
PRIME INFRASTRUCTURE NETWORKS (NEW ZEALAND) LIMITED

Interim Financial Report

for the half year ended 30 June 2012

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LETTER TO SECURITY HOLDERS

Dear Security holder

Prime Infrastructure Networks (New Zealand) Limited ('PINNZ' or 'the Group') has in the current financial period (six months ended 30 June 2012) posted a consolidated net loss after tax of \$10.1 million. This compares to a loss of \$7.6 million from continuing operations in the 6 months ended 30 June 2011.

PINNZ's key investment is its 42% equity interest in Powerco New Zealand Holdings, which owns 100% of the Powerco Group. Powerco's underlying operating performance and EBITDA for the period ended 30 June 2012 was in line with expectations. The share of losses for the period was largely driven by deferred tax expense due to tax losses being derecognized at the Powerco New Zealand Holdings level.

As noted in the PINNZ annual report, under the terms of the Powerco Shareholders' Agreement the merger between Prime Infrastructure and BIP triggered a process whereby the consent of the QIC parties would be required to the change of control resulting from this merger. The QIC parties must act reasonably and in good faith and must provide their consent if, in their reasonable opinion, BIP satisfies certain criteria set out in the Shareholders' Agreement. If the QIC parties are not so satisfied, the agreement sets out a process by which the QIC parties have an option to purchase PINNZ's 42% interest at an agreed price, or in the absence of such agreement, at fair market value to be determined by an independent expert. The QIC parties issued a notice to PINNZ informing it that they did not consider that BIP meets the criteria set out in the Shareholders' Agreement and that the change of control was not approved. PINNZ has reserved its rights to dispute the validity of this notice but in any event, PINNZ and the QIC parties have agreed to a suspension of the change of control procedures, to allow the sale and purchase discussions referred to below to proceed.

As noted in the PINNZ 31 December 2011 financial report, on 7 September 2010, PINNZ issued a formal deadlock notice to QIC in relation to certain matters that were unable to be agreed at two previous (and sequential) Directors' meetings. PINNZ considers the matters that are the subject of the deadlock notice to be non-operational in nature; however, no determination of their nature had been made by the Powerco Board of Directors. There is potential that if the matter is considered to be non-operational (consistent with PINNZ's view), then a mechanism whereby 100% of Powerco must be sold via a process that is administered by an independent financial adviser in accordance with the provisions set out in the Shareholder's Agreement could be implemented. This will result in PINNZ being forced to sell its 42% interest in Powerco at a price determined by a third party.

Although PINNZ has issued the deadlock notice, the shareholders are in discussions regarding an agreed sale and the senior executives of the shareholders have not yet met to resolve the deadlock.

PINNZ and QIC are continuing discussions regarding the possible sale of PINNZ's 42% interest in Powerco. No agreement has been reached to date and it is possible that the parties may not reach agreement. It is expected that any sale that may result from these negotiations will be at a price that reflects fair market value.

At 30 June 2012 the consolidated entity had a current net asset deficiency of \$151.0 million primarily due to the maturity of its secured bonds of \$147.1 million in November 2012. The Company is currently reviewing its funding strategies for the purpose of repayment of these secured bonds, strategies which may include an issuance of debt by an affiliate of the Company's ultimate parent entity, Brookfield Infrastructure Partners L.P. As such, the directors and management have formed the view that the consolidated entity will continue as a going concern for a period of at least 12 months from the date of this report. The financial report for the consolidated entity has therefore been prepared on a going concern basis.

The Directors are responsible for the preparation, in accordance with New Zealand law and generally accepted accounting practice, of financial statements which give a true and fair view of the financial position of PINNZ as at 30 June 2012 and the results of their operations and cash flows for the period ended 30 June 2012.

The Directors consider that the financial statements of the Group have been prepared using accounting policies appropriate to the Group's circumstances, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable New Zealand Equivalents to International Reporting Standards have been followed.

The Directors have responsibility for ensuring that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and enable them to ensure that the financial statements comply with the *Financial Reporting Act 1993*.

Yours sincerely



Brian Kingston
Chairman

CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

for the half year ended 30 June 2012

		Consolidated	
		Jun 2012 (6 months) \$'000 (unaudited)	Jun 2011 (6 months) \$'000 (unaudited)
	Note		
Revenue		16,637	16,357
Other income		74	77
Total income		16,711	16,434
Share of losses from associate accounted for using the equity method	3	(12,359)	(7,557)
Administration expenses		(2,368)	(1,952)
Finance costs		(11,082)	(11,290)
Loss before income tax		(9,098)	(4,365)
Income tax expense		(913)	(841)
Loss for the period		(10,011)	(5,206)
Other comprehensive expense			
Share of associate's reserves	3	(102)	(2,393)
Other comprehensive expense for the period		(102)	(2,393)
Total comprehensive expense for the period		(10,113)	(7,599)

Notes to the financial statements are included on pages 8 to 11.

CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

as at 30 June 2012

		Consolidated	
		Jun 2012	Dec 2011
	Note	\$'000 (unaudited)	\$'000 (audited)
CURRENT ASSETS			
Cash and cash equivalents		125	215
Trade and other receivables		330	389
Current tax assets		-	549
Other		30	30
Total current assets		485	1,183
NON-CURRENT ASSETS			
Other financial assets		279,084	272,826
Investments accounted for using the equity method	3	9,819	22,280
Total non-current assets		288,903	295,106
Total assets		289,388	296,289
CURRENT LIABILITIES			
Trade and other payables		4,320	2,117
Borrowings	4	146,387	145,524
Current tax payable		745	-
Total current liabilities		151,452	147,641
NON-CURRENT LIABILITIES			
Other financial liabilities		56,316	56,916
Total non-current liabilities		56,316	56,916
Total liabilities		207,768	204,557
Equity:			
Issued capital	5	-	-
Reserves		476	578
Retained earnings		81,144	91,154
Total equity		81,620	91,732
Total equity and liabilities		289,388	296,289

Notes to the financial statements are included on pages 8 to 11.

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

for the half year ended 30 June 2012

Consolidated	Unaudited issued capital \$'000	Unaudited hedge reserve \$'000	Unaudited retained earnings \$'000	Unaudited total attributable to owners of the parent entity \$'000
Balance at 1 January 2012		578	91,154	91,732
Loss for the period		–	(10,011)	(10,011)
Share of associate's reserves		(102)		(102)
Total comprehensive (expense) for the period		(102)	(10,011)	(10,113)
Balance at 30 June 2012		476	81,143	81,619

Consolidated	Unaudited issued capital \$'000	Unaudited hedge reserve \$'000	Unaudited retained earnings \$'000	Unaudited total attributable to owners of the parent entity \$'000
Balance at 1 January 2011	–	–	102,128	102,128
Loss for the period	–	–	(5,206)	(5,206)
Share of associate's reserves	–	(2,393)	–	(2,393)
Total comprehensive (expense) for the period	–	(2,393)	(5,206)	(7,599)
Balance at 30 June 2011	–	(2,393)	96,922	94,529

Notes to the financial statements are included on pages 8 to 11.

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

for the half year ended 30 June 2012

	Note	Consolidated	
		Jun 2012 (6 months) \$'000 (unaudited)	Jun 2011 (6 months) \$'000 (unaudited)
Cash flows from operating activities:			
Receipts from customers		116	151
Payments to suppliers and employees (including withholding tax)		(54)	(45)
Interest received		17	14
Interest and other costs of finance paid		(550)	-
Income tax refunded		381	6
Net cash (used in)/provided by operating activities		(90)	126
Cash flows from investing activities:			
Net cash provided by investing activities		-	-
Cash flows from financing activities:			
Proceeds from deposits		-	50
Repayment of external borrowings		-	-
Borrowings/repayments from related parties		-	-
Net cash provided by financing activities		-	50
Net (decrease)/increase in cash and cash equivalents		(90)	176
Cash and cash equivalents at the beginning of the financial period		215	75
Cash and cash equivalents at the end of the financial period		125	251

Notes to the financial statements are included on pages 8 to 11.

NOTES TO THE FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed Financial Statements have been prepared in accordance with International Accounting Standards (IAS) 34, Interim Financial Reporting and New Zealand equivalents to International Accounting Standards.

Current Asset Deficiency

At 30 June 2012 the consolidated entity had a current net asset deficiency of \$151.0 million primarily due to the maturity of its secured bonds of \$147.1 million in November 2012. The Company is currently reviewing its funding strategies for the purpose of repayment of these secured bonds, strategies which may include an issuance of debt by an affiliate of the Company's ultimate parent entity, Brookfield Infrastructure Partners L.P. As such, the directors and management have formed the view that the consolidated entity will continue as a going concern for a period of at least 12 months from the date of this report. The financial report for the consolidated entity has therefore been prepared on a going concern basis.

2. STATEMENT OF ACCOUNTING POLICIES

The condensed Financial Statements have been prepared under the historical cost convention, except for the revaluation of certain borrowings and financial instruments.

The accounting policies adopted are consistent with those followed in the preparation of the Group's Annual Financial Statements for the financial year ended 31 December 2011.

3. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

			Consolidated	
			Jun 2012	Dec 2011
			\$'000	\$'000
Non-current:				
Investments in associates			9,819	22,280
			9,819	22,280
Reconciliation of movement in investments accounted for using the equity method:				
Balance at beginning of period/year			22,280	37,373
Share of loss for the period/year			(12,359)	(15,671)
Share of reserves for the period/year			(102)	578
			9,819	22,280
			Ownership interest Jun 2012 %	Ownership interest Dec 2011 %
Name of entity	Principal activity	Country of incorporation		
Powerco New Zealand Holdings Limited	Holding Company	New Zealand	42	42

NOTES TO THE FINANCIAL STATEMENTS

3. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

	Jun 2012 \$'000	Dec 2011 \$'000
SUMMARISED FINANCIAL INFORMATION OF ASSOCIATE ENTITIES		
Financial position:		
Total assets	2,360,058	2,316,660
Total liabilities	(2,336,679)	(2,263,612)
Net assets	23,379	53,048
Group's share of associate's net assets	9,819	22,280
Financial performance:		
Total revenue for the period/year	188,304	370,182
Total loss for the period/year	(29,425)	(37,312)
Group's share of associate's loss for the period/year	(12,359)	(15,671)

DIVIDENDS RECEIVED FROM ASSOCIATES

During the period/year the Group did not receive dividends from its associate (Dec 2011: nil).

4. BORROWINGS

	Jun 2012 \$'000	Dec 2011 \$'000
Current liabilities at amortised cost:		
Secured bonds (a)	147,100	147,100
Deferred funding costs	(713)	(1,576)
	146,387	145,524

- (a) PINNZ has on issue NZ\$147.1 million in secured bonds maturing in November 2012 (December 2011: NZ\$147.1 million). The bonds rank pari passu to Prime Infrastructure's other senior secured debt obligations and have the benefit of the Prime Infrastructure Deed of Common Provisions and Prime Infrastructure Security Trust Deed. As at 30 June 2012, these bonds have a fixed coupon of 9.0% (December 2011: 9.0%). The bonds are secured by first-ranking charges guaranteed by Australian holding companies over, subject to certain excluded property, all of the assets and undertaking of the Australian holding companies.

As disclosed in Note 1, the Company is currently reviewing its funding strategies for the purpose of repayment of these secured bonds, strategies which may include an issuance of debt by an affiliate of the Company's ultimate parent entity, Brookfield Infrastructure Partners L.P.

Covenants

PINNZ has secured bonds on issue. However these bonds do not have loan covenants attached to these at the PINNZ level.

During the period ended 30 June 2012 and year ended 31 December 2011, there were no breaches of any loan covenants within the Group.

NOTES TO THE FINANCIAL STATEMENTS

5. ISSUED CAPITAL

	Jun 2012 \$'000	Dec 2011 \$'000
100 fully paid ordinary shares (Dec 2011: 100)	-	-

Total number of ordinary shares authorised, issued and fully paid at 30 June 2012 was 100 (31 December 2011: 100).

Each ordinary share in the Company confers on the holder:

- the right to one vote on a poll at a meeting of the Company on any resolution;
- the right to an equal share in the distributions approved by the Board of Directors; and
- the right to an equal share in distribution of the surplus assets of the Company.

The shares are at nil par value.

6. DIVIDENDS

No dividends have been paid, declared or proposed during the period ended 30 June 2012 (31 December 2011: nil).

7. CONTINGENT LIABILITIES

SHARE OF ASSOCIATE'S CONTINGENT LIABILITIES

Powerco Limited has a contract with Tenix Alliance New Zealand Limited (Tenix), who provides electricity and gas field services. There is a condition in the contract that states that a payment is made to Tenix for outperforming budget and a payment is made to Powerco in the event of underperformance. The amount of the payment is based on a predetermined calculation in the contract and is performed on an annual basis. At this time, any payment for future periods to or from Powerco cannot be quantified.

8. SEGMENT INFORMATION

PINNZ's sole operating activity is its 42% equity interest in the Powerco group which is located in one geographic location, being New Zealand.

The executive management and Board of Directors monitor the performance of Powerco based on one cash-generating unit.

9. SUBSEQUENT EVENTS

There has not been any matter, event or circumstance occurring subsequent to the end of the half-year period that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

DIRECTORY

ADDITIONAL COMPANY INFORMATION

Registered office

C/- Bell Gully
Level 22, Vero Centre
48 Shortland Street
Auckland
New Zealand

DIRECTORS

B W Kingston (Chairman)
J M Sellar
K Bunting

AUDITORS

Deloitte Touche Tohmatsu

SOLICITOR

Bell Gully

BANK

Westpac

BOND REGISTRAR

Computershare Investor Services Limited
Private Bag 92119
Auckland 1142
159 Hurstmere Road
Takapuna, North Shore City 0622

Managing Your Shareholding Online:

To change your address, update your payment instructions, select report options and to view your registered details including transactions, please visit: **www.computershare.co.nz/investorcentre**

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Please assist our registrar by quoting your CSN or shareholder number.