross that it requires Southern Cross to consult with the Commonwealth Government in relation to the need for a second airport and how best to meet the Commonwealth Government's requirements and Southern Cross' preferences for development (without the Commonwealth Government being under any obligation to have regard to such preferences). The consultation process must be between five and 12 months duration. If Southern Cross chooses not to participate in the consultation process, the Commonwealth Government may proceed with a development provided material contracts are entered into within three years after the Commonwealth Government advises Southern Cross to consult with the Commonwealth Government.

If Southern Cross has chosen to participate in the consultation process, the Minister for Transport and Regional Services (or his successor) may, after such consultation process, issue to Southern Cross a "notice of intention" specifying the material terms on which the Commonwealth Government wishes the development and operation of the second major airport to occur. The Minister may only issue the notice of intention if, after taking into account the current and future utilisation and capacity at Sydney Airport and Bankstown Airport, the Minister considers that there is a need in the public interest for a second major airport in Sydney.

The notice of intention will include the grant of an option to develop and operate the second major airport. The option may be exercised within nine months following the issue of the notice of intention. If the option is not exercised, the Commonwealth may proceed with a development provided material contracts are entered into within two years after the earlier of the lapse of nine months following the issuing of the notice of intention and the date of notification of non-exercise. Alternatively, the Commonwealth Government can undertake a further consultation process with Southern Cross and, following such consultation, serve a further notice of intention and grant of option.

Claims against the Commonwealth Government

Except for any breach under the Sale Agreement or other agreements entered into in connection with the Sale Agreement, Southern Cross and each Consortium Entity will not make any claim against the Commonwealth Government or Sydney Airports Corporation or their employees in respect of information about Sydney Airport provided before the Completion Date. The maximum amount recoverable by Southern Cross and the Consortium Entities from the Commonwealth Government in respect of all claims will be $1, except for claims for breaches of a number of the Commonwealth Government's warranties under the Sale Agreement in which case the maximum aggregate amount recoverable will be the amount of the purchase price.

Land rich stamp duty indemnity

The Commonwealth Government undertakes to pay, and indemnify Southern Cross against, any duty assessed under Chapter 3 of the *Duties Act 1997 (NSW)* by reason of the sale of the shares in Sydney Airports Corporation constituting a relevant acquisition in a land rich private corporation within the meaning of that Act.

Southern Cross Holdings Shareholders' Agreement

Purpose

The Shareholders' Agreement governs the relationships between Southern Cross Holdings and its Members, Southern Cross Holdings and Southern Cross, and of the Members with each other (the Shareholders' Agreement).

A Member refers to:

- each holder of a Stapled Security (a *shareholder*); and
- each holder of a FLIERS.

Each Stapled Security comprises one ordinary share stapled to one redeemable preference share.

Airport ownership divestment provisions

The Shareholders' Agreement contains provisions to assist in ensuring that each Member or applicant for Stapled Securities and/or FLIERS does not in relation to Sydney Airports Corporation cause or potentially cause a breach of the airport ownership provisions in the Airports Act and Airports Regulations relating to (as defined in the Airports Act):

- an Unacceptable Foreign-Ownership Situation;
- an Unacceptable Airline-Ownership Situation; or
- an Unacceptable Cross-Ownership Situation (the definition of which is, for the purposes of the Shareholders' Agreement, modified to mean cross-ownership restrictions between Sydney Airport and Bankstown Airport, Camden Airport and Hoxton Park Airport),

(each an *Unacceptable Ownership Situation*).

An applicant for or a transferee of Stapled Securities and/or FLIERS may be required by the board of directors of Southern Cross Holdings (the Board) to provide a statutory declaration addressing:

- whether the applicant or transferee or an associate or person who has a stake in the applicant or transferee is a foreign person (as defined in the Airports Act), an airline or has a stake in the airport operator company for Brisbane Airport, Perth Airport, Melbourne (Tullamarine) Airport, Bankstown Airport, Camden Airport or Hoxton Park Airport;
- the number of Stapled Securities and/or FLIERS held by that applicant or transferee prior to the application of transfer and to be held subsequent to any issue pursuant to the application or registration of the transfer (as applicable); or
- such other information as determined by the Board that may be relevant in determining whether an Unacceptable Ownership Situation in relation to Sydney Airports Corporation exists or may come into existence.

Each Member has an ongoing obligation to inform the Board if:

- the Member or an associate or person who has a stake in the Member is a foreign person (as defined in the Airports Act), an airline or has a stake in the airport operator company for Brisbane Airport, Perth Airport, Melbourne (Tullamarine) Airport, Bankstown Airport, Camden Airport or Hoxton Park Airport;
- the Member is aware of any other circumstances which might constitute or result in an Unacceptable Ownership Situation; or
- there is any change to information provided by Southern Cross Holdings by the Member on application for Stapled Securities and/or FLIERS or submission of a transfer of Stapled Securities and/or FLIERS for registration.

The Board may at any time request any Member who has a foreign address, who the Board has reason to believe might cause an Unacceptable Ownership Situation in relation to Sydney Airports Corporation or to whom the Commonwealth Minister for Transport and Regional Services requests such a request to be sent, to inform the Board of all information that would be provided in a statutory declaration by an applicant or transferee of Stapled Securities and/or FLIERS.

The Board may, for the purpose of seeking to prevent or remedy an Unacceptable Ownership Situation in relation to Sydney Airports Corporation, procure the disposal of Stapled Securities and/or FLIERS. In exercising this power, the Board will seek to identify the Member who most recently contributed to an Unacceptable Ownership Situation in relation to Sydney Airports Corporation as the Member that must dispose of some or all of its Stapled Securities and/or FLIERS (the *Unacceptable Shareholder*).

If the Board believes that an Unacceptable Ownership Situation in relation to Sydney Airports Corporation has arisen or is likely to arise, Southern Cross Holdings must, by notice in writing, inform the relevant Unacceptable Shareholder that it may be required to dispose of all or any of its Stapled Securities and/or FLIERS to remedy the situation and the board may after obtaining the opinion of an appropriately qualified legal adviser, suspend rights relating to those Stapled Securities and/or FLIERS and the rights of the Unacceptable Shareholder under the Shareholders' Agreement.

If the Board, after obtaining the opinion of an appropriately qualified legal adviser, believes that an Unacceptable Ownership Situation has arisen or is likely to arise, Southern Cross Holdings must by a disposal notice require the Unacceptable Shareholder to dispose of the required number of Stapled Securities and/or FLIERS. If the Unacceptable Shareholder fails to dispose of the Stapled Securities and/or FLIERS by the required date, Southern Cross Holdings must sell the Stapled Securities and/or FLIERS as soon as practicable and will use reasonable endeavours to sell at a reasonable price obtainable at the relevant time.

A disposal notice must not be given unless the Board has first issued a notice to the relevant Unacceptable Shareholder that it may be required to dispose of all or any of its Stapled Securities and/or FLIERS to remedy an Unacceptable Ownership Situation. The Board must believe that the circumstances leading to the issue of the earlier notice are non-remediable or not remedied, to the extent necessary within not less than 21 days of issue of the earlier notice or such longer period as is provided in the Airports Act.

The Board shall be under no liability to Southern Cross Holdings or any Member and Southern Cross Holdings shall be under no liability to any Member for any loss or disadvantage incurred by a Member as a result of the Board exercising its powers to suspend the rights of an Unacceptable Shareholder or procuring the disposal of Stapled Securities and/or FLIERS for the purpose of seeking to prevent or remedy an Unacceptable Ownership Situation in relation to Sydney Airports Corporation.

Any Member who does not comply with any of the following obligations:

– when applying for or being a transferee of Stapled Securities and/or FLIERS, any requirement by the Board to provide a statutory declaration;

– the obligation to provide ongoing disclosure to the Board; or

– where the Member has a foreign address, a request for information from the Board which is requested by the Commonwealth Minister for Transport and Regional Services,

may be treated by the Board as an Unacceptable Shareholder and be required to dispose of its Stapled Securities and/or FLIERS.

Board of directors – Appointment

The Board will consist of a maximum of 10 directors, unless the shareholders otherwise agree.

Southern Cross Holdings and Southern Cross will procure that the boards of Southern Cross and Sydney Airports Corporation will be identical in composition to the Board.

The rights of the shareholders to appoint or nominate directors depends on the shareholding interest the shareholder holds as a percentage of the total share capital in Southern Cross Holdings. A shareholder may appoint:

– one director, if the shareholding interest of the shareholder is 10 per cent or more (or in the case of Hochtief and its Affiliates, 7.5 per cent) but less than 19 per cent;

– two directors, if the shareholding interest of the shareholder is 19 per cent or more but less than 30 per cent; and

– where the shareholding interest of the shareholder is 30 per cent or more, one additional director for each 10 per cent shareholding interest above 20 per cent.

Shareholders may give notice to Southern Cross Holdings that they wish to be treated together as a single shareholder for the purpose of appointing directors (a *Notified Group*) (except for Hochtief and its Affiliates where the Notified Group must have a shareholding interest greater than 7.5 per cent). If the Notified Group's shareholding interest reduces below the percentage required to appoint a director, the office of the director appointed will be vacated.

Board of directors – removal

A director ceases to hold office as a director of Southern Cross Holdings if the director:

– becomes insolvent under administration;

– is not permitted by law to be a director;

– becomes of unsound mind or physically or mentally incapable of performing the functions of the office; or

– ceases to be an employee of any company within the Southern Cross group or of the shareholder appointing the director, unless the person appointing that director notifies Southern Cross Holdings that the director shall not be removed.

Chief Executive Officer and Chairman

The Board must appoint a person as Chief Executive Officer (*CEO*) by a resolution passed by a simple majority.

Southern Cross Holdings must procure that the CEO is also the chief executive officer of Sydney Airports Corporation and that the directors of Sydney Airports Corporation delegate the day to day management of Sydney Airports Corporation to the chief executive officer of Sydney Airports Corporation.

The directors at the first Board meeting and annually thereafter at the first occurring Board meeting after the anniversary of the chairman's appointment or re-appointment must appoint one of the directors as chairman of the Board by way of a resolution passed by a simple majority. The directors may remove the chairman at any time by a resolution passed by a simple majority.

The chairman does not have a casting vote.

Voting by directors

A director's voting entitlement at Board meetings will reflect the shareholding interest of the shareholder who appointed the director. Where a shareholder appoints more than one director, any one of the directors may vote the aggregate director voting entitlement of one or more such directors on a resolution in the event that one or more directors are not present at the Board meeting where that resolution is considered.

Subject to the law, a director who has a material personal interest in a matter that is being considered at a Board meeting must disclose that interest and not vote on the matter nor be present while the matter is being considered.

A director who has been appointed by a shareholder who has committed or becomes the subject of an event of default (as discussed below) is not entitled to vote at Board meetings in respect of Stapled Securities attributable to the defaulting shareholder.

The following resolutions must be passed by a special majority of the Board, meaning more than 75 per cent of the difference between the number of votes equal to the total number of Stapled Securities, and the director voting entitlements that are not eligible to be cast on the resolution:

– approval and amendment of the annual/five year business plan and budget;

– any capital expenditure exceeding $10 million or disposal of a fixed asset valued in excess of $10 million which is not provided for in any financial year in the approved business plan and budget;

– the incurring of any liabilities exceeding $10 million which are not budgeted for in any financial year in the approved business plan and budget;

– the initiation or settlement of any dispute involving an amount exceeding $10 million;

– entering into, termination of, extension of, waiver of rights under or material amendments to any material contract;

– capital raising or debt refinancing; and

– entering into a transaction with a related party of a director or shareholder of Southern Cross Holdings with a value in excess of $1 million per annum unless the amount is budgeted for, and the relevant party or relationship is also identified, in the approved business plan and budget.

A quorum for Board meetings will be directors entitled to more than 50 per cent of the aggregate director voting entitlements that are eligible to be cast by all directors of the Board at the relevant meeting (including votes which may be cast by a director precluded from voting on a resolution due to a material personal interest, provided that the director is entitled to vote on at least one of the resolutions to be proposed at that Board meeting).

Where the aggregate director voting entitlements that are eligible to be cast by all directors of the Board at a meeting is less than 90 per cent of the total share capital in Southern Cross Holdings, then the shareholder who:

– is not a foreign person (as defined in the Airports Act) or an associate of a foreign person; and

– has the highest shareholding interest of any shareholder who is not a foreign person or an associate of a foreign person and who has not already appointed a director as a result of its shareholding interest in Southern Cross Holdings being equal to or exceeding 10 per cent (or in the case of Hochtief and its Affiliates, 7.5 per cent),

may appoint one director (the *Appointing Shareholder*). Where there is an equality of the highest shareholding interest, then the first shareholder in time to hold the interest shall take precedence, otherwise the shareholder who may appoint a director will be resolved by a special majority of the Board. Only one director appointed by any Appointing Shareholder may hold office at any one time.

If any of the following occur:

– the aggregate director voting entitlements that are eligible to be cast by all directors of the Board at a meeting (other than the director appointed by an Appointing Shareholder) is equal to or more than 90 per cent of the total share capital in Southern Cross Holdings;

– the Appointing Shareholder becomes a foreign person;

– the Appointing Shareholder ceases to have the highest shareholding interest of any shareholder who is not a foreign person or an associate of a foreign person who has not already appointed a director as a result of its shareholding interest in Southern Cross Holdings being equal to or exceeding 10 per cent;

– the Appointing Shareholder becomes entitled to appoint a director as a result of its shareholding interest in Southern Cross Holdings being equal to or exceeding 10 per cent; or

– the Appointing Shareholder becomes part of a Notified Group,

then the director appointed by that Appointing Shareholder is removed as director and, provided the aggregate director voting entitlements that are eligible to be cast by all directors of the Board at a meeting is less than 90 per cent of the total share capital in Southern Cross Holdings, any new Appointing Shareholder may appoint a director.

Remuneration and expenses

Southern Cross Holdings will pay a director all reasonable expenses (including travel and accommodation) incurred by the director:

– in attending meetings of Southern Cross Holdings, the Board, or a committee of the Board;

– on the business of Southern Cross Holdings; or

– in carrying out duties as a director.

Southern Cross Holdings will pay the chairman all reasonable expenses (including travel and accommodation) incurred by the chairman in attending meetings of the Board and Southern Cross Holdings.

Southern Cross Holdings will initially pay as remuneration to each director $60,000 per annum and to the chairman $75,000 per annum. Any increase in remuneration must be approved by simple resolution of the shareholders.

Strategy committee

A strategy committee will be established as a sub-committee of the Board to make recommendations to the Board but will not be able to bind Southern Cross Holdings. The committee will comprise a maximum of seven persons and has authority to invite non-directors to the committee.

For so long as Macquarie Airports Management is a shareholder and holds a shareholding interest of at least 10 per cent, it shall be entitled to nominate to the committee one director or, if its shareholding interest exceeds 19 per cent, two directors.

Hochtief may nominate to the committee one director if its shareholding is at least 7.5 per cent or, if the shareholding interest exceeds 19 per cent, two directors.

The CEO and Chief Financial Officer of Southern Cross Holdings will be members of the committee without further Board approval.

The shareholder with the largest shareholding interest after Macquarie Airports Management and Hochtief will be entitled to nominate a director to the committee.

Shareholders resolutions

The following resolutions to be considered at a meeting of Members must be passed by a special majority of the shareholders, meaning more than 75 per cent of the votes that are eligible to be cast by shareholders present on the relevant resolution:

– appointment/removal of auditors;

– any capital expenditure exceeding $30 million or disposal of a fixed asset valued in excess of $30 million which is not provided for in any financial year in the approved business plan and budget; and

– the incurring of any liabilities exceeding $30 million which are not budgeted for in any financial year in the approved business plan and budget.

The following resolutions to be considered at a meeting of Members require approval by unanimous decision of the shareholders:

– material investments outside the operation and activities of Sydney Airport and which are not supplemental or incidental to the operation of Sydney Airport;

– exercising or waiving the first right of refusal over building and operating a second major airport within 100 kilometres of the Sydney central business district, including establishing any special purpose vehicle in connection with that investment;

– (except as otherwise provided for in the Shareholders' Agreement) any amendment to the Shareholders' Agreement;

– the sale or abandonment of the Sydney Airports Corporation business;

– the grant or agreement to grant any option over or in respect of, or creation or granting of any encumbrance over or in respect of the Sydney Airports Corporation business or any material part or asset thereof except in the ordinary course of business and on arm's length terms; and

– any change of Southern Cross Holdings' residence for tax purposes.

Subject to the law, a Member that has a material conflict of interest in respect of a matter that is being considered at a meeting of Members may vote on the matter and be present while the matter is being considered at the meeting.

A Member who has committed or becomes the subject of an event of default (as discussed later) is not entitled to vote at any meetings of Members for so long as that event of default exists.

Management

The Board is responsible for the overall direction and control of the management of Southern Cross Holdings and its subsidiaries (collectively, the *Group*), including but not limited to:

- establishing general policies;
- establishing strategic priorities and objectives;
- establishing financial objectives and criteria;
- determining matters of a major or unusual nature which are not in the ordinary course of business; and
- considering and adopting a business plan and budget for the ensuing financial year for the Group and procuring that the relevant Group companies adopt the relevant business plan and budget.

Distributions policy

It is the distribution policy of Southern Cross Holdings that in each quarter it pays as a distribution (by return of capital or dividend) 100 per cent of the cash or cash equivalents of the Group (taking into account the cash inflow resulting from the drawdown of any debt facilities by the Group) less any amounts set aside for the conduct of the business of the Group.

In considering whether to resolve to make any distribution the directors will have regard to the requirements of the law, including in relation to solvency issues and procedures for reductions of capital.

In determining the method of distribution, it is the policy of Southern Cross Holdings that it will have regard to the following priorities for distribution:

- first, dividends in respect of FLIERS;
- second, other dividends with preferential rights, in accordance with the ranking of the terms of issue of those shares;
- dividends and returns of capital on ordinary shares, having regard, as far as practicable, to appropriate tax, accounting and regulatory issues; and
- special dividends on redeemable preference shares.

Approval of business plan and budgets

The Board must consider and adopt, and Southern Cross Holdings and Southern Cross must procure the adoption by each Group company of, a business plan and budget for each financial year in the following manner.

- In particular, in respect of:
  - the first financial year, to amend or modify the existing Sydney Airports Corporation business plan as soon as practicable; and
  - each subsequent financial year, at least 45 days before its commencement,

  the CEO of Southern Cross Holdings will submit to the Board a draft business plan and draft budget for that financial year.
- The Board must consider the drafts and use all reasonable endeavours to amend and approve them by way of a resolution passed by a special majority within 60 days after submission.

The Board may either before or during the financial year to which a business plan or budget relates amend the business plan or budget. The Board must ensure that following such an amendment the business plan and budget for that financial year remain consistent.

Business management

Southern Cross Holdings must procure that each Group company passes or otherwise implements any resolutions that have been passed by the Board or the members which relate to the business or affairs of the Group or a Group company.

Southern Cross Holdings must procure that if a matter referred to in the Shareholders' Agreement requires a vote of a requisite majority and the same or comparative matter is considered in relation to the business or affairs of a Group company, that matter will require the same requisite majority at the relevant meeting of the relevant Group company.

Reporting to directors

Southern Cross Holdings must ensure that the directors receive management and financial information and reports sufficient to allow them to understand the financial affairs of the Group and to control the efficient operation of the Group.

Reporting to shareholders

A director may disclose to the shareholder which appointed the director all information made available to the director in respect of the affairs of the Group except if prohibited by law or the then existing confidentiality arrangements.

A director may not disclose any information made available to the director in respect of a Group company to any person, or use that information for any purpose except that of exercising his or her powers as a director:

– before that information has been considered by the Board, unless the CEO has indicated that the information is not confidential; or

– after it has been considered by the Board, if the Board decides by simple majority that the information is confidential (whether or not the CEO has indicated that the information is confidential).

Southern Cross Holdings must provide each Member with:

– monthly reports within 15 days of the end of each month containing:

  • a brief update on matters that the Board considers to be material issues (except those issues the CEO or the Board considers are commercially sensitive to the Group);

  • a profit and loss account, balance sheet and cashflow statement for the Group for that period and for the elapsed period of the current financial year together with a management commentary on those results;

  • a summary of passenger movements, aircraft movements and landed tonnes of freight; and

  • performance measurement reporting as resolved by the Board;

– prompt reports of any information that, if Southern Cross Holdings were listed on ASX, Southern Cross Holdings would be required to disclose to ASX under the continuous disclosure obligations of the Listing Rules; and

– any information provided by the Group to its bankers or financiers (except those issues the CEO or the Board considers are commercially sensitive to the Group).

A Member may request additional information regarding matters that the Board considers to be material issues and any information provided by the Group to its bankers or financiers but the Board is entitled by a simple majority to refuse to provide such information if it is of the reasonable opinion that providing such information is contrary to the law or may materially prejudice the business of Southern Cross Holdings or the Group.

A Member may disclose information received from Southern Cross Holdings or use it for any purpose, provided that such disclosure or use will not materially prejudice the business of Southern Cross Holdings or the Group.

Capital structure of the Group

The Group will seek to maintain an optimal capital structure having regard to the type and availability of debt and equity finance from time to time and the Group's capacity to service its capital.

Creation of loan security

A shareholder must not create any encumbrance over all or any of the Stapled Securities held unless the shareholder provides notice to the Board of its intention to encumber, details of the proposed mortgagee and such other information as the Board may reasonably require, and the Board consents to the encumbrance by a simple majority.

Further issues of Stapled Securities

Southern Cross Holdings may not issue any Stapled Securities in contravention of the Sale Agreement.

Southern Cross Holdings may only issue further Stapled Securities if such Stapled Securities are offered to all shareholders, according to their proportionate shareholding interest in the share capital of Southern Cross Holdings (unless the Board believes, after obtaining the opinion of an appropriately qualified legal adviser, that such proportions would result in non-compliance with the Airports Act).

Transfer restrictions

A shareholder may not transfer Stapled Securities where such transfer would cause an Unacceptable Ownership Situation as defined in the Shareholders' Agreement in relation to Sydney Airports Corporation to come into existence.

During a period of 12 months (or earlier, if the underwriters have disposed of all the Stapled Securities held by them in an underwriting capacity) following the commencement of the Shareholders' Agreement on 25 June 2002, a shareholder must not transfer Stapled Securities unless the underwriters have consented to the transfer or it is a transfer:

– to an Affiliate but if the transferee Affiliate ceases to be an Affiliate of the transferor, then the transferee Affiliate must transfer all Stapled Securities it holds to the transferor or another Affiliate of the transferor;

– from one custodian to another provided both act as bare trustees; or

– from a trustee of a trust or the responsible entity of a managed investment scheme to a new trustee or responsible entity of that trust or managed investment scheme (including on the transition of a trust to a managed investment scheme), provided there is no change effected in the underlying beneficial interest.

Pre-emptive rights

If a shareholder intends to dispose of its Stapled Securities other than as described immediately above, the shareholder must offer the Stapled Securities to other shareholders at a price determined by the selling shareholder (*Transfer Price*). If the other shareholders do not accept the offer to purchase all of the Stapled Securities offered, the selling shareholder may either sell the remainder of the Stapled Securities not taken up by existing shareholders or all of the Stapled Securities to a third party at a price not less than the Transfer Price and on terms no less favourable than those offered to the other shareholders.

If a third party offers to purchase the remaining Stapled Securities at a lower price than the Transfer Price, the selling shareholder must re-offer the remaining Stapled Securities to the other shareholders at the lower price.

Change of control

Unless otherwise resolved by a special majority of the shareholders, a Special Purpose Entity which is a shareholder will be in breach of the Shareholders' Agreement on the occurrence of a change of control (defined as a change in control of more than half the voting rights or control of more than half the issued share capital of a company and in relation to a trust or managed investment scheme, means a change in control of more than half of the beneficial interest in the corpus or income of the trust or managed investment scheme) unless, if the Special Purpose Entity is an Affiliate of a shareholder and remains an Affiliate of that shareholder after the change of control. There is no change of control where there is a change in the shareholding in a company or in the beneficial interest in the corpus or income of a trust or managed investment scheme (each, an *Entity*) pursuant to:

- an initial public offering or other offering of shares, or beneficial interests, in that Entity; or
- the sale of any shares, or beneficial interests, in that Entity held by an underwriter pursuant to an initial public offering or other offering of shares, or beneficial interests, in that Entity; or
- pursuant to the trading of the shares, or beneficial interests, in that Entity on the stock market of ASX.

Simultaneous offer

After the third anniversary of the commencement of the Shareholders' Agreement (and thereafter annually), the shareholders must consider the substitution of the pre-emptive rights with simultaneous offer provisions. Substitution can be passed by a simple majority except where Macquarie Airports Management, or a person and its Affiliates individually or together, cast votes which exceed 50 per cent of the votes cast on the resolution in which case the resolution may only be passed or lost if other persons cast 7.5 per cent of the votes eligible to be cast in favour or against (as applicable).

The simultaneous offer provisions allow a shareholder to offer Stapled Securities to existing shareholders and to third parties simultaneously on the same terms subject to the right of the Board to decline the participation of a third party where it is of the opinion acting reasonably that the participation of the person would constitute or might constitute an Unacceptable Ownership Situation.

Events of default

Each of these circumstances is an event of default:

- a Member commits a material breach of the Shareholders' Agreement or any agreement or transaction contemplated in the Shareholders' Agreement, and that failure or breach is incapable of remedy or, if capable of remedy, continues for 15 business days after that Member is given a notice requiring the failure or breach to be remedied; or
- a change of control in relation to a shareholder which is a Special Purpose Entity otherwise than as described in the above section titled "Change of control".

Southern Cross Holdings may require a defaulting shareholder to dispose of its Stapled Securities and if the defaulting shareholder fails to do so, Southern Cross Holdings may dispose of its Stapled Securities. Such a disposal will be subject to the pre-emptive rights and the simultaneous offer provisions.

Termination

The Shareholders' Agreement terminates on the earlier of:

- the date that Southern Cross Holdings has a single Member;
- any date agreed by the shareholders by unanimous decision; or

– the date that the securities in Southern Cross Holdings, Southern Cross or Sydney Airports Corporation or any other company, trust or other entity which is the ultimate holding entity for the business are quoted on ASX.

Realisation of investment – listing proposals

The shareholders must procure that the Board, after the third anniversary from the commencement date of the Shareholders' Agreement and annually thereafter, considers the options available to the shareholders to realise their investment including:

– the sale of their Stapled Securities;

– the sale of the shares in Sydney Airports Corporation by Southern Cross Holdings or procuring such sale by Southern Cross;

– the sale by Sydney Airports Corporation of the business of Sydney Airports Corporation;

– an initial public offering, listing and/or equity raising in respect of any of Sydney Airports Corporation, Southern Cross, Southern Cross Holdings or another company, trust or entity; or

– such other means as are considered appropriate.

A Listing Resolution is a resolution passed by shareholders, by the requisite majority, and is a resolution to apply to list Southern Cross Holdings, Southern Cross, Sydney Airports Corporation or another company, trust or entity which is the ultimate holding entity for the business on ASX and/or another reputable exchange.

If after the first anniversary of the commencement date of the Shareholders' Agreement, the underwriters holding in aggregate 10 per cent or more of the Stapled Securities request, the shareholders must consider a Listing Resolution.

Any Listing Resolution may be passed by a simple majority of the shareholders except where Macquarie Airports Management, or a person and its Affiliates, cast votes which exceed 50 per cent of the votes cast on the resolution in which case the resolution may only be passed or lost if other persons cast 7.5 per cent of the votes eligible to be cast in favour or against (as applicable).

If a Listing Resolution is passed to list either Southern Cross or Sydney Airports Corporation or any other company, trust or entity which is the ultimate holding entity for the business, then Southern Cross Holdings and Southern Cross will use reasonable endeavours to ensure that, subject to the terms of FLIERS on issue, the shareholders will be entitled to securities in Southern Cross or Sydney Airports Corporation being the proportion that their holdings of Stapled Securities bears to the aggregate number of Stapled Securities in Southern Cross Holdings at the time the Listing Resolution was passed.

Other listings

If at any time:

– a shareholder, FLIERS holder, Hochtief, any Affiliate of Hochtief or any Affiliate of Macquarie intends to make an application for admission to the official list of ASX or other reputable exchange and for official quotation of its securities;

– a shareholder, FLIERS holder, Hochtief, any Affiliate of Hochtief or any Affiliate of Macquarie intends to offer securities for subscription pursuant to any other information memorandum, prospectus or other disclosure document (*Issue Offer*); or

– any underwriter of an Issue Offer proposes to sell down securities to be issued to it or which are held by it as underwriter of any Issue Offer (*Underwriter*),

Southern Cross Holdings agrees with the shareholder or FLIERS holder that (the shareholder, FLIERS holder, Hochtief, Affiliate of Hochtief, Affiliate of Macquarie or the Underwriter(s), as the case may be (being a *Listing Entity*)) will be given access to and be entitled to use, and the shareholders must use their best endeavours to ensure that Southern Cross Holdings procures that Southern Cross and Sydney Airports Corporation gives the Listing Entity access to and allows it to use:

– all information and documentation relating to Southern Cross Holdings and/or Sydney Airports Corporation necessary for preparation of the prospectus, information memorandum or other disclosure document and/or to enable the Listing Entity to comply with its ongoing disclosure requirements;

– management support during the listing, offer, issue or sell down process, including for the purposes of giving management presentations and conducting question and answer sessions;

– access to the business plan that was prepared for the purposes of the Southern Cross bid to acquire the issued share capital of Sydney Airports Corporation; and

– any other information or documentation reasonably required by the Listing Entity to ensure that its listing, offer, issue or sell down is successful,

provided that the Listing Entity and other relevant persons enter into confidentiality arrangements reasonably acceptable to the Board.

ASC Shareholders' Agreement

Background
ASC has been established by Hochtief, Macquarie Airports Management (in its capacity as the MAT2 responsible entity) and MIMUK as the corporate vehicle to provide consultancy services to Sydney Airports Corporation.

Purpose
The ASC Shareholders' Agreement governs the relationships between ASC and its shareholders Hochtief, the MAT2 responsible entity and MIMUK, and of the shareholders with each other.

Classes of shares
The share capital of ASC is divided into two classes – A and B. Holders of A class shares are entitled to twice the amount of dividends and capital distributions of ASC to which a holder of a B class share is entitled. Hochtief holds two A class shares and each of the MAT2 responsible entity and MIMUK hold one B class share.

Weighted equity proportion
The weighted equity proportion in ASC for each shareholder is determined as follows:

$$\frac{\text{Number of A class shares held x 2 + Number of B class shares held}}{\text{Total number of A class shares on issue x 2 + Total number of B class shares on issue}}$$

Obligations of shareholders
Each shareholder must use its best endeavours to work with the other shareholders to ensure that ASC meets its obligations under the ASCA, to cooperate so as to ensure that ASC is managed with good business practice and to conduct itself and to act so as to ensure that the sole benefit enjoyed from and under the running of ASC is that arising under the ASC Shareholders' Agreement or maximisation of shareholder value of Sydney Airports Corporation. The shareholders must ensure that ASC provides directors with enough management and financial information and reports to allow them to know and understand the financial affairs of ASC and to control the efficient operation of ASC.

Each shareholder is required to contribute to ASC man hours of staff time so that the number of man hours contributed by the shareholder as a proportion of the total man hours of ASC equals their respective weighted equity proportion.

Dividend policy
Any dividend declared by ASC will be paid according to each shareholder's weighted equity proportion.
An annual review of the dividend payment arrangement will be carried out to ensure that the contribution of each shareholder is commensurate with the dividend payment arrangement.

Board
Hochtief is entitled to appoint up to four directors, only two of whom will have the power to vote. The MAT2 responsible entity and MIMUK jointly are entitled to appoint two directors, both of whom will have the power to vote. The chairman, which will be a Hochtief director will have the power to resolve deadlocks except in respect of matters which require a unanimous resolution or recommendations to Sydney Airports Corporation.

Buyout rights
A shareholder may be compulsorily bought out by other shareholders where the shareholder commits an event of default, such as failing to pay amounts payable, failing to comply with any of its obligations under the ASC Shareholders' Agreement where the failure has a material adverse effect on the ability of ASC to perform services under the ASCA (which sets out the terms on which ASC provides consultancy services to Sydney Airports Corporation) and is not remedied, none of its appointee directors attend three consecutive board meetings, there is an insolvency event, cessation of the shareholder's business or there is a change of control in the shareholder to which the other shareholders do not consent.

The price at which the shares of a defaulting shareholder will be compulsorily acquired will be as agreed or, failing agreement, the fair value determined by an expert appointed by the president of the Institute of Chartered Accountants less any loss or damage or costs incurred by the non-defaulting shareholder as a direct/indirect result of the default.

Termination
If a non-defaulting shareholder serves notice of a default to a defaulting shareholder and no shareholder buys out the defaulting shareholder, any non-defaulting shareholder may terminate the ASC Shareholders' Agreement by written notice to ASC and each other shareholder.

If ASC borrows from shareholders, each shareholder must lend to ASC its weighted equity proportion of the total amount ASC has resolved to borrow. The loan will be unsecured and non-assignable. If ASC borrows from third parties, any guarantee required to be given by shareholders must be limited to the shareholder's weighted equity proportion. If a liability of ASC is recovered from a shareholder, each other shareholder indemnifies that shareholder up to the indemnifying shareholder's weighted equity proportion of the amount recovered and costs of recovery.

SCAAT Constitution
MASH's holding of units in SCAAT is regulated by the SCAAT constitution and the Corporations Act. The SCAAT constitution is dated 17 August 2001 and has been amended subsequently. The SCAAT constitution provides the framework for the operation of SCAAT. The provisions of the SCAAT constitution relate (among other things) to:

– the nature of units and the rights attaching to them;

– how unit prices are calculated;

– rights of investors to withdraw from SCAAT;

– the right of investors to transfer units in SCAAT;

– how SCAAT assets are valued;

– the right of investors to share any SCAAT income, and how SCAAT income is calculated;

– the SCAAT responsible entity's powers of management and how and when they may be exercised;

– the SCAAT responsible entity's entitlement to be paid fees and to be reimbursed for payment of expenses;

– when the SCAAT responsible entity is and is not liable to investors;

– amending the SCAAT constitution; and

– termination of SCAAT and retirement of the SCAAT responsible entity.

A copy of the SCAAT constitution may be obtained free of charge upon request from Macquarie Airports Management (see the Corporate Directory at the back of this Prospectus for contact details).

SCAAT Subscription Deed
MASH and the SCAAT responsible entity are party to a subscription deed. The subscription deed sets out the terms on which MASH paid application monies for SCAAT units to the SCAAT responsible entity and on which the SCAAT responsible entity issues SCAAT units in respect of those application monies. In addition to MASH's obligation to pay application monies, MASH is also obliged to pay:

– a proportionate amount of the establishment costs of SCAAT and the costs and expenses the SCAAT responsible entity has incurred in participating in the Southern Cross Consortium and acquiring stapled ordinary and redeemable preference shares to be issued by Southern Cross Holdings; and

– a proportionate share of the costs incurred by the SCAAT responsible entity in the ongoing operation and management of SCAAT if there is not available cash in SCAAT to meet those costs.

MASH indemnifies the SCAAT responsible entity in respect of all losses, liabilities, costs, charges, expenses and taxes incurred by the SCAAT responsible entity in connection with MASH's failure to comply with its obligations under the subscription deed. The SCAAT responsible entity indemnifies MASH in respect of all losses, liabilities, costs, charges, expenses and taxes incurred in connection with the SCAAT responsible entity's failure to comply with its obligations under the subscription deed.

Equity contribution documents

Purpose
The equity contribution documents for the Southern Cross Consortium comprise the contribution agreement, the equity account deposit and set off deed, and the performance deed. These documents set out the terms on which equity contributors provide funds to Macquarie (as deposit taker) for Southern Cross to acquire all of the issued capital in Sydney Airports Corporation. The equity contribution documents impose certain obligations upon Macquarie, Southern Cross and Southern Cross Holdings. Following completion of the purchase of Sydney Airports Corporation, the remaining obligations are as follows.

Payment of remaining funds
Southern Cross and Southern Cross Holdings must direct Macquarie to return any remaining contribution funds provided by equity contributors to the respective equity contributors.

Indemnity
Each of Southern Cross, Southern Cross Holdings and Macquarie severally indemnifies each equity contributor against all losses, liabilities, costs, charges, expenses and taxes incurred in connection with a failure to return equity funds, including any failure by Macquarie to act in accordance with a direction given by Southern Cross or Southern Cross Holdings.

MAT1 and MAT2 constitutions
A summary of the principal terms of the constitutions for each of MAT1 and MAT2 is provided in Section 11.9 of the IPO Prospectus.

MAHBL Bye-Laws
A summary of the principal terms of the Bye-Laws of MAHBL is provided in Section 11.9 of the IPO Prospectus.

The IPO Prospectus may be viewed online at www.macquarie.com.au/airports. Alternatively, a copy may be obtained free of charge upon request from MAp Investor Relations 1800 181 895 or outside Australia on +61 2 8232 5057.

12.2 Rome Acquisition

AdR Sale and Purchase Agreement

Purpose
The AdR Sale and Purchase Agreement (*AdR SPA*) sets out the terms and conditions governing the sale by Leonardo of 27,839,350 ordinary shares in AdR (representing 44.74 per cent of the issued share capital of AdR) to MALSA (as *Purchaser*). The AdR SPA has been entered into between MALSA, MAG, Macquarie (as Purchaser's Guarantors), Leonardo (as Seller), Gemina S.p.A, Falck S.p.A and its wholly-owned subsidiary Finstahl SA (collectively Falck), Compagnia Italpetroli S.P.A (Italpetroli) and Impregilo S.P.A. (as Seller's Guarantors).

Guarantee
MAG and Macquarie guarantee severally and respectively as to 50.10 per cent and 49.90 per cent of the prompt payment of the Balance Payment (as defined below). Payment of the Balance Payment is an obligation of MALSA. Any transfer of all or part of Macquarie's participation in MALSA which occur after execution of the AdR SPA shall not affect the guarantees. Gemina (42 per cent), Falck (31 per cent), Italpetroli (16 per cent) and Impregilo (11 per cent) are the shareholders in Leonardo and are guarantors (severally and pro-rata to the respective interests in Leonardo) of Leonardo's obligations under the AdR SPA.

Background
At 15 July 2002, the date of the AdR SPA, Leonardo owned 59,668,245 shares representing 95.892 per cent of AdR's issued share capital, the balance of 4.108 per cent of the issued share capital being owned by the City of Rome, City of Fiumicino, the Province of Rome and the Region of Lazio and by the general public.

On 31 July 2000, pursuant to a share and purchase agreement executed between Gemina, Falck, Italpetroli and Impregilo (collectively the *Leonardo Shareholders*) as purchasers and IRI as seller (the *IRI SPA*), Leonardo acquired 51.1 per cent (the *Controlling Stake*) of AdR's issued share capital. Following that acquisition, further shares in AdR were purchased by Leonardo. Under the IRI SPA, the Leonardo Shareholders agreed not to sell any shares of the Controlling Stake acquired under the IRI SPA nor any shares of Leonardo (the *Lock Up*) for a period of five years following completion of the purchase contemplated in the IRI SPA (that is, until 31 July 2005) (the *Lock Up Period*).

The obligation assumed by the Leonardo shareholders under the IRI SPA not to sell any of the shares in the Lock Up Period currently applies to the corresponding amount of shares in AdR (*Lock Up Shares*).

AdR holds the concession to manage and operate Rome's airport system comprising the "Leonardo da Vinci Airport" in Fiumicino and the "GB Pastine Airport" in Ciampino.

Sale and purchase of shares
Leonardo has agreed to sell to MALSA 27,839,350 AdR shares, representing 44.74 per cent of the issued share capital of AdR (*Sale Shares*). The purchase price payable by MALSA to Leonardo for the Sale Shares is €480 million.

The purchase price is payable as follows. First, €48 million (*Advance Payment*) is to be paid by way of an advance payment on the date of the AdR SPA. Secondly, €432 million (*Balance Payment*) is to be paid on the closing date which shall be the later of the following (*Closing Date*):

– the fifteenth business day following the date on which the conditions precedent have been satisfied; or

– the subsequent date upon which it shall be possible to hold the shareholders meeting approving the revised by-laws of AdR and electing new directors to the board of AdR which in no case shall be later than 10 January 2003; or

– any other agreed date.

MALSA shall pay any stamp, transfer or similar taxes as levied on the transfer of the Sale Shares. If any dividend which may be declared by AdR and distributed to shareholders out of profit realised in the 2001 fiscal year (*2001 Dividend*) has been paid to AdR shareholders prior to payment by MALSA to Leonardo of the Balance Payment, the Balance Payment will be reduced by 44.74 per cent of the 2001 Dividend.

Conditions precedent
The obligation of MALSA to pay for and Leonardo to transfer the Sale Shares is conditional upon the

following conditions precedent being satisfied (or, if applicable, waived in writing by MALSA):

– EU Merger Control Clearance or Italian Merger Control Clearance, if applicable to the transaction;

– the truth and accuracy of the warranties as at the date of the AdR SPA and as at the Closing Date;

– all covenants and undertakings of Leonardo under the Agreement being fulfilled or complied with prior to the Closing Date; and

– all consents, approvals and waivers from governmental authorities (and other parties necessary to permit Leonardo to consummate the transactions contemplated) (including the IRI Consent, defined below) being obtained in writing.

If any of the conditions precedent is not fulfilled (or waived) by 30 November 2002 (or any later date as the parties may agree in writing), the AdR SPA shall automatically terminate.

Interim period

In the period between the date of the AdR SPA and payment of the Balance Payment (*Interim Period*), Leonardo covenants that the AdR group shall be managed diligently in accordance with the ordinary course of business. Leonardo and the Leonardo shareholders are required to apply for consent by IRI and by any competent Italian governmental authorities as to the entering into the AdR Shareholders' Agreement in derogation from the IRI SPA (IRI Consent) and to apply for any other necessary consent from other relevant governmental authorities. Leonardo and the Leonardo shareholders will continually involve MALSA in such applications.

Leonardo undertakes that in the Interim Period no amendment will be made to the agreed refinancing package terms for AdR without MALSA's prior consent. Further, no other financing transaction in respect of the AdR group will be negotiated by Leonardo without MALSA's prior consent except for transactions in the ordinary course of business with AdR and as may be permitted with AdR's existing lenders which in no event shall exceed the aggregate amount of €10 million.

Leonardo will also ensure that during the Interim Period no new managing director will be appointed and no dividend or distribution of reserves, return of capital or other distribution (apart from the 2001 Dividend) will be made by AdR during the Interim Period. Leonardo is in the process of renegotiating the airport concession with ENAC, the Italian regulator for civil aviation, with a view to entering into a new concession agreement. During the Interim Period, Leonardo shall cause AdR to provide to MALSA any information relating to a new concession agreement. In addition, Leonardo shall cause AdR to obtain MALSA's consent before agreeing with ENAC any provisions of a new concession agreement which are more onerous for AdR than the current concessions.

Representations and warranties of Leonardo

Leonardo gives a range of warranties to MALSA, both at signing and closing of the AdR SPA. These include warranties in relation to Leonardo's ownership of the Sale Shares and the capacity to conduct its business, and the manner in which the business of the AdR group companies has been conducted since AdR's 31 December 2001 accounts.

The warranties are qualified by and subject to the disclosures expressly made to MALSA in the annexures to the AdR Shareholders' Agreement.

Undertaking of Leonardo and the Leonardo shareholders

Leonardo and the Leonardo shareholders undertake that they shall promptly pay to AdR any indemnification which they may receive from IRI pursuant to the IRI SPA.

Indemnification

Leonardo indemnifies MALSA against the following:

– 44.74 per cent of the amount of any and all unrecorded liabilities of the AdR group companies which are not reflected in AdR's 31 December 2001 accounts and which arise out of acts or omissions of the relevant group company which occurred between 31 July 2000 and 31 December 2001 (subject to proper disclosure under the AdR SPA);

– 44.74 per cent of the amount of any non-existence of assets of the AdR group companies recorded in AdR's 31 December 2001 accounts arising out of any acts, facts or omissions of the relevant AdR group company that occurred in the period between 31 July 2000 and 31 December 2001 (subject to proper disclosure under the AdR SPA);

– 44.74 per cent of the amount of any losses incurred or suffered by the AdR group companies as a result of any inaccuracy or breach of any of the warranties (except in relation to a breach of the tax warranties occurring prior to 31 July 2000 to the extent such matters are covered by the indemnity given by IRI pursuant to the IRI SPA);

– 44.74 per cent of the amount of any and all losses incurred or suffered by the AdR group companies (or any of them) as a result of non-compliance by any

AdR group companies with the terms and conditions of the industrial plan for AdR where such non-compliance has occurred prior to the Closing Date; and

– the full amount of any losses incurred or suffered by MALSA as a result of any inaccuracy or any breach of any of the warranties (to the exclusion of any losses which are a consequence of any loss suffered by the group companies).

Leonardo's liability to indemnify is subject to certain limitations including the following:

– Leonardo shall have no obligation until the aggregate amount of indemnification payable exceeds €2.5 million, provided that, if this limit is exceeded, Leonardo's liability will include the entire amount to be indemnified;

– losses of any amount below €50,000 arising from a single head of claim shall be disregarded for all purposes; and

– Leonardo's aggregate liability under the indemnity provisions of the AdR SPA is capped at 25 per cent of the sum of the Advance and Balance Payments.

Transfer of shares in MALSA by MAG and MBL

MAG is prohibited from transferring its shares in MALSA until the Closing Date. Macquarie is permitted to transfer its shares in MALSA to financial institutions or funds managed by financial institutions (which must not be airlines or airport management companies or any related entity) providing it complies with the placement procedure set out in the AdR Shareholders' Agreement and the transferee executes the Deed of Adherence set out in the AdR Shareholders' Agreement.

Governing law

The AdR SPA is governed by the laws of Italy.

Side letter to AdR Sale and Purchase Agreement

MALSA, MAG and Macquarie have entered into a side letter agreement with Leonardo and the Leonardo Shareholders. The side letter is in connection with the IRI Consent. Unless otherwise indicated, words defined in the summary for the AdR SPA have the same meaning in this summary.

The side letter provides that to the extent required by IRI, MALSA shall undertake directly with IRI that MALSA, during the Lock Up Period, shall assume any obligations regarding the corporate governance of AdR and such lock-up commitments concerning MALSA's shares in AdR as IRI may require based on the continuing obligations assumed by Leonardo and the shareholders of Leonardo under the IRI SPA (collectively, the *IRI Undertakings*).

If MALSA assumes the IRI Undertakings, the AdR SPA shall be amended to provide that:

– Leonardo and the shareholders of Leonardo shall fully indemnify MALSA, the shareholders of MALSA and AdR (to the extent applicable) against any claim that IRI may raise against MALSA and/or AdR (to the extent applicable) under the IRI Undertakings if and to the extent such claim arises from any breach of the IRI SPA by Leonardo and/or the shareholders of Leonardo; and

– MALSA and the shareholders of MALSA shall fully indemnify Leonardo, the Leonardo Shareholders and AdR against any claim that IRI may raise against Leonardo, the Leonardo Shareholders and/or AdR under the IRI SPA if and to the extent such claim arises from any breach by MALSA of the IRI Undertakings.

AdR Shareholders' Agreement

Purpose

The AdR Shareholders' Agreement sets out the terms governing:

– the relationship between MALSA, the MALSA shareholders, Leonardo and the Leonardo Shareholders in relation to the management and operation of AdR; and

– the material rights and obligations in relation to transfers of shares and other interests in AdR and in the parties to the agreement.

The AdR Shareholders' Agreement has been entered into by MALSA, MAG, Macquarie, Leonardo, Gemina S.P.A., Falck S.P.A. and its wholly-owned subsidiary Finstahl S.A. (collectively *Falck*), Compagnia Italpetroli S.P.A. and Impregilo S.P.A.

Conditions precedent

The rights and obligations under the AdR Shareholders' Agreement are conditional upon closing of the AdR SPA, and the rights and obligations will not take effect until the Closing Date of the AdR SPA.

Business of AdR and other matters

The business of AdR is, unless the shareholders otherwise agree, the holding of the concession to manage and operate Rome's airport system comprising the Leonardo da Vinci Airport in Fiumicino and the G.B. Pastine Airport in Ciampino. AdR may also invest in other operations and assets within the airport industry and provide management and consultancy services in connection with the airport industry.

AdR may only issue shares in accordance with its bye-laws, provided however that the shareholders shall not be obliged to subscribe for any such shares.

If the board of AdR considers that further finance is required for the business of AdR, the board will consider whether to seek further finance from shareholders. The shareholders will not be obliged to provide any such further finance. Furthermore, the shareholders shall not be obliged to participate for the benefit of AdR's corporate group in any contract guarantee, bond or financing arrangement with any bank or financial institution, whether as guarantor or in any other capacity.

The MALSA shareholders shall ensure that MALSA does not carry out any business other than holding and managing its participation in AdR, and has no assets other than shares in AdR and cash. The MALSA shareholders shall also not make any amendments to the MALSA Shareholders' Agreement which may conflict with the AdR Shareholders' Agreement, except with Leonardo's consent.

Similar obligations are placed upon the Leonardo Shareholders.

Appointment of directors

The AdR board consists of 13 directors and shall be constituted initially as follows:

– seven directors (including the chairman) appointed by Leonardo;

– four directors appointed by MALSA;

– one director appointed collectively by the local authorities holding 4.108 per cent of the issued share capital of AdR; and

– an independent managing director approved by MALSA and appointed from a maximum of three candidates nominated by Leonardo who satisfy agreed independence and expertise requirements. If MALSA does not approve any of the candidates, Leonardo may appoint as managing director any of the three candidates at its sole discretion.

As from the time that the local authorities cease to be entitled to appoint a member of the board, the AdR board shall consist of 12 directors.

Reversal rights

If Leonardo's shareholding interest in AdR falls below 50 per cent but remains equal to or above 20 per cent and MALSA holds the majority of AdR's share capital, Leonardo shall assume the rights and obligations of MALSA and MALSA shall assume the rights and obligations of Leonardo in relation to the composition of the board and deadlock procedures. If Leonardo's shareholding interest in AdR falls below 50 per cent, the transfer provisions outlined below under the headings "Transfer of shares in Leonardo" and "Transfer of shares in MALSA" automatically cease to apply, with the exception of the MALSA call option in the case where transfer of shares in Leonardo exceeds 50 per cent of the issued capital of Leonardo.

Strategy group

The parties agree that a strategy group shall be set up in order to advise the AdR board and senior management of AdR in the strategic direction, operation and business planning of AdR. The strategy group shall comprise of the managing director, the chief financial officer, Executive Vice-President Business Unit Aviation and the Officer responsible for Pianificazione Strategica, two representatives nominated by MALSA and two representatives nominated by Leonardo. The recommendations of the strategy group shall be made by unanimous vote of those strategy group members present at the meeting provided that the strategy group's meetings shall only be valid if at least a representative of both Leonardo and MALSA are present at the meeting.

Distribution policy

AdR's policy is to distribute dividends in the amount of 100 per cent of the operational reserves up to the amount of the cash or debt facilities available subject to there being in the opinion of the board adequate provision for working capital requirements, accruals for liabilities, compliance with the covenants or financing agreements, compliance with any other applicable legislation or contract, and investment commitments falling due in the following financial year. The shareholders will also consider possible distributions of AdR's non-operational reserves.

Reserved matters

If Leonardo and MALSA each hold not less than 20 per cent of the issued share capital of AdR, then no action or decisions in respect of certain specified matters (*Reserved Matters*) shall be taken by AdR without approval of 75 per cent of AdR's issued share capital.

The Reserved Matters are:

Reserved shareholder matters

- any matter to be approved at an extraordinary shareholders' meeting of AdR except for resolutions required to: (a) restore the statutory minimum share capital of AdR, (b) maintain the debt/equity ratio, or minimum equity levels prescribed by any financial covenant, (c) (subject to certain requirements) enable AdR to repay financial indebtedness;
- the following matters to be approved at an ordinary shareholders' meeting of AdR:
  - removal of any directors in the absence of just cause;
  - Reserved Board Matters (described below);
  - removal of the statutory auditors;
  - dividend distributions (except for a dividend distribution of 100 per cent of operational reserves (net of working capital and accrual requirements) as stated in AdR's annual accounts as approved by shareholders); and
  - appointment of external auditors.

Reserved board matters

- approval or amendment of a new industrial plan/business plan;
- approval or amendment of the annual budget;
- approval of related party transactions; and
- any decision on the following transactions in excess of €15 million (increased annually to reflect variations of the ISTAT Index after 1 January 2002) to the extent that they are not contemplated in the annual budget or business plan:
  1. the sale or purchase of shares and assets;
  2. capital expenditure;
  3. the assumption of medium/long term financial indebtedness (other than transactions which are part of the refinancing package);
  4. any commencement or settlement of litigation;
  5. the granting of (with certain exceptions) any encumbrance over the business or revenues of AdR, the granting of any debenture or indemnity (other than in the ordinary course of trading) or the granting of any guarantee (except for certain bank guarantees);
  6. changing the accounting principles and policies of AdR to the extent it would impact on MALSA's investment;
  7. prepayment under any financial facility;
  8. the waiver or variation of rights under or termination of any financing agreement;
  9. the removal of the Managing Director or the revocation of his/her powers;
  10. the establishment of any executive committee;
  11. the establishment or variation of the terms of any death, health, pension, bonus, profit sharing, share option or other incentive scheme or plan for directors and/or employees with certain exceptions; and
  12. any delegation by the boards of directors of AdR or its subsidiaries of any of their powers to any executive director or committee of directors or to any other person other than the Managing Director.

Any reserved board matter above may only be adopted with the approval of 10 out of the 13 directors.

Deadlock resolution

If at any time from the date of closing under the AdR Sale and Purchase Agreement to 31 July 2005 (date of expiry of the Lock Up, see summary of AdR Sale and Purchase Agreement), agreement cannot be reached on a Reserved Matter, specified deadlock resolution procedures will apply. If there is still a deadlock after the procedures have been followed, AdR shall not proceed with the disputed matter and Leonardo shall ensure that no similar resolutions are proposed at a shareholders' meeting or board meeting for a period of six months.

If, at any time after 31 July 2005, agreement cannot be reached on any one of a list of specified matters, specified deadlock resolution procedures will apply. If there is still a deadlock after the procedures have been followed, AdR shall not proceed with the disputed matter and Leonardo shall ensure that no similar resolutions are proposed at a shareholders meeting or board meeting for a period of six months. This notwithstanding, Leonardo may require that the resolutions the subject of the deadlock be reconsidered by the shareholders meeting or board meeting as relevant. If agreement is still not reached, Leonardo may notify MALSA that it offers to buy out all (but not less than all) of MALSA's shares in AdR. MALSA must either accept Leonardo's offer or make a counter-offer to purchase all of Leonardo's AdR shares for a price per AdR share which shall be at least 2.5 per cent more than the price offered by Leonardo. Leonardo shall either accept the counter-offer or make a further offer to MALSA for its AdR shares, such offer being at a price which is at least 2.5 per cent higher than the price per share offered by MALSA. This process continues until an offer is accepted.

No encumbrance over shares

Each shareholder agrees not to create any encumbrance over its shares, except for encumbrances created by agreement of the shareholders over all or part of the shares as security for borrowings of AdR. An “encumbrance” includes, but is not limited to, a mortgage, charge and lien.

Transfer restrictions and pre-emptive rights

Each shareholder may not transfer any shares in breach of any restriction in the IRI SPA or any agreement relating to any financial facility of AdR. Each shareholder has a pro-rata pre-emptive right to purchase any shares that a shareholder intends to transfer to a third party.

Transfer of shares in Leonardo

Leonardo shareholders may generally transfer their shares in Leonardo without restriction. However, if:

– any transfer of shares in Leonardo to non-Leonardo shareholders exceeds 50 per cent of the issued share capital of Leonardo; or

– a Leonardo shareholder intends to transfer shares in Leonardo to an equity fund whose principal purpose is to invest in airports, airport management companies, specialised infrastructure investment funds or any related entity of the equity fund,

then, subject to certain conditions, MALSA has the right to purchase from Leonardo that percentage of Leonardo’s AdR shares that the aggregate number of shares in Leonardo that have been transferred is of the whole of the issued share capital of Leonardo (provided that in the first of the above two situations, MALSA is holding at the time of exercising the right to purchase not less than 44.7 per cent of the share capital of AdR).

Transfer of shares in MALSA

MALSA shareholders may generally (subject to pre-emptive rights under the MALSA Shareholders’ Agreement and the MALSA by-laws) transfer shares in MALSA to a third party buyer which must be a financial institution or fund managed by a financial institution or by any of its subsidiaries and which must not be an airline or airport management company or any related entity thereto.

A transfer may only occur if as a result of such transfer, MAG shall continue to control MALSA. If MAG ceases to control MALSA, Leonardo has the option to purchase from MALSA that number of AdR shares held by MALSA such that as a result of the purchase MALSA will retain a number of shares in AdR equal to 19.9 per cent of AdR’s share capital. Also, if a MALSA shareholder wishes to transfer its shares in MALSA to an airline or airport management company, or related entity thereof and the MALSA shareholders do not exercise their pre-emptive rights, Leonardo has the option to purchase that percentage of MALSA’s AdR shares that the aggregate number of shares in MALSA that would have been transferred is of the whole of the issued share capital of MALSA.

Change of control in Leonardo shareholders

MALSA has a call option over a portion of the AdR shares held by Leonardo exercisable in the circumstances where control of any of the shareholders in Leonardo is assumed by an equity fund whose principal purpose is to invest in airports, airport management companies, specialised infrastructure investment funds or any related entity thereof. The portion of the AdR shares that MALSA may purchase is the percentage of Leonardo’s AdR shares that the aggregate number of shares in Leonardo owned by the Leonardo shareholder subject to a change in control is of the whole of the issued share capital of Leonardo. This option is subject to none of the Leonardo shareholders exercising their pre-emptive rights to buy from the shareholder subject to a change of control that shareholder’s shares in Leonardo.

Change of control in MALSA shareholders

If the control of MAG or Macquarie (but only for as long as Macquarie is a shareholder in MALSA) is assumed by any airline or airport management company or any related entity thereto, Leonardo has the option to purchase from MALSA that number of AdR shares held by MALSA such that following the purchase MALSA will retain a number of shares in AdR equal to 19.9 per cent of AdR’s share capital. This call option is subject to none of the MALSA shareholders exercising their pre-emptive rights to buy MAG’s or Macquarie’s shares in MALSA (as the case may be).

Also, if any MALSA shareholder (other than MAG) is entitled to a veto right in MALSA at board or shareholder level and any airline or airport management company or any related entity thereto assumes control of that MALSA shareholder, then Leonardo has the option to purchase from MALSA that number of AdR shares held by MALSA such that following the purchase MALSA will retain a number of shares in AdR equal to 19.9 per cent of AdR’s share capital. This option is subject to none of the MALSA shareholders exercising their pre-emptive rights to buy from the shareholder subject to a change of control that shareholder’s shares in MALSA.

Exit sales

The initial term of the AdR Shareholders' Agreement is 10 years from the Closing Date of the AdR Sale and Purchase Agreement (see summary of AdR Sale and Purchase Agreement), and is renewable for further 10 year periods. If either MALSA or Leonardo decide not to extend the agreement for an additional 10 year period, the non-renewing party shall set a price at which the other party may either buy all of the non-renewing party's shares in AdR or sell all of its shares in AdR to the non-renewing party.

The AdR Shareholders' Agreement will cease to have effect upon the occurrence of the earliest of a number of events including:

- AdR is dissolved or wound up;
- either Leonardo or MALSA ceases to have a shareholding interest in AdR equal to or greater than 20 per cent of its share capital;
- either Leonardo or MALSA is dissolved or wound up except where Leonardo is merged by way of statutory merger into any of the Leonardo Shareholders; except that:
  - if MALSA is dissolved or wound up other than in the context of a MALSA Group Reorganisation (see below), Leonardo will have a pre-emption right over MALSA's shares in AdR; and
  - if Leonardo is dissolved or wound up other than in the context of a Leonardo Group Reorganisation (see below), MALSA will have a pre-emption right over Leonardo's shares in AdR.

Breach of share transfer provisions

If any shareholder transfers AdR shares to a third party in breach of the AdR Shareholders' Agreement, that shareholder shall pay to the other shareholders, by way of liquidated damages and without prejudice to compensation for other damages, an aggregate amount equal to 30 per cent of the fair market value of the shares transferred in breach of the AdR Shareholders' Agreement.

Stock option plan

MALSA shall be entitled to purchase from Leonardo such number of stock option shares in AdR which is proportionate to the participation of MALSA in AdR at the time at which the entitlement to purchase is exercised.

Leonardo group reorganisations

The Leonardo shareholders and Leonardo shall be entitled to implement a transaction whereby the Leonardo shareholders will hold the shares held by Leonardo in AdR either directly or through a wholly-owned subsidiary (*Leonardo Group Reorganisation*), provided the following conditions are met:

- adherence to the AdR Shareholders' Agreement of any entity involved in such reorganisation;
- the Leonardo Group Reorganisation results in
  - the Leonardo shareholders directly holding the shares held by Leonardo in AdR;
  - any of the Leonardo shareholders directly holding all of shares held by Leonardo in AdR; or
  - the Leonardo shareholders holding the shares held by Leonardo in AdR through a company which is entirely owned by them (the *New Leonardo*); and
- no Leonardo Group Reorganisation shall result in:
  - the Leonardo shareholders having less than 50 per cent plus one share of Leonardo; or
  - any equity funds whose principal purpose is to carry out equity investments in airports, airport management companies or specialised infrastructure investment funds acquiring any direct or indirect interest in AdR.

Any transfer of the shares held by Leonardo in AdR, where such transfer is contemplated under a Leonardo Group Reorganisation, will not be subject to the provisions summarised under the sub-heading titled "Transfer restrictions and pre-emptive rights".

MALSA group reorganisations

MAG and MALSA shall be entitled to implement a transaction whereby MAG (or MAG and the MALSA shareholders) will hold the shares held by MALSA in AdR either directly or through a wholly-owned subsidiary (*MALSA Group Reorganisation*), provided the following conditions are met:

- adherence to the AdR Shareholders' Agreement of any entity involved in such reorganisation;
- the MALSA Group Reorganisation results in
  - MAG directly holding all of the shares held by MALSA in AdR; or
  - the MALSA shareholders holding the shares held by MALSA in AdR through a company which is entirely owned by them; and

– no MALSA Group Reorganisation shall result in:

- MAG losing the ability to exercise control over all of the voting rights attached to the shares held by MALSA in AdR;
- any entity other than financial institutions or funds managed by financial institutions acquiring any direct or indirect interest in AdR; or
- any airlines or airport management companies acquiring any direct or indirect interest in AdR.

Any transfer of the shares held by MALSA in AdR, where such transfer is contemplated under a MALSA Group Reorganisation, will not be subject to the provisions summarised under the sub-heading titled "Transfer restrictions and pre-emptive rights".

Governing law
The AdR Shareholders' Agreement is governed by the laws of Italy.

Deed of Adherence
MAHBL must enter into a Deed of Adherence to the AdR Shareholders' Agreement. Under the Deed of Adherence, MAHBL agrees to perform and be bound by all the terms of the AdR Shareholders' Agreement as though it were an original party to that agreement.

MALSA Shareholders' Agreement

Background
MALSA has been established as the corporate vehicle through which Macquarie, MAG, MAHBL, the GIF A responsible entity and the GIF B responsible entity will invest in AdR.

Cross indemnity
In the event that a shareholder defaults in paying up subscription funds on shares or fails to lend money pursuant to its convertible loan agreement, such shareholder indemnifies each other shareholder (*Non-Defaulting Shareholder*) against any and all loss, damage, cost, liability, demand, charge or expense (including legal fees) suffered by each Non-Defaulting Shareholder in connection with MALSA's failure to complete the AdR SPA, including but not limited to the non-return of the Non-Defaulting Shareholder's portion of the Advance Payment (as defined in the summary of the AdR SPA).

Purpose
The MALSA Shareholders' Agreement governs the relationship between MALSA and its shareholders Macquarie, MAG, MAHBL, the GIF A responsible entity and the GIF B responsible entity, and of the shareholders with each other.

Appointment of directors
The MALSA board shall consist of up to 9 directors nominated as follows:

– five directors nominated by MAG, so long as MAG holds at least a 50 per cent shareholding interest in MALSA;

– one director nominated by each shareholder (other than MAG) for each 20 per cent shareholding interest in MALSA;

– one director nominated by MIMUK (being MALSA's adviser) and appointed by the shareholders as the representative of MIMUK; and

– one director nominated by the administrator and appointed by the shareholders as the representative of the administrator.

Distribution policy
MALSA's policy is to make the maximum possible distributions of available cash to shareholders each year, whether by repayment of interest on shareholder loans, cash payment or other payments under the convertible loan agreements, by way of dividends or otherwise. The distribution policy is subject to MALSA retaining at all times sufficient financial resources to meet its normal and foreseeable working capital requirements for the following year and having made adequate provision for liabilities.

Issue of new shares
Each shareholder has a pro-rata pre-emptive right to subscribe for new shares issued by MALSA (excluding shares issued to Macquarie under the Conditional Share Subscription Agreement and any preference shares issued on the exercise of conversion rights under the convertible loan agreements). MAG will have first priority to subscribe for any new shares which a shareholder does not subscribe for. Following this, any remaining shares will be offered to the non-MAG shareholders.

If the remaining shares are not fully subscribed by the non-MAG shareholders, the balance left may be issued by MALSA to third parties on the same terms as offered to shareholders provided that the third party is a financial institution or a fund managed by a financial institution or any of its subsidiaries and is not an airline or airport management company or any related entity of an airline or airport management company.

Notwithstanding the above, the shareholders will procure that MALSA does not issue any shares to any person if following the issue of shares, MAG would not control MALSA for the purposes of the AdR Shareholders' Agreement.

Transfer of shares and assignment of rights under the Convertible Loan Agreement

The provisions in the MALSA Shareholders' Agreement relating to transfers are summarised below.

The following provisions apply to all shareholders:

– A shareholder may only transfer shares in MALSA in accordance with the AdR Shareholders' Agreement, the MALSA Shareholders' Agreement and the MALSA by-laws. The relevant provisions in the AdR Shareholders' Agreement are provided in the summary of that agreement. The MALSA by-laws are consistent with the restrictions on transfer in the MALSA Shareholders' Agreement.

– A shareholder intending to transfer shares must concurrently transfer its rights and obligations under its convertible loan agreement in the same proportion as the proportion of the shareholder's total shares to be transferred and if the shareholder holds preference shares, concurrently transfer the same proportion of preference shares as the proportion of the shareholder's total shares to be transferred.

– A shareholder intending to transfer preference shares (that will be issued to a shareholder on exercise of the shareholder's conversion rights under its convertible loan agreement) must also transfer the same percentage of the total (ordinary) shares held by the shareholder as the percentage of the shareholder's preference shares being transferred.

– A shareholder intending to assign any proportion of its rights and obligations under its convertible loan agreement must concurrently transfer to the assignee the same proportion of the shareholder's total shares as the proportion of the shareholder's rights and obligations under the convertible loan agreement which the shareholder seeks to assign to the assignee.

– No shareholder may transfer any shares to an airline or airport management company.

– No shareholder may transfer any shares if as a result MAG will no longer have control of MALSA or any shareholder in MALSA other than MAG acquires the right to exercise a veto right in MALSA on any matter other than those currently provided under the MALSA Shareholders' Agreement, unless all the other shareholders consent to such transfer.

– A shareholder wishing to transfer shares shall:

  • procure that the transferee executes a deed of adherence to the MALSA Shareholders' Agreement;

  • except in the case of transfers by Macquarie, if the transfer is within a corporate group, guarantee to MALSA the due performance of the transferee's obligations under the MALSA Shareholders' Agreement; and

  • procure that the transferee executes a deed of adherence to the AdR Shareholders' Agreement.

The following provisions apply to all shareholders (other than Macquarie, the GIF A responsible entity and the GIF B responsible entity) and are to be read subject the above provisions that apply to all shareholders:

– A shareholder may transfer any of its MALSA shares to a company which is:

  • a wholly-owned subsidiary of the shareholder; or

  • either the party of which the transferor shareholder is a subsidiary or another wholly-owned subsidiary of that party; or

  • a trust, managed investment scheme or collective investment scheme managed by a party referred to above or of which a party referred to above is a trustee or responsible entity.

– A shareholder intending to transfer must first offer them to the other shareholders. MAHBL has a right of first refusal to purchase the first $5 million worth of shares and convertible loans (or preference shares) in MALSA that may be sold by each of the GIF A responsible entity and the GIF B responsible entity (as a result of a waiver by MAG, under a side letter to MAHBL, of its right of first refusal which would normally take precedence over MAHBL's right of first refusal and by the other shareholders under separate side letters to MAHBL of each of their rights of first refusal). Otherwise, MAG shall have first priority to purchase such shares. Following this, any remaining shares will be offered to the non-MAG shareholders.

The following provisions apply only to the relevant shareholders listed:

– MAG may not transfer any shares until completion of the AdR Sale and Purchase Agreement.

– Each of Macquarie, the GIF A responsible entity and the GIF B responsible entity may freely transfer shares, subject to compliance with the AdR Shareholders' Agreement (as detailed in the summary of the AdR Shareholders' Agreement under the sub-heading "Transfer of Shares in MALSA").

Drag-along rights

If MAG intends to sell all of its shares (other than to entities within its corporate group), provided it has first offered the shares (and preference shares, or rights and obligations under the Convertible Loan Agreements) to the other shareholders, all the non-MAG shareholders must sell to that person all of the shares held by the non-MAG shareholders if MAG exercises its "drag-along" rights by serving on the shareholders a "drag-along" notice. The shares held by non-MAG shareholders will be sold at the price per share and on the same terms and conditions offered by the proposed transferee to MAG.

If the sale is not completed within 90 business days of service of the "drag-along" notice by MAG, the shareholder shall no longer be obliged to comply with the drag-along notice.

MAG will not exercise its "drag-along" right if the proposed transferee is willing to offer a higher price per share if some or all of the non-MAG shareholders retain some or all of their shares in MALSA or the terms and conditions of the proposed transferee's offer would require any non-MAG shareholder to give warranties which would expose the shareholder to a liability exceeding the price per share multiplied by the total number of shares held by such shareholder.

Tag-along rights

If MAG intends to transfer all its shares (and preference shares, or rights and obligations under the convertible loan agreements) in MALSA (other than to entities within its corporate group), MAG must notify the non-MAG shareholders of such proposed transfer and its terms and conditions. Non-MAG shareholders must notify MAG if they elect to participate in such transfer.

Subject to non-MAG shareholders not having exercised their rights of refusal over the shares to be sold, MAG shall procure that each non-MAG shareholder that elects to participate will have the right to sell to the proposed transferee at the same price and on the same terms and conditions as MAG the same proportion of shares (and preference shares, or rights and obligations under the convertible loan agreement) held by the non-MAG shareholder as the proportion of MALSA shares held by MAG which the proposed transferee proposed to buy from MAG.

Establishment of fund on liquidation

If MALSA is placed into liquidation, the shareholders agree to contribute all amounts distributed to them by MALSA on liquidation in respect of the Convertible Loan Agreement and the preference shares to a fund to be established by MIMUK (MALSA's adviser) for the benefit of the shareholders. MIMUK will distribute the fund amongst all shareholders pro-rata to the nominal value of shares held by each shareholder.

Change of control in MAG, Macquarie or other shareholder

If an airline or airport management company gains control of MAG or Macquarie (while Macquarie remains a shareholder) or of any shareholder who may exercise a veto right in MALSA (other than in respect of certain reserved shareholder matters), certain provisions in the AdR Shareholders' Agreement shall apply. These provisions are in the summary of the AdR Shareholders' Agreement under the sub-heading titled "Change of control in MALSA shareholders".

Option upon listing of MAG

If MAG intends to list itself on an internationally recognised stock exchange, each non-MAG shareholder (other than MAHBL) grants to MAG an option to purchase all of the shareholder's shares, its rights under the convertible loan agreements and its preference shares at fair market value.

Governing law

The MALSA Shareholders' Agreement is governed by English law.

Share Subscription Agreement

Purpose

The Share Subscription Agreement sets out the terms and conditions governing the subscription by MAHBL for and issue of shares in MALSA.

Principal Terms

The Share Subscription Agreement provides that MAHBL shall subscribe for ordinary shares in MALSA (*Subscription Shares*) on receipt of a subscription notice from MALSA, subject to satisfaction or waiver of the Subscription Conditions (detailed below) and MALSA shall issue the Subscription Shares subject to the satisfaction of various Issue Conditions (detailed below).

Acknowledgment of transfer restrictions

MAHBL acknowledges that the Subscription Shares will be subject to certain transfer restrictions and in particular the transfer restrictions relating to the "stapling" of ordinary shares and amounts of loan principal under MAHBL's convertible loan agreement.

Subscription price

The subscription price of each Subscription Share will be allocated €1.25 by way of nominal value and €0.125000066 by way of share premium.

Subscription Conditions

MAHBL's obligation to subscribe for Subscription Shares is subject to the following conditions being fulfilled or waived in writing by MAHBL:

- execution by the parties to, and continuing application of, the AdR Sale and Purchase Agreement;
- execution by the parties to, and continuing application of, the AdR Shareholders' Agreement;
- execution by the parties to, and continuing application of, the MALSA Shareholders' Agreement;
- adoption by MALSA of new Articles of Association (in substantially the form of the draft set out in the MALSA Shareholders' Agreement);
- execution by MALSA of the convertible loan agreements;
- execution by Macquarie of the Conditional Share Subscription Agreement and the Conditional Convertible Loan Agreement;
- any applicable consents have been obtained in accordance with the Articles of Association, the MALSA Shareholders' Agreement and the AdR Shareholders' Agreement;
- MALSA has received waivers of any applicable pre-emptive rights in relation to the issue of new shares;
- confirmation by the Escrow Agent (see summary of Escrow Deed) that:
  - monies amounting to 100 per cent or more of the Balance Payment (see summary of AdR Sale and Purchase Agreement) are standing to the credit of the escrow account; or
  - where there has been a funding default by an investor under any share subscription agreement or any convertible loan agreement, confirmation to the investor by the Escrow Agent and MALSA's bankers that monies standing to the credit of the Escrow Account (as defined in the Escrow Deed), MALSA's bank account and other monies available to MALSA to be paid to Leonardo as part of the Balance Payment together add to 100 per cent or more of the Balance Payment.

The final condition listed above will be satisfied upon notification by the guarantor of the Balance Payment (being Macquarie) that it has satisfied its guarantee obligations.

Issue conditions

The issue of the Subscription Shares subscribed for by MAHBL is subject to receipt of the full subscription amount and the satisfaction of the following conditions:

- the execution and delivery by MAHBL (to the extent it is not already a party to such agreements) of deeds of adherence to the MALSA Shareholders' Agreement and Advisory Agreement;
- execution of a Convertible Loan Agreement and payment of the first drawing; and
- satisfaction by MAHBL of its indemnification obligations under the Share Subscription Agreement (summarised below).

Funding default

If MAHBL is in default of its funding obligations under the Share Subscription Agreement and Convertible Loan Agreement, then Macquarie may meet any funding shortfall in accordance with the terms of the Conditional Share Subscription Agreement and the Conditional Convertible Loan Agreement. MAHBL will be released from its funding obligations to the extent that Macquarie has met the funding shortfall.

Where MAHBL has met its funding obligations in part only, the part payment will be allocated against MAHBL's obligations to subscribe for shares under the Share Subscription Agreement and make loans under its Convertible Loan Agreement such that for every €100 paid, €85 shall be considered as loan principal under MAHBL's Convertible Loan Agreement and €15 as subscription for shares. In such circumstances, MALSA will issue to MAHBL such number of shares as is equal to the amount allocated for share subscription divided by the issue price.

Indemnity

MAHBL indemnifies MALSA in respect of all costs arising out of or by reason of the Share Subscription Agreement (excluding the capital duty payable by MALSA on the Subscription Shares).

Governing law

The Share Subscription Agreement is governed by English law.

Convertible Loan Agreement

Purpose

MAHBL acknowledges that MALSA is entering into similar agreements with the other investors and will, therefore, be entitled to similar rights. The loan amounts granted under the Convertible Loan Agreement will be used to fund the purchase by MALSA of the shares in AdR from Leonardo under the AdR Sale and Purchase Agreement.

No interest

The loan shall bear no interest.

Term

The loan shall be for a 42 year term commencing on the date of the Convertible Loan Agreement.

Drawdown of funds

The loan may be drawn in one or more amounts at such times as MALSA determines, with the first drawing to occur on the date of the Convertible Loan Agreement. The first drawing is to fund the initial 10 per cent deposit for the purchase by MALSA of the shares in AdR from Leonardo under the AdR Sale and Purchase Agreement. Subsequent drawings will fund part of the remaining acquisition price for the AdR shares. The loan must be fully drawn within six months after the date of the Convertible Loan Agreement.

Conditions precedent

These are identical to the Subscription Conditions for the Share Subscription Agreement, except that the condition of "execution by MALSA of the Convertible Loan Agreement" is replaced by "execution by MALSA of the Share Subscription Agreement".

Conversion to preference shares

At any time following six months after the date of the relevant Convertible Loan Agreement, MAHBL is entitled to call for conversion of the loan (in its entirety) into redeemable preference shares of MALSA, on the basis of one issued preference share for every loan principal amount of €1,000. Each preference share will have a nominal value of €1.25 and share premium value of €998.75. The conversion is subject to MAHBL serving notice on MALSA before the tenth calendar day of any given month and MAHBL paying to MALSA a cash amount of 1/99th of the total amount of the loan. The issuance of the preference share will trigger the early termination of the loan and the Convertible Loan Agreement.

Non-conversion

If MAHBL calls for conversion of the loan into preference shares and MALSA does not effect conversion, MALSA shall provide a cash settlement to MAHBL equal to the market value of the loan on the conversion date plus the "Deemed Preference Entitlement" in respect of the loan (being the distributions which MALSA would have paid MAHBL if MAHBL had exercised its rights to convert the loan into preference shares on the date/s the loan was drawn). However, MALSA shall re-draw the loan that is repaid by cash settlement and any amount redrawn may be offset against MALSA's obligation to pay the cash settlement.

Funding default

If MAHBL is in default of its funding obligations under the Convertible Loan Agreement, then Macquarie may meet any funding shortfall. MAHBL will be released from its funding obligations to the extent that Macquarie has met the funding shortfall.

Governing law

The Convertible Loan Agreement is governed by the laws of New South Wales.

Put and Call Option Agreement

MAHBL has entered into a Put and Call Option Agreement with Macquarie.

MAHBL default

In the event that MAHBL defaults on its obligations under its Share Subscription Agreement with MALSA, Macquarie has the right, pursuant to its Conditional Share Subscription Agreement with MALSA, to subscribe for the MALSA shares that would have otherwise been issued to MAHBL (the *MALSA Shares*). In the event that MAHBL defaults on its obligations under its Convertible Loan Agreement with MALSA, Macquarie has the right, pursuant to its Conditional Convertible Loan Agreement with MALSA, to make loans to MALSA that would have otherwise been made by MAHBL (the *MALSA Loans*).

Grant of put and call options

If MAHBL defaults on its obligations under both the Share Subscription Agreement and the Convertible Loan Agreement with MALSA, and Macquarie:

– subscribes for the MALSA Shares; and

– acquires the right to make the MALSA Loans, the Put and Call Option Agreement provides Macquarie with an option to put to MAHBL (the *put option*), and MAHBL with an option to call from Macquarie (the *call option*):

– the MALSA Shares that Macquarie subscribes for; and at the same time

– the rights and obligations under the MALSA Loans.

The two call options in respect of the MALSA Shares and MALSA Loans are not exclusive of each other and must be exercised together. The call options must also be exercised in whole and not in part. The immediately above conditions applying to exercise of the call options apply also to any exercise of the put options.

The exercise price payable by MAHBL to Macquarie (under either the call or put option) for the MALSA Shares is the price paid by Macquarie when it subscribed for the MALSA Shares pursuant to the Conditional Share Subscription Agreement, plus interest and Macquarie's direct costs in subscribing for the MALSA Shares. The exercise price payable by MAHBL to Macquarie (under either the call or put option) for the rights and obligations under the Conditional Convertible Loan Agreement is the amount of the loan that Macquarie advanced to MALSA on completion of the Conditional Convertible Loan Agreement in respect of MAHBL's defaulted obligations under its Convertible Loan Agreement with MALSA, plus interest and Macquarie's direct costs incurred in advancing the loans.

Indemnity

MAHBL indemnifies Macquarie on an after-tax basis against any liability for any costs and taxes incurred in respect of:

– Macquarie's subscribing for the MALSA Shares pursuant to the Conditional Share Subscription Agreement;

– Macquarie making loans to MALSA under the Conditional Convertible Loan Agreement;

– the Put and Call Option Agreement;

– the exercise of either the put or call option; and

– any transfer pursuant to the Put and Call Option Agreement of Macquarie's rights and obligations under the Conditional Convertible Loan Agreement.

Governing law

The Put and Call Option Agreement is governed by English law.

Advisory Agreement

Purpose

The Advisory Agreement provides for the appointment of MIMUK as investment adviser to MALSA and sets out the duties of MIMUK and any restrictions on such duties. All activities of MIMUK are subject to supervision by the board of directors of MALSA and any actions taken by MIMUK on behalf of MALSA are as agent to MALSA. The Advisory Agreement has been entered into by MALSA, MIMUK, and each of the MALSA shareholders (being Macquarie, MAG, MAHBL, the GIF A responsible entity and the GIF B responsible entity). In this summary, references to a "shareholder" means a shareholder in MALSA.

Fees

MIMUK is entitled to be paid certain advisory fees (being Base Fees and Performance Fees) and MALSA is entitled to be paid an Additional Fee. These fees are summarised below.

By way of side letter, MIMUK has waived its rights to receive fees under the Advisory Agreement under the current shareholding structure of MALSA, as the Macquarie Bank Group receives separate management fees in respect of the management of MAp, MAG, GIF A and GIF B as described in Section 2.

Base Fees

Base Fees are payable by MALSA to MIMUK throughout the term of the Advisory Agreement in arrears for each six month period ending on 30 June and 31 December. Base Fees are equal to the aggregate of:

– 0.5 per cent per annum on Capital committed to MALSA by its shareholders, but not yet called; and

– 1.5 per cent per annum on Capital called from its shareholders.

Capital means, in respect of a shareholder, the aggregate of amounts agreed to be paid by the shareholder by way of subscription for ordinary shares or as loan principal under a convertible loan agreement.

The Advisory Agreement provides for MALSA to on-charge Base Fees to shareholders (other than MAG) so that each shareholder (other than MAG) will bear a pro-rata share of the Base Fees paid to MIMUK. Such pro-rata share is to be calculated by reference to the shareholder's share of total called and committed Capital (excluding any Capital called from or committed by MAG).

If the Advisory Agreement terminates other than on a date being 30 June or 31 December, then the Base Fee will be calculated on a daily basis.

Additional Fee

For any period where Base Fees have been paid by the shareholders to MALSA (as described above), each shareholder (other than MAG) is required to pay MALSA its pro-rata share of an Additional Fee of €20,000 per annum. A shareholder's pro-rata share of the Additional Fee shall be calculated by reference to the shareholder's share of called Capital as a proportion of total called Capital (excluding any Capital called from MAG).

Value Added Tax on the Base Fees and Additional Fee

Any pro-rata payment by a shareholder to MALSA for the Base Fees or the Additional Fee shall be exclusive of value-added tax (VAT) under UK law and the shareholder will be liable to pay any VAT levied.

Performance Fees

Performance Fees are payable by each shareholder. There are two types of Performance Fees: MALSA Performance Fees and Performance Fees (Sale Units).

MALSA Performance Fees are payable by each shareholder on distributions to that shareholder once the shareholder has received back in distributions (compounded at 12 per cent per annum) the amount of the shareholder's Called Capital (compounded at 12 per cent per annum). The fee payable to MIMUK on the distributions is 20 per cent. In practice, each shareholder receives the gross distribution and is invoiced by MIMUK for the MALSA Performance Fee, if any, thereon.

Called Capital means:

– in respect of a shareholder who was the original subscriber, the aggregate of amounts called, or agreed to be paid for Stapled Units; or

– in respect of a shareholder who was not the original subscriber, the price paid by such shareholder on the acquisition of Stapled Units.

Stapled Unit means one ordinary share and such amount of loan principal lent by the shareholder under a convertible loan agreement which is stapled to the ordinary share.

Performance Fees (Sale Units) are payable by each shareholder on the sale of its Stapled Units if the sale proceeds exceed the difference between the amount of the shareholder's Called Capital (compounded at 12 per cent per annum) and what the shareholder has received back in distributions (compounded at 12 per cent per annum), provided that this difference can never be less than zero. The fee payable to MIMUK on the excess, if any, is 20 per cent. The fee is payable to MIMUK by the selling shareholder.

A Performance Fee (Sale Units) may also be payable by each Investor if MALSA terminates the Advisory Agreement, without cause; in which case the fee shall be paid by reference to an independent valuation of the Stapled Units.

MAG not required to pay fees

Notwithstanding the above, MAG shall not pay any Performance Fees, any amount of Additional Fee or suffer any Base Fees on its Capital. The Advisory Agreement therefore contains a provision for the element of the Base Fees which relates to the Capital provided by MAG to be paid by MALSA to MAG rather than MIMUK and for MIMUK to waive any Performance Fees which would otherwise be payable by MAG. This fee arrangement applies equally to any associate of MAG in respect of any Stapled Units held by it which were originally held by MAG.

Indemnity

MALSA and its shareholders (as appropriate) shall indemnify MIMUK (on an after-tax basis) against any interest, surcharge or other like sum payable by MIMUK in respect of the failure by MIMUK to account to UK Customs and Excise for any value-added tax chargeable in respect of any payments made under the Advisory Agreement and against any other claim made against or expense incurred by MIMUK in connection with the Advisory Agreement.

Governing law

The Advisory Agreement is governed by the laws of England.

Nominee Deed

Purpose

The Nominee Deed sets out the terms on which Macquarie will act as nominee of MALSA in connection with MAHBL's acquisition of a 7.5 per cent in MALSA.

Entry into agreements

Under the Nominee Deed, Macquarie agrees, as nominee of MALSA, to enter into a share subscription agreement, a convertible loan agreement, the MALSA Shareholders' Agreement, the Escrow Deed and the Advisory Agreement and undertakes to MAHBL to carry out its obligations under those agreements.

Provision of funds by MAHBL

MAHBL must provide funds to Macquarie to enable Macquarie to acquire shares in MALSA and satisfy its obligations under the convertible loan agreement but only to the extent that the relevant payment is due under the share subscription agreement or the convertible loan agreement prior to the transfer of interests.

Transfer of interests

Macquarie shall, either at the election of Macquarie or MAHBL, transfer to MAHBL the legal title to any MALSA shares (including all rights to receive dividends) and interests in a convertible loan agreement held by Macquarie as nominee, provided that no transfer shall occur prior to execution of the AdR Sale and Purchase Agreement and provided Macquarie would not as a result of the transfer be in breach of its obligations under the MALSA Shareholders' Agreement.

If MAHBL has performed part of its funding obligations to Macquarie (to enable Macquarie to acquire shares and make loans to MALSA), Macquarie shall transfer to MAHBL some or all of the shares in MALSA acquired by Macquarie (as nominee) and shall assign some or all of the rights and obligations of Macquarie (as nominee) under the Convertible Loan Agreement such that the ratio of MAHBL's equity interest in MALSA to MAHBL's loans to MALSA is 15:85.

Indemnity

MAHBL indemnifies Macquarie against all costs incurred by Macquarie in connection with Macquarie's acting as nominee for MAHBL.

Voting rights

Macquarie shall exercise all voting and other rights relating to the shares in MALSA as MAHBL directs.

Governing law

The Nominee Deed is governed by the laws of New South Wales.

Escrow Deed

Purpose

The Escrow Deed sets out the terms on which Macquarie, MAG, MAHBL, the GIF A responsible entity and the GIF B responsible entity (each, an *investor*) and MALSA have agreed to appoint Macquarie as Escrow Agent to:

- hold the amounts paid by investors to MALSA in a bank account (the *Escrow Account*) to enable MALSA to pay (amongst other things) the Balance Payment (as defined in the summary of the AdR Sale and Purchase Agreement) to Leonardo; and
- release the held amounts to MALSA, the guarantors (MAG and Macquarie) or the investors in accordance with the Escrow Deed.

Payment of subscription and loan funds

A payment required to be made by an investor to MALSA under a share subscription agreement or convertible loan agreement shall be paid into the Escrow Account two days prior to the date that payments are required under the agreements, notwithstanding that the Subscription Conditions under the share subscription agreement and the Conditions Precedent under the convertible loan agreement may not have been satisfied.

Where an investor fails to make payments into the Escrow Account, it shall be required to pay into the Escrow Account interest on the shortfall amount at 5.0 per cent per annum until the earlier of the date on which the shortfall amount has been paid or the date on which the investor via the Put and Call Option Agreement is transferred title to all of the shares which the investor would otherwise have been issued by MALSA but for its failure to make payments into the Escrow Account.

An investor will not be in default of an amount required to be paid under a share subscription agreement or convertible loan agreement to the extent the amount has been paid into the Escrow Account. The only liability for a breach by an investor of its obligation to make payments into the Escrow Account is the requirement to pay interest (save in respect of any liabilities that an investor may have to Macquarie under a put and call option agreement, the Escrow Deed or otherwise).

Notwithstanding any provision in the share subscription agreements and/or the convertible loan agreements, following the payment of funds in the Escrow Account by the Escrow Agent to MALSA, MALSA must comply with its respective obligations under the share subscription agreements and convertible loan agreements and allocate the monies received between shares and debt such that the ratio of equity to debt in respect of the funds provided by each investor is 15:85.

Release of funds to MALSA

As soon as is practicable (but no earlier than two business days before the completion date of the AdR Sale and Purchase Agreement) after either:

- the amount in the Escrow Account equals the Balance Payment under the AdR Sale and Purchase Agreement and MALSA notifies the Escrow Agent that the conditions under the Share Subscription

Agreements and Convertible Loan Agreements have been satisfied; or

– receipt by the Escrow Agent of certificates certifying the amounts available to be paid to Leonardo as part of the Balance Payment, which when added to the amount being held in the Escrow Account adds up to 100 per cent or more of the Balance Payment and MALSA has notified the Escrow Agent that the conditions under the Share Subscription Agreements and Convertible Loan Agreements have been satisfied,

the Escrow Agent must pay the amount in the Escrow Account to MALSA. The abovementioned certificates must be provided by MALSA's bankers to the Escrow Agent immediately upon payment of any funds by Macquarie into MALSA's bank account.

Release of funds to guarantors

If Leonardo calls on the guarantees provided by the guarantors Macquarie (for 49.9 per cent of the Balance Payment) and MAG (for 50.1 per cent of the Balance Payment) and the guarantees are or will be subsequently honoured in full, the funds in the Escrow Account will be paid to Macquarie and MAG in accordance with the following procedure:

– amounts in the Escrow Account which relate to an investor's debt contribution in MALSA will be paid directly to the guarantors; and

– amounts in the Escrow Account which relate to an investor's equity contribution in MALSA will be paid to MALSA and the investors will procure MALSA to on-pay such amounts to the guarantors.

In the event that Leonardo calls on the guarantees provided by the guarantors, where Macquarie has satisfied its obligations under its guarantee but MAG does not do so in respect of its guarantee, the payments to MALSA that relate to the investors Macquarie, MAHBL, the GIF A responsible entity and the GIF B responsible entity shall instead be paid to Macquarie.

On MAG undertaking to use monies contributed by MAG to the Escrow Account to satisfy its obligations under its guarantee, then all payments by MAG will be returned to MAG.

Release of funds to investors

If Macquarie notifies the Escrow Agent that its liability under its guarantee of 49.9 per cent of the Balance Payment under the AdR Sale and Purchase Agreement is terminated for whatever reason (other than payment), the Escrow Agent must return funds in the Escrow Account to each of Macquarie, MAHBL, the GIF A responsible entity and the GIF B responsible entity.

If MAG notifies the Escrow Agent that its liability under its guarantee of 50.1 per cent of the Balance Payment under the AdR Sale and Purchase Agreement is terminated for whatever reason (other than payment), the Escrow Agent must return funds to each of Macquarie, MAHBL, the GIF A responsible entity and the GIF B responsible entity.

Indemnity

The investors severally indemnify the Escrow Agent against all costs, liabilities and claims incurred in connection with the Escrow Deed.

Deed of Indemnity

The Deed of Indemnity has been entered into by MALSA and Macquarie.

Principal terms

The Deed of Indemnity provides that MALSA indemnifies Macquarie for any costs, losses and liabilities incurred by Macquarie under or in connection with the meeting of Macquarie of its obligations under its guarantee of 49.9 per cent of MALSA's obligations to pay the Balance Payment under the AdR SPA.

Before Macquarie exercises its rights to be indemnified by MALSA, it should seek indemnification, to the extent possible, under the provisions of the Escrow Deed relating to payment by both guarantors MAG and Macquarie of their guarantee obligations and that payment to Macquarie (where both guarantors have satisfied the full amount of their guarantee obligations) shall reduce MALSA's obligations under the Deed of Indemnity.

Where Macquarie has not been fully indemnified under the Escrow Deed, it may seek indemnification from MALSA in the form of cash, or issue of shares and debt in MALSA, provided that:

(i) the number of shares issued to Macquarie (and/or the assignees of Macquarie's rights under the Deed of Indemnity (an *Assignee*) together with; and

(ii) any shares already issued:

(1) by MALSA to MAHBL, the GIF A responsible entity, the GIF B responsible entity and Macquarie (solely in its capacity as nominee under the Nominee Deed) (the *Co-Investors*) under their share subscription agreements; or

(2) to Macquarie under its Conditional Share Subscription Agreement where one or more of the Co-Investors has defaulted on its obligations under the Escrow Deed,

shall not exceed 26,380,899.

Where Macquarie chooses to be paid out by being issued shares, for every €15 of shares issued, it shall also be issued €85 of debt from MALSA.

Where any indemnified losses are satisfied by the issue of shares to an Assignee, such Assignee shall be issued such number of shares with such value which, when added to amounts already subscribed for shares (and where the shares were transferred rather than issued to the Assignee, this amount means the amount paid by the original subscriber for the transferred shares) by the Assignee, equals 15 per cent of the aggregate of:

– the total amount of the Assignee's indemnified losses satisfied by the issue of shares and debt obligations, plus

– any payment previously made to MALSA by the Assignee (or original subscriber, where the Assignee was transferred any shares), whether as subscription for shares (and where the shares were transferred rather than issued to the Assignee, this amount means the amount paid by the original subscriber for the transferred shares) or as loan principal under the Assignee's Convertible Loan Agreement.

Any payments that would have been made to MALSA under the Escrow Deed (where both guarantors have satisfied the full amount of their guarantee obligations) but which are instead paid to Macquarie (because Macquarie has satisfied its guarantee obligations but MAG has not) shall not reduce MALSA's liability to indemnify the costs, losses and liabilities of Macquarie in connection with Macquarie satisfying its guarantee obligations.

Assignment

Macquarie may assign its rights under the Deed of Indemnity to any one or more of the Co-Investors.

Governing law

The Deed of Indemnity is governed by English law.

Other deed of indemnity

MALSA has entered into a similar deed of indemnity with MAG in respect of MAG's guarantee of 50.1 per cent of MALSA's obligation to pay the Balance Payment under the AdR SPA.

Side letter to Deed of Indemnity

Macquarie has entered into a side letter agreement with MAHBL, which provides that Macquarie assigns to MAHBL all its rights in respect of the amount owing to Macquarie by MALSA under the Deed of Indemnity which is equal to the amount paid to Macquarie:

– by the Escrow Agent under the Escrow Deed (where Macquarie has satisfied its guarantee obligations but MAG has not) equal to the amount which was paid into the Escrow Account by MAHBL; and/or

– directly by MAHBL after satisfaction by Macquarie of its guarantee obligations.

The side letter is governed by English law.

12.3 Summary of the Underwriting Agreement

MAp and the Underwriters, Macquarie Equity Capital Markets and UBS Warburg Australia Limited, have entered into an agreement dated 16 July 2002 (the "**Underwriting Agreement**") for the underwriting of the Institutional Placement of approximately 54 million Securities at $1.53 per Fully Paid Security and the underwriting of the Priority Entitlement Offer at $1.50 per Fully Paid Security. The obligations of the Underwriters are several.

The Underwriters are entitled to an underwriting fee of 2.35 per cent of the gross proceeds of the Offer (not including the Macquarie Placement).

MAp must also pay to the Underwriters a handling fee of 1 per cent of the Application Money received in respect of Applications bearing a broker's stamp as described in the Prospectus up to a maximum amount of $500 per individual Application.

MAp must also pay MECM a management fee of 0.5 per cent of the total amount raised by the Offer (not including the Macquarie Placement).

The Underwriters are also entitled to recover their other reasonable out of pocket costs and expenses from MAp, and MAp indemnifies each Underwriter against any and all claims, actions, damages, losses, liabilities, costs, charges and expenses which it pays, suffers or incurs or is liable for in respect of or in any way relating to the Offer (not including the Macquarie Placement).

The Underwriting Agreement contains various warranties and representations and imposes various obligations on MAp, including in relation to the compliance of the Prospectus with the Corporations Act and the requirements of ASX in relation to the conduct of the Priority Entitlement Offer.

If the Fully Paid Securities subscribed for by the Underwriters under the Offer (excluding the Macquarie Placement) exceeds 20 per cent of the total number of Fully Paid Securities the subject of the Offer (excluding the Macquarie Placement), MAp has agreed that it will not (without the prior written consent of the Underwriters) allot or agree to allot any Fully Paid Securities or other securities in the capital of MAp or grant or agree to grant any option in respect of such Fully Paid Securities or other securities except as contemplated by the Prospectus until six months after the date on which the Underwriters are required to subscribe for the shortfall. This restriction does not apply to an issue or agreement to issue Fully Paid Securities under MAp's dividend and distribution reinvestment plan.

From the date of the Underwriting Agreement until three months after the closing date of the Offer (excluding the Macquarie Placement), MAp has agreed that it will not:

– reduce the capital or otherwise alter the capital structure of MAT1, MAT2 or MAHBL without the prior written consent of the Underwriters (which is not to be unreasonably withheld);

– amend in any material way the constitutions of MAT1 or MAT2 or MAHBL without the prior written consent of the Underwriters (which is not to be unreasonably withheld);

– dispose of any material business or property or undertake any other significant transaction except as expressly contemplated in the Prospectus, unless:

  – the disposal is within the ordinary course of business for full market consideration; or

  – in the reasonable opinion of the Underwriters, the disposal does not and is not likely to have a Material Adverse Effect.

  For the purposes of the Underwriting Agreement, a Material Adverse Effect means:

  – an event which could, in the reasonable opinion of the Underwriters, give rise to a material liability of the Underwriters under any law applicable in relation to the Offer (excluding the Macquarie Placement), (other than a liability under the Underwriting Agreement); or

  – an actual material adverse effect on the financial condition, financial position or financial prospects of MAp and its subsidiaries taken as a whole or on the success of the Offer (excluding the Macquarie Placement);

  – charge or agree to charge any business or property unless each Underwriter gives its prior written consent (which is not to be unreasonably withheld) or it is within the ordinary course of ordinary business.

MAp has also undertaken to apply for official quotation by ASX of the Fully Paid Securities the subject of the Offer (excluding the Macquarie Placement).

The Underwriters' obligations to underwrite the Placement and Priority Entitlement Offer are conditional on, amongst other things:

– MAHBL entering into a binding agreement to directly or indirectly purchase approximately 19.8 per cent of the issued shares of Aeroporti di Roma S.p.A. by 31 July 2002;

– ASX granting the required waivers to permit the making of the Priority Entitlement Offer on the terms set out in the Prospectus.

The underwriting obligations of an Underwriter may be terminated by notice to MAp before the date on which the Underwriter is obliged to perform its obligations, upon the occurrence of certain events. The various termination events are:

1. Automatic Events of Termination

– MAp fails to notify the Underwriters of any shortfall or provide the relevant certificate in accordance with the Underwriting Agreement and fails to remedy this upon notice from the Underwriters;

– MAp fails to allot and issue the Fully Paid Securities the subject of the Offer (not including the Macquarie Placement) in accordance with the Underwriting Agreement;

– ASX advises MAp that official quotation of the Fully Paid Securities will not be granted or ASX removes MAp from the official list, or ASX suspends trading in Partly Paid Securities;

– ASIC applies for an order under sections 1324B or 1325 of the Corporations Act in relation to the Prospectus and the application is not dismissed or withdrawn before the closing date of the Priority Entitlement Offer or ASIC gives notice of intention to hold a hearing in relation to the Prospectus under section 739(1) of the Corporations Act or makes an interim order under section 739(3) of the Corporations Act;

– the withdrawal of consent to the inclusion of the Prospectus of a statement by a person or a statement based on a person's statement or to a person being named in the Prospectus as a director, proposed director or underwriter;

- a director of MAp or any subsidiary is charged with an indictable offence relating to a financial or corporate matter; or
- any of the following warranties given by MAp is or is found to be false, misleading or incorrect when made or regarded as made:
  - (i) the Fully Paid Securities the subject of the Offer (not including the Macquarie Placement) will be issued with disclosure to investors under the Prospectus and on that basis section 707(3) of the Corporations Act will have no application to the sale of those Fully Paid Securities by any person who acquires those Fully Paid Securities pursuant to the Offer (not including the Macquarie Placement);
  - (ii) the Priority Entitlement Offer and the Public Offer are offers that will comply with the Corporations Act as modified by the ASIC Modifications as summarised in Section 13.10 of this Prospectus;
  - (iii) the Underwriters subscribing for, or procuring investors to acquire, the shortfall is permitted under clause 6.4(e) of the constitutions of each of MAT1 and MAT2 and the constitution of MAHBL and is, subject to the Underwriters following the procedures to be agreed with MAp in respect of procuring investors to acquire the shortfall, will not be in contravention as modified by the ASIC Modification even if the issue price of the Fully Paid Securities pursuant to the Priority Entitlement Offer is at a greater than a 10 per cent discount to the current market price of the Fully Paid Securities;
  - (iv) the constitutions of MAT1 and MAT2 will be amended on the date of the Underwriting Agreement to provide that for the purposes of clause 6.4(b) of each of those constitutions, that where there is only Partly Paid Securities on issue the Average Market Price of those securities will mean the Market Price (as either currently defined in the constitutions or as otherwise agreed by MAT1 and MAT2 and the Underwriters) of those Partly Paid Securities plus the amount of any unpaid call on those securities, and, it is not necessary to similarly amend the constitution of MAHBL.;
  - (v) the Institutional Placement is an offer that will comply with the Corporations Act as modified by the ASIC Modification provided that:
    - (1) the number of Fully Paid Securities issued under the Institutional Placement does not exceed, immediately after their issue, 10 per cent of the aggregate of the number of Partly Paid Securities and Fully Paid Securities on issue; and
    - (2) the Issue Price is not at greater than a 10 per cent discount to the current market price of the Partly Paid Securities plus the amount of any unpaid call on those Partly Paid Securities.

2. Material Events of Termination

- MAp fails to comply with a provision of its constitution, any statute, a requirement, order or request made by or on behalf of ASIC or any governmental agency or any agreement entered into it;
- an insolvency type event occurs or is threatened in relation to MAp;
- MAp is in default of any of the terms and conditions of the Underwriting Agreement or breaches any warranty or covenant given or made by it under the Underwriting Agreement;
- MAp or any subsidiary alters its constitution or any other constituent document without the prior written consent of the Underwriters which consent must not be unreasonably withheld;
- any warranty, representation or statement by MAp and its subsidiaries in relation to the Offer (not including the Macquarie Placement) is or is found to be false, misleading or incorrect when made or regarded as made;
- in the Underwriters' reasonable opinion:
  - there is a misleading or deceptive statement in the Prospectus; or
  - there is an omission of information that should be disclosed in the Prospectus by reason of sections 710 to 716 of the Corporations Act;

  that is materially adverse from the point of view of an investor which, the Underwriters determine reasonably in good faith is or is likely to have a Material Adverse Effect, even after a supplementary or replacement prospectus is lodged;
- MAp informs the Underwriters of any change affecting any matter contained in the Prospectus that is materially adverse from the point of view of an investor, a new circumstance which has arisen which is materially adverse to MAp and its subsidiaries taken as a whole, or lodges a supplementary or replacement prospectus;

– any person gives a notice under section 730 of the Corporations Act;

– MAp informs the Underwriters before the Institutional Payment Date that an event has occurred which requires MAp to make an announcement under the Listing Rules or Chapter 6CA of the Corporations Act which, if not announced, may result in an Underwriter contravening Division 3 of Part 7.10 of the Corporations Act;

– any statement as to a future matter in the Prospectus or which is provided to the Underwriters by MAp is or becomes incapable of being met or occurring or in the reasonable opinion of the Underwriters becomes unlikely to be met or occur in the projected timeframe;

– any information supplied by MAP or on its behalf to the Underwriters in respect of the Offer (not including the Macquarie Placement) is or is found to be false or misleading;

– MAp ceases to carry on its business or a material part of its business, or threatens to do either of those things; and

– a Certificate is false or misleading.

3. Force Majeure Event of Termination
Where an act of God, war, revolution or any other unlawful act against public order or authority, or industrial dispute or a government restraint (a "Force Majeure") lasts in excess of one week.

In the case of the occurrence of an event referred to in paragraph 2 above, an Underwriter may not terminate its obligations unless it has determined, reasonably and in good faith, that the event has or is likely to have a Material Adverse Effect (as defined above).

In the case of occurrence of an event referred to in paragraph 3 above, an Underwriter may not terminate its obligations unless it has determined reasonably in good faith that the Force Majeure has or is likely to have a material adverse effect on settlement of the Offer (not including the Macquarie Placement), (by physical or electronic means as contemplated by the Underwriting Agreement).

If one Underwriter (the "**Terminating Underwriter**") terminates its obligations under the Underwriting Agreement, the remaining Underwriter will have the exclusive option during the period of seven days immediately after receiving notification of such termination to give notice to MAP electing to assume the whole of the underwriting obligations of the Terminating Underwriter in consideration for the commissions, fees and expenses that would have been payable to the Terminating Underwriter under the Underwriting Agreement.

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13.1 Regular Reporting and Disclosure Requirement

Macquarie Airports Management and MAHBL are subject to regular reporting and disclosure obligations in respect of MAp. Broadly, these obligations require:

(a) the preparation of both yearly and half yearly financial statements, a report on the operations and undertaking of MAp during the relevant accounting period and an audit or review report; and

(b) immediately notifying ASX of any information concerning MAp which Macquarie Airports Management or MAHBL are or becomes aware of and which a reasonable person would expect to have a material effect on the price or value of securities of MAp, subject to certain limited exceptions relating to confidential information.

Copies of documents lodged with the ASIC in relation to MAp may be obtained from, or inspected at, an office of ASIC.

It is MAp's policy to provide timely, open and accurate information to all stakeholders including Security Holders, regulators and the wider investment community. Under the terms of the Stapling Deed, Macquarie Airports Management and MAHBL are obliged to exchange relevant information and coordinate ASX releases and financial reporting.

Security Holders will receive an annual report and concise financial statements and a half yearly update. These reports will keep Security Holders informed of MAp's performance and operations. Annual general meetings will be held each year, and resolutions ratifying any placements in the previous year will be proposed at those meetings.

Security Holders will be able to elect to obtain automated notification of all ASX releases. Newsletters will be sent to Security Holders from time to time.

13.2 Rights Attached to Fully Paid Securities

The rights attaching to the Fully Paid Securities issued pursuant to this Prospectus are governed by:

– the Trust Constitutions establishing MAT1 and MAT2;

– the MAHBL Bye-laws; and

– the Stapling Deed.

A summary of the more significant rights attaching to Fully Paid Securities issued pursuant to this Prospectus is set out below. This summary is not exhaustive. A more detailed summary of the relevant provisions of the documents referred to above can be found in Section 12 of the IPO Prospectus. For a full understanding of the rights attaching to Fully Paid Securities, reference should be made to the Trust Constitutions and the MAHBL Bye-laws, copies of which are available from Macquarie Airports Management and MAHBL, and also to the Corporations Act 2001, the Companies Act 1981 (Bermuda) and trust law generally.

Ranking of Fully Paid Securities

The Fully Paid Securities issued pursuant to this Prospectus will rank equally with existing Securities, though rights will be pro-rata to the paid up value of the Securities. In particular, Fully Paid Securities issued pursuant to this Prospectus will rank equally with existing Securities for all distributions from MAp, commencing with the distribution for the six months to 31 December 2002.

Voting Rights

Each Fully Paid Security confers the right to vote at meetings of Security Holders, subject to any voting restrictions imposed on an investor under the Corporations Act 2001, Companies Act and the Listing Rules.

On a show of hands, every Security Holder present in person or by proxy has one vote. On a poll, every Security Holder who is present in person or by proxy has one vote for each dollar of the value of the total interests they have in MAT1 and MAT2 and one vote for each fully paid share held in respect of MAHBL.

Income Entitlements

A Security on issue at the end of an income period entitles its holder to a pro-rata proportion of the net income of MAp credited to the distribution account in respect of that income period. While MAT1 or MAT2 is a public trading trust, it need not distribute all of its taxable income to unit holders.

Macquarie Airports Management determines the net income of the Trusts as at the end of each financial year. The directors of MAHBL may declare dividends including interim dividends which appear to be justified by the profits of MAHBL. The entitlement to income of each Fully Paid Security will be distributed to the investor within two months of the last day of the income period.

Winding Up

MAT1 commenced on 13 July 2001 and MAT2 commenced on 13 February 2002. The Trusts each have a life of 80 years from the relevant commencement date unless terminated earlier by any of the methods set out in the relevant Trust Constitution or as required under the Corporations Act. Upon the winding up of a Trust, Macquarie Airports Management is required to realise the assets of the Trust and after meeting liabilities of the Trust, to distribute the net proceeds to the Security Holders pro-rata according to the number of Securities held on the date upon which the Trust commenced to be wound up subject to adjustment for partly paid units.

If MAHBL is wound up, the liquidator may, with the sanction of an extraordinary resolution and any other requirement of law, divide among the members in specie the whole or any part of the assets of MAHBL.

Distribution of Capital

Macquarie Airports Management may distribute capital of each of the Trusts to Security Holders. Any capital distribution will be to Security Holders pro-rata according to the number of units held at a time decided by Macquarie Airports Management.

Subject to the law, the Listing Rules and the Bye-laws of MAHBL and any confirmation or consent required by law or by the Bye-laws, MAHBL may, by resolution, reduce its share capital, any capital redemption reserve and any share premium account in any manner. However, whilst stapling applies, MAHBL must not consolidate, sub-divide, cancel or buy back any ordinary Shares or otherwise reorganise the capital of MAHBL unless there is a corresponding consolidation, sub-division, cancellation or buy back of MAT1 units and MAT2 units or reorganisation of the capital of MAT1 and MAT2.

Security Holders will be advised by Macquarie Airports Management of the category and/or source of income allocated to them at the time the distribution is made.

No Redemption or Repurchase of Units

Macquarie Airports Management is not required to repurchase or cause the redemption of Units.

Foreign Ownership Restrictions

So that the Trusts can invest in Australian airports, Macquarie Airports Management has obtained declarations under the Airports Regulations that the Trusts are each a substantially Australian investment fund. For each of the Trusts to be eligible to remain declared a substantially Australian investment fund, it must not at any time become a trust in which a beneficial interest in at least 40 per cent of the income or capital, is held by persons who are foreign persons (Foreign Persons) as defined in the Airports Act (Ineligible Fund).

Both the Trust Constitutions and the MAHBL Bye-laws give Macquarie Airports Management and MAHBL respectively the power to dispose of Units or Shares (as the case may be) where this foreign ownership restriction percentage or a lower percentage specified by Macquarie Airports Management or MAHBL is likely to be exceeded.

In addition both the Trust Constitutions and the MAHBL Bye-laws give Macquarie Airports Management and MAHBL respectively the power to dispose of Units or Shares (as the case may be) where this is necessary to prevent Macquarie Airports Management from becoming a Foreign Person as defined in the Airports Act.

Macquarie Airports Management will become a Foreign Person if a single investor, or a group of foreign investors, in MAT1 or MAT2, each of whom is:

(a) a foreign citizen not ordinarily resident in Australia; or

(b) a foreign government body; or

(c) a foreign company,

alone or together with an associate or associates, holds a beneficial interest in not less than 15 per cent (in the case of a single foreign investor) or not less than 40 per cent (in aggregate, in the case of a group of foreign investors) of the corpus or income of MAT1 or MAT2.

13.3 Application for Securities by Foreign Persons

This Prospectus does not constitute an offer of Fully Paid Securities in any jurisdiction where, or to any person to whom, it would not be lawful to issue this Prospectus. Subject to this Section, no Priority Entitlement is offered to holders of Securities with registered addresses outside Australia and New Zealand.

Macquarie Airports Management and MAHBL may make offers to Eligible Security Holders with registered addresses outside Australia and New Zealand where Macquarie Airports Management and MAHBL are satisfied that it is in the interests of Security Holders for Macquarie Airports Management and MAHBL to comply with applicable legal requirements in the relevant jurisdiction.

13.4 Related Dealings

Subject to any statute or rule of law, nothing in the Trust Constitutions or the MAHBL Bye-laws prevents Macquarie Airports Management or its directors or any entity connected with it from purchasing Fully Paid Securities. Macquarie Airports Management and its directors shall, in connection with any such transaction, act in a fiduciary relationship of utmost good faith to all Security Holders.

13.5 Related Party Transactions

Macquarie Airports Management and MAHBL have entered into the underwriting agreement described in Section 12 with the Underwriters. Macquarie Equity Capital Markets Limited is a related party of Macquarie Airports Management. The underwriting agreement involves the giving by Macquarie Airports Management (and MAHBL) of a financial benefit to the Underwriters by way of the payment of fees. Those fees are described in Section 12 of this Prospectus. Macquarie Airports Management (and MAHBL) will also reimburse the Underwriters for their reasonable expenses and will pay the Underwriters any applicable goods and services tax in relation to those expenses.

13.6 Disclosure of Interests and Fees

Interests of Macquarie Airports Management and MAHBL

Except as disclosed in this Prospectus (in particular as stated below) neither Macquarie Airports Management nor MAHBL have, or during the last two years has had, an interest in the formation or promotion of MAT1, MAT2 and MAHBL, the property proposed to be acquired by MAT1, MAT2 and MAHBL in connection with its formation or promotion or in the Offer and no amount has been paid or agreed to be paid to:

- any director or proposed director of Macquarie Airports Management or MAHBL to induce the director or proposed director to become a director, or to qualify as, a director of Macquarie Airports Management or MAHBL other than a director's and chairman's fee of $120,000 per annum payable to Helen Nugent and a directors fee of $60,000 per annum payable to Trevor Gerber by Macquarie Airports Management in its personal capacity and the following fees payable by MAHBL to the following directors of MAHBL:
  - Julie Stanton – US$5,000 per annum until her resignation as director of MAHBL on 19 April 2002;
  - Sharon Beesley – US$5,000 per annum; and
  - Edith Conyers – US$5,000 per annum;
- any director or proposed director of Macquarie Airports Management or MAHBL for services provided in connection with the formation or promotion of MAT1, MAT2, MAHBL, the IPO or the Offer other than fees for professional services paid to Hollis & Co, of which Julie Stanton (a former director of MAHBL) is a partner, and to ISIS Limited, of which Sharon Beesley is a director and shareholder, in connection with the formation of MAHBL; or
- Macquarie Airports Management or MAHBL to procure acquisitions of interests in MAT1, MAT2, MAHBL or for services provided under the constitutions of MAT1 and MAT2, other than the amounts payable to Macquarie Airports Management pursuant to the constitutions of MAT1 and MAT2. These include a base fee and a performance fee. The base fee is due as at the last day of each quarter and is payable within 15 business days of the end of each quarter in cash to Macquarie Airports Management. Subject to the Corporations Act and ASX Listing Rules, Macquarie Airports

Management will apply to invest the performance in Securities. The external directors of Macquarie Airports Management will assess the impact of the application on Security Holders at that time. The decision whether to accept or reject that application will be made by the external directors acting in the interests Security Holders. The base fee will be calculated with reference to the Net Investment Value of MAp.

The performance fee is only payable if the return on Securities exceeds the return on a benchmark index.

Independent directors appointed to the boards of Macquarie Airports Management and MAHBL in the future will be paid appropriate fees.

Trevor Gerber, Helen Nugent, Anthony Kahn and Kerrie Mather hold Securities

Interests of Professional Advisers and Experts

Except as disclosed in this Prospectus (in particular, as stated below) no professional adviser or expert, nor any firm in which a professional adviser or expert is a partner, has, or during the last two years has had, an interest in the formation or promotion of MAT1, MAT2 or MAHBL, the property proposed to be acquired by MAT1, MAT2 or MAHBL in connection with its formation or promotion or in the Offer and no amount has been paid or agreed to be paid to an expert in the last two years for services rendered by the professional adviser or expert or the firm in which the professional adviser or expert is a partner in connection with the formation or promotion of MAT, MAT2, MAHBL or the Offer, other than interests or amounts resulting from the following arrangements:

Allens Arthur Robinson has advised MAp in relation to legal matters in relation to the Priority Entitlement Offer. Macquarie Airports Management has agreed to pay up to approximately $600,000 for these services. Allens Arthur Robinson is entitled to further fees for this work based on its usual hourly charge out rates. Allens Arthur Robinson advised MAp in relation to legal matters in relation to the IPO conducted during April 2002 and were paid approximately $550,000 for these services.

For work performed in relation to the preparation of its reports appearing in Section 11, Macquarie Airports Management has agreed to pay Deloitte Touche Tohmatsu and related entities a fee of $275,000.

For work performed in relation to the preparation of its report appearing in Section 10 of the IPO Prospectus, Deloitte Touche Tohmatsu is entitled to a fee of $50,000.

Macquarie Equity Capital Markets Limited is entitled to the fees as set out in the summary of underwriting agreement in Section 12 for work performed in its role as a Joint Lead Manager and Underwriter to the Offer. For work performed in its role as lead manager and underwriter to the IPO, Macquarie Equity Capital Markets received the fees as set out in Section 12 of the IPO Prospectus.

UBS Warburg Australia Limited is entitled to the fees as set out in the summary of underwriting agreement in Section 12 for work performed in its role as a Joint Lead Manager and Underwriter to the Offer.

Aviation Economics are entitled to fees of approximately $42,600 for work performed in preparing the Independent Traffic Report and the provision of its report appearing in Section 10. For work performed in preparing the Independent Traffic Report and the provisions of its report appearing in Section 10 of the IPO Prospectus, Aviation Economics received a fee of $42,000.

Macquarie Airports Management has agreed to pay Deloitte Touche Tohmatsu Limited $45,000 in fees for work performed in advising on tax issues and the provision of its report appearing in Section 11.

13.7 Expenses of the Issue

The expenses of this Priority Entitlement Offer including preparing and issuing this Prospectus and underwriting fees are estimated to be $20 million. This amount will be paid out of the Issue Proceeds from the Fully Paid Securities.

13.8 Consents and Disclaimers

Allens Arthur Robinson consents to the inclusion in this Prospectus of the references to Allens Arthur Robinson, in each case in the form and context in which they are included. In its capacity as Solicitors to the Priority Entitlement Offer, Allens Arthur Robinson participated in the preparation of Section 13 and in reviewing the Prospectus for consistency with the Trust Constitutions and the MAHBL Bye-laws and Stapling Deed. Allens Arthur Robinson has not withdrawn its consent prior to the date of this Prospectus. Allens Arthur Robinson has not authorised or caused the issue of this Prospectus and does not make, or purport to make, any statement in this Prospectus.

Deloitte Touche Tohmatsu consents to the inclusion in this Prospectus of the references to Deloitte Touche Tohmatsu and the inclusion of the Investigating Accountants' Report and the Independent Regulatory Report in Section 10 and 11 in each case in the form and context in which they are included. Deloitte Touche Tohmatsu has not withdrawn its consent prior to the date of this Prospectus. Deloitte Touche Tohmatsu has not authorised or caused the issue of this Prospectus and does not make, or purport to make, any statement in this Prospectus other than a statement contained in the Investigating Accountants' Report and the Independent Regulatory Report.

Deloitte Corporate Finance Pty Ltd consents to the inclusion in this Prospectus of the references to Deloitte Corporate Finance Pty Ltd and the inclusion of the Report on Financial Forecasts in Section 11 in the form and context in which they are included. Deloitte Corporate Finance Pty Ltd has not withdrawn its consent prior to the date of this Prospectus. Deloitte Corporate Finance Pty Ltd has not authorised or caused the issue of this Prospectus and does not make, or purport to make, any statement in this Prospectus other than a statement contained in the Report on Financial Forecasts.

Deloitte Touche Tohmatsu Limited consents to the inclusion in this Prospectus of the references to Deloitte Touche Tohmatsu Limited and the inclusion of the Independent Taxation Report in Section 11 in the form and context in which they are included. Deloitte Touche Tohmatsu Limited has not withdrawn its consent prior to the date of this Prospectus. Deloitte Touche Tohmatsu Limited has not authorised or caused the issue of this Prospectus and does not make, or purport to make, any statement in this Prospectus other than a statement contained in the Independent Taxation Report.

Computershare Investor Services Pty Limited has given its written consent to be named as the Registry. It has had no involvement in the preparation of any part of this Prospectus other than assisting in the design of the Priority Entitlement Form and Application Form. It has not authorised or caused the issue of this Prospectus and takes no responsibility for any part of the Prospectus. Computershare Investor Services Pty Limited has not withdrawn its consent prior to the date of this Prospectus.

Macquarie Equity Capital Markets Limited has given its written consent to be named in this Prospectus as a Joint Lead Manager and an Underwriter. It has not authorised or caused the issue of this Prospectus and takes no responsibility for any part of this Prospectus.

UBS Warburg Australia Limited has given its written consent to be named in this Prospectus as a Joint Lead Manager and an Underwriter. It has not authorised or caused the issue of this Prospectus and takes no responsibility for any part of this Prospectus.

The external members of the Compliance Committee have given their written consent to be named in this Prospectus as members of the Compliance Committee. They have not authorised or caused the issue of this Prospectus and take no responsibility for any part of this Prospectus.

Trust Company of Australia Limited has given its consent to be named in this Prospectus as the custodian of MAT1 and MAT2. Trust Company of Australia Limited has not withdrawn its consent prior to the date of this Prospectus. Trust Company of Australia Limited does not cause or authorise the issue of this Prospectus and Trust Company of Australia Limited was not involved in the preparation of this Prospectus or any part of it. Trust Company of Australia Limited does not make, or purport to make, any statement in this Prospectus. To the maximum extent permitted by law, Trust Company of Australia expressly disclaims and takes no responsibility for any part of this Prospectus.

MIMUK consents to the inclusion in this Prospectus of the references to MIMUK, in each case in the form and context in which they are included. MIMUK has not withdrawn its consent prior to the date of this Prospectus.

MIMUK has not authorised or caused the issue of this Prospectus.

Southern Cross and Southern Cross Holdings have consented to be named in this Prospectus in the form and context in which they are included.

Macquarie Airports Group Limited consents to the inclusion in this Prospectus of the references to MAG, in each case in the form and context in which they are included. Macquarie Airports Group Limited has not withdrawn its consent prior to the date of this Prospectus. Macquarie Airports Group Limited has not authorised or caused the issue of this Prospectus.

Aviation Economics consent to the inclusion in this Prospectus of the references to Aviation Economics in the form and context in which they are included. Aviation Economics has not withdrawn its consent prior to the date of this Prospectus.

Aviation Economics has not authorised or caused the issue of this Prospectus and does not make, or purport to make, any statement in this Prospectus other than a statement contained in the Independent Traffic Report – Rome Airport.

IATA has consented to the inclusion in this Prospectus of the references to IATA in the form and context in which they are included.

IATA has not authorised or caused the issue of this Prospectus and does not make, or purport to make, any statement in this Prospectus other than a statement contained in the Independent Traffic Report – Sydney Airport.

No Certificates

The Fully Paid Securities will be traded on CHESS and accordingly will be issued in uncertificated form and no certificates will be issued. The Fully Paid Securities will be noted in the Register maintained by the Registrar.

CHESS and the Registry

ASX has implemented automation of the transfer and settlement system for transactions in securities quoted on its stock market under which transfers are effected in a paperless form and certificates are not issued or required. This system is called the Clearing House Electronic Subregister System (CHESS).

When Securities become CHESS Approved Securities, holdings of Securities will be registered in one of two subregisters: an electronic CHESS subregister or an issuer sponsor subregister. The Securities of a Security Holder who is a participant in CHESS or a person sponsored by a participant in CHESS will be registered on the CHESS subregister. All other Securities will be registered on the issuer sponsored subregister.

Under the CHESS system, on issue of the Securities, the Security Holders will be provided with a holding statement (similar to a bank statement) setting out the number of Securities issued to (or subsequently transferred to or by) each Security Holder. The holding statement will also advise the Security Holder of the Holder Identification Number (HIN). A holding statement will be provided to Security Holders on a monthly basis whenever there is a change in the holding.

13.9 Corporate Governance

Macquarie Airports (MAp) is a triple stapled structure. The entities comprised in MAp are two Australian trusts and a Bermuda company:

– MAT1;

– MAT2; and

– MAHBL.

The trusts comprised in MAp are managed by Macquarie Airports Management, a wholly-owned subsidiary of Macquarie.

MAHBL is advised by Macquarie Investment Management (UK) Limited (MIMUK), a wholly-owned subsidiary of Macquarie. Under the terms of the advisory agreement, MIMUK makes recommendations to MAHBL in respect of prospective investments and manages the day to day business affairs of MAHBL.

Macquarie Airports Management as responsible entity of MAT1 and MAT2, MAHBL and MIMUK as adviser to MAHBL have entered into a Stapling Deed which governs cooperation, investment policy and the making of investments, capital raising, borrowings, financial reporting, continuous disclosure and certain other administrative matters for the three stapled entities with a view to ensuring consistency in the management of MAp.

Macquarie Airports Management Limited

Responsibilities of Macquarie Airports Management

Macquarie Airports Management is responsible for the overall corporate governance of MAT1 and MAT2 and the protection of unitholders' interests. Macquarie Airports Management has an established framework for the management of MAT1 and MAT2 including a system of internal control, risk management processes, compliance plans for each trust and the establishment of appropriate ethical standards for all staff.

The Corporations Act, Listing Rules, Trust Constitutions and the general law regulate the workings of MAT1 and MAT2 and the essential practices, responsibilities and duties of Macquarie Airports Management and its officers.

Macquarie Airports Management must exercise its functions diligently and in the best interests of unitholders. Macquarie Airports Management and its officers manage the assets of MAT1 and MAT2 and are responsible for all investment decisions with absolute discretion as to the exercise of the Macquarie Airports Management's powers in accordance with the Trust Constitutions and the Corporations Act.

Macquarie Airports Management also undertakes the administrative functions of MAT1 and MAT2 including preparation of MAT1 and MAT2 financial statements and MAp consolidated financial statements, preparation of notices and reports to unitholders and monitoring of registry services provided by the Registry and the Custodian.

Macquarie Airports Management Board

Responsibility for corporate governance and the internal working of Macquarie Airports Management rests with its board. To discharge its obligations, the board operates within an internal compliance, audit and control framework.

The board:

– monitors the implementation of the principal investment policy of MAT1 and MAT2 including ongoing management, research and selection of investments;

– ensures the ongoing review of MAT1 and MAT2's investments to confirm that they are managed in accordance with the investment objectives of MAp;

– adopts an annual budget and monitors financial performance;

– monitors compliance with the Trust Constitutions, the Listing Rules, the Trust Compliance Plans and applicable laws and regulations; and

– ensures compliance with the Stapling Deed so that three entities comprised in MAp are managed in a consistent manner and MAp's strategic directions and goals are achieved.

The board will conduct six full board meetings per year or will meet more frequently if required, and unscheduled meetings will be called as requested. Directors are provided with board reports in advance of Board meetings containing sufficient information to enable informed discussion of agenda items.

The Macquarie Airports Management board of directors is comprised as follows:

– Helen Nugent (Chairman)

– Kerrie Mather (Managing Director)

– Anthony Kahn

– Nicholas Moore

– Gregory Osborne

– Trevor Gerber

Profiles of these directors are set out in Section 6 of this Prospectus.

Board Composition

The following guidelines apply to board membership:

– the board is to comprise at least four directors. Additional directors may be appointed if the Board feels that additional expertise is required in specific areas, or when an outstanding candidate is identified;

– new appointments to the board require full board approval;

– non-executive directors are to comprise at least half of the board by no later than six months after completion of the offer made under the IPO Prospectus; and

– the board is to be comprised of directors with an appropriate range of qualifications and expertise.

External Auditors and the Audit Committee

The external auditor of MAT1 and MAT2 is appointed by Macquarie Airports Management in accordance with the Corporations Act.

The responsibilities of the audit committee will be to:

– review and report to the board on the annual report, the annual financial report and the half year financial report; and

– recommend to the Board the appointment and removal of the external auditors, review the terms of their engagement, and the scope and quality of the audit.

The audit committee will meet with the external auditors at least twice a year and more frequently if required. The chair of the audit committee must be a non-executive director, who is not the Chairman.

Compliance Committee

In accordance with the Corporations Act managed investments regime, Macquarie Airports Management has lodged a compliance plan for each of the Trusts with ASIC. The Compliance Plans outline the measures taken to ensure compliance with the Corporations Act and each Trust Constitution. It is the Compliance Committee's responsibility to monitor Macquarie Airport Management's compliance with the Compliance Plans and report its findings to the board.

The Compliance Committee consists of three members, two members who are external to the Macquarie Bank Group. Compliance officers have been appointed for MAT1 and MAT2 and they will be responsible for reviewing and monitoring the efficiency of compliance systems on an ongoing basis so that appropriate compliance procedures, staff education and compliance committee reporting arrangements are in place to enable observance of the Compliance Plans.

Remuneration of Macquarie Airports Management

Under the terms of the Trust Constitutions, base and performance fees are payable by MAT1 and MAT2 to Macquarie Airports Management. The fees payable to Macquarie Airports Management are described in Section 2 of this Prospectus.

Professional Advice
Under the terms of the Trust Constitutions, Macquarie Airports Management may obtain professional advice at the expense of MAT1 and MAT2.

Related Party Transactions
Macquarie IBG will be engaged from time to time to advise MAp, and the project vehicles in which it invests, in relation to particular transactions. Arm's length fees will be payable for these advisory mandates. Further details on related party transactions are set out in Section 2 of this Prospectus.

Ethical Standards
As a wholly-owned subsidiary of Macquarie, Macquarie Airports Managements and its executives are required to act in accordance with the Code of Ethics established by Macquarie. In summary, the Code of Ethics requires Macquarie Airports Management and its executives to act with integrity, impartiality, confidentiality and diligence.

Macquarie Airports Holdings (Bermuda) Limited
The MAHBL board is responsible for MAHBL and its controlled entities, including their proper management. It performs this role by:

– implementing the principal investment policy of MAHBL;

– monitoring management performance;

– monitoring compliance with MAHBL's Bye-laws, applicable laws and regulations and the Listing Rules;

– adopting an annual budget and the monitoring of financial performance;

– monitoring business risks;

– maintaining the highest business standards and ethical behaviour; and

– ensuring compliance with the Stapling Deed so that the three entities comprising MAp are managed in a consistent manner and MAp's strategic directions and goals are achieved.

It is anticipated that full board meetings will be held at least quarterly or more often if required, and unscheduled meetings will be called as requested. Directors are provided with board reports containing sufficient information in advance of board meetings to enable informed discussion of agenda items.

Board Membership and Composition Arrangements
It is the board's policy to have at least half non-executive independent directors. The board's current composition is:

– Sharon Beesley

– Martyn Booth

– Edith Conyers

– Trevor Gerber

Profiles of these directors are set out in Section 6 of this Prospectus. In constituting the MAHBL board, consideration is given to the mix of skills and experience required by the board to operate effectively. Under the MAHBL Bye-laws, MIMUK has been issued with an A Special Share which entitles it to appoint the Managing Director and other director(s) constituting up to 50 per cent of the MAHBL board. Macquarie Airports Management, as responsible entity of MAT1, has been issued with a B Special Share which entitles it to appoint director(s) constituting up to 25 per cent of the MAHBL board while the entities are stapled. Neither the A nor B Special Share has any economic interest, which means that the holders of those shares are not entitled to any dividends and are only entitled to the par value of those shares on a winding up of MAHBL.The balance of the Directors of MAHBL are elected by MAHBL shareholders.

Board Remuneration Policy and Disclosure
Remuneration of independent directors will be considered by the Board from time to time as required and this discretion will be exercised in accordance with best practice.

Board Committees
Board committees will be appointed as the need arises and will be constituted with a majority of non executive directors.

Advice
The MAHBL directors are entitled to obtain professional or other advice at the cost of MAHBL.

Audit
The external auditor of MAHBL is appointed by shareholders of MAHBL in accordance with its Bye-laws. The board has resolved to appoint an Audit Committee in accordance with corporate governance procedures.

Related Party Transactions
Macquarie and companies within the Macquarie Bank Group undertake various transactions with, and perform various services for MAp from time to time. Fees paid to Macquarie for these transactions and services are approved solely by MAHBL independent directors (and if there is at any time only one independent director then the fees are verified by that independent director after receiving external advice) on the basis that the fees and terms of engagement are representative of arm's length transactions. Where appropriate those Directors may seek external advice.

Ethical Standards
MIMUK, the adviser to MAHBL, is a wholly-owned subsidiary of Macquarie and its executives are to act in accordance with the Code of Ethics established by Macquarie. This requires the MIMUK executives to act with integrity, impartiality, confidentiality and diligence.

13.10 Regulatory Waivers and Exemptions

ASIC Declarations and Exemptions
ASIC has made the modifications, exemptions and declaration summarised below.

- An exemption in accordance with section 601QA(1) of the Corporations Act 2001 (Cth) (the Corporations Act) from compliance with Part 5C.7 of the Corporations Law to enable the Manager to negotiate and proceed with the acquisition and management of the investments of the group basis and not a scheme basis in the knowledge that it will not breach any related party provisions of the Corporations Act, and will not be required to call members' meetings to approve every transaction involving inter-group transactions or inter-group investments during the course of which it will give a financial benefit out of scheme property to a related party.
- A modifications to paragraphs 601FC(1)(c) and 601FD(1)(c) of the Corporations Act to enable the Manager to consider the interests of the Security Holders in the MAp group as a whole rather than members' interests on a scheme by scheme basis.
- A modification of section 601GA(1)(a) of the Corporations Act to enable the Issuer (as long as the Securities are not suspended) to issue Securities at the Issue Price under the Institutional Placement to an Associate of the Responsible Entity in its capacity as underwriter or sub-underwriter of the Institutional Placement provided that Associate disposes of those Securities to a person other than the Responsible Entity or an Associate of the Responsible Entity within 90 days after the date of issue.
- A modification of section 601GA(1)(a) of the Corporations Act to enable the Issuer (as long as the Securities are not suspended) to issue any Securities not taken up by Security Holders under the Priority Entitlement Offer to any person other than the Responsible Entity or an Associate of the Responsible Entity (other than to an Associate who disposes of those Securities to a person other than the Responsible Entity or an Associate of the Responsible Entity within 90 days after the date of issue).
- An exemption from section 601FC(1)(d) of the Corporations Act to enable the Issuer to issue and allot the Securities under the Priority Entitlement Offer substantially in accordance with the timetable submitted to ASIC.
- An exemption from section 601FC(1)(d) of the Corporations Act to enable the Issuer, if it reasonably considers that it would be in the best interests of Security Holders to exclude certain foreign members and not unfair to those foreign members, to exclude those foreign members from an offer or issue of Securities if the Securities are sold, taking reasonable steps to maximise the sale price net of expenses of the sale and the foreign members are promptly paid the net sale price.
- A modification of section 601GA(1)(a) of the Corporations Act to enable the Responsible Entity to determine the issue price of interests in the Trust for the purposes of allocating a part of the issue price of Securities to interests in each Trust.
- An exemption from section 601FC(1)(d) of the Corporations Act to permit the Manager to enforce provisions of the Constitutions of MAT1 and MAT2 which facilitate the divestment of Securities by or on behalf of a holder.
- A modification of section 707 of the Corporations Act to enable the on-sale of Fully Paid Securities by institutional investors and the underwriters during the first six months after the issue of the Fully Paid Securities under the Offer. It is not expected that institutional investors and the Underwriters will require the benefit of the declaration since section 707(3) of the Corporations Act is not expected to apply to the Institutional Placement.

ASX Waivers
The following relief from the requirements of the Listing Rules has been granted.

Waivers for MAT1, MAT2 and MAHBL

- A waiver from Condition 7 of Listing Rule 1.1 to the extent necessary not to require MAT1, MAT2 and MAHBL to each have 500 Security Holders holding a parcel of securities with a value of at least $2,000 on the condition that the Securities are stapled together and MAT1, MAT2 and MAHBL together satisfy the rule.
- A waiver from Condition 8 of Listing Rule 1.1 in respect of compliance with Listing Rule 1.3 on the condition that the Securities are stapled together and that MAT1, MAT2 and MAHBL together satisfy the rule.
- A waiver from Condition 2 of Listing Rule 2.1 to the extent not to require any of MAT1, MAT2 and MAHBL to have issue prices of their securities of at least 20 cents on the condition that the Securities are stapled together and each parcel of Securities has an issue price of at least 20 cents.
- A waiver from Listing Rule 6.24 in respect of compliance with clause 1 of appendix 6A to the extent necessary that the rate and amount of a dividend or distribution need not be advised to ASX by MAT1, MAT2 or MAHBL when announcing a dividend or distribution and record date on the condition that an estimated dividend or distribution rate is advised to ASX and the actual dividend and distribution rate is advised to ASX as soon as it becomes known.
- A waiver from Listing Rule 7.24 to the extent necessary to permit MAT1, MAT2 and MAHBL to cancel the total amount payable and unpaid by Security Holder in respect of partly paid Securities, on the condition that, in conjunction with the cancellation of unpaid capital, the capital of MAT1, MAT2 and MAHBL is reorganised so that Security Holders of fully paid Securities hold twice as many securities as they held before the cancellation of unpaid capital.
- A waiver from Listing Rule 8.10 on the condition that the Securities continue to be stapled and that Macquarie Airports Management may only refuse to register a proper SCH transfer or paper based transfer if the transfer is not accompanied by an equivalent proper SCH transfer or paper based transfer in respect of each component of the Securities.
- A waiver from Listing Rule 7.11.3 to allow the ratio of Securities offered to be not greater than 1.2 Fully Paid Securities for each Security.

Waivers for MAHBL

- A waiver from Listing Rule 15.15 to the extent necessary to permit MAHBL's constitution to contain provisions that allow for the divestment of any security holdings that breach the ownership limitation provisions of the constitution (the Divestment Provisions), subject to the condition that the Divestment Provisions are approved by ASX as appropriate and equitable.
- A waiver from Listing Rules 6.8 and 6.9 to the extent necessary to permit the following:
  - (a) A special shares (the terms of which are described in the summary of the Bye-laws of MAHBL in Section 11.10) to have voting rights to remove or appoint up to, but no more than, 50 per cent of the directors of MAHBL and to appoint any one of the directors to be managing director; and
  - (b) B special shares to have voting rights to remove or appoint up to, but no more than, 25 per cent of the directors of MAHBL.

Waivers for the Trusts

- A waiver from Listing Rule 10.11 to the extent necessary to permit the Trusts to issue Securities to Macquarie Airports Management on application by Macquarie Airports Management Limited in circumstances where a performance fee is payable without obtaining unitholder approval, subject to the following conditions:
  - (a) the Trusts make full disclosure to any person who may subscribe for Securities under a prospectus of the provisions in the Trusts' constitutions to allow for the issue of Securities on application by Macquarie Airports Management in circumstances where a performance fee is payable to Macquarie Airports Management, as responsible entity of the Trusts (the Provisions);
  - (b) the Securities are issued in accordance with the Provisions;
  - (c) an announcement in the form required by the Listing Rules is lodged for release to the market for each issue of Securities pursuant to the performance fee arrangements;
  - (d) details of the Securities issued pursuant to the performance fee arrangements are disclosed in the annual reports of the Trusts each year in which Securities are issued; and
  - (e) unitholder approval is sought every third year for the continued operation of the Provisions.

– A waiver from Listing Rule 15.14 to the extent necessary to permit the Trusts' constitutions to contain provisions that allow for the divestment of any security holdings that breach the ownership limitation provisions of the Trusts' constitutions (the Divestment Provisions), subject to the condition that the Divestment Provisions are approved by ASX as appropriate and equitable.

– A waiver from Listing Rules 7.1 and 10.11 to the extent necessary to permit the issue of fully paid Securities under an offer to fund potential acquisitions, without Security Holders' approval.

Effect of Waivers

Listing Rule 7.1

The Listing Rule 7.1 waiver is subject to conditions. The effect of these conditions is to permit MAp to offer Fully Paid Securities pro-rata to institutional investors who, to MAp's knowledge, hold (directly or through nominees) at least 250,000 Securities (institutional Security Holders) on or before the Record Date and to allocate some or all of the Fully Paid Securities not taken up by those institutional Security Holders to other institutional Security Holders or other institutional investors prior to offering Fully Paid Securities to the remaining Security Holders, as long as:

– Institutional Security Holders who sell down their Securities before the Record Date have their pro-rata allocations reduced accordingly;

– Fully Paid Securities are offered to Security Holders other than Institutional Security Holders and on the basis of their pro-rata allocation; and

– Fully Paid Securities not taken up by Security Holders under the Prospectus offer may be issued to the public.

Listing Rule 10.11

The Listing Rule 10.11 waiver permits related parties of MAp to participate in the Priority Entitlement Offer on the same terms as other Security Holders without a requirement to obtain Security Holder approval. The waiver is subject to the same conditions imposed in relation to the waiver from Listing Rule 7.1. Additionally, it is a condition of this waiver that the related parties only participate in the Priority Entitlement Offer up to the extent of their pro-rata entitlement unless pursuant to bona fide underwriting arrangements disclosed in this Prospectus.

The waivers set out the arrangements for dealing with holdings registered in the names of nominees. In particular, a nominee shareholder is treated as a separate holder in respect of securities held for each of one or more institutional Security Holders (and accordingly, may receive offers in respect of securities held for each of one or more institutional Security Holder and securities held for persons other than institutional Security Holders (and accordingly, may receive both offers in respect of securities held as nominee for institutional Security Holders and offers in respect of securities held as nominee for other persons). Offers will be treated as being made to the nominee, and therefore to an "institutional Security Holder", even where made directly to the institutional investor for whom it holds.

On or prior to the Record Date, and concurrently with the Institutional Placement, MAp made the offer described above. This Prospectus does not constitute an offer or invitation to:

– any institutional Security Holder which received an offer described above (whether or not it accepted that offer); or

– a nominee for such an institutional Security Holder, in respect of securities held for such institutional Security Holder;

The waivers also allow MAp to ignore, for the purposes of determining those entitled to receive Priority Entitlements (both under the offer described above and under this Prospectus), transactions occurring after the implementation of the trading halt in MAp Securities on Friday 12 July 2002 (other than registrations of SEATS transactions which occurred before the trading halt)(post ex date transactions). Transactions ignored under this provision are to be ignored in determining holders and registered holders, and holdings and registered holdings, of Securities as at the Record Date, or as at 5.00 pm on the Record Date, for the purposes of this Prospectus, and references to such holders, registered holders, holdings and registered holdings are to be read accordingly.

Therefore, if you have acquired Securities in a post ex date transaction you will not be entitled to receive a Priority Entitlement on those Securities.

Additional matters

ASX has given in principle approval to:

(a) the proposed terms applying to the A special shares and the B special shares referred to above as being appropriate and equitable for the purposes of Listing Rule 6.1;

(b) approve those A and B special shares as a second and third class of ordinary securities respectively for the purposes of Listing Rule 6.2; and

(c) consideration that MAT1, MAT2 and MAHBL have commitments consistent with their business objectives to spend at least half of their cash and assets in a form convertible to cash.

For the purposes of the Listing Rules, MAHBL makes the following disclosures:

1. It is incorporated in Bermuda.
2. It is not subject to the provisions of chapters 6, 6A, 6B and 6C of the Corporations Act (being the chapters which deal with takeovers, compulsory acquisitions and buy-outs, rights and liabilities in relation to these matters and substantial holding information).
3. There are no limitations on the acquisition of shares imposed by Bermudian law.

Upon completion of the Offer, each of MAT1, MAT2 and MAHBL will have sufficient working capital to carry out its objectives stated in this Prospectus

13.11 Enquiries and Complaints

The Manager has procedures in place to properly consider and deal with any enquiries or complaints within 45 days of receiving them. If you have any enquiries or complaints, you can call 612 8232 5057 or write to:

Macquarie Airports Management Limited
Level 15
No. 1 Martin Place
Sydney NSW 2000
Australia

Also, the Manager is a member of the Financial Industry Complaints Service Limited (ABN 64 068 901 904)

13.12 Directors and Directors' Statement

Board of Directors of Macquarie Airports Management Limited

Helen Nugent (Chairman)
Kerrie Mather (Managing Director)
Trevor Gerber
Anthony Kahn
Nicholas Moore
Gregory Osborne

Board of Directors of Macquarie Airports Holdings (Bermuda) Limited

Sharon Beesley
Martyn Booth
Edith Conyers
Trevor Gerber

This Prospectus has been duly signed by or on behalf of Macquarie Airports Management Limited by the director or company secretary named below and by or on behalf of Macquarie Airports Holdings (Bermuda) Limited by the director or company secretary named below.

Each director of Macquarie Airports Management Limited and each director of Macquarie Airports Holdings (Bermuda) Limited consents to the lodgement of this Prospectus with ASIC.

Director/Company Secretary
(Macquarie Airports Management Limited)

Director/Company Secretary
(Macquarie Airports Holdings (Bermuda) Limited)

14

Section 14 Management Fee Examples

This section contains example calculations of the Base Fee and Performance Fee payable to Macquarie Airports Management and MIMUK by MAp. The examples are provided for illustrative purposes only and should not be interpreted as forecasts of the remuneration of Macquarie Airports Management and MIMUK, or the performance of the Securities.

The remuneration of Macquarie Airports Management and MIMUK comprises a Base Fee and a Performance Fee.

14.1 Base Fee Example

There are no fees payable to Macquarie Airports Management or MIMUK in relation to the management of cash holdings, or amounts invested in MAG.

The calculation of the Base Fee payable to Macquarie Airports Management and MIMUK is detailed below:

Base Fee

The Base Fee is payable quarterly in arrears and is calculated as follows:

– 1.50 per cent per annum of the first $500 million of Net Investment Value; plus

– 1.25 per cent per annum of the next $500 million of Net Investment Value; plus

– 1.00 per cent per annum of the Net Investment Value in excess of $1,000 million.

Net Investment Value for any quarter equals:

– the average market capitalisation of MAp over the last 15 trading days of the quarter; plus

– the amount of any external borrowings of MAp at the end of the quarter; plus

– the amount of any firm commitments by MAp to make further investments at the quarter end; less

– cash balances of MAp at the quarter end.

While MAp holds an investment in MAG, amounts paid up on MAG Shares (if MAG is unlisted) or the market value of MAG Shares (if MAG is listed) held by MAp at the end of the quarter will be deducted from the calculation of Net Investment Value.

While MAp holds any co-investments with MAG (pursuant to the equity co-investment deed), to the extent that MAp's co-investments attract separate management fees payable to Macquarie Bank Group, amounts paid up on any such co-investments with MAG made by MAp will be included in the calculation of Net Investment Value and MAp's proportionate share of the co-investment management fee will be rebated against the Base Fee payable by MAp.

Example 1
Assumptions

Quarter commences	1 October 2002
Quarter ends	31 December 2002
Average number of Securities on issue over the last 15 trading days of the quarter	930,000,000
Volume weighted average price per Security over the last 15 trading days of the quarter	$2.00
Average market capitalisation of MAp over the last 15 trading days of the quarter (A)	$1,860,000,000
External borrowings of MAp at the end of the quarter (B)	Nil
Cash balances of MAp at the end of the quarter (C)	$50,000,000
Firm commitments to future investments by MAp at the end of the quarter (D)	Nil
Amounts paid up on MAG Shares at the end of the quarter (E)	$386,000,000
Management fees receivable by Macquarie Bank Group in respect of MAp's investment in MALSA for the quarter (F)	$0

The Net Investment Value for the quarter
= A + B – C + D – E
= $1,860,000,000 – $50,000,000 – $386,000,000
= $1,424,000,000

The Base Fee for the quarter
(Applicable Rate x Net Investment Value) – F
= (1.5 per cent/4 x $500,000,000 + 1.25 per cent/4 x $500,000,000 + 1 per cent/4 x $424,000,000) – $0
= $4,497,500

Example 2 - Assuming Fees paid in MALSA
Assumptions

Quarter commences	1 October 2002
Quarter ends	31 December 2002
Average number of Securities on issue over the last 15 trading days of the quarter	930,000,000
Volume weighted average price per Security over the last 15 trading days of the quarter	$2.00
Average market capitalisation of MAp over the last 15 trading days of the quarter (A)	$1,860,000,000
External borrowings of MAp at the end of the quarter (B)	Nil
Cash balances of MAp at the end of the quarter (C)	$50,000,000
Firm commitments to future investments by MAp at the end of the quarter (D)	Nil
Amounts paid up on MAG Shares at the end of the quarter (E)	$386,000,000
Management fees receivable by Macquarie Bank Group in respect of MAp's investment in MALSA for the quarter (F)	$1,432,500

The Net Investment Value for the quarter
= A + B – C + D – E
= $1,860,000,000 – $50,000,000 – $386,000,000
= $1,424,000,000

The Base Fee for the quarter
(Applicable Rate x Net Investment Value) – F
= (1.5 per cent/4 x $500,000,000 + 1.25 per cent/4 x $500,000,000 + 1 per cent/4 x $424,000,000) – $1,432,500
= $3,065,000

Total management fees received by Macquarie Bank Group in respect of MAp and MAp's investment in MALSA = $4,497,500.

Note: In both examples above, the volume weighted average price per Security over the last 15 trading days of the quarter has been assumed to be $2.00. Accordingly, to the extent that the $2.01 price threshold required in order to permit the payment of the Base Fee in cash has not been achieved in the preceding quarter, the Base Fee payable by MAp for the quarter calculated above would be applied to a subscription for newly issued Securities at an issue price of $2.00 per Security.

14.2 Performance Fee Example

The calculation of the Performance Fee payable to Macquarie Airports Management and MIMUK is detailed below:

Performance Fee

Macquarie Airports Management and MIMUK will receive a Performance Fee, calculated half yearly in arrears if the performance of the Securities exceeds the performance of the MSCI World Transportation Infrastructure Index (excluding MAG and MAp) (Benchmark Index). The Benchmark Index will be calculated based on the local currency performance of stocks which comprise the Benchmark Index. As a result, the performance of the Benchmark Index will not be affected by currency movements.

The Performance Fee equals 20 per cent of the Return above the Benchmark Return. The Performance Fee is calculated on an accumulation basis. If the Return is less than the Benchmark Return in any period, the deficit is carried forward and included in calculating whether the Return exceeds the Benchmark Return for subsequent periods.

If the Return for a period is less than zero, but the Return for the period exceeds the Benchmark Return, the Performance Fee is not paid and any surplus is carried forward and included in calculating whether the Return exceeds the Benchmark Return for subsequent periods.

The Performance Fee for each year is calculated as follows:

Performance Fee = 20 per cent x (Return – Benchmark Return) where:

Return for a period equals:

- the average market capitalisation of MAp over the last 15 trading days of the previous period, multiplied by;
- the movement in the accumulation index for the Securities (Securities Index) over the relevant period expressed as a percentage, based on the average daily closing value of this index over the last 15 trading days of the period compared with the average daily closing value of this index over the last 15 trading days of the previous period.

Benchmark Return for a period equals:

- the average market capitalisation of MAp over the last 15 trading days of the previous period, multiplied by;
- the movement in the MSCI World Transportation Infrastructure accumulation index (excluding MAp and MAG) (Benchmark Index) over the relevant period expressed as a percentage, based on the average daily closing value of this index over the last 15 trading days of the period compared with the average daily closing value of this index over the last 15 trading days of the previous period.

The first Performance Fee has been calculated in respect of the period from the listing of MAp to 30 June 2002 and no Performance Fee will be payable with respect to this period. For this period the market capitalisation of MAp is the number of Securities issued under this Prospectus multiplied by the Initial instalment. In determining the Performance Fee payable in respect of the first period, the initial value of the Securities Index on the date of listing is 1.0 and the initial value of the Benchmark Index is the closing value on the last trading day prior to listing.

The Performance Fee is payable to Macquarie Airports Management and MIMUK in cash. Subject to the Corporations Act and ASX listing rules, Macquarie Airports Management and MIMUK will apply to invest the Performance Fee in Securities. The independent directors of Macquarie Airports Management will assess the impact of the application on Security Holders at that time. The decision whether to accept or reject that application will be made by the independent directors acting in the interests of Security Holders.

The issue price of the Securities will be the greater of:

- the net asset backing of MAp at the end of the period; and
- the volume weighted average market price for the Securities over the last 15 trading days of the period.

While MAp holds an investment in MAG or any co-investments with MAG (pursuant to the Equity Co-Investment Deed), any performance fees earned by MIMUK in respect of those investments of MAp for a period will be:

- added to the Return in that period when determining the amount of the Performance Fee in that period and when determining whether the Performance Fee is payable in respect of that period; and
- rebated against, and only to the extent of, the amount of the Performance Fee (if any) payable by MAp in respect of that period.

In accordance with the requirements of ASX Listing Rules, the right of Macquarie Airports Management to subscribe for Securities is subject to Security Holders' approval every three years.

Example 1

Assumptions

Period commences	1 January 2003
Period ends	30 June 2003
Average market capitalisation of MAp over the last 15 trading days of the previous period (A)	$515,000,000
Average closing Securities Index over the last 15 trading days of the previous period (B)	1.03
Average closing Securities Index over the last 15 trading days of the period (C)	1.08
Benchmark closing index over the last 15 trading days of the previous period (Y)	1.02
Average Benchmark closing Index over the last 15 trading days of the period (Z)	1.06
"Deficit" carried forward from the previous period (D)	$10,000,000
"Surplus" carried forward from the previous period (S)	$14,714,286
MAp's pro-rata portion of performance fees paid by MAG or on MAG Co-Investments to Macquarie Bank Group (P)	$1,000,000

The Performance Fee is 20 per cent of the Return for the period above the Benchmark Return for that period, after allowing for any "deficit" or "surplus" carried forward from previous periods and MAp's pro-rata portion of any performance fees payable by MAG or on MAG Co-Investments to Macquarie Bank Group.

Return for the period
= A x (C – B) / B
= $515,000,000 x (1.08 – 1.03) / 1.03
= $25,000,000

The Return for the period after allowing for any surplus carried forward and MAp's pro-rata portion of performance fees paid by MAG or on MAG Co-Investments to Macquarie Bank Group.

= $25,000,000 + $14,714,286 + $1,000,000
= $40,714,286

Benchmark Return for the period
= A x (Z – Y) / Y
= $515,000,000 x (1.06 – 1.02) / 1.02
= $20,196,078

Benchmark return for the period after allowing for deficit carried forward from the previous period
= $20,196,078 + $10,000,000
= $30,196,078

Performance Fee for the period
= 20 per cent of (Return – Benchmark Return) less P
= 20 per cent of ($40,714,286 – $30,196,078) less $1,000,000
= $2,103,642 – $1,000,000
= $1,103,642

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$	Australian Dollar(s)
€ or Euro	European Union Euro(s)
£	British Pounds Sterling
ACCC	Australian Competition and Consumer Commission
Account	The bank account established by the Custodian into which Application Monies for the Fully Paid Securities will be deposited until the Fully Paid Securities are issued
Acquisition	The Sydney Acquisition and the Rome Acquisition
ACSA	Airports Company South Africa Limited
Additional Amount	The additional amount (in addition to the original issue price) paid by investors in MAG who made their investment after September 11, 2001. The Additional Amount paid by MAHBL in relation its subscription for MAG Shares on 31 March 2002 was €0.0239 per MAG Share
AdR	Aeroporti di Roma S.p.A.
AdR's Enterprise Value	The Enterprise Value of AdR excluding the value attributed by MIMUK to non-core assets of $185 million
AdR Shareholders Agreement	The agreement entered into by MALSA, MAG, Macquarie, Leonardo, Gemina S.P.A., Falck S.P.A. and Finstahl S.A., Compagnia Italpetroli S.P.A. and Impregilo S.P.A., as described in Section 12
Aeroporto di Genova	Aeroporto di Genova S.p.A.
AEST	Australian Eastern Standard Time
Affiliate	(a) a related body corporate as defined in section 50 of the Corporations Act; (b) any trust, managed investment scheme, collective investment scheme or other entity whose investments are managed by or in respect of which the trustee or responsible entity is the person or any of its related bodies corporate; and (c) any company or other entity in respect of whose investments the person or any of its related bodies corporate has been appointed as exclusive investment adviser
Airports Act	*Airports Act 1996* (Cth) as amended from time to time
Airports Regulations	*Airports (Ownership – Interests in Shares) Regulations 1996* as amended from time to time
Alitalia	Alitalia S.p.A.
Ansett Terminal	The former Ansett Sydney Terminal
Applicants	Persons who submit valid Priority Entitlement Forms or Application Forms pursuant to this Prospectus
Application	An application to subscribe for Securities under this Prospectus

Application Form	Application Form accompanying this Prospectus
Application Monies	Monies received from Applicants in respect of their Applications
ASC	Airport Strategic Consultants Pty Limited
ASIC	Australian Securities and Investments Commission
Associate	Of a body corporate means a subsidiary or holding company of the body corporate or a subsidiary of the holding company of the body corporate (and subsidiary or holding company is to be construed in accordance with the Corporations Act or any managed investment scheme or collective investment scheme or other fund or trust whose general partner, manager or investment adviser is that body corporate, a subsidiary or holding company of the body corporate or a subsidiary of the holding company of the body corporate or where a Shareholder holds shares in its capacity as a trustee or custodian of a collective investment scheme or managed investment scheme or other fund or trust, any replacement trustee or custodian
ASX	Australian Stock Exchange Limited (ACN 008 624 691) or the stock market conducted by Australian Stock Exchange Limited, as the context requires
BAA	BAA plc, which owns and operates seven airports in the UK including Heathrow, the world's largest international airport
Base Fee	The base fee as described in Section 2
Benchmark Index	The MSCI World Transportation Infrastructure Index (excluding MAG and MAp)
Bye-laws	The bye-laws adopted by MAHBL on 26 February 2002
CHESS	Clearing House Electronic Sub-Register System
Ciampino	The G.B. Pastine Airport at Ciampino in Rome, Italy
Cintra	Cintra Concesiones de Infraestructuras de Transporte, S.A.
Co-investors	MAG, GIF and MTAA as parties to the Equity Co-investment deed
Commonwealth Government	The government of the Commonwealth of Australia
Companies Act	The *Companies Act 1981* of Bermuda as amended from time to time
Compliance Plan	In respect of MAT1, the Compliance Plan for MAT1 and in respect of MAT2, the Compliance Plan for MAT2
Corporations Act	*Corporations Act 2001* (Cth) as amended from time to time
CPI-X	A method of regulation applied to aeronautical charges which allows increases for inflation less an incentive factor X
Custodian	Trust Company of Australia Limited, ACN 004 027 749
Deloitte	Deloitte Touche Tohmatsu and its related entities
DOTARS	Commonwealth Government Department of Transport and Regional Services
DRP	Distribution reinvestment plan
EBITDA	Earnings before interest, income tax, depreciation and amortisation
EBITDA/Interest Coverage Ratio	The ratio which measures the number of times that net interest can be paid from EBITDA in any one year
Eligible Security Holder	Subject to Section 13.3, Security Holders at 5.00 pm on the Record Date with registered addresses in Australia and New Zealand
ENAC	Ente Nazionale per l'Aviazone Civile
Enterprise Value or EV	The value of equity plus debt less cash and cash equivalents
EU	European Union

FAC	Federal Airport Corporation
Federal Airport	Any airport in Australia on land leased from the Commonwealth Government. This includes all major civil airports in Australia
Final Allocation	The allocation of Securities to Eligible Security Holders who apply for Securities under the Priority Entitlement Offer later than Tuesday 6 August 2002 but before Tuesday 27 August 2002
Final Instalment	The final instalment of $1.00 per Partly Paid Security payable on the Partly Paid Securities on 1 October 2002
Fiumicino	The Leonardo da Vinci Airport at Fiumicino in Rome, Italy
FLIERS	Floating IPO Exchangeable Reset Securities issued by Southern Cross Holdings
Fully Paid Securities	The Securities issued pursuant to the Offer
Fund Commitments	The total amount committed by holders of MAG Shares as at final closing of MAG (excluding the Total Additional Amount)
GDP	Gross Domestic Product
Gemina	Gemina S.p.A.
GIF	Macquarie Global Infrastructure Fund (A) and Macquarie Global Infrastructure Fund (B)
GIF A	Macquarie Global Infrastructure Fund A
GIF B	Macquarie Global Infrastructure Fund B
Go	Go Fly Limited
Hochtief	HOCHTIEF AirPort GmbH
IATA	International Air Transport Association
ICAO	International Civil Aviation Organisation
Initial Allocation	The allocation of Securities to Eligible Security Holders and institutional investors who apply for Securities under the Priority Entitlement Offer by 5.00 pm (AEST) 6 August 2002 and under the Institutional Placement
Institutional Payment Date	13 August 2002
Institutional Placement	Placement of Fully Paid Securities at $1.53 per Fully Paid Security to excluded offerees to raise $82.5 million
IPO	Initial Public Offering
IPO Prospectus	Macquarie Airports Initial Public Offering Prospectus dated 4 March 2002
IPO Security	Security issued under the IPO Prospectus
IRI	Istituto per la Ricostruzione Industriale S.p.A.
Issue Date	The issue date of the Fully Paid Securities
Issue Price	$1.50 per Fully Paid Security
Issue Proceeds	The gross funds raised by MAp from the issue of Fully Paid Securities
Issuer	Macquarie Airports Management Limited (ACN 075 295 760) and Macquarie Airports Holdings (Bermuda) Limited (ARBN 099 813 180)
ITL	Italian Lira
Joint Lead Managers	Macquarie Equity Capital Markets Limited and UBS Warburg Australia Limited
km	Kilometres
Leonardo	Leonardo Holding S.A.

Letter of Credit	The $130 million credit facility provided by Macquarie Bank to fund the balance of the Sydney Acquisition
Listing Rules	ASX Listing Rules
LTOP	Long Term Operating Plan
m^2	Metres squared
Macquarie	Macquarie Bank Limited (ACN 008 583 542)
Macquarie Airports Management or MAML	Macquarie Airports Management Limited (ACN 075 295 760)
Macquarie Bank Group	Macquarie Bank Limited and its related bodies corporate (as defined in the Corporations Act)
Macquarie Equity Capital Markets	Macquarie Equity Capital Markets Limited (ACN 001 374 572)
Macquarie IBG	The Investment Banking Group division of Macquarie
Macquarie ISF	The Infrastructure and Specialised Funds division of Macquarie
Macquarie Placement	The placement of Fully Paid Securities at $2.00 per Fully Paid Security to Macquarie Bank Limited to raise a total of $25 million
MAG	Macquarie Airports Group Limited, incorporated in Bermuda
MAG Shares	Ordinary Shares in MAG
MAHBL	Macquarie Airports Holdings (Bermuda) Limited, a company incorporated under the laws of Bermuda and with registration number 31667
MALSA	Macquarie Airports Luxembourg S.A.
MAp	Macquarie Airports, comprising MAT1, MAT2 and MAHBL
Manager	Macquarie Airports Management, in its capacity as responsible entity of MAT1 and MAT2
MASH	Macquarie Airports (Sydney Holdings) Pty Limited (ACN 100 840 686)
MAT1	Macquarie Airports Trust (1) (ARSN 099 597 921)
MAT1 Trustee	Macquarie Airports Management, in its capacity as responsible entity of MAT1
MAT2	Macquarie Airports Trust (2) (ARSN 099 597 896)
MAT2 Trustee	Macquarie Airports Management, in its capacity as responsible entity of MAT2
MCTOW	Maximum certified take off weight
Memorandum	Memorandum of MAHBL dated 30 January 2002
MIG	Macquarie Infrastructure Group, an investment vehicle managed by MIIML and MIMUK and listed on ASX
MIIML	Macquarie Infrastructure Investment Management Limited, the manager of the Australian trusts comprised in MIG
MIMUK	Macquarie Investment Management (UK) Limited, a subsidiary of Macquarie
MSAM	Macquarie Specialised Asset Management Limited (ACN 087 382 965)
MSCI	Morgan Stanley Capital International
MTAA	Motor Trades Association of Australia Superannuation Fund
MTOW	Maximum Take-Off Weight (as on the airworthiness certificate)
Net Investment Value	The net investment value as described in Section 2
OECD	Organisation for Economic Cooperation and Development

Offer	The Institutional Placement to Excluded Offerees as described in Section 1, the Macquarie Placement, the Public Offer and the Priority Entitlement Offer of Fully Paid Securities pursuant to this Prospectus
Ordinary Equity	Ordinary shares and redeemable preference shares stapled together and issued by Southern Cross Holdings
Partly Paid Securities	Securities issued pursuant to the MAp IPO Prospectus
Performance Fee	The performance fee as described in Section 2
Priority Entitlement	The entitlement to three Fully Paid Securities for every four Partly Paid Securities in MAp held at 5.00 pm on Wednesday 17 July 2002 by persons with registered addresses in Australia and New Zealand, subject to Section 13.3
Priority Entitlement Form	The Priority Entitlement Form accompanying this Prospectus
Priority Entitlement Offer	The offer of 375 million Fully Paid Securities to eligible Security Holders pursuant to this Prospectus
Prospectus	This document including the Priority Entitlement and Application Forms which accompany it
Public Offer	General offer of the Fully Paid Securities which are not subscribed for by Eligible Security Holders under the Priority Entitlement Offer
Record Date	17 July 2002
Register	The register of persons who hold the Securities and includes the relevant CHESS Sub-Register and Issuer Sponsored Sub-Register established under the SCH Business Rules, but for the purposes of allowing inspection, shall not include any sub-register or supporting material which records the Tax File Number or other tax attributes of a Holder, or of another person
Registry	Computershare Investor Services Pty Limited
Responsible Entity	Macquarie Airports Management
Return	The return as described in Section 2
Rome Acquisition	The acquisition by MALSA of 44.74 per cent of the issued share capital of AdR
Rome Airport	Fiumicino and Ciampino airports
RPK	Revenue passenger kilometres
RPS	Redeemable Preference Shares in MAHBL
SCAAT	Southern Cross Australasian Airports Trust (ARSN 100 746 521)
SCH	The securities clearing house approved under section 779B of the Corporations Act to operate CHESS being ASX Settlement and Transfer Corporation Pty Limited
SCH Business Rules	The operating rules of SCH
Securities Act	The US Securities Act of 1933
Security	A stapled security comprising one Unit in MAT1, one Unit in MAT2 and one Share in MAHBL
Security Holder	The registered holder of a Security in Macquarie Airports
September 11	September 11, 2001
Share	An ordinary share in MAHBL
Southern Cross	Southern Cross Airports Corporation Pty Limited (ACN 097 032 365)
Southern Cross Consortium	The consortium formed by Macquarie and HOCHTIEF AirPort GmbH for the purpose of bidding for Sydney Airport
Southern Cross Holdings	Southern Cross Airports Corporation Holdings Limited

SPA	Rome Sale and Purchase Agreement for the Rome Acquisition
Special Purpose Entity	A body corporate, a managed investment scheme, a limited partnership or a trust, more than 80 per cent of whose gross assets (valued on a historical cost basis) are stapled securities in Southern Cross Holdings, but does not include MAT2 or the Southern Cross FLIERS Trust
SPV	Special Purpose Vehicle
SRN	Security Holder Reference Number
Stapling Deed	The deed between Macquarie Airports Management, in its capacity as Responsible Entity of MAT1 and MAT2, MAHBL and MIMUK which sets out the terms of the relationship between Macquarie Airports Management and MAHBL whilst Shares are stapled to Units
Surplus Cash	In respect of a period means the cash and cash equivalents of MAG on the last business day of that period less: i. the amount of any obligations of MAG to make future investments which have been approved by the MAG board and in respect of which calls on MAG Shares have already been received; ii. the amount of any obligations of MAG to pay interest and principal on any borrowings, the repayment of which is to be made from calls on MAG Shares which have already been received; iii. any costs or withholdings, income or other taxes of MAG incurred or accrued in respect of that period or any earlier period which has not been paid; and iv. a reasonable allowance for budgeted costs in respect of the next period together with amounts reserved by the MAG board for future costs
Sydney Acquisition	The acquisition by MAp of a 44.7 per cent beneficial interest in Sydney Airport
Sydney Airport	Sydney (Kingsford Smith) Airport
Sydney Airports Corporation	Sydney Airports Corporation Limited (ABN 62 082 578 809)
Sydney Airport Enterprise Value	The Enterprise Value of Sydney Airport excluding the amount paid for the Ansett Terminal of approximately $200 million
Sydney RPS	The non-voting redeemable preference shares in MASH subscribed for by MAT1
Tax Act	The *Income Tax Assessment Act 1936* and/or the *Income Tax Assessment Act 1997* as amended from time to time
TFN	In respect of a person, that person's tax file number
Tidefast	Tidefast Limited, a company ultimately owned 50 per cent by MAG and 50 per cent by Cintra
Total Additional Amount	The aggregate of Additional Amounts paid by MAG shareholders
Trust	MAT1 or MAT2 as appropriate
Trust Constitution	The trust constitution establishing MAT1 dated 13 July 2001 (as amended) or the trust constitution establishing MAT2 dated 13 February 2002 (as amended)
Trusts	MAT1 and MAT2
UK	United Kingdom
Underwriters	Macquarie Equity Capital Markets Limited (ACN 001 374 572) and UBS Warburg Australia Limited (ABN 40 008 582 705)
Underwriting Agreement	Agreement between MAp and the Underwriters for the underwriting of the Offer as described in Section 11
Unit	A unit in MAT1 and/or MAT2 as the case requires
US	United States of America

Corporate Directory

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Kerrie Mather (Managing Director)
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