PRIME INFRASTRUCTURE NETWORKS (NEW ZEALAND) LIMITED

Financial Report

for the year ended 31 December 2011

LETTER TO SECURITY HOLDERS

Dear Security holder

Prime Infrastructure Networks (New Zealand) Limited ('PINNZ' or 'the Group') has in the current financial year (12 months ended 31 December 2011) posted a consolidated net loss after tax of $11.0 million. This compares to a profit of $3.4 million from continuing operations in the 6 months ended 31 December 2010.

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 for the year ended 31 December 2011 was in line with expectations. The result was impacted by the warmer weather experienced which had the impact of lowering volumes. The slightly lower revenue was partially offset by lower operating costs.

On 23 August 2010, Prime Infrastructure Holdings Pty Limited (formerly Prime Infrastructure Holdings Limited) and Brookfield Infrastructure Partners L.P. (BIP) (NYSE: BIP; TSX: BIP.UN) announced that they had entered into a definitive merger agreement to create a leading global infrastructure company, in a transaction with an estimated value of approximately $1.6 billion. On 8 December 2010, the Schemes of Arrangement were implemented. As a result Brookfield Infrastructure Partners L.P. has become the ultimate parent company of the Group.

As a result of the above transaction, on 17 November 2010 the Group repaid all outstanding Prime Infrastructure Networks (NZ) Subordinated Prime Adjusting Reset Convertible Securities (SPARCS) under clause 9.1(a) of the SPARCS Trust Deed. The shareholders of SPARCS received face value plus all accrued interest in cash for each of their SPARCS under the redemption.

As noted in the PINNZ 30 June 2010 and 31 December 2010 annual reports, 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 2010 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 to 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 or purchase of 8% of Powerco (see below), 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 to QIC or alternatively, the possible acquisition of an additional 8% interest in Powerco by PINNZ from QIC. No agreement has been reached to date and it is possible that the parties may not reach agreement on a sale or purchase. It is expected that any sale or purchase that may result from these negotiations will be at a price that reflects fair market value.

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 31 December 2011 and the results of their operations and cash flows for the year ended 31 December 2011.

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

PINNZ CORPORATE GOVERNANCE

CORPORATE GOVERNANCE POLICIES

The capitalised terms used in this section of the Financial Report have defined meanings that are explained at the end of this section.

PINNZ is a wholly-owned subsidiary of the Brookfield Infrastructure Group (as defined below). Accordingly, PINNZ follows the corporate governance policies, practices and procedures adopted by its intermediate parent company, Prime Infrastructure Holdings Pty Limited ("PIHPL"), including policies in relation to:

– conflicts of interest;
– continuous disclosure;
– related party transactions; and
– external auditors.

ROLE AND RESPONSIBILITY OF THE PRIME INFRASTRUCTURE NETWORKS (NEW ZEALAND) BOARD

The Board of PINNZ is appointed directly by PIHPL. The role of the Board is to govern the Company within legal and ethical constraints and to supervise the management of the Company.

In carrying out its governance role, a key task of the Board is to drive the performance of the Company. It does this through establishing PINNZ's objectives and the major strategies for achieving these objectives, while meeting the key Prime Infrastructure corporate governance policies within which the business of the Company is conducted (including, for example, systems and processes for monitoring performance, compliance, disclosure, internal control and risk management).

PRIME INFRASTRUCTURE NETWORKS (NEW ZEALAND) GLOSSARY

This section sets out the meanings of a number of capitalised terms used in this section of the Financial Report.

Brookfield Infrastructure Group	Means Brookfield Infrastructure Group L.P. and its wholly-owned subsidiaries
PIHPL	Means Prime Infrastructure Holdings Pty Limited (ABN 61 100 364 234)
Prime Infrastructure	Means: (a) PIHPL; (b) Prime Infrastructure Trust of which Prime Infrastructure RE Limited is the trustee and Responsible Entity; and (c) Prime Infrastructure Trust 2 of which Prime Infrastructure RE Limited is the trustee and Responsible Entity.
Powerco	Means Powerco New Zealand Holdings Limited
Prime Infrastructure Networks (New Zealand) ('PINNZ')	Means Prime Infrastructure Networks (New Zealand) Limited
Board	Means the Board of Directors of Prime Infrastructure Networks (New Zealand) Limited
Company	Means Prime Infrastructure Networks (New Zealand) Limited

SUBSTANTIAL SECURITY HOLDERS

The Company's register of substantial security holders, prepared in accordance with section 25 of the *Securities Markets Act 1988*, recorded the following information as at the date of this Financial Report:

Name	Type of voting securities	Number of voting securities
Prime Infrastructure Networks (Australia) Pty Limited	Ordinary shares	100

STATUTORY INFORMATION

EQUITY SECURITY HOLDER INFORMATION

As at 24 February 2012:

Name	Ordinary shares	Percentage of issued ordinary shares
Prime Infrastructure Networks (Australia) Pty Limited	Ordinary shares	100

DIRECTORS' EQUITY SECURITIES

The Directors of PINNZ held no relevant interests in equity securities in the Company as at 31 December 2011.

QUOTED SECURITY HOLDER SPREAD

As at 24 February 2012:

Size of holding	Number of holders	Holder quantity
Ordinary shares:		
0 to 100	1	100
Total	**1**	**100**
Secured bonds:		
5000 up to 100,000	1,972	48,245,000
100,000 and over	167	98,855,000
Total	**2,139**	**147,100,000**

CREDIT RATING

As at the date of this Financial Report, the Company does not have a credit rating.

NZX WAIVERS

No waivers have been granted to the Company by New Zealand Exchange Limited in the 12 months prior to 31 December 2011.

ENFORCEMENT ACTION BY NZX

No enforcement action has been taken by NZX during the 12 months ended 31 December 2011 under Listing Rule 5.4.2.

COMPANIES ACT 1993

In accordance with section 211(3) of the *Companies Act 1993* (the Act), Prime Infrastructure Networks (Australia) Pty Limited, as the Company's sole shareholder, has resolved that the Company's Financial Report for the year ended 31 December 2011 need not comply with sections 211(1)(a), 211(1)(e) to (j) and 211(2) of the Act and, accordingly, this Financial Report does not state the particulars required by those sections.

Brian Kingston
Director

Jonathon Sellar
Director

STATEMENT OF COMPREHENSIVE INCOME

for the financial period ended 31 December 2011

		Consolidated		Company	
	Note	Dec 2011 (12 months) $'000	Dec 2010 (6 months) $'000	Dec 2011 (12 months) $'000	Dec 2010 (6 months) $'000
Revenue	3	33,167	18,755	33,577	19,058
Other income	5	151	70	151	70
Total income		**33,318**	**18,825**	**33,728**	**19,128**
Share of losses of associates	10	(15,671)	(355)	-	-
Administration expenses		(4,211)	(975)	(4,212)	(975)
Finance costs	4	(22,412)	(12,497)	(22,412)	(12,497)
Profit before income tax		**(8,976)**	**4,998**	**7,104**	**5,656**
Income tax expense	6	(1,998)	(1,613)	(2,005)	(1,613)
(Loss) / profit for the year/period		**(10,974)**	**3,385**	**5,099**	**4,043**
Other comprehensive income					
Share of other comprehensive income of associates		578	-	-	-
Other comprehensive income for the year/period		**578**	**-**	**-**	**-**
Total comprehensive (loss) / income for the year/period		**(10,396)**	**3,385**	**5,099**	**4,043**

Notes to the financial statements are included on pages 8 to 27.

STATEMENT OF FINANCIAL POSITION

as at 31 December 2011

		Consolidated		Company	
		Dec 2011	Dec 2010	Dec 2011	Dec 2010
	Note	$'000	$'000	$'000	$'000
CURRENT ASSETS					
Cash and cash equivalents	26(a)	215	75	215	75
Trade and other receivables	7	389	10,266	2,977	10,137
Current tax assets	6	549	-	549	-
Other assets	8	30	125	30	125
Total current assets		**1,183**	**10,466**	**3,771**	**10,337**
NON-CURRENT ASSETS					
Other financial assets	9	272,826	260,596	393,784	383,862
Investments in associates	10	22,280	37,373	-	-
Deferred tax assets	6	-	137	-	137
Total non-current assets		**295,106**	**298,106**	**393,784**	**383,999**
Total assets		**296,289**	**308,572**	**397,555**	**394,336**
CURRENT LIABILITIES					
Trade and other payables	11	2,117	1,582	2,117	1,582
Borrowings	12	145,524	-	145,524	-
Current tax liabilities	6	-	703	-	696
Total current liabilities		**147,641**	**2,285**	**147,641**	**2,278**
NON-CURRENT LIABILITIES					
Borrowings	12	-	143,892	-	143,892
Other financial liabilities	13	56,916	60,267	56,916	60,267
Total non-current liabilities		**56,916**	**204,159**	**56,916**	**204,159**
Total liabilities		**204,557**	**206,444**	**204,557**	**206,437**
EQUITY					
Issued capital	14	-	-	-	-
Reserves	15	578	-	-	-
Retained earnings	16	91,154	102,128	192,998	187,899
Total equity		**91,732**	**102,128**	**192,998**	**187,899**
Total equity and liabilities		**296,289**	**308,572**	**397,555**	**394,336**

Notes to the financial statements are included on pages 8 to 27.

STATEMENT OF CHANGES IN EQUITY

for the financial period ended 31 December 2011

Consolidated	Issued capital $'000	Hedge reserve $'000	Retained earnings $'000	Total attributable to owners of the parent entity $'000
Balance at 1 January 2011	–	–	102,128	102,128
Loss for the year	–	–	(10,974)	**(10,974)**
Other comprehensive income for the year	–	578	–	**578**
Total comprehensive income/(loss) for the year	**–**	578	**(10,974)**	**(10,396)**
Balance at 31 December 2011	**–**	**578**	**91,154**	**91,732**
Balance at 1 July 2010	–	–	98,743	**98,743**
Profit for the period	–	–	3,385	**3,385**
Other comprehensive income for the period	–	–	–	**–**
Total comprehensive income for the period	**–**	**–**	**3,385**	**3,385**
Balance at 31 December 2010	**–**	**–**	**102,128**	**102,128**

Company	Issued capital $'000	Hedge reserve $'000	Retained earnings $'000	Total attributable to owners of the parent entity $'000
Balance at 1 January 2011	–	–	187,899	187,899
Profit for the year	–	–	5,099	**5,099**
Other comprehensive income for the year	–	–	–	–
Total comprehensive income for the year	**–**	**–**	**5,099**	**5,099**
Balance at 31 December 2011	**–**	**–**	**192,998**	**192,998**
Balance at 1 July 2010	–	–	183,856	**183,856**
Profit for the period	–	–	4,043	**4,043**
Other comprehensive income for the period	–	–	–	–
Total comprehensive income for the period	**–**	**–**	**4,043**	**4,043**
Balance at 31 December 2010	**–**	**–**	**187,899**	**187,899**

Notes to the financial statements are included on pages 8 to 27.

STATEMENT OF CASH FLOWS

for the financial period ended 31 December 2011

		Consolidated		Company	
	Note	**Dec 2011 (12 months) $'000**	**Dec 2010 (6 months) $'000**	**Dec 2011 (12 months) $'000**	**Dec 2010 (6 months) $'000**
Cash flows from operating activities:					
Other income		210	34	183	34
Payments to suppliers and employees (including withholding tax)		(188)	(496)	(161)	(496)
Interest received		18	3	18	3
Interest and other costs of finance paid		-	(12,578)	-	(12,578)
Income tax (paid)/refunded		5	(1,174)	5	(1,174)
Net cash used in/(provided by) operating activities	26 (b)	**45**	**(14,211)**	**45**	**(14,211)**
Cash flows from investing activities:					
Loans from related party		-	52,123	-	52,123
Net cash provided by investing activities		**-**	**52,123**	**-**	**52,123**
Cash flows from financing activities:					
Proceeds from deposits		95	-	95	-
Repayment of external borrowings		-	(119,005)	-	(119,005)
Borrowings/repayments from related parties		-	81,141	-	81,141
Net cash provided by/(used in) financing activities		**95**	**(37,864)**	**95**	**(37,864)**
Net increase in cash and cash equivalents		**140**	**48**	**140**	**48**
Cash and cash equivalents at the beginning of the financial year/period		**75**	**27**	**75**	**27**
Cash and cash equivalents at the end of the financial year/period	26 (a)	**215**	**75**	**215**	**75**

Notes to the financial statements are included on pages 8 to 27.

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

GENERAL INFORMATION

Prime Infrastructure Networks (New Zealand) Limited ('the Company' or 'PINNZ' or 'the consolidated entity') is a limited company incorporated in New Zealand. The address of its registered office is disclosed in the additional company information. The principal activities of the Company and its subsidiaries ('the Group') are described in note 21.

These financial statements have been prepared to comply with the provisions of the New Zealand Companies Act 1993 and the Financial Reporting Act 1993. PINNZ is a profit-oriented entity. The financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to International Financial Reporting Standards, and other applicable Financial Reporting Standards as appropriate for profit-orientated entities.

The financial statements also comply with International Financial Reporting Standards ('IFRS').

BASIS OF PREPARATION

The financial statements have been prepared on the historical cost basis, except for certain financial instruments. Financial derivatives are carried at fair value and borrowings which have effective fair value hedges are carried at amortised cost adjusted for the fair value of interest rate risk covered by the effective hedge. The principal accounting policies adopted are set out below. The functional and presentation currency is the New Zealand Dollar (NZD).

This Financial Report covers the period from 1 January 2011 to 31 December 2011. The comparative period covers the period from 1 July 2010 to 31 December 2010. In the prior year as a result of the successful merger between Prime Infrastructure and Brookfield Infrastructure Partners L.P, Brookfield Infrastructure Partners L.P. became the new ultimate parent. Brookfield Infrastructure Partners L.P. has a December year end and accordingly, each of the subsidiaries within the Prime Infrastructure Group (including PINNZ) have amended their financial year to align with the ultimate parent, and hence amounts presented in the financial statements are not directly comparable.

GOING CONCERN

At 31 December 2011 the consolidated entity had a current net asset deficiency of $146.5 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 purposes of refinancing 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.

(a) Basis of consolidation

The Group financial statements incorporate the financial statements of the Company and its subsidiaries, which have been consolidated using the acquisition method. All significant inter-company transactions and balances are eliminated on consolidation. Investments in subsidiaries are stated at cost less any impairment in the parent company.

Accounting policies of subsidiaries are consistent with the policies of the Group and, if that is not possible due to jurisdictional differences, the policies are adjusted on consolidation for the Group financial statements.

On acquisition, fair values reflecting conditions at the date of acquisition are attributed to the identifiable separate assets and liabilities acquired. Where the fair value of the consideration paid exceeds the fair value of the identifiable separate assets and liabilities acquired, the difference is recognised as goodwill.

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

(b) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the profit or loss component of the Statement of Comprehensive Income in the period in which they are incurred.

(c) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in overnight money market instruments. Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Derivative financial instruments

Financial derivatives are initially recognised in the Statement of Financial Position at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value on each statement of financial position date, though the method of recognising the resulting gains and losses is dependent on whether hedge accounting is applied. When derivative contracts are entered into, the group designates them at either:

- hedges of the fair value of recognised assets or liabilities (fair value hedge); or
- hedges of forecast transactions or firm commitments (cash flow hedge) which hedge exposures to variability in cash flows; or
- hedges of net investments in foreign entities; or
- other derivative financial instruments not meeting hedge accounting criteria.

The fair values of financial derivatives are determined by reference to the market quoted rates input into valuation models for interest and currency swaps, forwards and options. Changes in fair value of derivatives are recognised:

- for fair value hedges which are highly effective, the movements are recorded in the profit or loss component of the Statement of Comprehensive Income alongside any changes in the fair value of the hedged items;
- for cash flow hedges that are determined to be highly effective to the extent the hedges are effective, the movements are recognised in other comprehensive income with the ineffective portion recognised in the profit or loss component of the Statement of Comprehensive Income;
- for hedges of net investments in foreign entities that are highly effective, the effective portion of the movements is recorded in other comprehensive income and the ineffective portion is recognised in the profit or loss component of the Statement of Comprehensive Income; and
- all other movements in the fair value of derivative financial instruments are recorded in the profit or loss component of the Statement of Comprehensive Income.

Cash Flow Hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in other comprehensive income and accumulated as a separate component of equity in the hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss in the "net hedge expense" line in the profit or loss component of the Statement of Comprehensive Income. Amounts recognised in the hedge reserve are reclassified from equity to profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in the hedge reserve are reclassified from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, if the forecast transaction is still expected to occur, any cumulative gain or loss on the hedging instrument is recognised in hedge reserve until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in hedge reserve is recognized immediately in the profit or loss component of the Statement of Comprehensive Income.

Fair Value Hedges

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated or no longer qualifies for hedge accounting. The adjustments to the carrying amount of the hedge item arising from the hedged risk is amortised to the profit or loss component of the Statement of Comprehensive Income from that date.

(e) Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the financial statements in the period in which the shareholders' right to receive payment has been established.

(f) Financial assets

Financial assets are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned. They are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value though profit or loss, which are initially measured at fair value.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in accordance with NZ IAS-27. Other financial assets are classified into one of four categories; financial assets at fair value through profit or loss, held to maturity investments, available for sale financial assets or loans and receivables. The classification depends on the nature and purpose of the financial assets. At balance date the Group had the following classes of financial assets:

Financial assets at fair value through profit or loss

All derivative assets are measured at fair value through profit or loss, except for derivatives that are designated and effective cash flow hedges. Effective cash flow hedges are measured at fair value with the movement on these assets being recognised in other comprehensive income and accumulated in the hedge reserve in the Statement of Changes in Equity. Refer to note 1(d) for the accounting policy on derivative financial instruments.

Loans and receivables

Cash and cash equivalents and trade and other receivables are recorded at amortised cost using the effective interest rate method, less impairment.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets (continued)

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are considered to be impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of financial assets are reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

(g) Financial liabilities

Financial liabilities are recognised when the entity became party to the contractual provisions of the instrument. The Group derecognises financial liabilities when and only when the Group's obligations are discharged, cancelled or expire.

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities at fair value through profit or loss

All derivative assets are measured at fair value through profit or loss, except for derivatives that are designated as effective cash flow hedges. Effective cash flow hedges are measured at fair value with the movement on these liabilities being recognised in other comprehensive income and accumulated in the hedge reserve in the Statement of Changes in Equity. Refer to note 1(d) for the accounting policy on derivative financial instruments.

Other financial liabilities

Trade and other payables, and other non current liabilities which are financial instruments and borrowings are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest basis.

(h) Revenue recognition

Revenue is recognised at the fair value of sales of goods and services, net of GST, rebates, discounts and capital contributions. Revenue is recognised as follows:

Rendering of services:

Revenue from services is recognised in the accounting period in which the services are rendered during that period.

Dividend and interest revenue:

Dividend revenue from investments is recognised when the Group's right to receive payment has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Taxation

The amount recognised for current tax is based on the net profit for the period as adjusted for non-assessable and non-deductible items. It is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the statement of financial position date between the tax base of the assets and liabilities and their carrying amounts in the financial statements.

The following temporary differences are not provided for: goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and the temporary differences relating to investments in subsidiaries, where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax to be utilised.

Deferred income tax assets and liabilities are measured at tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at statement of financial position date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company/Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax is recognised as an expense or income in the profit or loss component of the Statement of Comprehensive Income, except when it relates to items credited or debited in other comprehensive income or directly to equity, in which case the deferred tax or current tax is also recognised in other comprehensive income or directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

(j) Issued capital

Issued ordinary shares are classified as equity.

Costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(k) Borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received, net of issue costs associated with the borrowing. Subsequent to initial recognition, loans and borrowings are carried at amortised cost. Borrowing costs are recognised as an expense when incurred, except to the extent that they are capitalised in accordance with note 1(b).

All interest bearing loans and borrowings are measured at amortised cost using the effective interest rate method, which allocates the cost through the expected life of the borrowing. Amortised cost is calculated taking account of issue costs, and any discounts or premiums on draw down.

After initial recognition for those interest bearing loans and borrowings where fair value hedge accounting is applied, the loan balance is adjusted for the change in the hedged risk only. The Group policy is to hedge the interest/foreign currency risk associated with term debt with financial instruments on matched terms.

Borrowings are classified as current liabilities (either advances and deposits or current portion of term debt) unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

(l) Trade and other payables

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services. Subsequent to initial recognition, trade payables and other accounts payable are recorded at amortised cost. Given the nature of these liabilities, amortised cost equals their notional principal.

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these Financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with NZ IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. Under the equity method, investments in associates are carried in the consolidated Statement of Financial Position at cost, adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of the acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the acquisition, after reassessment, is recognised immediately in profit or loss. Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

(n) Changes in accounting policies

There have been no changes in accounting policies during the year.

(o)(i) Standards and Interpretations adopted with no effect on the financial statements

The adoption of the various New Zealand Accounting Standards and Interpretations in the current period are not relevant to or do not impact the Group.

(o)(ii) Standards, amendments and interpretations issued but not yet effective

At the date of authorisation of the financial statements, a number of Standards and Interpretations were in issue, but not yet effective.

Initial application of the following Standards will not affect any of the amounts recognised in the financial statements, but will change the disclosures presently made in relation to the Group's and the Company's financial statements:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
Amendments to NZ IFRS 7 'Financial Instruments: Disclosures'	1 July 2011	30 December 2012
Amendments to NZ IAS 12 ' Income Taxes' - Deferred Tax: Recovery of Underlying Assets	1 January 2012	30 December 2012
Amendments to New Zealand Equivalents to International Financial Reporting Standards to Harmonise with International Financial Reporting Standards and Australian Accounting Standards	1 July 2011	30 December 2012
FRS 44 'NZ Additional Disclosures'	1 July 2011	30 December 2012
NZ IFRS 9 'Financial Instruments'	1 January 2013	30 December 2013
NZ IFRS 10 'Consolidated Financial Statements'	1 January 2013	30 December 2013
NZ IFRS 12 'Disclosure of Interests in Other Entities'	1 January 2013	30 December 2013
NZ IFRS 13 'Fair Value Measurement'		
NZ IAS 27 'Separate Financial Statements' (revised 2011)	1 January 2013	30 December 2013
NZ IAS 28 'Investments in Associates and Joint Ventures' (revised 2011)	1 January 2013	30 December 2013
Amendments to NZ IAS 1 'Presentation of Financial Statements'	1 July 2012	30 December 2013
-Presentation of Items of Other Comprehensive Income		

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o)(ii) Standards, amendments and interpretations issued but not yet effective (continued)

These standards have been considered by the directors as the ones relevant for the group. Other than as noted above, the adoption of the various New Zealand Accounting Standards and Interpretations on issue but not yet effective are not expected to impact on the Group.

2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In applying the Group's accounting policies, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable, based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below.

RECOVERABILITY OF INTERCOMPANY LOANS RECEIVABLE

Where receivables are held by the Group, the likelihood of recovery of these receivables is assessed by management. The intercompany loans receivable are disclosed in note 9.

RECOVERY OF DEFERRED TAX ASSETS

Deferred tax assets are recognised for deductible temporary differences and carried forward tax losses, as management considers that it is probable that future taxable profits will be available to utilise those temporary differences and tax losses.

3. REVENUE

	Consolidated		Company	
	Dec 2011 (12 months) $'000	**Dec 2010 (6 months) $'000**	**Dec 2011 (12 months) $'000**	**Dec 2010 (6 months) $'000**
CONTINUING OPERATIONS				
An analysis of the Group's and Company's revenue for the year/period, from both continuing and discontinued operations, is as follows:				
Interest revenue:				
Bank deposits	23	3	23	3
Interest revenue from related parties (note 23(b))	-	3,211	33,554	19,055
Interest revenue from associate (note 23(b))	33,144	15,541	-	-
	33,167	**18,755**	**33,577**	**19,058**

4. FINANCE COSTS

	Consolidated		Company	
	Dec 2011 (12 months) $'000	**Dec 2010 (6 months) $'000**	**Dec 2011 (12 months) $'000**	**Dec 2010 (6 months) $'000**
CONTINUING OPERATIONS				
Profit for the year/period has been arrived at after charging the following finance costs:				
Interest on senior debt	13,239	6,656	13,239	6,656
Interest on subordinated convertible securities	-	4,517	-	4,517
Other finance costs	1,632	880	1,632	880
Interest paid to related parties (note 23(b))	7,541	444	7,541	444
	22,412	**12,497**	**22,412**	**12,497**

NOTES TO THE FINANCIAL STATEMENTS

5. OTHER INCOME

	Consolidated		Company	
	Dec 2011 **(12 months)** **$'000**	**Dec 2010** **(6 months)** **$'000**	**Dec 2011** **(12 months)** **$'000**	**Dec 2010** **(6 months)** **$'000**
CONTINUING OPERATIONS				
(Loss) / profit for the year/period has been arrived at after crediting the following gains:				
Continuing operations:				
Recoupment of Director fees	151	70	151	70
	151	**70**	**151**	**70**

6. INCOME TAXES

	Consolidated		Company	
	Dec 2011 **(12 months)** **$'000**	**Dec 2010** **(6 months)** **$'000**	**Dec 2011** **(12 months)** **$'000**	**Dec 2010** **(6 months)** **$'000**
(a) INCOME TAX RECOGNISED IN PROFIT OR LOSS				
Tax expense comprises:				
Current tax expense	1,885	1,575	2,000	1,666
Transfer of tax losses	-	-	(115)	(91)
Deferred tax expense relating to the origination and reversal of temporary differences	-	29	-	29
Adjustments to deferred tax expense of prior years	113	9	120	9
Total tax expense	**1,998**	**1,613**	**2,005**	**1,613**
Income tax on pre–tax accounting profit reconciles to tax (benefit)/expense as follows:				
(Loss)/profit from continuing operations	(8,976)	4,998	7,104	5,656
Income tax expense calculated at 28% (2010: 30%)	(2,514)	1,499	1,989	1,695
Share of equity accounted loss of associate	4,388	105	-	-
Non-deductible expenditure	12	-	12	-
	1,886	**1,604**	**2,001**	**1,695**
Transfer of tax losses	-	-	(115)	(91)
Adjustment to deferred tax in previous year	137	9	137	9
Write off of carry forward tax losses on change of ownership	(25)	-	(18)	-
	1,998	**1,613**	**2,005**	**1,613**

6. INCOME TAXES (CONTINUED)

	Consolidated		Company	
	Dec 2011 (12 months) $'000	**Dec 2010** (6 months) $'000	**Dec 2011** (12 months) $'000	**Dec 2010** (6 months) $'000
(b) CURRENT TAX ASSETS AND LIABILITIES				
Current tax liabilities:				
Income tax receivable/(payable)	**549**	**(703)**	**549**	**(696)**
(c) DEFERRED TAX ASSETS				
The balance comprises deferred tax assets attributable to the following temporary differences:				
Borrowing costs	-	137	-	137
Total deferred tax assets attributable to temporary differences	**-**	**137**	**-**	**137**
Total deferred tax assets attributable to tax losses	**-**	**-**	**-**	**-**
Total deferred tax assets	**-**	**137**	**-**	**137**

DEFERRED TAX ASSETS ATTRIBUTABLE TO TAX LOSSES CARRIED FORWARD

The utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing temporary differences.

Current forecasts prepared by PINNZ show future taxable profits will exceed the reversal of any recognised temporary differences.

The corporate tax rate in New Zealand was changed from 30% to 28% with effect from 1 April 2011.

	Consolidated		Company	
	Dec 2011 (12 months) $'000	**Dec 2010** (6 months) $'000	**Dec 2011** (12 months) $'000	**Dec 2010** (6 months) $'000
The following movements in the balance of deferred tax assets attributable to temporary differences were included in the calculation of income tax benefit:				
Opening balance of deferred tax assets	137	175	137	175
Less closing balance of deferred tax assets attributable to temporary differences	-	(137)	-	(137)
Change in deferred tax assets included in tax expense	**137**	**38**	**137**	**38**

NOTES TO THE FINANCIAL STATEMENTS

7. TRADE AND OTHER RECEIVABLES

	Consolidated		Company	
	Dec 2011 $'000	Dec 2010 $'000	Dec 2011 $'000	Dec 2010 $'000
Current:				
Goods and services tax (GST) receivable	13	49	13	49
Interest receivable – related parties	334	10,142	2,921	10,013
Related party receivable – non-interest bearing	42	75	43	75
	389	**10,266**	**2,977**	**10,137**

8. OTHER ASSETS

	Consolidated		Company	
	Dec 2011 $'000	Dec 2010 $'000	Dec 2011 $'000	Dec 2010 $'000
Current:				
Deposits	**30**	**125**	**30**	**125**

9. OTHER FINANCIAL ASSETS

	Consolidated		Company	
	Dec 2011 $'000	Dec 2010 $'000	Dec 2011 $'000	Dec 2010 $'000
INVESTMENTS CARRIED AT COST				
Non-current:				
Investment in Powerco New Zealand Holdings Limited	**-**	**-**	**123,272**	**123,272**
LOANS CARRIED AT AMORTISED COST				
Non-current:				
Interest bearing loan with associate[1,2]	272,826	260,596	-	-
Interest bearing loan to related party[3]	-	-	270,512	260,590
	272,826	**260,596**	**270,512**	**260,590**
	272,826	**260,596**	**393,784**	**383,862**

1 $240.0 million of this loan relates to loan notes issued to Powerco New Zealand Holdings Limited by Prime Infrastructure Networks (New Zealand) No.2 Limited. The loan notes are interest bearing at 12.5% per annum. The notes have a maturity date of 26 February 2019.

2 $32.6 million of this loan relates to loan notes issued to Powerco New Zealand Holdings Limited by Prime Infrastructure Networks (New Zealand) No.2 Limited. The loan notes are interest bearing at 10% plus a margin of New Zealand CPI per annum. The notes have a maturity date of 12 April 2020.

3 This represented a loan from PINNZ to Prime Infrastructure Finance Pty Limited, a related party of PINNZ and had a term of 10 years from 26 February 2009. Interest was payable on the loan at 12% per annum. This loan was repaid in order to partially fund the SPARCS redemption on 17 November 2010.

NOTES TO THE FINANCIAL STATEMENTS

10. INVESTMENTS IN ASSOCIATES

	Consolidated		Company	
	Dec 2011 $'000	**Dec 2010 $'000**	**Dec 2011 $'000**	**Dec 2010 $'000**
Non-current:				
Investments in associates	22,280	37,373	-	-
	22,280	**37,373**	**-**	**-**
Reconciliation of movement in investments accounted for using the equity method:				
Balance at 1 July	37,373	37,728	-	-
Share of loss for the year/period	(15,671)	(355)	-	-
Share of reserves for the year (note 15)	578	-	-	-
	22,280	**37,373**	**-**	**-**

Name of entity	**Principal activity**	**Country of incorporation**	**Ownership interest Dec 2011 %**	**Ownership interest Dec 2010 %**
Powerco New Zealand Holdings Limited	Holding Company	New Zealand	42	42

	Consolidated		Company	
	Dec 2011 $'000	**Dec 2010 $'000**	**Dec 2011 $'000**	**Dec 2010 $'000**
SUMMARISED FINANCIAL INFORMATION OF ASSOCIATE ENTITIES				
Financial position:				
Total assets	2,316,660	2,050,376	-	-
Total liabilities	(2,263,612)	(1,961,393)	-	-
Net assets	**53,048**	**88,983**	**-**	**-**
Group's share of associate's net assets	**22,280**	**37,373**	**-**	**-**
Financial performance:				
Total revenue	370,182	186,626	-	-
Total loss for the year/period	(37,312)	(845)	-	-
Group's share of associate's loss	**(15,671)**	**(355)**	**-**	**-**

DIVIDENDS RECEIVED FROM ASSOCIATES

During the period the Group did not receive dividends from its associate (December 2010: nil).

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

The Group's share of contingent liabilities of associates is disclosed in note 19.

The Group's share of capital commitments and other expenditure commitments of associates is disclosed in note 18.

11. TRADE AND OTHER PAYABLES

	Consolidated		Company	
	Dec 2011 $'000	**Dec 2010 $'000**	**Dec 2011 $'000**	**Dec 2010 $'000**
CURRENT:				
Trade payables and accruals	34	10	34	10
Interest payable	2,072	1,568	2,072	1,568
GST payable	11	4	11	4
	2,117	**1,582**	**2,117**	**1,582**

12. BORROWINGS

	Consolidated		Company	
	Dec 2011 $'000	**Dec 2010 $'000**	**Dec 2011 $'000**	**Dec 2010 $'000**
Current liabilities at amortised cost:				
Secured bonds (a)	147,100	-	147,100	-
Deferred funding costs	(1,576)	-	(1,576)	-
	145,524	**-**	**145,524**	**-**
Non-current liabilities at amortised cost:				
Secured bonds (a)	-	147,100	-	147,100
Deferred funding costs	-	(3,208)	-	(3,208)
	-	**143,892**	**-**	**143,892**

(a) PINNZ has on issue NZ$147.1 million in secured bonds maturing in November 2012 (December 2010: 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 31 December 2011, these bonds have a fixed coupon of 9.0% (December 2010: 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 purposes of refinancing these secured bonds, 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 year ended 31 December 2011 and period ended 31 December 2010, there were no breaches of any loan covenants within the Group.

13. OTHER NON-CURRENT FINANCIAL LIABILITIES

	Consolidated		Company	
	Dec 2011 $'000	Dec 2010 $'000	Dec 2011 $'000	Dec 2010 $'000
Non-current:				
Loans with related parties – interest bearing[1]	**56,916**	**60,267**	**56,916**	**60,267**

1 These loans related to funds received from Prime Networks (Australia) Pty Limited and Prime Infrastructure Finance Pty Limited in order to repay the SPARCS in the December 2010 financial period. They incur interest at a rate of 13.50% and are due for repayment on 8 December 2020.

14. ISSUED CAPITAL

	Consolidated		Company	
	Dec 2011 $'000	Dec 2010 $'000	Dec 2011 $'000	Dec 2010 $'000
100 fully paid ordinary shares (December 2010: 100)	**-**	**-**	**-**	**-**

Total number of ordinary shares authorised, issued and fully paid at 31 December 2011 was 100 (31 December 2010: 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.

15. RESERVES

	Consolidated		Company	
	Dec 2011 $'000	Dec 2010 $'000	Dec 2011 $'000	Dec 2010 $'000
Hedge Reserve:				
Balance at beginning of financial year/period	-	-	-	-
Share of associates reserve	578	-	-	-
Balance at end of financial year/period	**578**	**-**	**-**	**-**

The hedge reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in the profit or loss component of Statement of Comprehensive Income when the hedged transaction impacts the profit or loss component of the Statement of Comprehensive Income, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

16. RETAINED EARNINGS

	Consolidated		Company	
	Dec 2011 $'000	Dec 2010 $'000	Dec 2011 $'000	Dec 2010 $'000
Balance at beginning of financial year/period	102,128	98,743	187,899	183,856
(Loss)/profit attributable to members of the parent entity	(10,974)	3,385	5,099	4,043
Balance at end of financial year/period	**91,154**	**102,128**	**192,998**	**187,899**

17. DIVIDENDS

No dividends have been paid, declared nor proposed during the year ended 31 December 2011 (December 2010: nil).

18. COMMITMENTS FOR EXPENDITURE

	Consolidated		Company	
	Dec 2011 $'000	**Dec 2010 $'000**	**Dec 2011 $'000**	**Dec 2010 $'000**
(a) CAPITAL EXPENDITURE COMMITMENTS:				
Share of associate's capital expenditure commitments				
Not longer than 1 year	6,540	6,648	-	-
Longer than 1 year and not longer than 5 years	2,140	548	-	-
Longer than 5 years	-	-	-	-
	8,680	**7,196**	**-**	**-**
(b) OTHER EXPENDITURE COMMITMENTS:				
Share of associate's other expenditure commitments				
Not longer than 1 year	7,497	4,882	-	-
Longer than 1 year and not longer than 5 years	1,876	370	-	-
Longer than 5 years	-	-	-	-
	9,373	**5,252**	**-**	**-**

(c) LEASE COMMITMENTS

The share of associates non-cancellable operating lease commitments are disclosed in note 20 to the financial statements.

19. 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.

20. LEASE OBLIGATIONS

DISCLOSURES FOR LESSEES

Operating leases

	Consolidated		Company	
	Dec 2011 $'000	**Dec 2010 $'000**	**Dec 2011 $'000**	**Dec 2010 $'000**
Share of associate's non-cancellable operating lease commitments:				
Non-cancellable operating lease payments				
Not longer than 1 year	358	361	-	–
Longer than 1 year and not longer than 5 years	927	945	-	–
Longer than 5 years	374	848	-	–
	1,659	**2,154**	**-**	**–**

21. SUBSIDIARIES

Name of entity	Country of incorporation	Ownership interest Dec 2011 %	Ownership interest Dec 2010 %
Parent entity:			
Prime Infrastructure Networks (New Zealand) Limited	New Zealand		
Subsidiaries:			
Prime Infrastructure Networks (New Zealand) No.2 Limited	New Zealand	100	100

PINNZ's principal activity is a holding company.

The parent entity of the Group is PINNZ. The ultimate parent of the Group is Brookfield Infrastructure Partners L.P. (NYSE: BIP, TSX: BIP.UN) which is listed on the New York and Toronto Stock Exchanges.

The consolidated and Company financial statements are presented in New Zealand dollars (NZD).

22. 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.

23. RELATED PARTY DISCLOSURES

(a) EQUITY INTERESTS IN RELATED PARTIES

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 21 to the financial statements.

Equity interests in associates

Details of interests in associates are disclosed in note 10 to the financial statements.

(b) TRANSACTIONS WITH OTHER RELATED PARTIES

No impairments were recognised relating to debts due from related parties at the reporting date (Dec 2010: nil). Amounts receivable or payable from/to related parties are disclosed in notes 7, 9 and 13 to the financial statements. All loans advanced to related parties are unsecured.

During the period, the following amounts were paid/payable or received/receivable by PINNZ from related parties:

	Consolidated		Company	
	Dec 2011 (12 months) $'000	Dec 2010 (6 months) $'000	Dec 2011 (12 months) $'000	Dec 2010 (6 months) $'000
Paid/Payable to Prime Infrastructure Holdings Pty Limited and its related entities:				
Interest paid on loans advanced from parent[1]	6,435	444	6,435	444
Interest paid to Prime Infrastructure Finance Pty Limited[1]	1,106	-	1,106	-
Service fee	3,301	803	3,301	803
Received/Receivable by Prime Infrastructure Networks (New Zealand) Limited group:				
Interest received from Prime Infrastructure Finance Pty Limited[1]	-	3,211	-	3,211
Interest received from associate[1]	33,144	15,541	-	-
Interest received from Prime Infrastructure Networks (New Zealand) No.2 Limited[1]	-	-	33,554	15,844

1 Refer to notes 7, 9 and 13 for additional information on related party loans.

24. FINANCIAL INSTRUMENTS

(a) FINANCIAL RISK MANAGEMENT

The operations of PINNZ expose it to a number of financial risks, including:

- capital risk
- liquidity risk
- interest rate risk; and
- credit risk.

PINNZ is a wholly-owned subsidiary of the Prime Infrastructure Holdings Group.

The Board of PINNZ (the Board) recognises that risk management is an integral part of good management practice. Risk management is integrated into Prime Infrastructure's philosophy, practices, business plans and forecasts, with a culture of compliance being promoted within the Company and Group.

Prime Infrastructure's internal treasury function provides services and advice to PINNZ across a broad range of treasury activities that assist with the management of the financial risks relating to the operations of the Group.

The treasury function is governed by a Treasury Policy as approved by the Prime Infrastructure Board. The Treasury Management Committee is a committee appointed by the Prime Infrastructure Board made up of key members of Prime Infrastructure's management team who perform a monitoring, review and approval role, and report to the Board on a regular basis.

The Group seeks to minimise the risks associated with foreign currency exchange rates and interest rates, primarily through the use of derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by Prime Infrastructure's Treasury Policy. This policy provides written principles on the use of financial derivatives. Prime Infrastructure does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

There has been no material change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

(b) CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from December 2010.

The capital structure of the group consists of debt, which includes the borrowings disclosed in note 12, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital and retained earnings as disclosed in notes 14 and 16 respectively.

The Board, along with senior management of Prime Infrastructure, reviews the capital structure and as part of this review considers the cost of capital and the risk associated with each class of capital. The Group manages its overall capital structure through the issue of new debt or the redemption of existing debt.

Loan covenants

As disclosed within borrowings (note 12), PINNZ has secured bonds on issue. However these bonds do not have loan covenants attached to these at the PINNZ level.

During the year ended 31 December 2011 and period ended 31 December 2010, there were no breaches of any loan covenants within the Group.

(c) LIQUIDITY RISK MANAGEMENT

The main objective of liquidity risk management is to ensure that the Group has sufficient funds available to meet its financial obligations, working capital and potential investment expenditure requirements in a timely manner. It is also associated with planning for unforeseen events which may curtail operating cash flows and cause pressure on the Group's liquidity.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

24. FINANCIAL INSTRUMENTS (CONTINUED)

(c) LIQUIDITY RISK MANAGEMENT (CONTINUED)

Liquidity and interest risk tables

The following table details the Company's and the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Consolidated and Company – December 2011	Weighted average effective interest rate %	Less than 6 months $'000	6–12 months $'000	1–2 years $'000	2–5 years $'000	5+ years $'000	Total contractual cash flows $'000	Carrying amount liabilities $'000
Non-derivative financial liabilities								
Trade and other payables	-	45	-	-	-	-	**45**	45
Interest payable	-	2,072	-	-	-	-	**2,072**	2,072
Other financial liabilities – related parties	13.50	-	-	-	-	146,590	**146,590**	56,916
Non-current secured borrowings	9.00	6,620	152,616	-	-	-	**159,236**	145,524
		8,737	**152,616**	**-**	**-**	**146,590**	**307,943**	**204,557**

Consolidated and Company – December 2010	Weighted average effective interest rate %	Less than 6 months $'000	6–12 months $'000	1–2 years $'000	2–5 years $'000	5+ years $'000	Total contractual cash flows $'000	Carrying amount liabilities $'000
Non-derivative financial liabilities								
Trade and other payables	-	14	-	-	-	-	**14**	14
Interest payable	-	1,568	-	-	-	-	**1,568**	1,568
Other financial liabilities – related parties	13.50	-	-	-	-	192,212	**192,212**	60,267
Non-current secured borrowings	9.00	6,620	6,620	162,668	-	-	**175,908**	143,892
		8,202	**6,620**	**162,668**	**-**	**192,212**	**369,702**	**205,741**

(d) INTEREST RATE RISK MANAGEMENT

PINNZ's primary objectives of interest rate risk management are to ensure that:

- the Group is not exposed to interest rate movements that could adversely impact on its ability to meet financial obligations;
- earnings and distributions are not adversely affected;
- volatility of debt servicing costs is managed within acceptable parameters; and
- all borrowing covenants under the terms of the various borrowing facilities, including interest cover ratios, are complied with.

Having regard to the above constraints and targets, PINNZ's objective in managing interest rate risk is to minimise interest expense while ensuring that an appropriate level of flexibility exists to accommodate potential changes in funding requirements, ownership of assets and also movements in market interest rates.

As at 31 December 2011 and 31 December 2010 the funding mix of PINNZ was only made up of fixed rate debt.

The Group's exposure to interest rates on financial liabilities is detailed in the liquidity risk management section of this note.

Interest rate sensitivity analysis

The Group is not subject to any material interest rate sensitivity as the funding mix of PINNZ only comprises fixed rate debt.

24. FINANCIAL INSTRUMENTS (CONTINUED)

(e) CREDIT RISK MANAGEMENT

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Group.

From a treasury perspective, counterparty credit risk is managed through the establishment of authorised counterparty credit limits which ensure PINNZ only deals with creditworthy counterparties and that counterparty concentration is addressed and the risk of loss is mitigated. Credit limits are sufficiently low to restrict PINNZ from having credit exposures concentrated with a single counterparty, but rather encourages spreading such risks among several parties. The limits are set at levels reflecting PINNZ's scale of activity and also allow it to manage treasury business competitively.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents PINNZ's maximum exposure to credit risk without taking account of the value of any collateral obtained.

(f) FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values and net fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- the fair value of derivative instruments are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve derived from quoted interest rates for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. The fair value of forward exchange contracts is determined using quoted forward exchange market rates and yield curves derived from quoted interest rates matching maturities of the contract.

Except as detailed in the following tables, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements of the Group approximates their fair values. There are no exceptions for the Company (December 2010: nil).

	Consolidated			
	December 2011		December 2010	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
Financial liabilities				
PINNZ secured bonds	145,524	141,451	143,892	146,365

25. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel of the Company are the Directors who are employed by a related party of Brookfield Infrastructure Partners L.P. The Group does not incur any Key Management Personnel expense.

26. NOTES TO THE STATEMENT OF CASH FLOWS

(a) RECONCILIATION OF CASH AND CASH EQUIVALENTS

For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	Consolidated		Company	
	Dec 2011 $'000	Dec 2010 $'000	Dec 2011 $'000	Dec 2010 $'000
Cash and cash equivalents	215	75	215	75

26. NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

(b) RECONCILIATION OF PROFIT/(LOSS) FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Consolidated		Company	
	Dec 2011 (12 months) $'000	**Dec 2010 (6 months) $'000**	**Dec 2011 (12 months) $'000**	**Dec 2010 (6 months) $'000**
Profit/(loss) for the year/period	(10,974)	3,385	5,099	4,043
Amortisation of capitalised borrowing costs	1,632	873	1,632	873
Movement in fair value through profit or loss on derivatives	-	-	-	-
Non-cash items interest	(12,368)	-	20,776	-
Share of associate entity's profit/(loss) after tax	15,671	355	-	-
Movement in tax balances	1,998	38	2,002	38
Changes in net assets and liabilities:				
Decrease/(increase) in assets:				
Trade and other receivables	15	(52)	15	(52)
Related party receivables	-	(19,161)	-	(19,464)
Increase/(decrease) in liabilities:				
Trade and other payables	86	351	83	351
Related party payables	3,985	-	(29,562)	-
Net cash from/(used in) operating activities	**45**	**(14,211)**	**45**	**(14,211)**

27. REMUNERATION OF AUDITORS

During the period, the following fees were paid or payable for services provided by the auditor of the parent entity and its related practices.

	Consolidated		Company	
	Dec 2011 (12 months) $'000	**Dec 2010 (6 months) $'000**	**Dec 2011 (12 months) $'000**	**Dec 2010 (6 months) $'000**
AUDIT SERVICES				
Deloitte Touche Tohmatsu Australian firm				
Audit of the financial statements	**14**	**8**	**14**	**8**

28. SUBSEQUENT EVENTS

Other than as disclosed in this report and to the knowledge of the Directors, there has been no matter or circumstance that has arisen since the end of the financial period that has significantly affected, or may affect, the Company's operations in future financial periods, the results of those operations or the Company's state of affairs in future financial years.

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 (appointed 30 August 2011)

B R Upson (resigned 30 August 2011)

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**

General enquiries can be directed to:
enquiry@computershare.co.nz
Private Bag 92119, Auckland 1142
Telephone +64 9 488 8777 Facsimile +64 9 488 8787

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

Deloitte.

Independent Auditor's Report to the Members of Prime Infrastructure Networks (New Zealand) Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Prime Infrastructure Networks (New Zealand) Limited, which comprises the statement of financial position as at 31 December 2011, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 4 to 26.

Directors' Responsibility for the Financial Statements

The directors of the company are responsible for the preparation of the financial statements that give a true and fair view in accordance with generally accepted accounting practice in New Zealand and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

Our firm carries out other assurance engagements for Prime Infrastructure Networks (New Zealand) Limited. In addition to this, partners and employees of our firm deal with the company and group on normal terms within the ordinary course of trading activities of the business of the company and group. The firm has no other relationship with or interests in Prime Infrastructure Networks (New Zealand) Limited or its subsidiaries.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements of Prime Infrastructure Networks New Zealand Limited:

a. gives a true and fair view of the company's and consolidated entity's financial position as at 31 December 2011 and of their performance for the year ended on that date; and

b. complies with generally accepted accounting practice in New Zealand; and

c. complies with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 December 2011:

- we have obtained all the information and explanations we have required; and
- in our opinion, proper accounting records have been kept by Prime Infrastructure Networks (New Zealand) Limited, as far as appears from our examination of those records.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

J A Leotta
Partner
Chartered Accountants
Sydney, 16 March 2012