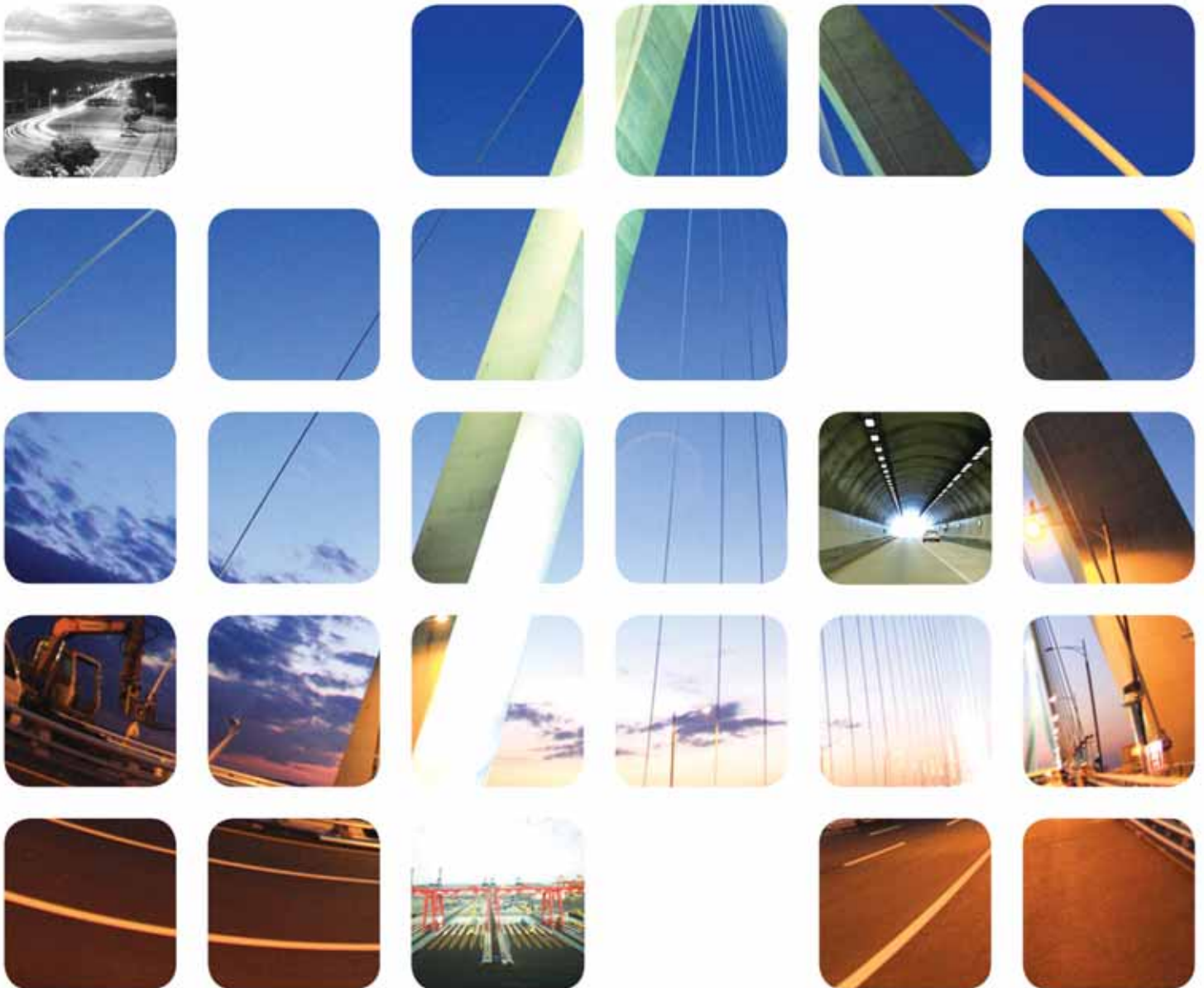



# MACQUARIE KOREA INFRASTRUCTURE FUND 2011 ANNUAL REPORT





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This annual report provides an overview of MKIF's investment and operating activities for the 12 months from 1 January 2011 to 31 December 2011, as well as information on the performance of MKIF's assets. It also includes the audited non-consolidated financial statements for the year.

# About Macquarie Korea Infrastructure Fund<sup>1</sup>

The Largest portfolio of toll roads in Asia

## EXCHANGE

KRX - 088980.KS / LSE - MKIF.LI

## SECURITIES ON ISSUE

331,459,341

## MARKET CAPITALISATION

KRW 1.66trillion (US\$ 1.43billion<sup>2</sup>)

## # of SHAREHOLDERS

~ 8,300 shareholders (61% of domestic institutions, 18% of foreigners, and 21% of retail)<sup>3</sup>

## MANDATE

To invest in infrastructure assets in Korea as defined under PPI Act<sup>4</sup>

## INVESTMENTS

14 project companies

## WEIGHTED AVERAGE AGE OF ASSETS

6 years

## SERVICES

+700,000 people / vehicle per day

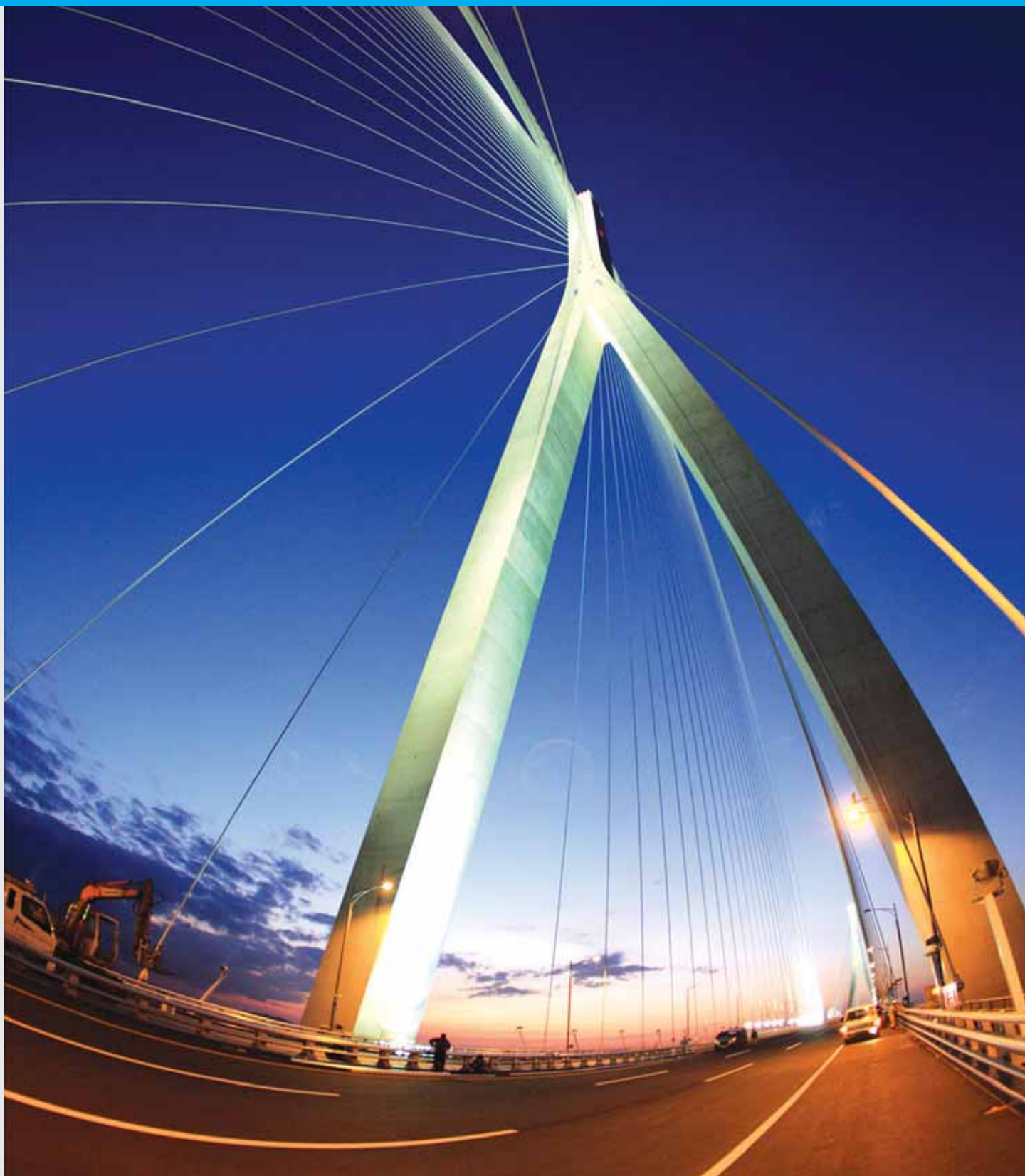
1. As at 31 December 2011

2. 1 USD = 1,159 KRW as of 31 December 2011

3. By shareholding ratio

4. Private Participation in Infrastructure Act (PPI Act) defines infrastructure sectors including roads, railways, ports, energy, airports, communication, water resources, etc.

# MKIF Profile



## PROFILE

Established in December 2002, MKIF's mandate is to invest in concession companies that construct and operate infrastructure assets in Korea. MKIF invests in these concession companies through equity and debt and aims to deliver stable and predictable returns to the shareholders. To date, MKIF has deployed circa KRW 1.8trillion in 14 concession companies of which 13 companies benefit from inflation-adjusted Minimum Revenue Guarantees (MRG) from central, provincial or city government bodies of Korea. All assets in MKIF portfolio are now in operation, and as a group, the remaining weighted average concession period, in terms of investment size, is over 23 years.

MKIF's strategy is implemented by its manager, Macquarie Korea Asset Management Co., Ltd. (MKAM), formerly known as Macquarie Shinhan Infrastructure Asset Management Co., Ltd.<sup>1</sup> MKAM is incorporated in Korea and is a wholly owned subsidiary of Macquarie Group Limited. MKAM benefits from the expertise and experience of Macquarie Group in the execution and management of diverse range of infrastructure investments. MKAM operates under a corporate governance framework based on policies and procedures developed for funds managed in Macquarie Group's Macquarie Real and Infrastructure Assets Division (MIRA).

## STRATEGY

MKIF aims to generate attractive returns for its shareholders through a combination of capital growth and cash yield. As the largest infrastructure investor in Korea with extensive track record and expertise in this sector, MKIF is well placed to source attractive investment opportunities and manage the assets through the lifecycle. The value creation through asset lifecycle comes from having hands-on approach to managing the individual assets, disciplined and

proactive capital and cashflow management at both MKIF and asset level, and also effective administration of government subsidies.

## INVESTMENT CRITERIA

To make further investment, MKIF will review whether the new infrastructure businesses are accretive to its portfolio and:

- likely to generate long term, inflation-adjusted revenue streams;
- opportunity to increase leverage or refinance debt to optimise MKIF's financial returns;
- MKIF to exercise significant influence or control over key strategic, commercial and financial functions;
- align with MKIF's corporate governance framework; and
- may benefit from government support.

## DISTRIBUTION POLICY

MKIF declares and make distributions to its shareholders on a semi-annual basis, as for the first half ended in 30 June and the second half ended in 31 December, subject to the MKIF Board of Directors approval.<sup>2</sup>

As an investment company under Financial Investment Services and Capital Markets Act (FSCMA), MKIF is entitled to deduct from its taxable income the amount of distributions declared in respect of a financial year, provided that the amount of such dividend/distribution is equal to 90% or more of MKIF's distributable income for such year. MKIF intends to declare and distribute higher amount of 100% of its accounting distributable income and taxable income in order to continue to qualify for the deduction of such distributions declared from MKIF's taxable income in any given fiscal year and additional gain from its assets which are non-recurring nature will be distributed as well.

1. Macquarie Shinhan Infrastructure Asset Management Co., Ltd. changed its name to MKAM effective from 28 February 2012

2. All investors are advised to obtain their own professional tax advice in relation to the distributions paid by MKIF





# Letter to shareholders



I am delighted to announce that MKIF has delivered a repeat performance of stable growth in earnings and distribution in 2011 and MKIF starts the year strongly once again.

Dear Shareholders,

It has been another busy year for MKIF and a number of important initiatives have been successfully carried out during the year. Starting with the refinancing of the corporate level debt, MKIF's issuer credit rating has been improved by one notch to AA, based on which KRW 250billion of fixed rate bonds have been priced and issued for the first time for a fund in Korea on very attractive terms. The remaining KRW 250billion of the corporate level debt has been also replaced with a new revolving credit facility on improved terms, thus achieving significantly cheaper and longer debt for MKIF at the corporate level. In addition, the securitisation activities have continued during the year where circa KRW 20.6billion of trapped cash has been released from the 3<sup>rd</sup> tranche asset-backed securitisation of the interest receivable on the subordinated loan provided to Cheonan-Nonsan Expressway. These types of capital management initiatives will continue to be a top priority for MKIF until cash dividends from the underlying assets are available as the scheduled asset-level de-gearing continues.

On the operational side, the underlying assets are consistently delivering stable performance. The traffic volume and revenues have grown for the most of the assets in 2011 and the four newly opened assets in particular have delivered a double digit year-on-year growth. We are also mindful of having to maintain high standard operation and services to the community in which the underlying assets operate and this continues to be heart of all operational aspects of the business.

With the opening of the Busan New Port, Phase 2-3 (BNP 2-3) in January 2012, MKIF's portfolio is fully operational with no construction risk. Through the years, MKIF has repeatedly demonstrated its ability to manage construction risk and all six greenfield assets in MKIF portfolio including BNP 2-3 have started operation earlier or on time under the scheduled budget. BNP 2-3 is strategically located to service both Korean and Asian transshipments and boasts one of the most modern and efficient facilities in Asia. We will focus on successful ramp-up of BNP 2-3 this year.

As we look forward, the external business environment continues to be highly unpredictable. MKIF, however, is financially better positioned than ever and we are confident that MKIF should be able to withstand any market duress. We remain on track with the distribution outlook re-framed in 2009 and anticipate a steady growth in distribution over the medium-term accelerated by retirement of asset-level debt. We also have a number of new initiatives earmarked for this year to further support MKIF's distribution capacity. Overall, we remain optimistic about the outlook of the business.

On behalf of the Manager and MKIF Board, I would like to thank you for your ongoing support and interest in MKIF.

Chul Hum Paik  
Representative Director  
Macquarie Korea Asset Management Co., Ltd.  
Corporate Director and Asset Manager of Macquarie Korea Infrastructure Fund

# 2011 Highlights



## STRONG FINANCIAL PERFORMANCE

- Normalised revenue and net income<sup>1</sup> increased by 6.9% and 8.7%, respectively on the previous corresponding period (pcp)
- Domestic Issuer credit rating notched up to AA from AA<sup>-</sup>
- Average EBITDA margin of 78%<sup>2</sup> across the portfolio including newly opened assets<sup>3</sup>
- Distribution of KRW 330 per share<sup>4</sup>, representing 6.6% of trading price per share<sup>5</sup>

## SOLID TRAFFIC AND REVENUE GROWTH OF THE UNDERLYING ASSETS

- A solid overall traffic growth of the underlying assets with a particularly strong performance of the newly opened assets
- Underlying traffic volume and revenue<sup>6</sup> growth of 6.2% and 6.5%, respectively, on pcp
- Newly opened assets recorded 77%<sup>7</sup> of weighted average traffic against the Concession Agreement forecast in 2011

## CONSTRUCTION RISK FULLY DE-RISKED

- The last greenfield investment in MKIF's portfolio, Busan New Port, Phase 2-3, successfully completed on time and on budget and commenced operation from 2 January 2012
- Capital injection to the portfolio fully completed

## SUCCESSFUL DELIVERY OF VALUE-ACCRETIVE TRANSACTIONS

- KRW 500billion refinancing of MKIF-level debt, extending maturity at significantly lower cost
- 3<sup>rd</sup> Tranche securitisation of the interest receivable on the subordinated loan provided to Cheonan-Nonsan Expressway, bringing forward trapped cash to MKIF

1. Non-consolidated revenue and net income on an adjusted basis excluding one-off gains

2. Estimated, unaudited figures. On a proportionate average basis based on MKIF's equity interest in each concession company. EBITDA margin=EBITDA/Operating Revenue where, revenue compensation and other compensations are reflected on cash basis

3. Newly opened assets include Yongin-Seoul Expressway, Seoul-Chuncheon Expressway, Seoul-Subway Line 9, Section1 and Incheon Grand Bridge

4. Composed of (i) a dividend of KRW 319 per share and (ii) a distribution in excess of profits of KRW 11 per share (Deduction from the retained earnings)

5. Cash yield based on average closing price during the year and the total distribution amount before tax

6. On a weighted average basis based on revenue size of each asset and the MKIF's equity interest in each concession company

7. A weighted average basis based on total commitment amount and average daily traffic during 2011

# Performance review

## FINANCIAL SUMMARY<sup>1</sup>

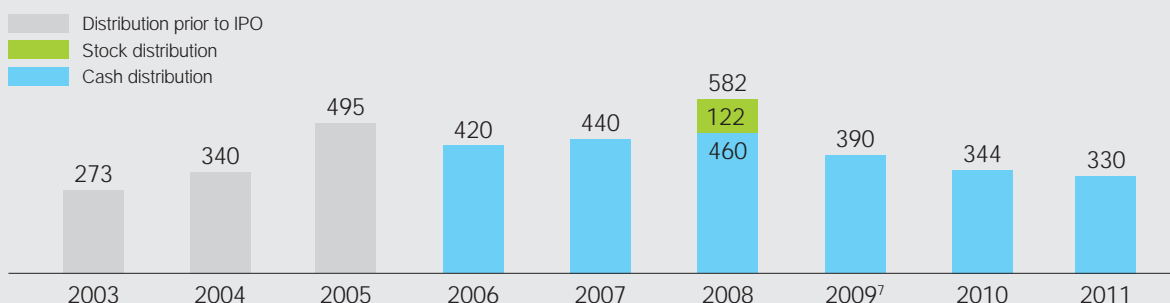
(KRW million)

	FY 2011	FY 2010	FY 2009
Revenue	162,426 <sup>2</sup>	166,275 <sup>3</sup>	153,978 <sup>4</sup>
Expense	56,842	54,833	53,755
Net income	105,584	111,442	100,223
Normalised <sup>5</sup> net income	104,962	96,554	103,798
	As at 31 December 2011	As at 31 December 2010	As at 31 December 2009
Invested Assets	1,869,892	1,848,587	1,964,784
Liabilities	440,838	369,164	463,894
Total Shareholders' Equity	1,685,682	1,695,777	1,690,402
Total liabilities and shareholders' equity	2,126,520	2,064,941	2,154,296

## DISTRIBUTION (PER SHARE)

(KRW)

	FY 2011	FY 2010	FY 2009
EPS	319	336	302
Cash distribution	330	344	390
Share distribution	-	-	-
Number of new shares issued	-	-	7,969,137
Total outstanding shares	331,459,341	331,459,341	331,459,341
Cash yield <sup>6</sup>	6.6%	7.1%	7.9%



1. On a non-consolidated basis

2. Includes gain on the 3rd Tranche securitisation of the interest receivables on the subordinated loan provided to Cheonan-Nonsan Expressway

3. Includes special gains on (1) divestment of the subordinated loan provided to Seosuwon-Osan-Pyungtaek Expressway (2) the 2nd Tranche securitisation of the interest receivables on the subordinated loan provided to Cheonan-Nonsan Expressway and (3) partial equity sale and capital restructuring of Machang Bridge

4. Includes loss on the 1st Tranche securitisation of the interest receivables on the subordinated loan provided to Cheonan-Nonsan Expressway

5. Excluding one-off gains and losses

6. Based on the average closing price of each year and the total distribution declared

7. Distribution reduced to align closely of earnings





MKIF actively manages its underlying concessions to maximise return

#### ANNUAL TRAFFIC AND REVENUE GROWTH

Asset	Average daily traffic volume	Average daily traffic revenue
Incheon International Airport Expressway <sup>1</sup>	(3.1%)	(2.9%)
Baekyang Tunnel	2.2%	2.0%
Gwangju 2 <sup>nd</sup> Beltway, Section 3-1	8.5%	8.7%
Gwangju 2 <sup>nd</sup> Beltway, Section 1	3.9%	4.4%
Woomyunsan Tunnel	3.1%	4.1%
Cheonan-Nonsan Expressway	9.2%	10.0%
Soojungsan Tunnel	3.7%	3.2%
Daegu 4 <sup>th</sup> Beltway East	2.8%	2.6%
Machang Bridge	6.8%	7.6%
Yongin-Seoul Expressway	16.8%	16.8%
Seoul-Chuncheon Expressway	7.5%	8.2%
Seoul Subway Line 9 Section 1	12.6%	10.3%
Incheon Grand Bridge	7.4%	8.2%
<b>Weighted Average<sup>2</sup></b>	<b>6.2%</b>	<b>6.5%</b>

1. The traffic decreased in Incheon International Airport Expressway is in line with the Concession Agreement forecast, reflecting the operational commencement of Airport Railroad (Stage 2: Kimpo Airport-Seoul Station) from December 2010

2. On a weighted average basis based on revenue size of each asset and the MKIF's equity interest in each concession company

# Portfolio



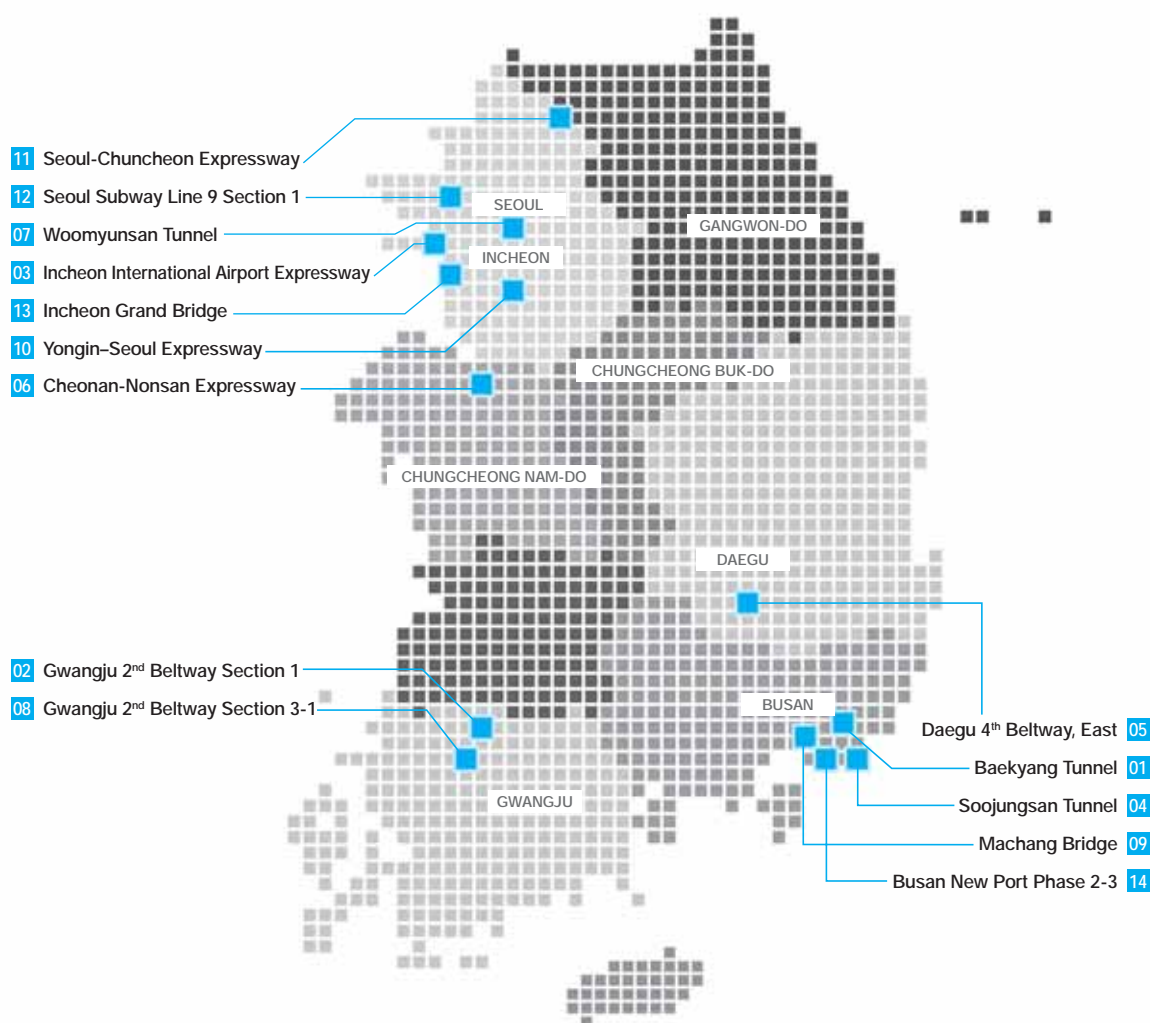
MKIF's portfolio delivers stable and predictable returns on infrastructure investment in Korea

(KRW billion, %)

Name	Equity	Ownership (%)	Subordinated Debt	Interest Rate	Senior Debt	Interest Rate	Total
01_ Baekyang Tunnel	1.2	100.0	-	-	1.6	15.0	2.8
02_ Gwangju 2 <sup>nd</sup> Beltway Section 1	13.1	100.0	35.2 <sup>1</sup>	20.0	142.0	10.0	190.3
03_ Incheon International Airport Expressway	58.2	24.1	51.7	13.9	-	-	109.9
04_ Soojungsan Tunnel	47.1	100.0	19.3	20.0	50.3	8.5	116.7
05_ Daegu 4 <sup>th</sup> Beltway, East	57.5	85.0	32.0	17.0	-	-	89.5
06_ Cheonan-Nonsan Expressway	87.7	60.0	182.3	16.0	-	-	270.0
07_ Woomyunsan Tunnel	10.7	36.0	9.6	20.0	-	-	20.3
08_ Gwangju 2 <sup>nd</sup> Beltway Section 3-1	28.9	75.0	-	-	58.7	7.85	87.6
09_ Machang Bridge	33.8	70.0	79.0	11.4	-	-	112.8
10_ Yongin-Seoul Expressway	57.8	35.0	77.0	13.0	-	-	134.8
11_ Seoul-Chuncheon Expressway	48.6	15.0	87.4	11.6	-	-	136.0
12_ Seoul Subway Line 9 Section 1	40.9	24.5	33.5	15.0	-	-	74.4
13_ Incheon Grand Bridge	74.5	41.0	89.4	11.5	-	-	163.9
14_ Busan New Port Phase 2-3	66.4	30.0	193.0	10.0	-	-	259.4
<b>Total</b>	<b>626.4</b>		<b>889.4</b>		<b>252.6</b>		<b>1,768.4</b>
<b>Percentage (%)</b>	<b>35.4%</b>		<b>50.3%</b>		<b>14.3%</b>		<b>100.0%</b>

1. Includes KRW 3.2billion working capital facility

MKIF's portfolio is well balanced and diversified with a broad geographic spread throughout Korea





One of the national priority projects designed to meet the growing shipping volume in Busan as Asia's leading shipping and logistic hub



OPENING JANUARY 2012

## Busan New Port Phase 2-3



### ASSET DESCRIPTION

Busan New Port Phase 2-3 (BNP 2-3) is an independent full-service container terminal with an initial capacity of about 1.8 million TEU going up to 2.7 million TEU by 2014. As the most advanced terminal in Korea and the 1st vertical-automated in Asia, BNP 2-3 can berth 4 of the world's largest container vessels simultaneously at 1,400 metres of Quay with 16-17metres water depth.

BNP 2-3's automated-vertical design including 38 unmanned automated yard cranes, 8 quay cranes and 20 straddle carriers can operate to their maximum potential without having to wait for the previous or next process to finish before working and also is environment friendly with minimised emission.

### KEY INVESTMENT ATTRIBUTES

The existing port in Busan is the 5th largest port in the world handling over 16 million TEU in 2011. BNP 2-3 is designed to offer unrivaled reliability and full service compared to any other terminal in Korea. The site is on the north sea of Gadukdo at Busan City, the southeast coast of the Korean peninsula, and thus is strategically positioned to serve both the local market and international transshipment markets.

### OUTLOOK

BNP 2-3 operates outside the Korean Government's revenue support framework and is therefore significantly more exposed to the external business risks than rest of the portfolio. The long-term terminal service contracts with two major shipping lines, CMA CGM and Korea Marine Transport Company, provide certain downside protection. As it is typical for a port terminal, the management expects a slow ramp-up in the early stage and hence achieving operational and financial stability will be the focus of this year.

**Concession Company:** BNCT Co., Ltd.

**Opened Commencement:** 2 January 2012

**Concession Term:** 29 years and 3 months from the start of the operation (24 December 2011 ~ 23 March 2041)

**Relevant Authority:** Ministry of Land, Transport and Maritime Affairs

**Total commitment:** KRW 259.4billion

**Proportion of MKIF portfolio<sup>1</sup>:** 14.7%

1. Based on the total MKIF investment commitment to all investments in the portfolio



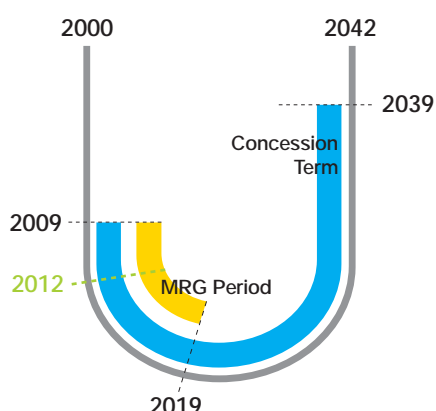
# Yongin-Seoul Expressway



## ASSET DESCRIPTION

22.9 km, dual two to three-lane tolled expressway, developed to ease traffic congestion on the Suwon-Seoul section of the Seoul-Busan Highway, which is one of the most heavily travelled expressway in Metropolitan Seoul

## CONCESSION TERM



**Concession Company:** Gyongsu Highway Co., Ltd.

**Opened:** July 2009

**Relevant Authority:** Ministry of Land, Transport and Maritime Affairs

**Total commitment:** KRW 134.8billion

**Proportion of MKIF portfolio:** 7.6%

## TRAFFIC AND REVENUE

Category	2010	2011
Average daily traffic (vehicles / day)	54,121	63,199
Average daily revenue (1,000 won)	87,157	101,810

\* The level of traffic volume in 2011: 75.6% of Concession Agreement forecast

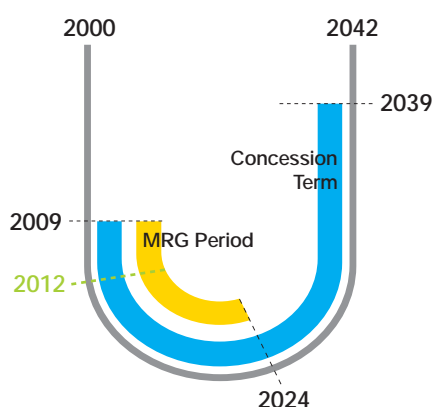
# Seoul-Chuncheon Expressway



## ASSET DESCRIPTION

61.4 km, dual two to three-lane toll expressway providing a link between Seoul and Gangwon province, a leading tourist destination in Korea

## CONCESSION TERM



**Concession Company:** Seoul-Chuncheon Highway Co., Ltd.

**Opened:** July 2009

**Relevant Authority:** Ministry of Land, Transport and Maritime Affairs

**Total commitment:** KRW 136.0billion

**Proportion of MKIF portfolio:** 7.7%

## TRAFFIC AND REVENUE

Category	2010	2011
Average daily traffic (vehicles / day)	35,724	38,397
Average daily revenue (1,000 won)	226,530	222,644

\* The level of traffic volume in 2011: 80.3% of Concession Agreement forecast

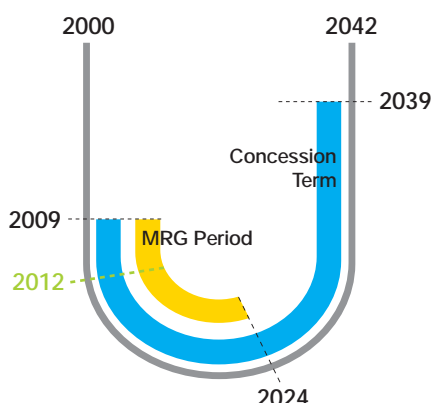
# Seoul Subway Line 9, Section 1



## ASSET DESCRIPTION

25.5 km, subway line providing regular and express service east-west along the southside of the Han River, running from Gimpo Airport to Gangnam, through major business and residential districts of Seoul

## CONCESSION TERM



**Concession Company:** Seoul Metro Line 9 Co., Ltd.  
**Opened:** July 2009

**Relevant Authority:** Seoul Metropolitan Government

**Total commitment:** KRW 74.4billion

**Proportion of MKIF portfolio:** 4.2%

## TRAFFIC AND REVENUE

Category	2010	2011
Average daily initial boarding <sup>1</sup> (passengers / day)	172,840	194,630
Average daily revenue (1,000 won)	124,564	137,856

1. Excludes inter-change passengers

\* The level of initial boarding in 2011: 94.9% of Concession Agreement forecast

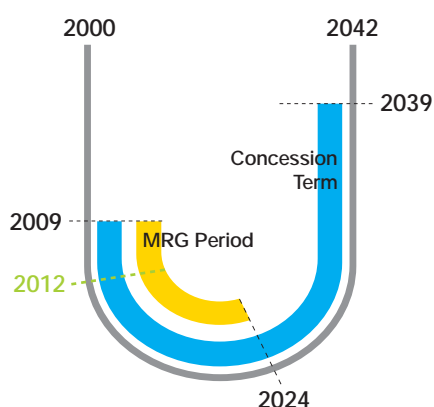
# Incheon Grand Bridge



## ASSET DESCRIPTION

12.3 km, dual three-lane tolled bridge which connects Incheon International Airport to the rapidly developing commercial area of New Songdo City in the Incheon Free Economic Zone

## CONCESSION TERM



**Concession Company:** Incheon Bridge Co., Ltd.

**Opened:** October 2009

**Relevant Authority:** Ministry of Land, Transport and Maritime Affairs

**Total commitment:** KRW 163.9billion

**Proportion of MKIF portfolio:** 9.3%

## TRAFFIC AND REVENUE

Category	2010	2011
Average daily traffic (vehicles / day)	25,549	27,440
Average daily revenue (1,000 won)	122,131	135,856

\* The level of traffic volume in 2011: 67.8% of Concession Agreement forecast

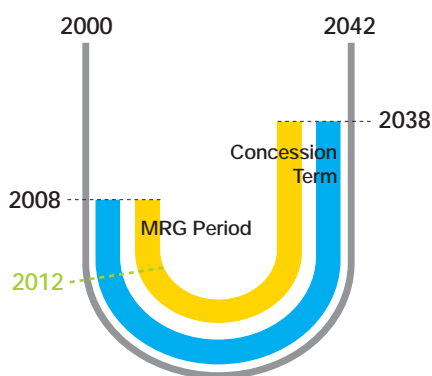
# Machang Bridge



## ASSET DESCRIPTION

1.7 km, dual two-lane, cable stayed bridge, providing a bypass for vehicles travelling the west bank and the east bank of Changwon city that shortens the coastal route between Busan and southwestern areas in Gyungsangnam-do Province

## CONCESSION TERM



**Concession Company:** Machang Bridge Co., Ltd.  
**Opened:** July 2008  
**Relevant Authority:** Gyungsangnam Provincial Government  
**Total commitment:** KRW 112.8billion  
**Proportion of MKIF portfolio:** 6.4%

## TRAFFIC AND REVENUE

Category	2010	2011
Average daily traffic (vehicles / day)	14,717	15,715
Average daily revenue (1,000 won)	26,346	28,358



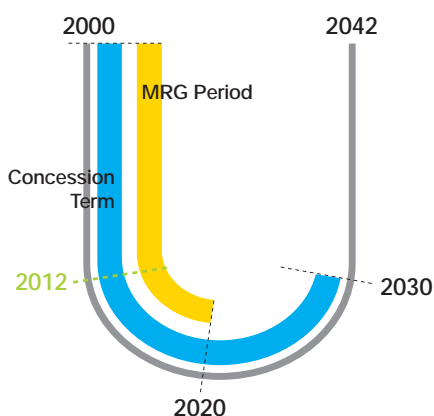
# Incheon International Airport Expressway



## ASSET DESCRIPTION

40.2 km, dual three to four-lane expressway link between Yongjong Island, site of the Incheon International Airport to Korea's capital, Seoul

## CONCESSION TERM



**Concession Company:** New Airport Hiway Co., Ltd.

**Opened:** December 2000

**Relevant Authority:** Ministry of Land, Transport and Maritime Affairs

**Total commitment:** KRW 109.9billion

**Proportion of MKIF portfolio:** 6.2%

## TRAFFIC AND REVENUE

Category	2010	2011
Average daily traffic (vehicles / day)	53,490	51,815
Average daily revenue (1,000 won)	335,242	325,454

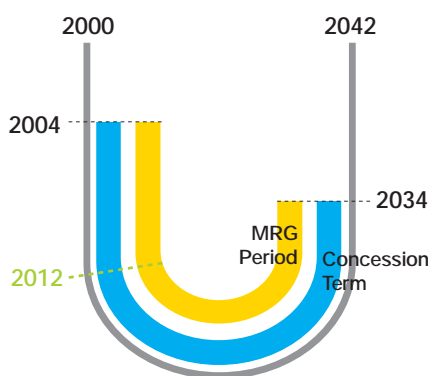
# Gwangju 2<sup>nd</sup> Beltway, Section 3-1



## ASSET DESCRIPTION

3.5 km, dual three-lane tolled expressway running east-west along the southern edge of Gwangju, Korea's fifth largest city

## CONCESSION TERM



**Concession Company:** Kwangju Ring Road Co., Ltd.

**Opened:** December 2004

**Relevant Authority:** Gwangju Metropolitan City

**Total commitment:** KRW 94.9billion

**Proportion of MKIF portfolio:** 4.9%

## TRAFFIC AND REVENUE

Category	2010	2011
Average daily traffic (vehicles / day)	33,344	36,185
Average daily revenue (1,000 won)	29,503	32,066

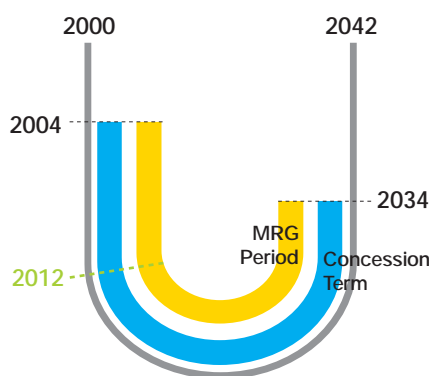
# Woomyunsan Tunnel



## ASSET DESCRIPTION

3.0 km, dual lane tolled tunnel running underneath Mount Woomyun, providing a direct route between the Seoul suburbs, Kwachon and Anyang

## CONCESSION TERM



**Concession Company:** Woomyunsan Infraway Co., Ltd.

**Opened:** January 2004

**Relevant Authority:** Seoul Metropolitan Government

**Total commitment:** KRW 20.3billion

**Proportion of MKIF portfolio:** 1.1%

## TRAFFIC AND REVENUE

Category	2010	2011
Average daily traffic (vehicles / day)	26,246	27,055
Average daily revenue (1,000 won)	45,494	47,348

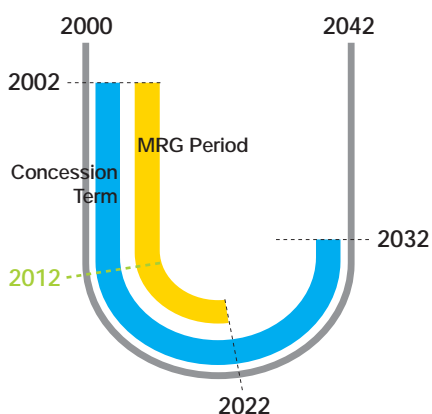
# Cheonan-Nonsan Expressway



## ASSET DESCRIPTION

81.0 km, dual two-lane toll expressway connecting Cheonan on the Gyeongbu Expressway to Nonsan on the Honam Expressway

## CONCESSION TERM



**Concession Company:** Cheonan Nonsan Expressway Co., Ltd.

**Opened:** December 2002

**Relevant Authority:** Ministry of Land, Transport and Maritime Affairs

**Total commitment:** KRW 270billion

**Proportion of MKIF portfolio:** 15.3%

## TRAFFIC AND REVENUE

Category	2010	2011
Average daily traffic (vehicles / day)	37,953	41,444
Average daily revenue (1,000 won)	291,191	320,375

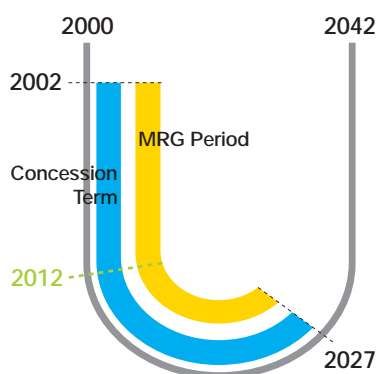
# Soojungsan Tunnel



## ASSET DESCRIPTION

2.3 km, dual two-lane tolled tunnel located in Busan, Korea's second largest city. Soojungsan Tunnel serves as an important connection through Busan central business district, Busan's port area which is the largest port in Korea and the northern and western residential areas including Gimhae International Airport

## CONCESSION TERM



**Concession Company:** Soojungsan Investment Co., Ltd.

**Opened:** April 2002

**Relevant Authority:** Busan Metropolitan City

**Total commitment:** KRW 124.0billion

**Proportion of MKIF portfolio:** 6.6%

## TRAFFIC AND REVENUE

Category	2010	2011
Average daily traffic (vehicles / day)	41,210	42,861
Average daily revenue (1,000 won)	30,856	32,080



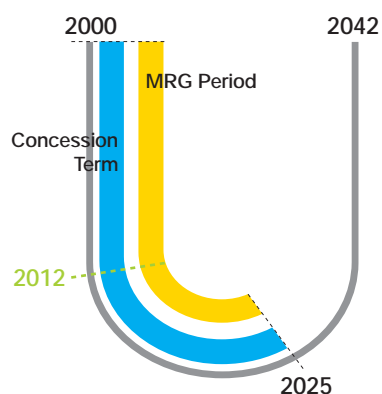
# Baekyang Tunnel



## ASSET DESCRIPTION

2.3 km, dual two-lane tolled tunnel that runs underneath Baekyang Mountain in Busan city, providing a link through the Busan central business district, Busan port and the northern and western residential areas including Gimhae International Airport

## CONCESSION TERM



**Concession Company:** Baekyang Tunnel Ltd.

**Opened:** January 2000

**Relevant Authority:** Busan Metropolitan City

**Total commitment:** KRW 2.8billion

**Proportion of MKIF portfolio:** 0.2%

## TRAFFIC AND REVENUE

Category	2010	2011
Average daily traffic (vehicles / day)	69,349	71,001
Average daily revenue (1,000 won)	50,487	51,523

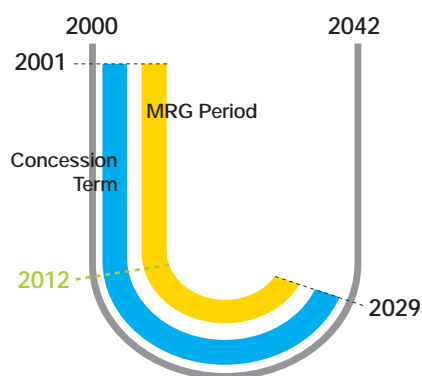
# Gwangju 2<sup>nd</sup> Beltway, Section 1



## ASSET DESCRIPTION

5.6 km dual three-lane expressway consisting of four tunnels and 10 bridges, running from Gwangju Dooam Interchange to Sotae Interchange

## CONCESSION TERM



**Concession Company:** Kwangju Beltway Investment Co., Ltd.

**Opened:** January 2001

**Relevant Authority:** Gwangju Metropolitan City

**Total commitment:** KRW 190.3billion<sup>1</sup>

**Proportion of MKIF portfolio:** 10.8%

1. Includes KRW 3.2billion working capital facility

## TRAFFIC AND REVENUE

Category	2010	2011
Average daily traffic (vehicles / day)	36,019	37,414
Average daily revenue (1,000 won)	37,203	38,825

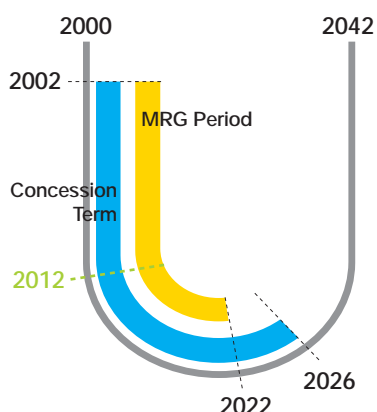
# Daegu 4<sup>th</sup> Beltway, East



## ASSET DESCRIPTION

7.3 Km, dual three-lane expressway forming the east section of Daegu city's proposed circulation road, running along north-south of the eastern perimeter of Daegu City

## CONCESSION TERM



**Concession Company:** Daegu East Circulation Road Co., Ltd.

**Opened:** September 2002

**Relevant Authority:** Daegu Metropolitan City

**Total commitment:** KRW 89.5billion

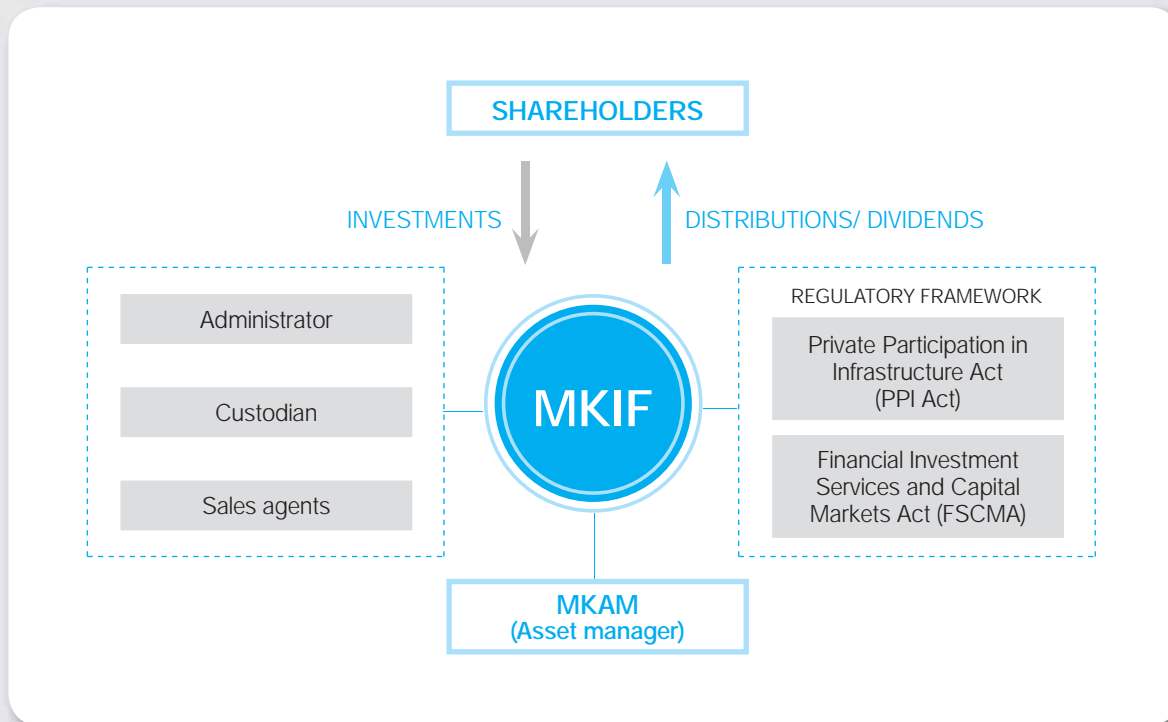
**Proportion of MKIF portfolio:** 5.0%

## TRAFFIC AND REVENUE

Category	2010	2011
Average daily traffic (vehicles / day)	19,825	20,371
Average daily revenue (1,000 won)	19,879	20,399

# Corporate governance statement

## MKIF'S STRUCTURE



## LEGAL FRAMEWORK

MKIF operates under the legal and regulatory framework established by the FSCMA, and the Private Participation in Infrastructure Act (PPI Act). MKIF is required under FSCMA to appoint an asset manager, a custodian, an administrator and a sales agent (collectively the "Service Providers").

MKIF is externally managed by Macquarie Korea Asset Management Co., Ltd. (MKAM), which was appointed as MKIF's sole and exclusive manager pursuant to a management agreement. MKAM is incorporated in Korea and is a wholly owned subsidiary of Macquarie Group Limited.

## MKIF BOARD OF DIRECTORS

The MKIF Board of Directors, comprising a majority of independent supervisory directors, is responsible for overseeing MKIF operations, monitoring MKIF business affairs (including overseeing the performance of the asset manager and other service providers), capital management (including share issues) and approving and monitoring financial and other reporting. The Board is required to act in the best interests of MKIF and its shareholders.

The Board is currently comprised of four directors: one corporate director and three supervisory directors. Under FSCMA and MKIF's Articles of Incorporation (AOI), MKIF is required to have at least one corporate

# Corporate governance statement

director at all times. In accordance with FSCMA, MKIF's manager, MKAM is the corporate director and will appoint one of its officers or employees as its representative on the MKIF Board. MKAM represents, manages and conducts the business of MKIF and must report to the MKIF Board the status of business conduct and asset management at least once every quarter.

The directors are appointed by the shareholders at a general meeting held in accordance with MKIF's AOI. Pursuant to the Korean Commercial Code and MKIF's AOI, the maximum length of a director's term of office is three years, after which the director can stand for reappointment.

However, under the FSCMA promulgated in 2008 the term of corporate director was changed to the dissolution of MKIF from three years. Board meetings are held at least once every quarter. Directors are provided with board papers in advance of each meeting to enable informed discussion of agenda items.

The supervisory directors may request the corporate director or any of MKIF's service providers to report to the Board the status of MKIF business or assets whenever the supervisory directors deem necessary. The Board has the right to decide the following matters:

- Execution and/or termination of the Management Agreement, Custodian Agreement, Sales Agency Agreements and Administration Agreement;
- Convening general meetings of shareholders;

- Issuance of new shares;
- Payment of expenses or fees (or commissions) payable to service providers in connection with the management, custody or distribution of MKIF assets, the administration of MKIF or other services;
- Matters relating to the allocation of distributions either in the form of cash or shares; and
- Any matters which require the resolution of the MKIF Board under the MKIF AOI, FSCMA, or other relevant legislation and regulations.

MKAM, as Manager, is a corporate director. The current supervisory directors of MKIF are as follows:

## **Dae Yun Cho**

*Reappointed as MKIF Supervisory Director in March 2007 (Initially appointed in December 2002)*

- Attorney-at-law, Senior Partner of Kim & Chang
- National Candidate of Korea for the World Trade Organisation (WTO) Panel and for the WTO's Subsidy and Countervailing Duties Committee
- President of the International Association of Korean Lawyers
- Arbitrator of the Korean Commercial Arbitration Board
- Former President of the Korea International Trade Law Association
- Former consultant for various Korean Ministries, including the Ministry of Strategy and Finance and the Ministry of Knowledge Economy

## **Kyung Soon Song**

*Reappointed as MKIF Supervisory Director in March 2011 (Initially appointed in March 2005)*

- Founding Representative Director of Korea Expert



Consulting Group (KECG)

- Member of International Development Cooperation Committee of the Republic of Korea
- Former Chairman of International Finance Subcommittee, Financial Sector Development Review Committee of the Korean Government
- Former senior staff member of World Bank
- Former chief operating officer of Nomura Project Finance International Limited

#### **Dae Hee Yoon**

*Appointed as MKIF Supervisory Director in March 2011*

- Head of the Knowledge Sharing Program (KSP) promoted by the Korean government
- Executive Advisor in Yulchon
- Chair Professor in Economics, Gachon University
- Former Minister of the Government Policy Coordination Office
- Former Senior Secretary of Economic Affairs at Presidential Office
- Former Deputy Minister for Planning and Management at Ministry of Strategy and Finance

#### **MKIF's Approach to Corporate Governance**

The MKIF Board is committed to achieving sustainable financial performance for the benefit of MKIF security holders, while meeting the expectations of all stakeholders for responsible corporate governance. Accordingly, the Board has established clear corporate governance arrangements for MKIF, including delegation of responsibilities to MKAM and other service providers. The Board monitors these delegations, and periodically reviews the effectiveness of arrangements to ensure they are in the best interest

of MKIF and its security holders.

MKIF relies extensively on its corporate director and asset manager, MKAM, for effective day-to-day control of MKIF's operations. This reliance is established by the Management Agreement, MKIF's AOI, and applicable Korean laws and regulations, which together give MKAM full authority with respect to the management of MKIF assets. Consequently, MKAM is an important component of MKIF's corporate governance framework. As an affiliate of the Macquarie Group Limited, MKAM has, to the extent possible and relevant, adopted the corporate governance framework that Macquarie Infrastructure and Real Assets (MIRA) applies to its funds management activities.

The requirements of the framework and its related policies are broadly consistent with the Macquarie Funds Management Policy (the "MIRA Fund Policy"). The MIRA Fund Policy is designed to maximise corporate performance and accountability in the interests of shareholders and the broader economy, and address matters such as board structure, promotion of ethical and responsible decision-making, timely and balanced disclosure, recognition and management of risk, and recognition of the interests of stakeholders.

The MKIF and MKAM Boards have adopted fund management policies that are consistent with the principles contained in the MIRA Fund Policy, although they have been amended to take account of Korean legal and regulatory requirements. The policies address the following key areas:

# Corporate governance statement

- Risk management;
- External communications;
- Staff trading;
- Conflict of interest management;
- Auditor independence;
- Employee conduct;
- Employee health and safety;
- Environmental and social responsibility management; and
- Related party transactions.

## MKAM BOARD OF DIRECTORS

The MKAM Board of Directors (the "MKAM Board") is responsible for establishing an effective corporate governance framework and MKAM management oversight, with a view to ensuring that MKAM performs its duties with due care and diligence in accordance with the management agreement. In particular, the MKAM Board is responsible for:

- Considering and approving the submission of investment or divestment recommendations to MKIF;
- Setting objectives, goals and strategic direction for management, with a view to maximising shareholder wealth;
- The oversight of control and accountability systems;
- Ensuring MKAM is performing its functions and providing services to MKIF as provided for under the Management Agreement;
- Review and ratification of systems for risk management framework and internal compliance standards;

- Approving and monitoring financial and other reporting; and
- Setting the highest business standards and codes for ethical behaviour.

Board meetings are held at least quarterly or more frequently as required. Directors are provided with board papers in advance of each meeting to enable informed consideration of agenda items.

MKAM's current board of directors comprises three representatives.

### Chul Hum Paik

*Reappointed as MKAM Representative Director in December 2009 (Initially appointed in December 2006)*

- Representative Director of MKAM
- Former Head of the Financial Products division of Shinhan Macquarie Financial Advisory from 2001 to 2006
- Lead financial adviser to MKIF on its successful IPO and listing in March 2006
- Joined Shinhan Bank in 1993, with responsibilities for international banking and investment banking division

### Jason Pak

*Reappointed as MKAM Director in November 2011 (Initially appointed in June 2008)*

- Chief Operating Officer of MKAM, responsible for capital management, investor relations and general operations

- Joined Macquarie Group in 2002 and spent 4 years on the equity capital market and M&A advisory side with Macquarie Securities Korea Ltd.
- Worked over 5 years in the Corporate Finance division of KPMG, in Seoul and London on the M&A advisory side

#### Jong Hyuck Park

*Appointed as MKAM Director in June 2010*

- Head of Transactions Team of MKAM
- Joined Macquarie Group in 2007 with responsibilities for asset transactions
- Worked over 10 years mainly in Investment Banking Division of Kookmin Bank
- Worked as a member of advisory panel to PIMAC

## SHAREHOLDER INFORMATION AND DISCLOSURE

It is MKIF's policy to provide timely, open and accurate information to shareholders. Shareholders will be informed to the release of MKIF's annual report, audit report and financial statements and other regular reports. These reports will keep shareholders informed of MKIF's performance.

FSCMA requires MKAM to upload a quarterly asset management report in the MKIF website, and an annual

and quarterly business report to the Financial Service Commission (FSC) and the Korea Financial Investment Association (KOFIA). The FSC and KOFIA are responsible for disclosure of the reports to investors under the FSCMA.

MKIF is required to disclose information to investment markets in accordance with the regulations of the Korea Exchange and the London Stock Exchange.

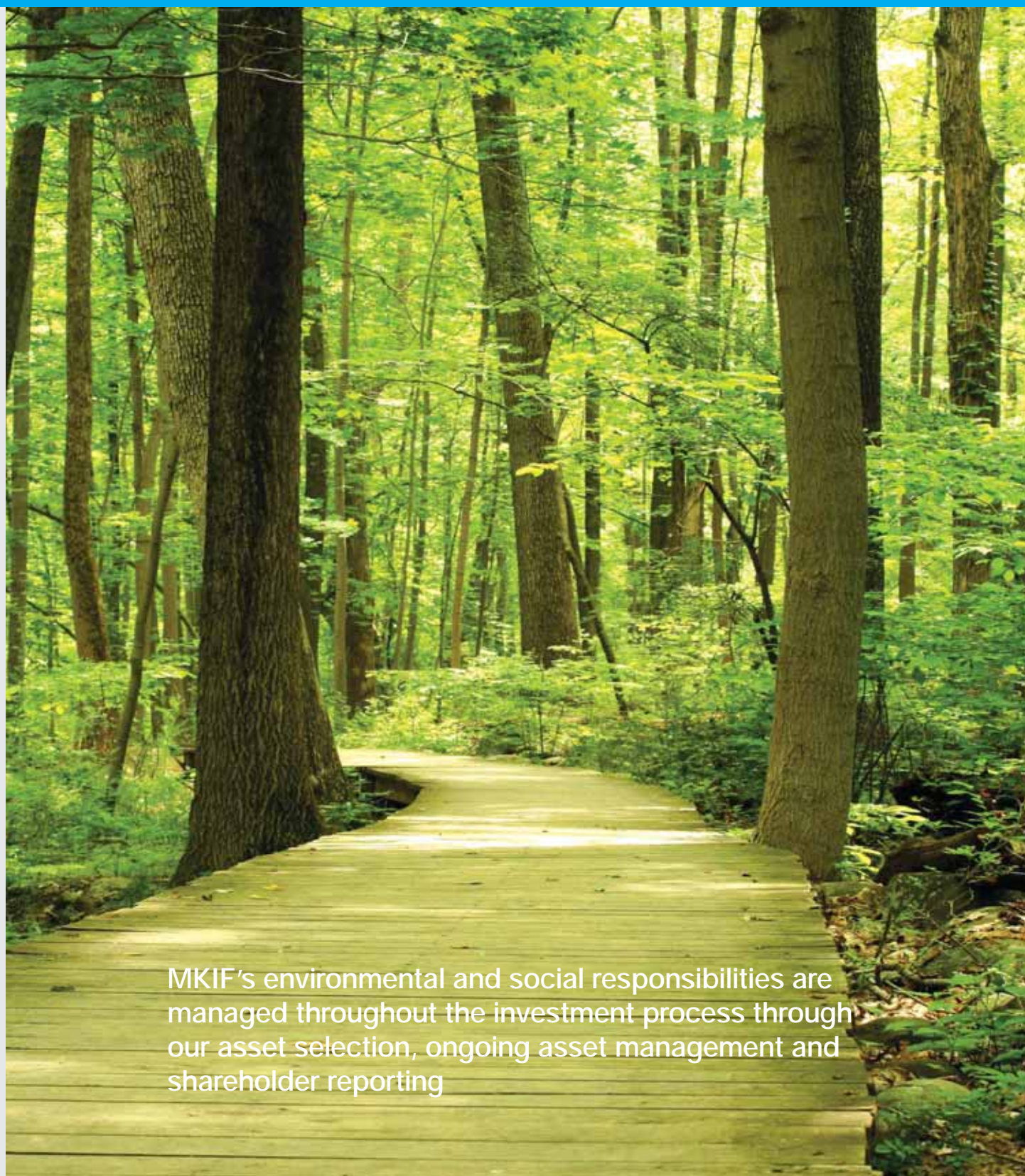
## COMPLIANCE

Under the FSCMA, MKAM, as MKIF's asset manager, is required to establish MKAM Board-approved internal control standards. Internal control standards are basic procedures and standards to be followed by MKAM's officers and employees when they perform their duties in order to observe relevant laws and regulations, manage the company's assets effectively, and protect its investors.

MKAM appointed a compliance officer who is responsible for reviewing and monitoring the efficiency of compliance systems on an ongoing basis so that appropriate compliance procedures, staff education and board reporting arrangements are in place to enable observance of the internal control standards.



# Environmental and social responsibility management



MKIF's environmental and social responsibilities are managed throughout the investment process through our asset selection, ongoing asset management and shareholder reporting



The Macquarie Group (Macquarie) manages a range of investment scheme within Macquarie Funds Group.

The commitment is based on Macquarie taking a long-term view of its business activities and acknowledging the importance of good custodianship to the communities in which it operates.

Macquarie's commitment is underpinned by:

- A clear expectation of ethical behaviour from all Macquarie staff, which has been adopted by MKIF and which is set out in MKIF's code of conduct; and
- A robust framework of policies including those relevant to environmental, social and governance responsibilities.

## RESPONSIBILITY

All Macquarie staff, including those working on behalf of MKIF, have a collective responsibility to ensure that Macquarie continues to be a good corporate citizen. MKIF's manager is supported in this by Macquarie's integrity, equal employment and sustainability and environment officers, and the risk management group.

Macquarie staff may also contribute their time, expertise and/or finances to community organisations through the Macquarie Group Foundation.

## MKIF

MKIF recognises that its investment in and development and management of infrastructure investments may have environmental and social impacts. MKIF acknowledges that many people are touched by the activities of its investments' operations and will work to ensure their operations are conducted in an environmentally and socially responsible manner..

MKIF's environmental and social responsibility arises from the impact (both positive and negative) on natural resources, the community, customers, employees and investors by the operations of the fund and its investments.

MKIF's environmental and social responsibilities are managed throughout the investment process as follows:

- **Asset selection** - environmental and social responsibilities are reviewed as part of the acquisition due diligence process. Where they exist, regulatory obligations are viewed as minimum standards for environmental and social responsibility management post-acquisition.
- **Ongoing asset management** - MKIF's ability to control or influence the ongoing environmental and social responsibility management at each asset differs based on its level of investment and the regulatory framework that governs those issues. Importantly, the regulatory framework is not controlled by MKIF or its assets.

In general, it is MKIF's policy to ensure compliance by its assets within the regulatory framework and the minimum standards under which an asset operates and seek to apply accepted good practice.

Through participation on the Boards of concession companies, MKIF representatives actively participate in the consideration of environmental issues. Each concession company provides regular reports to its Board on environmental matters, and this enables compliance with environmental requirements to be monitored and environmental and social responsibility issues to be identified and resolved on a timely basis.

# Environmental and social responsibility management

## KEY ENVIRONMENTAL AND SOCIAL RESPONSIBILITY FACTORS

Following a review of the specific regulatory requirements and concession agreements related to each asset, MKIF has identified its key environmental and social responsibility factors as:

- Air quality;
- Noise and other pollution;
- Waste management;
- Landscaping;
- Flora and fauna management;
- Occupational health and safety;
- Recruitment and business contracting compliance; and
- Community relations.

## ENVIRONMENTAL AND SOCIAL RESPONSIBILITY-RELATED REGULATORY REQUIREMENTS

MKIF is not aware of any significant breaches of relevant environmental and social responsibility-related regulatory standards by its assets during the year ended 31 December 2011.

## ENVIRONMENTAL AND SOCIAL RESPONSIBILITY-RELATED INITIATIVES AT MKIF BUSINESSES DURING FY2011

Examples of notable environmental and social responsibility-related initiatives undertaken during recent years at businesses in which MKIF invests include:

### Seoul Metro Line 9, Section 1 (SM9)

SM9, the first privatised subway line in Korea, has introduced various programs for conserving energy and preserving the environment. SM9 introduced an energy recycling system on its rolling stocks where surplus electricity used for powering is stored and recycled, resulting in a reduction of the electricity cost of almost KRW 45million per annum. In addition, SM9 has been

recently granted a registration in the NYSE Blue VCS Registry as the first and only transport project in the world for selling carbon credits.

### Yongin Seoul Expressway (YSE)

After extensive research on habitat for reptiles and small animals in the vicinities of the expressway, YSE has installed 16km of pathway and fences to guide and allow animals to free cross the expressway. Specialised agency is conducting inspection and effectiveness of the facility periodically, including animal sighting locations and movements. YSE also placed environmental friendly facilities to shy away animals from frequent road-kill locations. Such an environment cares has been noted as an outstanding example in recent Private Concession Road Operation Evaluation conducted by the Ministry of Land, Transport and Maritime Affairs.

### Incheon Grand Bridge (IGB)

As an active member of its community, IGB has participated in a wide range of community initiatives over the years. In 2011, IGB was a sponsor to Saeul Foundation of Culture, supporting to publish *Hwanghae Culture*, a cultural periodical and successfully held a cultural event of *Night of Aria and Vocal*. In November 2011, over 50 of IGB staff spent the day making Kimchi - a traditional staple commonly made with napa cabbage and spicy pepper seasoning - to support the community who could not afford to make it.

### Machang Bridge (MCB)

MCB has an excellent track record of corporate citizenry. MCB has participated in a wide range of community initiatives over the years. In 2011, MCB supported *2011 Millennial Anniversary of the Tripitaka Koreana* - a world culture festival hosted by local government. MCB also showed strong commitment to education in the local communities by providing sponsorship to Gimhae Citizen's School which is a local community providing education aids to working teenagers and multi-cultural families. MCB consistently plans to increase their commitment to local communities this year.

# Non-Consolidated Financial Statements

Non-Consolidated Financial Statements  
December 31, 2011 and 2010

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38	Non-consolidated Statements of Income
39	Non-consolidated Statements of Changes in Shareholders' Equity
40	Non-consolidated Statements of Cash Flows
41	Notes to Non-consolidated Financial Statements

## Report of Independent Auditors

To the Shareholders and Board of Directors of  
MACQUARIE KOREA INFRASTRUCTURE FUND

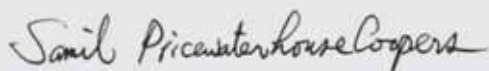
We have audited the accompanying statements of financial position of MACQUARIE KOREA INFRASTRUCTURE FUND (hereafter "the Company") as of December 31, 2011 and 2010, and the related statements of income, changes in shareholders' equity and cash flows for the years then ended, expressed in Korean won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements, referred to above, present fairly, in all material respects, the financial position of MACQUARIE KOREA INFRASTRUCTURE FUND as of December 31, 2011 and 2010, and the results of its operations, the changes in its shareholders' equity and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Republic of Korea.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the readers as described in Note 2(b) to the accompanying financial statements, do not form part of the non-consolidated financial statements and are unaudited.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations, changes in shareholders' equity and cash flows in conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those who are informed about Korean accounting principles or auditing standards and their application in practice.



Seoul, Korea  
January 31, 2012

This report is effective as of January 31, 2012, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Samil PricewaterhouseCoopers

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Samil PricewaterhouseCoopers is the Korean network firm of PricewaterhouseCoopers International Limited (PwCIL). "PricewaterhouseCoopers" and "PwC" refer to the network of member firms of PwCIL. Each member firm is a separate legal entity and does not act as an agent of PwCIL or any other member firm.



## Non-consolidated Statements of Financial Position

MACQUARIE KOREA INFRASTRUCTURE FUND  
December 31, 2011 and 2010  
(In thousands of Korean won and U.S. dollars, except per share data)

	Won (thousands)		U.S. dollars (note 2(b))
Assets	2011	2010	2011
<b>Invested assets:</b>			
Cash and deposits (Note 3)	₩ 100,893,350	₩ 139,365,426	\$ 87,482,312
Loans receivable (Notes 4 and 7, 20)	1,137,195,736	1,098,822,291	986,036,362
Equity securities (Notes 6 and 9, 20)	631,803,347	610,398,897	547,822,203
<b>Total invested assets</b>	<b>1,869,892,433</b>	<b>1,848,586,614</b>	<b>1,621,340,877</b>
<b>Other assets:</b>			
Interest receivable (Note 7)	242,420,613	199,145,159	210,197,358
Other receivables	4,457,863	3,860,135	3,865,311
Deferred costs, net (Note 5)	9,749,143	13,348,663	8,453,258
<b>Total other assets</b>	<b>256,627,619</b>	<b>216,353,957</b>	<b>222,515,927</b>
<b>Total assets</b>	<b>₩ 2,126,520,052</b>	<b>₩ 2,064,940,571</b>	<b>\$ 1,843,856,804</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Liabilities:</b>			
Accounts payable	₩ 1,075	₩ 907	\$ 932
Management fee payable (Note 8)	6,140,003	5,958,632	5,323,856
Other liabilities (Notes 8 and 10)	1,811,601	2,653,663	1,570,798
Corporate bonds (Note 12)	248,978,465	-	215,883,521
Long-term debts (Notes 8 and 11)	183,907,228	360,550,681	159,461,743
<b>Total liabilities</b>	<b>440,838,372</b>	<b>369,163,883</b>	<b>382,240,850</b>
Commitments (Note 20)			
<b>Shareholders' equity:</b>			
Share capital - no par value	1,670,985,755	1,670,985,755	1,448,873,454
Authorized - 4,000,000,000 shares; Issued and outstanding: 331,459,341 shares in 2011 and 2010 (Note 13)			
Retained earnings	14,695,925	24,790,933	12,742,500
Net asset value per share in Korean won and U.S. dollars: ₩ 5,086 (\$4.41) in 2011 and ₩ 5,116 (\$4.49) in 2010 (Note 18)			
<b>Total shareholders' equity</b>	<b>1,685,681,680</b>	<b>1,695,776,688</b>	<b>1,461,615,954</b>
<b>Total liabilities and shareholders' equity</b>	<b>₩ 2,126,520,052</b>	<b>₩ 2,064,940,571</b>	<b>\$ 1,843,856,804</b>

The accompanying notes are an integral part of these financial statements

## Non-consolidated Statements of Income

MACQUARIE KOREA INFRASTRUCTURE FUND  
For the years ended December 31, 2011 and 2010  
(In thousands of Korean won and U.S. dollars, except earnings per share)

	Won (thousands)		U.S. dollars (note 2(b))
	2011	2010	2011
<b>Revenue:</b>			
Interest income (Notes 4, 7 and 8)	₩ 161,804,180	₩ 151,281,496	\$ 140,296,696
Arrangement fees	-	100,000	-
Gain on sale of investment, net (Notes 4 and 6)	621,635	14,887,510	539,005
Other income	-	6,250	-
	<b>162,425,815</b>	<b>166,275,256</b>	<b>140,835,701</b>
<b>Expenses:</b>			
Management fees (Note 8)	24,151,939	22,891,440	20,941,593
Custodian fees (Note 8)	333,412	334,633	289,904
Administrator fees (Note 8)	208,382	250,681	180,683
Interest expense (Note 8)	23,701,286	25,620,003	20,550,842
Other expense (Notes 7, 8 and 15)	8,446,494	5,736,475	7,323,761
	<b>56,841,513</b>	<b>54,833,232</b>	<b>49,285,973</b>
<b>Net income</b>	₩ <b>105,584,302</b>	₩ 111,442,024	\$ <b>91,549,728</b>
<b>Earnings per share</b>			
in Korean won and U.S. dollars (Note 19)	₩ <b>319</b>	₩ 336	\$ <b>0.276</b>

The accompanying notes are an integral part of these financial statements

## Non-consolidated Statements of Changes in Shareholders' Equity

MACQUARIE KOREA INFRASTRUCTURE FUND  
For the years ended December 31, 2011 and 2010  
(In thousands of Korean won and U.S. dollars, except per share data)

	Won (thousands)		U.S. dollars (note 2(b))	
	Share capital	Retained earnings	Total	Total
<b>Balance at January 1, 2010</b>	₩ 1,670,985,755	₩ 19,415,898	₩ 1,690,401,653	\$ 1,465,708,535
Net income	-	111,442,024	111,442,024	96,628,825
Cash distribution (Note 14)	-	(106,066,989)	(106,066,989)	(91,968,255)
(Net asset value per share in Korean won and US dollars: ₩ 5,116 (\$4.49) (Note 18)				
<b>Balance at December 31, 2010</b>	1,670,985,755	24,790,933	1,695,776,688	1,470,369,103
Net income	-	105,584,302	105,584,302	91,549,728
Cash distribution (Note 14)	-	(115,679,310)	(115,679,310)	(100,302,879)
(Net asset value per share in Korean won and US dollars: ₩ 5,086 (\$4.41) (Note 18)				
<b>Balance at December 31, 2011</b>	₩ 1,670,985,755	₩ 14,695,925	₩ 1,685,681,680	\$ 1,461,615,954

The accompanying notes are an integral part of these financial statements

## Non-consolidated Statements of Cash Flows

MACQUARIE KOREA INFRASTRUCTURE FUND  
For the years ended December 31, 2011 and 2010  
(In thousands of Korean won and U.S. dollars)

	Won (thousands)		U.S. dollars (note 2(b))	
	2011	2010	2011	
<b>Cash flows from operating activities:</b>				
Cash inflows from operating activities:				
Interest income	₩ 98,048,834	₩ 104,864,171	\$ 85,015,897	
Arrangement fees	-	100,000	-	
Collection of loans receivable	14,530,485	75,796,803	12,599,051	
Other income	869	69,181	753	
Sale of invested assets	20,550,000	46,834,100	17,818,434	
	<b>133,130,188</b>	<b>227,664,255</b>	<b>115,434,135</b>	
Cash outflows from operating activities:				
Purchases of equity securities	(21,404,450)	(12,417,750)	(18,559,308)	
Issuances of loans receivable	(52,951,000)	(139,443,440)	(45,912,599)	
Payment of deferred costs	(79,000)	(89,066)	(68,499)	
Management fees	(23,970,568)	(22,747,130)	(20,784,330)	
Custodian fees	(333,694)	(334,767)	(289,338)	
Administrator fees	(208,558)	(271,928)	(180,836)	
Other expenses	(1,148,492)	(1,521,282)	(995,831)	
	<b>(100,095,762)</b>	<b>(176,825,363)</b>	<b>(86,790,741)</b>	
Net cash provided by operating activities	<b>33,034,426</b>	<b>50,838,892</b>	<b>28,643,394</b>	
<b>Cash flows from financing activities:</b>				
Repayment of long-term debts	(250,000,000)	(50,000,000)	(216,769,271)	
Proceeds from long-term debts	55,443,047	5,000,000	48,073,395	
Issuance of Bonds	250,000,000	-	216,769,271	
Distribution	(115,679,310)	(106,066,989)	(100,302,879)	
Interest expense	(6,552,338)	-	(5,681,382)	
Bond issue costs	(1,125,900)	-	(976,242)	
Incidental expenses for borrowings	(3,592,000)	(100,000)	(3,114,541)	
Net cash used in financing activities	<b>(71,506,501)</b>	<b>(151,166,989)</b>	<b>(62,001,649)</b>	
<b>Net decrease in cash and deposits</b>	<b>(38,472,076)</b>	<b>(100,328,097)</b>	<b>(33,357,255)</b>	
<b>Cash and deposits at beginning of the year</b>	<b>139,365,426</b>	<b>239,693,523</b>	<b>120,840,567</b>	
<b>Cash and deposits at end of the year</b>	<b>₩ 100,893,350</b>	<b>₩ 139,365,426</b>	<b>\$ 87,482,312</b>	

The accompanying notes are an integral part of these financial statements



# Notes to Non-consolidated Financial Statements

MACQUARIE KOREA INFRASTRUCTURE FUND  
December 31, 2011 and 2010

## 1. Organization and Description of Business

MACQUARIE KOREA INFRASTRUCTURE FUND (the "Company") was incorporated on December 12, 2002, under the Securities Investment Company Act (the "SICA") and the Private Participation in Infrastructure Act (the "PIIA"). The Company is an investment company that operates by investing in entities that have entered into long-term concession agreements with central, provincial and city governments in Korea implemented under the framework of the PPIA. During 2004 the Korean Government enacted the Indirect Investment Asset Management Business Act ("IIAMBA"), replacing the SICA. During 2009 the Korean Government enacted the Financial Investment Services and Capital Markets Act (the "FSCMA"), replacing the IIAMBA. The Company, which was classified as an investment company under the IIAMBA, was registered as an investment company under the FSCMA on April 30, 2009, and amended its Articles of Incorporation on June 15, 2009.

Under the FSCMA, the Company shall not have any employees. Instead, the Company is required under FSCMA to appoint a manager, custodian, administrator and sales agents. As described in Note 8, Macquarie Shinhan Infrastructure Asset Management Co., Ltd. (the "Manager") is the Company's asset manager. The Manager is a joint venture between entities in the Macquarie Group and Shinhan Financial Group. On November 11, 2005, the Manager was licensed as an infrastructure fund asset management company under the IIAMBA and on February 4, 2009, the Manager was re-licensed as an infrastructure fund asset management company under the FSCMA. Also, on June 24, 2010, the manager was authorized as the manager of special asset collective investment vehicle under the FSCMA, and expanded its business scope.

The Company listed its Depository Receipts (DR) on the London Stock Exchange Professional Securities Market on March 14, 2006 and listed its common stock on the Korea Stock Exchange on March 15, 2006.

## 2. Summary of Significant Accounting Policies and Basis of Presenting Financial Statements

### (a) Basis of Presenting Financial Statements

The Company maintains its accounting records in Korea and prepares financial statements in conformity with the FSCMA, the Statement of Korea Accounting Standards ("SKAS") No. 5003, "Collective investment Vehicle".

Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, non-consolidated financial statements are intended for use only by those who are informed about Korean accounting principles and practices.

The accompanying non-consolidated financial statements include only the accounts of the Company, and do not consolidate the accounts of any of the Company's subsidiaries.

## Notes to Non-consolidated Financial Statements, Continued

### 2. Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued

#### (b) Basis of Translating Financial Statements

The Company operates primarily in Korea and its accounting records are maintained in Korean won. The U.S. dollars amounts as of and for the year ended December 31, 2011, provided herein, represent supplementary information, solely for the convenience of the reader. All won amounts are expressed in U.S. dollars at US\$1:₩1,153.3. Such presentation is not in accordance with accounting principles generally accepted in the Republic of Korea, and should not be construed as a representation that the won amounts shown could be readily converted, realized or settled in U.S. dollars at this or any other rate.

#### (c) Revenue Recognition

Revenue is recognized when the Company's revenue-earning activities have been substantially completed, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Company. Interest income on loans is recognized on an accrual basis. In principle, the Company recognizes interest income using the effective interest rate method over the term of the loan.

#### (d) Cash and Deposits

The Company considers cash and deposits to include funds deposited in money market deposit accounts, negotiable certificates of deposit and time deposits.

#### (e) Loans Receivable

The acquisition costs of loans receivable are initially carried at cost. The costs related to loan acquisitions are deferred and amortized over the term of the respective loan. Under the effective interest rate method, the loans are recorded at amortized costs, including allowance for doubtful loans.

The Company assesses the potential impairment of loans receivable when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value unlikely. The carrying value of the asset is reduced to its estimated realizable value by recording an impairment loss charged to current operations and presenting it as a reduction from the said carrying value.

#### (f) Investment Securities

Under the SKAS No.5003, "Investment Securities", investment securities are initially recognized and carried at cost, including incidental expenses.

The Company as the investment company also accounts for investment securities under the provision of SKAS No. 5003, "Collective Investment Vehicle".

Investment securities are subsequently measured at fair value and changes in the fair values of the securities are recognized in the current operations. Under SKAS No. 5003, the fair value is determined by valuation methodologies stipulated in FSCMA.

Under the provision of FSCMA and its presidential decree, when a reliable market price is not readily determinable at the assessment date, investment securities are measured at fair value which is the price determined by the Collective Investment Property Appraisal Committee ("Appraisal Committee") of Macquarie Shinhan Infrastructure Asset Management Co., Ltd. In this case, the Appraisal Committee should determine the price of unlisted and

## 2. Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued

non-marketable securities considering, amongst other things, the acquisition cost, transaction price and third party valuation. As of December 31, 2011, the Appraisal Committee has chosen to adopt acquisition cost as its fair value for the unlisted equity securities.

Investment securities shall be assessed at each statement of financial position date to determine whether there is any objective evidence of impairment. When such evidence exists, and unless there is clear counter evidence that recognition of impairment is unnecessary, the entity shall estimate the recoverable amount of the impaired security and recognize any impairment loss in current operations.

### (g) Distributions Payable

Distributions are declared and recorded upon approval by the Company's board of directors as defined under the Company's Articles of Incorporation.

### (h) Provisions

When there is a probability that an outflow of economic benefits will occur due to a present obligation resulting from a past event, and whose amount is reasonably estimable, a corresponding amount of provision is recognized in the financial statements. However, when such outflow is dependent upon a future event, is not certain to occur, or cannot be reliably estimated, a disclosure regarding the contingent liability is made in the notes to the financial statements.

### (i) Net Asset Value Per Share

Net asset value per share is calculated as the carrying value of net assets of the Company divided by the outstanding numbers of shares.

### (j) Earnings Per Share

Earnings per share is calculated by dividing net income by the weighted-average numbers of shares outstanding during each period.

### (k) Income Taxes

As described in Note 1, the Company is an investment company under the FSCMA, which is defined as a collective investment vehicle established in the form of a corporation under the Korean Commercial Code to distribute to its shareholders the profits made by managing investments. Accordingly, for Korean corporate income tax purposes, the Company, as an investment company under the FSCMA, is entitled to deduct from its taxable income (up to an amount equal to its taxable income) for any fiscal year the amount of distributions the Company declares in the same year as long as such amount is equal to 90% or more of the Company's distributable income for such year. Distributable income is defined as non-consolidated net income after deduction of income taxes as set forth in the Company's non-consolidated financial statements prepared under Korean GAAP, further adjusted to include retained earnings or deficit and any reserves pursuant to applicable laws and regulations. If the Company does not declare distributions equal to 90% or more of the Company's distributable income in a particular fiscal year, the Company will be liable for the Korean corporate income tax for the entire amount of its taxable income.

## Notes to Non-consolidated Financial Statements, Continued

### 2. Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued

#### (l) Use of Estimates

The preparation of non-consolidated financial statements in accordance with Korean GAAP requires management to make estimates and assumptions that affect the amounts reported in the nonconsolidated financial statements and related notes. Therefore, actual results could differ from those estimates.

#### (m) Approval of financial statements

The December 31, 2011 financial statements of the Company were approved by the board of directors on January 31, 2012.

### 3. Cash and Deposits

Cash and deposits as of December 31, 2011 and 2010, are as follows:

	Won (thousands)		U.S. dollars (note 2(b))	
	2011	2010	2011	
Money Market Deposit Accounts ("MMDA") <sup>(*)</sup> :				
Standard Chartered Bank	₩ 40,893,350	₩ 24,365,426	\$ 35,457,686	
Time Deposits ("TD") <sup>(*)</sup> :				
Kookmin Bank	20,000,000	35,000,000	17,341,542	
Woori Bank	40,000,000	80,000,000	34,683,084	
	60,000,000	115,000,000	52,024,626	
	₩ <b>100,893,350</b>	₩ 139,365,426	\$ <b>87,482,312</b>	

(\*)1 As of December 31, 2011, the interest rate of MMDA is 2.95%.

(\*)2 As of December 31, 2011, the interest rates of TDs are 3.45%~3.70%, and the maturities of TDs are less than 3 months.



#### 4. Loans Receivable

Loans receivable as of December 31, 2011 and 2010, are as follows:

			Won (thousands)		U.S. dollars (note 2(b))
	Repayment Period	Annual interest rate (%)	2011	2010	2011
Senior loans receivable:					
Kwangju Beltway Investment Co., Ltd.	2018~2024	10	₩ 142,000,000	₩ 142,000,000	\$ 123,124,946
Kwangju Ring Road Co., Ltd.	2012~2019	7.85	58,683,877	66,019,361	50,883,445
Soojungsan Investment Co., Ltd.	2012~2018	8.5	50,365,000	57,560,000	43,670,337
Baekyang Tunnel Ltd.	2024	13~15	1,566,131	1,613,202	1,357,956
Subordinated loans receivable:					
Kwangju Beltway Investment Co., Ltd.	2024~2026	20	31,950,000	31,950,000	27,703,113
MCB Co., Ltd. <sup>(*)</sup>	2030~2035	11.38	79,000,000	79,000,000	68,499,090
New Airport Hiway Co., Ltd.	2015~2017	13.9	51,670,400	51,670,400	44,802,220
Soojungsan Investment Co., Ltd.	2017	20	19,260,587	19,260,587	16,700,414
Cheonan Nonsan Expressway Co., Ltd. <sup>(*)</sup>	2024~2029	6~20	182,250,000	182,250,000	158,024,798
Daegu East Circulation Road Co., Ltd.	2022~2024	17	32,045,000	32,045,000	27,785,485
Incheon Bridge Co., Ltd. <sup>(*)</sup>	2020~2026	11.49	89,378,000	89,378,000	77,497,616
Seoul Chuncheon Highway Co., Ltd. <sup>(*)</sup>	2026~2031	11~11.59	87,450,000	87,450,000	75,825,891
Gyungso Highway Co., Ltd. <sup>(*)</sup>	2029~2034	13~15	77,000,000	77,000,000	66,764,935
BNCT Co., Ltd. <sup>(*)</sup>	2028~2032	10~12	188,280,000	135,329,000	163,253,273
Seoul Metro Line 9 Co., Ltd.	2033~2035	15	33,460,000	33,460,000	29,012,399
Woomyunsan Infraway Co., Ltd.	2024~2026	20	9,576,000	9,576,000	8,303,130
Working capital loans receivable:					
Kwangju Beltway Investment Co., Ltd.	2027	15	3,260,741	3,260,741	2,827,314
			₩1,137,195,736	₩1,098,822,291	\$ 986,036,362

(\*) On November 29, 2010, MCB Co., Ltd. repaid ₩92,533 million of the subordinated debt including its unpaid interest and the Company recognized gain of ₩5,316 million in connection with the repayment of the loan. At the same date, the Company re-invested ₩79,000 million of the subordinated loan with revised maturity and interest rate.

(\*) Interest rates per annum are as follows: 6% from 2005 to 2007, 8% in 2008, 16% from 2009 to 2012 and 20% from 2013 to maturity of 2029, and an effective interest rate of 11.58% is used to recognize interest income. Due to financial covenants restricting payment of interest on subordinated loans, Cheonan Nonsan Expressway ("CNEC") has the limitation to pay interests on the subordinated loan. In May 2009, the Company entered into a debt securitization agreement with NH Investment and Securities Co., Ltd. ("NHISC") to securitize the accumulated interest receivable from CNEC. Under the agreement, NHISC agreed to take over the debt securities amounting to ₩157,200 million through seven securitization. The Company paid NHISC an underwriting fee of 1.5% (₩2,358 million) of the total amount underwritten. The Company sold the debt securities of ₩19,949 million for ₩20,197 million as the second securitization in March 2010 and sold the debt securities of ₩20,527 million for ₩21,149 million as the third securitization in March 2011 under the agreement.

## Notes to Non-consolidated Financial Statements, Continued

### 4. Loans Receivable, Continued

(\*3) The interest rate during the construction period is fixed rate of 12% per annum and it changes to floating rate of base rate (yield rate of 3 year AA- corporate bond) plus margin (6%) per annum thereafter. The Company has accrued interest income using 11.49%. The base rate will be reset on November 17, 2012.

(\*4) The interest rate during the construction period is 11% per annum and it increases to 11.59% per annum thereafter.

(\*5) The interest rate during the construction period and for three years following commencement of operations is 13% per annum and it increases to 15% per annum thereafter.

(\*6) The interest rate during the construction period is 10% per annum and thereafter increases to 12% per annum thereafter. Busan New Container Terminal Co.,Ltd. has changed its name to BNCT Co., Ltd. on October 19, 2010.

### 5. Deferred Costs

Deferred costs as of December 31, 2011 and 2010, are as follows:

	Won (thousands)		U.S. dollars (note 2(b))	
	2011	2010	2011	
Costs deferred on investments prior to acquisition	₩ 137,500	₩ 137,500	\$ 119,223	
Loans acquisition incidental	4,139,143	4,418,226	3,588,956	
Others <sup>(*)</sup>	5,472,500	8,792,937	4,745,079	
	<b>₩ 9,749,143</b>	<b>₩ 13,348,663</b>	<b>\$ 8,453,258</b>	

(\*1) The fees regarding the securitization and credit facility are included (Notes 4 and 11).

## 6. Investments

(a) Equity securities as of December 31, 2011 and 2010, are as follows:

		Won (thousands)		U.S. dollars (note 2(b))	
	Owner-ship (%)	2011	2010	2011	
Kwangju Beltway Investment Co., Ltd. <sup>(1)</sup>	100	₩ 13,050,000	₩ 13,050,000	\$ 11,315,356	
Kwangju Ring Road Co., Ltd. <sup>(2)</sup>	75	29,494,766	29,494,766	25,574,236	
MCB Co., Ltd. <sup>(3, 19)</sup>	70	33,925,040	33,925,040	29,415,625	
New Airport Hiway Co., Ltd. <sup>(4)</sup>	24.1	59,880,248	59,880,248	51,920,791	
Baekyang Tunnel Ltd. <sup>(5)</sup>	100	1,231,000	1,231,000	1,067,372	
Soojongsan Investment Co., Ltd. <sup>(6)</sup>	100	47,247,830	47,247,830	40,967,511	
Cheonan-Nonsan Expressway Co., Ltd. <sup>(7, 19)</sup>	60	93,815,061	93,815,061	81,344,889	
Woomyunsan Infraway Co., Ltd. <sup>(8, 19)</sup>	36	2,723,725	2,723,725	2,361,680	
Private Infrastructure Investment Korea <sup>(9)</sup>	100	76,886,809	76,886,809	66,666,789	
Korea Road Infrastructure Investment Co., Ltd. <sup>(10)</sup>	85	57,552,156	57,552,156	49,902,156	
Seoul-Chuncheon Expressway Co., Ltd. <sup>(11, 19)</sup>	15	49,439,043	49,439,043	42,867,461	
BNCT Co., Ltd. <sup>(12, 19)</sup>	30	67,048,056	45,643,656	58,135,833	
Gyungso Highway Co., Ltd. <sup>(13, 19)</sup>	35	58,361,765	58,361,765	50,604,149	
Seoul Metro Line 9 Co., Ltd. <sup>(14)</sup>	24.5	41,147,648	41,147,648	35,678,183	
BYT Securitization Specialty Co., Ltd. <sup>(15, 19)</sup>	0.5	50	50	43	
CN First Securitization Specialty Co., Ltd. <sup>(16)</sup>	0.5	50	50	43	
CN Second Securitization Specialty Co., Ltd. <sup>(17)</sup>	0.5	50	50	43	
CN Third Securitization Specialty Co., Ltd. <sup>(18)</sup>	0.5	50	-	43	
		₩ 631,803,347	₩ 610,398,897	\$ 547,822,203	

(\*1) Kwangju Beltway Investment Co., Ltd. ("KBICL") operates the Gwangju Second Beltway, Section 1 and collects toll revenues generated by the beltway under the concession agreement with the Gwangju City government.

(\*2) Kwangju Ring Road Co., Ltd. ("KRRCL") operates the Gwangju Second Beltway, Section 3-1 and collects toll revenues generated by the beltway under the concession agreement with the Gwangju City government.

(\*3) MCB Co., Ltd. ("MCB") holds the concession right to operate Machang Bridge under a concession agreement with the Gyeongsangnamdo provincial government. On November 29, 2010, the Company sold 30% of its shares in MCB of ₩14,539 million for ₩17,048 million and recognized gain of ₩2,424 million considering incidental expenses.

(\*4) New Airport Hiway Co., Ltd. ("NAHC") operates the Incheon International Airport Expressway under a concession agreement with the Ministry of Land, Transport and Maritime Affairs ("MLTM").

## Notes to Non-consolidated Financial Statements, Continued

### 6. Investments, Continued

- (\*5) Baekyang Tunnel Ltd. ("BYTL") operates and manages Baekyang Tunnel under a concession agreement with the Busan City government.
- (\*6) Soojungsan Investment Co., Ltd. ("SICL") operates Soojungsan Tunnel under a concession agreement with the Busan City government.
- (\*7) CNEC operates Cheonan-Nonsan Expressway under a concession agreement with the MLTM.
- (\*8) Woomyunsan Infraway Co., Ltd. ("WIC") operates Woomyunsan Tunnel under a concession agreement with the Seoul City.
- (\*9) Private Infrastructure Investment Korea ("PIIK") is a special purpose company established to acquire Incheon Bridge Co., Ltd. ("IBC") which has the right to operate Incheon Grand Bridge under a concession agreement with the MLTM. As of December 31, 2011, PIIK holds 41.02% of the equity in IBC.
- (\*10) Korea Road Infrastructure Investment Co., Ltd. ("KRIIC") is a special purpose company established to provide funding to Daegu East Circulation Road Co., Ltd. ("DECRC") which has the right to operate and maintain the Daegu 4th Beltway East. As of December 31, 2011, KRIIC holds 100% of the shares of DECRC.
- (\*11) Seoul-Chuncheon Expressway Co., Ltd. ("SCE") has the right to operate and manage Seoul-Chuncheon Expressway under a concession agreement with MLTM.
- (\*12) BNCT Co., Ltd. ("BNCT") has been granted a concession from MLTM to construct, operate and manage Busan New Port Phase 2-3.
- (\*13) Gyungso Highway Co., Ltd. ("YSE") has the right to operate and manage Yongin-Seoul Expressway under the concession agreement with MLTM.
- (\*14) Seoul Metro Line 9 Co., Ltd. ("SM9") has the right to operate and manage Subway Line 9 under the concession agreement with Seoul City government.

## 6. Investments, Continued

(\*15) In December 2007, the Company acquired 0.5% of the shares of BYT SPC for the purchase price of ₩50 thousand. The Company also provided Shinhan Bank with its equity shares in the BYT SPC as a pledge in relation to any potential loss which may arise due to BYTL's default on the loan.

(\*16) In April 2009, the Company acquired 0.5% of the shares of CN First Securitization Specialty Co., Ltd.

(\*17) In March 2010, the Company acquired 0.5% of the shares of CN Second Securitization Specialty Co., Ltd.

(\*18) In March 2011, the Company acquired 0.5% of the shares of CN Third Securitization Specialty Co., Ltd.

(\*19) The Company provided its equity shares as collaterals for subsidiaries' long-term debts (Note 9).

## 7. Transactions with Significantly Invested Companies and Supervisory Directors

(a) Details of significantly invested companies as of December 31, 2011, are as follows:

Significantly Invested Companies <sup>(*1)</sup>	Ownership (%)	Principal Business
Kwangju Beltway Investment Co., Ltd.	100	Operation of toll road
Kwangju Ring Road Co., Ltd.	75	Operation of toll road
Baekyang Tunnel Ltd.	100	Operation of tunnel
Cheonan Nonsan Expressway Co., Ltd.	60	Operation of toll road
Soojungsan Investment Co., Ltd.	100	Operation of tunnel
Private Infrastructure Investment Korea Co., Ltd.	100	Investment
Korea Road Infrastructure Investment Co., Ltd.	85	Investment
Daegu East Circulation Road Co., Ltd. <sup>(*2)</sup>	-	Operation of toll road
MCB Co., Ltd.	70	Operation of toll road

(\*1) SKAS 5003 does not require disclosure of transactions and balances with related parties. However, in order to provide relevant information to the shareholders, the Company classifies the subsidiaries where greater than 50% equity shares are held as significantly invested companies, and discloses the transactions and balances with such entities.

(\*2) A wholly owned subsidiary of Korea Road Infrastructure Investment Co., Ltd.



## Notes to Non-consolidated Financial Statements, Continued

### 7. Transactions with Significantly Invested Companies and Supervisory Directors, Continued

(b) Significant transactions which occurred in the normal course of business with the significantly invested companies as of and for the years ended December 31, 2011 and 2010, are summarized as follows:

	Won (thousands)		U.S. dollars (note 2(b))	
	2011	2010	2011	
Statements of income:				
Interest income	₩ 91,453,155	₩ 87,339,260	\$ 79,296,935	
Statements of financial position:				
Loans receivable	600,381,335	614,958,890	520,576,898	
Interest receivable	176,209,252	151,356,955	152,787,003	

(c) Compensation for the supervisory directors for the years ended December 31, 2011 and 2010, consists of:

	Won (thousands)		U.S. dollars (note 2(b))	
	2011	2010	2011	
Salaries	₩ 144,000	₩ 144,000	\$ 124,859	

## 8. Related Party Transactions and Balances with the Manager and its Associates

(a) On December 13, 2002, the Company appointed Macquarie Shinhan Infrastructure Asset Management Co., Ltd. as the Company's Manager, with the terms of the appointment stipulated in a management agreement executed between the Company and the Manager. The management agreement was amended and restated on February 16, 2006 (the "Management Agreement"). Pursuant to the amended Management Agreement, the Company paid management fees and performance fees to the Manager on the following basis:

(i) Post-listing Management Fees: The Manager receives a fee, paid quarterly in arrears, calculated based on the net investment value and the commitments of the Company using the below methodology. The net investment value of the Company is the aggregate of the market value of the Company plus debt incurred by the Company less cash and cash equivalents (\*) ("Net Investment Value"). Commitments represent the aggregate of amounts which the Company has firmly committed for future investments (other than cash and cash equivalents (\*)). Each of the Net Investment Value and Commitments are calculated as at the end of each calendar quarter.

- In relation to the Net Investment Value portion of the Post-listing Management Fees, the amount is calculated at the rate of 1.25% per annum of the Net Investment Value where Net Investment Value plus Commitments is less than or equal to ₩1.5 trillion, and 1.10% per annum for that part of the Net Investment Value where Net Investment Value plus Commitments exceeds ₩1.5 trillion.

- In relation to the Commitments portion of the Post-Listing Management Fee, the amount is calculated at the rate of 1.15% per annum of Commitments where Commitments plus Net Investment Value is less than or equal to ₩1.5 trillion, and 1.05% per annum for that part of Commitments where Commitments plus Net Investment Value exceeds ₩1.5 trillion.

(\*) Cash and cash equivalents include all cash and deposits held at the banks.

(ii) Post-listing Performance Fees: Post-listing Performance Fees are payable to the Manager quarterly, calculated as 20% of the out-performance (as measured by an accumulation index for shares over the last 15 trading days of each quarter) over an 8% per annum benchmark rate of return, after taking into account deficit and surplus accumulated from the timing of listing.

(iii) Termination of Management Agreement: Under the terms of the Management Agreement, the Company may only terminate the agreement upon 90 days' written notice to the Manager and approval by the holders of at least two thirds of the Company's shares. However, if the Company terminates the Management Agreement for reasons other than willful misconduct, gross negligence by the Manager or underperformance, the Company is required to pay the Manager an amount equal to:

## Notes to Non-consolidated Financial Statements, Continued

### 8. Related Party Transactions and Balances with the Manager and Associates, Continued

- three times the management fees paid to the Manager over the four quarters immediately preceding termination; and
- if the Company was not listed, a listing performance fee assuming the Company had listed as at the time of termination; or
- if the Company is listed, performance fees for the 12 quarters after termination as though the Manager was still engaged as the Manager and the Management Agreement was still operating.

(b) As of December 31, 2011, the Company has the Korean Securities Finance Corporation and KEB Investor Services Co., Ltd. as its Custodian and Administrator, respectively. The Company also has Shinhan Investment Corp., Macquarie Securities Korea, Ltd., Hanwha Securities Co., Ltd., Samsung Securities Co., Ltd., Tong Yang Securities Inc. and Kyobo Securities Co., Ltd. as its Sales Agents. Pursuant to the relevant service provider agreements, the Company pays administrator fees, custodian fees and sales agent fees. The details are as follows:

- (i) Custodian fees: 0.02% per annum of the average balance of the net asset value of the Company. This fee is paid in arrears on a quarterly basis.
- (ii) Administrator fees: 0.0125% per annum of the average balance of the net asset value of the Company. This fee is paid quarterly in arrears.
- (iii) Sales agent fees: According to sales agent agreements, no fee is payable.

## 8. Related Party Transactions and Balances with the Manager and Associates, Continued

(c) Significant transactions and account balances which occurred with the Manager and its related parties as of and for the years ended December 31, 2011 and 2010, are summarized as follows:

		Won (thousands)		U.S. dollars (note 2(b))
		2011	2010	2011
<b>Significant transactions:</b>				
Macquarie Shinhan Infrastructure Asset Management Co., Ltd.	Management fee	₩ 24,151,939	₩ 22,891,440	\$ 20,941,593
Shinhan Bank	Long-term debt	52,539,491	8,529,827	45,555,789
	Repayment of long-term debt	109,355,947	14,000,000	94,820,036
	Interest income	101,247	262,483	87,789
	Interest expense	4,383,797	7,173,601	3,801,090
	Upfront fee and other fees relative to the credit facility	3,706,566	196,685	3,213,878
Macquarie Capital Advisers Korea Co., Ltd.	Advisory fee	139,260	603,152	120,749
<b>Account balances:</b>				
Macquarie Shinhan Infrastructure Asset Management Co., Ltd.	Management fee payable	₩ 6,140,003	₩ 5,958,632	\$ 5,323,856
Shinhan Bank	Long-term debt (Note 11)	44,137,736	100,954,191	38,270,819
	Other liabilities	121,662	693,542	105,490

## Notes to Non-consolidated Financial Statements, Continued

### 9. Pledged Assets and Guarantees Provided by Others

The following assets are pledged as collaterals for subsidiaries' long-term debts as of December 31, 2011:

			Won (thousands)		U.S. dollars (note 2(b))	
Pledged Assets	Lender	Borrower	Book value	Collateralized amount	Book value	Collateralized amount
Equity securities:						
MCB Co., Ltd.	Kookmin Bank and others	MCB Co., Ltd.	₩ 33,925,040	₩201,500,000	\$ 29,415,625	\$174,716,032
Cheonan-Nonsan Expressway Co., Ltd.	Korea Development Bank, CNE Securitization Specialty LLC and Shinhan Bank	Cheonan-Nonsan Expressway Co., Ltd.	93,815,061	1,144,000,000	81,344,889	991,936,183
Woomyunsan Infraway Co., Ltd.	Shinhan Bank and others	Woomyunsan Infraway Co., Ltd.	2,723,725	187,070,000	2,361,680	162,204,110
Seoul-Chuncheon Highway Co., Ltd.	Kookmin Bank and others	Seoul-Chuncheon Highway Co., Ltd.	49,439,043	1,300,000,000	42,867,461	1,127,200,208
Busan New Container Terminal Co., Ltd.	Kookmin Bank and others	Busan New Container Terminal Co., Ltd.	67,048,056	800,800,000	58,135,833	694,355,328
Gyungso Highway Co., Ltd	Korea Development Bank and others	Gyungso Highway Co., Ltd	58,361,765	471,900,000	50,604,149	409,173,676
BYT Securitization Specialty Co., Ltd.	Shinhan Bank (Credit line)	BYT Securitization Specialty Co., Ltd.	50	223,600,000	43	193,878,436
			₩305,312,740	₩4,328,870,000	\$ 264,729,680	\$3,753,463,973

### 10. Other Liabilities

Other liabilities as of December 31, 2011 and 2010, are as follows:

	Won (thousands)		U.S. dollars (note 2(b))	
	2011	2010	2011	
Administrator fee payable	₩ 52,651	₩ 52,826	\$ 45,652	
Custodian fee payable	84,241	84,522	73,043	
Interest payable	1,569,157	2,438,074	1,360,580	
Accrued expenses	105,552	78,241	91,523	
	<b>₩ 1,811,601</b>	<b>₩ 2,653,663</b>	<b>\$ 1,570,798</b>	



## 11. Long-Term Debts

(a) On December 31, 2011, the Company entered into a corporate credit facility agreement ("Facility") with Lenders for a limit of ₩250,000 million. Detail terms and conditions of the Facility are as follows:

	Long-Term Debts
Lenders	Shinhan Bank and others
Credit limit	₩250,000 million
Drawdown as of December 31, 2011	₩183,907 million
Interest rate <sup>(*)</sup>	Base rate + 2.7%
Maturity <sup>(*)</sup>	June 16, 2016

(\*1) The base rate is the arithmetic average of the 91-day Negotiable Certificate of Deposit rates (provided by Korea Financial Investment Association) quoted on each of the three consecutive banking days immediately prior to the first day of each interest period. Interest accrued during each interest period may be paid or capitalized, at the election of the Company, on each interest payment date.

(\*2) Related to the Facility, the Company and Lenders agreed to refinance existing corporate credit facility for a new corporate credit facility agreement with maturity date of June 16, 2016. The Company paid the fee of 1.3968% (₩3,492 million) of the facility limit to Lenders. The Company is able to make an early repayment of the facility drawn down. Also, the Company is able to redraw early repaid amount at any time.

(b) Long-term debts as of December 31, 2011 and 2010, are as follows:

	Won (thousands)		Won (thousands)		U.S. dollars (note 2(b))
	Limit of the Facility	Annual Interest Rate(%)	2011	2010	2011
Shinhan Bank	₩ 60,000,000	base rate + 2.7%	₩ 44,137,736	₩ 100,954,191	\$ 38,270,819
National Agricultural Cooperative Federation (NACF)	60,000,000	base rate + 2.7%	44,137,736	100,954,191	38,270,819
Woori Bank	40,000,000	base rate + 2.7%	29,425,156	79,321,150	25,513,879
Tong Yang Life Insurance Co., Ltd.	40,000,000	base rate + 2.7%	29,425,156	43,266,082	25,513,879
Shinhan Life Insurance Co., Ltd.	30,000,000	base rate + 2.7%	22,068,867	21,633,041	19,135,409
LIG Insurance Co., Ltd.	20,000,000	base rate + 2.7%	14,712,577	14,422,026	12,756,938
	₩ 250,000,000		₩ 183,907,228	₩ 360,550,681	\$ 159,461,743

## Notes to Non-consolidated Financial Statements, Continued

### 12. Corporate Bonds

The Company issued unsecured corporate bonds of KRW 250 billion by public offering on May 31, 2011. The terms of the bonds are as follows:

	Maturity	Annual Interest Rate(%)	Guarantee provider	Won (thousands)	U.S. dollars (Note 2(b))
Tranche 1-1	May 31, 2016	4.57	Unguaranteed	60,000,000	52,024,625
Tranche 1-2	May 31, 2018	4.97	Unguaranteed	190,000,000	164,744,646
Discount on bonds				250,000,000 (1,021,535)	216,769,271 (885,750)
				<b>248,978,465</b>	<b>215,883,521</b>

The principal amount will be repaid in whole on the maturity date. The bond issuance cost, which is recognised as a bond discount, will be amortised until the maturity date.

### 13. Paid-in Capital

The Company is authorized to issue 4,000,000,000 shares and the number of outstanding shares is 331,459,341.

### 14. Distribution

The Company paid cash distributions amounting to ₩115,679 million and ₩106,067 million in 2011 and 2010, respectively.

### 15. Other Expenses

Other expenses for the years ended December 31, 2011 and 2010, are as follows:

	Won (thousands)		U.S. dollars (note 2(b))	
	2011	2010	2011	
Amortization of deferred costs	₩ 360,374	₩ 414,814	\$ 312,472	
Credit facility fees	6,804,511	1,944,483	5,900,035	
Service fees	1,281,609	3,377,178	1,111,254	
	<b>₩ 8,446,494</b>	<b>₩ 5,736,475</b>	<b>\$ 7,323,761</b>	

## 16. Income Taxes

As long as the Company distributes 90% or more of its distributable income in the form of a distribution to its shareholders, such distributions are deducted from taxable income under the Corporate Income Tax Law.

For the years ended December 31, 2011 and 2010, the Company did not pay income taxes because it deducted distributions from taxable income by distributing 90% or more of its distributable income.

## 17. Insurance

As of December 31, 2011, the Company carries directors & officers compensation liability insurance amounting to ₩20,000 million with Hyundai Marine & Fire Insurance Co.,Ltd.

## 18. Net Asset Value Per Share

Net asset value per share as of December 31, 2011 and 2010, is as follows:

	Won (thousands, except share and per share data)		U.S. dollars (note 2(b))	
	2011	2010	2011	
Total assets	₩ 2,126,520,052	₩ 2,064,940,571	\$ 1,843,856,804	
Total liabilities	440,838,372	369,163,883	382,240,850	
Net assets	1,685,681,680	1,695,776,688	1,461,615,954	
Number of outstanding shares	331,459,341	331,459,341	331,459,341	
Net asset value per share in Won and U.S. dollar	₩ 5,086	₩ 5,116	\$ 4.41	

## Notes to Non-consolidated Financial Statements, Continued

### 19. Earnings Per Share

Earnings per share for the years ended December 31, 2011 and 2010, is calculated by dividing net income by the weighted-average number of shares outstanding as follows:

	Won (thousands, except share and per share data)		U.S. dollars (note 2(b))	
	2011	2010	2011	
Net income per accompanying statements of income	₩ 105,584,302	₩ 111,442,024	\$ 91,549,728	
Weighted-average number of shares outstanding <sup>(*)</sup>	331,459,341	331,459,341	331,459,341	
Earnings per share in won and U.S. dollars	₩ 319	₩ 336	\$ 0.276	

(\*1) Weighted average number of shares outstanding for the years ended December 31, 2011 and 2010, is as follows:

	Shares	
	2011	2010
Beginning of the year	331,459,341	331,459,341
Stock dividends	-	-
Weighted-average number of shares outstanding	331,459,341	331,459,341

### 20. Commitments

Commitments as of December 31, 2011, are as follows:

Invested Assets	Won (thousands)			U.S. dollars (note 2(b))	
	Total Commitment	Investment	Remaining Commitment	Remaining Commitment	
BNCT Co., Ltd.- Equity <sup>(*)</sup>	₩ 66,420,000	₩ 66,420,000	₩ -	\$ -	
BNCT Co., Ltd. -Subordinated loan <sup>(*)</sup>	193,000,000	188,280,000	4,720,000	4,092,604	
	₩ 259,420,000	₩ 254,700,000	₩ 4,720,000	\$ 4,092,604	

(\*1) As of December 31, 2011, the Company owns 30% of the equity shares in BNCT Co., Ltd ("BNCT"), amounting to ₩66,420 million. On December 31, 2007, the Company entered into a revised shareholders' agreement in which the Company would invest ₩66,420 million in BNCT. The Company's investment has taken place over the construction period. On December 31, 2007, the Company entered into a subordinated loan agreement with BNCT to lend ₩193,000 million over the construction period of four years. The interest rate of the loan is 10% per annum during the construction period and it increases to 12% per annum thereafter. As of December 31, 2011, outstanding loan amounts to ₩188,280 million. The construction has been completed at the end of 2011 and BNCT officially commenced operation from January 2012.

## Corporate directory

Manager of MKIF	MKIF Custodian	MKIF Administrator
Macquarie Korea Asset Management Co., Ltd.	Korea Securities Finance Corp.	KEB Investor Services Co., Ltd.
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MKAM, as the manager for MKIF, is entitled to a management fee.

### FINANCIAL STATEMENTS

The financial statements have been prepared in compliance with Korean Generally Accepted Accounting Principle (GAAP) and Applicable Korean Law.

### COMPLAINTS HANDLING

If you have any enquiries or complaints, please contact:

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