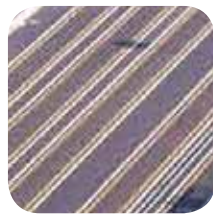




MACQUARIE KOREA INFRASTRUCTURE FUND 2013 ANNUAL REPORT



About Macquarie Korea Infrastructure Fund¹

Korea's largest and only listed infrastructure investment company

EXCHANGE

KRX - 088980.KS
LSE - MKIF.LI

DOMESTIC CREDIT RATING

AA (Stable)²

INVESTMENTS

12 businesses

SECURITIES ON ISSUE

331,459,341

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This annual report provides an overview of Macquarie Korea Infrastructure Fund (MKIF)'s investment and operating activities for the 12 months from 1 January 2013 to 31 December 2013, as well as information on the performance of MKIF's assets. It also includes the audited non-consolidated financial statements for the year.

MARKET CAPITALISATION

KRW 2.03 trillion
(US\$ 1.94 billion)³

MANDATE

To invest in infrastructure assets in Korea as defined under PPI Act⁴

INTERNATIONAL SHAREHOLDER

Internationally diversified with circa 24% of shareholding

WEIGHTED AVERAGE AGE OF ASSETS

7.5 years

TOTAL TRAVELLED VEHICLES ON MKIF ROADS IN 2013

172.6 million

OF SHAREHOLDERS

~11,000 shareholders

1. As at 31 December 2013

2. Issuer Credit Rating from Nice Credit Rating. Bond ratings from Korea Rating and NICE Credit Rating

3. 1 USD = 1,045 KRW as of 31 December 2013

4. Private Participation in Infrastructure Act (PPI Act) defines infrastructure sectors including roads, railways, ports, energy, airport, 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 1.6 trillion in 12 concession companies of which 11 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 22 years.

MKIF's strategy is implemented by its manager, Macquarie Korea Asset Management Co., Ltd. (MKAM). MKAM is incorporated in Korea and is a wholly owned subsidiary of Macquarie Group Limited (MQG). 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 the sector, MKIF is well placed to source attractive investment opportunities and managing 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.



INVESTMENT CRITERIA

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

- 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;
- may benefit from stable cashflow under the PPI Act; and
- position MKIF to become a consistent dividend-paying stock.

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.¹

As an investment company under Financial Services and Capital Markets Act, 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 per cent or more of MKIF's distributable income for such year. MKIF intends to declare and distribute higher amount of 100 per cent 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. All investors are advised to obtain their own professional tax advice in relation to the distributions paid by MKIF



Letter to Shareholders

Dear Shareholders,

Fiscal 2013 was a year characterised by both challenges and success. The tapering of quantitative easing by the United States Federal Reserve brought volatility to the equity markets around the world, affecting MKIF share price without an exception. The local governments challenging the contractual right of certain MKIF assets instigated legal disputes in various levels of the Korean courts, begetting further volatility in the share price. Despite the difficult business condition, MKIF advanced steadily, achieving growth in underlying revenues and volume, executing smart and value accretive transactions, and delivering strong distribution for the year. We believe that last year's experience was another testament to the strong fundamentals of MKIF business, and we thank you for your consistent support and confidence in the management during this testing period.

The underlying businesses generally performed in line with management expectation during the year. MKIF's toll roads delivered 6.4% and 3.4% weighted average revenue and volume growth, respectively, compared to the corresponding period. In addition, MKIF's container terminal business, Busan New Port Phase 2-3 ("BNP 2-3"), achieved its intended target of approximately 1.2 million TEU of throughput volume on the back of strong demand for the New Port terminal services. The asset-level gearing was maintained as scheduled, further sliding down to 37% level from 40% on a remaining amortisation duration of only 7.6 years. In general, the operational performance of the underlying businesses was satisfactory.

As for the portfolio, we had a minor change where MKIF exited from its 24% minority stake in the Seoul Metro 9 and recycled part of the proceeds into our existing investment in BNP 2-3. The divestment was a successful outcome of careful consideration and timely decision when a profitable opportunity was presented for MKIF to realise value after a long-term hold from an investment having a potential risk of enforcing sustainable fare escalation. This, we believe, was a move that optimised the portfolio by reallocating capital into more prospective business and realizing return

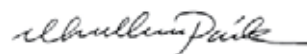
through the process.

On the fund level, MKIF started this year with a successful capital management initiative, replacing KRW 250 billion of the corporate level debt with a new revolving credit facility on improved terms, thus achieving significantly cheaper and longer debt for MKIF at the corporate level. We will continue to be active on this front and stay constantly on the lookout for additional opportunities.

In the midst of such strong performance, one aspect of MKIF's business that has become evident over the past year is the heightened political and government pressure around some of MKIF's assets to negotiate the terms of the respective concession agreements. In particular, three local assets have received administrative orders from the respective local government to reinstate the past capital structure, against which the assets took active legal actions to the court. While the final outcome remains to be seen, it is important to note that the overall economic impact on MKIF from potentially unfavourable rulings is expected to be limited and the outcome does not imply termination of the respective concession agreements. The basic workings of MKIF's underlying businesses remain intact.

We believe that a fundamental measure of our performance will be the shareholder value we create and return to the shareholders over the long term. Our decisions have consistently reflected this focus and we will continue to make decisions in light of long-term considerations rather than short-term market reactions.

On behalf of the Manager and MKIF Board, I would like to thank you for your ongoing support and interest in MKIF and look forward to bringing you more positive developments throughout the year.



Chul Hum Paik

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

2013 Highlights



SOLID FINANCIAL AND OPERATIONAL PERFORMANCE

- Excluding one-offs, MKIF revenue and net income increased by 0.6% and decreased by 1.3%, respectively, compared with the previous corresponding period ("pcp")
- Underlying traffic volume¹ and revenue¹ grew by 3.4% and 6.4%, respectively, on pcp
- Weighted average daily traffic for the three newly opened assets² reached 75%³ of the Concession Agreement Forecasts, significantly lowering dependence on MRG

ACTIVE MANAGEMENT

- Divested entire equity and subordinated debt interest in Seoul Subway Line 9, realising an internal rate of return of 13% and one-off capital gain of KRW 28.0 billion
- The total net cash proceeds of KRW 131.4 billion from the transaction used to repay MKIF's corporate level debt and to fund additional investment in BNP 2-3
- Completed KRW 50 billion of subordinated debt investment into Busan New Port Terminal Co, Ltd, (BNCT), the concessionaire of BNP, carrying 14% fixed interest rate, repayable after 24 years

MAINTAINS STRONG BALANCE SHEET POSITION

- Proportional cash balance of KRW 238.7 billion including MKIF cash of KRW 14.8 billion
- Continued de-gearing of asset level debt with average maturity of 7.6 years, a decrease of 0.7 years on pcp
- No external debt refinancing required until February 2019⁴
- Proportionately consolidated gearing of 37%⁵, compared with 40% in pcp, with 68%⁶ of interest obligations fixed

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

2. Yongin-Seoul Expressway, Seoul-Chuncheon Expressway and Incheon Grand Bridge

3. On a weighted average basis based on total commitment amount and average daily traffic

4. MKIF refinanced its corporate credit facility on 7 February 2019 to extend the maturity and to lower the interest rate, subject to MKIF AGM approval

5. Gearing = Proportionately consolidated MKIF Net Debt / (Proportionately consolidated MKIF Net Debt + MKIF market capital (3-month average))

6. Hedging (Fixed) = Proportionately consolidated MKIF net debt adjusted for fixed debt / Proportionately consolidated MKIF net debt

Performance Review

MKIF achieved solid operational and financial results proving defensive nature in challenging conditions



FINANCIAL SUMMARY¹

(KRW million)

	FY 2013	FY 2012	FY 2011
Revenue	212,907 ²	205,749 ³	162,426 ⁴
Expense	54,217	51,626	56,842
Net income	158,680	154,123	105,584
Normalised ⁵ net income	119,425	120,972	104,962
	As at 31 December 2013	As at 31 December 2012	As at 31 December 2011
Invested assets	1,637,919	1,691,108	1,869,892
Liabilities	327,068	343,090	440,838
Total shareholders' equity	1,715,097	1,712,193	1,685,682
Total liabilities and shareholders' equity	2,042,165	2,055,283	2,126,520

1. On a non-consolidated basis

2. Includes gains on (1) the divestment of Seoul Subway Line 9 Section1 and (2) the liquidation dividend from the CNEC ABS SPC (tranche 1 and tranche 2)

3. Includes gain on the sale of equity in Daegu 4th Expressway East

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

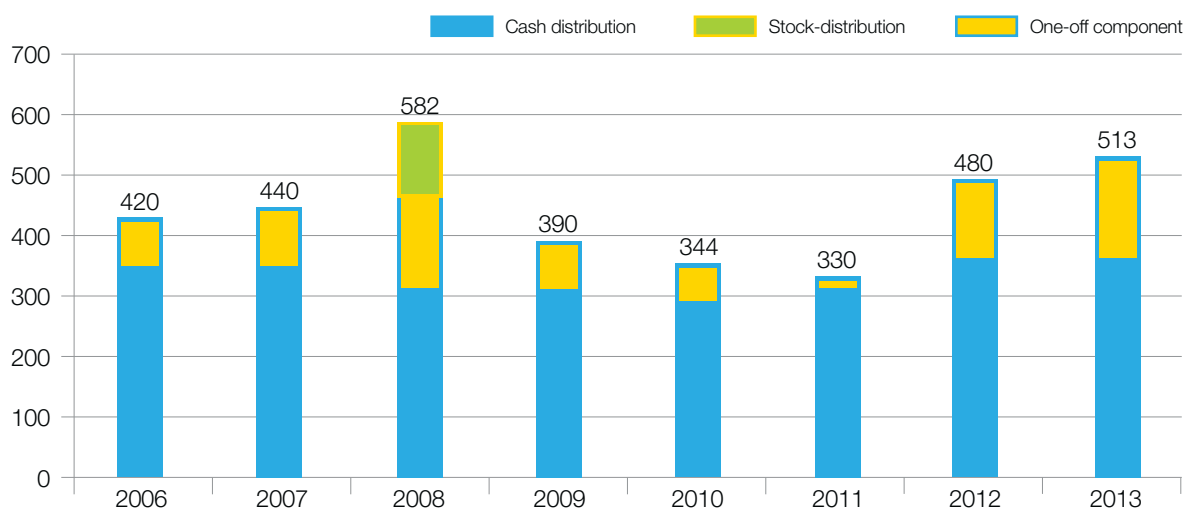
5. Excluding one-off gains and losses



DISTRIBUTION (PER SHARE)

(KRW)

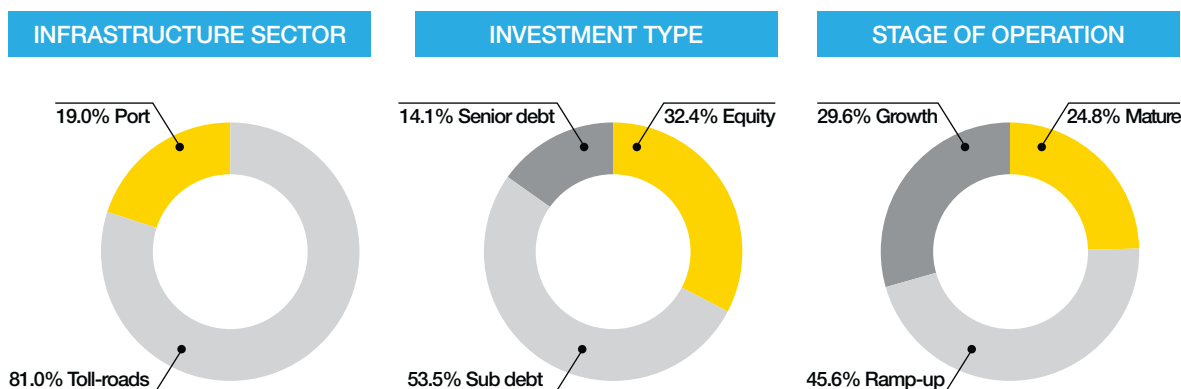
	FY 2013	FY 2012	FY 2011
EPS	479	465	319
Cash distribution	513	480	330
One-off component	153	117	13
Total outstanding shares	331,459,341	331,459,341	331,459,341
Cash yield¹	7.6%	7.9%	6.6%



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

Portfolio¹

Delivering stable and predictable returns on infrastructure investments in Korea



	Name	Ownership (%)	Equity	Subordinated debt	Senior debt	Total	Concession Period
Mature	01_Baekyang Tunnel	100.0	1.2	-	1.5	2.7	25
	02_Gwangju 2 nd Beltway, Section 1	100.0	13.1	35.2 ²	142.0	190.3	28
	03_Incheon International Airport Expressway	24.1	58.2	51.7	-	109.9	30
	04_Soojungsan Tunnel	100.0	47.1	19.3	35.9	102.3	25
Growth	05_Cheonan-Nonsan Expressway	60.0	87.8	182.2	-	270.0	30
	06_Woomyunsan Tunnel	36.0	10.7	9.6	-	20.3	30
	07_Gwangju 2 nd Beltway, Section 3-1	75.0	28.9	-	50.8	79.7	30
	08_Machang Bridge	70.0	33.8	79.0	-	112.8	30
Ramp-up	09_Yongin-Seoul Expressway	35.0	57.8	77.0	-	134.8	30
	10_Seoul-Chuncheon Expressway	15.0	48.6	87.4	-	136.0	30
	11_Incheon Grand Bridge	41.0	74.5	89.4	-	163.9	30
	12_Busan New Port Phase 2-3	30.0	66.4	243.0 ³	-	309.4	29
Total			528.1	873.8	230.2	1,632.1	

1. Based on commitment amount, as of 31 December 2013

2. Includes KRW 3.2 billion working capital facility (Interest rate of 15% p.a.)

3. Includes KRW 50 billion working capital facility (Interest rate of 14% p.a.)

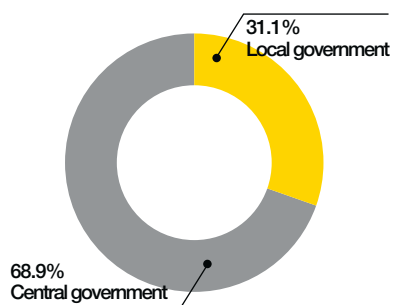
4. MOLIT (Ministry of Land, Infrastructure and Transport)

5. GSND (Gyeongsangnam-Do (Provincial) government)

6. MOF (Ministry of Oceans and Fisheries)

Well balanced and diversified with a broad geographic spread throughout Korea

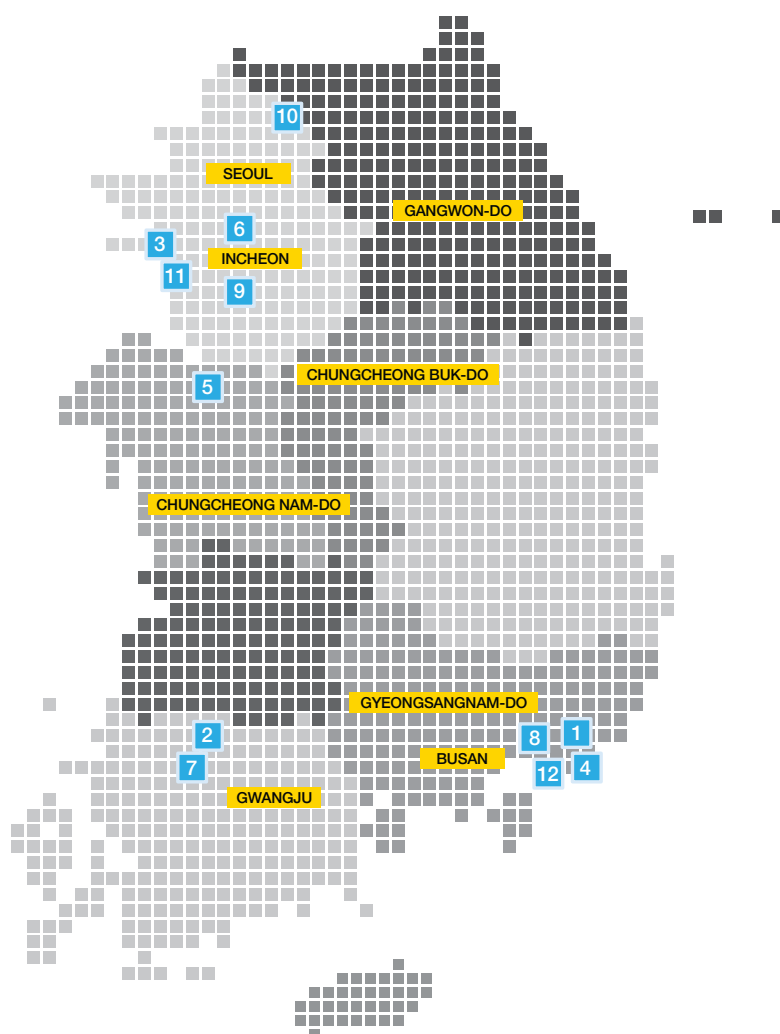
RELEVANT AUTHORITY



(KRW billion, %)

Age	Relevant Authority
14	Busan Metropolitan City
13	Gwangju Metropolitan City
13	MOLIT ⁴
12	Busan Metropolitan City
11	MOLIT
10	Seoul Metropolitan City
9	Gwangju Metropolitan City
5	GSND ⁵
4	MOLIT
4	MOLIT
4	MOLIT
2	MOF ⁶

ASSET LOCATION



01_Baekyang Tunnel
 02_Gwangju 2nd Beltway,
 Section 1
 03_Incheon International
 Airport Expressway
 04_Soojongsan Tunnel
 05_Cheonan-Nonsan Expressway
 06_Woomyunsan Tunnel

07_Gwangju 2nd Beltway,
 Section 3-1
 08_Machang Bridge
 09_Yongin-Seoul Expressway
 10_Seoul-Chuncheon Expressway
 11_Incheon Grand Bridge
 12_Busan New Port Phase 2-3

Yongin-Seoul Expressway



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

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 expressways in Metropolitan Seoul

- **Concession Company:**
Gyungso Highway Co., Ltd.
- **Opened:** July 2009
- **Concession Term:** 30 years to 2039
- **MRG Period:** 10 years

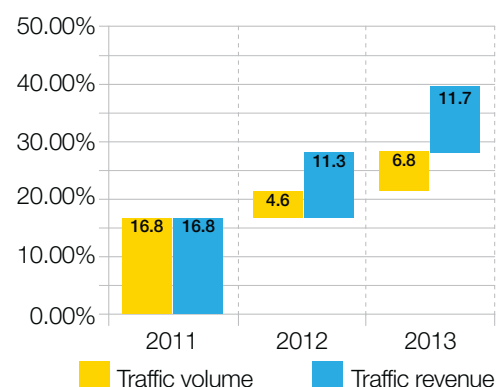


TRAFFIC AND REVENUE

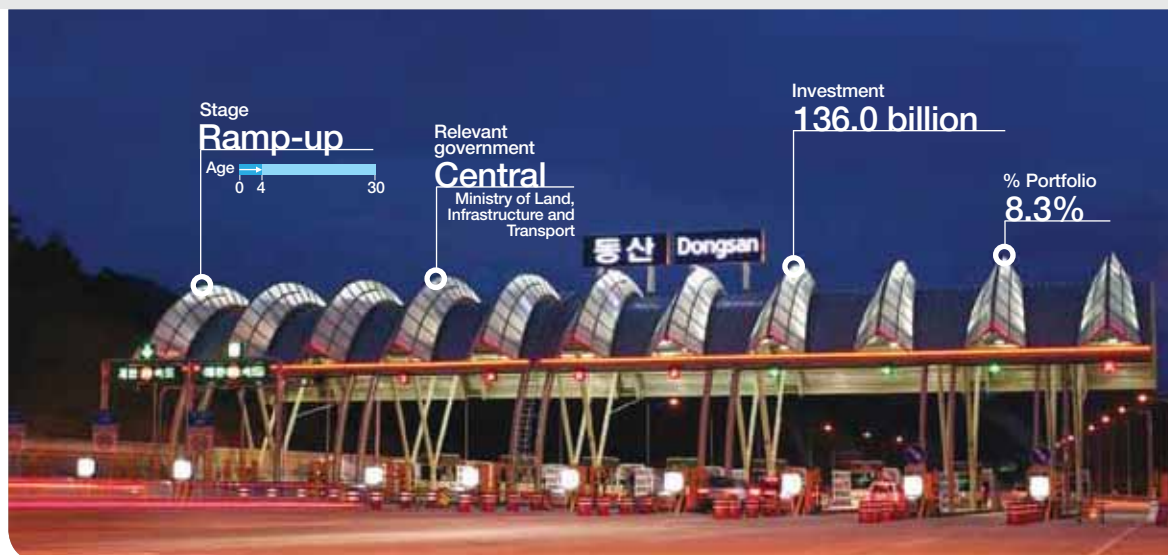
Category	2012	2013	% Change
Average daily traffic (vehicles/day)	66,090	70,603	6.8%
Average daily revenue (1,000 won)	113,291	126,531	11.7%

※ The level of traffic volume in 2013: 78% of Concession Agreement forecast

ANNUAL GROWTH RATE OVER 3 YEARS



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 Company:**
Seoul-Chuncheon Highway Co., Ltd.
- **Opened:** July 2009
- **Concession Term:** 30 years to 2039
- **MRG Period:** 15 years

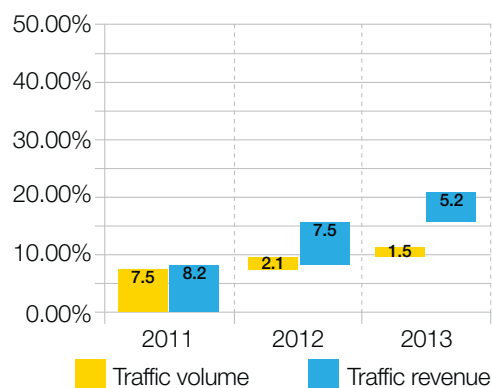


TRAFFIC AND REVENUE

Category	2012	2013	% Change
Average daily traffic (vehicles/day)	39,190	39,763	1.5%
Average daily revenue (1,000 won)	239,366	251,815	5.2%

※ The level of traffic volume in 2013: 80% of Concession Agreement forecast

ANNUAL GROWTH RATE OVER 3 YEARS



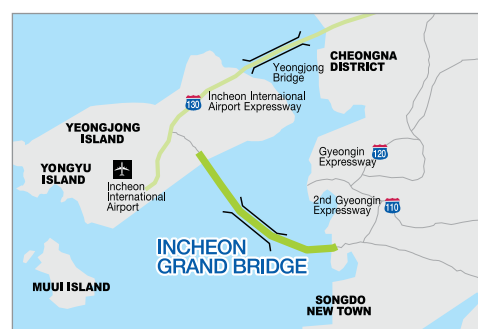
Incheon Grand Bridge



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 Company:**
Incheon Bridge Co., Ltd.
- **Opened:** October 2009
- **Concession Term:** 30 years to 2039
- **MRG Period:** 15 years

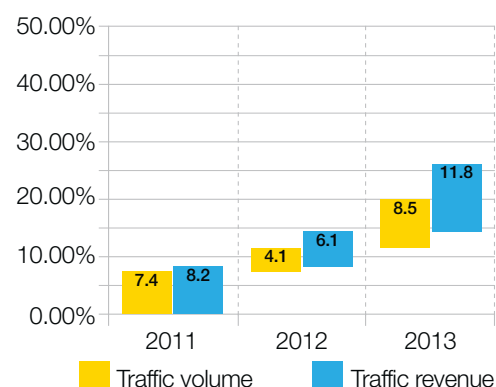


TRAFFIC AND REVENUE

Category	2012	2013	% Change
Average daily traffic (vehicles/day)	28,571	30,990	8.5%
Average daily revenue (1,000 won)	144,084	161,047	11.8%

※ The level of traffic volume in 2013: 70% of Concession Agreement forecast

ANNUAL GROWTH RATE OVER 3 YEARS



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

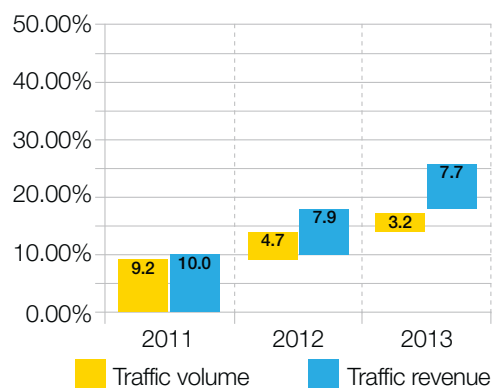
- **Concession Company:**
Cheonan Nonsan Expressway Co., Ltd.
- **Opened:** December 2002
- **Concession Term:** 30 years to 2032
- **MRG Period:** 20 years



TRAFFIC AND REVENUE

Category	2012	2013	% Change
Average daily traffic (vehicles/day)	43,380	44,785	3.2%
Average daily revenue (1,000 won)	345,817	372,580	7.7%

ANNUAL GROWTH RATE OVER 3 YEARS



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

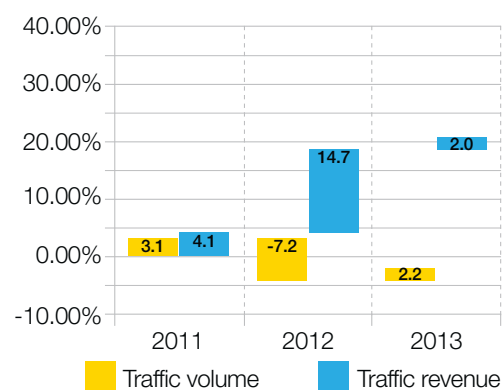
- **Concession Company:**
Woomyunsan Infraway Co., Ltd.
- **Opened:** January 2004
- **Concession Term:** 30 years to 2034
- **MRG Period:** 30 years



TRAFFIC AND REVENUE

Category	2012	2013	% Change
Average daily traffic (vehicles/day)	25,105	25,648	2.2%
Average daily revenue (1,000 won)	54,287	55,393	2.0%

ANNUAL GROWTH RATE OVER 3 YEARS



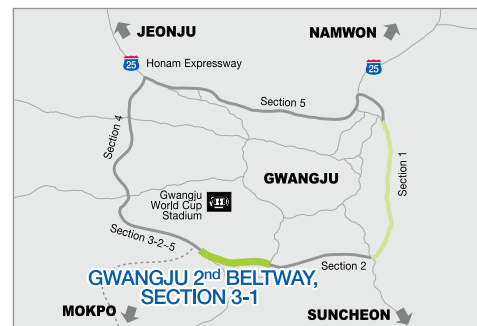
Gwangju 2nd Beltway, Section 3-1



ASSET DESCRIPTION

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

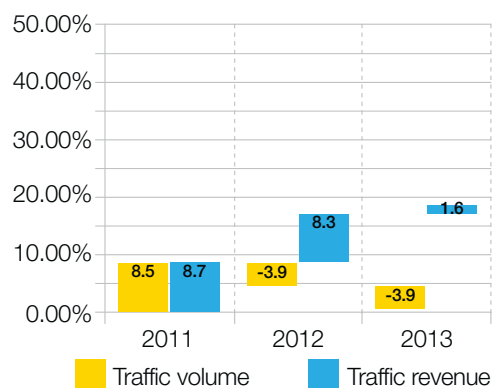
- **Concession Company:**
Kwangju Ring Road Co., Ltd.
- **Opened:** December 2004
- **Concession Term:** 30 years to 2034
- **MRG Period:** 30 years



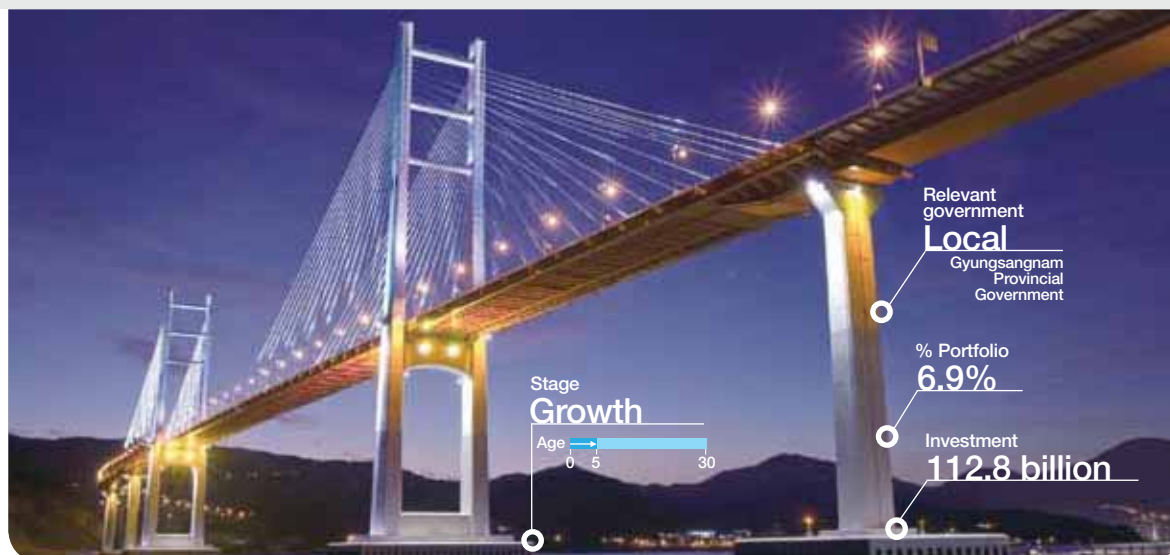
TRAFFIC AND REVENUE

Category	2012	2013	% Change
Average daily traffic (vehicles/day)	34,770	33,420	-3.9%
Average daily revenue (1,000 won)	34,731	35,292	1.6%

ANNUAL GROWTH RATE OVER 3 YEARS



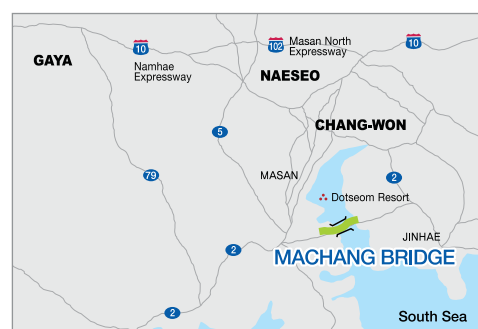
Machang Bridge



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

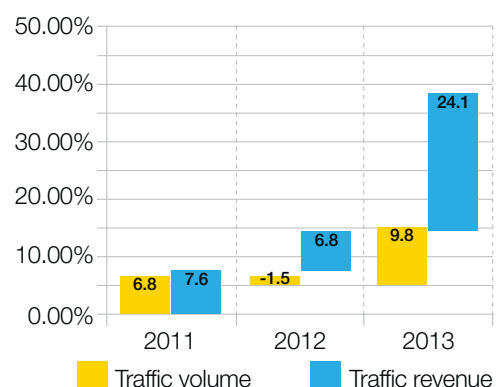
- **Concession Company:**
Machang Bridge Co., Ltd.
- **Opened:** July 2008
- **Concession Term:** 30 years to 2038
- **MRG Period:** 30 years



TRAFFIC AND REVENUE

Category	2012	2013	% Change
Average daily traffic (vehicles/day)	15,485	17,009	9.8%
Average daily revenue (1,000 won)	30,295	37,599	24.1%

ANNUAL GROWTH RATE OVER 3 YEARS



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

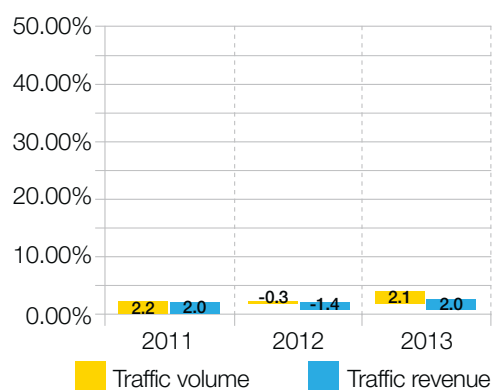
- **Concession Company:**
Baekyang Tunnel Ltd.
- **Opened:** January 2000
- **Concession Term:** 25 years to 2025
- **MRG Period:** 25 years



TRAFFIC AND REVENUE

Category	2012	2013	% Change
Average daily traffic (vehicles/day)	70,819	72,324	2.1%
Average daily revenue (1,000 won)	50,825	51,844	2.0%

ANNUAL GROWTH RATE OVER 3 YEARS



Gwangju 2nd Beltway, Section 1



1. Includes KRW 3.2 billion working capital facility

ASSET DESCRIPTION

5.6km, dual three-lane tolled expressway running from the Gwangju Dooam Interchange to the Sotae Interchange outside the city of Gwangju, Korea's fifth largest city

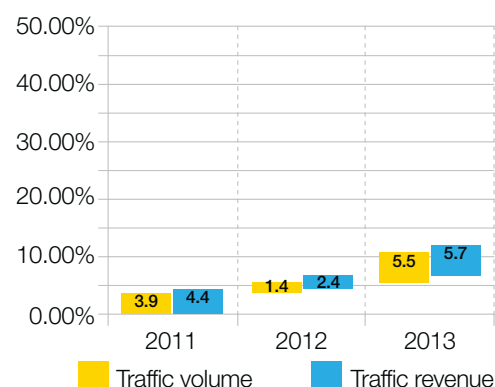
- **Concession Company:**
Kwangju Beltway Investment Co., Ltd.
- **Opened:** January 2001
- **Concession Term:** 28 years to 2028
- **MRG Period:** 28 years



TRAFFIC AND REVENUE

Category	2012	2013	% Change
Average daily traffic (vehicles/day)	37,930	40,008	5.5%
Average daily revenue (1,000 won)	39,760	42,035	5.7%

ANNUAL GROWTH RATE OVER 3 YEARS



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

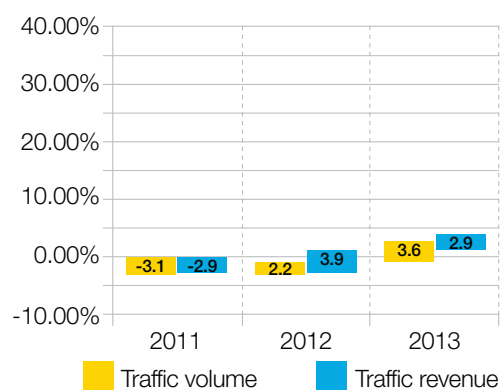
- **Concession Company:**
New Airport Hiway Co., Ltd.
- **Opened:** December 2000
- **Concession Term:** 30 years to 2030
- **MRG Period:** 20 years



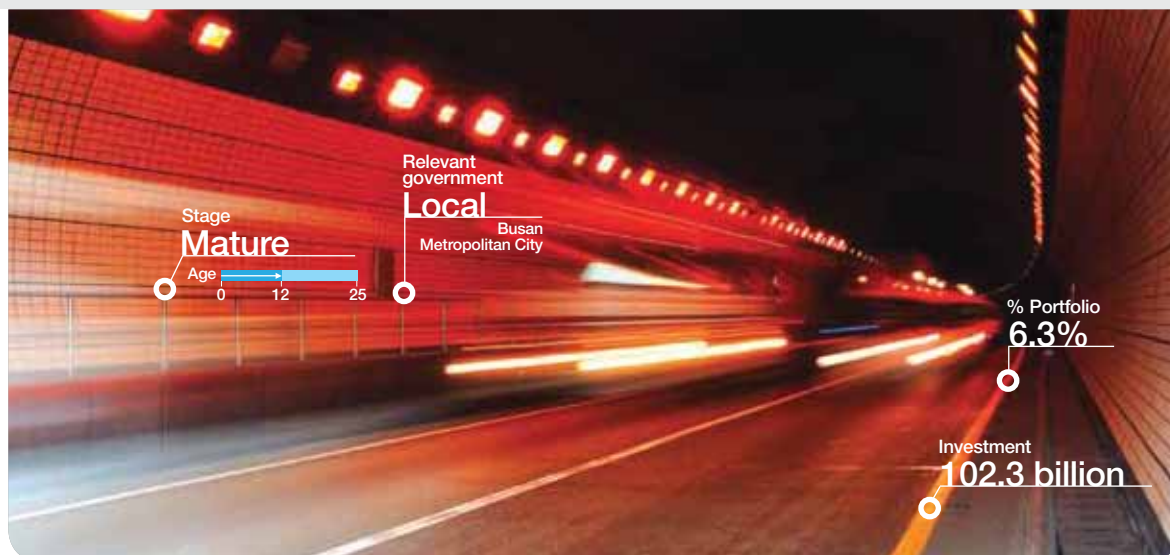
TRAFFIC AND REVENUE

Category	2012	2013	% Change
Average daily traffic (vehicles/day)	52,970	54,858	3.6%
Average daily revenue (1,000 won)	338,043	347,812	2.9%

ANNUAL GROWTH RATE OVER 3 YEARS



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

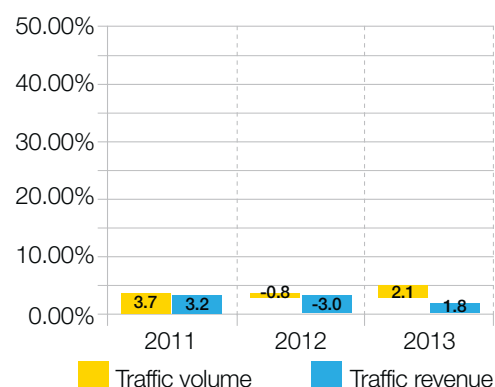
- **Concession Company:**
Soojungsan Investment Co., Ltd.
- **Opened:** April 2002
- **Concession Term:** 25 years to 2027
- **MRG Period:** 25 years



TRAFFIC AND REVENUE

Category	2012	2013	% Change
Average daily traffic (vehicles/day)	42,497	43,409	2.1%
Average daily revenue (1,000 won)	31,105	31,662	1.8%

ANNUAL GROWTH RATE OVER 3 YEARS



Busan New Port Phase 2-3

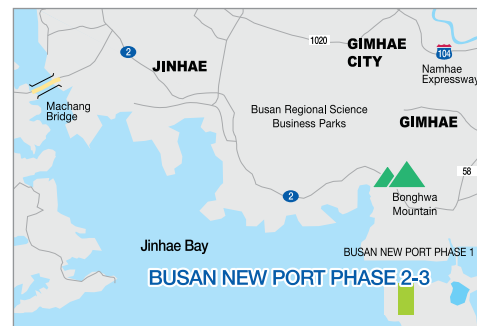


1. Includes KRW 50 billion working capital facility

ASSET DESCRIPTION

Independent full-service container terminal with an initial capacity of about 1.8 million Twenty-foot-Equivalent Units (TEU), going up to 2.7 million TEU by 2015

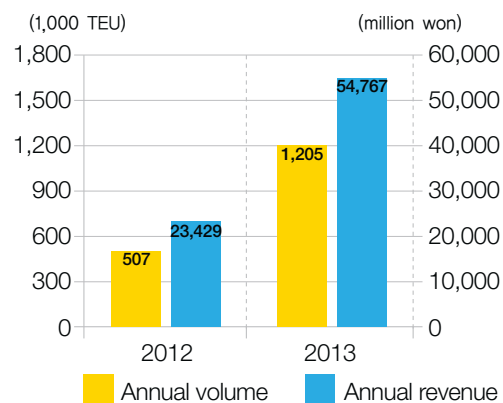
- **Concession Company:**
BNCT Co., Ltd.
- **Opened:** January 2012
- **Concession Term:**
29 years 3 months to 2041



OPERATIONAL PERFORMANCE

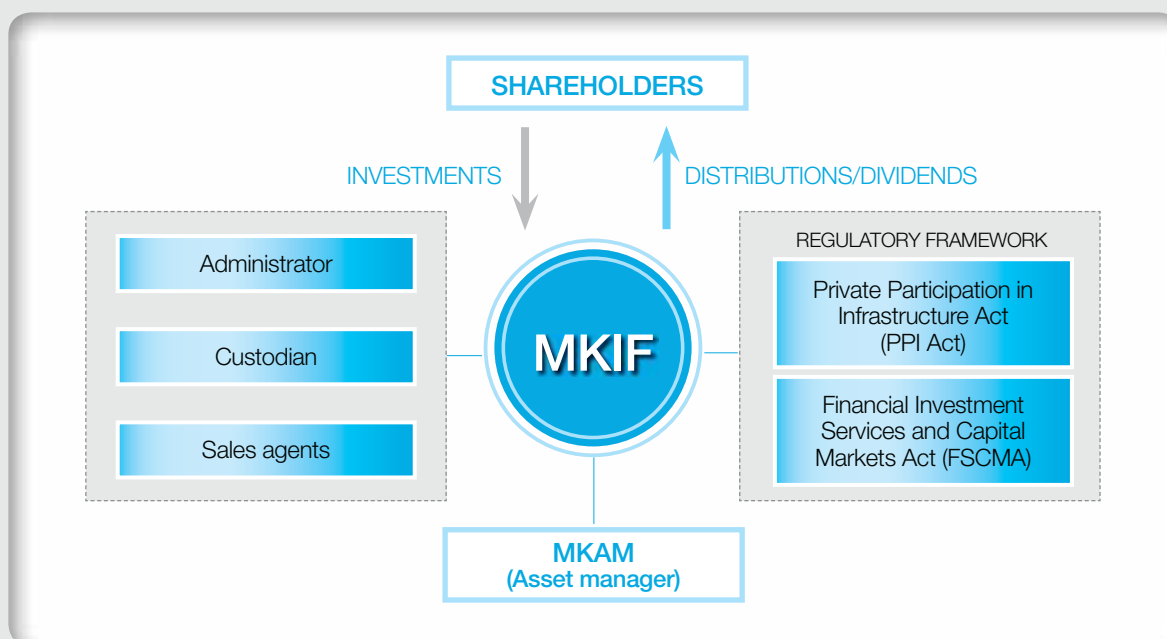
Category	2012	2013	% Change
Annual volume (1,000 TEU)	507	1,205	138%
Annual revenue (million won)	23,429	54,767	134%

ANNUAL VOLUME REVENUE



Corporate Governance Statement

MKIF'S STRUCTURE



LEGAL FRAMEWORK

MKIF operates under the legal and regulatory framework established by the Financial Investment Service and Capital Market Act (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 (MQG).

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 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.

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 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 2009 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 current supervisory directors of MKIF are as follows:

Dae Yun Cho

Reappointed as MKIF Supervisory Director in March 2013 (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
- 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

- Former President of the International Association of Korean Lawyers

Kyung Soon Song

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

- Founding Representative Expert of Korea Expert Consulting Group (KECG)
- Head of Advisors, Global Strategy Advisory Center for Leading SMEs
- Member of Advisory Board, Korea International Cooperation Agency (KOICA)
- Steering Committee Member (Chairman of Investment Subcommittee), Korea Investment Corporation
- Member of Advisory Board, Korea's Economic Development Cooperation Fund (EDCF)
- Former 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

- Chair Professor at Gachon University
- Attorney-at-law, Senior Advisor of Yulchon
- The 12th 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
- Former Head of the Knowledge Sharing Program (KSP) promoted by the Korean government

MKIF'S APPROACH TO CORPORATE GOVERNANCE

The MKIF Board is committed to achieving sustainable financial performance for the benefit of MKIF security

Corporate Governance Statement

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 Ltd.(Macquarie), 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 Fund Policy). The 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 Fund Policy, although they have been amended to take account of Korean legal and regulatory requirements. The policies address the following key areas:

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

MKAM BOARD OF DIRECTORS

The MKAM Board of Directors (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 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 maximizing 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 four representatives.

Chul Hum Paik

Reappointed as MKAM Representative Director in December 2012 (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 portfolio/capital management and investor relations
- 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

Appointed as MKAM Director in June 2013 (Initially appointed in June 2010)

- Head of Infrastructure Team of MKAM
- Infrastructure asset manager registered to the Korea Financial Investment Association (KOFIA)
- Worked over 10 years mainly in Investment Banking Division of Kookmin Bank
- Worked as a member of advisory panel to Public & Private Infrastructure Investment Management Center (PIMAC)

Namwook Choi

Appointed as MKAM Director in November 2013

- Head of Private Concession and Real Estate team of MKAM
- Worked over 10 years mainly in Investment Banking Division of Samsung Securities, having various roles in structured finance and IB

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 provide a quarterly asset management report on the MKIF website, and an annual and quarterly business report to the Financial Supervisory Service (FSS) and the Korea Financial Investment Association (KOFIA). The FSS 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 has 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 Responsibilities Management



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

The Macquarie Group (Macquarie) manages a range of investment vehicles within Macquarie Funds Group. MKIF is one of these investment vehicles.

Macquarie manages social commitment activities from a long-term perspective and fully understands the importance of good custodianship to the communities in which it operates.

Macquarie's social commitment is underpinned by:

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

RESPONSIBILITY

All Macquarie staff, including those working on behalf of MKIF, has a collective responsibility to ensure that Macquarie continues to be a good corporate citizen. MKIF's manager carries out this responsibility, supported

by Macquarie's executives, appointed to uphold integrity, equal employment and sustainability and environment, and the risk management group.

Macquarie staff may also contribute their time, expertise and/or financial support 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 affected by the activities of its investment operations and works to ensure that the operations are conducted in an environmentally and socially responsible manner.

MKIF's environmental and social responsibility arises from the influence (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 a part of the acquisition due diligence process. MKIF has made an effort to fully serve its post-acquisition environmental and social responsibilities as stated by related regulations.
- **Ongoing asset management** - MKIF's ability to control or influence the ongoing management of environmental and social responsibility differs for each asset based on its level of shareholder influence and the regulatory environment that governs those issues. However, the regulatory environment is not controlled by MKIF or its assets.
- **Stakeholder reporting** - corporate policies, social and environmental initiatives and compliance with applicable regulations are reported internally and, when necessary, externally.

In general, it is MKIF's policy to ensure compliance of its assets with the regulatory framework by establishing the minimum standards under which the assets operate and applying exemplary practices.

Through participation in the Boards of the assets, MKIF representatives actively encourage assets to consider environmental issues in a decision-making process. Each asset monitors the compliance with environmental requirements, provides regular reports to its Board and resolves any identified issues on a timely basis.

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 follows:

- Air quality
- Noise and other pollution
- Waste management
- Landscaping

- Flora and fauna management
- Occupational health and safety
- Employment and business contract compliance
- Community relations

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY-RELATED REGULATORY REQUIREMENTS

There is no significant breach of environmental and social responsibility-related regulatory requirements by its assets during the year ended 31 December 2013, that MKIF is aware of.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY-RELATED INITIATIVES AT MKIF BUSINESSES DURING FY2013

Notable examples of environmental and social responsibility-related initiatives undertaken by the assets, in which MKIF invests, during the year ended 31 December 2013 include the following:

Incheon Bridge (IGB)

As an active member of its community, IGB has participated in a wide range of community initiatives over the years. IGB supported a development of local cultural events, such as a musical performance by Yongjong Culture Group, by providing IGB Memorial Center for the venue and sponsoring the opening event. IGB also established a local scholarship, 'Cheonan Warship Lieutenant Yoon Young Ha Scholarship' and sponsored annual local events, Yongjong Resident's Day and the Memorial Service for the Victims of Attack in Yongjongjin.

IGB staff also donated supplies to 2013 Red Cross Charity Bazaar and co-hosted an event with Red Cross, a delivery of 300 pieces of warm clothes, 600 boxes of ramen, and 6,000kg of homemade kimchi to those in need. In addition, IGB delivered Christmas presents to 2,103 local households through Incheon Michuhol Santa Claus.

Incheon International Airport Expressway (NAHC)

NAHC is making an effort towards collaboration with the

Environmental and Social Responsibilities Management

local community through a variety of events.

All staff participated in Kimchi Sharing Event to support households with the disabled and formed affiliation with local farming villages to purchase local specialty and agricultural products. NAHC annually grants scholarships to the underprivileged in the region. Also, NAHC raised special funds to help Philippines recover from the disastrous typhoon in November 2013.

Furthermore, NAHC successfully sponsored various local events, including Incheon World Inline Skating Event, Eulwangri Rock Festival, and Yongjong Resident's Day. NAHC has continuously contributed to the local community by sponsoring the events to help the underprivileged and supporting the memorial organization for Lieutenant Yoon Young Ha, who died in the Second Yeonpyung War.

Management of NAHC is focused on not only providing convenient access to users but also in preserving and protecting nature. Accordingly, NAHC conducted an analysis of natural environment throughout the entire expressway, distinguished ecological and living environment of wild animals residing in the area and consequently reconstructed a connecting path and a fence that was destroyed by expressway development, reducing potential danger of road kill for these inhabiting wild animals.

Soojungsan Tunnel (SICL)

To maintain a close relationship with the local community and serve its corporate social responsibilities, SICL donated to Busan Community Chest of Korea and Busan Fruit of Love.

SICL obtained K-HOSMS 18001 (Safety & Welfare Management System) certificate, the first in a tunnel industry, and further enhanced its environment and social responsibility management policy by simultaneously obtaining ISO9001 (Quality Management System) and ISO14001 (Environmental Management System) certifications.

Through participation in Busan Regional Ministry of Employment and Labour's Occupational Health Risk Self-Evaluation Program, SICL was recognised for reducing risk factors regarding occupational accidents and obtained Certificate of Authentication for Occupational Health Risk Self-Evaluation upon inspection, which exempts SICL from occupational safety and health-related inspections over next 24 months.

Baekyang Tunnel (BYTL)

Since 2009, as a part of corporate social responsibility activities, BYTL has participated in the once a month community service event administered by Baekyang Social Welfare Center, such as providing free meal to those living under basic living standards and senior citizens living alone.

Level of air pollution is inspected by an external party (Research Institute of Public Health & Environment) on a bi-annual basis. Result of the inspection showed that BYTL is maintaining a clean tunnel with carbon monoxide level of 1.9 ppm and nitrogen oxide level of 0.945 ppm (maximum standard for inspection is 100 ppm and 25 ppm for carbon monoxide and nitrogen oxide respectively). The results are disclosed on the inspector's website to ensure health and safety of tunnel users.

Gwangju 2nd Beltway Section 1 (KBICL)

KBICL donated to 2013 International Multicultural Family Event held by Gwangju UNESCO to help eradicate discrimination and promote harmony through consideration and understanding. KBICL also made a donation to Community Chest of Korea and a rehabilitation facility for the disabled in its endeavour to support the community.

Gwangju 2nd Beltway Section 3-1 (KRRC)

As a responsible member of the local community, KRRC donated to education and rehabilitation facilities for the disabled and social welfare facilities that manage free meal events for those living under basic living standards and senior citizens living alone.

Cheonan-Nonsan Expressway (CNE)

CNE obtained ISO14001 (environmental management system) international certificate and, in July 2013, also conducted a follow-up evaluation of the waste storage process and compliance with the environmental regulation.

To eliminate potential environmental pollution from use of herbicides, CNE internally developed a mower that can be mounted on vehicles, which was patented and commercialized on 5 March 2013. While other expressways have raised social and environmental issues by using herbicide, CNE utilised the patented machine to increase work efficiency and enable environment-friendly mowing.

Additionally, CNE fulfilled its corporate social responsibilities and expressed care for the underprivileged by having all staff regularly visit Woori Welfare Facility, a sanatorium for the severely disabled located in Tanchun-myun, Gongjoo City and voluntarily participated in maintaining the facilities, bathing the severely disabled, and accompanying them to Everland amusement park. All staff also supported the female victims of domestic violence in Saewoomteo in Gongjoo City by regularly providing necessary goods.

CNE has annually donated supplies and financial support to Gongjoo Cheongyang Victim of Crime Support Center and the mass wedding ceremony of the physically challenged in Chungcheongnam-do. CNE also provided Poong Sae office as the venue for year-end fundraising of Korea National Red Cross.

CNE actively supported underprivileged households throughout the year. In July, CNE made donation to grant scholarship to ten high school students from low-income households. In December, all staff participated in Sharing for Warm Winter event in delivering 1,000 charcoal briquettes to five underprivileged households and made donation to Community Chest of Korea for the underprivileged.

Woomyunsan Tunnel (WIC)

WIC maintains a close relationship with the local

community by consistently donating and participating in local events, such as a ritual for the mountain spirit. WIC also provides a convenient rest area for police patrols and parking enforcement officers by sharing complimentary coffee and vending machine drinks.

Level of air pollution is inspected by an external party (Research Institute of Industrial Pollution) on a bi-annual basis. Result of the inspection showed that WIC is maintaining a pleasant tunnel condition with carbon monoxide level of 6.2 ppm and nitrogen oxide level of 0.41 ppm (maximum standard for inspection is 100 ppm and 25 ppm for carbon monoxide and nitrogen oxide respectively), validating safe environment for the tunnel users. The result was reported to the relevant governing department of Seoul City.

Machang Bridge (MCB)

In effort to prevent deterioration of bridge structure and reduce pollution of nearby river, ocean and soil, MCB changed its defroster from calcium chloride to environment-friendly chemical and replaced ordinary water heater with solar powered water heater.

Additionally, MCB proactively participated in government energy conservation campaign for prevention of energy crisis by efficiently controlling the use of exterior landscape lighting and maintaining appropriate indoor temperature (26 degree Celsius in summer, 18 degree Celsius in winter).

As always, MCB contributed significantly to the local community. MCB sponsored the event to repair nearby houses for the elderly, donated supplies and financial support to the organization for the disabled, 'Goodwill', through year-end charity bazaar and running a day café and contributed to collecting garbage on the beach of Masan Bay.

Yongin-Seoul Expressway (YSE)

YSE has participated in a wide range of community initiatives during 2013 to maintain a sustainable relationship with the local community and serve its corporate social responsibilities. Some of the key initiatives are as follows:

Environmental and Social Responsibilities Management

- Local Road Snow Removal: In joint initiatives with Bundang-gu office, YSE provided equipments and manpower during the snow season to help efficiently and effectively clear snow from the roads for the local residents and commuters.
- Storage for Snow Removal Supplies: YSE entered into a memorandum of understanding ("MOU") with Yongin City, agreeing to maintain efficient cooperation system for prompt snow removal and provide a storage space for snow removal supplies.
- Environmental Protection Initiative: Twice a year, all staff of YSE participates on a widespread garbage collecting duties on hiking trail of Mountain Gwanggyo, located near the expressway.
- Wild Animal Road-Kill Protection: YSE has begun installing Wild Animal Protection Fence for protection of wild animals and for safety of road users. Approximately 90% of the installation has been completed.
- Cleaning of Dongmak Road: Once a month, YSE cleaned and provided maintenance for a connecting road, which was poorly maintained by Bundang-gu due to shortage in funding and manpower.
- Community Sports Facility: YSE built and provided access to various sports facilities, such as tennis courts, to local communities at free of charge, contributing to enhance the local community welfare.
- Sponsorship for Social Welfare Facility, "House for Sun-rising": YSE has supported local social welfare facility by regularly providing necessities and maintenance service to the facility.
- Sponsorship for Cheongju International Craft Biennale: YSE sponsored the international event hosted by Cheongju City, intended to support revitalization of local economy and small businesses, and helped PR programme through VMS and banners.

Seoul-Chuncheon Expressway (SCE)

SCE endeavoured to fulfil corporate social responsibilities with participation in a variety of community activities, including environment clean-up activities, donations, sponsorship of local events and regular support for the underprivileged.

In 2013, SCE sponsored local nursing homes, 'Valuable House' and 'Wonkwang House', and students from low-income households, as well as various events, 'Soyang Festival' and events for the elderly, for the local residents of Nam-myeon, Chuncheon. Moreover, SCE made donations to local charity events for the underprivileged, including rice, charcoal briquette donations and Salvation Army Charity Pot. Additionally, SCE has hosted a once a month 'Cleaning Day' to help preserve the environment proximate to the expressway. SCE plans to increase frequency of environmental clean-up activities and sponsorship for the underprivileged in the region.

Busan New Port Phase 2-3 (BNCT)

BNCT has obtained ISO18001 certificate for systematic management of terminal operation and continuously conducted a hazard assessment of the terminal for the purpose of accident prevention.

For the purpose of energy conservation, BNCT evaluated various measures taken by other terminals to improve energy consumption efficiency, such as switching to LED lamps and turning off unnecessary lights, which are expected to become effective during the first half of FY 2014.

BNCT employed active management of wastewater from the container repair/cleaning area and M&R Shop and was in compliance with the relevant regulations. BNCT also maintained an emergency kit, prepared for taking prompt actions in case of accidents.

BNCT fulfilled corporate social responsibilities by providing meal and prizes to local residents' events, such as Chunga-dong Resident's Friendly Athletic Competition and Night of Resident's Harmony event. Furthermore, BNCT staff made visits senior citizen centres near the terminal during the holidays and donated rice to Soyang Nursery in Gaduk Island.

MACQUARIE KOREA INFRASTRUCTURE FUND

Financial Statements
December 31, 2013 and 2012

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Report of Independent Auditors

To the Board of Directors and Shareholders 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, 2013 and 2012, and the related statements of income, changes in 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 conformity with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audits 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, 2013 and 2012, and its financial performance and cash flows for the years then ended in conformity with Statements of Accounting Standards ("SAS") No. 5003 Collective Investment Vehicle 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 financial statements and are unaudited.

Auditing standards and their application in practice vary among countries. 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 auditing standards and their application in practice.

Seoul, Korea
January 28, 2014

This report is effective as of January 28, 2014, 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

LS Yongsan Tower, 92, Hangang-daero, Yongsan-gu, Seoul 140-702, Korea, www.samil.com

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.

Statements of Financial Position

MACQUARIE KOREA INFRASTRUCTURE FUND
December 31, 2013 and 2012
(In thousands of Korean won and in thousands of U.S. dollars, except per share data)

	Won (thousands)		U.S. dollars (thousands) (Note 2(b))
Assets	2013	2012	2013
Invested assets:			
Cash and deposits (Note 3)	₩ 14,751,335	₩ 20,815,264	\$ 13,978
Loans (Notes 4 and 7)	1,090,064,436	1,096,041,506	1,032,943
Equity securities (Notes 6, 7 and 9)	533,103,443	574,251,191	505,168
Total invested assets	1,637,919,214	1,691,107,961	1,552,089
Other assets:			
Interest receivable (Note 7)	394,913,155	351,646,013	374,219
Other receivables	2,946,564	4,457,863	2,792
Deferred cost, net (Note 5)	6,386,216	8,071,557	6,052
Total other assets	404,245,935	364,175,433	383,063
Total assets	₩ 2,042,165,149	₩ 2,055,283,394	\$ 1,935,152

Liabilities and Shareholders' Equity

Liabilities:			
Bonds issued (Note 12)	₩ 249,333,305	₩ 249,156,128	\$ 236,268
Long-term debts (Note 11)	68,580,970	84,944,371	64,987
Accounts payable	250,850	941	238
Management fee payable (Note 8)	7,399,988	7,454,573	7,012
Other liabilities (Note 10)	1,503,144	1,534,266	1,424
Total liabilities	327,068,257	343,090,279	309,929
Equity			
Share capital - no par value	1,670,985,755	1,670,985,755	1,583,422
Authorized - 4,000,000,000 shares; Issued and outstanding: 331,459,341 shares in 2013 and 2012 (Note 13)			
Retained earnings	44,111,136	41,207,360	41,800
Net asset value per share in Korean won and U.S. dollars: ₩ 5,174(\$4.9) in 2013 and ₩ 5,166(\$4.8) in 2012 (Note 13)			
Total shareholders' equity	1,715,096,891	1,712,193,115	1,625,222
Total liabilities and shareholders' equity	₩ 2,042,165,148	₩ 2,055,283,394	\$ 1,935,151

The accompanying notes are an integral part of these financial statements.

Statements of Income

MACQUARIE KOREA INFRASTRUCTURE FUND
For the years ended December 31, 2013 and 2012
(In thousands of Korean won and in thousands of U.S. dollars, except earnings per share)

	Won (thousands)		U.S. dollars (thousands) (Note 2(b))
	2013	2012	2013
Revenue:			
Interest income (Notes 4 and 7)	₩ 173,642,440	₩ 171,911,689	\$ 164,543
Gain on sale of investment, net (Notes 4 and 6)	28,019,479	33,151,148	26,551
Dividend income (note 6)	11,245,560	-	10,656
Other income	-	686,224	-
	212,907,479	205,749,061	201,750
Expenses:			
Management fees (Note 8)	30,809,865	27,786,179	29,195
Custodian fees (Note 8)	335,008	337,315	317
Administrator fees (Note 8)	209,380	210,822	198
Interest expense (Note 8)	19,746,449	19,827,559	18,712
Other expense (Notes 7, 8 and 15)	3,117,111	3,463,904	2,954
	54,217,813	51,625,779	51,376
Net income	₩ 158,689,666	₩ 154,123,282	\$ 150,374
Earnings per share			
in Korean won and U.S. dollars (Note 18)	₩ 479	₩ 465	\$ 0.454

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Shareholders' Equity

MACQUARIE KOREA INFRASTRUCTURE FUND
For the years ended December 31, 2013 and 2012
(In thousands of Korean won and in thousands of U.S. dollars, except per share data)

	Won (thousands)		U.S. dollars (thousands) (Note 2(b))	
	Share capital	Retained earnings	Total	Total
Balance at January 1, 2012	₩ 1,670,985,755	₩ 14,695,925	₩ 1,685,681,680	\$ 1,597,348
Net income	-	154,123,282	154,123,282	146,047
Cash distribution (Note 14) (Net asset value per share in Korean won and US dollars: ₩5,166 (\$4.8) (Note 13))	-	(127,611,847)	(127,611,847)	(120,925)
Balance at December 31, 2012	1,670,985,755	41,207,360	1,712,193,115	1,622,470
Net income	-	158,689,666	158,689,666	150,374
Cash distribution (Note 14) (Net asset value per share in Korean won and US dollars: ₩5,174 (\$4.9) (Note 13))	-	(155,785,890)	(155,785,890)	(147,622)
Balance at December 31, 2013	₩ 1,670,985,755	₩ 44,111,136	₩ 1,715,096,891	\$ 1,625,222

The accompanying notes are an integral part of these financial statements

Statements of Cash Flows

MACQUARIE KOREA INFRASTRUCTURE FUND
For the years ended December 31, 2013 and 2012
(In thousands of Korean won and in thousands of U.S. dollars)

	Won (thousands)		U.S. dollars (thousands) (Note 2(b))
	2013	2012	2013
Cash flows from operating activities:			
Cash inflows from operating activities:			
Interest income	₩ 101,895,508	₩ 62,733,489	\$ 96,556
Dividend income	11,245,560	-	10,656
Collection of loans receivable	8,470,000	45,827,030	8,026
Collection of receivable	1,511,299	-	1,432
Sale of invested assets	131,404,106	91,159,100	124,518
Other income	-	686,224	-
	254,526,472	200,405,843	241,188
Cash outflows from operating activities:			
Issuances of loans receivable	(36,000,000)	(4,720,000)	(34,114)
Payment of deferred costs	(67,450)	(71,000)	(64)
Management fees	(30,864,449)	(26,471,610)	(29,247)
Custodian fees	(335,210)	(335,963)	(318)
Administrator fees	(209,506)	(209,977)	(199)
Other expenses	(1,260,920)	(2,059,874)	(1,195)
	(68,737,535)	(33,868,424)	(65,137)
Net cash provided by operating activities	185,788,937	166,537,419	176,053
Cash flows from financing activities:			
Proceeds from long-term debts	132,500,000	74,500,000	125,557
Repayment of long-term debts	(155,000,000)	(180,000,000)	(146,878)
Distribution	(155,785,890)	(127,611,847)	(147,622)
Interest expense	(13,466,975)	(13,403,659)	(12,761)
Incidental expenses for borrowings	(100,000)	(100,000)	(95)
Net cash used in financing activities	(191,852,865)	(246,615,506)	(181,799)
Net decrease in cash and deposits	(6,063,929)	(80,078,087)	(5,746)
Cash and cash equivalents at beginning of the year	20,815,264	100,893,350	19,724
Cash and cash equivalents at end of the year	₩ 14,751,335	₩ 20,815,264	\$ 13,978

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

MACQUARIE KOREA INFRASTRUCTURE FUND
December 31, 2013 and 2012

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 infrastructure developments with central, provincial and city governments in Korea implemented under the framework of the PPIA. The Company, which was classified as an investment company under the Indirect Investment Asset Management Business Act (“IIMBA”), was registered as an investment company under the Financial Investment Service and Capital Market Act (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. Macquarie Korea Asset Management Co., Ltd. (Former, Macquarie Shinhan Infrastructure Asset Management Co., Ltd.) is the Company’s asset manager. Macquarie Korea Asset Management Co., Ltd. (the “Manager”) had been a joint venture between the Macquarie Group and Shinhan Financial Group and Shinhan Financial Group transferred its total share to Macquarie Group and changed its name to Macquarie Korea Asset Management Co., Ltd. on February 28, 2012.

On November 11, 2005, the Manager was licensed as an infrastructure fund asset management company under the IIMBA and on February 4, 2009, the Manager was re-licensed as an infrastructure fund asset management company under the FSCMA. On June 24, 2010, the Manager was authorized as the manager of special asset collective investment vehicle under FSCMA. Also on November 27, 2013, the Manager was authorized as the manager of real estate 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 Accounting Standards (“SAS”) 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, financial statements are intended for use only by those who are informed about Korean accounting principles and practices.

Notes to the 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, 2013, provided herein, represent supplementary information, solely for the convenience of the reader. All won amounts are expressed in U.S. dollars at US\$1:₩1,055.30. 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 highly 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.

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

(f) Investment Securities

Under the SAS No.5003, "Investment Securities", investment securities are initially recognized and carried at cost, including incidental expenses. Investment securities in accordance with K-IFRS 5003 issue of equity securities, debt securities, beneficiary certificates and other securities, such as options, separated.

The Company as the investment company also accounts for investment securities under the provision of SAS 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 SAS 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 Korea Asset Management Co., Ltd. In this case, the Appraisal Committee should determine the price of unlisted and non-marketable securities considering, amongst other things, the acquisition cost, transaction price and third party valuation. As of December 31, 2013, 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.

Notes to the Financial Statements, Continued

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

(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. In addition, when the difference in value is important between the present value and current nominal value of provision, the Company values the provision at the present value of the expenditures expected to fulfill the obligation.

Where some or all of the expenditure required settling a provision is expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the Company settles the obligation. The reimbursement shall be treated as a separate asset and the corresponding income is offset against the related recognized expense due to the recognition of provision.

(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.

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

(l) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes. Therefore, actual results could differ from those estimates.

(m) Approval of financial statements

The December 31, 2013 financial statements of the Company were approved by the board of directors on January 28, 2014.

3. Cash and Deposits

Cash and deposits as of December 31, 2013 and 2012, are as follows:

	Won (thousands)		U.S. dollars (thousands) (Note 2(b))
	2013	2012	2013
Money Market Deposit Accounts ("MMDA") ^(*) :			
Standard Chartered Bank	₩ 14,751,335	₩ 20,815,264	\$ 13,978

(*) As of December 31, 2013, the interest rate on MMDA is 2.15%.

Notes to the Financial Statements, Continued

4. Loans

Loans receivable as of December 31, 2013 and 2012 are as follows:

			Won (thousands)		U.S. dollars (thousands) (Note 2(b))
	Repayment Period	Annual interest rate (%)	2013	2012	2013
Senior loans receivable:					
Kwangju Beltway Investment Co., Ltd.	2018~2024	10	₩ 142,000,000	₩ 142,000,000	\$ 134,559
Kwangju Ring Road Co., Ltd. ⁽¹⁾	2012~2019	7.85	50,821,847	52,096,847	48,159
Soojungsan Investment Co., Ltd. ⁽²⁾	2012~2018	8.5	35,975,000	43,170,000	34,090
Baekyang Tunnel Ltd.	2024	13~15	1,471,861	1,518,931	1,395
Subordinated loans receivable:					
Kwangju Beltway Investment Co., Ltd.	2024~2026	20	31,950,000	31,950,000	30,276
MCB Co., Ltd.	2030~2035	11.38	79,000,000	79,000,000	74,860
New Airport Highway Co., Ltd.	2015~2017	13.9	51,670,400	51,670,400	48,963
Soojungsan Investment Co., Ltd. .	2017	20	19,260,587	19,260,587	18,251
Cheonan Nonsan Expressway Co., Ltd. ⁽³⁾	2024~2029	6~20	182,250,000	182,250,000	172,700
Incheon Bridge Co., Ltd ⁽⁴⁾	2020~2026	9.31~12	89,378,000	89,378,000	84,694
Seoul Chuncheon Highway Co.,Ltd. ⁽⁵⁾	2026~2031	11~11.59	87,450,000	87,450,000	82,867
Gyungso Highway Co., Ltd. ⁽⁶⁾	2029~2034	13~15	77,000,000	77,000,000	72,965
Busan New Container Terminal Co., Ltd. ⁽⁷⁾	2028~2032	10~14	229,000,000	193,000,000	217,000
Seoul Metro Line 9 Co., Ltd. ⁽⁸⁾	2033~2035	15	-	33,460,000	-
Woomyunsan Infracore Co., Ltd	2024~2026	20	9,576,000	9,576,000	9,074
Working capital loans receivable:					
Kwangju Beltway Investment Co., Ltd.	2027	15	3,260,741	3,260,741	3,090
			₩ 1,090,064,436	₩ 1,096,041,506	\$ 1,032,943

4. Loans, Continued

All of the above equity securities are non-marketable.

- (*1) In 2013, the Company collected the parts of its loans amounting to ₩5,390 million including accrued interest.
- (*2) In 2013, the Company collected the parts of its senior loans amounting to ₩10,653 million including accrued interest.
- (*3) Interest rates per annum are as follows: 6% from 2005 to 2007, 8% for 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. 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 underwrite the debt securities amounting to ₩157,200 million through seven securitizations. The Company paid NHISC an underwriting fee of 1.5% (₩2,358 million) of the total amount underwritten. The fourth and fifth securitization were cancelled, which were expected in 2012 and 2013, thereof the cancellation fee of ₩205 million and ₩234 million were expensed in 2012 and 2013, respectively.
- (*4) The interest rate during the construction period is 12% per annum and that for the three years following commencement of operations increases to the interest rate of corporate bonds with AA(-) credit rating added with 6% per annum thereafter. The Company had accrued interest income using interest rate of 11.49% until November 17, 2012, and thereafter the Company has accrued interest income using interest rate of 9.31%.
- (*5) The interest rate during the construction period was 11% per annum and it increases to 11.59% per annum from the commencement of operation.
- (*6) The interest rate during the construction period and for the three years following commencement of operations was 13% per annum and it increases to 15% per annum thereafter.
- (*7) The interest rate during the construction period was 10% per annum and thereafter increases to 12% per annum from the commencement of operation. On January 20, 2012, the Company invested in subordinated loan of ₩4,720 million additionally. On October 30, 2013, the Company entered into a new subordinated loan facility agreement (fixed rate of 14% per annum) amounting to ₩50,000 million and invested ₩36,000 million in subordinated loan in 2013.
- (*8) The Company sold subordinated loans from Seoul Metro Line 9 of ₩81,400 million including accrued interest on October 22, 2013 and recognized gain on sale of loans amounting to ₩19,414 million excluding incidental costs.

Notes to the Financial Statements, Continued

5. Deferred Costs

Deferred costs as of December 31, 2013 and 2012 are as follows:

	Won (thousands)				U.S. dollars (thousands) (Note 2(b))
	2013		2012		2013
Loans acquisition costs	₩	3,455,427	₩	3,833,867	\$ 3,274
Others ⁽¹⁾		2,930,789		4,237,690	2,777
	₩	6,386,216	₩	8,071,557	\$ 6,051

(*) The fees related to the securitization and long-term debts are included (Notes 4 and 11).

6. Equity Securities

(a) Equity securities as of December 31, 2013 and 2012 are as follows:

		Won (thousands)			U.S. dollars (thousands) (Note 2(b))		
	Owner- ship (%)	2013		2012	2013		
Kwangju Beltway Investment Co., Ltd. ^(*)	100	₩	13,050,000	₩	13,050,000	\$	12,366
Kwangju Ring Road Co., Ltd. ^(*)	75		29,494,766		29,494,766		27,949
MCB Co., Ltd. ^(*)	70		33,925,040		33,925,040		32,147
New Airport Highway Co., Ltd. ^(*)	24.1		59,880,248		59,880,248		56,742
Baekyang Tunnel Ltd. ^(*)	100		1,231,000		1,231,000		1,166
Soojungsan Investment Co., Ltd. ^(*)	100		47,247,830		47,247,830		44,772
Cheonan-Nonsan Expressway Co., Ltd. ^(*)	60		93,815,061		93,815,061		88,899
Woomyunsan Infraway Co., Ltd. ^(*)	36		2,723,725		2,723,725		2,581
Private Infrastructure Investment Korea ^(*)	100		76,886,809		76,886,809		72,858
Seoul-Chuncheon Expressway Co., Ltd. ^(*)	15		49,439,043		49,439,043		46,848
Busan New container Terminal Co., Ltd. ^(*)	30		67,048,056		67,048,056		63,535
Gyungso Highway Co., Ltd. ^(*)	35		58,361,765		58,361,765		55,303
Seoul Metro Line 9 Co., Ltd. ^(*)	-		-		41,147,648		-
BYT Securitization Specialty Co., Ltd. ^(*)	0.5		50		50		-
CN First Securitization Specialty Co., Ltd. ^(*)	-		-		50		-
CN Second Securitization Specialty Co., Ltd. ^(*)	-		-		50		-
CN Third Securitization Specialty Co., Ltd. ^(*)	0.5		50		50		-
		₩	533,103,443	₩	574,251,191	\$	505,166

6. Equity Securities, Continued

All of the above equity securities are non-marketable.

- (*1) Kwangju Beltway Investment Co., Ltd. ("KBICL") operates the Kwangju Second Beltway, Section 1 and collects toll revenues generated by the beltway under the concession agreement with the Kwangju City government. KBICL is proceeding of administrative lawsuit against the supervisory ordinance of Kwangju Metropolitan City (October 2011).
- (*2) Kwangju Ring Road Co., Ltd. ("KRRCL") operates the Kwangju Second Beltway, Section 3-1 and collects toll revenues generated by the beltway under the concession agreement with the Kwangju City government.
- (*3) MCB Co., Ltd. ("MCB") holds the concession right to operate Machang Bridge under a concession agreement with the Gyeongsangnamdo provincial government.
- (*4) New Airport Highway Co., Ltd. ("NAHC") operates the Incheon International Airport Expressway under a concession agreement with the Ministry of Land, Infrastructure and Transport ("MOLIT").
- (*5) Baekyang Tunnel Ltd. ("BYTL") operates and manages Baekyang Tunnel under a concession agreement with the Busan City government. BYTL is proceeding of administrative lawsuit against the supervisory ordinance of Busan Metropolitan City (August 2013).
- (*6) Soojungsan Investment Co., Ltd. ("SICL") operates Soojungsan Tunnel under a concession agreement with the Busan City government. SICL is proceeding of administrative lawsuit against the supervisory ordinance of Busan Metropolitan City (August 2013).
- (*7) Cheonan-Nonsan Expressway Co., Ltd. ("CNEC") operates Cheonan-Nonsan Expressway under a concession agreement with MOLIT.
- (*8) Woomyunsan Infraway Co., Ltd. ("WIC") operates Woomyunsan Tunnel under a concession agreement with the Seoul City.

Notes to the Financial Statements, Continued

6. Equity Securities, Continued

- (*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 MOLIT. As of December 31, 2013, PIIK holds 41.02% shares of IBC.
- (*10) Seoul-Chuncheon Expressway Co., Ltd. ("SCE") has the right to operate and manage Seoul-Chuncheon Expressway under a concession agreement with MOLIT.
- (*11) Busan New Container Terminal Co., Ltd. ("BNCT") has been granted a concession from the Ministry of Oceans and Fisheries ("MOF") to construct, operate and manage Busan New Port Phase 2-3.
- (*12) Gyungso Highway Co., Ltd. ("YSE") has the right to operate and manage Yongin-Seoul Expressway under the concession agreement with MOLIT.
- (*13) 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. On October 22, 2013, the Company sold all the shares of SM9 (Book value of ₩41,148 million) for ₩50,004 million, and recognized gain on sale of investment amounting to ₩8,606 million excluding incidental costs.
- (*14) In December 2007, the Company acquired 0.5% of the shares of BYT SPC ₩50 thousand.
- (*15) In April 2009, the Company acquired 0.5% of the shares of CN First Securitization Specialty Co., Ltd. In 2013, CN First Securitization Specialty Co., Ltd. was liquidated due to end of the redemption of asset backed securities issued by it and the Company received dividend of ₩6,911 million.
- (*16) In March 2010, the Company acquired 0.5% of the shares of CN Second Securitization Specialty Co., Ltd. In 2013, CN Second Securitization Specialty Co., Ltd. was liquidated due to end of the redemption of asset backed securities issued by it and the Company received dividend of ₩4,335 million.
- (*17) In March 2011, the Company acquired 0.5% of the shares of CN Third Securitization Specialty Co., Ltd.
- (*18) The Company provided this equity shares as collaterals for the invested company's long-term debts (Note 9).

7. Transactions with Significantly Invested Companies and Supervisory Directors

(a) Details of significantly invested companies as of December 31, 2013, are as follows:

Significantly Invested Companies ^(*)	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
MCB Co., Ltd.	70	Operation of toll road

(*) SAS 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 that the Company may have significant control, as significantly invested companies.

(b) Significant balances and transactions which occurred in the normal course of business with the significantly invested companies as of and for the years ended December 31, 2013 and 2012 are summarized as follows:

	Won (thousands)						U.S. dollars (thousands) (Note 2(b))		
	2013			2012			2013		
	Statements of income	Statements of Financial Position		Statements of income	Statements of Financial Position		Statements of income	Statements of Financial Position	
	Interest income	Loans receivable	Interest receivable	Interest income	Loans receivable	Interest receivable	Interest income	Loans receivable	Interest receivable
Kwangju Beltway Investment Co., Ltd.	₩ 33,652,732	₩ 177,210,741	₩ 92,699,810	₩ 33,515,730	₩ 177,210,741	₩ 85,348,078	\$ 31,889	\$ 167,925	\$ 87,842
Kwangju Ring Road Co., Ltd.	4,131,600	50,821,847	259,975	4,586,367	52,096,847	243,157	3,915	48,159	246
Baekyang Tunnel Ltd.	157,526	1,471,861	436,126	145,707	1,518,931	341,129	149	1,395	413
Cheonan Nonsan Expressway Co., Ltd.	35,169,242	182,250,000	143,617,092	33,090,821	182,250,000	135,717,419	33,326	172,700	136,091
Soojungsan Investment Co., Ltd.	7,216,199	55,235,587	832,985	7,847,962	62,430,587	947,924	6,838	52,341	789
MCB Co., Ltd.	10,044,602	79,000,000	14,556,761	9,494,157	79,000,000	8,835,159	9,518	74,860	13,794
Total	₩ 90,371,901	₩ 545,990,036	₩ 252,402,749	₩ 88,680,744	₩ 554,507,106	₩ 231,432,866	\$ 85,635	\$ 517,380	\$ 239,175

Notes to the Financial Statements, Continued

(c) Compensation for the supervisory directors for the years ended December 31, 2013 and 2012, consists of:

	Won (thousands)				U.S. dollars (thousands) (Note 2(b))
	2013		2012		2013
Salaries	₩	144,000	₩	144,000	\$ 136

8. Related Party Transactions and Balances with the Manager and its Related of Parties

(a) On December 13, 2002, the Company appointed Macquarie Korea Asset Management Co., Ltd. as the Company's Manager. The management agreement was amended and restated on February 27, 2012 (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.

8. Related Party Transactions and Balances with the Manager and its Related of parties, Continued

(iii) Termination of Management Agreement: Under the terms of the Management Agreement, the Company may only terminate the agreement upon 90 days' prior written notice to the Manager and approval by the holders of more than 50% of the Company's shares. However, if the Company terminates the Management Agreement for reasons other than wilful misconduct, gross negligence by the Manager or underperformance, the Company is required to pay the Manager an amount equal to:

- 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.

(b) As of December 31, 2013, 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.

Notes to the Financial Statements, Continued

8. Related Party Transactions and Balances with the Manager and its Related of parties, 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, 2013 and 2012 are summarized as follows:

		Won (thousands)		U.S. dollars (thousands) (Note 2(b))
		2013	2012	2013
Significant transactions:				
Macquarie Korea Asset Management Co., Ltd.	Management fee	₩ 30,809,865	₩ 27,786,179	\$ 29,195
Shinhan Bank ^(*)	Interest expense	-	461,052	-
	Upfront fee and other fees relative to the credit facility	-	7,459	-
Account balances:				
Macquarie Korea Asset Management Co., Ltd.	Management fee payable	₩ 7,399,988	₩ 7,454,573	\$ 7,012

(*) Shinhan Bank has not been related party since February 29, 2012, therefore the interest income and fee has been disclosed for January and February 2012, only.

9. Pledged Assets and Guarantees Provided by Others

The following assets are pledged as collaterals for the invested company's long-term debts as of December 31, 2013:

			Won (thousands)		U.S. dollars (thousands) (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	\$ 32,147	\$ 109,941
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	88,899	1,084,052
Woomyunsan Infraway Co., Ltd.	Shinhan Bank and others	Woomyunsan Infraway Co., Ltd.	2,723,725	187,070,000	2,581	177,267
Seoul-Chuncheon Highway Co., Ltd.	Kookmin Bank and others	Seoul-Chuncheon Highway Co., Ltd.	49,439,043	1,300,000,000	46,848	1,231,877
Busan New Container Terminal Co.,Ltd.	Kookmin Bank and others	Busan New Container Terminal Co.,Ltd.	67,048,056	800,800,000	63,535	758,836
Gyungso Highway Co.,Ltd	Korea Development Bank and others	Gyungso Highway Co.,Ltd	58,361,765	471,900,000	55,303	447,171
BYT Securitization Specialty Co., Ltd.	Shinhan Bank (Credit line)	BYT Securitization Specialty Co., Ltd.	50	223,600,000	-	211,883
			₩ 305,312,740	₩ 4,328,870,000	\$ 289,313	\$ 4,021,027

(*) In 2013, the Company along with some of the other shareholders of Busan New Container Terminal Co., Ltd. entered into Sponsor Support Agreement with the limit of ₩40 billion (₩14.86 billion for the Company) to Busan New Container Terminal Co., Ltd.

Notes to the Financial Statements, Continued

10. Other Liabilities

Other liabilities as of December 31, 2013 and 2012 are as follows:

	Won (thousands)		U.S. dollars (thousands) (Note 2(b))
	2013	2012	2013
Administrator fee payable	₩ 53,369	₩ 53,495	\$ 51
Custodian fee payable	85,391	85,593	81
Interest payable	1,243,948	1,278,250	1,179
Accrued expenses	120,436	116,928	114
	₩ 1,503,144	₩ 1,534,266	\$ 1,425

11. Long-term Debts

a) On December 31, 2013, 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, 2013	₩68,581 million
Interest rate ^(*)	Base rate + 2.7%
Maturity ^(*)	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 the refinance existing corporate credit facility for a new corporate credit facility agreement with the 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 at any time within the limit.

11. Long-term Debts, Continued

b) Long-term debts as of December 31, 2013 and 2012 are as follows:

	Won (thousands)		Won (thousands)		U.S. dollars (thousands) (Note 2(b))
	Limit of the Facility	Annual Interest Rate(%)	2013	2012	2013
Shinhan Bank	₩ 60,000,000	base rate + 2.7%	₩ 16,459,433	₩ 20,386,649	\$ 15,597
National Agricultural Cooperative Federation (NACF)	60,000,000	base rate + 2.7%	16,459,433	20,386,649	15,597
Woori Bank	40,000,000	base rate + 2.7%	10,972,955	13,591,099	10,398
Tong Yang Life Insurance Co., Ltd.	40,000,000	base rate + 2.7%	10,972,955	13,591,099	10,398
Shinhan Life Insurance Co., Ltd.	30,000,000	base rate + 2.7%	8,229,716	10,193,325	7,798
LIG Insurance Co., Ltd.	20,000,000	base rate + 2.7%	5,486,478	6,795,550	5,199
	₩ 250,000,000		₩ 68,580,970	₩ 84,944,371	\$ 64,987

Notes to the Financial Statements, Continued

12. Bonds Issued

The Company issued unsecured corporate bonds of ₩ 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 (thousands) (Note 2(b))
				2013	2012	2013
Tranche 1-1	31-May-16	4.57	Unguaranteed	₩ 60,000,000	₩ 60,000,000	\$ 56,856
Tranche 1-2	31-May-18	4.97	Unguaranteed	190,000,000	190,000,000	180,044
Issuing cost				250,000,000 (666,695)	250,000,000 (843,872)	236,900 (632)
				₩ 249,333,305	₩ 249,156,128	\$ 236,268

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

13. Paid-in Capital and Net Asset Value Per Share

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

(b) Net asset value per share as of December 31, 2013 and 2012 is as follows:

	Won (thousands, except share and per share data)		U.S. dollars (Note 2(b))
	2013	2012	2013
Total assets	₩ 2,042,165,149	₩ 2,055,283,394	\$ 1,935,151,283
Total liabilities	327,068,258	343,090,279	309,929,175
Net assets	1,715,096,891	1,712,193,115	1,625,222,108
Number of outstanding shares	331,459,341	331,459,341	331,459,341
Net asset value per share in Won and U.S. dollar	₩ 5,174	₩ 5,166	\$ 4.90

14. Distribution

The Company paid cash distributions amounting to ₩155,786 million and ₩127,612 million in 2013 and 2012, respectively.

15. Other Expenses

Other expenses for the years ended December 31, 2013 and 2012 are as follows:

	Won (thousands)		U.S. dollars (thousands) (Note 2(b))	
	2013	2012	2013	
Amortization of deferred costs	₩ 446,755	₩ 378,391	\$ 423	
Credit facility fees	1,296,099	1,547,423	1,302	
Service fees	1,374,257	1,538,090	1,228	
	₩ 3,117,111	₩ 3,463,904	\$ 2,953	

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, 2013 and 2012, the Company did not pay income taxes, because it deducted distributions from taxable income by distributing 90% or more of its distributable income.

Notes to the Financial Statements, Continued

17. Insurance

As of December 31, 2013, the Company carries directors' and officers' compensation liability insurance amounting to ₩20,000 million with Hyundai Marine & Fire Insurance Co., Ltd.

18. Earnings Per Share

Earnings per share for the years ended December 31, 2013 and 2012 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))	
	2013	2012	2013	
Net income per accompanying statements of income	₩ 158,689,666	₩ 154,123,282	\$ 150,373,985	
Weighted-average number of shares outstanding ^(*)	331,459,341	331,459,341	331,459,341	
Earnings per share in won and U.S. dollars	₩ 479	₩ 465	\$ 0.454	

(*) The Company's weighted average number of shares outstanding as of December 31, 2013 is 331,459,341 and there has been no change for the years ended December 31, 2013 and 2012.

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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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