

**Chairman's Address to the Allied Farmers Limited AGM
Tuesday, 28 October 2008**

The year ended 30 June 2008 was overshadowed by the deepening international credit crisis and a drought that was, for some farmers, the worst in living memory. It was also a year of a record dairy payout.

The international credit crisis saw a loss in investor confidence for the non bank finance market. The international crisis was preceded in New Zealand by our own crisis of confidence in our Finance Company sector. What started with poor lending by some sector participants, became a liquidity crisis for most companies. But this in turn was overwhelmed by global events.

Allied Nationwide had to pay out over \$100 million in maturing deposits as a consequence. However, our ability to match debenture maturities with loan repayments, and a programme of remaining liquid saw Allied Nationwide finish the year in good shape. That this could be achieved, when so many other failed, is a real credit to the management team and has laid the platform for a further strategic acquisition.

As reported in the annual report and through the NZX, the purchase of Speirs Finance means the finance company has \$400 million of assets and has access to a \$250 million securitisation program, backed by BNZ up to \$150 million. We have always said that the best outcome was to be solvent and able to participate in the inevitable consolidation of the finance industry and this has been achieved.

We are positioned with a business that has moderate scale, a diversified lending book, a diversified funding book, a quality management team and an ability to draw from the capabilities of four businesses.

The recent Government decision to guarantee retail deposits will go a long way to restoring confidence in the remaining non bank finance companies that have scale and good management. We look forward to growing the business and extracting the real synergies between our rural and finance arms.

It is an understatement to say that the drought had a serious affect on our beef and sheep farmer customers. While it affected our diary farmer customers and impacted on their milk production, the increased payout gave them extra resources to cope. The major impact for the company was in the different timing of annual dairy herd sales. A number of herds were sold early as customers responded to the need for certainty and the increasing price per head.

The livestock division managed to transact the same number of cows as last year. However, the average price over all categories of cows was about double that of last year. The drought saw large numbers of cattle and sheep pass through our stockyards at low values.

Overall the annual revenue was a record.

In this period we recruited staff and opened a livestock office in Ashburton – we are growing the placement of stock in the South Island. We are, to date, the third largest trader of livestock through the Temuka saleyard.

The Taranaki market for farm merchandise was strong. In fact total merchandise revenue was the best in a decade. This reflected the buoyancy of the dairy sector on the back of the high payout. As a new initiative we have arranged a strategic alliance with ABB Grain that has meant guaranteed availability of palm kernel as a supplementary feed for our customers.

Today we will announce to NZX that our Group Chief Executive, David Bale, has decided to step down at Christmas. David joined us two years ago to provide his change management skills to Allied Farmers. It was always envisaged that this would be a two to three year appointment.

During David's tenure we have seen the closure of the Allied Pine sawmill, the purchase of Nationwide Finance, the sale of the Wool division, the development of the MyLiveStock system, the South Island expansion, and the purchase of Speirs Finance.

David has steered the Group through a period of financial turbulence that has been unprecedented in most of our lifetimes. David, the company truly recognises your very strong contribution.

The company will move immediately to commence a process to recruit a successor for David.

Finally, I must acknowledge that the next year will be difficult for the global economy. There is little doubt that the world is in a recession, but we have yet to see the full impact of increased unemployment and the reduction in personal income that will in turn impact on business. Economists are forecasting a rise in unemployment of 200,000 jobs in the USA in September alone, and that the unemployed percentage of the workforce will rise from 6.5% to 8.5% in the four months to December. This will in turn impact on consumer demand.

The world has been on a debt fuelled consumption and investment binge. The consequences of the required adjustment are difficult to predict with accuracy but cannot be under-estimated.

It has not been a tradition at Allied Farmers Annual General Meetings for regulators and Government officials to receive compliments. However, the radical actions that have been taken so swiftly by regulators around the world are truly worthy of praise. The co-ordination that has been achieved has been impressive and necessary. The actions cannot prevent a significant global slowdown, but they seem to have significantly mitigated against the most extreme negative scenarios. Thus in our 96th year we will face significant challenges, and not all of them are currently obvious.

Throughout the current uncertainties it is important to remember that the recession will end and there will be a need for innovative, medium risk lending to enable economic growth, and also a need for depositors to have access to higher yielding investments. Thus there will be a place for Finance companies in tomorrow's economy. Through both the recession and the recovery phases people will need food sourced from agriculture. Thus there will be a place for rural services operations such as our own.

The key challenge for your Board and management team is to weather the adversity and to strengthen our position in difficult times.

This company has weathered many downturns in its 95 year history, and with the help of our customers and staff we will again come out of this one in good shape.

ENDS

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