

DIRECTORS' REPORT

This consolidated interim report summarises INCA's financial performance for the six months ended 31 December 2009. The results reflect the impact of the Group's strategy to de-leverage the balance sheet, and focus on portfolio performance and the containment of costs.

Key features for this period include:

- Balance sheet decreased by 6% to R6 207 million;
- Profit for the period amounted to R38,0 million;
- Pretax unrealised fair value gains of R11,9 million;
- Operating expenditure decreased by 21% to R12,7 million;
- Cash generated by operations increased by 54% to R57,2 million;
- High level of liquidity maintained at R886,8 million; and
- Capital adequacy ratio (equity plus sub debt/advances) increased to 12,78%.

Review of performance

The main objective during the period under review was to implement a strategy to maintain high levels of liquidity and plan for the successful redemption of the IN03 bonds. Long term bonds were repurchased from the market and some short term liabilities, due in the period under review, were settled in full. The portfolio proved to be very efficient as reflected by the strong net interest income of R44,5 million, despite the overall balance sheet size decreasing by R1 588 million since 31 December 2008. Net interest income is 8% lower than that reported in the comparative period.

Cash and investments were partly applied to reduce borrowed funds and other payables by a total of R441,0 million. The shareholders' funds (excluding unrealised fair value reserves) increased by 4% to R439,5 million, notwithstanding the dividend of R14,3 million declared during the period under review.

The Group succeeded in further containing our operational expenditure.

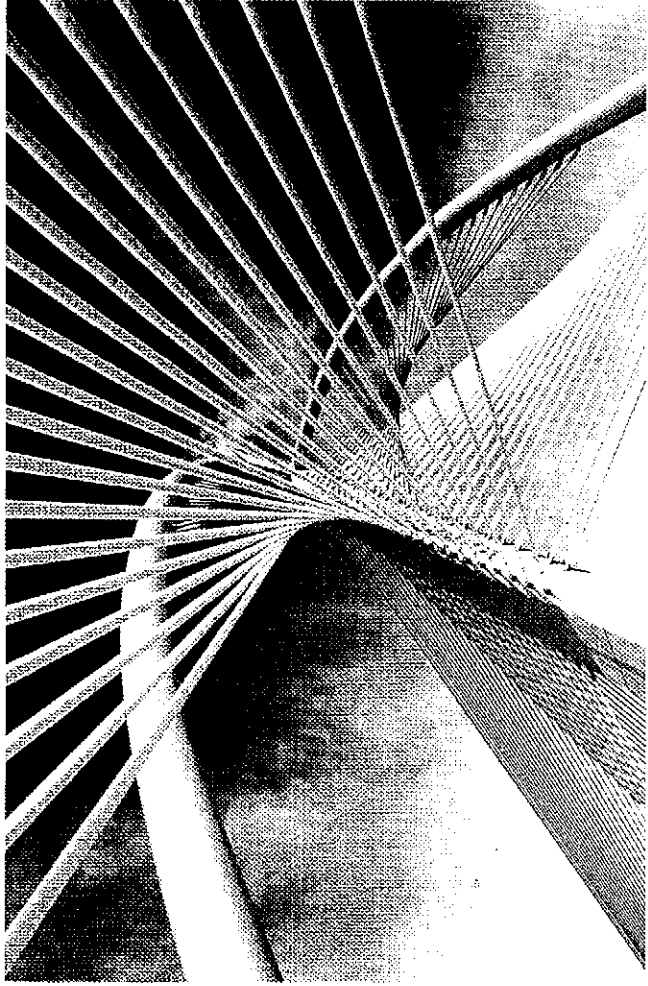
The cost-to-income ratio improved to 23,2% for the period under review, driven by lower costs and strong net interest income. The targeted cost-to-income ratio of 30% for the year remains attainable.

The loan portfolio continued to perform well in the challenging economic climate. Although an impairment charge of R2,6 million has been reported, the overall quality of the portfolio remains intact. Non-performing loans remained well below the industry average at less than 1% of the portfolio. The strong focus on debt collection was maintained and remains a cornerstone of the Group's success.

Prospects

The Group remains committed to maintaining high levels of liquidity as a key strategic focus in the short to medium term. This will be achieved through the sale of select advances and the raising of new debt from the market to improve the asset and liability profile of the portfolio. The Group has initiated a process to establish a dedicated line from the shareholders (through which shareholders will purchase the Group's advances if necessary) to ensure sufficient liquidity to deal with the redemption of liabilities as they mature. The credit quality of the advance portfolio remains high and the implementation of the Board of Directors' decision to gradually run down the portfolio is well underway.

INCA's performance during the period under review puts the Group in a strong position to deliver on our commitments for the year.



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INCA

Interim Report // 2009



INFRASTRUCTURE FINANCE CORPORATION LIMITED



INCA

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Directorate and shareholders

DIRECTORS

IM Ayob Director
Chanson Investments

RN Bogo Executive Director
INCA

JF Howard Director# •
Futuregrowth

RW de Korte Director†
(Dutch)
Independent

D du-Pont-Bouma Executive Director□
(Dutch)
INCA

J Matlala Chairman
Kagiso

JF Pouchous Director
(French)
Dexia

L Scholtz Director#
Rand Merchant Bank

PGM Truyens Director†□*
(Dutch)
Independent

H van Wyk Director
Kagiso#□*

AJ van Zyl Chief Executive Officer†*# •
INCA

ALTERNATES

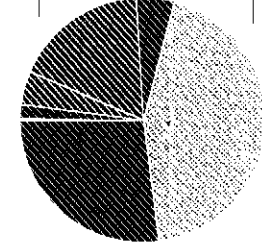
AC Canter*□
(American)
Futuregrowth

G McKenzie
Rand Merchant Bank

J Stals•
Kagiso

† Member of audit, risk & compliance committee
□ Member of asset & liability committee
* Member of market value verification committee
Member of investment & review committee
• Member of human resources committee

SHAREHOLDERS



Chanson Investment Holdings (Pty) Limited	17.68%
Dexia Credit Local	4.42%
FirstRand Bank Limited	2.0%
INCA Share Incentive Trust	43.96%
Kagiso Financial Services Limited	26.98%
Old Mutual Life Assurance (South Africa) Limited*	0.01%
INCA Bond Rehabilitation Company	0.01%

* Held by Futuregrowth (Pty) Limited

Explanatory notes

at 31 December 2009

1. ACCOUNTING POLICY

The accounting policies applied for the first half of the year are consistent with those of the prior year. The Group financial results, from which this interim financial information is derived, are prepared in accordance with International Financial Reporting Standards and have been prepared on the historical cost basis, except for financial assets and financial liabilities which are recorded at fair value through profit or loss. This interim financial information has been prepared in terms of IAS 34 – Interim Financial Reporting.

2. DIVIDENDS

At the Annual General Meeting, based on the Group performance for the year ended 30 June 2009, a dividend of R15 million was declared of which a net amount of R14.3 million was distributed to shareholders and the balance retained in the Group as part of the Share Incentive Trust.

3. SIGNIFICANT MOVEMENTS IN CASH AND CASH EQUIVALENTS, INVESTMENTS AND ADVANCES

The cash and investments balances decreased during the period under review as some liabilities were repaid and some INCA bonds were repurchased from the market.

Advances decreased compared to June 2009 which is attributed to the natural maturity of the advances book exceeding new advances made during the period under review. Fair value adjustments contributed a negative R54 million for the period under review.

4. ISSUANCES, REPURCHASES AND REDEMPTIONS OF BORROWINGS

During the period under review the borrowed funds balance decreased compared to June 2009 as a result of a combination of loan repayments, IN03 repurchases and successful rolling of the IN06 note programme. In preparation of the IN03 redemption, some IN03 bonds were also switched for a combination of longer IN08 and shorter IN05 bonds.

Consolidated balance sheet

at 31 December 2009

	Notes	Reviewed December 2009 R'000	Reviewed December 2008 R'000	Group June 2009 R'000
ASSETS				
Cash and cash equivalents	3	424 685	206 132	611 703
Other assets		125 790	171 603	127 474
Investments	3	929 961	1 650 448	1 078 712
Derivative financial instruments		139 093	336 951	80 437
Advances	3	4 584 525	5 427 175	4 728 450
Property, plant and equipment		3 427	3 563	3 473
Total assets		6 207 381	7 795 872	6 630 249

EQUITY AND LIABILITIES

Capital and reserves				
Share capital		807	807	807
Share premium		99 045	99 045	99 045
Unrealised fair value reserve		44 022	104 065	35 446
Retained earnings		339 608	264 027	324 436
Total equity		483 482	467 944	459 734
Liabilities				
Subordinated borrowed funds		102 309	103 378	103 044
Borrowed funds	4	4 918 896	6 278 334	5 153 001
Trade and other payables	4	491 652	656 991	769 717
Taxation payable		29 617	3 163	27 840
Derivative financial instruments		170 506	236 116	106 151
Deferred taxation		10 919	49 946	10 762
Total liabilities		5 723 889	7 327 928	6 170 515
Total equity and liabilities		6 207 381	7 795 872	6 630 249

Approximate rates of exchange ruling at the end of the period:

USD/ZAR	7.3900	9.4400	7.7150
EUR/ZAR	10.5798	13.1954	10.8266
GBP/ZAR	11.9386	13.8070	12.7226

Consolidated statement of changes in equity

for the six months ended 31 December 2009

Group	Notes	Share capital R'000	Share premium R'000	Unrealised fair value reserve R'000	Retained earnings R'000	Total equity R'000
Balance at 1 July 2008		807	99 045	176 295	252 299	528 446
Dividend paid net of dividend to Share Trust		-	-	-	(14 257)	(14 257)
Loss for the year		-	-	(140 849)	86 394	(54 455)
Balance at 30 June 2009		807	99 045	35 446	324 436	459 734
Dividend paid net of dividend to Share Trust	2	-	-	-	(14 257)	(14 257)
Profit for the period		-	-	8 576	29 429	38 005
Balance at 31 December 2009		807	99 045	44 022	339 608	483 482

Consolidated income statement

for the six months ended 31 December 2009

	Reviewed 6 months December 2009 R'000	Reviewed 6 months December 2008 R'000	Audited 12 months June 2009 R'000
Interest and similar income	506 878	654 240	1 271 265
Interest expenditure and similar charges	(462 421)	(605 939)	(1 179 886)
Net interest income	44 457	48 301	91 379
Impairment on lease receivables and advances	(2 606)	(3 000)	(6 801)
Fair value adjustment – realised	41 851	45 301	84 578
Fair value adjustment – unrealised	9 777	(3 064)	42 466
Fee and other income	11 911	(100 319)	(195 624)
	573	5 158	10 398
Net income/(loss) before operating expenditure	64 112	(52 924)	(58 182)
Operating expenditure	(12 718)	(16 011)	(33 037)
Profit/(loss) before taxation	51 394	(68 935)	(91 219)
Taxation	(13 389)	22 690	36 764
Profit/(loss) for the period	38 005	(46 245)	(54 455)
Earnings/(loss) per share (cents)	4 712	(5 734)	(6 752)

Consolidated cash flow statement

for the six months ended 31 December 2009

	Reviewed 6 months December 2009 R'000	Reviewed 6 months December 2008 R'000	Audited 12 months 30 June 2009 R'000
CASH FLOWS FROM OPERATING ACTIVITIES	(186 885)	14 005	419 706
Cash receipts from borrowers and customers	287 358	331 941	725 259
Cash paid to lenders, employees and suppliers	(452 225)	(610 826)	(1 188 616)
Cash receipts from investments and cash balances	222 092	315 966	584 786
Cash generated by operations	57 225	37 081	121 429
Normal taxation paid	(11 456)	22 968	22 544
Dividends paid	(14 257)	(14 257)	(14 257)
Changes in operating funds	237 297	(796 317)	81 828
Decrease/(increase) in income earning assets	1 420	(69 784)	(25 548)
Decrease/(increase) in non-income earning assets	(457 114)	834 314	233 710
(Decrease)/increase in liabilities and other payables	(218 397)	(31 787)	289 990
Net change in operating funds	(133)	47	(83)
CASH FLOWS FROM INVESTING ACTIVITIES	(133)	–	(286)
Purchase of property, plant and equipment	(133)	–	(260)
Property, plant and equipment	–	–	(26)
Leasehold improvements	–	–	–
Proceeds from disposal of furniture and equipment	–	47	203
(Decrease)/increase in cash and cash equivalents	(187 018)	14 052	419 623
Cash and cash equivalents at the beginning of the period	611 703	192 080	192 080
Cash and cash equivalents at end of period	424 685	206 132	611 703

Key figures and ratios

at 31 December 2009

	Reviewed 6 months December 2009 R'000	Reviewed 6 months December 2008 R'000	Audited 12 months 30 June 2009 R'000
PERFORMANCE			
Profit/(loss) for the period (R'000)	38 005	(46 245)	(54 455)
Profit for the period (excluding unrealised fair value adj) (R'000)	29 429	25 985	86 394
Earnings/(loss) per share (cents)	4 712	(5 734)	(6 752)
Profit/(loss) after tax per employee (R'000)	1 188	(1 075)	(1 433)
Cash generated by operations	57 225	37 081	121 429
SELECTED RETURNS			
Return on weighted average shareholders' funds (per cent)	8.40	(8.86)	(10.52)
Operating costs to total income (per cent)	23.21	31.77	22.90
CAPITAL ADEQUACY			
Advances (R'000)	4 584 525	5 427 175	4 728 450
Total equity (R'000)	483 482	467 944	459 734
Subordinated debt (R'000)	102 309	103 378	103 044
Total assets (R'000)	6 207 381	7 795 872	6 630 249
Risk weighted assets – Basel II (R'000)	1 932 062	N/A	1 966 580
Tier 1 capital – Basel II (R'000)	439 460	363 879	424 288
Capital adequacy ratio (equity plus sub debt/total assets) (per cent)	9.44	7.33	8.49
Capital adequacy ratio (equity plus sub debt/advances) (per cent)	12.78	10.53	11.90
Capital adequacy ratio (Basel II – tier 1) (per cent)	22.75	N/A	21.57
OFFICIAL RATINGS			
Official credit rating – senior debt (Moody's)	A3.za	A2.za	A2.za
Official credit rating – short-term (Moody's)	P-2.za	P-1.za	P-1.za
VALUE			
Net asset value per share (Rands)	599	580	570

Reviewed results – auditor opinion

Deloitte & Touche, the company's independent auditors, have reviewed the interim financial statements contained in this interim report and have expressed an unmodified reviewed opinion on the interim financial statements. This review report is available for inspection at the company's registered office.

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