Pyne Gould Corporation

Managing Director's Address to Annual Meeting of Shareholders 31 October 2008

Thank you Sam. 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 providing you with an update on current trading conditions and prospects for this year. I will also provide some comments in respect to the finance industry locally and the wider global credit crisis and its relevance for our business.

Let me start with MARAC

MARAC HIGHLIGHTS

MARAC had another strong year. Highlights which I wish to cover in more detail were in profit of $27.9m, Finance Assets, up to $1.4bn, our newest business Ascend Finance did very well and our credit quality held up well. In regards to funding, I wish to dwell just a little longer on this important area.

NET PROFIT AFTER TAX

Net Profit after tax, was up 6.3% this year to $27.9m. This was driven by increased revenue where funding cost increases were matched by asset repricing and continuing business efficiency. Increased bad debt provisions dampened this otherwise excellent performance.

FINANCE RECEIVABLES

Total Finance Assets grew 8% to finish the year at $1.4bn. This was all achieved in the first half of the year. In Consumer, which are 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 and this has enabled us to avoid many credit issues. In the Business division, the green bars, our focus has been to grow our financing of Plant and Machinery, Diggers, Trucks and Forkhoists for example, and to a lesser degree Property. The development and growth of our new Ascend business, which I will comment further on later, is shown as the light coloured box in 2007 and 2008.

NET OPERATING INCOME

Net Operating Income of $73.5m was up 17% and includes a continued focus on fee revenues and sustained margins during an increasing interest rate environment.

MARGIN ANALYSIS

Margins, which were under pressure all year actually increased slightly in the year back up to 5.3%. Notwithstanding increased funding costs from rising interest rates we were able to pass these increases through to our borrowing customers. We would 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 the efficiency measures on these graphs, having fully absorbed the costs of the new Ascend business in the previous 18 months.

ASCEND

Looking specifically at that business, it has performed better than our expectations during its first full year with finance assets exceeding $100m. Its development has clearly proved to us the wider opportunity for regional expansion of our business.

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 and has been for several years now. 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 0.41% of total receivables and ended at 0.50%. Since 30th June we have seen some deterioration in the overall arrears position with the result at 30th September being 0.63%. We expect the environment in the coming year to be more challenging and we have already increased resources to ensure the best possible results are achieved.

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 was an increase to $5.7m. Whilst this is well up on previous years, we consider recent years results to be abnormally low. In addition the change to International Financial Reporting standards means these numbers will be more volatile going forward.

The actual bad debt write off result was lower than in 2007 but we increased provisions in the year for some known and expected future bad debts.

Looking to the year ahead, this is one of the most difficult areas to forecast. However, at this time and in consideration of the market conditions both locally and internationally, we would be expecting a larger impaired asset charge again this year. Indeed we only need to look at the results of the latest business confidence survey released this morning to see the extent of uncertainity.

FUNDING THE BUSINESS

I would now like to concentrate on the funding of MARAC. Specifically I will cover our retail investments which have continued to receive strong support, our new syndicated banking package achieved earlier this year, the newer funding areas of securitisation and our retail bond and provide an update on liquidity.

RETAIL INVESTMENTS

In the past year MARAC has continued to receive strong support from investors.

Early in the year we saw the level of retail investments reduce, as shown on the green bars of the graph. This was expected following our new securitisation funding introduced in August last. Pleasingly since March the decline has been reduced and in more recent months, since the end of the financial year, actual levels are stable and for October they are actually increasing.

Reinvestment rates, depicted by the red line, have remained reasonably consistent generally within historical norms of 65-75%. For the full year the overall rate was 63%.

Retail investments remain a key part of MARAC's funding mix.

BANK SUPPORT

One of the most significant developments in our funding environment during the past year was the reorganisation of our bank facilities into one syndicated facility. In addition we were able to attract the BNZ into the syndicate and increase overall facilities by $80m.

Achieving this outcome, in the midst of a credit crisis was another major sign of support for the MARAC business.

SECURITISATION

Last year I was able to provide you with some insight into our securitisation facility. Since that time we have been able to convert approximately one third of the facility into corporate investment products with the balance still held by Westpac. This is a direct result of the global credit crisis affecting New Zealand.

In more recent times we have been working with Westpac to assess alternative options to better utilise this facility.

RETAIL BOND

Our latest funding initiative was our inaugural retail bond programme. Unfortunately the local market was in a state of some turmoil with several finance entities failing during late June and early July when our bond was open.

However, we still managed to receive sufficient support to oversubscribe the bond and achieve $104m of new funding.

It is clear to us that we continue to receive strong support from investors who have been able to distinguish MARAC from the market place.

LIQUIDITY

Liquidity. The culmination of all of our initiatives over the year, coupled with a clear decision to increase liquidity in these more turbulent times, has had MARAC growing liquidity well above historical levels.

It is our intention going forward to maintain liquidity at or above $200m whilst current uncertainty continues in our markets. That will require us to effectively manage asset growth to correspond with this new target.

On the 12th of October the Government announced the introduction of a Crown guarantee for retail investors in bank deposits and some non bank deposits. Whilst final details of the guarantee scheme are still being addressed, MARAC has submitted its application to opt into the guarantee. We anticipate that this will have positive outcomes for MARAC in the year ahead.

BUSINESS DIVISION SUMMARY

Now let me summarise our lending divisions for you. 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, achieved growth of 12%, with all of that occurring in the first half year. The more important outcome was a repricing upwards which protected our interest margin.

Looking at the current year we see more subdued demand and our focus continues on existing customers. To date there has been no growth with asset levels where they finished the last year and we are not anticipating any growth in the first half year. Beyond that, assuming liquidity allows, only modest growth could be expected if any.

We are currently not seeking any property lending and managing on an account by account basis our existing property business.

CONSUMER DIVISION SUMMARY

In the Consumer Division, which includes Motor Vehicle financing, Direct business, Marine and Leisure and Insurance asset levels remained flat and since balance date we have seen a small reduction.

Again we are predicting little growth as we concentrate on credit aspects and current pricing in this market. The motor vehicle market in particular has been badly affected by the overall economic downturn.

MARAC BUSINESS SUMMARY & OUTLOOK

Let me now summarise for MARAC….

Events in world credit markets are unprecedented and combined with industry issues in the New Zealand finance industry have significantly changed the landscape. At MARAC we have taken decisive action to position for further uncertainty. Asset growth is not expected as we focus on liquidity, credit and existing customers.

MARAC is in good shape to weather the current storm as we know it to be and we will be conservative and prudent through these times with the inevitable consequence that profit levels this year will be lower than originally expected and below last year.

Let me turn now to Perpetual Trust

PERPETUAL

Perpetual Trust has continued on from last years excellent result to record another increase in Net Profit to a record $3.7m.

The result was on the back of a 10% lift in revenue to $16.9m delivered across most business areas.

PERSONAL WEALTH MANAGEMENT AND ADVICE

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 15% from an 11% growth in funds under advice and increases across the board in business activity.

MANAGED FUNDS

In Managed Funds, the result was a little more mixed. Total funds under management decreased by 6% to $307m although growth was evident in several of the smaller funds but the larger mortgage fund declined.

The Moorhouse Property fund which was a single asset fund sold its property and was relaunched as the diversified Pegasus Property Income fund.

CORPORATE TRUST

The Corporate Trust business continued to grow revenues, up 15% this year. Funds under supervision exceed $19 billion. New opportunities in the Corporate Trust business came from the Retirement Villages sector and managed funds. The finance industry demanded a huge commitment from management and staff and whilst revenues are earned from this activity our commitment is disproportionate to the revenue earned. We are again appreciative of the work done by our independent Corporate Trust Boards.

PERPETUAL BUSINESS SUMMARY

The current year has started well for Perpetual Trust. The first quarter has recorded a result similar to the same quarter last year and our expectations are for the year to be generally in line with last year.

PGG WRIGHTSON

PGG Wrightson announced its annual result of a Net Profit after Tax of $73.2m. The contribution to Pyne Gould Corporation was $15.8m.

Whilst some one off transactions and capital gains contributed significantly to this headline performance the core business result from operations was $39.2m, up 35%.

Achievement of this result came from an improved contribution from all divisions in the company against a background of mixed operating and market conditions.

I do not intend to go into detail on the PGG Wrightson business, as that was done yesterday at their Annual General meeting here in Christchurch, but everyone is acutely aware of the leadership position PGG Wrightson has been taking in agribusiness recently. The latest move in respect to investing in New Zealand's largest meat marketer has been in the headlines as it got caught in the global credit upheaval. The business case for the move remains very compelling, however it is now unlikely that the transaction will be completed in its current form and PGG Wrightson continues to work constructively with Silver Fern farms to achieve the vision of improving returns for New Zealand sheep and beef farmers.

SUMMARY AND OUTLOOK - PGC

In considering the outlook for Pyne Gould Corporation this year we must be mindful of world and market events that are changing rapidly and are very unpredictable. Our outlook statement is therefore less specific given the unknown environment we face.

In MARAC we have a business which remains in sound condition with strong liquidity and a focus on credit but we are not immune from credit related events. We are still expecting a good performance from MARAC but one which is below last years record.

Perpetual Trust has delivered a solid 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. They have provided market guidance for the core business but the uncertainty of world markets is a moderating factor.

We therefore expect Pyne Gould Corporation to deliver a solid result this year but we will be in a much better position to provide more formal guidance at the half year announcement in February.

Ladies and gentlemen, I have pleasure in seconding the motion that the Annual Report for the year ended 30 June 2008 be received.