Pyne Gould Corporation

NZX and Media Release

Pyne Gould Corporation announces Full Year Results and update on New Strategic Focus

28 August 2009

Pyne Gould Corporation Limited (PGC) today confirmed the impact of one-off write downs on its results for the year ended 30 June 2009 in reporting an after tax loss of $54.4m. Underlying operational performance for the Group, including that from PGW, was $25.1m.

As foreshadowed on 21 July 2009, the full year result was impacted by the write down relating to the impairment of MARAC's property development loans. After tax write downs to the property development portfolio of $59.5m (being an additional $37.5m after tax to the $22m after tax charge taken at the half year to 31 December 2008) were recognised for the year ended 30 June 2009 at the parent company level as a result of PGC's underwrite of MARAC's property book. Also impacting the result was a loss of $13.8m arising from PGC's 20.7% investment in PGG Wrightson (PGW), which suffered a range of one off and non operating costs totalling $96.4m in the year to 30 June 2009.

The PGC chairman, Sam Maling, said: "The loss is disappointing especially given the group's long and proud history. While we should continue to look forward, we need to learn from mistakes made and ensure that they don't happen again. Like many others, MARAC got caught up in the demand for property development finance and the high returns that were offered. Changes have been made and will continue to be made as we move forward. In that regard we have a well developed plan to refocus the group to become New Zealand's only publicly listed banking and asset management company. This process is well underway with the starting point being the recent appointment of Jeff Greenslade as Chief Executive." *(See more details under headline: New Strategic Focus Update.)*

Mr Maling said that the approach taken in writing down the property development assets was necessary and realistic in the current environment. "We wanted to recognise all known impairments in full in the current financial year and lay the platform for repositioning the group for future growth."

The Board has decided that, in the context of PGC's stated intention to raise capital, PGC will not pay a final dividend. The total dividend for the year ended 30 June 2009 remains at a fully imputed 5 cents per share (23 cents for the previous corresponding period), being the amount of the interim dividend which was paid on 27 March 2009.

Mr Maling said: "On the positive side the underlying performances of our two business segments – financial services (MARAC) and trustee services (Perpetual Trust) – were encouraging in this operating environment."

Divisional Performances

1. MARAC

The core MARAC businesses, which are based around providing vehicle, plant and equipment and cash flow based working capital finance to New Zealanders and New Zealand businesses, performed well, recording a normalised net profit after tax for the period of $19.5m, compared to $27.9m in the 2008 financial year. While the impact of the current economic environment has translated to lower profits in the 2009 year, the Underlying Performance* of MARAC remains strong at $41.3m ($47.3m in 2008). The fall in Underlying Performance arose largely as a result of MARAC deriving lower fee income following its decision to exit the property sector.

In the 12 month period to 30 June 2009, the size of the receivables book fell by $88.1m to $1355.0m due to the impact of a lower level of economic activity earlier in the financial year and following a strategic decision to cease lending in the property development sector.

The Consumer Finance division has benefited from the exit of several major competitors from the motor vehicle finance market. The division has also gained significant market share in the key segment of quality used car and franchise dealerships. Distribution has been further strengthened with the recent announcement of a strategic partnership with AA Finance.

There has been a noticeable improvement in business sentiment post March this year. Lending activity in the Commercial division has improved as a result. With fewer competitors and an improving economy, receivables growth in the Commercial division was steady over the remainder of the financial year.

MARAC's NZX listed 5 year secured bond, which closed over subscribed in July 2008 raising $104.2m, added more diversity and duration to MARAC's funding profile.

The mainstay of MARAC's funding continues to be its retail debenture program. Retail investors have proven to be extremely loyal and have continued to support MARAC with solid levels of new funding and reinvestments. This loyalty was demonstrated by the large number of attendees at MARAC's first ever series of investor forums late last year, something that will be repeated later this year.

MARAC holds $804.3m of retail funds (excluding funds raised by the secured bond issue) as at 30 June 2009.

MARAC's credit rating was recently downgraded to BB+. Whilst Standard & Poor's stated that MARAC was "one of the stronger finance companies in New Zealand" it identified MARAC's exposure to the property development sector as an issue – which MARAC has now exited.

* Underlying performance equals net profit before tax and impaired asset charges.

The introduction of the New Zealand Deposit Guarantee Scheme in October 2008 resulted in large inflows of new funds. However, MARAC immediately took steps to ensure that the overall funding mix was not distorted by 'guarantee chasers'. MARAC's strategy has been to maintain a low level of maturities around the scheme's initial expiry date of 12 October 2010. Currently, 30% of MARAC's debenture book matures after 12 October 2010.

The recently announced extension of the scheme to 31 December 2011 will assist with investor confidence and with an orderly exit from the scheme. MARAC qualifies for the new scheme and it is our current intention to apply to be covered.

2. Perpetual Trust

Perpetual Trust contributed total operating revenue of $16.2m ($16.9m for the previous corresponding period) and net profit after tax of $3.3m, compared to $3.7m for the previous corresponding period.

The performance reflected current economic conditions, with revenue and net profit down on last year, although this is the second highest net profit result to date. Perpetual Trust has a well diversified income stream and has continued to perform solidly in most core areas.

Perpetual Trust's client base continues to grow in numbers but the decline in assets under administration due to decreasing property values and declining investment markets has impacted revenue. Growth in underlying client numbers positions Perpetual Trust well for revenue and profit growth in the future.

2009 is a significant year in the history of this business – it marks Perpetual Trust's 125th anniversary, and the 75th jubilee of PGG Trust.

3. PGG Wrightson

PGG Wrightson, (an NZSX listed company in which PGC has a 20.7% shareholding), reported its annual result yesterday.

PGG Wrightson reported a solid performance with net operating profit after tax and before one-off and non-trading items of $30.0m. The company performed well in the first six months, but in the second half, particularly in the April to June quarter, experienced increased pressure on margins.

A number of non trading items, including the settlement with Silver Fern Farms and a revaluation of the investment in NZ Farming Systems Uruguay, which together totalled $96.4m, resulted in a reported loss after one-off and non trading items of $66.4m. PGC's share of this net loss was $13.8m.

PGG Wrightson has renegotiated a revised banking package with its banking group and is reviewing its capital structure, including considering a potential capital raising.

<u>New Strategic Focus Update</u>

On 21 July PGC announced plans to reposition itself to become New Zealand's only publicly listed banking and asset management company. As outlined at the time this included:

- A decision by MARAC to cease property development lending, to refocus on its core business of plant, equipment and vehicle and cashflow based working capital financing and to tighten its credit processes.
- The sale and transfer of approximately $175m of MARAC's property development book to another division within PGC and ultimately to Torchlight Credit Fund.
- A restated intention for MARAC to become a registered bank after regaining its investment grade credit rating and gaining Reserve Bank approval.
- The creation of a new asset management business – Perpetual Asset Management.

The company's new CEO, Jeff Greenslade, said a key factor in achieving PGC's stated aims is a successful capital raising.

"We have over the last month made significant progress on the capital raising with the appointment of First NZ Capital. We are close to determining the amount of capital required for the business to achieve its medium term goals. As part of that process we are working through the required due diligence and prospectus preparation process and expect to be able to provide a further update in the second half of September. It is our expectation that any equity raising will be fully underwritten."

The factors which will determine the amount of permanent equity capital to be raised include:

- Ensuring MARAC has sufficient capital to comfortably comply with both bank regulations and non-bank deposit taker regulations.
- Providing consideration to MARAC for the sale and transfer of property development loans to Torchlight Credit Fund.
- Repayment all outstanding bank debt at the PGC level.
- Positioning MARAC so it is able to pursue future consolidation opportunities.
- Enabling PGC to support growth initiatives within its other businesses and investments.

Mr Greenslade said that it was important to get the capital structure right for the group going forward. "We want to do this once and we want to do it right," he said.

"MARAC has a sound underlying business once the property development assets are removed. The expertise in our business means it has the perfect platform to expand its financing activities, albeit in a very disciplined and strategic way, both organically and through acquisitions. As signalled in the recent announcement extending the Crown Guarantee scheme, it is expected that industry consolidation will occur and we want to be at the forefront of this.

"As Standard & Poor's rightly noted, *'MARAC is one of the stronger finance companies in New Zealand.'* We know what we have to do to earn back our investment grade credit rating. This is a high priority for MARAC."

Mr Greenslade said that the creation of Perpetual Asset Management provided PGC with an attractive opportunity to expand and also diversify its earnings base.

“Spread across PGC’s businesses are 50,000 to 80,000 customers reflecting middle New Zealand – urban and rural businesses, their owners, and mid-to-high income earning individuals. This is not just a valuable demographic – it is also one that is increasingly under-serviced by financial institutions. When you add this to our many ancillary business relationships, our potential customer base increases significantly.

“So the purchase of EPAM, completed earlier this month, and the creation of Perpetual Asset Management provides a great opportunity to service this customer base and a foundation to build a market-leading financial services business.”

The appointment of John Duncan to head Perpetual Asset Management was made earlier this month.

Mr Maling said that all shareholders would get the opportunity to participate in a capital raising.

“George Kerr, an associated person of Pyne Family Holdings and PGC’s largest shareholder, has re-iterated his support of the capital raising.”

- Ends -