

Generator Bonds Limited

2007 Half Yearly Report
(for the period ended 30 September 2007)



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

FORWARD thinking

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About Generator Bonds¹

Issue Date	21 August 2003	
Principal Amount	\$100 per Generator Bond	
Maturity Date	21 August 2008	
Interest	8% per annum	
Payment dates	Interest payments paid quarterly on the 21st of February, May, August and November or the next business day.	
Total Face Value on issue	\$128,849,000	
NZX listing code	GTR010	
	Initial	Current
Rating	A -	AA-

Performance to 13 November 2007

Generator Bonds were upgraded three levels by Standard and Poor's on 3 October 2007. The rating has increased from A- to AA-. The expected loss rate on the underlying portfolio continues to fall and is now only 0.27% compared to 1.53% at inception and a protection level of 3.93%. The Bonds have approximately nine months to maturity in August 2008.

The outlook for corporate credit has deteriorated over the past quarter. With the end of easy lending practices, it will be harder for over-indebted companies to roll over financing on terms as favourable as those achievable in recent years. However, it is not clear when, if at all, we will start to see more companies actually default on their debts. Furthermore, even if the default rate does begin to rise from here, Generator Bonds are well positioned to withstand such an environment due to the very short time to maturity and the substantial default protection remaining. In summary, then, the risk level on Generator Bonds is low, even if conditions over the remaining nine months are worse than expected.

¹ Generator Bonds are issued by Generator Bonds Limited as trustee for Generator NZ No. 1 Trust.

Since the issue date (21 August 2003) there has been only one default, that of Delphi. The protection amount was reduced by around 10% by the Delphi default, from 4.41% to 3.93%. Using the latest ratings and an assumed recovery rate of 30% for each remaining portfolio company, the expected loss rate in the underlying portfolio is now 0.27%², compared to 0.81%² this time last year and 1.53%³ at the time of issue. This is far below the loss rate required to erode Generator Bonds' protection amount. In other words, for Generator Bonds to lose capital value (i.e. breach the 3.93% protection amount), credit market loss rates over the remaining year would need to be over fifteen times the expected loss rate. To lose 100% of capital, default rates would have to be over nineteen times the historic average.

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.

Generator Bonds

Portfolio performance since inception (21 August 2003) to 13 November 2007

Company	Since Inception			As at 13 November 2007			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		0.02%	-1.59%
AKZO NOBEL NV	A-		0.60%	A-		0.02%	-0.58%
ALBERTSON'S INC	BBB		1.52%	B		4.21%	2.69%
ALCOA INC	A-		0.60%	BBB+		0.11%	-0.49%
ALLIED DOMECQ PLC	BBB+		1.61%	BB		0.47%	-1.14%
AMBAC ASSURANCE CORP	AAA		0.07%	AAA		0.00%	-0.07%
AMP GROUP HOLDINGS LIMITED	BBB+		1.61%	A		0.02%	-1.59%
ANGLO AMERICAN PLC	A-		0.60%	A		0.02%	-0.58%
ARROW ELECTRONICS, INC.	BBB-		3.46%	BBB-		0.19%	-3.26%
AT&T CORPORATION*	BBB		1.52%	A		0.02%	-1.50%
AT&T INC*	N/a	N/a	N/a	A		0.02%	N/a
BAYER AG	A+		0.45%	BBB+		0.11%	-0.34%
BAYERISCHE HYPO- UND VEREINSBANK AG	A-		0.60%	A		0.02%	-0.58%
BERTELSMANN AG	BBB+		1.61%	BBB+		0.11%	-1.50%
BOEING CAPITAL CORP	A		0.29%	A+	0.03%	-0.27%	
BOMBARDIER INC.	BBB-		3.46%	BB		0.47%	-2.99%
BRITISH AMERICAN TOBACCO PLC	A-	N	1.61%	BBB+		0.11%	-1.50%
CAPITAL ONE BANK	BBB-		3.46%	A-		0.02%	-3.44%
CARLTON COMMUNICATIONS LIMITED	BBB-	P	1.52%	BBB-		0.19%	-1.32%
CARNIVAL CORP	A-		0.60%	A-		0.02%	-0.58%
CENDANT CORP	BBB		1.52%	BB+		0.32%	-1.20%
CIT GROUP INC.	A		0.29%	A		0.02%	-0.27%
CITIZENS COMMUNICATIONS CO	BBB		1.52%	BB+		0.32%	-1.20%
COMCAST CORP	BBB		1.52%	BBB+		0.11%	-1.41%
COMMERZBANK AG	A-		0.60%	A		0.02%	-0.58%
COMPAGNIE DE SAINT-GOBAIN	A		0.29%	BBB+	N	0.15%	-0.14%
COMPUTER ASSOCIATES INTERNATIONAL INC	BBB+		1.61%	BB		0.47%	-1.14%
COUNTRYWIDE HOME LOANS INC	A		0.29%	BBB+	N	0.15%	-0.14%
DAIMLERCHRYSLER AG	BBB+		1.61%	BBB+		0.11%	-1.50%
DELPHI CORP**	BBB-		3.46%	0.00%			
DEUTSCHE LUFTHANSA AG	BBB+		1.61%	BBB		0.15%	-1.46%
DEUTSCHE TELEKOM AG	BBB+		1.61%	A-		0.02%	-1.59%
DRESDNER BANK AG	A		0.29%	A+		0.03%	-0.27%
DUKE ENERGY CORPORATION	BBB+		1.61%	A-		0.02%	-1.59%
ELECTRICITE DE FRANCE	AA		0.11%	AA-		0.01%	-0.09%
ELECTRONIC DATA SYSTEMS CORP	BBB		1.52%	BBB-		0.19%	-1.32%
EUROPEAN AERONAUTIC DEFENCE AND SPACE CO EADS NV	A	N	0.60%	BBB+		0.11%	-0.49%
FALCONBRIDGE LIMITED	BBB-		3.46%	BBB+		0.11%	-3.35%

Company	Since Inception			As at 13 November 2007			Change since inception (expected loss rate)
	S&P Rating	S&P Watch	Expected loss rate	S&P Rating	S&P Watch	Expected loss rate	
FIRSTENERGY CORP	BBB-	N	4.53%	BBB		0.15%	-4.38%
FKI PLC	BBB		1.52%	BB		0.47%	-1.05%
FORD MOTOR CREDIT COMPANY	BBB		1.52%	B	P	1.55%	0.03%
GENERAL ELECTRIC CAPITAL CORPORATION	AAA		0.07%	AAA		0.00%	-0.07%
GENERAL MOTORS ACCEPTANCE CORPORATION	BBB		1.52%	BB+		0.32%	-1.20%
GKN HOLDINGS PLC	BBB		1.52%	BBB		0.15%	-1.37%
HANNOVER RUECKVERSICHERUNGS-AG	AA-		0.36%	AA-		0.01%	-0.35%
HILTON GROUP PLC	BBB		1.52%	BB		0.47%	-1.05%
HOLCIM LIMITED	BBB+		1.61%	BBB+		0.11%	-1.50%
HUTCHISON WHAMPOA LTD	A-		0.60%	A-		0.02%	-0.58%
INTERNATIONAL LEASE FINANCE CORPORATION	AA-		0.36%	AA-		0.01%	-0.35%
INVESTOR AB	AA-		0.36%	AA-		0.01%	-0.35%
JOHN FAIRFAX HOLDINGS LIMITED	BBB		1.52%	BBB-		0.19%	-1.32%
KONINKLIJKE PHILIPS ELECTRONICS NV	BBB+		1.61%	A-		0.02%	-1.59%
LAND SECURITIES GROUP PLC	A-		0.60%	A-		0.02%	-0.58%
LEND LEASE CORP LTD	A-	N	1.61%	BBB-		0.19%	-1.42%
LIBERTY MEDIA CORP	BBB-		3.46%	BB+		0.32%	-3.14%
LOEWS CORP	A	N	0.60%	A		0.02%	-0.58%
LVMH MOET HENNESSY LOUIS VUITTON	BBB+		1.61%	A-		0.02%	-1.59%
MAY DEPARTMENT STORES COMPANY (THE)	BBB+		1.61%	BBB		0.15%	-1.46%
MBIA INSURANCE CORP	AAA		0.07%	AAA		0.00%	-0.07%
MBNA CORP	BBB		1.52%	AA		0.00%	-1.52%
MOTOROLA, INC.	BBB		1.52%	A-	N	0.11%	-1.41%
NATIONAL GRID TRANSCO PLC	A-		0.60%	A-		0.02%	-0.58%
NEWS AMERICA INC	BBB-		3.46%	BBB+		0.11%	-3.35%
OMNICOM GROUP INC	A-		0.60%	A-		0.02%	-0.58%
PILKINGTON PLC	BBB		1.52%	BB+		0.32%	-1.20%
PPR	BBB-		3.46%	BBB-		0.19%	-3.26%
PUBLISHING & BROADCASTING LTD	A-		0.60%	BBB+	N	0.15%	-0.45%
QANTAS AIRWAYS LIMITED	BBB+		1.61%	BBB+		0.11%	-1.50%
REUTERS GROUP PLC	A		0.29%	BBB+	P	0.02%	-0.27%
ROLLS-ROYCE PLC	BBB		1.52%	A-		0.02%	-1.50%
RWE AG	A+		0.45%	A+		0.03%	-0.42%
SAFWAY INC	BBB		1.52%	BBB-		0.19%	-1.32%
SAFWAY LTD (UK)***	BBB+		1.61%	BBB		0.15%	-1.46%
SEARS ROEBUCK ACCEPTANCE CORP	BBB		1.52%	BB+		0.32%	-1.20%
SIEMENS AG	AA-		0.36%	AA-		0.01%	-0.35%
SINGTEL OPTUS LIMITED	A+		0.45%	A+		0.03%	-0.42%
SODEXHO ALLIANCE SA	BBB+		1.61%	BBB+		0.11%	-1.50%
SOUTHWEST AIRLINES COMPANY	A		0.29%	A-		0.02%	-0.27%
SPRINT NEXTEL CORPORATION	BBB-		3.46%	BBB	N	0.19%	-3.26%
STMICROELECTRONICS NV	A-		0.60%	A-		0.02%	-0.58%
STORA ENSO OYJ	BBB+		1.61%	BBB-		0.19%	-1.42%

Company	Since Inception			As at 13 November 2007			Change since inception (expected loss rate)
	S&P Rating	S&P Watch	Expected loss rate	S&P Rating	S&P Watch	Expected loss rate	
SUEZ SA	A-		0.60%	A-	P	0.02%	-0.58%
SUPERVALU INC	BBB		1.52%	BB-		0.88%	-0.64%
TELECOM CORP OF NEW ZEALAND LTD	A		0.29%	A		0.02%	-0.27%
TELECOM ITALIA SPA	BBB+		1.61%	BBB+		0.11%	-1.50%
TEXTRON INC	A-		0.60%	A-		0.02%	-0.58%
THE DOW CHEMICAL COMPANY	A-		0.60%	A-		0.02%	-0.58%
THOMSON SA	BBB+		1.61%	A+		0.03%	-1.58%
TIME WARNER INC	BBB+	N	1.52%	BBB+		0.11%	-1.41%
TOYS "R" US INC	BBB-		3.46%	B		4.21%	0.75%
TRANSALTA CORP	BBB-		3.46%	BBB		0.15%	-3.31%
TYSON FOODS INC	BBB	N	3.46%	BBB-		0.19%	-3.26%
VERIZON GLOBAL FUNDING CORP	A+		0.45%	A		0.02%	-0.43%
VNU GROUP BV	BBB+		1.61%	B		4.21%	2.60%
VOLKSWAGEN AG	A		0.29%	A-		0.02%	-0.27%
WALT DISNEY COMPANY (THE)	BBB+	N	1.52%	A		0.02%	-1.50%
WOLTERS KLUWER NV	A-		0.60%	BBB+		0.11%	-0.49%
WPP GROUP PLC	BBB+		1.61%	BBB+		0.11%	-1.50%
XL CAPITAL LTD	A+		0.45%	A-		0.02%	-0.43%
ZURICH INSURANCE CO	A		0.29%	AA-		0.01%	-0.28%

*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.

Source: Scotiabank 3/08/2003 and 13/11/2007 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.

- 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.

GENERATOR NZ NO. 1 TRUST

Statement of Financial Performance

For the period 1 April 2007 to 30 September 2007

	Notes	2007	6 months to 30 September 2006
		\$	\$
Interest income	2	5,357,130	5,299,844
Interest expense	2	(5,211,226)	(5,153,960)
Net Income		145,904	145,884
Expenses	3	(85,216)	(65,635)
Operating surplus before tax		60,688	80,249
Income tax expense		-	-
Net surplus after tax		60,688	80,249

The above statement of financial performance should be read in conjunction with the accompanying notes on pages 13 to 20.

GENERATOR NZ NO. 1 TRUST

Statement of Movements In Trust Funds

For the period 1 April 2007 to 30 September 2007

	Year ended 31 March 2007 \$	Year ended 31 March 2006 \$
Trust Funds at the beginning of the period	190,714	190,077
Operating surplus for the period	60,688	80,249
Total recognised revenue and expenses	<u>60,688</u>	<u>80,249</u>
Other movements		
Payments to beneficiaries	(140,714)	(140,077)
Trust Funds at the end of the period	<u>110,688</u>	<u>130,249</u>

The above statement of financial performance should be read in conjunction with the accompanying notes on pages 13 to 20.

GENERATOR NZ NO. 1 TRUST

Statement of Financial Position

As at 30 September 2007

	Notes	2007	As at 30 September 2006
		\$	\$
Assets			
Deposits		110,293	128,655
Other assets	4	1,204,774	1,175,389
Credit Linked Notes	5	128,849,000	128,849,000
Total assets		<u>130,164,067</u>	<u>130,153,044</u>
Liabilities			
Creditors and other liabilities	6	1,204,379	1,173,795
Bonds	7	128,849,000	128,849,000
Total Liabilities		<u>130,053,379</u>	<u>130,022,795</u>
Net Assets		<u>110,688</u>	<u>130,249</u>
Settlor contribution		50,000	50,000
Residual income available for distribution to beneficiaries		60,688	80,249
Trust Funds		<u>110,688</u>	<u>130,249</u>

The above statement of financial performance should be read in conjunction with the accompanying notes on pages 13 to 20.

GENERATOR NZ NO. 1 TRUST

Statement of Cash Flows

For the period 1 April 2007 to 30 September 2007

	Notes	2007	6 months to 30 September 2006
		\$	\$
Cash flows from operating activities			
Interest received		5,298,360	5,299,844
Interest paid		(5,153,960)	(5,153,960)
Fees paid		(71,917)	(78,098)
Net cash inflow from operating activities	12	<u>72,483</u>	<u>67,786</u>
Cash flows from investing activities			
Payment for investments		-	-
Net cash outflow from investing activities		<u>-</u>	<u>-</u>
Cash flows from financing activities			
Payment to beneficiaries		(140,714)	(140,077)
Net cash inflow from financing activities		<u>(140,714)</u>	<u>(140,077)</u>
Net increase in cash held		(68,231)	(72,291)
Cash at the beginning of the financial period			
		178,524	200,946
Cash at the end of the financial period		<u>110,293</u>	<u>128,655</u>

The above statement of financial performance should be read in conjunction with the accompanying notes on pages 13 to 20.

GENERATOR NZ NO. 1 TRUST

Notes to the Financial Statements

For the period ended 30 September 2007

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements presented here are for the reporting entity Generator NZ No. 1 Trust (the "Trust").

Generator NZ No. 1 Trust was established under the Master Trust Deed on 15 July 2003. Generator NZ No. 1 Trust is an issuer for the purposes of the Financial Reporting Act 1993. The financial statements of Generator NZ No. 1 Trust have been prepared in accordance with the Master Trust Deed and the Financial Reporting Act 1993. The accounting period is for the 6 months ended 30 September 2007.

(a) Basis of accounting

All amounts are in New Zealand dollars and this financial report is prepared in accordance with the historical cost convention with the exception of certain items for which specific accounting policies are identified. Unless otherwise stated, the accounting policies adopted in preparing the financial report have been consistently applied.

(b) Interest income and expense

Interest arising from credit linked notes and bonds is brought to account on an accruals basis calculated on a yield to maturity basis.

(c) Income tax

No tax is provided for by the Trust on its income on the basis the Trust expects to distribute its income 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.

(d) Receivables and other assets

Receivables and other assets are not recorded in excess of their net realisable value.

A specific provision is maintained to cover all identified doubtful debts.

(e) Impaired assets

Impaired assets consist of non-accrual and restructured assets. The Manager assesses the carrying value of these assets based on regular reviews of the performance of the portfolio. The recognition

of revenue earned on impaired assets is deferred until received in cash.

A non-accrual asset is any for which the Trust will not be able to collect all amounts owing in accordance with the terms of the contract with the counterparty.

A restructured asset is any asset on which the original terms have been changed to grant the counterparty a concession that would not otherwise have been available, and the revised terms are not comparable with the terms of new facilities with comparable risks.

(f) Credit linked notes

Investments are shown at the lower of cost and recoverable amount.

(g) Interest bearing liabilities

This amount represents the proceeds from the issue of bonds and is recorded at book value. Interest is accrued over the period it becomes due and is recorded as part of creditors and other liabilities.

(h) Creditors and other liabilities

These amounts represent liabilities for goods and services provided to the Trust prior to the end of the financial year which are unpaid. The amounts are unsecured and usually paid within 30 days of recognition.

(i) Cash flows

For the purposes of the statement of cash flows, cash includes deposits at call with financial institutions which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

Cash flows arising from payments and proceeds from dealing in financial instruments are presented on a net basis in the statement of cash flows.

(j) Funds under management and other fiduciary activities

The Trust does not perform any other fiduciary activities, including funds management.

(j) Changes in accounting policies

Accounting policies have been consistently applied during the period.

NOTE 2. INTEREST INCOME AND INTEREST EXPENSE

	2007	2006
	\$	\$
Interest income		
Cash	9,109	10,592
Credit linked notes	5,348,021	5,289,252
	<u>5,357,130</u>	<u>5,299,844</u>
Interest expense		
Bonds	<u>5,211,226</u>	<u>5,153,960</u>

NOTE 3. OTHER EXPENSES

Other expenses include:

Trustee fees	(19,168)	(19,327)
Audit fees	(6,240)	(627)
Registry fees	(46,992)	(31,590)
Bond trustee fees	(4,406)	(8,053)
Other expenses	(8,410)	(6,038)
	<u>(85,216)</u>	<u>(65,635)</u>

NOTE 4. OTHER ASSETS

Interest receivable	1,204,774	1,175,389
	<u>1,204,774</u>	<u>1,175,389</u>

NOTE 5. CREDIT LINKED NOTES

Credit linked notes	128,849,000	128,849,000
	<u>128,849,000</u>	<u>128,849,000</u>

The credit linked notes are fixed interest securities with a term of 5 years, maturing August 2008.

NOTE 6. CREDITORS AND OTHER LIABILITIES

	2007	2006
	\$	\$
Accrued interest on bonds	1,039,884	998,438
Other payables – resident withholding tax	134,075	152,855
Other liabilities	30,420	22,502
	<u>1,204,379</u>	<u>1,173,795</u>

NOTE 7. BONDS

Bonds	128,849,000	128,849,000
	<u>128,849,000</u>	<u>128,849,000</u>

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.

NOTE 8. SEGMENT INFORMATION

The Trust operates wholly within the financial markets industry in New Zealand.

NOTE 9. RELATED PARTY TRANSACTIONS

(a) Trustee

The Trustee is Generator Bonds Limited. The Trustee received \$19,168 remuneration for the 6 month period (2006: \$19,327), of which \$9,743 was included in other liabilities at balance date (2006: \$19,327).

(b) Bond Trustee

The Bond trustee is New Zealand Permanent Trustees Limited. The bond trustee received \$4,406 for 6 months ended 30 September (2006: \$8,053) of which \$nil was included in other liabilities at balance date (2006: \$4,402).

(c) Directors of Generator Bonds Ltd

JK McLay, a director of Generator Bonds Limited, is the beneficial owner of 50,000 Generator Bonds representing \$50,000 (2006: 50,000 Generator Bonds representing \$50,000).

(d) Other related party transactions

The Trust's funds of \$110,293 are on deposit with Macquarie Investment Services Limited (a sister company to the Trustee) (2006: \$128,655).

NOTE 10. BENEFICIAL OWNERS

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 contribute for their beneficial interest in the Trust.

NOTE 11. FINANCIAL INSTRUMENTS

(a) Credit risk

The carrying amounts of financial assets included in the statement of financial position represent the Trust's maximum exposure to credit risk in relation to those assets.

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 676 times greater than Trust Funds (2006: 678 times greater).

There are no non-accruals assets, restructured assets, assets acquired through the enforcement of security or past due assets as at 30 September 2007 (2006:Nil).

(b) Interest rate risk

The following table 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 of each item.

2007	Weighted Average Interest Rate	Current	1-2 years	2-5 years	Total
Assets					
Deposits	6.2%	178,524	-	-	178,524
Deposits 6.6%		110,293	-	-	110,293
Credit linked notes	8.2%	-	-	128,849,000	128,849,000
		110,293	-	128,849,000	128,959,293
Liabilities					
Bonds	8%	-	-	128,849,000	128,849,000
		-	-	128,849,000	128,849,000

NOTE 11. FINANCIAL INSTRUMENTS (Continued)

2006	Weighted Average Interest Rate	Current	1-2 years	2-5 years	Total
Assets					
Deposits	6.2%	128,655	-	-	128,655
Credit linked notes	8.2%	-	-	128,849,000	128,849,000
		128,655	-	128,849,000	128,977,655
Liabilities					
Bonds	8%	-	-	128,849,000	128,849,000
		-	-	128,849,000	128,849,000

(c) Fair value of financial assets and liabilities

(i) On-balance sheet

The fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the Trust approximates their carrying amounts.

The fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

While quoted market prices are not available for the credit linked notes, the fair value has been estimated based on the market rate commensurate with the risks involved. The carrying amounts and fair values of financial assets and liabilities at balance date are:

	2007	
	Carrying amount \$	Fair value \$
On-balance sheet financial instruments		
Financial assets		
Deposits	110,293	110,293
Other assets	1,204,774	1,204,774
Credit linked notes (8.2%)	128,849,000	128,390,359
	130,164,067	129,705,426
Financial liabilities		
Creditors and other liabilities	1,204,379	1,204,379
Bonds (8%)	128,849,000	128,187,610
	130,053,379	129,391,989

NOTE 11. FINANCIAL INSTRUMENTS (Continued)

	2006	
	Carrying amount	Fair value
	\$	\$
On-balance sheet financial instruments		
Financial assets		
Deposits	128,655	128,655
Other assets	1,175,389	1,175,389
Credit linked notes (8.2%)	128,849,000	129,540,254
	<u>130,153,044</u>	<u>130,844,298</u>
Financial liabilities		
Creditors and other liabilities	1,173,795	1,173,795
Bonds (8%)	128,849,000	129,066,791
	<u>130,022,795</u>	<u>131,240,586</u>

It is intended that all financial assets will be retained until maturity.

(d) Currency Risk

The Trust is not exposed to currency risk.

(e) Liquidity Risk

The Trust manages its liquidity risk by matching the contractual maturities of its financial assets and liabilities.

NOTE 12. CONCENTRATIONS OF FUNDING

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

NOTE 13. RECONCILIATION OF NET CASH FLOWS FROM OPERATING ACTIVITIES TO NET SURPLUS AFTER TAX

	2007	2006
	\$	\$
Net surplus after tax	60,688	80,249
Changes in assets and liabilities:		
(Decrease)/increase in other liabilities	11,795	(12,463)
Net cash inflow from operating activities	<u>72,483</u>	<u>67,786</u>

NOTE 14. EVENTS OCCURRING AFTER REPORTING DATE

No other matter or circumstance of significance has arisen since the reporting date that would materially affect the operations of the entity.

NOTE 15. CONTINGENT LIABILITIES

There are no material contingent liabilities as at 30 September 2007 (2006:Nil).

NOTE 16. COMMITMENTS

There are no material commitments as at 30 September 2007 (2006:Nil).

NOTE 17. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

In December 2002 the New Zealand Accounting Standards Review Board announced that New Zealand International Financial Reporting Standards ("NZ IFRS") will apply to all New Zealand reporting entities for the period commencing on or after 1 January 2007. Entities have the option to adopt NZ IFRS for periods beginning on or after 1 January 2005. The Trust has made the decision to adopt for the year ended 31 March 2008 with 2007 comparatives.

The Generator NZ No.1 Trust has started a project to assess the key differences in accounting policies between NZ IFRS and current NZ GAAP with a view to determining the impacts on the financial statements that are expected to arise on transition. As the Generator NZ No.1 Trust has not yet completed an analysis of the differences between existing NZ GAAP and NZ IFRS, we are unable to reliably estimate the key differences in accounting policies or quantify the impacts to the financial statements that are expecting to arise on transition to NZ IFRS.

Statement by Trustee

GENERATOR NZ NO. 1 TRUST

In accordance with the Trust Deed, the Trustee has caused the Manager to prepare the Accounts.

Based on the Trustee's ongoing program of monitoring of the Trust, the Manager and the Trustee's review of the accounts:

- (a) The Trust has been conducted in accordance with the stated investment policies in the Trust Deed dated 15 July 2003.
- (b) The Trustee is not aware of any material matters occurring up to the date of this report that require disclosure and which have not been disclosed in the financial statements.

Dated at Auckland this 10th day of December 2007



John N Rowley



Giles L.J Ellis

Regulatory and other information

Incorporation of Generator Bonds Limited

Generator Bonds Limited was incorporated under the Companies Act 1993 (New Zealand) on 18 June 2003. Its registered number is AK1332891.

Directors' shareholdings and holdings of Generator Bonds

JK McLay is the beneficial owner of 50,000 Generator Bonds.

Corporate governance

The Directors comply with the legislation and regulation applicable to the corporate governance of Generator Bonds Limited in its capacity as trustee of Generator NZ No.1 Trust and the terms of the Trust Deed dated 15 July 2003.

Directors of Generator Bonds

ELLIS, Giles Lancelot James – appointed 22 May 2006

MCLAY, James Kenneth - appointed 18 June 2003

ROWLEY, John Noel - appointed 13 October 2003

SWANGER, Craig Nicholas - appointed 18 June 2003

TERRY, Bruce Neil - appointed 18 June 2003

Half Yearly Report

This is a half yearly report of Generator Bonds Limited in its capacity as trustee of Generator NZ No.1 Trust for the purposes of the NZX Listing Rules.

Prepared with information available up to and including 30 September 2007.

Dated 10 December 2007.



John N Rowley



Giles L.J Ellis

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
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New Zealand



Toll Free: 0800 GENER8 (0800 436 378)

FORWARD thinking



MACQUARIE