

Generator Bonds

Generator Bonds Final report



Maturity of Generator Bonds

Generator Bonds¹ reached maturity on 20 August 2008.

As represented on the graph, the bonds still had a large level of subordination available at maturity meaning the bonds were in an excellent position to repay the principal amount at maturity.

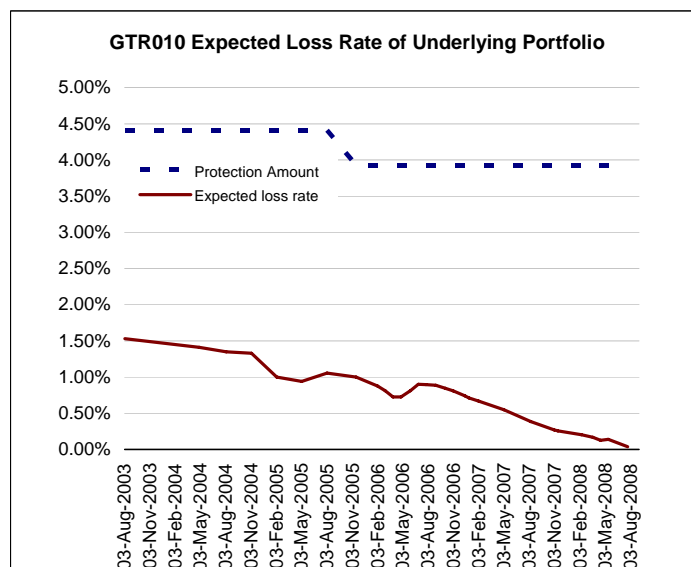
Generator Bonds will be de-listed from the NZX as the operations of the Bond have now closed. The following pages of this report represents the final update on the portfolio over the last quarter.

How did your investment perform?

We are pleased to advise that bondholders received a fixed coupon of 8%p.a. on a quarterly basis throughout the life of the product. The final coupon, along with the principal was repaid on the 20 August 2008.

We would like to thank you for your investment in Generator Bonds. If you have any questions, please do not hesitate to contact us on **0800 436 378**.

Generator Bonds' expected loss rate of the underlying portfolio remained well below its protection amount.



Source: Macquarie Group.

Ratings changes over the quarter

As indicated in Table 1 below, there were 5 positive ratings actions and 11 negative ratings actions over the quarter.

Rwe Ag, Deutsche Telekom Ag, Ambac Assurance Corp, Cendant Corp, Ford Motor Credit Company, General Motors, Acceptance Corporation, Lend Lease Corp Ltd, MBIA Insurance Corp, Southwest Airlines Company, The Dow Chemical Company, Tyson Foods Inc, XI Capital Ltd were downgraded during the quarter.

Computer Associates International Inc, Countrywide Home Loans Inc, International Lease Finance Corporation, Stmicroelectronics Nv were upgraded during the quarter.

Focus Credit – MBIA Insurance Corp (Insurance)

Standard & Poor's Ratings Services states "We have lowered the financial strength ratings for MBIA Insurance Corp to "AA" from "AAA" and placed the rating on creditwatch with negative implications."

Standard & Poor's report "The rating actions on the company reflects our belief that this entity will face diminished public finance and structured finance new business flow and declining financial flexibility. In addition we believe continuing deterioration in key areas of the US residential mortgage sector and related CDO structures will place increasing pressure on capital adequacy. The "AA" financial strength rating of MBIA Insurance Corp is supported by currently sound claims paying ability and liquidity levels in our opinion."

Focus credit – General Motors Acceptance Corporation (Banking)

Fitch Ratings states: "We have assigned a rating outlook negative to General Motors (GM). The downgrade results from weak economic conditions, the dramatic shift to fuel efficient vehicles and the resulting cash drains at that are expected to persist at GM least through 2009. We expect that the cash drains in 2008 will exceed \$10 billion, and that new financing activity will be required over the next 18 months to keep GM's cash position above the minimum comfort level of \$12-\$14 billion."

Fitch Ratings also reports "Of primary concern is continuing financial deterioration at General Motors Acceptance Corporation (GMAC) due to primarily to the turmoil in residential mortgage markets. This has necessitated additional financial support from GM in the form of capital injections and guarantees. While GMAC continues to work through issues in its residential mortgage business, Fitch believes that core automotive finance fundamentals are also showing weakness, and that these trends are expected to persist throughout 2008. While Fitch acknowledges GMAC's recent bank line restructuring, which should provide necessary near term funding, Fitch is concerned that a sustained lack of liquidity, particularly in the securitization markets, may reduce GMAC's ability to provide financing for GM customers."

Table 1: Summary of Standard & Poors ratings changes over the quarter (including changes to CreditWatch)

Company Name	Last Quarter (13/05/08)	Current Quarter (22/07/08)	Position since last quarter
Ambac Assurance Corp	AAA	AA (N)	Negative
Cendant Corp	BB+ (N)	BB (N)	Negative
Deutsche Telekom Ag	A- (N)	BBB+	Negative
Ford Motor Credit Company	B	B (N)	Negative
General Motors Acceptance Corporation	B	B (N)	Negative
Lend Lease Corp Ltd	BBB-	BBB- (N)	Negative
MBIA Insurance Corp	AAA (N)	AA (N)	Negative
Southwest Airlines Company	A-	A- (N)	Negative
The Dow Chemical Company	A-	A- (N)	Negative
Tyson Foods Inc	BBB-	BBB- (N)	Negative
XI Capital Ltd	A-	A- (N)	Negative
Countrywide Home Loans Inc	BB+	AA	Positive
Computer Associates International Inc	BB (P)	BB+	Positive
International Lease Finance Corporation	A+ (N)	A+	Positive
Rwe Ag	A+ (N)	A	Negative
Stmicroelectronics Nv	A- (N)	A-	Positive

Source: Scotiabank 06/02/2008 and 22/07/2008

Note: In calculating the expected loss rate of the portfolio, the ratings agency generally assumes a downgrade of one rating notch for investment grade companies on CreditWatch Negative (N) and an upgrade of one rating notch for investment grade companies on CreditWatch Positive (P).

Focus Credit – CIT Group Inc (Banking)

Fitch's downgrade reflects liquidity challenges CIT Group Inc has endured over the past year as a result of general capital markets disruptions, which has caused CIT to execute its contingency funding plan. As a result, Fitch believes that the company's financial flexibility has been reduced, as it has increasingly had to rely on secured funding sources or asset sales to generate liquidity. The Rating Outlook is Negative.

Fitch's Negative Rating Outlook incorporates that a view that core operating performance, which excludes student lending and home mortgage, may come under pressure due to weakening credit quality or higher funding costs. Nonetheless, Fitch expects CIT's core commercial finance business to remain profitable in 2008. Negative Rating Actions could occur if Fitch believes there has been a lack of timely progress on executing strategic funding objectives, core operating performance weakens beyond expectations, or liquidity pressures intensifies.

Focus Credit – Ford Motor Credit Company (Banking)

Moody states "The rating outlook for Ford Motor Credit Company has been changed to negative from stable, reflecting parent level concerns and deteriorating asset quality."

Moody reports "The negative outlook for Ford reflects the increasingly challenging environment faced by it and the other domestic auto manufacturers as the outlook for US vehicle demand falls, and as high fuel costs drive US consumers away from light trucks and SUV's and towards more fuel efficient vehicles. As a result of these eroding market fundamentals Ford announced that:

1. Its automotive performance for 2008 will be worst than that of 2007 in which it had a pre tax loss of \$1.8 billion excluding Jaguar and Land Rover and special items;
2. Ford Credit will incur a pre tax operating loss for 2008;
3. The company is unlikely to achieve break even performance during 2009;
4. The two year pace of automotive operating cash burn for 2008 and 2009 will exceed the previously estimated level of \$12-\$14 billion."

Focus credit – Ambac Assurance Corp (Insurance)

On June 5, 2008, Standard & Poor's Ratings Services (S&P) lowered its rating on AMBAC Assurance Corp (Ambac) to "AA" and also placed it on creditwatch negative.

S&P state that "The negative outlook on Ambac reflects our view that the company's exposure to domestic nonprime mortgage and related exposure to CDO of ABS has likely damaged its franchise and that the company faces diminished new business flows."

S&P concludes "Removal of the negative outlook will depend on clarification of ultimate potential losses as well as future business prospects, the outcome of strategic business decisions, and potential regulatory development."

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Portfolio performance since inception (21 August 2003) to 22 July 2008

Company	Since Inception			As at 22 July 2008			Change since inception (expected loss rate)
	S&P Rating	S&P Watch	Expected loss rate	S&P Rating	S&P Watch	Expected loss rate	
ACE LTD	BBB+		1.61%	A		0.00%	-1.61%
AKZO NOBEL NV	A-		0.60%	A-		0.00%	-0.60%
ALBERTSON'S INC	BBB		1.52%	B+		0.16%	-1.36%
ALCOA INC	A-		0.60%	BBB+		0.01%	-0.59%
ALLIED DOMECQ PLC****	BBB+		1.61%	NR		0.05%	-1.56%
AMBAC ASSURANCE CORP	AAA		0.07%	AA	N	0.00%	-0.07%
AMP GROUP HOLDINGS LIMITED	BBB+		1.61%	A		0.00%	-1.61%
ANGLO AMERICAN PLC	A-		0.60%	A-		0.00%	-0.60%
ARROW ELECTRONICS, INC.	BBB-		3.46%	BBB-		0.02%	-3.44%
AT&T CORPORATION*	BBB		1.52%	A		0.00%	-1.52%
AT&T INC*	N/a	N/a	N/a	A		0.00%	N/a
BAYER AG	A+		0.45%	A-		0.00%	-0.45%
BAYERISCHE HYPO- UND VEREINSBANK AG	A-		0.60%	A+		0.00%	-0.60%
BERTELSMANN AG	BBB+		1.61%	BBB+		0.01%	-1.60%
BOEING CAPITAL CORP	A		0.29%	A+		0.00%	-0.29%
BOMBARDIER INC.	BBB-		3.46%	BB+		0.03%	-3.42%
BRITISH AMERICAN TOBACCO PLC	A-	N	1.61%	BBB+		0.01%	-1.60%
CAPITAL ONE BANK	BBB-		3.46%	A-		0.00%	-3.46%
CARLTON COMMUNICATIONS LIMITED	BBB-	P	1.52%	BBB-		0.02%	-1.50%
CARNIVAL CORP	A-		0.60%	A-		0.00%	-0.60%
CENDANT CORP	BBB		1.52%	BB	N	0.09%	-1.43%
CIT GROUP INC.	A		0.29%	A-		0.00%	-0.29%
CITIZENS COMMUNICATIONS CO	BBB		1.52%	BB		0.05%	-1.47%
COMCAST CORP	BBB		1.52%	BBB+		0.01%	-1.51%
COMMERZBANK AG	A-		0.60%	A		0.00%	-0.60%
COMPAGNIE DE SAINT-GOBAIN	A		0.29%	BBB+		0.01%	-0.28%
COMPUTER ASSOCIATES INTERNATIONAL INC	BBB+		1.61%	BB+		0.03%	-1.58%
COUNTRYWIDE HOME LOANS INC	A		0.29%	AA		0.00%	-0.29%
DAIMLERCHRYSLER AG	BBB+		1.61%	A-		0.00%	-1.61%
DELPHI CORP**	BBB-		3.46%			0.00%	
DEUTSCHE LUFTHANSA AG	BBB+		1.61%	BBB		0.02%	-1.59%
DEUTSCHE TELEKOM AG	BBB+		1.61%	BBB+		0.01%	-1.60%
DRESDNER BANK AG	A		0.29%	A		0.00%	-0.29%
DUKE ENERGY CORPORATION	BBB+		1.61%	A-		0.00%	-1.61%
ELECTRICITE DE FRANCE	AA		0.11%	AA-		0.00%	-0.10%
ELECTRONIC DATA SYSTEMS CORP	BBB		1.52%	BBB-	P	0.02%	-1.50%
EUROPEAN AERONAUTIC DEFENCE AND SPACE CO EADS NV	A	N	0.60%	BBB+		0.01%	-0.59%
FALCONBRIDGE LIMITED	BBB-		3.46%	BBB+		0.01%	-3.45%
FIRSTENERGY CORP	BBB-	N	4.53%	BBB		0.02%	-4.51%
FKI PLC	BBB		1.52%	BB	N	0.09%	-1.43%
FORD MOTOR CREDIT COMPANY	BBB		1.52%	B	N	0.63%	-0.89%
GENERAL ELECTRIC CAPITAL CORPORATION	AAA		0.07%	AAA		0.00%	-0.07%
GENERAL MOTORS ACCEPTANCE CORPORATION	BBB		1.52%	B	N	0.63%	-0.89%
GKN HOLDINGS PLC	BBB		1.52%	BBB		0.02%	-1.50%
HANNOVER RUECKVERSICHERUNGS-AG	AA-		0.36%	AA-		0.00%	-0.36%
HILTON GROUP PLC	BBB		1.52%	BB		0.05%	-1.47%

Company	Since Inception			As at 22 July 2008			Change since inception (expected loss rate)
	S&P Rating	S&P Watch	Expected loss rate	S&P Rating	S&P Watch	Expected loss rate	
HOLCIM LIMITED	BBB+		1.61%	BBB+		0.01%	-1.60%
HUTCHISON WHAMPOA LTD	A-		0.60%	A-		0.00%	-0.60%
INTERNATIONAL LEASE FINANCE CORPORATION	AA-		0.36%	A+		0.00%	-0.36%
INVESTOR AB	AA-		0.36%	AA-		0.00%	-0.36%
JOHN FAIRFAX HOLDINGS LIMITED	BBB		1.52%	BBB-		0.02%	-1.50%
KONINKLIJKE PHILIPS ELECTRONICS NV	BBB+		1.61%	A-		0.00%	-1.61%
LAND SECURITIES GROUP PLC	A-		0.60%	A-		0.00%	-0.60%
LEND LEASE CORP LTD	A-	N	1.61%	BBB-	N	0.03%	-1.58%
LIBERTY MEDIA LLC	BBB-		3.46%	BB+	0	0.03%	-3.42%
LOEWS CORP	A	N	0.60%	A		0.00%	-0.60%
LVMH MOET HENNESSY LOUIS VUITTON	BBB+		1.61%	A-		0.00%	-1.61%
MAY DEPARTMENT STORES COMPANY (THE)	BBB+		1.61%	BBB-		0.02%	-1.59%
MBIA INSURANCE CORP	AAA		0.07%	AA	N	0.00%	-0.07%
MBNA CORP	BBB		1.52%	AA		0.00%	-1.52%
MOTOROLA, INC.	BBB		1.52%	BBB	N	0.02%	-1.50%
NATIONAL GRID TRANSCO PLC	A-		0.60%	A-		0.00%	-0.60%
NEWS AMERICA INC	BBB-		3.46%	BBB+		0.01%	-3.45%
OMNICOM GROUP INC	A-		0.60%	A-		0.00%	-0.60%
PILKINGTON PLC*****	BBB		1.52%	BB+		0.03%	-1.49%
PPR	BBB-		3.46%	BBB-		0.02%	-3.44%
PUBLISHING & BROADCASTING LTD	A-		0.60%	BBB+	N	0.02%	-0.59%
QANTAS AIRWAYS LIMITED	BBB+		1.61%	BBB+		0.01%	-1.60%
REUTERS GROUP PLC	A		0.29%	A-		0.00%	-0.29%
ROLLS-ROYCE PLC	BBB		1.52%	A-		0.00%	-1.52%
RWE AG	A+		0.45%	A		0.00%	-0.45%
SAFEWAY INC	BBB		1.52%	BBB		0.02%	-1.50%
SAFEWAY LTD (UK)***	BBB+		1.61%	BBB		0.02%	-1.59%
SEARS ROEBUCK ACCEPTANCE CORP	BBB		1.52%	BB		0.05%	-1.47%
SIEMENS AG	AA-		0.36%	AA-		0.00%	-0.36%
SINGTEL OPTUS LIMITED	A+		0.45%	A+		0.00%	-0.45%
SODEXHO ALLIANCE SA	BBB+		1.61%	BBB+		0.01%	-1.60%
SOUTHWEST AIRLINES COMPANY	A		0.29%	A-	N	0.01%	-0.28%
SPRINT NEXTEL CORPORATION	BBB-		3.46%	BB		0.05%	-3.41%
STMICROELECTRONICS NV	A-		0.60%	A-		0.00%	-0.60%
STORA ENSO OYJ	BBB+		1.61%	BBB-		0.02%	-1.59%
SUEZ SA	A-		0.60%	A-	P	0.00%	-0.60%
SUPERVALU INC	BBB		1.52%	BB-		0.09%	-1.43%
TELECOM CORP OF NEW ZEALAND LTD	A		0.29%	A		0.00%	-0.29%
TELECOM ITALIA SPA	BBB+		1.61%	BBB		0.02%	-1.59%
TEXTRON INC	A-		0.60%	A-		0.00%	-0.60%
THE DOW CHEMICAL COMPANY	A-		0.60%	A-	N	0.01%	-0.59%
THOMSON SA*****	BBB+		1.61%	A+		0.00%	-1.61%
TIME WARNER INC	BBB+	N	1.52%	BBB+	N	0.02%	-1.50%
TOYS "R" US INC	BBB-		3.46%	B		0.44%	-3.02%
TRANSALTA CORP	BBB-		3.46%	BBB		0.02%	-3.44%
TYSON FOODS INC	BBB	N	3.46%	BBB-	N	0.03%	-3.42%
VERIZON GLOBAL FUNDING CORP	A+		0.45%	A		0.00%	-0.45%
VNU GROUP BV	BBB+		1.61%	B		0.44%	-1.17%

Company	Since Inception			As at 22 July 2008			Change since inception (expected loss rate)
	S&P Rating	S&P Watch	Expected loss rate	S&P Rating	S&P Watch	Expected loss rate	
VOLKSWAGEN AG	A		0.29%	A-		0.00%	-0.29%
WALT DISNEY COMPANY (THE)	BBB+	N	1.52%	A		0.00%	-1.52%
WOLTERS KLUWER NV	A-		0.60%	BBB+		0.01%	-0.59%
WPP GROUP PLC	BBB+		1.61%	BBB+	N	0.02%	-1.59%
XL CAPITAL LTD	A+		0.45%	A-	N	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 DOMECCO 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 22/07/2008 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.