Viewpoint

Pyne Gould Corporation Limited Newsletter
March 2009

We have recently reported a half-year loss of $17.0m and a reduced interim dividend of 5 cents per share, to be paid on 27 March. This is not news any Chairman relishes reporting to shareholders.

Let me put that loss into context and I trust the article on our interim result on page 3 will give you a greater insight.

First and foremost, our focus must be on the businesses of MARAC and Perpetual Trust which will form the core of the new bank. Both turned in solid performances at the operating level. As a board we are committed to steering a prudent course through the down turn, and we are making no assumptions that this will be short lived.

We also face challenging times with our investment in PGG Wrightson. But we are committed to that business despite what you may have read in the media. It too traded strongly over the half year.

Inside this *Viewpoint* you will find a profile on Bryan Mogridge – a member of our board, as well as information about MARAC's popular PIE investments and a special shareholder offer from Perpetual Trust.

To our shareholders, staff and customers, thank you for your continuing loyalty and support.

Sam Maling
Chairman
Pyne Gould Corporation

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MEET THE PGC BOARD

Introducing Bryan Mogridge

Bryan Mogridge

Bryan Mogridge's philosophy is to enjoy all aspects of life to the fullest extent possible.

Bryan has been a director of MARAC since 1993 and a member of the PGC board since 2003 – and both companies benefit greatly from Bryan's many years' experience in chief executive and senior management positions.

This is a man who lives by a strong set of values. Bryan believes that it's important to be honest and true to yourself, and is a firm believer that people need to be self-sufficient. He also knows how important it is to get the balance right between work and life. A widower with three children and four grandchildren, he makes sure that he sets aside plenty of time to spend with his family and to enjoy his life outside of work.

Bryan was born and raised in Wellington, then left to study a Bachelor of Science, majoring in Biochemistry, in Palmerston North. Since then, he has been involved in a wide range of industries, ranging from agricultural chemicals and medical supplies, through to wine-making and investment companies, and has built a reputation as being one of New Zealand's pre-eminent business leaders.

With more than 38 years in the business world, Bryan has seen his share of ups and downs. The principles he follows as a director of PGC, and the advice he would also give to companies in these uncertain times, may seem contradictory at first: be frugal on the one hand and generous on the other.

He explains that companies should not be cutting costs for the sake of it, but should be looking for realistic ways to reduce waste and be more cost-effective. At the same time, in order to survive, businesses should be generous with all their stakeholders, whether they be customers, suppliers, shareholders or team members. He also knows how important it is for a company's leaders to be really involved in the business and understand every aspect of it, so they recognise how to stay relevant and keep evolving as markets change.

These days, Bryan lives on Waiheke Island where he co-owns a vineyard, The Hay Paddock, which produces wines from syrah grapes. Most mornings he'll be up by 5.30am and you'll find him cycling, swimming, walking or doing Pilates, before cracking into whatever the day holds for him on a business front.

He is also committed to giving back to society and as the Chair of the Starship Foundation (The National Children's Hospital), has helped to raise over $35m for the children's health charity since its inception ten years ago.

Having seen the MARAC and PGC businesses successfully evolve over the past 17 years, Bryan is looking forward to continuing to play a part in the companies' success.

Bryan with co-owner Chris on their vineyard on Waiheke Island.

PGC's businesses post solid results

The underlying operating performances of all of PGC's three businesses – MARAC, Perpetual Trust and PGG Wrightson – were solid despite the challenging economic conditions.

PGC's overall position for the six months to 31 December 2008 is a net after tax loss of $17.0m. This is largely a reflection of three unusual events caused by the current recession:

1. an increased level of provisioning for impaired assets in MARAC
2. PGC's share of PGG Wrightson's losses arising from one-offs, including the write-down to current market value of its investment in New Zealand Farming Systems Uruguay
3. an underwrite provision to MARAC of $25.0m to enable prudent management of property loans over coming months and years.

The directors have declared a fully imputed interim dividend of 5 cents per share. This will be paid on 27 March.

MARAC

MARAC's net operating profit of $20.4m before tax and impaired asset expense was down 11% from $22.8m for the same period last year.

MARAC was the first major finance company to be approved under the New Zealand Deposit Guarantee Scheme. This, along with MARAC's retail bond issue raising $104.2m, has seen our funding grow strongly to $794.1m at December, up from $556.7m at June 2008. Reinvestment rates also increased to the upper end of historical averages – 74% in the December quarter.

Liquidity at the end of December was up to $352.6m, from $164.0m at June 2008. Although there is a cost to holding a high level of liquidity, this is a prudent measure in today's market.

Finance receivables, comprising 72% business and consumer loans, 9% property investment loans, and 19% property development loans, dropped slightly to $1.4bn, only marginally below June 2008 levels. This was particularly pleasing given MARAC's more focused approach on existing customers rather than new business during the period.

Constant monitoring identified early the need for increased provisions and write-offs for impaired assets as would be expected in the current economic environment. MARAC's impaired asset expense (the write-off of bad debts plus provisions for doubtful debts less recoveries made) was $9.3m, compared to $1.8m in the same period last year.

To enable MARAC to manage at-risk property development loans in order to maximise their realisation in future periods, PGC put in place an underwriting facility of $25.0m.

At 31 December, approximately half of the $25.0m was allocated against specific loans and the balance has been retained as an unallocated collective provision, which is considered prudent.

Perpetual Trust

Perpetual Trust achieved a very satisfactory net operating profit before tax of $2.4m, $0.3m down on last year. Total operating revenue fell just 6% to $8.0m, and firm controls resulted in expenses reducing by 4%.

The Corporate Trust business achieved revenue growth from increased activity in the corporate bond market, bank liquidity management facilities and increased special fees.

This increase in corporate trust revenues partially offset reduced revenue from the Personal Client Services and Funds Management divisions. There was an increase in the number of new trusts and new investment advisory clients. Property and investment values under administration decreased.

PGG Wrightson

The operating businesses of PGG Wrightson produced a strong performance, with net operating profit before tax up 32% to $22.1m. Total revenue also grew by 32%, to $738.0m.

After bringing into account a fair value adjustment for the investment in New Zealand Farming Systems Uruguay and providing for other abnormal items and fair market adjustments, PGG Wrightson's result for the half-year was a net loss of $32.8m. PGC's share of this loss was $6.9m, compared to a profit share last year of $7.5m.

Dividend

PGC's directors believe it is prudent to pay a reduced dividend of 5 cents per share, due to lower after-tax profitability resulting from one-off abnormals and the continuing market uncertainty which may affect operating profitability in the short term.

Banking application to the Reserve Bank

We are continuing with the detailed work required to support an application for a banking licence. It remains our intention to restructure the company to become the only New Zealand owned publicly listed bank.

Summary and outlook

The half-year to December 2008 was one of the most difficult periods in recent history. We are pleased to report that PGC came through that period with a strong balance sheet and with sound underlying operating results.

For the rest of the year to 30 June we expect MARAC and Perpetual Trust to achieve operating profitability in line with this current interim result performance. PGC will continue to fully support our investment in PGG Wrightson.

As we have always done as a Company and throughout our long history, we will continually evolve and adapt to the changing business environment while remaining true to our values of integrity, professionalism and quality.

Sam Maling
Chairman
Pyne Gould Corporation

Have you got a piece of MARAC's PIE?

Do you currently pay 33% or 39% resident withholding tax (RWT) on your investments? If so, you could be paying less tax and enhancing your investment returns by taking advantage of the 30% capped Portfolio Investment Entity (PIE) tax rate by investing in a MARAC PIE investment.

MARAC has two PIE investment options available to individual, joint, company and trust investors, and the minimum investment is just $1,000.

MARAC Term Deposit PIE

This is a fixed rate, 12 month term investment. You can choose to have your income either direct credited or compounded quarterly to achieve even greater returns.

MARAC Call PIE

The MARAC Call PIE is a floating rate investment that gives you easy access to your capital while earning a competitive return. Income is earned daily and compounded monthly.

How a PIE investment increases your return

Using the current MARAC Term Deposit PIE offering for this example - it works in a very similar way to any 12 month term deposit offering 6.25%* p.a. for 12 months with income direct credited or compounded quarterly. However for an investor currently paying RWT at 39%, it means paying 23% less tax which is equivalent to earning 7.17% p.a. in a non PIE term deposit.

Calculate your return

MARAC has a PIE investment returns calculator at www.marac.co.nz/pies where you can work out what your return would be on a PIE investment, and also compare the return on a PIE investment with a non-PIE investment.

For more information

Visit MARAC's website **www.marac.co.nz** for more information, an investment statement, and the current PIE rates or feel free to call MARAC's investment team freephone on **0800 26 27 22**.

Andrew Ford
Retail Investment Manager
MARAC

*rate subject to change

PGC SHAREHOLDER SPECIAL OFFER

10% discount for trust establishment

Perpetual Trust is pleased to offer all PGC shareholders a 10% discount on the cost of establishing your family trust, including any legal costs for the transfer of assets into the trust. Perpetual Trust's friendly expert advisers will work with you to tailor an enduring trust package for you and your family that will provide security for your assets through the generations.

Please call Perpetual Trust on 0800 737 738 and one of our advisers will be happy to help you.

John McFetridge
Head of Customer Care
Perpetual Trust

Pyne Gould Corporation Ltd
Pyne Gould Corporation House
233 Cambridge Terrace
PO Box 167
Christchurch 8140
T 03 365 0000
F 03 379 8616
E info@pgc.co.nz
W www.pgc.co.nz

MARAC Finance Ltd
PO Box 9919, Newmarket
Auckland 1149
T 09 520 0097
E info@marac.co.nz
W www.marac.co.nz

Perpetual Trust Ltd
PO Box 112
Christchurch Mail Centre
Christchurch 8140
T 03 379 8611
E info@perpetual.co.nz
W www.perpetual.co.nz

PGG Wrightson Ltd
PO Box 292, Hornby
Christchurch
T 03 372 0800
E enquiries@pggwrightson.co.nz
W www.pggwrightson.co.nz

Pyne Gould Corporation