

MACQUARIE KOREA INFRASTRUCTURE FUND

**Financial Statements
December 31, 2013 and 2012**

MACQUARIE KOREA INFRASTRUCTURE FUND

Index

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.

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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.

Samil PricewaterhouseCoopers

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.

MACQUARIE KOREA INFRASTRUCTURE FUND

Statements of Financial Position

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))
	2013	2012	2013
<u>Assets</u>			
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
<u>Liabilities and Equity</u>			
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 equity	1,715,096,891	1,712,193,115	1,625,222
Total liabilities and equity	₩ 2,042,165,148	₩ 2,055,283,394	\$ 1,935,151

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

MACQUARIE KOREA INFRASTRUCTURE FUND

Statements of Income

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	-
	<u>212,907,479</u>	<u>205,749,061</u>	<u>201,750</u>
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
	<u>54,217,813</u>	<u>51,625,779</u>	<u>51,376</u>
Net income	<u>₩ 158,689,666</u>	<u>₩ 154,123,282</u>	<u>\$ 150,374</u>
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.

MACQUARIE KOREA INFRASTRUCTURE FUND

Changes in Equity

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	
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	<u>1,670,985,755</u>	<u>41,207,360</u>	<u>1,712,193,115</u>	<u>1,622,470</u>
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	<u>₩ 1,670,985,755</u>	<u>₩ 44,111,136</u>	<u>₩ 1,715,096,891</u>	<u>\$ 1,625,222</u>

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

MACQUARIE KOREA INFRASTRUCTURE FUND

Statements of Cash Flows

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	-
	<u>254,526,472</u>	<u>200,405,843</u>	<u>241,188</u>
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)
	<u>(68,737,535)</u>	<u>(33,868,424)</u>	<u>(65,137)</u>
Net cash provided by operating activities	<u>185,788,937</u>	<u>166,537,419</u>	<u>176,053</u>
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	<u>(191,852,865)</u>	<u>(246,615,506)</u>	<u>(181,799)</u>
Net decrease in cash and deposits	(6,063,929)	(80,078,087)	(5,746)
Cash and cash equivalents at beginning of the year	<u>20,815,264</u>	<u>100,893,350</u>	<u>19,724</u>
Cash and cash equivalents at end of the year	<u>₩ 14,751,335</u>	<u>₩ 20,815,264</u>	<u>\$ 13,978</u>

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

MACQUARIE KOREA INFRASTRUCTURE FUND

Notes to Financial Statements

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 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.

Notes to Financial Statements, Continued

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.

(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.

Notes to Financial Statements, Continued**2. Summary of Significant Accounting Policies and Basis of Presenting Financial Statements, Continued****(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.

(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") (*1):			
Standard Chartered Bank	₩ 14,751,335	₩ 20,815,264	\$ 13,978

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

MACQUARIE KOREA INFRASTRUCTURE FUND

Notes to Financial Statements, Continued

4. Loans

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

	Repayment Period	Annual interest rate (%)	Won (thousands)		U.S. dollars (thousands) (Note 2(b))
			2013	2012	2013
<u>Senior loans:</u>					
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
<u>Subordinated loans:</u>					
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 Hiway 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 Infraway Co., Ltd.	2024~2026	20	9,576,000	9,576,000	9,074
<u>Working capital loans:</u>					
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

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.

Notes to Financial Statements, Continued

4. Loans, Continued

- (*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.

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

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

MACQUARIE KOREA INFRASTRUCTURE FUND

Notes to Financial Statements, Continued

6. Equity Securities

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

	Owner-ship (%)	Won (thousands)		U.S. dollars (thousands) (Note 2(b))
		2013	2012	2013
Kwangju Beltway Investment Co., Ltd. (*1)	100	₩ 13,050,000	₩ 13,050,000	\$ 12,366
Kwangju Ring Road Co., Ltd. (*2)	75	29,494,766	29,494,766	27,949
MCB Co., Ltd. (*3, 18)	70	33,925,040	33,925,040	32,147
New Airport Hiway Co., Ltd. (*4)	24.1	59,880,248	59,880,248	56,742
Baekyang Tunnel Ltd. (*5)	100	1,231,000	1,231,000	1,166
Soojungsan Investment Co., Ltd. (*6)	100	47,247,830	47,247,830	44,772
Cheonan-Nonsan Expressway Co., Ltd. (*7, 18)	60	93,815,061	93,815,061	88,899
Woomyunsan Infraway Co., Ltd. (*8, 18)	36	2,723,725	2,723,725	2,581
Private Infrastructure Investment Korea (*9)	100	76,886,809	76,886,809	72,858
Seoul-Chuncheon Expressway Co., Ltd. (*10, 18)	15	49,439,043	49,439,043	46,848
Busan New Container Terminal Co., Ltd. (*11, 18)	30	67,048,056	67,048,056	63,535
Gyungso Highway Co., Ltd. (*12, 18)	35	58,361,765	58,361,765	55,303
Seoul Metro Line 9 Co., Ltd. (*13)	-	-	41,147,648	-
BYT Securitization Specialty Co., Ltd. (*14, 18)	0.5	50	50	-
CN First Securitization Specialty Co., Ltd. (*15)	-	-	50	-
CN Second Securitization Specialty Co., Ltd. (*16)	-	-	50	-
CN Third Securitization Specialty Co., Ltd. (*17)	0.5	50	50	-
		<u>₩ 533,103,443</u>	<u>₩ 574,251,191</u>	<u>\$ 505,166</u>

(*) 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.

Notes to Financial Statements, Continued

6. Equity Securities, Continued

- (*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.
- (*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.

Notes to Financial Statements, Continued**6. Equity Securities, Continued**

- (*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:

<u>Significantly Invested Companies (*1)</u>	<u>Ownership (%)</u>	<u>Principal Business</u>
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

- (*1) 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.

MACQUARIE KOREA INFRASTRUCTURE FUND

Notes to Financial Statements, Continued

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

- (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			2013		
	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
Kwangju Beltway Investment Co., Ltd.	₩ 33,652,732	₩ 177,210,741	₩ 92,699,810	\$ 31,889	\$ 167,925	\$ 87,842
Kwangju Ring Road Co., Ltd.	4,131,600	50,821,847	259,975	3,915	48,159	246
Baekyang Tunnel Ltd.	157,526	1,471,861	436,126	149	1,395	413
Cheonan Nonsan Expressway Co., Ltd.	35,169,242	182,250,000	143,617,092	33,326	172,700	136,091
Soojungsan Investment Co., Ltd.	7,216,199	55,235,587	832,985	6,838	52,341	789
MCB Co., Ltd.	10,044,602	79,000,000	14,556,761	9,518	74,860	13,794
Total	₩ 90,371,901	₩ 545,990,036	₩ 252,402,749	\$ 85,635	\$ 517,380	\$ 239,175

	Won (thousands)		
	2012		
	Statements of income	Statements of Financial Position	
	Interest income	Loans receivable	Interest receivable
Kwangju Beltway Investment Co., Ltd.	₩ 33,515,730	₩ 177,210,741	₩ 85,348,078
Kwangju Ring Road Co., Ltd.	4,586,367	52,096,847	243,157
Baekyang Tunnel Ltd.	145,707	1,518,931	341,129
Cheonan Nonsan Expressway Co., Ltd.	33,090,821	182,250,000	135,717,419
Soojungsan Investment Co., Ltd.	7,847,962	62,430,587	947,924
MCB Co., Ltd.	9,494,157	79,000,000	8,835,159
Total	₩ 88,680,744	₩ 554,507,106	₩ 231,432,866

MACQUARIE KOREA INFRASTRUCTURE FUND

Notes to Financial Statements, Continued

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

Notes to Financial Statements, Continued

8. Related Party Transactions and Balances with the Manager and 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 willful 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.

MACQUARIE KOREA INFRASTRUCTURE FUND

Notes to Financial Statements, Continued

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

- (c) Significant transactions and account balances which occurred with the Manager and its related parties as of and for the years ended December 31, 2013 and 2012 are summarized as follows:

		Won (thousands)		U.S. dollars (thousands) (Note 2(b))
		2013	2012	2013
<u>Significant transactions:</u>				
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	-
<u>Account balances:</u>				
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.

MACQUARIE KOREA INFRASTRUCTURE FUND

Notes to Financial Statements, Continued

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:

Pledged Assets	Lender	Borrower	Won (thousands)		U.S. dollars (thousands) (Note 2(b))	
			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.	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	Kookmin Bank and others	Busan New Container	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.

MACQUARIE KOREA INFRASTRUCTURE FUND

Notes to 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
	<u>₩ 1,503,144</u>	<u>₩ 1,534,266</u>	<u>\$ 1,425</u>

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 (*1)	Base rate + 2.7%
Maturity (*2)	June 16, 2016

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

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

MACQUARIE KOREA INFRASTRUCTURE FUND

Notes to Financial Statements, Continued

11. Long-term Debts, Continued

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

	Won (thousands) Limit of the Facility	Annual interest rate(%)	Won (thousands)		U.S. dollars (thousands) (Note 2(b))
			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
	<u>₩ 250,000,000</u>		<u>₩ 68,580,970</u>	<u>₩ 84,944,371</u>	<u>\$ 64,987</u>

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
				<u>250,000,000</u>	<u>250,000,000</u>	<u>236,900</u>
Issuing cost				(666,695)	(843,872)	(632)
				<u>₩ 249,333,305</u>	<u>₩ 249,156,128</u>	<u>\$ 236,268</u>

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.

MACQUARIE KOREA INFRASTRUCTURE FUND

Notes to Financial Statements, Continued

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 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(*1)	331,459,341	331,459,341	331,459,341
Earnings per share in won and U.S. dollars	₩ 479	₩ 465	\$ 0.454

(*1) 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.