



Interim Results //
December 2012

INFRASTRUCTURE FINANCE CORPORATION LIMITED

**CONDENSED
CONSOLIDATED INTERIM
FINANCIAL RESULTS
DECEMBER 2012**



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EXPLANATORY NOTES

Explanatory Notes for the six months ended 31 December 2012

1. Basis of preparation

The condensed consolidated interim financial results for the six months ended 31 December 2012 comprise of the company and its subsidiaries. These unaudited condensed consolidated interim financial results were prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS), interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), the AC 500 standards as issued by the Accounting Practice Board, International Accounting Standard: Interim Financial Reporting (IAS 34) and the South African Companies Act. In the preparation of these interim financial results, the Group has applied key assumptions concerning the future in recording various assets and liabilities.

The Group's principal accounting policies and assumptions have been applied consistently over the current and prior financial period.

2. Dividends

A net dividend of R9 million was declared and paid to shareholders during the period under review.

3. Movements in investments and advances

Advances decreased by R213 million (15%) largely due to the disposal of one of our larger exposures of R162 million. The remaining movement is largely due to natural maturities in the portfolio.

Investments decreased by R189 million (31%) and the proceeds were used to settle liabilities.

4. Issuance, repurchase and redemption of borrowings

- Subordinated borrowed funds of R161 million (INJ02) were redeemed during the period under review;
- IN08 bond with face value of R100 million matured and was settled;
- Long term loans to the value of R212 million were repaid early; and
- IN04 bonds with a face value of R10 million were repurchased.

5. Realised fair value adjustments

The net realised loss of R10 million resulted from the sale and early settlement of advances and liabilities.

6. Unrealised fair value adjustments

An unrealised fair value loss of R3 million was recognised for the six months under review. Base interest rates decreased during the period under review, while credit spreads on similar assets remained stable. This resulted in fair value gains on assets of R8,5 million and fair value losses on liabilities and derivatives of R8.1 million. Early settlements had a positive effect with the realisation of R13,8 million previous adjustments but was offset by a writing up of the remaining loans from the EIB to face value having a R17,3 million adverse effect to unrealised fair value adjustments.

DIRECTORS' report

The condensed consolidated interim financial results reflect the financial position, financial performance and the cash flows of the INCA Group for the six months ended 31 December 2012. Although unaudited, these condensed consolidated interim financial results were prepared in accordance with the accounting policies consistent with those applied in the preparation of the audited consolidated annual statements for year ended 30 June 2012.

The results further reflect the financial outcome of the strategy adopted by the INCA board of managing down the portfolio whilst ensuring that all financial obligations are met. As is to be expected, the reduction in, and deleveraging of the balance sheet, while strengthening the security of debt holders, has resulted in a reduced net interest income. The fixed nature of administration expenses, while down from the previous period, was a further drain on profits. The realised fair value loss further impacted the performance negatively resulting in a comprehensive loss of R7,5 million after tax, compared to a loss of R21 million in the previous period.

The following are the key features of these consolidated interim results:

- Total assets decreased by 25% to R1 908 million;
- Advances decreased by 15% to R1 244 million;
- Cash and cash equivalents decreased by 25% to R217 million;
- Subordinated borrowed funds of R161 million were settled;
- Senior borrowed funds decreased by 23% to R1 281 million;
- Net interest income decreased by 21% to R14 million;
- Impairments decreased by 65% to R948 thousand;
- Realised fair value adjustment loss of R10 million;
- Unrealised fair value adjustment loss of R3 million;
- Operating expenses decreased by 29% or R4 million;
- Capital adequacy ratio (Basel II – tier 1) increased to 44% (30 June 2012: 40%);

Review of performance

Post the successful redemption of the R2 515 million IN03 bond on 30 June 2011 the focus was on managing the overall credit quality of the advances whilst opportunistically disposing of assets or repurchasing INCA bonds and settling liabilities using surplus cash generated. During the period under review, advances of R162 million were sold and the INJ02 subordinated debt of R161 million settled. A loan of R211 million from the EIB was early settled with the proceeds of a matching investment. INCA also repurchased IN04 bonds from the market with a face of R10 million to further reduce the total liabilities of the Group.

Retained earnings decreased by 4% to R319 million after a net dividend of R9 million paid during the period under review.

Prospects

The Group remains committed to prudently managing the portfolio and ensuring that all the financial obligations are fully met as they fall due. The IN07 bond to the value of R350 million matures on 16 May 2013. INCA have already repurchased R47,4 million of these bonds in the open market and we remain confident that sufficient liquidity will be available to redeem the remainder on the due date. The focus will remain on managing the advances portfolio particularly given the recent reports on the financial performance of the local government sector. The Group's liquidity policy is applied on a risk weighted basis ensuring that the possibility of late payments is taken into account in determining the Group's liquidity requirement.

Whilst noting the recent downgrade by Moody's it is the Board's view that INCA's overall credit quality has not deteriorated since 30 June 2012. The lower impairment charge and increased capital adequacy are some of the indicators supporting this view.

The Board will ensure that key information is communicated to key stakeholders at all times.

DIRECTORATE and SHAREHOLDERS

DIRECTORS

JHD Botha // Chairman * ∴
Independent

JF Howard // Director *
Futuregrowth

AC Canter // Director ∞●
(American)
Futuregrowth

G McKenzie // Director *
Rand Merchant Bank

C Clark // Director *∞●
Kagiso

L Scholtz // Director
Rand Merchant Bank

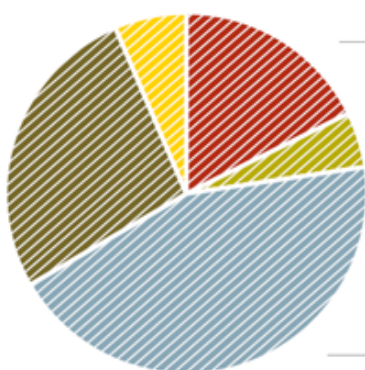
M Danisa // Director
Kagiso

PGM Truyens // Director ∴∞●
(Dutch)
Independent

S Dube // Director ∴
Independent

- * Member of investment and review committee
- ∞ Member of asset & liability committee
- ∴ Member of audit, risk & compliance committee
- Member of market value verification committee

SHAREHOLDERS



17,68%		FirstRand Bank Limited
4,95%		INCA Share Incentive Scheme
43,96%		Kagiso Financial Services Limited
26,98%		Old Mutual Life Assurance (South Africa) Limited*
0,0006%		First National Bank Nominees*
0,0001%		Nedcor Bank Nominees Limited
6,43%		INCA Bond Rehabilitation Company

* Held by Futuregrowth (Pty) Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Unaudited December 2012 R'000	Unaudited December 2011 R'000	Audited June 2012 R'000
ASSETS				
Cash and cash equivalents		217,100	289,996	282,080
Other assets		22,076	38,925	35,504
Investments	3	411,489	651,894	600,758
Derivative financial instruments		-	18,375	12,685
Advances	3	1,244,114	1,556,677	1,456,789
Deferred taxation		13,102	-	11,341
Property, plant and equipment		139	456	296
Total assets		1,908,020	2,556,323	2,399,453
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital		752	752	752
Share premium		92,241	92,241	92,241
Unrealised fair value reserve		(14,535)	(10,818)	(12,274)
Retained earnings		319,041	343,780	333,224
Total equity		397,499	425,955	413,943
Liabilities				
Subordinated borrowed funds	4	-	161,685	160,789
Borrowed funds	4	1,280,693	1,664,546	1,608,444
Trade and other payables		34,495	157,864	40,877
Taxation payable		35,511	15,960	35,270
Derivative financial instruments		159,822	124,407	140,130
Deferred taxation		-	5,906	-
Total liabilities		1,510,521	2,130,368	1,985,510
Total equity and liabilities		1,908,020	2,556,323	2,399,453
Approximate rates of exchange ruling at the end of the period:				
USD		8.8440	8.0650	8.1600
EUR		11.1907	10.4374	10.3291
GBP		13.7159	12.5291	12.8161

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2012

	Notes	Unaudited 6 months December 2012 R'000	Unaudited 6 months December 2011 R'000	Audited 12 months June 2012 R'000
Interest and similar income		115,427	148,661	280,089
Interest expenditure and similar charges		(101,787)	(131,440)	(246,998)
Net interest income		13,640	17,221	33,091
Impairment on advances		(948)	(2,699)	(13,826)
Net interest income after impairment		12,692	14,522	19,265
Fair value adjustment - realised	5	(9,999)	7,474	7,709
- unrealised	6	(3,140)	(39,129)	(41,152)
Fee and other income		815	2,086	3,395
Net income / (loss) before operating expenditure		368	(15,047)	(10,783)
Operating expenditure		(10,523)	(14,661)	(27,989)
Loss before taxation		(10,155)	(29,708)	(38,772)
Taxation		2,573	8,639	5,691
Loss for the period		(7,582)	(21,069)	(33,081)
Other comprehensive income		-	-	-
Comprehensive loss for the period		(7,582)	(21,069)	(33,081)

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2012

	Notes	Share capital R'000	Share premium R'000	Unrealised fair value reserve R'000	Retained earnings R'000	Total equity R'000
Group						
Balance at 30 June 2011		752	92,241	17,355	345,538	455,886
Dividend paid for 2011 net of dividend to Group companies and Share Trust		-	-		(8,862)	(8,862)
Comprehensive loss for the year		-	-	(29,629)	(3,452)	(33,081)
Balance at 30 June 2012		752	92,241	(12,274)	333,224	413,943
Dividend paid for 2012 net of dividend to Group companies and Share Trust	2	-	-		(8,862)	(8,862)
Comprehensive loss for the period		-	-	(2,261)	(5,321)	(7,582)
Balance at 31 December 2012		752	92,241	(14,535)	319,041	397,499

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CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 31 December 2012

	Unaudited December 2012 R'000	Unaudited December 2011 R'000	Audited June 2012 R'000
CASHFLOWS FROM OPERATING ACTIVITIES			
Cash receipts from borrowers and customers	49,724	84,355	158,441
Cash paid to lenders, employees and suppliers	(106,664)	(139,550)	(271,929)
Cash receipts from investments and cash balances	54,688	69,639	133,419
Cash (absorbed)/generated from operations	(2,252)	14,444	19,931
Normal taxation refunded	1,053	16,158	15,274
Dividends paid	(8,862)	(8,862)	(8,862)
Changes in operating funds			
Decrease in income earning assets	422,991	204,866	333,152
Decrease/(increase) in non-income earning assets	13,410	(7,192)	(3,771)
Decrease in borrowings, derivatives and other payables	(491,543)	(174,667)	(318,879)
Net change in operating funds	(55,142)	23,007	10,502
Net cash (outflow)/inflow from operating activities	(65,203)	44,747	36,845
CASHFLOWS FROM INVESTING ACTIVITIES			
	223	-	(14)
Purchase of property, plant and equipment	-	-	(14)
Proceeds from disposal of property, plant and equipment	223	-	-
(Decrease)/increase in cash and cash equivalents	(64,980)	44,747	36,831
Cash and cash equivalents at the beginning of the period	282,080	245,249	245,249
Cash and cash equivalents at the end of period	217,100	289,996	282,080

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KEY FIGURES AND RATIOS

For the six months ended 31 December 2012

	Unaudited 6 months December 2012	Unaudited 6 months December 2011	Audited 12 months June 2012
PERFORMANCE			
Loss for the period (R'000)	(7,582)	(21,069)	(33,081)
(Loss) / profit for the period (excluding unrealised fair value adj) (R'000)	(5,321)	7,104	(3,451)
Loss per share (cents)	(940)	(2,612)	(4,399)
Cash (utilised) / generated by operations	(2,252)	14,444	19,931
SELECTED RETURNS			
Return on weighted average shareholders' funds (per cent)	(1.84)	(4.64)	(7.36)
Operating costs to total income (per cent)	236.15	54.74	63.33
CAPITAL ADEQUACY			
Advances (R'000)	1,244,114	1,556,677	1,456,789
Total equity (R'000)	397,499	425,955	413,943
Subordinated debt (R'000)	-	161,685	160,789
Total assets (R'000)	1,908,020	2,556,323	2,399,453
Risk weighted assets - Basel II (R'000)	930,851	1,047,163	1,075,234
Tier 1 capital - Basel II (R'000)	412,034	436,773	426,217
Capital adequacy ratio (equity plus sub debt/total assets) (per cent)	20.83	22.99	24.07
Capital adequacy ratio (equity and sub debt/advances) (per cent)	31.95	37.75	39.45
Capital adequacy ratio (Basel II - tier 1) (per cent)	44.26	41.71	39.64
OFFICIAL RATINGS			
Official credit rating - senior debt (Moody's)	Ba2.za	Baa2.za	Baa2.za
- short-term (Moody's)	NP.za	P-2.za	P-2.za
VALUE			
Net asset value per share (Rands)	529	566	550

ADMINISTRATION

Registered Name

Infrastructure Finance Corporation Limited (Trading as INCA)

Reg No: 1996/001482/06

Registered Office

Pinewood Office Park, Pinewood Square, Unit F14 & F15, 33 Riley Road, Woodmead, Sandton,
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E-mail: reggie.boqo@inca.co.za

Bankers

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Secretary

JM Poulter

Auditors

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INCA Treasury

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