



NCPPP Conference
Austin Texas, December 16, 2003

*Private Equity in
Public Assets*

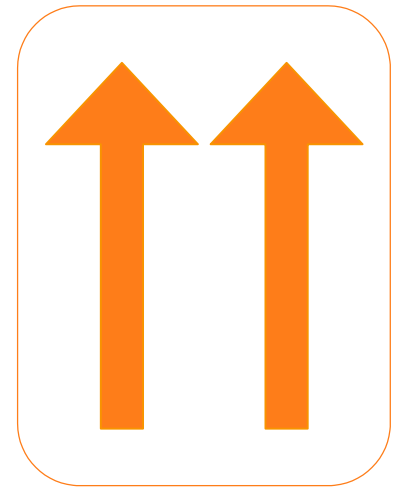
MIG

MACQUARIE



OUTLINE

- Macquarie and M I G Overview
- SR 125
- Changes to Legislation





MACQUARIE

Macquarie and MGO overview



Who is Macquarie?

Macquarie is an investment bank which provides specialist financial services in select markets around the world

Key Statistics

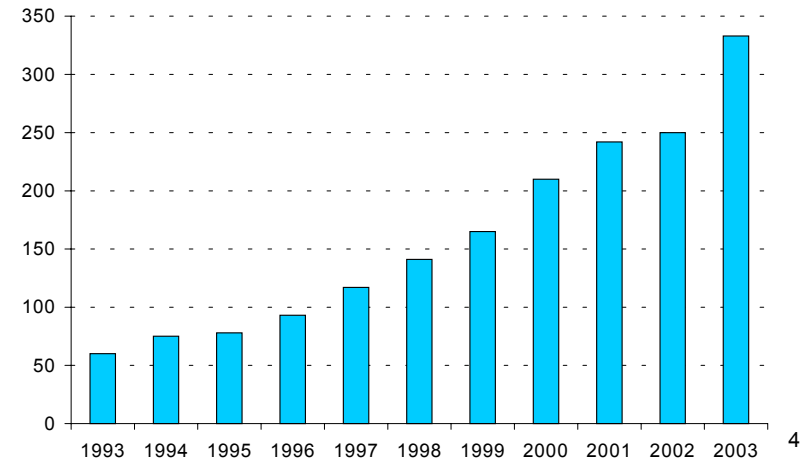
- Market capitalisation
US\$4b
- CAGR since listing
27.8%
- Total Assets
US\$21b
- Infrastructure funds managed
US\$7.6b
- Credit Rating
A2
- Employees
4,802

A /



History

- Founded in 1969 as the Australian subsidiary of Hill Samuel
- Obtained an Australian banking licence in 1985
- Publicly listed on the Australian Stock Exchange ("ASX") in 1996 and a member of





What is Macquarie's Core Business?

Infrastructure: Macquarie runs one of world's largest infrastructure advisory groups with over 40 executives in North America and 400 executives globally

	Global Project Finance – Advisory Mandates won in 2002	Americas Project Finance – Advisory Mandates won in 2002	Asia Pacific Project Finance – Advisory Mandates won in 2002
Rank	Name	Name	Name
1	PricewaterhouseCoopers	Macquarie	Macquarie
2	Macquarie	Citigroup	PricewaterhouseCoopers
3	Ernst & Young	PricewaterhouseCoopers	Sumitomo Mitsui
4	David Wyld	Fieldstone	Korean Development Bank
5	KPMG	Babcock & Brown	ABN Amro

Source: *Project Finance International*, January 2003

- 2002 Global Infrastructure Deal of the Year - Infrastructure Journal
- 2002 Project Finance Deal of the Year – CFO Awards
- 2002 Municipal Transport Deal of the Year – Asset Finance International
- 2002 Rail Finance Deal of the Year – Asset Finance International
- 2002 Global Telecoms Finance Deal of the Year – Asset Finance International



Key Global Infrastructure Investments

Macquarie has comprehensive global coverage in the infrastructure sector, providing both fund and direct investment opportunities

UK

Midland Expressway
Dartford River Crossings
Yorkshire Link
Bristol International Airport
Birmingham International Airport

Portugal

Tagus Crossing
Algarve
Norte Litoral

Spain (indirect)

7 tollroads

South Africa

N3 Tollroad
N4 Maphuto Tollroad
N4 West Tollroad
Kilimanjaro Airport
(Tanzania)

Germany

Rostock Tunnel

Italy

Rome Airport

South Korea

Soojongsan Tunnel

Canada

Highway 407
AltaLink

USA

Detroit-Windsor Tunnel
State Route 125
Parking Co of America
Airports
Path 15

Chile (indirect)

4 tollroads

Australia

Hills Motorway
Interlink Roads
Airport Motorway
Transurban City Link
Statewide Roads
WestLink
Prospect Water
NTL Australia
Loy Yang A
Electranet
Airtain Citylink
Reef Networks
Nextgen Networks
Sydney Airport



Funds Under Management

Macquarie is a global leader in infrastructure funds management offering a selection of sector-specific listed and unlisted funds

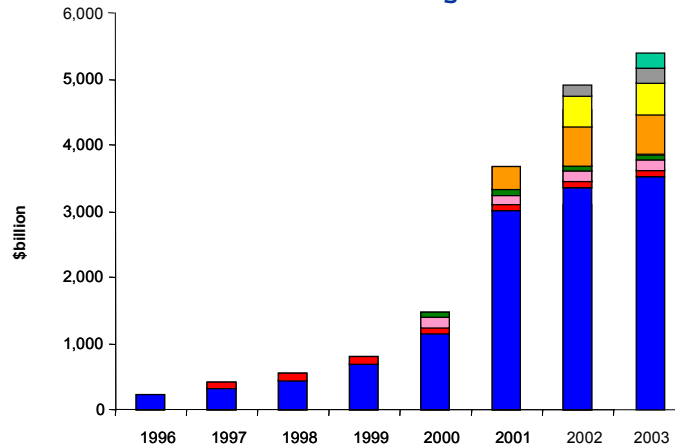
Fund	Funds Under Management (\$m)	Description
Macquarie Infrastructure Group ("MIG")	4,275	Listed infrastructure fund targeting equity investments in toil-roads in OECD countries
Macquarie Airports Group ("MAG")	594	Unlisted infrastructure fund targeting equity investments in airports in OECD countries
Macquarie Airports ("MAp")	440	Listed infrastructure fund targeting equity investments in airports in OECD countries
Macquarie Communications Infrastructure Group ("MCI")	305	Listed infrastructure fund targeting equity investments in telecommunications infrastructure
Korean Road Infrastructure Fund ("KRIF")	200	Unlisted infrastructure fund targeting equity investments in toil-roads in Korea
Macquarie Essential Assets Partnership ("MEAP")	180	Unlisted infrastructure fund targeting equity investments in energy and water utility assets in the US and Canada .
Macquarie Global Infrastructure Fund ("GIF")	143	Unlisted infrastructure fund targeting smaller sized high growth equity investments in OECD countries
South African Infrastructure Fund	76	Unlisted infrastructure fund targeting equity investments in South Africa
High Yield Infrastructure Debt	50	Unlisted infrastructure fund targeting high yield debt investments in Australia
Total	\$6,263	



Funds Management Track Record

Macquarie has an unrivalled performance record as a manager of infrastructure investment funds

Funds Under Management



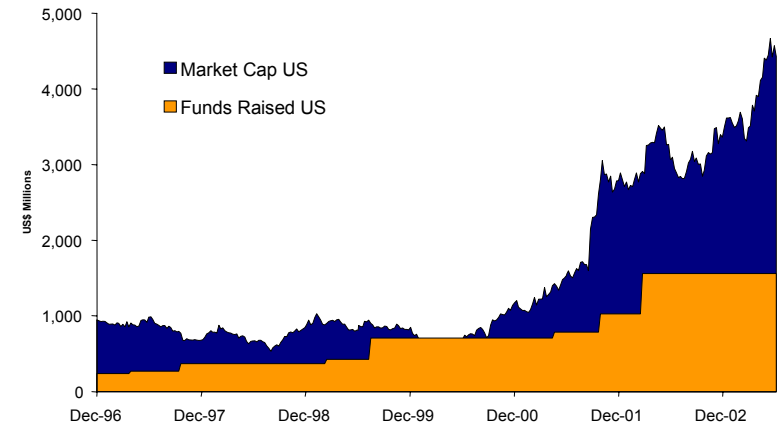
Growth

- First fund, Macquarie Infrastructure Group ("MIG"), was established in 1996
- Macquarie has recorded annual growth of 73% in funds under management since 1996

Performance

- MIG represents 80% of Macquarie's infrastructure funds under management
- MIG key statistics:
 - CAGR return of 26.9% (\$1 invested in 1996 would be worth over \$4 today)
 - Multiple of invested capital of 4.0x
 - Annual dividend yield of 9.3% to original investors

MIG Performance





MG BACKGROUND

- A \$300m IPO - December 1996
- Among the world's largest private toll road developers
- Mandate to invest in OECD countries only
- Managed Investment (of which A\$54bn on ASX)
- Managed by Macquarie Bank Limited



SNAPSHOT OF MIG

Market Capitalisation A\$6.3bn

Size Relative to ASX Top 30

Average Weekly Trades \$98m

Number of Unit Holders 50,000

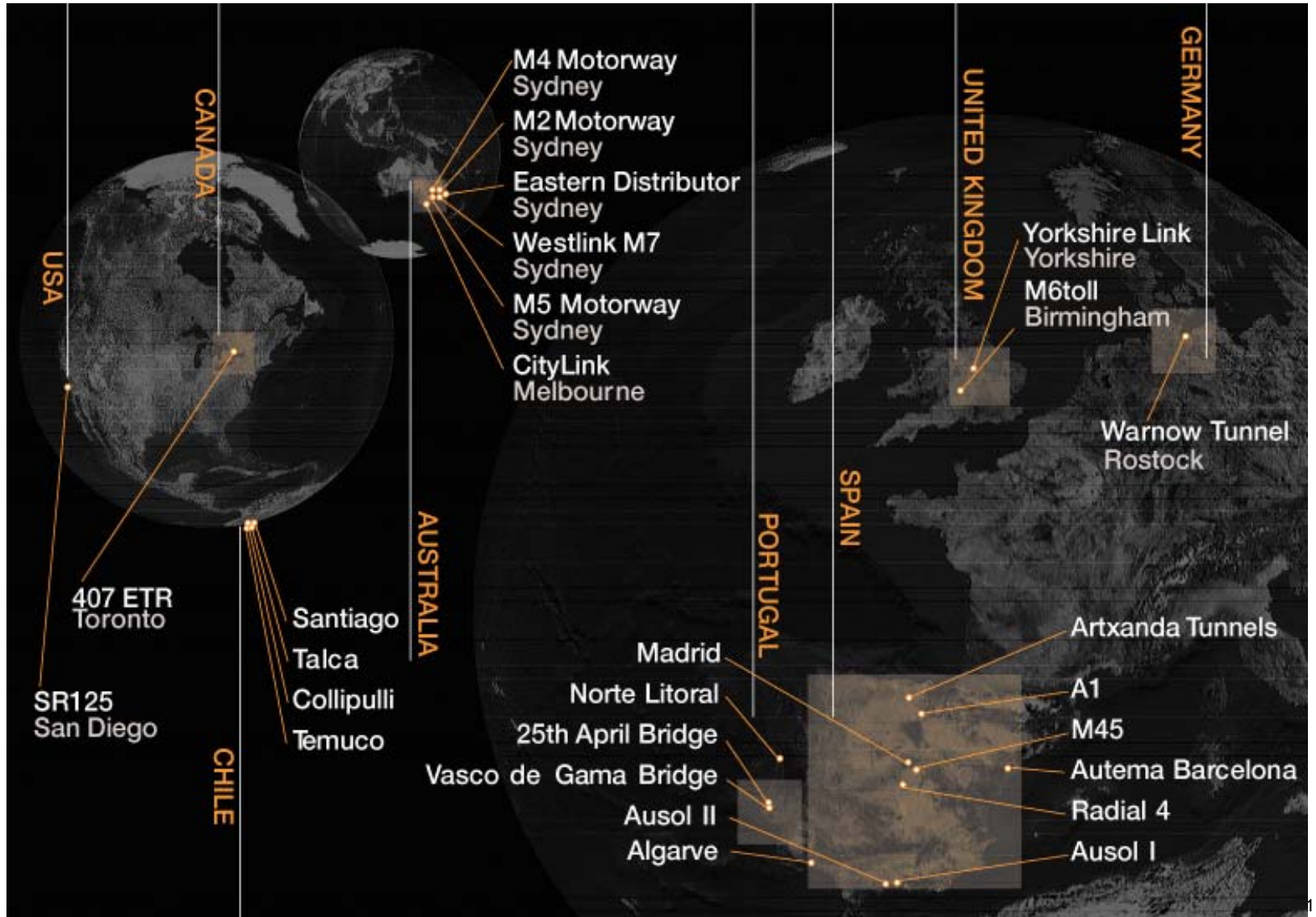
Compound Annual Growth Since Listing¹ 25.2%

Securities Held Outside Australia has increased from 5% to 24% over last 24 months

1. For the period Dec 1996 to Oct 2003. Based on MIG Accumulation Index.



WORLD CLASS TOLL ROAD DEVELOPER ROADS IN WHICH M G HAS AN INTEREST





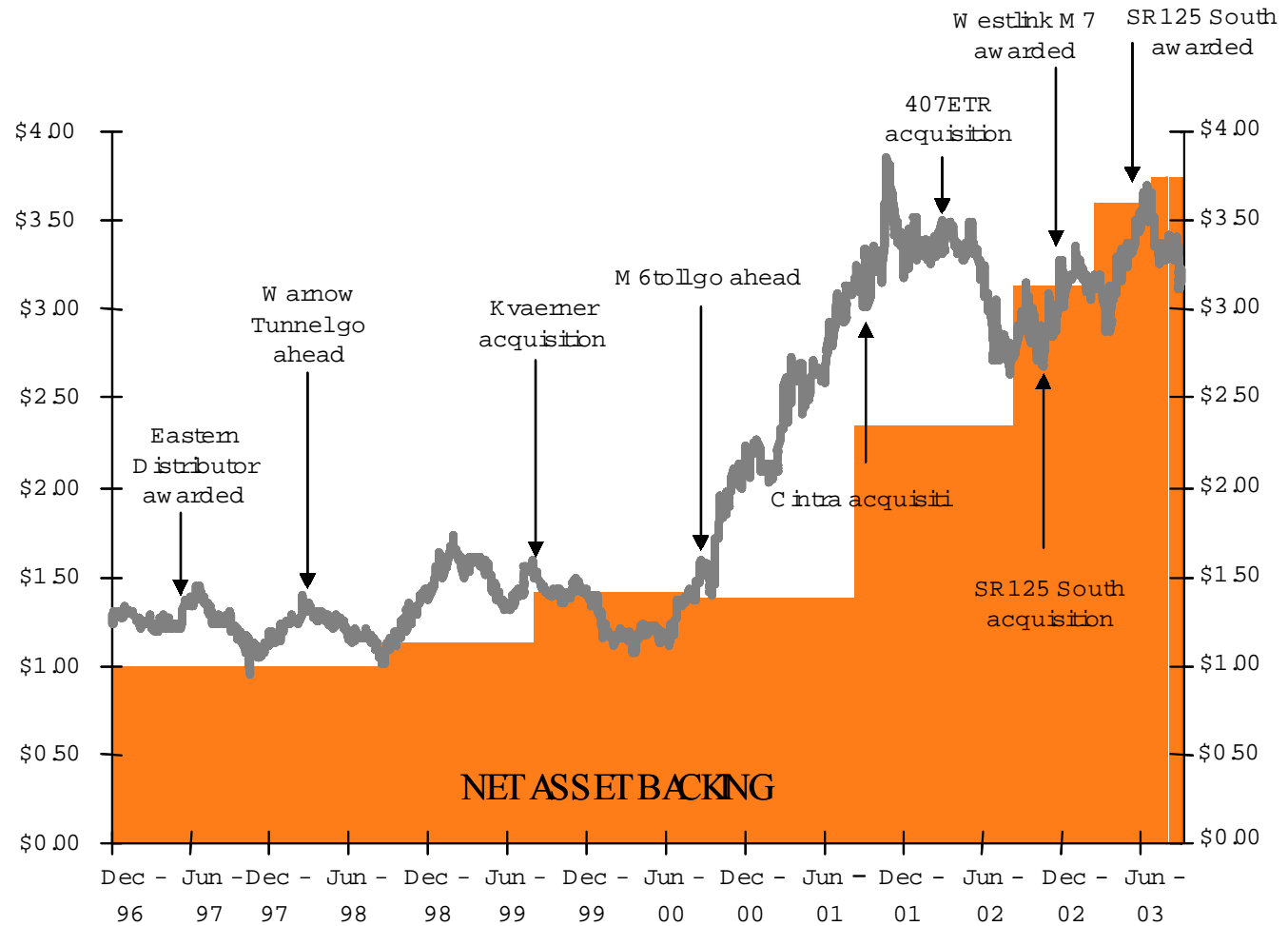
WORLD CLASS TOLL ROAD DEVELOPER ROADS IN WHICH M&G HAS AN INTEREST

Toll Roads in Portfolio	26
Country Spread	8
Road Users per Average Workday	1.3m
Km of Toll Road	1,500
Weighted Average Length of Concessions	63 years



M G SHARE PRICE AND NET ASSET BACKING¹

COMPOUND ANNUAL GROWTH OF 25.2% SINCE LISTING²



- Before tax deferred
- Based on M G accumulation index for the period Dec 1996 - Oct 2003



WHY DO WE LIKE TOLL ROADS? SUMMARY

- Long term assets
- Legally enforceable concession agreements
- High EBITDA margins which increase over time
- Predictable cash flows
- Sustainable competitive advantages
- Long term growth potential - growth from both traffic increases and toll increases
- Option values (electronic tolling, extensions, etc)

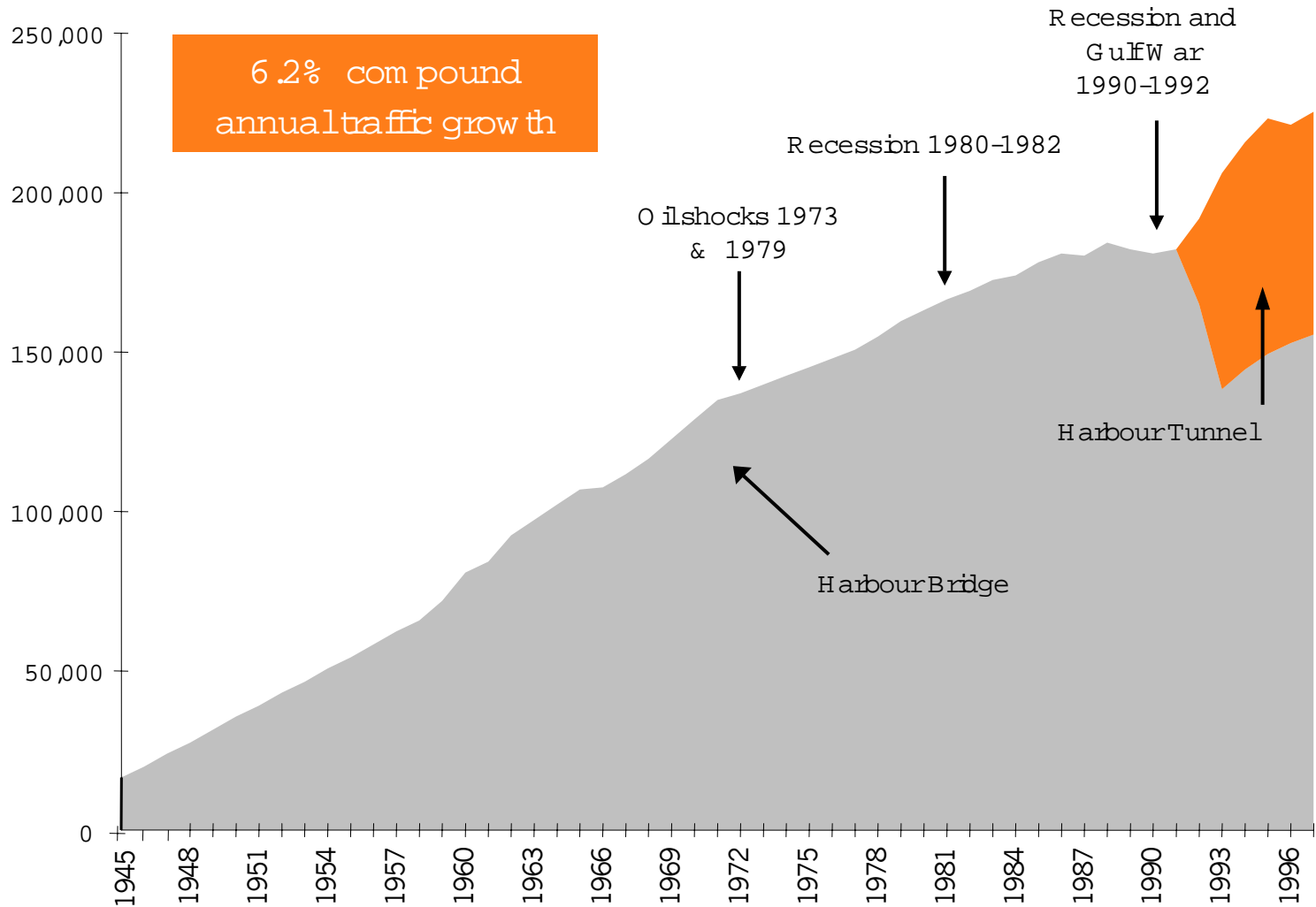


LOW OPERATING & MAINTENANCE COSTS M5 EXAMPLE





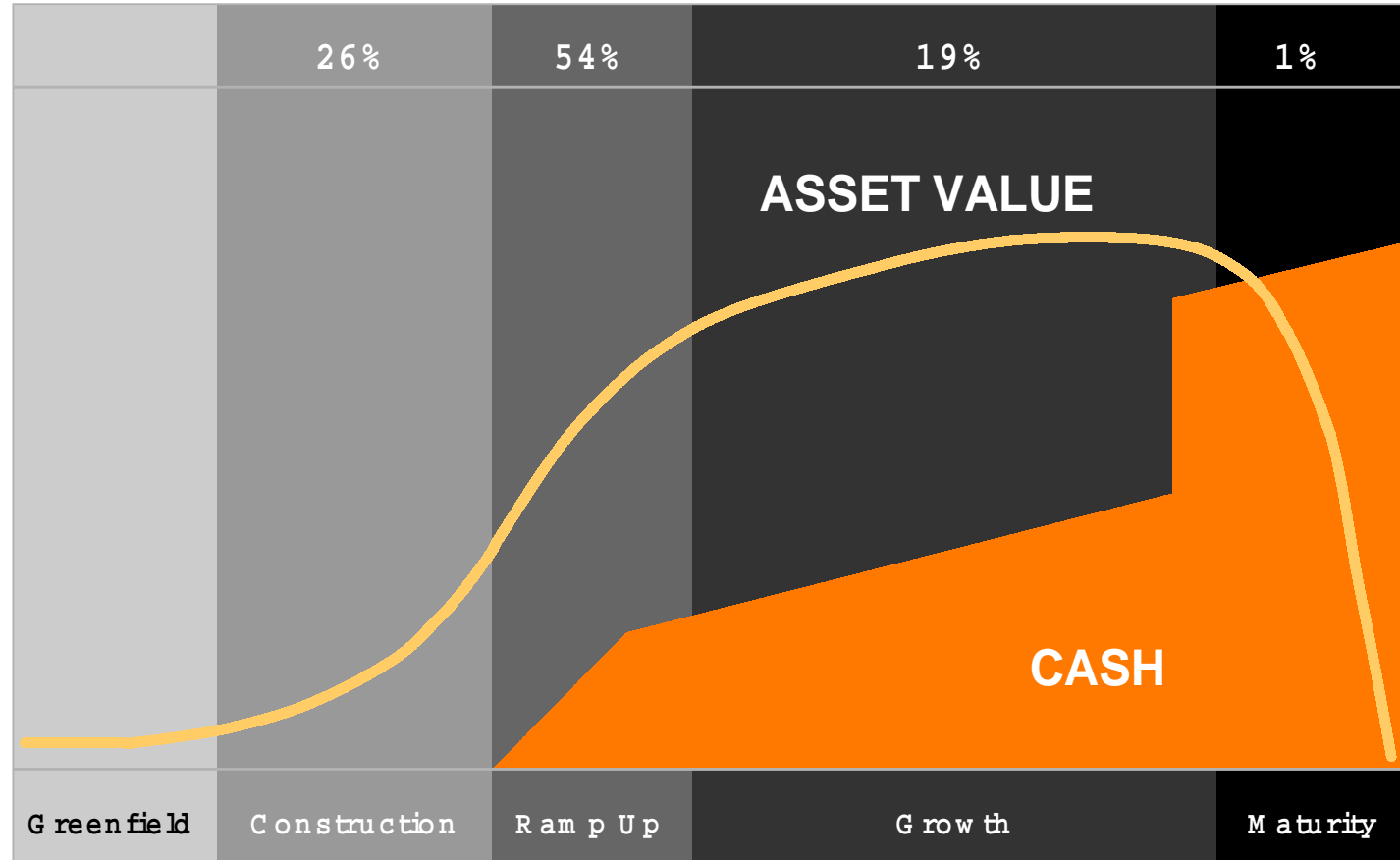
ROBUST TRAFFIC GROWTH SYDNEY HARBOUR BRIDGE AND TUNNEL





ASSET VALUATION OVER DIFFERENT STAGES

80% OF ASSETS BY VALUE IN RAMP UP OR CONSTRUCTION



- | | | | |
|---------------|-----------------------|----------|------|
| - M6toll | - 407ETR | - M5 | - M4 |
| - Westlink M7 | - Eastern Distributor | - Autema | |
| - SR125 South | - Ausol | | |



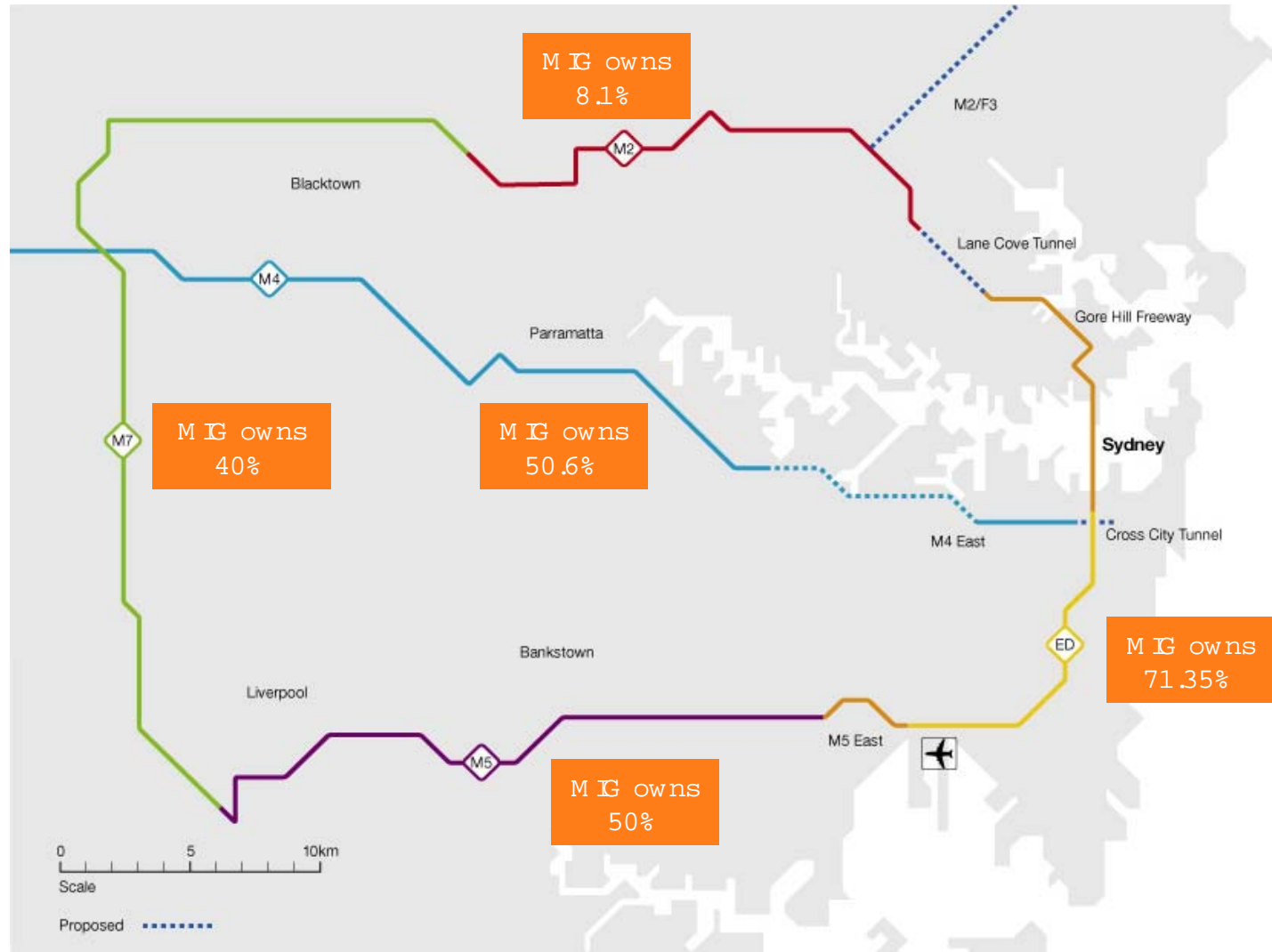
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KEY M G ASSETS



SYDNEY ROADS

MIG HAS AN INTEREST IN ALL OF THE PRIVATELY OWNED OPERATING TOLL ROADS





407ETR LOCATION - CANADA





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407ETR AERIAL VIEW





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M 6 to 11 LOCATION - UNITED KINGDOM





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MARKETING CAMPAIGN NEAR EXISTING M6





SR 125 SOUTH LOCATION -USA





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SR 125



SR 125 T M E T A B L E

- Project originally tendered by Caltrans in 1989
- Franchise signed 1990
- Extensive delays in obtaining R O D
- M I G acquired an 81.6% interest in the US\$635m SR125 South to Il road in San Diego, California in September 2002
- Financial close and balance of project acquired in May 2003
- Construction completion 3rd quarter 2006
- Unique funding - project to be funded by T F I A , Bank Debt and M I G Equity

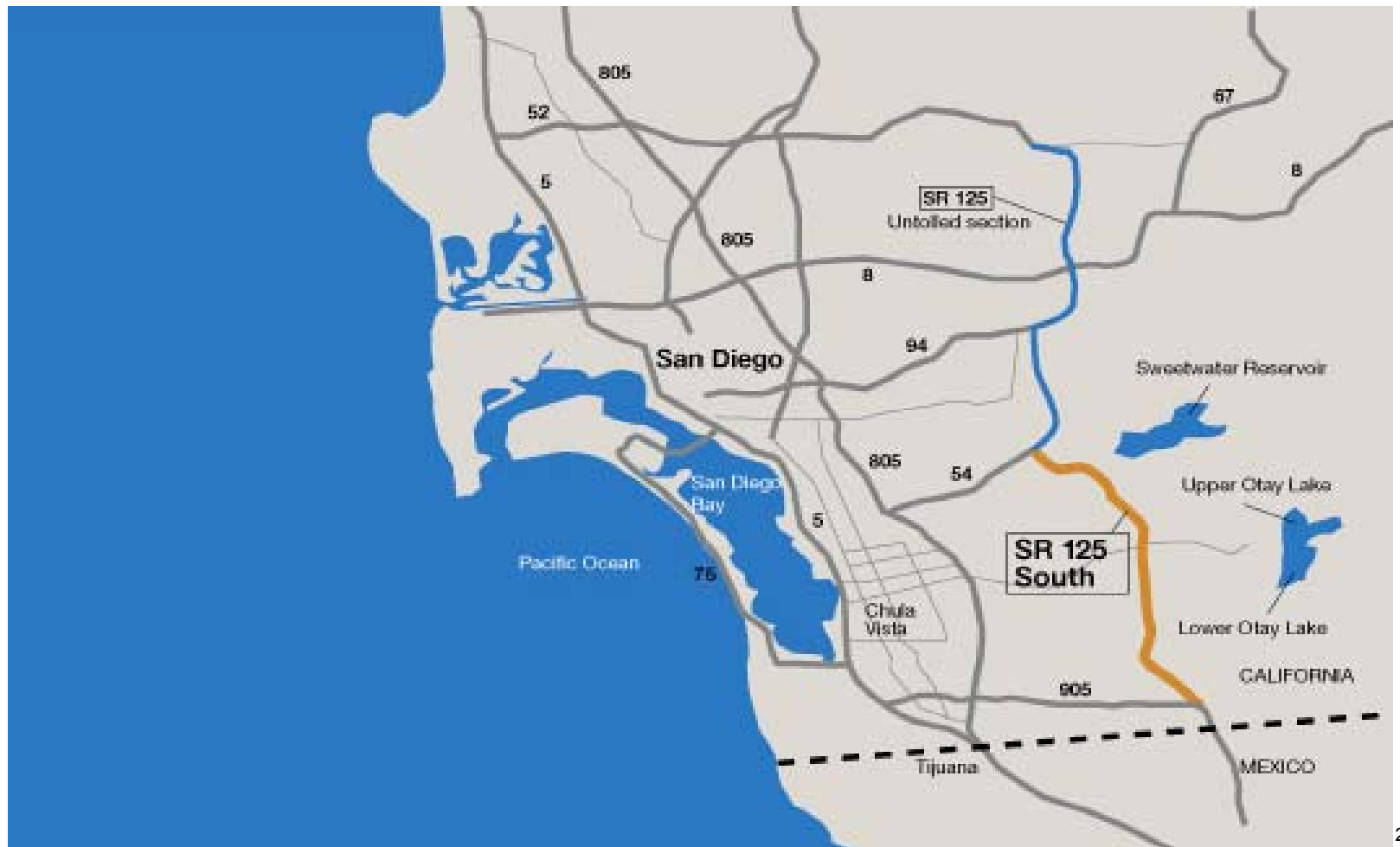
SR125 - SOURCES & APPLICATIONS

	US\$m
Senior bank debt	321
TFIA debt	154
Equity	160
TOTAL SOURCES	635
Purchase price (including previous development costs)	59
Project Delivery	423
Capitalised Interest & Financing Costs	96
Reserves	24
Other	33
TOTAL APPLICATIONS	635



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SR 125 - LOCATION





KEY PARTIES

- Construction joint venture between **Fluor** and **Washington Group**
 - Fixed price, Fixed time 41 month contract
 - Liquidated Damages & Bonus
- Land Acquisition to be managed by **Caltrans**
- **SANDAG** contributing \$138 million to cost of Connector with freeway network
- Bank debt underwritten by **European banks (BBVA and DEPFA)**
- TIFIA Debt supplied by **USDOT**
- Equity provided by **Macquarie Infrastructure Group**
- Senior & TIFIA Debt rated by **Fitch & Moody's**
 - Senior - Fitch BBB-, Moody's Baa3



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CAPITAL STRUCTURE

→ Bank debt

- European funding sources used
 - 18.5 years
 - 3.5 years construction
 - 4 years interest only (including 2.75 year stabilisation period)
 - 3 years partial cash sweep
 - 8 years full cash sweep
 - Designed to be refinanced during interest only period

→ TIFA

- 38 years - simplified:
 - 3.5 years construction
 - Up to 5 years capitalisation - no mandatory service
 - 10 years partial capitalisation (mandatory & scheduled)
 - 5 years interest only
 - 15 year principal and interest amortisation

→ Equity

- Approximately \$27m net at financial close
- Balance of \$133m deferred to end of construction
- No third party security for deferred equity - MIG corporate guarantee



T F I A

→ T F I A Loan Structure for SR 125

- T F I A desire to recycle capital (from performing projects to new projects)
 - Upside & refinancing sharing (early repayment)
- Springing lien - structurally rather than legally subordinated
 - Mandatory vs scheduled split (mandatory payments minimised in early years)
 - Cash flow timing
- Hedging
 - Dynamic monitoring
 - reserve to protect against floating interest rate exposure

→ Blue Print?

What works, what doesn't

→ Risks which can be managed or assessed:

- Traffic Demand
- Construction Risk
- Operation and Maintenance

→ Difficult to manage, assess:

- Discretionary permit risk
- Uncertainty in funding
- Unclear toll setting / subjectivity in toll setting
- Unclear performance standards



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LEGISLATIVE CHANGES



Need for Infrastructure Investment

❑ USDOT 2002 Conditions & Performance Report to Congress:

- Average annual cost to maintain highways and bridges: \$75.9 billion
- Average annual cost to improve highways and bridges: \$106.9 billion
- Average annual cost to maintain transit: \$14.8 billion
- Average annual cost to improve transit: \$20.6 billion



Gap Between Need and Likely Federal Funding

- ❑ Administration proposes \$247 billion, congressional proposals range from \$311 billion to \$375 billion
 - Combined highway and transit needs widely acknowledged to be greater
 - State funding also projected to decrease
 - Northern Virginia has identified 20-year transportation funding gap of \$15 billion
 - Texas Department of Transportation has only a third of the money needed to build the projects on its backlog

Projects and Money

- ❑ Projects waiting for Money
- ❑ **Money looking for Projects**
- ❑ Private investment can make significant contribution, but barriers exist
 - Institutional bias against private participation
 - Private investors not on equal footing with public entities
 - Tax-exempt financing
 - Acquisition of right-of-way
 - Tort liability

Changing Culture , Changing Law

❑ Changes needed in Federal law

- Infrastructure projects proceed from idea to concept to planning to construction
- The consideration of private investment should be mandated at each of those steps
- To change behavior in implementation of Federal programs, changes will only occur by amending governing statutes



Legislative Principles

- ❑ Macquarie recommends these principles:
 - Mandating the *consideration* of private financing
 - Facilitate private use of bond financing— exempt tollroads from private activity rules
 - Make privately owned and/or operated projects eligible for Federal funding
 - Increase opportunities for States to engage in innovative financing by selling facilities to private investors



Legislative Principles (cont'd)

- ❑ Macquarie supports legislation that would:
 - Lift restrictions on toll roads
 - Allow Federal reimbursement of private development phase activities
 - Increase opportunities for public authorities to contract out services



Transportation Planning

- Require consideration of private investment in transportation planning
 - Increase private participation in transportation planning organizations
 - Metropolitan Planning Organizations
 - Statewide planning organizations (eg Californian Transportation Commissions)
 - Require consideration of private investment in transportation planning in government planning processes:
 - Metropolitan planning process
 - Long-range transportation plan
 - State Transportation Improvement Program (STIP)
 - Program of projects



Bond Financing

- ❑ Facilitate private use of bond financing
 - Allow Federal reimbursement of private bond investment in public infrastructure
 - Exempt toll roads from private activity rules
 - Transportation Infrastructure projects should not be subject to the state volume caps
 - Streamline TIFIA process



Private eligibility

- ❑ Make privately owned and/or operated projects eligible for Federal funding
 - Allow private participation at same Federal share as public participation
 - Set 30 percent Federal share threshold for application of all Federal funding requirements
 - Require project to continue in federally-authorized use



Sale of Facilities

- ❑ Increase opportunities for innovative financing by allowing sale of facilities to private investors
 - Allow Federal grantees to sell property purchased via Federal loan to private investor for transit or other transportation capital projects
 - Make applicability of Federal requirements depend on age of infrastructure asset sold – 10 Years seems reasonable
 - Provide flexibility to States in use of proceeds from sale

Toll roads

- ❑ Macquarie recommends lifting restrictions on toll roads
 - Allow existing Interstate roads to be reconstructed as toll roads
 - Increase States' flexibility in use of toll road revenues – other uses
 - Allow return on private investment from excess toll revenues
 - Eliminate requirement that tolls be lifted once construction costs are liquidated – clarification and simplification issue

Development Phase Activities

- Allow Federal reimbursement of private development phase activities
 - Planning
 - Feasibility analysis
 - Revenue forecasting
 - Environmental review
 - Permitting
 - Preliminary engineering and design work



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