

**Pyne Gould Corporation Limited**

**2009 Annual Meeting**

**Christchurch Convention Centre**

**Friday 30<sup>th</sup> October at 4.00pm**

***Agenda Slide***

Good afternoon Ladies and Gentlemen, I am Sam Maling, Chairman of Pyne Gould Corporation. Welcome to the Annual Shareholders Meeting for 2009.

Before beginning the business of the meeting let me make some introductions.

All of the Directors are present today:-

Richard Elworthy

Bruce Irvine

Bryan Mogridge

Stephen Montgomery

Warwick Steel

George Kerr

Our Senior Executives are also present today:-

***Senior Management Slide***

Jeff Greenslade, CEO of MARAC and PGC

Sean Kam, Chief Financial Officer

Craig Stephen, Chief Investment Officer

Louise Edwards, CEO of Perpetual Trust

John Duncan, CEO of Perpetual Asset Management

Chris Flood, GM Consumer Finance

David Battersby, GM Commercial Finance

Colin Hair, Secretary to the Company

The company's solicitors, Lane Neave/Bell Gully and external auditors, KPMG are also present for this meeting.

### **Notice of Meeting**

The Secretary has confirmed that the Notice of Annual Meeting has been circulated to shareholders in terms of the Company's Constitution, and as required by the Companies Act and the meeting has been properly convened.

### **Quorum**

Our Constitution provides for a quorum of not less than twelve shareholders to be present in person or by proxy. I declare that we have a quorum.

### **Apologies**

We have apologies from:-

[Secretary to prepare a list]

(Call here for any other apologies).

### **Proxies**

I advise that a total of 130 shareholders have appointed proxies in respect to 206,894,114 shares for this meeting.

### **Minutes**

I advise that the minutes of the last Annual Meeting held on 31 October 2008 were confirmed at a subsequent Directors meeting and are available for inspection at the front desk along with the Interests Register.

### **Annual Financial Statements**

The Financial Statements and the Annual Report from the Board and the Auditors Report are set out in the Annual Report which has been mailed to all shareholders. Additional copies are available here today.

In a moment I will report to you on the Company's performance last year. Then Jeff Greenslade will speak on the strategy for the business looking ahead and its prospects.

Agenda Items 2 and 3 require a vote on the proposed resolutions. The Directors have requested and I so declare that voting today will be by ballot. That is because there has been significant change to our Register in recent days and a show of hands vote may disadvantage proxy holders. And so a poll is a fairer solution.

### **Chairman's Address**

#### ***Annual Result Overview Slide***

I have already acknowledged publicly that we are disappointed to report a loss after tax for the year of \$54.4m.

There were two main contributors to this.

First, we had to book losses of \$13.8m on our PGW investment. These losses reflected asset write downs for the carrying values of stock and properties in NZ

Farming Systems Uruguay and the substantial cost of the settlement with Silver Fern Farms.

NZ Farming Systems had a very difficult year. Falling dairy prices worldwide, the international credit crunch and a 1 in 30 year drought during a critical phase of the Company's development all combined to hurt investor confidence which was ultimately reflected in the share price significantly discounted to net asset backing.

The Silver Fern Farms settlement also played a substantial part in PGW's loss. PGC supported the original transaction as did 75% of the shareholders in Silver Fern Farms. But the transaction foundered in its execution, something compounded by the virtual closing of capital markets and the seizure of the financial systems at a critical time.

Some of you will recall that we had already announced our intention to divest the PGW stake when this crisis struck. With the collapse of the deal and ultimately the settlement, we needed to get back in behind the business and we have since reaffirmed our commitment as a supportive shareholder.

Whether we commit to any PGW capital raising has yet to be determined, that will need to stand on its own merits which the Board will assess once it has all relevant information.

But overwhelmingly our reported loss for the 2009 year is attributable to losses in the MARAC property book, more specifically serious problems with property development loans.

Those losses were underwritten by PGC and the after tax write-down of \$59.5m recognised at the parent company level.

I have acknowledged before that we made mistakes and that the collapse of the property market in late 2008 exposed a weakness in the way we were doing things in this part of the business:-

- We had some exposures from loans which in hindsight should never have been made. The guidelines and discretions we gave our relationship managers were, in some cases, too broad.
- And our risk management systems were not up to the mark in terms of protecting us from that market collapse. As developments slowed we had a compounding problem of loan extensions and capitalised interest across a number of portfolios creating concentrations of risk which were not being reported through to the board.
- We have taken steps to ensure that these mistakes are not made again. Under Jeff Greenslade's direction and with the full support of the board:-
  - New property development lending in MARAC has been curtailed and property loans for the future will only be made to existing customers whose business is not property development or leasing.
  - Property and other inappropriate lending delegations have been withdrawn.
  - Improved portfolio information and reporting systems instituted.
  - Risk management processes and lines of reporting clarified.

Perhaps most importantly, key management changes have been made in the business with the appointment of our new senior team.

Led by Jeff, the new line up brings in skills and experience several notches above where we have been before and these people will be pivotal to the new strategy we have set for the group.

Aside from the property book, MARAC's core business performed well in a difficult market. A profit after tax of \$19.6m excluding the write down was back on the previous year but in the circumstances of a global recession a strong effort. The MARAC business has been refocused on its core strategy of asset and business lending. You can take comfort from this and from the performance of the underlying business. We expect MARAC to be an early and significant contributor to our single minded purpose of restoring profitability to PGC.

A bright spot in our business was the continuing steady contribution from Perpetual Trust. Net profit after tax of \$3.3m compares favourably to \$3.7m for the corresponding previous period.

And it wasn't an easy year for Perpetual Trust by any means. The Corporate Trust team has been challenged by a string of finance company failures and the private client side of the business has had to cope with the same extraordinary market conditions as I have already referred to. Louise and her team need to be thanked for the way in which they have responded, so too the independent Corporate Trust Board which toils away reliably on some very difficult issues.

For some time now, we have been working on the creation of a new asset management business as part of our strategy to become a New Zealand listed banking and asset management business. Since balance date we have acquired an existing asset management business which now forms part of Perpetual Asset

Management. This business working together with Perpetual Trust will establish a range of new funds that we believe will provide quality investment options for investors. Jeff will tell you more about this in a moment, but I think it is important for you to understand that we have been working on this initiative for some time now stretching back into 2008 when we first identified a number of options for lifting the game in our trust business.

A downgrade of MARAC's S & P rating was a set back to our plan of becoming a registered bank and the new combined business and whilst understandable in the context of the property development loan problems, did not fairly reflect we believed on the underlying strength in the rest of the business.

For us and our aspirations, the world had become a dangerous place. We had a balance sheet to fix; we needed to secure a bank licence and we had a strategy to execute to take advantage of the extraordinary business conditions we have all worked through. Central to all of this was our need to regain the investment grade rating which we had lost. Raising capital then became an imperative for us, a process we have just successfully concluded.

### ***Capital Raising Slide***

\$267m raised so far under the rights issue and a \$30m private placement and the Share Purchase Plan yet to come – expect between \$3 - \$6m from this.

The rights issue had an 89% take up, and although pricing for rights was at a substantial discount to market, the outcome overall was a success.

PGC emerges from this process with a strong capital base and a broader share register.

It will almost certainly put us firmly in the NZX50 – something which will assist the liquidity of the shares.

I know, and the Board knows, that a number of you have found this rights issue particularly bruising.

Our Share Register had undergone a dramatic change as a consequence. And our old and loyal shareholders have been diluted.

Prior to the Capital Raising the register was dominated by family, ex staff and clients, with only two institutions, along with four (4) broker custodial holdings in the Top 50.

After the Capital Raising there are now a large number of institutions and broker custodial holdings. But pleasingly there remain a significant number of family, ex staff and clients in the Top 50 shareholders.

But we faced a challenge which threatened the very existence of our business. Not just from the loan problem in MARAC but also from a world environment which has seen unprecedented change for those of us providing financial services. First it was the credit crisis and then hard on its heels almost 12 months ago to the day, the collapse of markets which saw more than 40 finance companies fail.

In the end it was clear. We needed to protect the business and we needed to create a platform from which we could take it forward, as George Kerr said, for the next 100 years. We needed to be sure that we could deliver on the listed bank and asset management business and we needed to be in a position to take advantage of these extraordinary business conditions. It was never an option for us to do nothing or to

limit the capital raising to a fix for the MARAC loan problem. That would have been at best half a solution only.

And so, as we worked through the relevant factors, it became clear that an amount around \$250m was required.

It has been a Herculean task. The support from shareholders for the rights offer has been extraordinary and despite the media and notwithstanding our critics I believe we achieved something which has probably surprised many.

The capital as you know is to be used to strengthen MARAC; to repay existing PGC debt; to fund our Banking and asset management strategy. The balance of approximately \$50m is earmarked for further investment and we will tell you more about these investment opportunities when we are free to do so. Be assured any investments will be consistent with our strategy and the best use of capital.

So how do we see the year ahead?

Our recent Prospectus includes prospective financial statements for the Group through to June 2010. This is a conservative view of the business but one which makes a number of assumptions. At present we have no reason to change that outlook but I warn that business conditions remain volatile and there is no certainty that things will change for the better.

For a brief review of the PFI I am pleased to introduce Sean Kam our new CFO.

(Sean to address the meeting briefly on the PFI and any other salient finance information from the annual report)

**Board Changes**

I announced at the recent briefing that we would review the composition of the Board immediately following the capital raising. We have also been looking at Board structures within the Group.

For some years now we have operated with a common board for PGC, MARAC and Perpetual Trust.

Our intention now is to have separate and distinct Boards reflecting the different needs of each core component of the Group. This gives us the opportunity to provide for the different skills which each of these entities requires and whilst there will be some common directors to all three to create linkage we plan that there will be a different Chair for each Board.

For the Boards of Perpetual Asset Management and Perpetual Trust we will be looking to appoint Directors with specialist skills in trustee services and funds asset management, along with the broader appropriate financial skills which every Board needs. For MARAC we will be looking for 2 independent Directors (ie not Directors on any other Board within the Group) and we will be looking for strong financial skills and banking experience. The PGC Board, which is the Board for the listed company sitting over the top of this structure, will need Directors skilled in compliance, governance, and capital allocation.

We have appointed a Committee to be headed up by Bruce Irvine if he is re-elected today, whose task it will be to identify and recommend appointments to each Board and with the help of external consultants if needs be. Our goal is to secure the best

available people and whilst we have a number of prospects already we would welcome suggestions from shareholders. If you have a name please contact Jeff.

Our plan is to have the new Boards in place by the end of November and to call a Special Meeting of shareholders to confirm those recommended for appointment.

### **Director Changes**

A number of existing Directors will not however be available for appointment under the process I have just outlined. Richard Elworthy, Warwick Steel and Stephen Montgomery will be standing down from the Board.

Warwick has this morning withdrawn his nomination for re-election and today is his last with PGC.

Warwick joined the Group in 1992 as a Director of MARAC and was appointed to the PGC Board and the Perpetual Trust Board in 2003. His experience in finance and investment markets has been of real value to the Board, so too his diligence on the many other tasks we have asked him to do over the years. Thank you Warwick on behalf of us all for your years of service. Richard and Stephen will step down as Directors at the conclusion of the review process and once we have new appointments to the Board certain and confirmed.

I too, will be standing down once these new appointments are confirmed.

These changes are all about responsible governance.

The Board as a whole, takes responsibility for recent events and we may have moved sooner on this were it not for our determination to fix the MARAC problem before any changes were made.

Well we have attended to the fix, and in the process set the business on track again with what we believe to be an exciting strategy for the future. So now is the time to tidy up the board.

In the meantime, until new appointments are made, it will be business as usual in what we expect to be a seamless transition to the new order. Bruce Irvine, Bryan Mogridge and George Kerr, if you confirm them in due course, will give us the continuity that we need going forward.

Let me just add lest the media and others misconstrue, the situation, that the Board has been absolutely united on the steps we have taken and the further strategy for the business.

So let me just thank the Directors for the extraordinary Effort they have each made over recent weeks and months. In fact, if I had to go through the whole cathartic process again, and God willing I won't, I would hand pick this team to take us through. Their mix of skills and their cohesive approach have served you all well.

Whilst today is a meeting for shareholders, we have other stakeholders for whom the success of our business is equally important. Suppliers, customers and staff throughout New Zealand. And it is to this last group, our loyal employees in each of the businesses that I wish to make this final remark. You have all worked through a testing period with a commitment and loyalty to business second to none. Without your support and strength our business would not work. To each of you, thank you

for that commitment and support. It is our expectation that as we move into the future, your continuing confidence in the business will be well rewarded.

### **CEO Report**

Jeff Greenslade will now speak to you about the new strategy for the business and its prospects. (Jeff to address the meeting).

I will now take questions on the Annual Report and the addresses you have just heard.

(Sam to chair with Jeff).

### ***Poll Voting Instructions***

The next two items of business require a vote and I declare that voting will be by way of a poll. Our Auditors, KPMG, are present, and will act as scrutineers on the vote as required by the Company's Constitution.

If you are both a shareholder and a proxy holder or shareholder Company representative please complete a separate voting paper for yourself and for the shareholders you represent.

For the reasons I have explained there is only one Director for re-election today, Bruce Irvine. Brief bio notes can be found at page 23 of the Annual Report.

Bruce was appointed a Director of Perpetual Trust in 1996 and to the PGC Board in 2003. He brings strong financial and accounting skills and has chaired our Audit Committee for some years now. He is also one of our representatives on the Board of PGG Wrightson and was yesterday re-elected to that Board at their AGM.

He has experience as a Professional Director with a number of other well known businesses.

The other resolution authorises the Directors to fix the Auditors remuneration and it is convenient for us to take this by poll at the same time. I ask you to mark your vote for this on the form where indicated.

Are there any questions about either resolution?

Voting is now to take place. Please complete your forms and lodge in the ballot boxes which will be circulating. Our Auditors, KPMG, are present, and will act as scrutineers on the vote as required by the Company's Constitution.

*[Pause while shareholders complete voting papers]*

Have all who wish to vote done so?

Once all the papers are collected the scrutineers will retire and count the votes.

The outcome of the poll will be announced this evening if we are able to, or posted with the media and the New Zealand Stock Exchange as soon as it is available.

### **General Business**

This is the final matter on the Agenda. Are there any items of General Business?

Ladies and gentlemen, that completes the business on the Agenda for this meeting.

I thank you for your attendance and your co-operation with the chair. I formally declare this meeting closed and invite you all to share refreshments with us.

Declare the Meeting closed.