

# Generator Bonds Limited

2008 Annual Report



In its capacity as Trustee of Generator NZ No.1 Trust

**FORWARD** thinking



# Generator Bonds Limited announces annual result

Generator Bonds Limited, the trustee of Generator NZ No.1 Trust (Generator), has today announced a net profit of \$140,714 for the year ended March 31, 2007. It is intended that the profit will be donated to charity in accordance with Generator's Master Trust Deed.

Generator completed its \$128 million listing of Generator Bonds<sup>1</sup> (NZX code: GTR010) in August 2003. The promoter of the issue was Macquarie Equities New Zealand Limited, a subsidiary of Macquarie New Zealand Limited (Macquarie).

The head of Macquarie's Financial Services Group NZ, John Rowley, said Generator Bonds had performed strongly since listing on the NZX Debt Market (NZDX) on August 27, 2003.

*"We are very pleased with the portfolio's performance to date. Generator Bonds have proven resilient, with the credit rating and protection amount remaining unchanged over the year and the expected loss rate now significantly lower than at the time of issue", said Mr Rowley.*

The expected loss rate in the portfolio was now 0.09%<sup>2</sup>, compared to 1.53%<sup>3</sup> at the time of issue, and far below the 3.93%<sup>3</sup> loss rate required to erode Generator Bonds' protection amount.

## About Generator Bonds

- Generator Bonds are secured fixed interest debt securities of Generator, with fixed quarterly interest payments of 8% per annum over a five year term, plus the security of an A- credit rating from Standard & Poor's.
- Generator Bonds are one of New Zealand's first issues of a structured credit product known as a collateralised debt obligation, or CDO.
- Payment of interest and principal is linked to the credit risk of a portfolio of corporate debt issued by 100 international and domestic companies.
- The portfolio of companies is static, meaning that companies can not be switched in and out during the five year term of Generator Bonds.

# Generator Bonds

Portfolio performance since inception (21 August 2003) to 31 May 2008

Company	S&P Rating	Since Inception		As at 31 May 2008			Change since inception (expected loss rate)
		S&P Watch	Expected loss rate	S&P Rating	S&P Watch	Expected loss rate	
ACE LTD	BBB+		1.61%	A		0.01%	-1.60%
AKZO NOBEL NV	A-		0.60%	A-		0.01%	-0.60%
ALBERTSON'S INC	BBB		1.52%	B+		0.44%	-1.07%
ALCOA INC	A-		0.60%	BBB+		0.03%	-0.57%
ALLIED DOMECQ PLC*****	BBB+		1.61%	NR		0.14%	-1.47%
AMBAC ASSURANCE CORP	AAA		0.07%	AAA		0.00%	-0.07%
AMP GROUP HOLDINGS LIMITED	BBB+		1.61%	A		0.01%	-1.60%
ANGLO AMERICAN PLC	A-		0.60%	A-		0.01%	-0.60%
ARROW ELECTRONICS, INC.	BBB-		3.46%	BBB-		0.06%	-3.40%
AT&T CORPORATION*	BBB		1.52%	A		0.01%	-1.51%
AT&T INC*	N/a	N/a	N/a	A		0.01%	N/a
BAYER AG	A+		0.45%	A-		0.01%	-0.44%
BAYERISCHE HYPO- UND VEREINSBANK AG	A-		0.60%	A+		0.01%	-0.59%
BERTELSMANN AG	BBB+		1.61%	BBB+		0.03%	-1.58%
BOEING CAPITAL CORP	A		0.29%	A+		0.01%	-0.29%
BOMBARDIER INC.	BBB-		3.46%	BB+		0.09%	-3.37%
BRITISH AMERICAN TOBACCO PLC	A-	N	1.61%	BBB+		0.03%	-1.58%
CAPITAL ONE BANK	BBB-		3.46%	A-		0.01%	-3.45%
CARLTON COMMUNICATIONS LIMITED	BBB-	P	1.52%	BBB-		0.06%	-1.46%
CARNIVAL CORP	A-		0.60%	A-		0.01%	-0.60%
CENDANT CORP	BBB		1.52%	BB+	N	0.14%	-1.38%
CIT GROUP INC.	A		0.29%	A-		0.01%	-0.29%
CITIZENS COMMUNICATIONS CO	BBB		1.52%	BB		0.14%	-1.38%
COMCAST CORP	BBB		1.52%	BBB+		0.03%	-1.49%
COMMERZBANK AG	A-		0.60%	A		0.01%	-0.60%
COMPAGNIE DE SAINT-GOBAIN	A		0.29%	BBB+		0.03%	-0.26%
COMPUTER ASSOCIATES INTERNATIONAL INC	BBB+		1.61%	BB	P	0.09%	-1.52%
COUNTRYWIDE HOME LOANS INC	A		0.29%	BB+		0.09%	-0.20%
DAIMLERCHRYSLER AG	BBB+		1.61%	A-		0.01%	-1.60%
DELPHI CORP**	BBB-		3.46%			0.00%	N/a
DEUTSCHE LUFTHANSA AG	BBB+		1.61%	BBB		0.04%	-1.57%
DEUTSCHE TELEKOM AG	BBB+		1.61%	BBB+		0.03%	-1.58%
DRESDNER BANK AG	A		0.29%	A		0.01%	-0.29%
DUKE ENERGY CORPORATION	BBB+		1.61%	A-		0.01%	-1.60%
ELECTRICITE DE FRANCE	AA		0.11%	AA-		0.00%	-0.10%
ELECTRONIC DATA SYSTEMS CORP	BBB		1.52%	BBB-	P	0.04%	-1.48%
EUROPEAN AERONAUTIC DEFENCE AND SPACE CO EADS NV	A	N	0.60%	BBB+		0.03%	-0.57%
FALCONBRIDGE LIMITED	BBB-		3.46%	BBB+		0.03%	-3.43%
FIRSTENERGY CORP	BBB-	N	4.53%	BBB		0.04%	-4.49%
FKI PLC	BBB		1.52%	BB	N	0.25%	-1.27%
FORD MOTOR CREDIT COMPANY	BBB		1.52%	B		1.21%	-0.31%
GENERAL ELECTRIC CAPITAL CORPORATION	AAA		0.07%	AAA		0.00%	-0.07%
GENERAL MOTORS ACCEPTANCE CORPORATION	BBB		1.52%	B		1.21%	-0.31%
GKN HOLDINGS PLC	BBB		1.52%	BBB		0.04%	-1.48%
HANNOVER RUECKVERSICHERUNGS-AG	AA-		0.36%	AA-		0.00%	-0.36%
HILTON GROUP PLC	BBB		1.52%	BB		0.14%	-1.38%
HOLCIM LIMITED	BBB+		1.61%	BBB+		0.03%	-1.58%
HUTCHISON WHAMPOA LTD	A-		0.60%	A-		0.01%	-0.60%
INTERNATIONAL LEASE FINANCE CORPORATION	AA-		0.36%	A+		0.01%	-0.36%
INVESTOR AB	AA-		0.36%	AA-		0.00%	-0.36%
JOHN FAIRFAX HOLDINGS LIMITED	BBB		1.52%	BBB-		0.06%	-1.46%
KONINKLIJKE PHILIPS ELECTRONICS NV	BBB+		1.61%	A-		0.01%	-1.60%
LAND SECURITIES GROUP PLC	A-		0.60%	A-		0.01%	-0.60%
LEND LEASE CORP LTD	A-	N	1.61%	BBB-		0.06%	-1.55%
LIBERTY MEDIA LLC	BBB-		3.46%	BB+		0.09%	-3.37%
LOEWS CORP	A	N	0.60%	A		0.01%	-0.60%
LVMH MOET HENNESSY LOUIS VUITTON	BBB+		1.61%	A-		0.01%	-1.60%

Company	S&P Rating	Since Inception		As at 31 May 2008			Change since inception (expected loss rate)
		S&P Watch	Expected loss rate	S&P Rating	S&P Watch	Expected loss rate	
MAY DEPARTMENT STORES COMPANY (THE)	BBB+		1.61%	BBB-		0.06%	-1.55%
MBIA INSURANCE CORP	AAA		0.07%	AAA	N	0.00%	-0.07%
MBNA CORP	BBB		1.52%	AA		0.00%	-1.52%
MOTOROLA, INC.	BBB		1.52%	BBB	N	0.06%	-1.46%
NATIONAL GRID TRANSCO PLC	A-		0.60%	A-		0.01%	-0.60%
NEWS AMERICA INC	BBB-		3.46%	BBB+		0.03%	-3.43%
OMNICOM GROUP INC	A-		0.60%	A-		0.01%	-0.60%
PILKINGTON PLC*****	BBB		1.52%	BB+		0.09%	-1.43%
PPR	BBB-	3.46%	BBB-		0.06%	-3.40%	
PUBLISHING & BROADCASTING LTD	A-		0.60%	BBB+	N	0.04%	-0.56%
QANTAS AIRWAYS LIMITED	BBB+		1.61%	BBB+		0.03%	-1.58%
REUTERS GROUP PLC	A		0.29%	A-		0.01%	-0.29%
ROLLS-ROYCE PLC	BBB		1.52%	A-		0.01%	-1.51%
RWE AG	A+		0.45%	A+	N	0.01%	-0.44%
SAFEWAY INC	BBB		1.52%	BBB		0.04%	-1.48%
SAFEWAY LTD (UK)***	BBB+		1.61%	BBB		0.04%	-1.57%
SEARS ROEBUCK ACCEPTANCE CORP	BBB		1.52%	BB		0.14%	-1.38%
SIEMENS AG	AA-		0.36%	AA-		0.00%	-0.36%
SINGTEL OPTUS LIMITED	A+		0.45%	A+		0.01%	-0.44%
SODEXHO ALLIANCE SA	BBB+		1.61%	BBB+		0.03%	-1.58%
SOUTHWEST AIRLINES COMPANY	A		0.29%	A-	N	0.03%	-0.26%
SPRINT NEXTEL CORPORATION	BBB-		3.46%	BB		0.14%	-3.32%
STMICROELECTRONICS NV	A-		0.60%	A-	N	0.03%	-0.57%
STORA ENSO OYJ	BBB+		1.61%	BBB-		0.06%	-1.55%
SUEZ SA	A-		0.60%	A-	P	0.01%	-0.60%
SUPERVALU INC	BBB		1.52%	BB-		0.25%	-1.27%
TELECOM CORP OF NEW ZEALAND LTD	A		0.29%	A		0.01%	-0.29%
TELECOM ITALIA SPA	BBB+		1.61%	BBB		0.04%	-1.57%
TEXTRON INC	A-		0.60%	A-		0.01%	-0.60%
THE DOW CHEMICAL COMPANY	A-		0.60%	A-		0.01%	-0.60%
THOMSON SA*****	BBB+		1.61%	A+		0.01%	-1.60%
TIME WARNER INC	BBB+	N	1.52%	BBB+	N	0.04%	-1.48%
TOYS "R" US INC	BBB-		3.46%	B		1.21%	-2.25%
TRANSALTA CORP	BBB-		3.46%	BBB		0.04%	-3.41%
TYSON FOODS INC	BBB	N	3.46%	BBB-		0.06%	-3.40%
VERIZON GLOBAL FUNDING CORP	A+		0.45%	A		0.01%	-0.44%
VNU GROUP BV	BBB+		1.61%	B		1.21%	-0.40%
VOLKSWAGEN AG	A		0.29%	A-		0.01%	-0.29%
WALT DISNEY COMPANY (THE)	BBB+	N	1.52%	A		0.01%	-1.51%
WOLTERS KLUWER NV	A-		0.60%	BBB+		0.03%	-0.57%
WPP GROUP PLC	BBB+		1.61%	BBB+	N	0.04%	-1.57%
XL CAPITAL LTD	A+		0.45%	A-		0.01%	-0.44%
ZURICH INSURANCE CO	A		0.29%	AA-		0.00%	-0.29%

\*AT&T INC replaces SBC COMMUNICATIONS INC in the portfolio following the SBC COMMUNICATIONS' takeover of AT&T.

\*\*DELPHI filed for bankruptcy protection on Saturday 8 October 2005 and has been removed from the portfolio.

\*\*\*SAFEWAY LTD (UK) is rated Baa2 by Moody's Investor Services, which equates to an S&P rating of BBB.

\*\*\*\*LAND SECURITIES GROUP PLC is no longer publicly rated by S&P, however a private rating is provided by S&P for the purposes of monitoring the portfolio.

\*\*\*\*\*ALLIED DOMEQC PLC is no longer covered by S&P. The last available expected loss rate has been used in the table above.

\*\*\*\*\*PILKINGTON PLC is no longer covered by S&P. The last available expected loss rate has been used in the table above.

\*\*\*\*\*THOMSON SA is no longer covered by S&P. The last available expected loss rate has been used in the table above.

\*\*\*\*\*VNU GROUP BV renamed to Nielsen Co. B.V.

Source: Scotiabank 3/08/2003 and 31/05/2008 and Macquarie Group.

Generator Bonds deliver returns that are linked to the credit risk of a portfolio of corporate debt issued by the companies listed above. An investment in Generator Bonds is not a direct investment, indirect investment or loan to any of the companies in the portfolio. Each company in the portfolio will have an equal weighting.

1 Generator Bonds are issued by Generator Bonds Limited ("Generator") as trustee for Generator NZ No.1 Trust ("Generator Trust"). This report is issued by Macquarie New Zealand Limited on behalf of Generator. The information contained herein that pertains to Generator and Generator Bonds is provided in good faith and no responsibility for the accuracy, completeness or timeliness of the information is accepted. In preparing this report, we did not take into account the investment objectives, financial situation and particular needs of the reader and to the extent allowed by law we do not accept any liability for any loss howsoever caused arising from reliance upon the information contained in it. This report is based on information obtained from sources believed to be reliable but we do not make any representation or warranty that it is accurate, complete or up to date nor do we accept any obligation to correct or update the information or opinions in it. Opinions expressed are subject to change without notice. The Macquarie Group of companies and their officers and employees may have interests in securities referred to in this report, including being directors of, or providing investment banking services to, their issuer. Further, they may buy or sell those securities as principal or agent, and as such may effect

transactions which are not consistent with the views, analyses or recommendations (if any) in this report.

2 Based on S&P default rate data from 1981 to 2005. The implied default rate assumes that defaults are randomly distributed other than by credit rating. It does not take into account portfolio specific characteristics such as correlation of the securities, industry or geographic concentration. A portfolio of 100 securities may experience a more volatile pattern of defaults than the market as a whole. Past performance is not necessarily an indication of future performance. A 30% recovery rate is assumed.

3 Based on S&P default rate data from 1981 to 2003. The implied default rate assumes that defaults are randomly distributed other than by credit rating. It does not take into account portfolio specific characteristics such as correlation of the securities, industry or geographic concentration. A portfolio of 100 securities may experience a more volatile pattern of defaults than the market as a whole. Past performance is not necessarily an indication of future performance. A 30% recovery rate is assumed.

For further information please contact:

**John Rowley**

Head, Macquarie Financial Services Group  
Macquarie New Zealand Limited  
Phone +64 9 363 1459  
Mobile +64 21 434 377

# Financial statements

for the year ended 31 March 2008

## Trustee's report

The Trustee has pleasure in presenting the annual report of Generator NZ No. 1 Trust, incorporating the financial statements and the auditors' report, for the year ended 31 March 2008.

The Trustee authorised these financial statements presented on pages 8 to 23 for issue on 20 June 2008.

For and on behalf of the Trustee.



John Rowley

20 June 2008



Giles Ellis

# Income statement

For the year ended 31 March 2008

	Notes	2008 \$'000	2007 \$'000
<b>Investment income</b>			
<b>Interest income</b>	7	10,625	10,566
Change in the fair value of financial assets at fair value through profit or loss	12	(2,221)	(697)
<b>Investment income on financial assets held at fair value through profit and loss</b>		8,404	9,869
Interest expense	8	(10,337)	(10,279)
Change in the fair value of financial liabilities at fair value through profit and loss	14	2,221	697
<b>Investment expense on financial liabilities held at fair value through profit and loss</b>		(8,116)	(9,582)
Net investment income		288	287
Other expenses	9	(180)	(146)
<b>Profit before taxation</b>		108	141
Income tax expense		-	-
<b>Profit for the year</b>		108	141

The above income statement should be read in conjunction with the accounting policies and notes.

# Balance sheet

As at 31 March 2008

	Notes	2008 \$'000	2007 \$'000
<b>Assets</b>			
Cash and cash equivalents	10	186	179
Trade and other receivables	11	1,175	1,146
Financial assets at fair value through profit or loss	12	125,631	127,852
<b>Total assets</b>		<u>126,992</u>	<u>129,177</u>
<b>Liabilities</b>			
Trade and other payables	13	1,203	1,134
Distributions payable	16	-	-
Financial liabilities at fair value through profit and loss	14	125,631	127,852
Total liabilities		<u>126,834</u>	<u>128,986</u>
<b>Trust funds</b>			
Net assets attributable to beneficiaries	15	158	191
<b>Total trust funds</b>		<u>158</u>	<u>191</u>

# Statement of changes in trust funds

For the year ended 31 March 2008

	2008 \$'000	2007 \$'000
<b>Trust funds at the beginning of the financial year as previously reported</b>	191	190
<b>Total trust funds at the beginning of the financial year under NZ IFRS</b>	191	190
Profit for the year	108	141
<b>Total recognised income and expense for the year</b>	108	141
Payments to beneficiaries	(141)	(140)
<b>Total trust funds at the end of the financial year</b>	158	191

The above income statement should be read in conjunction with the accounting policies and notes.

# Cash flow statement

For the year ended 31 March 2008

	Notes	2008 \$'000	2007 \$'000
<b>Cash flows from operating activities</b>			
Payments to suppliers		(140)	(168)
Interest received		10,596	10,595
Interest paid		(10,308)	(10,308)
<b>Net cash inflow from operating activities</b>	21	148	119
<b>Cash flows from financing activities</b>			
Distributions paid to beneficiaries		(141)	(140)
<b>Net cash outflow from financing activities</b>		(141)	(140)
<b>Net increase in cash and cash equivalents</b>		7	(21)
Cash and cash equivalents at the beginning of the financial year		179	200
<b>Cash and cash equivalents at end of year</b>	10	186	179

The above income statement should be read in conjunction with the accounting policies and notes.

# Notes to the Financial Statements

For the period ended 31 March 2008

## 1 General information

The Trust is an issuer of secured fixed rate credit-linked notes. The address of the registered office is Level 17, Lumley Centre, 88 Shortland Street, Auckland.

These financial statements have been approved for issue by the Trustee on 20 June 2008.

## 2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (a) Basis of preparation

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable New Zealand Financial Reporting Standards, as appropriate for profit-oriented entities.

#### **Compliance with IFRS**

The statements of the Trust also comply with International Financial Reporting Standards (IFRS).

#### **Entities reporting**

The financial statements are for the Trust as a separate legal entity.

The Trust is designated as a profit-oriented entity for financial reporting purposes.

#### **Statutory base**

Generator NZ No. 1 Trust (the Trust) was established under the Master Trust Deed on 15 July 2003. The Trust is an issuer for the purposes of the Financial Reporting Act 1993 and is domiciled in New Zealand.

The financial statements have been prepared in accordance with the requirements of the Master Trust Deed and the Financial Reporting Act 1993.

#### **Application of NZ IFRS 1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards**

These financial statements are the Trust's first financial statements to be prepared in accordance with NZ IFRS. NZ IFRS 1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards has been applied in preparing these financial statements.

Financial statements of the Trust until 31 March 2007 had been prepared in accordance with previous New Zealand Financial Reporting Standards (NZ FRS). NZ FRS differs in certain respects from NZ IFRS. When preparing these 2008 financial statements, management has amended certain accounting and valuation methods applied in the NZ FRS financial statements to comply with NZ IFRS. The comparative figures in respect of 2007 were restated to reflect these adjustments.

Reconciliations and descriptions of the effect of transition from previous NZ FRS to NZ IFRS on the Trust's equity and its net income are given in note 22.

#### **Historical cost convention**

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

#### **Critical accounting estimates and judgements**

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Trust's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 5.

### (b) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

### (c) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which it operates ('the functional currency'). The financial statements are presented in New Zealand dollars, which is the Trust's functional and presentation currency.

#### **(d) Interest income**

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Trust reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

#### **(e) Income tax**

The Trust is not liable for tax on income distributed as beneficiary income to the Residual Income Beneficiary and Residual Capital Beneficiary which are charitable trusts. Income that is not treated as beneficiary income will be taxed as trustee income.

#### **(f) Goods and Services Tax (GST)**

The financial statements are prepared so that all components are stated inclusive of GST as the Trust is not registered for GST purposes.

#### **(g) Cash and cash equivalents**

Cash and cash equivalents include cash on hand and deposits held at call with financial institutions which are subject to an insignificant risk of changes in value, and bank overdrafts.

#### **(h) Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Trust will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtors, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'other expenses'. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against 'other expenses' in the income statement.

#### **(i) Financial assets and liabilities (including derivatives)**

The Trust classifies its financial assets and liabilities in the following categories: financial assets and/or liabilities at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

##### **(i) Financial assets and liabilities at fair value through profit or loss**

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. A financial asset or liability is designated as 'at fair value through profit or loss' on initial recognition on the basis that: it eliminates or reduces a measurement or recognition inconsistency.

The interest bearing assets and liabilities issued by the Trust contain embedded derivatives, and as such the Trust has designated its notes as at fair value through profit and loss. These securities are initially recognised at fair value, excluding transaction costs which are expensed as incurred. Subsequent to initial recognition these securities are carried at their fair value. Gains and losses arising from change in the fair value are included in the income statement in the period in which they arise.

The credit linked notes are not actively traded. However, the risks and features of the credit linked notes are identical to those which are listed on the New Zealand Stock Exchange ('NZX'), with the exception of the coupon rate, which is higher than listed notes.

##### **(ii) Loans and receivables**

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Trust provides money, goods or services directly to a debtor with no intention of selling the receivable. Loans and receivables are included within 'trade and other receivables' on the balance sheet. Loans and receivables are carried at amortised cost using the effective interest method.

Purchases and sales of investments are recognised on trade-date - the date on which the Trust commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Trust has transferred substantially all the risks and rewards of ownership.

The Trust assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. Impairment testing for trade receivables is described in the accounting policy for these above.

#### (j) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Trust is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Trust uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Trust for similar financial instruments.

#### (k) Trade and other payables

These amounts represent liabilities for goods and services provided to the Trust prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are initially recognised at fair value plus transaction costs. Thereafter, they are carried at amortised cost using the effective interest method.

#### (l) Borrowings costs

Interest expense is recognised as an expense in the income statement using the effective interest method.

#### (m) Residual income available for distribution to beneficiaries

In accordance with the Trust Deed, the Trust distributes all its distributable income to the beneficiaries by way of cash. Under NZ IFRS, net assets attributable to Beneficiaries are classified as equity.

Distributable income is determined by reference to the taxable income of the Trust. The distributions are payable at the end of March each year. Provision is made for the amount of any distribution on or before the end of the financial year but not distributed at balance date. Distributions are recognised as an expense in the statement of changes in equity.

Non-distributable income is transferred directly to beneficiaries' funds and may consist of unrealised changes in the fair value of investments, accrued income not yet assessable for income tax, under or over distributions from prior periods, expenses provided or accrued for which are not yet deductible for tax purposes, and tax free or tax deferred income. Realised gains on the sale of investments and accrued income not yet assessable will be included in the determination of distributable income in the same year in which it becomes assessable for tax.

#### (n) Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments to standards and interpretations to existing standards have been published that are mandatory for the Trust's accounting periods beginning on or after 1 April 2008 or later periods but which the Trust has not early adopted:

- **NZ IFRS 8: *Operating Segments* ('NZ IFRS 8')** (effective for reporting periods beginning on or after 1 January 2009) is replacing NZ IAS 14: *Segment Reporting*. NZ IFRS 8 is not expected to impact on the Trust's financial reporting.
- **Amendments to NZ IAS 1: *Presentation of Financial Statements* ('NZ IAS 1')** (effective for reporting periods beginning on or after 1 January 2009). Amendments to NZ IAS 1 will result in changes in the format and presentation of the Trust's financial statements.

#### (o) Early application of amendments to standards that are not yet effective

The Trust has adopted the following amendments prior to their effective date:

- Puttable Financial Instruments and Obligation Arising On Liquidation (revised Amendments to New Zealand Equivalent to International Accounting Standard 32: Financial Instruments: Presentation and New Zealand Equivalent to International Accounting Standard 1: Presentation of Financial Statements). The revised Amendments are effective for reporting periods beginning on or after 1 January 2009. The amendments allow the Trust to continue to classify Residual income available for distribution to beneficiaries as equity.

## 3 Transition to NZ IFRS

### Application of NZ IFRS 1

The Trust's financial statements for the year ended 31 March 2008 are the first annual financial statements that comply with NZ IFRS. These financial statements have been prepared as described in summary of significant accounting policies above. The Trust has applied NZ IFRS 1 in preparing these financial statements.

Generator NZ No. 1 Trust transition date is 1 April 2006. The Trust prepared its opening NZ IFRS balance sheet at that date. The reporting date of these financial statements is 31 March 2008. The Trust's NZ IFRS adoption date is 1 April 2007.

In preparing these financial statements in accordance with NZ IFRS 1, the Trust has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of NZ IFRS.

## Relevant exemptions from full retrospective application elected by the Trust

Designation of financial assets and financial liabilities exemption:

The Trust reclassified various securities as financial assets at fair value through profit and loss. NZ IAS 39: Financial Instruments: Recognition and Measurement requires this designation to be made on initial recognition. However, on initial adoption of NZ IFRS, the Trust makes this designation on adoption of NZ IFRS.

## Relevant exceptions from full retrospective application followed by the Trust

### Estimates exception:

Estimates under NZ IFRS at 1 April 2006 should be consistent with estimates made for the same date under NZ FRS, unless there is evidence that those estimates were in error.

## Reconciliations between NZ FRS and NZ IFRS

The reconciliations in note 22 provide a quantification of the effect of the transition to NZ IFRS. The following reconciliations provide details of the impact of the transition on:

- equity at 1 April 2006, and
- equity at 31 March 2007
- profit for the year ended 31 March 2007.

## 4 Financial risk management

The Trust's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

Risk management is carried out under policies approved by the Trustees. The Trustees provide written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

### (a) Market risk

#### (i) Foreign exchange risk

The Trust is not exposed to foreign currency risk.

#### (ii) Price risk

The Trust is not exposed to equity securities, bond or commodity price risk. The Trust is not subject to price risk because it is only credit defaults in the underlying credit entities that can trigger a reduction in income or capital repayment.

#### (iii) Cash flow and fair value interest rate risk

The Trust's main interest rate risk arises from bonds. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

### 4 (a) (iii) Cash flow and fair value interest rate risk (continued)

The table below identifies the period in which interest rates are subject to review on interest bearing financial assets and liabilities, and provides the current weighted average interest rate on each item. Interest is at fixed rates on each item except for deposits which earns interest at floating rates.

At 31 March 2008	Weighted average interest rate	Less than 1 year \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000
Financial assets at fair value through profit and loss	8.2%	128,849			
Trade and other receivables	8.2%	1,175			
Cash and cash equivalents	7.1%	186			
Interest receivable	8.2%	5,289			
Financial liabilities at fair value through profit and loss	8.0%	128,849			
Trade and other payables	8.0%	1,203			
Interest payable	8.0%	5,154			

At 31 March 2007	Weighted average interest rate	Less than 1 year \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000
Financial assets at fair value through profit and loss	8.2%		128,849		
Trade and other receivables	8.2%	1,146			
Cash and cash equivalents	6.2%	179			
Interest receivable	8.2%	10,578	5,289		
Financial liabilities at fair value through profit and loss	8.0%		128,849		
Trade and other payables	8.0%	1,134			
Interest payable	8.0%	10,308	5,154		

#### (iv) Summarised sensitivity analysis

The table below summarises the impact on profit before tax and net assets attributable to beneficiaries (equity) should interest rates or other price risks move by the percentages stated.

31 March 2008	Carrying amount \$'000	Interest rate risk				Other price risk			
		-1%		+1%		-10%		+10%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
<b>Financial assets</b>									
Cash and cash equivalents	186	(2)	(1)	2	1	-	-	-	-
Trade and other receivables	1,175	(12)	(8)	12	8	-	-	-	-
Financial assets at fair value through profit and loss	125,631	471	316	(468)	(314)	(12,563)	(8,417)	12,563	8,417
<b>Financial liabilities</b>									
Trade payables	1,203	12	8	(12)	(8)	-	-	-	-
Financial liabilities at fair value through profit and loss	125,631	(471)	(316)	468	314	12,563	8,417	(12,563)	(8,417)
<b>Total (decrease)/increase</b>		<u>(2)</u>	<u>(1)</u>	<u>2</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

31 March 2007	Carrying amount \$'000	Interest rate risk				Other price risk			
		-1%		+1%		-10%		+10%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
<b>Financial assets</b>									
Cash and cash equivalents	179	(2)	(1)	2	1	-	-	-	-
Trade and other receivables	1,146	(11)	(7)	11	7	-	-	-	-
Financial assets at fair value through profit and loss	127,852	1,678	1,124	(1,652)	(1,124)	(12,785)	(8,566)	12,785	8,566
<b>Financial liabilities</b>									
Trade and other payables	1,134	11	7	(11)	(7)	-	-	-	-
Financial liabilities at fair value through profit and loss	127,852	(1,678)	(1,124)	1,652	1,124	12,785	8,566	(12,785)	(8,566)
<b>Total (decrease)/increase</b>		<u>(2)</u>	<u>(1)</u>	<u>2</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

#### (b) Credit risk

Credit risk arises from cash and cash equivalents, financial assets at fair value through profit and loss and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

The maximum exposure to credit risk at the reporting date is the higher of the carrying value and fair value of each class of receivables mentioned above. The Trust does not hold any collateral as security.

The Trust has invested the proceeds from the Bond issue in credit linked notes in accordance with the investment mandate documented in the Generator Bonds prospectus dated 16 July 2003. This investment is with a single entity and is 800 times greater than net assets attributable to beneficiaries (2007: 678 times).

There are no impaired assets, restructured assets, assets acquired through the enforcement of security or past due assets as at 31 March 2008 (2007: Nil).

### (c) Concentrations of funding

Funding is from retail bonds issued to New Zealand residents, with less than 1% issued outside of New Zealand.

### (d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

The table below analyses the Trust's financial assets and liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

<b>At 31 March 2008</b>	<b>Less than 1 year \$'000</b>	<b>Between 1 and 2 years \$'000</b>	<b>Between 2 and 5 years \$'000</b>	<b>Over 5 years \$'000</b>
Financial assets at fair value through profit and loss	128,849			
Trade and other receivables	1,175			
Cash and cash equivalents	186			
Interest receivable	5,289			
Financial liabilities at fair value through profit and loss	128,849			
Trade and other payables	1,203			
Interest payable	5,154			

<b>At 31 March 2007</b>	<b>Less than 1 year \$'000</b>	<b>Between 1 and 2 years \$'000</b>	<b>Between 2 and 5 years \$'000</b>	<b>Over 5 years \$'000</b>
Financial assets at fair value through profit and loss		128,849		
Trade and other receivables	1,146			
Cash and cash equivalents	179			
Interest receivable	10,578	5,289		
Financial liabilities at fair value through profit and loss		128,849		
Trade and other payables	1,134			
Interest payable	10,308	5,154		

### (e) Capital risk management

The Trust manages net assets attributable to beneficiaries as its capital. The Trust's objectives when managing capital are to safeguard their ability to continue as a going concern, so it can continue to provide returns for beneficiaries and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Trust may adjust the amount of distributions to beneficiaries.

The Trust monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'borrowings' and 'trade and other payables' as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

During 2008, the Trust's strategy, which was unchanged from 2007, was to maintain a gearing ratio within 70% to 90% and a AA- credit rating. The gearing ratios at 31 March 2008 and 31 March 2007 were as follows:

	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
Total borrowings	1,203	1,134
Less: cash and cash equivalents (note 10)	(186)	(179)
Net debt	1,017	955
Total net assets attributable to beneficiaries		
Total capital	1,361	1,146
Gearing ratio	75%	83%

The decrease in the gearing ratio during 2008 resulted primarily from increase in accrued interest on bonds.

## 5 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### (a) Critical accounting estimates, assumptions and judgements in applying the Trust's accounting policies

The Trust makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### Fair value – credit linked notes

The credit linked notes are not actively traded. The fair value of the notes has therefore been calculated using a model that includes as an input the implied yield of the notes. Periodically, the model is calibrated using available observable market data, where that data is consistent with the features of the credit linked notes.

Due to the nature of the financial arrangement entered into by the Trust, any movement in the fair value of the credit linked notes held is offset by an equal and opposite movement in the fair value of the bonds on issue.

## 6 Segment information

The Trust operates in only one business and geographical segment being investment management in New Zealand.

## 7 Investment income

	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
Interest income		
Cash	17	17
Credit linked notes	10,608	10,549
	10,625	10,566

## 8 Interest expense

	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
Bonds	10,337	10,279
	10,337	10,279

## 9 Other expenses

	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
Other expenses include:		
Trustee fees	41	39
Audit fees	20	11
Other fees paid to auditors	16	-
Registry fees	64	74
Bond trustee fees	18	17
Other expenses	21	5
	<hr/> 180	<hr/> 146

## 10 Cash and cash equivalents

	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
Bank balances (held with Macquarie Investment Services Limited)	186	179
	<hr/> 186	<hr/> 179

### (a) Cash at bank and on hand

These bear interest at a rate of 7.1% (2007: 6.2%).

## 11 Trade and other receivables

	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
Interest receivable	1,175	1,146
	<hr/> 1,175	<hr/> 1,146

## 12 Financial assets at fair value through profit or loss

	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
Designated at fair value through profit and loss		
At beginning of year	127,852	128,549
Change in fair value	(2,221)	(697)
At end of year	<hr/> 125,631	<hr/> 127,852
	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
Credit linked notes	125,631	127,852
	<hr/> 125,631	<hr/> 127,852

The credit linked notes were issued to the Trust in August 2003 with a face value of \$128.8million. The credit linked notes have a fixed interest rate of 8.2% a 5 year term maturing in August 2008 and a fixed recovery rate for portfolio events. A portfolio event may occur if a company in the portfolio:

- Becomes insolvent or bankrupt;
- Fails to pay when due at least US\$1 million in respect of borrowed money; or
- Has at least \$10 million of borrowed money which it owes restructured.

A portfolio event can affect note holders' repayment of principal at maturity. If several portfolio events occur, the payment of income and capital to investors may be reduced in line with the terms described in the offer document. This would happen if the percentage of the reference portfolio defaulting, net of recoveries, exceeded the available subordination in the credit linked notes (4.41% at issue). The remaining subordination is 3.93%. No portfolio events happened during the year ended 31 March 2008 or during the comparative period.

## 13 Trade and other payables

	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
Accrued interest on bonds	1,023	977
Resident withholding tax	123	140
Other payables	57	17
	1,203	1,134

## 14 Financial liabilities held at fair value through profit or loss

	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
<b>Designated at fair value through profit and loss</b>		
At beginning of year	127,852	128,549
Change in fair value	(2,221)	(697)
At end of year	125,631	127,852
	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
Bonds	125,631	127,852
	125,631	127,852

The Bonds are secured fixed interest debt securities of the Trust and are secured over the assets of the Trust in accordance with the Trust Deed dated 15 July 2003. The Bonds have a term of 5 years, maturing August 2008, and pay a fixed rate of 8.0%.

## 15 Residual income available for distribution to beneficiaries

As stipulated in the Trust Deed, each beneficiary has a right to an individual share in the Trust capital. There are no separate classes of trust capital and each beneficiary has the same rights attaching to their interest in the Trust.

Movements in net assets attributable to beneficiaries

	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
Opening balance	191	190
Net profit for the year	108	141
Distribution paid to beneficiaries	(141)	(140)
Closing Balance	158	191

## 16 Distributions to beneficiaries

	<b>2008</b> <b>\$'000</b>	<b>2007</b> <b>\$'000</b>
Since year end the Trustees have recommended the payment of a distribution. The aggregate amount of the proposed distribution expected to be paid on 31 May 2008 out of net assets attributable to beneficiaries at 31 March 2008, but not recognised as a liability at year end, is	108	141

## 17 Contingencies

As at 31 March 2008 the Trust had no contingent liabilities or assets (2007:\$Nil).

## 18 Commitments

As at 31 March 2008 the Trust had no commitments (2007:\$Nil).

## 19 Related party transactions

### (a) Trustee

The Trustee is Generator Bonds Limited.

### (b) Bond trustee

The Bond trustee is New Zealand Permanent Trustees Limited.

### (c) Directors of Generator Bonds Limited

JK McLay, a director of Generator Bonds Limited, is the beneficial owner of 50,000 Generator Bonds representing \$50,000 (2007:50,000 Generator Bonds representing \$50,000) and received interest of \$3,553.82 on the bonds (2007: \$3,482.85).

### (d) Beneficiaries

There are two beneficiaries of the Trust, the Residual Income Beneficiary and the Residual Capital Beneficiary. The beneficiaries being The Salvation Army and World Vision of New Zealand, in equal shares. The beneficiaries did not subscribe, purchase or contributed to their beneficial interest in the Trust.

### (e) Transactions with related parties

The following transactions occurred with related parties other than key management personnel or entities related to them:

	2008 \$'000	2007 \$'000
Trustee and directors fees paid to:		
Trustee (Generator Bonds Limited)	41	39
Bond Trustee	18	17

### (f) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties other than key management personnel:

	2008 \$'000	2007 \$'000
Trustee	11	-
Bond Trustee	-	4

### (g) Terms and conditions

All other transactions were made on normal commercial terms and conditions and at market rates.

Outstanding balances are unsecured and are repayable in cash.

### (h) Other related party transactions

The Trust's funds of \$185,906 are on deposit with Macquarie Investment Services Limited (a sister company to the Trustee) (2007: \$178,524).

## 20 Events occurring after the balance sheet date

No significant events have occurred after the balance sheet date which would impact on the financial position of the Trust at 31 March 2008 or the results and cash flows of the Trust for the year then ended. Refer to note 16 for details of distributions authorised after balance date.

## 21 Reconciliation of profit after income tax to net cash inflow from operating activities

	2008 \$'000	2007 \$'000
Profit for the year	108	141
(Increase)/Decrease in trade and other receivables	(29)	29
Increase/(Decrease) in trade and other payables	69	(51)
Net cash inflow from operating activities	148	119

## 22 Explanation of transition to New Zealand equivalents to IFRSs

### (1) Reconciliation of equity reported under previous New Zealand Generally Accepted Accounting Principles (NZ GAAP) to equity under New Zealand equivalents to IFRSs (NZ IFRS)

#### (a) At the date of transition to NZ IFRS: 1 April 2006

	Previous NZ GAAP \$'000	Effect of transition to NZ IFRS \$'000	NZ IFRS \$'000
<b>Asset</b>			
Cash and cash equivalents	200	-	200
Trade and other receivables	1,175	-	1,175
Financial assets at fair value through profit and loss	128,849	(300)	128,549
<b>Total non-current assets</b>	<b>130,224</b>	<b>(300)</b>	<b>129,924</b>
<b>Liabilities</b>			
Trade and other payables	1,185	-	1,185
Financial liabilities at fair value through profit and loss	128,849	(300)	128,549
<b>Total liabilities</b>	<b>130,034</b>	<b>(300)</b>	<b>129,934</b>
<b>Trust funds</b>			
Residual income available for distribution to beneficiaries	190	-	190
<b>Total trust funds</b>	<b>190</b>	<b>-</b>	<b>190</b>

#### (b) At the end of the last reporting period under previous NZ GAAP: 31 March 2007

	Previous NZ GAAP \$'000	Effect of transition to NZ IFRS \$'000	NZ IFRS \$'000
<b>Assets</b>			
Cash and cash equivalents	179	-	179
Trade and other receivables	1,146	-	1,146
Financial assets at fair value through profit and loss	128,849	(997)	127,852
<b>Total non-current assets</b>	<b>130,174</b>	<b>(997)</b>	<b>129,177</b>
<b>Liabilities</b>			
Trade and other payables	1,134	-	1,134
Financial liabilities at fair value through profit and loss	128,849	(997)	127,852
<b>Total liabilities</b>	<b>129,983</b>	<b>(997)</b>	<b>128,986</b>
<b>Trust funds</b>			
Residual income available for distribution to beneficiaries	191	-	191
<b>Total trust funds</b>	<b>191</b>	<b>-</b>	<b>191</b>

## (2) Reconciliation of profit for the year ended 30 March 2007

	Previous NZ GAAP \$'000	Effect of transition to NZ IFRS \$'000	NZ IFRS \$'000
<b>Investment income</b>			
Interest income	10,566	-	10,566
Change in the fair value of financial assets at fair value through profit or loss	-	(697)	(697)
<b>Investment income on financial assets held at fair value through profit and loss</b>	10,566	(697)	9,869
Interest expense	(10,279)	-	(10,279)
Change in the fair value of financial liabilities at fair value through profit and loss	-	697	697
<b>Investment expense on financial liabilities held at fair value through profit and loss</b>	(10,279)	697	(9,582)
<b>Net investment income</b>	287	-	287
Expenses	146	-	146
<b>Profit for the year</b>	141	-	141

## (3) Reconciliation of cash flow statement for the year ended 31 March 2008

The adoption of NZ IFRSs has not resulted in any material adjustments to the cash flow statement.

## (4) Notes to the reconciliations

The nature of the main adjustments to make this information comply with NZ IAS 32 and NZ IAS 39 are that, with the exception of held-to-maturity investments and loans and receivables which would be measured at amortised cost (refer below), fair value would be the measurement basis. Fair value is inclusive of transaction costs. Changes in fair value would be either taken to the income statement or an equity reserve (refer below). At the date of transition (1 April 2006) changes to carrying amounts are taken to retained earnings.

The Trust classifies its investments in the following categories: financial assets at fair value through profit or loss as well as loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

### (i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The policy of management is to designate a financial asset if there exists the possibility it will be sold in the short term and the asset is subject to frequent changes in fair value. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

**Auditors' Report**  
to the Trustee of Generator NZ No. 1 Trust

We have audited the financial statements on pages 4 to 21. The financial statements provide information about the past financial performance and cash flows of the Trust for the year ended 31 March 2008 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 8 to 14.

**Trustee's Responsibilities**

The Trustee is responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Trust as at 31 March 2008 and its financial performance and cash flows for the year ended on that date.

**Auditors' Responsibilities**

We are responsible for expressing an independent opinion on the financial statements presented by the Trustee and reporting our opinion to you.

**Basis of Opinion**

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- (a) the significant estimates and judgements made by the Trustee in the preparation of the financial statements; and
- (b) whether the accounting policies are appropriate to the circumstances of the Trust, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Trust other than in our capacity as auditors and tax advisers.



**Auditors' Report**  
Generator NZ No. 1 Trust

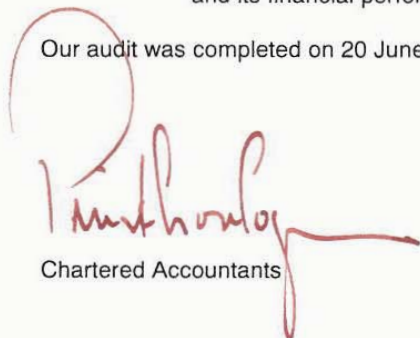
**Unqualified Opinion**

We have obtained all the information and explanations we have required.

In our opinion:

- (a) proper accounting records have been kept by the Trust as far as appears from our examination of those records; and
- (b) the financial statements on pages 4 to 21:
  - (i) comply with generally accepted accounting practice in New Zealand; and
  - (ii) comply with International Financial Reporting Standards; and
  - (iii) give a true and fair view of the financial position of the Trust as at 31 March 2008 and its financial performance and cash flows for the year ended on that date.

Our audit was completed on 20 June 2008 and our unqualified opinion is expressed as at that date.



Chartered Accountants

Auckland






You should direct all your enquiries to your financial adviser or Macquarie Equities New Zealand Ltd (acting on behalf of Generator) by phoning 0800 GENER8 (0800 436 378)

Or by writing to

**Generator Bonds Limited**

 Freepost 55997, PO Box 2006, Shortland Street, Auckland, New Zealand

**Office Hours:** 8:30am - 5:00pm

**Office address:** Level 17, Lumley Centre  
88 Shortland Street, Auckland,  
New Zealand

 **Toll Free:** 0800 GENER8 (0800 436 378)