Pyne Gould Corporation

# Managing Director's Address to Annual Meeting of Shareholders

## 1st November 2007

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Thank you Chairman. Good afternoon ladies and gentlemen. As the Chairman has indicated, I will be reviewing the performance of the businesses within Pyne Gould Corporation during the past year and, as far as I am able, providing you with an insight into current trading conditions and prospects for the current year. I will also provide some comments in respect to MARAC, relative to industry issues which have occurred in recent months.

### MARAC LOGO SLIDE

So let me start with MARAC.

### MARAC HIGHLIGHTS

MARAC has performed strongly again this year. Highlights which I wish to cover in more detail were in profit of $26.5m, Finance Assets, up 14% to $1.3bn, new products in association with new partners, a new business recently established called Ascend Finance and some new funding.

### NET PROFIT AFTER TAX

Profit, was up 10% this year to $26.5m driven by increased revenue, targeting of quality business at slightly finer margins, efficiency in our business and low bad debts.

### FINANCE RECIEVABLES

Total Finance Assets grew 14% to finish the year at $1.3bn. Finance Assets for MARAC are in two divisions. In Consumer which is the orange bars on this slide our focus for the past few years has been to position our Motor financing business into the new car and near new car market. In the Business division, the green bars, our focus has been to grow our financing of Plant and Machinery, and to a lesser degree Property.

## NET OPERATING INCOME

Net Operating Income of $62.7m was up 6% and includes a continued focus on fee revenues. This year was the 5th consecutive year of growth in net income.

## MARGIN ANALYSIS

Margins, reduced slightly in the year from 5.3% to 5.0%. Some of this reduction reflects our focus on quality lending segments, which are at finer margins, and some of it reflects increased funding costs from rising interest rates. We do not expect any improvement in margins in the current year.

## EFFICIENCY

Efficiency in a finance business requires prudent management of costs but at the same time ensuring that investments for the future are well planned and executed. MARAC has again performed strongly on these efficiency measures.

## CREDIT ARREARS

Credit Arrears is normally the first signal of potential bad debts. Most finance companies do not disclose their credit arrears position, MARAC does. In addition, we define arrears as “any account which fails to meet its due payment within 5 days of the scheduled date”, a conservative approach.

We commenced the year with arrears being 0.46% of total receivables and ended at 0.41%. I can confirm that the trend, since 30th June, has continued at similar levels with the position at 30th September being 0.44%.

## IMPAIRED ASSET EXPENSES

As I said, credit arrears leads to bad debts or Impaired Asset Expense which is the outcome of bad debt provisioning, bad debts written off and bad debt recoveries. This year the result is a very low $0.5m.

The continuing focus on writing quality business and then having excellent processes and people to monitor these loans through to final repayment, are the key ingredients to this result.

## NEW LEND WITH DISTRIBUTION PRODUCTS ADDED

I mentioned earlier that investments for the future need to be well planned and executed in a finance company. Last year I provided an outline of two new investments being progressed. Our Kiwibank and i-finance initiatives.

I am therefore pleased today to be able to report to you that both of these have delivered early results.

In Kiwibank, we have two separate initiatives. The first involves MARAC providing Motor Vehicle finance for Kiwibank customers. From inception in November last year, through until 30th June, business volumes have grown steadily to now represent 25% of our direct business (each month). In Commercial Plant and Equipment financing, the results are not quite so good. We undertake this business on a referral basis from Kiwibank business banking division which is a new and smaller part of Kiwibank. Overall we are very happy with early results and expect to see continuing growth.

In i-finance, our association is with ACP Media's Autotrader website, a website designed for Motor Vehicle dealers to sell cars via the internet.

Early results are encouraging and we will be looking for increased volume in the year ahead.

As a result of the i-finance project we have further refined MARAC's internet based technology. Since September this year we have been implementing this new technology, initially to our Motor Vehicle dealers. We have already seen increasing volumes through this medium and positive feed back from our customers. Further developments and wider implementations are planned this year.

## ASCEND

In February this year we commenced a new division of MARAC – Ascend Finance. Represented mainly in regional New Zealand, Ascend is targeted at different markets and different customers than the traditional MARAC business. Essentially MARAC was not seeing some wider opportunities and Ascend was developed to target these. Early results to 30th June were better than expected.

In to the new financial year finance assets have already increased to $75m an increase of $28m or 60% in the first quarter.

## RETAIL INVESTMENTS

In the past year MARAC has continued to receive strong support from investors. On the back of our Investment Grade rating from Standard and Poor's, received some 18 months ago, retail investments continued to grow and reinvestment rates rose through the year. Since June however, we have seen some market events affect finance companies. Despite the volatile market MARAC is well placed. Reinvestment rates and new investments continue to be within MARAC's normal pattern. For reinvestments our normal range is 65-75%. Our business is significantly different to those experiencing difficulty and it is important investors understand this. We have recently commenced an advertising and educational approach to inform investors or potential investors of MARAC's differences. We have also received positive media comment which has been welcome.

## NEW SECURITISATION ELEMENT

Subsequent to balance date and just prior to the uncertainties in the NZ investor markets and world credit markets, MARAC implemented a $300m securitisation programme. I explained a little more about the workings of securitisation in our first issue of our Shareholder newsletter "Viewpoint" additional copies of which have been placed on your chairs here today. Suffice to say that by implementing this programme we have added additional diversification to our funding base which should enable MARAC to continue to grow and to provide added insulation from any further market events.

Let me now briefly summarise our two divisions current positions.

## BUSINESS DIVISION SUMMARY

Our Business division, which includes the financing of Commercial Plant and Equipment (diggers, trucks and other fixed assets) and Property finance plus the new Ascend business.

This is our fastest growing division and has been for the past 5 years. That is no accident – it has been our strategic intent. Asset growth was 25% last year and we expect solid growth again this year.

With demand for equipment and business finance by small and medium sized NZ businesses continuing, we do not see any slowing in this area. Ascend Finance and our Property business are expected to grow also.
For the first quarter this year, the division has recorded growth of 9%.

## CONSUMER DIVISION SUMMARY

Our Consumer Division which includes Motor Vehicle financing, Direct business, Marine and Leisure and Insurance has continued to perform well. Whilst growth has not been significant in recent times, we are very pleased with the quality of our assets in this division and are encouraged by the new technology and cross selling of insurance products in this business. We are expecting some growth to occur this year. In the first quarter balance sheet growth in our Consumer division was modest overall, but new lending was up 26% on the equivalent quarter last year.

## MARAC CURRENT BUSINESS SUMMARY

Let me now summarise for MARAC….
Growth is still evident in our markets and MARAC is continuing to grow. Overall asset growth in the first quarter was $100m with the balance sheet now $1.4bn (MARAC Finance Limited $1.3 billion). Our focus on credit quality continues but we are not expecting any improvement in lending margin this year. Financial performance for the first quarter was in line with our expectations, with Net Operating Income up 12% on the equivalent quarter last year. Liquidity at the end of the first quarter was $180m.

The International Rating agency Standard and Poor's last week announced the results of the first full review of MARAC and, notwithstanding industry related issues, reconfirmed MARAC's rating as Investment Grade.  This is a further independent endorsement of MARAC's quality in these less certain times in both New Zealand and Internationally.

The recent events in world credit markets combined with industry issues in the New Zealand finance industry have we believe created opportunity.  Not only is MARAC well positioned to continue its organic growth strategy but MARAC, with its diversified lending book of high quality assets and diversified funding, coupled with the added support of the parent company, will be looking for growth from wider opportunities which may present themselves in this less certain market.

We remain confident about the future for MARAC.

**PERPETUAL TRUST LOGO**

Perpetual Trust

**PERPETUAL TRUST – NET PROFIT AFTER TAX**

Perpetual Trust has continued on from last years excellent result to record another increase in Net Profit to a record $3.6m.

**PERPETUAL TRUST REVENUE**

The result was on the back of an 8% lift in revenue to $15.5m.  Importantly the increased revenue was delivered across all three divisions.

**PERPETUAL WEALTH MANAGEMENT**

Looking at each of the divisions separately, the Personal Wealth Management and Advice business in Perpetual Trust is the provision of trust and administration services and financial advisory.  Revenue was up 8% from a 21% growth in funds under advice and a similar increase in client numbers.  New Trusts, a key indicator of future revenues, increased 62% by number with Wills also increasing strongly.

## MANAGED FUNDS

In Managed Funds, the focus has been on further positioning the business for the new tax changes introduced at the beginning of last month.  This included further rationalisation of some smaller funds.

The Aria Fund targeted at charitable trusts and the NZ/Australian Share fund, both established only recently, achieved steady growth with overall funds under management growing 10% to $328m.

## CORPORATE TRUST

The Corporate Trust business continued to grow revenues, up 10% this year.  Funds under supervision now exceed $19 billion.  New opportunities in the Corporate Trust business are likely from the Retirement Villages act and recently announced and further pending changes to the supervision regime for the finance industry.

## PERPETUAL TRUST SUMMARY

The current year has started well for Perpetual Trust.  The first quarter has recorded a result above the same quarter last year and our expectations are for this trend to flow through to year end.  Growth in revenue from all divisions is expected and the business is well placed to leverage from the opportunities in Managed Funds.

## PGG WRIGHTSON

PGG Wrightson

PGG Wrightson announced its annual result of a Net Profit after Tax of $26.2m.  The contribution to Pyne Gould Corporation was $5.8m down from $6.7m last year.

Trading conditions leading to this result, deteriorated during the year.  A highlight of the year was the launching of the New Zealand Farming Systems Uruguay fund.  The fund was established by PGG Wrightson to allow investors, with an interest in the success of New Zealand farming techniques, like advanced pasture management and the practical use of latest farming technology, to join others in a coordinated way to develop high quality farms in Uruguay.

## TOUGHER TRADING CONDITIONS EXPERIENCED

The tougher trading conditions experienced last year included a stubbornly high New Zealand dollar coupled with high and increasing interest rates. In addition prices at the farm gate were lower, although the dairy industry was an exception. All of these factors, coupled with the normal risks farmers have to manage, resulted in reduced farmer confidence and therefore reduced on farm investment.

Looking to the current year we believe there are sound reasons for optimism. We have already seen the increasing confidence in dairy start to flow from the higher announced payouts. Additionally international demand for other food products is expected to flow through to prices for sheep and beef products in the near future. Locally, PGG Wrightson is ready to capitalise on these positive trends.

## SUMMARY AND OUTLOOK - PGC

Collectively the outlook for Pyne Gould Corporation is good.

In MARAC we have a business which is the envy of many in its sector with robust strategies for organic growth and the ability and capacity to look at wider opportunities in the changing finance industry. The first quarter result was sound.

Perpetual Trust has delivered another improved first quarter and the outlook is more of the same and in PGG Wrightson there are many reasons to be confident of the future performance. Whilst we don't expect it all to flow into the current year the medium term looks promising.

We therefore expect Pyne Gould Corporation to again deliver a good result this year with a sound first quarter from MARAC and Perpetual already achieved.

I have pleasure in seconding the motion that the Annual Report for the year ended 30 June 2007 be received.