



MACQUARIE KOREA INFRASTRUCTURE FUND

2011 3rd QUARTER ASSET MANAGEMENT REPORT



Name : Macquarie Korea Infrastructure Fund (MKIF)

Period : Quarter 3 (1 July 2011 - 30 September 2011)

Prepared by Macquarie Shinhan Infrastructure Asset Management Co., Ltd.(MSIAM)

Fund code: 35801

Important notice

Under the Financial Investment Service and Capital Market Act (the "Act"), Macquarie Korea Infrastructure Fund ("MKIF") is required to upload the Asset Management Report at MKIF website in the form, and containing the specific information, set out in the Act on a quarterly basis. This Asset Management Report has been prepared by MKIF in compliance with its statutory obligations.

Disclaimer

MKIF and Macquarie Shinhan Infrastructure Asset Management Co., Ltd. ("MSIAM"), are not an authorised deposit-taking institution for the purposes of the Banking Act 1959 (Commonwealth of Australia) and its obligations do not represent deposits or other liabilities of Macquarie Bank Limited ABN 46 008 583 542 (MBL). MBL does not guarantee or otherwise provide assurance in respect of the obligations of MKIF/ MSIAM.

General advice warning

The contents of this report do not constitute an offer, invitation or recommendation for the subscription or purchase of securities. It does not take into account the investment objectives, financial situation and particular needs of the investor. Before making an investment in MKIF, the investor or prospective investor should consider whether such an investment is appropriate to their particular investment needs, objectives and financial circumstances and consult an investment adviser if necessary.

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I General report

1. Overview

Under the Financial Investment Service and Capital Market Act (the Act)

Investment Grade : 4

Fund name	Macquarie Korea Infrastructure Fund (MKIF)
Fund type	Investment company/Special asset fund/Closed-end/Listed fund
Fund code*	35801
Date of incorporation	12 December 2002
Date of registration	26 December 2002
Date of listing	15 March 2006
Financial year end	31 December every year
Fund maturity	Perpetual (until the occurrence of dissolution events defined in the Act)
Asset manager	Macquarie Shinhan Infrastructure Asset Management Co., Ltd. (MSIAM)
Sales agents	Shinhan Investment Corp., Samsung Securities Co., Ltd., Macquarie Securities Korea, Ltd., Hanwha Securities Co., Ltd., Kyobo Securities Co., Ltd., Tong Yang Securities Inc.
Custodian	Korea Securities Finance Corporation (KSFC)
Fund administrator	Korea Exchange Bank Investor Service Co., Ltd.
Board of directors +	Corporate Director: MSIAM
	Supervisory Directors: Dae Yun Cho, Kyung Soon Song and Dae-Hee Yoon
Key staff of MSIAM +	Chul Hum Paik (CEO) Jason Pak (COO) Johnno Kim (Asset Management) Jong Hyuk Park (Asset Acquisition) Jinwook Park (Compliance)
MKIF profile	<p>MKIF is a leading private sector infrastructure investor in Korea and has the largest portfolio of infrastructure assets in Korea that have been, or are being, constructed under the Private Participation in Infrastructure Act (PPI Act).</p> <p>MKIF was established in December 2002 with a mandate to invest in concession companies that construct or operate infrastructure assets such as toll roads, bridges and tunnels in Korea. MKIF invests in these concession companies through equity and debt. MKIF is focused on generating profits from its investments and distributing these profits to its shareholders. MKIF is proud to be making a significant contribution to Korea's infrastructure development.</p> <p>MKIF is managed by MSIAM. MSIAM is a joint venture between Macquarie Infrastructure and Real Assets (Europe) Limited, a member of the Macquarie Group Limited, and Shinhan Bank and Shinhan Capital, which are members of the Shinhan Financial Group.</p>

* Fund code generated by the Korea Financial Investment Association (KOFIA)

+ See Section IV Registered Asset Managers and Appendix I Board of Directors for more information

2. Asset details

Under the Act, MKIF is required to report the net asset value per share (NAV per share) of its portfolio.

The total net asset value of MKIF's portfolio is calculated by subtracting total liabilities from total assets of MKIF. MKIF's assets include its equity and debt investments in concession companies, cash and deposits and other investment securities. The net asset value per share of MKIF is calculated by dividing total net asset value by the number of outstanding shares.

The Collective Investment Property Appraisal Committee of MSIAM has chosen to adopt the acquisition cost as its assessment of fair value for the unlisted equity investments under the Act and accounting principles generally accepted in Korea (KGAAP). In addition, the loan investments are measured at amortised cost under the Act and KGAAP.

The calculation of the NAV per share of MKIF is set out in the table below. For the purposes of this calculation, asset and liability information is based on the balance sheet of MKIF, which is attached as Appendix II.

Type	Q2 2011	Q3 2011	(Unit: KRW, Share)
			% Change
Total Assets (A)	2,079,883,513,908	2,074,594,299,476	-0.25 %
Total Liabilities (B)	397,987,015,325	418,484,076,298	5.15 %
Net Asset Amount (C=A-B)	1,681,896,498,583	1,656,110,223,178	-1.53 %
Shares (D)	331,459,341	331,459,341	0.00 %
NAV per share (E=C/D)	5074.22	4996.42	-1.53 %

※ Distribution payment (during the third quarter)

Date of Payment	Distribution Amount (KRW Million)	Balance after Payment (Shares)	NAV per share		Remarks
			Before declaration	After declaration	
12/ 08/ 2011	54,691	331,459,341	5,100.83	4,935.83	

II Management performance and term performance

1. Overview

Established on 12 December 2002, MKIF is a leading private sector infrastructure investor in Korea under the PPI Act and governed by the Act. MKIF is mandated to invest in concession companies that construct or operate infrastructure assets through equity and debt. MKIF focused on generating profits from its investments and distributing these profits to its shareholders. As of 30 September 2011 MKIF has committed to invest in 12 toll roads, one subway and one port with total investment commitment of KRW1,773.1 billion.

2. Management plan

MKIF is focusing on investments in loans to, and unlisted equity and equity-linked securities of, concession companies that operate infrastructure assets such as toll roads and other infrastructure under concessions from Korean central, provincial or city governments throughout the country. These infrastructure assets have been, or are being, constructed under the PPI Act and benefit from various forms of government support. Also, these assets offer opportunities to maximise MKIF's profit through capital restructuring initiatives.

3. Management performance

The table below sets out the historical NAV (including the distribution paid) for MKIF. As explained above and given that the majority of MKIF's assets are held at their acquisition cost, the net asset value is not representative of changes in the value of the MKIF portfolio.

A. Short-term performance

(Unit: %)

Type	3 Month	6 Month	9 Month	12 Month
MKIF	1.72	3.02	4.48	6.67
Comparative Index +	N/A			

+ There is no comparable index available because MKIF is the only listed infrastructure fund in Korea with publicly available NAV data.

※ Performance quoted above is historical and does not guarantee future performance.

B. Long-term performance

(Unit: %)

Type	1 Year	2 Year	3 Year ⁺	5 Year
MKIF	6.67	6.37	5.45	6.44
Comparative Index [^]	N/A			

+ The performance ratio reflected dilution effect resulting from stock distribution on 26 February 2009

[^] There is no comparison index available because MKIF is the only listed infrastructure fund in Korea with publicly available NAV data.

※ Performance quoted above is historical and does not guarantee future performance.

4. Profit and Loss summary

The table below sets out the profit and loss incurred by MKIF in its P&L during the Quarter, in comparison with any profit and loss from the previous quarter.

(Unit: KRW million, %)

Type	Equity	Loan	Certificates of Deposit	Short-term Facilities & Deposit	Other Asset	Total Profit (Loss)
Q3 2011	-	40,355	-	794	-	41,149
Q2 2011	-	38,833	-	911	-	39,744

III Details of assets

1. Asset portfolio

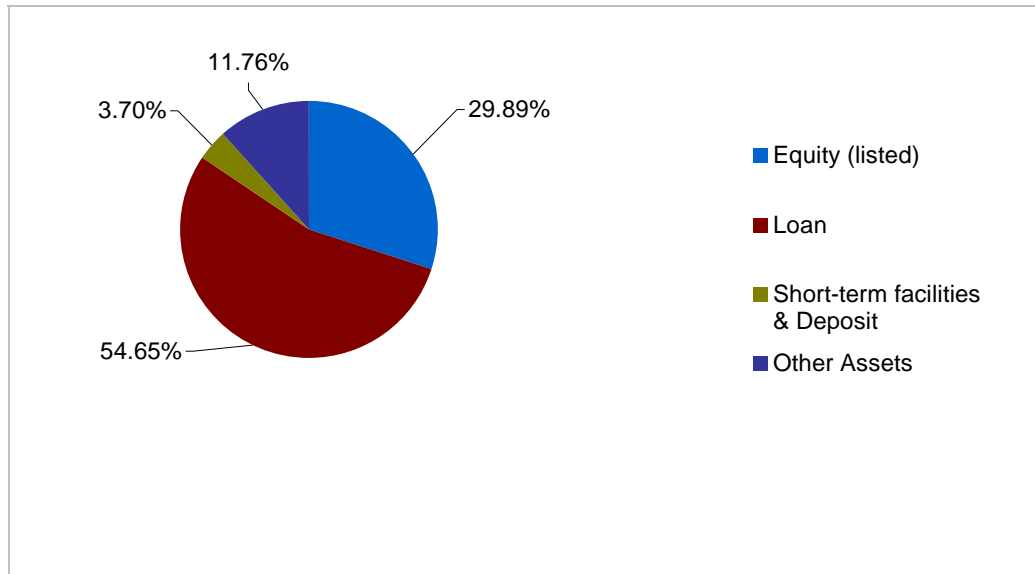
MKIF's investment portfolio consists of equity, loan and certificates of deposit, cash and deposits and other assets.

(Unit: KRW million, %)

Type	Equity (unlisted)	Loan +	Short-term facilities & Deposit	Other asset ^	Total Assets
KRW	620,105	1,133,742	76,690	244,057	2,074,594
Composition Ratio	29.89	54.65	3.70	11.76	100

+ Includes loans to concession companies

^ Other Assets: interest receivable, other receivables and prepayment



2. Top ten invested assets

(Unit: million, %)

Rank	Type	Name	Acquisition Value +	Composition Ratio ^
1	Subordinated loan	Cheonan-Nonsan Expressway Co., Ltd.	182,250	8.78
2	Subordinated loan	BNCT Co., Ltd.	180,098	8.68
3	Senior loan	Kwangju Beltway Investment Co., Ltd.	142,000	6.84
4	Equity (unlisted)	Cheonan-Nonsan Expressway Co., Ltd.	93,815	4.52
5	Subordinated loan	Incheon Bridge Co., Ltd.	89,378	4.31
6	Subordinated loan	Seoul Chuncheon Highway Co., Ltd.	87,450	4.22
7	Subordinated loan	MCB Co., Ltd.	79,000	3.81
8	Subordinated loan	Gyungso Highway Co., Ltd.	77,000	3.71
9	Equity (unlisted)	Private Infrastructure Investment Korea	76,887	3.71
10	Senior loan	Kwangju Ring Road Co., Ltd.	61,602	2.97

+ Under KGAAP and the Act, MKIF records the value of its equity investments in concession companies at their acquisition costs including transaction costs

^ Ratio refers to the contribution to total assets

3. MKIF's asset portfolio details

① Equity securities (unlisted) (top five assets)

(Unit: Share, KRW million, %)

Name	No. of Shares	Percentage Interest	Acquisition Value (A)	Appraisal Value (B) ⁺	Gain/ Loss (B)-(A)	Composition Ratio [^]
Cheonan-Nonsan Expressway Co., Ltd.	17,550,000	60%	93,815	93,815	-	4.52
Private Infrastructure Investment Korea	14,266,425	100%	76,887	76,887	-	3.71
New Airport Hiway Co., Ltd.	10,594,360	24.1%	59,880	59,880	-	2.89
Gyungso Highway Co., Ltd.	11,550,000	35%	58,362	58,362	-	2.81
Korea Road Infrastructure Investment Co., Ltd.	5,610,000	85%	57,552	57,552	-	2.77

⁺ Under KGAAP and the Act, MKIF records the value of its equity investments in concession companies at their acquisition costs including transaction costs

[^] Ratio refers to the contribution to total assets

② Equity securities (unlisted) (more than 1% of total issued shares)

(Unit: Share, KRW million, %)

Name	No. of Shares	Percentage Interest	Acquisition Value (A)	Appraisal Value (B) ⁺	Gain/ Loss (B)-(A)	Composition Ratio [^]
Cheonan-Nonsan Expressway Co., Ltd.	17,550,000	60%	93,815	93,815	-	4.52
Private Infrastructure Investment Korea	14,266,425	100%	76,887	76,887	-	3.71
New Airport Hiway Co., Ltd.	10,594,360	24.1%	59,880	59,880	-	2.89
Gyungso Highway Co., Ltd.	11,550,000	35%	58,362	58,362	-	2.81
Korea Road Infrastructure Investment Co., Ltd.	5,610,000	85%	57,552	57,552	-	2.77
BNCT Co., Ltd.	10,944,300	30%	55,350	55,350	-	2.67
Seoul-Chuncheon Highway Co., Ltd.	9,714,000	15%	49,439	49,439	-	2.38
Soojungsan Investment Co., Ltd.	1,114,880	100%	47,248	47,248	-	2.28
Seoul Metro Line 9 Co., Ltd.	8,197,309	24.5%	41,148	41,148	-	1.98
MCB Co., Ltd.	7,955,780	70%	33,925	33,925	-	1.64
Kwangju Ring Road Co., Ltd.	5,775,000	75%	29,495	29,495	-	1.42
Kwangju Beltway Investment Co., Ltd.	2,610,000	100%	13,050	13,050	-	0.63
Woomyunsan Infracore Co., Ltd.	1,915,200	36%	2,724	2,724	-	0.13
Baekyang Tunnel Ltd.	100,000	100%	1,231	1,231	-	0.06

⁺ Under KGAAP and the Act, MKIF records the value of its equity investments in concession companies at their acquisition costs including transaction costs

[^] Ratio refers to the contribution to total assets

③ Loans to concession companies (top five assets)

(Unit: KRW million, %)

Name	Acquisition Value	Interest Receivable ⁺	Interest Rate	Issued Date	Maturity Date	Guarantee	Credit Rating	Composition Ratio [^]
Cheonan-Nonsan Expressway Co., Ltd. (Sub)	182,250	94,865	16.00	20/05/2005	20/05/2029	N/A	N/A	8.78
BNCT Co., Ltd. (Sub)	180,098	3,258	10.00	25/02/2008	25/11/2032	N/A	N/A	8.68
Kwangju Beltway Investment Co., Ltd. (Senior)	142,000	5,289	10.00	25/11/2004	30/09/2024	N/A	N/A	6.84
Incheon Bridge Co., Ltd (Sub)	89,378	19,008	11.49	12/04/2006	18/07/2026	N/A	N/A	4.31
Seoul Chuncheon Highway Co., Ltd. (Sub)	87,450	1,946	11.59	02/11/2006	28/05/2031	N/A	N/A	4.22

⁺ These values are the accumulated interest receivable

[^] Ratio refers to the contribution to total assets.

④ Short term facilities and deposit

MKIF has also invested a proportion of its cash reserves in MMDA and term deposits. A summary of the MMDA and term deposit set out in the table below.

(Unit: KRW million, %)

Name*	Banks	Deposit amount ⁺	Date of Deposit	Maturity Date	Interest Receivable	Composition Ratio [^]
N/A						

* Each deposit amount exceeding 5% of the Total Assets

⁺ This value is the principal

[^] Ratio refers to the contribution to total assets

⑤ Other assets

The other assets are set out in the table below and consist of accrued income.

Type	Amount	(Unit: KRW million, %)
		Composition Ratio ^
Interest Receivable *	229,559	11.06

* Other assets under the invested assets composition (ex: accrued dividends, accrued income etc), exceeding 5% of the total assets

^ Ratio refers to the contribution to total assets

For more information refer to Quarterly Business Reports and Documents of Settlement of Accounts on the website of KOFIA (<http://dis.kofia.or.kr>).

IV Registered asset managers*

1. Registered asset managers

MSIAM is licensed under the Act to carry out asset management activities for MKIF. As part of its licensing requirements, MSIAM is required to employ at least two infrastructure asset management professionals who meet certain qualifications. The following is the list of MSIAM's infrastructure asset management professionals who are in charge of MKIF management.

Name (KOFIA registration number)	Date of fund management	Title	Management fund other than MKIF		Career
			Number of fund(s)	Total asset under management	
Johnno Kim (06-02323-0004)	February 2006	Division Director	N/A	N/A	Mr Kim has over 24 years experience in asset management and his previous experience includes: - Connell Wagner Group (consulting on major road projects) - Mott Macdonald Group (Project Engineer in UK) - BHP Engineering (Industrial & Commercial Development – Project Manager) - Egis Consulting/GHD (PF & Toll Road Management Consulting company)
Jong Hyuck Park (08-02323-0005)	January 2008	Division Director	N/A	N/A	Mr Park has over 17 years experience with Kookmin Bank, including 10 years with Investment Banking Division and his previous experience includes: - Kookmin Bank (Project Manager for 3 port projects, 7 toll road projects and 2 property projects) - Worked as a member of advisory panel to PIMAC

* All of the two registered infrastructure asset managers work exclusively for MSIAM, the manager of MKIF which has investment commitment of KRW 1.78 trillion and no other fund. According to the Articles of Incorporation of MKIF, MKIF is allowed to pay the performance fee to MSIAM.

2. Change of registered infrastructure asset managers

Period term	Registered asset managers ^	Change
November 2010	Beom Shick Won	Retired
November 2010	Jung Suk Lee	Retired

^ Change of registered asset managers during the past three years.

For more information refer to ad-hoc disclosures on the website of KOFIA (<http://dis.kofia.or.kr>).

V Cost summary

1. Fees to service providers

The table below sets out fees paid by MKIF to its service providers.

(Unit: KRW million, %)

Type		Q2 2011		Q3 2011		Remarks
		Amount	Ratio ⁺	Amount	Ratio ⁺	
MKIF	Management fee	6,092	0.364	6,043	0.364	
	Sales Agent fee	-	-	-	-	
	Custodian fee	84	0.005	83	0.005	
	Administrator fee	52	0.003	53	0.003	
	Total	6,228	0.372	6,179	0.372	
	Other expenses [^]	5,920	0.354	504	0.03	
	Transactions fee	-	-	-	-	

⁺ Ratio refers to fees as a proportion of Net Asset Value

[^] Other expenses include fund audit fee, fund settlement fee and other recurring expenditures other than transactions fee

2. Fees and expenses

(Unit: Annualised, %)

Type		Collective Investment Vehicle	
		Total Expense Ratio*	Commission Ratio
MKIF	Q2 2011	2.9125 ⁺	-
	Q3 2011	1.5991	-

^{*} Total Expense ratio refers to a ratio calculated by dividing the total management fee and other expenses borne by the collective investment vehicle by annual average balance of the fund (before deducting the fees and expenses) and represents the total fees and expenses borne by the investor during the management period

⁺ Increased mainly due to expenses in relation to corporate bond issuance and debt facility refinancing during 2nd Quarter.

VI Invested asset transactions and Debt facility

1. Equity transactions

During the Quarter, MKIF acquired equity securities in concession companies or holding companies (which hold an interest in an underlying concession company). These acquisitions represented new investments for existing investments (in accordance with the schedule in the relevant shareholders agreement) and are summarised in the table below.

(Unit: Shares, KRW million, %)

Buy		Sell		Turnover Ratio ⁺	
Shares	Amount	Shares	Amount	Q3 2011	Annualised rate
555,540	2,778	-	-	-	-

⁺ The Turnover Ratio shows frequency level for the equity transactions. The ratio refers to average sold amounts divided by average retained equity amounts during the application period. Provided that the average equity investment is 10 billion and the average equity disposal amount is 10 billion, turnover ratio is 100%. High turnover ratio will increase fund cost

2. Equity turnover ratio during the past three quarters

(Unit: %)

1Q 2011	2Q 2011	3Q 2011
-	-	-

3. Loan sales

(Unit: KRW million)

Name	Type	Date	Amount
N/A			

4. Loan injections

(Unit: KRW million)

Name	Type	Date	Amount
BNCT Co., Ltd.	Subordinated Loan	25/07/2011	7,917
BNCT Co., Ltd.	Subordinated Loan	30/08/2011	5,618
BNCT Co., Ltd.	Subordinated Loan	28/09/2011	2,338
Total			15,873

5. Debt facility status

(Unit: KRW million)

Name	Limit of the Facility	Debt facility amounts		
		Cumulative to Q2 2011	Movements in Q3 2011 ⁺	Cumulative to Q3 2011
Shinhan Bank	60,000	33,960	4,881	38,841
National Agricultural Cooperative Federation (NACF)	60,000	33,960	4,881	38,841
Woori Bank	40,000	22,640	3,254	25,894
Tongyang Life Insurance	40,000	22,640	3,254	25,894
Shinhan Life Insurance	30,000	16,980	2,440	19,420
LIG Insurance	20,000	11,320	1,626	12,946
Total	250,000	141,500	20,336	161,836

6. Corporate bond status

(Unit: KRW million, %)

Name	Par Value	Interest rate	Issued Date	Maturity Date	Credit Rating
Unsecured Bond Tranche 1-1 (5Year)	60,000	4.57	31/05/2011	31/05/2016	AA
Unsecured Bond Tranche 1-2 (7year)	190,000	4.97	31/05/2011	31/05/2018	AA

VII Notice

Under the Financial Investment Service and Capital Market Act (the Act), MSIAM shall prepare this report and upload it on the web site of MKIF and KOFIA after confirmation from the Custodian (KSFC).

For more information on the website:

MKIF macquarie.com/mkif

KOFIA <http://dis.kofia.or.kr>

APPENDIX I. MKIF BOARD OF DIRECTORS

Supervisory directors

Name	Career
Dae Yun Cho	<ul style="list-style-type: none">– Practicing law at the law offices of Kim & Chang in Seoul since 1979 (Senior Partner)– Acted as a consultant for various Korean Ministries, including the Ministry of Strategy and Finance and the Ministry of Knowledge Economy– Former senior adviser to the Korea International Trade Law Association, the arbitrator of the Korean Commercial Arbitration Board– Panel member of the WTO's Subsidies and Countervailing Duties Committee– President of the International Association Korean Lawyer
Kyung Soon Song	<ul style="list-style-type: none">– Founding Representative Director of Korea Expert Consulting Group (KECG)– Member of Development Cooperation Committee of Korea (Chaired by Prime Minister)– Former senior staff member of World Bank– Former Chief Operating Officer of Nomura Project Finance International Limited
Dae Hee Yoon	<ul style="list-style-type: none">– Executive Advisor in Yulchon (a prominent Korean law firm)– Chair Professor in Economics, Kyungwon University– Former Head of Cabinet Office– Former Senior Secretary of Economic Affairs at Presidential Office– Former Deputy Minister for Planning and Management at Ministry of Strategy and Finance

Corporate director – MSIAM

Name	Career
Chul Hum Paik	<ul style="list-style-type: none">– Representative Director of Macquarie Shinhan Infrastructure Asset Management Co., Ltd.– Headed the Financial Products division of Shinhan Macquarie Financial Advisory from 2001 to 2006– Joined Shinhan Bank in 1993, with responsibilities for international banking and investment banking division
Jason Pak	<ul style="list-style-type: none">– Chief Operating Officer of Macquarie Shinhan Infrastructure Asset Management Co., Ltd.– Joined Macquarie Group in 2002 and spent 4 years on the equity capital market and M&A advisory side with Macquarie Securities– Worked over 5 years in the Corporate Finance division of KPMG, in Seoul and London on the M&A advisory side
Jong Hyuck Park	<ul style="list-style-type: none">– Head of Transaction Team of Macquarie Shinhan Infrastructure Asset Management Co., Ltd.– 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
Chun Bae Kim	<ul style="list-style-type: none">– Vice President of Shinhan Capital– Joined Shinhan Capital in 2008 and lead various investment projects
Young Chul Lee	<ul style="list-style-type: none">– Head of Project Financing Team in Investment Banking Group of Shinhan Bank– Joined Shinhan Bank in 1994 with responsibilities for various project finance transactions involving SOC projects in Korea

APPENDIX II. SUMMARY OF FINANCIAL STATEMENTS

Statements of Financial Position

As of 30 September 2011,
30 June 2011 and
30 September 2010

(Unit: KRW million)

	30 September 2011	30 June 2011	30 September 2010
Assets			
I . Invested assets	1,830,537	1,858,363	1,803,963
Cash & deposits	76,690	120,606	103,340
Loans receivable	1,133,742	1,120,430	1,077,957
Equity securities	620,105	617,327	622,666
II . Others	244,057	221,521	219,957
Interest receivables	229,559	206,712	201,481
Other receivables	4,458	4,477	3,883
Deferred costs, net	10,040	10,332	14,593
Total assets	2,074,594	2,079,884	2,023,920
Liabilities			
I . Operational liabilities	410,770	390,389	354,554
Bond	248,934	248,889	-
Long-term debt	161,836	141,500	354,554
II . Others	7,714	7,598	8,301
Payables	2	1	1
Management fee payable	6,043	6,009	5,704
Other liabilities	1,669	1,588	2,596
Total liabilities	418,484	397,987	362,855
Shareholders' equity			
I . Share capital	1,670,986	1,670,986	1,670,986
II . Retained earnings	(14,876)	10,911	(9,921)
Total shareholders' equity	1,656,110	1,681,897	1,661,065
Total liabilities and shareholders' equity	2,074,594	2,079,884	2,023,920

Statements of income

For the Quarter Ended 30 September 2011 and 30 June 2011 and 31 March 2011
The nine months ended 30 September 2011

(Unit: KRW million)

	Quarter Ended 30 Sep. 2011	Quarter Ended 30 June 2011	Quarter Ended 31 March 2011	Nine months ended 30 Sep. 2011
I . Revenue	41,149	39,744	39,455	120,348
1. Interest income	41,149	39,744	38,833	119,726
2. Gain on sale of investment	-	-	622	622
II . Expenses	12,244	18,470	13,621	44,335
1. Management fees	6,043	6,092	5,877	18,012
2. Custodian fees	83	84	82	249
3. Administrator fees	53	52	51	156
4. Interest expense	5,487	6,200	6,233	17,920
5. Other expenses	578	6,042	1,378	7,998
III . Net income	28,905	21,274	25,834	76,013

CORPORATE DIRECTORY

Manager of MKIF

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