Pyne Gould Corporation

NZX and Media Release

Pyne Gould Corporation announces full year result

26 August 2010

Pyne Gould Corporation Limited (PGC) today announced its results for the year ended 30 June 2010, reporting a net profit after tax (NPAT) of $22m.

This reflects a substantial turnaround from the same period a year earlier when PGC reported a loss of $54.4m due mainly to a write down of MARAC's property development book. It follows a successful process over the past financial year to recapitalise PGC, and to recruit and develop key staff to drive and re-position the business on its core strengths.

As indicated earlier this month the result exceeds the projected NPAT of $20.9m forecast in last year's prospectus issued for PGC's capital raising.

PGC Chairman Bruce Irvine said: "The 2010 financial year was one of significant change for PGC as it responded to the impact on its business of the global financial crisis. Following a successful recapitalisation process that was completed in October last year raising $272.5m, PGC went about rebuilding its business with a clear focus on its core strengths – that being the provision of financial services to New Zealanders and their businesses through both MARAC and the Perpetual Group. While legacy issues do remain through an exposure to property development, these are being progressively dealt with through a managed exit process. Though there is still some way to go in executing our strategies we have made excellent progress and this is evidenced by our performance – in particular exceeding the forecast."

The main contributors to NPAT from operations were:
- $14.3m from MARAC Finance
- $4.5m from Perpetual Group
- $3.9m from PGG Wrightson

NPAT was also increased by $2.5m from the sale of 50% of MARAC Insurance to The New Zealand Automobile Association (AA).

The result includes property impairments in both MARAC and Real Estate Credit Limited (RECL) - a special purpose entity within the Perpetual Group. Total impairments, including property, were $31.8m. This is up on PFI of $14.4m, as the property market deteriorated more than expected.

PGC's Managing Director Jeff Greenslade said: "The underlying performance of the Company demonstrates that we are having success with our strategy to reposition the business and to focus on our core competencies. As we manage down our exposure to property, we fully expect earnings from our core operations to form an increasing basis for profitability and sustainable growth."

A highlight for the year under review was the quality of MARAC's earnings as it refocused on its core lending operations in vehicle leasing and plant and equipment finance. In addition, a strategic alliance with AA and the purchase of GMAC NZ's retail motor vehicle finance book, both executed during the year, have added to operating income as well as offering scale, a strong market position and significant growth potential.

Mr Greenslade said the post balance date positive revision of MARAC's outlook to 'Stable' by ratings agency Standard & Poor's was further evidence that the Company was on the right track with its strategy. It not only reflected the underlying strength to the business but it also added momentum to the 'Heartland' banking concept now being advanced in conjunction with CBS Canterbury (CBS) and Southern Cross Building Society (SCBS) [1] .

"This proposed merger is a very important initiative for us as we seek to achieve our goal of building an NZX-listed banking group. Our plans are well advanced, with the next stage being consideration by the respective boards of the three entities and if the proposal is approved the scheduling of shareholder, debenture and bond holders, and members approvals later this year," Mr Greenslade said.

A further highlight of the 2010 financial year was the progress made by the Perpetual Group. The business has been successfully restructured into two distinct divisions: Perpetual Portfolio Management, which provides wealth management services and includes the professional trustee services of Perpetual Trust; and Torchlight Investment Group, which raises capital outside PGC to make counter-cyclical investments at a time of low liquidity in the banking and investment sectors.

"Perpetual Group has performed above expectation with a particularly strong contribution to earnings coming from Torchlight. An indication of the demand for Torchlight's services is evidenced by its successful raising in June 2010 of $150m from professional investors in the Torchlight Fund No.1 LP," Mr Greenslade said.

Key Divisional Performances

1. **MARAC**
   MARAC's core business is around providing vehicle, plant and equipment, and cash flow based working capital finance to New Zealanders and New Zealand businesses. Net operating income was $69.1m against PFI of $61m.

   MARAC's gross financial receivables at 30 June 2010 were $1.1bn, which was broadly in line with PFI but down $175m on the previous year. This principally relates to MARAC's decision last year to reduce its exposure to the property sector. In addition MARAC's commercial loan book was lower due mainly to a reduction in risk concentration and reduced investment by businesses in the SME market. However, the consumer book grew significantly through both organic growth and the acquisition of GMAC NZ's retail book.

   MARAC's consumer finance division recorded net operating income of $29m against PFI of $25.4m and $20m in the previous financial year. While the total market has contracted, MARAC increased its market share as a result of strong market positioning and through key acquisitions. New lending volumes were up 33% on the previous year. There was also a

[1] None of PGC, MARAC, CBS, SCBS or any merged entity is a registered bank under the Reserve Bank of New Zealand Act 1989, until registered as such.

significant improvement in impairment charge, which at $2.3m, was less than half the previous years $5.2m.

MARAC's commercial finance division saw its book size reduce to $457m from $511m the previous year. PFI was $551m. In spite of this drop the commercial division recorded net operating income of $22.3m against PFI of $21.9m and $23.5m the previous year. The margin growth obtained is a direct result of a tightening credit market. Impairments were up at $7.5m against $5.0m for the previous year.

MARAC's stated intention is to reduce its property exposure over time. Last year MARAC transferred $175m of property assets to PGC owned RECL out of a total portfolio of $374m. As at 30 June 2010, the residual value of the MARAC property book stood at $147m. MARAC also took further provisions on its property book totalling $10.7m against PFI of $5.3m.

The mainstay of MARAC's funding continues to be its retail debenture program. Retail investors have continued to support MARAC with solid levels of new funding and reinvestments. MARAC holds $829m of retail funds as at 30 June 2010.

MARAC's credit rating was recently confirmed at BB+, with the outlook improved from 'Negative' to 'Stable'. Standard & Poor's has indicated that amalgamation is the key path to regaining an 'Investment Grade' rating which bodes well for Heartland and the goal to become a bank.

2. Perpetual Group

Perpetual Group not only contributed NPAT of $4.5m, but it also supported the growth of its wealth management business. Solid earnings contributions came from Torchlight Investment Group, by generating management and transaction fee income above budget. Perpetual now has eight new funds in operation within its funds management business, with $279m of Funds Under Management. Torchlight also raised $150m through Torchlight Fund No.1 LP and has Funds Under Management of $315m.

Perpetual has re-positioned itself as a wealth management business with two distinct brands - Perpetual Portfolio Management and Torchlight Investment Group.

Perpetual Portfolio Management provides life-cycle wealth management to Perpetual customers, including the provision of an advisory network (PPM), establishment and management of "best of breed" funds (PAM) and professional trustee services across personal and corporate customers. Its aim is to build the wealth management business to incorporate the traditional Trust business and to broaden that support to MARAC and customers in its Heartland bank strategy.

Torchlight derives fee income from both arranging and managing assets and investments. It successfully raised $150m to make counter-cyclical investments at a time of low liquidity in the banking and investment sectors. Torchlight also houses EPIC whose holdings include Thames Water and Moto Hospitality. It also manages RECL. Whilst RECL did suffer further impairments of $7.9m (consisting mostly of $7.0m interest revenue impairment) progress has been made on this property portfolio. To date $10.9m in cash has been realised from the original $90m impaired portfolio. RECL has also taken control, through enforcement of security, on $41.8m of the loans. Owning the underlying properties will assist in efficient realisation of the assets.

3. **PGG Wrightson**

   PGC is a cornerstone shareholder in PGG Wrightson owning an 18.3% shareholding in the farming services company. The commitment to PGG Wrightson was demonstrated last year when PGC supported its capital raising - investing $33m to help it strengthen its balance sheet. PGG Wrightson reported EBITDA of $70.5m and NPAT of $23.3m for the year ended 30 June 2010, in line with its PFI of $73.4m and $24.1m respectively.

   PGC received $3.9m from its investment in PGG Wrightson from equity accounted earnings offset by the dilutionary impact from the placement of shares to Agria Group, which reduced PGC's holding down from 20.7% to 18.3%.

4. **Other**

   In the year under review PGC also recognised revenue from the gain on the sale of its head office building in Christchurch ($4.1m was included in PFI); the gain on sale of 50% of MARAC Insurance to the AA under a joint venture arrangement ($2.5m); and compensation from Agria for the termination of a shareholders' agreement with Rural Portfolio Investments ($1m).

Outlook

PGC has built a firm base from which to grow its core businesses. In the year ahead a key focus for MARAC will be delivering on its Heartland banking strategy. Becoming a bank will both reduce MARAC's cost of funds and drive earnings growth. In the short term, however, there will be additional costs due to the expense of having the Crown Guarantee in place as well as costs associated with the merger. But the expected benefits for delivering on this strategy will outweigh the costs over time.

Continuing pressure on the finance industry will bring consolidation opportunities for those with the financial flexibility to take advantage of these opportunities. Additionally, there are also fewer parties supplying credit to key targets in the SME and Rural sectors. Both these factors offer further growth opportunities for MARAC and Heartland.

Perpetual Group will continue to expand its network and build its Funds Under Management. Torchlight is expected to continue to outperform especially in the current environment where there is a requirement for capital to prop up distressed asset situations.

It was advised in the investment statement and prospectus for the capital raising that no dividend will be paid for the financial year ending 30 June 2010. However, the board is reviewing its dividend policy and expects to provide an update to shareholders at the annual meeting on 29 October 2010.

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