



23 December 2010

PGC STRATEGIC REVIEW UPDATE, PGW STAKE UPDATE AND EARNINGS GUIDANCE

Pyne Gould Corporation ("PGC") today confirmed a significant development under its strategic review relating to a potential sale of its 18.3% holding in PGG Wrightson Limited ("PGW"). It further advised that it expects its strategic review will be completed early in the New Year and will announce the final findings shortly thereafter.

PGC's chief executive Jeff Greenslade said, "The 2010 calendar year has been an historic year of transformation for the group. Borne of the necessity to move decisively in the face of the global financial crisis, PGC undertook a number of difficult and complex steps to ensure MARAC would emerge not only a survivor from the crisis that has impacted much of the sector, but also emerge as a success story well positioned to continue to serve our customers in the very different post-global financial crisis environment. This was only possible with the support the company received from its traditional shareholder base and the support of new investors willing to back our vision of building a New Zealand controlled banking¹ organisation focussed on heartland New Zealand.

We have taken steps to restructure and reorganise the business. The merger between the quality operations of MARAC, Canterbury Building Society ("CBS") and Southern Cross Building Society ("SCBS") has given rise to a new regional banking¹ model, combining the best features of the building society community connectedness with the benefits of MARAC's successful SME and asset financing businesses.

This has been a tough transition with hard decisions having to be made to deal with the legacy of the poor property lending decisions of the past. Whilst there will be short term costs and accounting implications associated with this transformation, it has allowed us to maintain the trust and faith of our investors and customers. From the year of hard work since the PGC recapitalisation, the formation of Building Society Holdings Limited ("BSHL") from the three-way merger is now a reality.

The agreement to sell our stake in PGW (described below) marks the end of an era but continues our strong drive to focus our activities around our core strategy."

Restructure, Strategic Review and Accounting Charges

PGG WRIGHTSON STAKE

As previously advised under the group strategic review, PGC's Board has been considering options for PGC's 18.3% shareholding in PGW. PGC has recently had discussions with potential buyers of its stake and these have been concluded with the signing today of a Lock-Up Deed with Agria (Singapore) Pte Ltd ("Agria"), by which PGC has agreed (subject to the conditions detailed in the Lock-Up Deed) to sell its shares into a partial takeover offer

¹ Neither PGC, MARAC, BSHL, CBS nor SCBS is a registered bank under the Reserve Bank of New Zealand Act 1989.

proposed to be made by Agria for the acquisition of an additional 38.3% of the shares in PGW at 60 cents per share (and which if successful would result in Agria holding 50.01% of PGW). As the offer is a "partial takeover offer", the acceptance of PGC's shares under the offer will be subject to scaling which may result in PGC continuing to own some shares following the closing of the offer. PGC intends to divest any such shares.

PGC has been advised that PGW welcomes the Agria offer and is very supportive of it as it provides continuity of cornerstone shareholding by Agria, a further strengthening of ties with the Chinese market which presents outstanding long term prospects for New Zealand farmers, and continued strong farmer, institutional and retail shareholder investment in PGW.

As previously disclosed in the June 2010 year end accounts, the PGW shareholding is equity accounted at its carrying value of 82 cents per share as it has long been a strategic investment for PGC. With the proposed Agria offer at 60 cents, PGC will reflect the impact of this carrying value adjustment of approximately \$30 million in PGC's profit and loss account for the half year. This carrying value loss will not affect PGC's underlying operating earnings.

Following the conclusion of the Agria offer presuming it is successful in reaching the 50.01% threshold, PGC will have sold a portion of its shares at not less than 60 cents and will retain a portion of shares depending on the final scaling of the offer. Some further adjustments to carrying values will then be necessary in the full year to reflect any change to the 60 cents carrying value of any shares retained at balance date.

PGC is pleased to have supported PGW (and its predecessors) and its customers throughout its long history and in particular assisting the company navigate a particularly demanding recapitalisation through the issue of new equity in 2009.

BUILDING SOCIETY HOLDINGS ("HEARTLAND")

PGC's Board previously announced its intention to distribute in specie the majority of its holding in BSHL which is due to list on the NZX in the New Year. PGC will divest the balance via a placement to investors. Upon the distribution and placement of PGC's 72% holding in BSHL, a profit or loss will result from the difference between the carrying value of BSHL and the market value of the holding at the time of distribution (which will be determined by reference to the NZX BSHL share price at the time and/or the bookbuild price obtained in the placement).

PERPETUAL GROUP

The Perpetual group of companies will continue implementing its strategy of growing funds under management and funds under administration and is committed to ensuring ongoing profitability and improving shareholder returns. The Perpetual Group will not be proceeding with the AEGIS transaction. No decision on the future of Torchlight Management Limited has been made at this time.

Preliminary Earnings Guidance

After accounting for the BSHL merger costs, the marking of the PGW stake to market and the development costs for the growth strategy underway at Perpetual, all incurred in this period

of transforming the Group, PGC expects to record a net loss after tax for the six months ended 31 December 2010 in the range of \$31 million to \$33 million, the majority represented by the non cash carrying value adjustment for the PGW investment (approximately \$30 million).

When normalised for one-off costs associated with the Merger and additional Crown Guarantee costs (described below), PGC expects its underlying result to fall in a range from a net profit after tax of \$1.7 million to a net loss after tax of \$0.3 million. This compares to a net profit after tax in the previous corresponding period of \$10.1 million (or \$6.3 million when normalised for the sale of the Christchurch office building and fee from Agria for the termination of the shareholders agreement with Rural Portfolio Investments).

MARAC expects to achieve a strong operating result for the period and is anticipating reporting a half year net profit after tax broadly in line with the prior period. The Board takes particular satisfaction in this result in a period of very weak growth and consumer demand. This result is also after MARAC incurred one-off merger costs of \$2.8 million and an increase in costs associated with extending its participation in the Crown Guarantee of \$1.0 million compared with the prior period.

To demonstrate the immediate benefit of the three-way merger, Combined Building Society (the issuer of deposits for "Heartland") will incur significantly lower Crown Guarantee fees than MARAC. Prior to the merger, MARAC paid 120 basis points in fees to the Crown. Following the merger, this will fall into the range of 50 basis points, a very significant saving.

MARAC's core business involves providing consumer and commercial lending across a broad range of sectors. The –Consumer division is tracking ahead of the prior period on the back of increased market share in motor vehicles, and the Commercial division remains steady in a subdued market.

There continues to be diminishing but negative drag on Net Operating Income from the residual property lending assets as MARAC's property book is wound down. It is anticipated that MARAC's impairments will be lower than in the previous corresponding period at around \$7 million (including approximately \$5 million of commercial impairments with the balance being property impairments after benefitting from provisioning adjustments of approximately \$3 million as a result of the arrangement with Real Estate Credit Limited ("RECL") described below).

The Perpetual Group is anticipated to report an after tax loss of approximately \$4 million to \$4.5 million compared to an after tax profit of \$2.4 million for the prior period reflecting the heavy investment in people and systems as Perpetual pursues its strategy of growing funds under management and funds under administration. The after tax loss also includes the impact of the arrangement between MARAC and RECL (described below).

The Perpetual Group also includes RECL which manages the ex-MARAC Property portfolio. RECL considers it prudent in the current environment to continue to impair all interest income which accrues on the property loans under its management, and accordingly expects to record approximately \$2.3 million pre tax of interest impairments for the period. Underlying principal and property revaluation impairments are expected to be a modest \$0.5 million to \$1.5 million pre tax reflecting that, while the property sector remains subdued, the heavy losses of recent years now seem to be finally moderating.

As noted in the Merger offer documents, RECL is expected to enter into an arrangement with MARAC to manage the remaining non-core property loans of MARAC for a period of up to 5 years, and assume risk of loss on those loans for that period. The arrangement will include an upfront management fee payable by MARAC to RECL of \$11 million to be amortised over 5 years, and ongoing monthly management fees. This has no impact on profitability in the current period from a consolidated PGC Group perspective, however as noted above a pre tax adjustment of approximately \$3 million will be made between RECL and MARAC, benefitting MARAC's profitability at the half year. It also means that MARAC will have the benefit of RECL's credit support on those property loans in the future.

PGC expects the contribution to its earnings from its investment in PGW to be flat at the half year given usual seasonality and PGW's earnings downgrade on 17 December 2010.

At the half year PGC will also book a notional loss through equity of approximately \$6 million to \$7 million representing the difference between the disposal of 28% of MARAC at book value and the acquisition of 72% of each of CBS and SCBS.

The above results are provisional and are intended to give guidance only. Once finalised, full details of PGC's actual half year result to 31 December 2010 are expected to be reported to the NZX on or about Friday 25 February 2011.