

New Steps

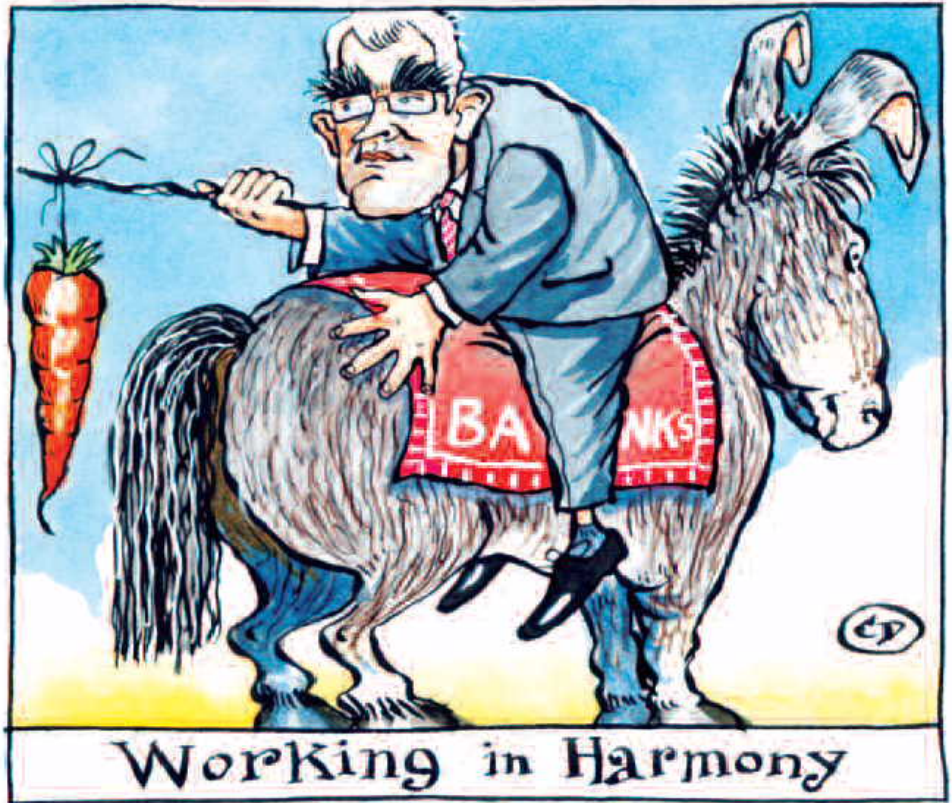
The Government has recently announced a series of measures which are intended to encourage and support bank lending to businesses in the current difficult economic climate. The initial announcement relating to smaller companies covers:

Working Capital Scheme

- The Government is to guarantee 50 per cent of the risk on existing and new working capital credit lines held by banks up to the value of £20billion.
- In exchange for the guarantee the banks must use the capital freed up for new lending.
- Banks will submit to the Government a portfolio of loans of ordinary-risk businesses with a turnover of up to £500million per year. This will determine the premium payable by the banks for the guarantee.
- The first £1billion tranche under this scheme will become available from 1 March 2009.

Enterprise Finance Guarantee

- The Government is to guarantee 75 per cent of a further £1.3billion of bank loans.
- The aim is to help credit-worthy companies (with annual turnover up to £25million) to have access to loans of up to £1million for a period of up to ten years (excludes agriculture, coal and steel sectors).



- The guarantee can be used to support new loans, refinance existing loans or convert all or part of an existing overdraft facility into a loan to free up working capital.
- The scheme is to run until March 2010.
- The launch of this scheme has resulted in the suspension of the Small Firms Loan Guarantee.

Capital for Enterprise Fund

- A new £75million equity fund to provide longer term capital to companies that may have exhausted debt funding options.
- It is open to companies with turnover of up to £50million which can demonstrate economic viability in the long term (excludes agriculture and coal sectors).
- The fund offers equity of between £250,000 and £2million for any one investment and is to be run by professional fund managers.

In summary, the point of access for the new measures will be the banks (with the exception of the Capital for Enterprise Fund). There may be some implication on the pricing of funds by the banks as the premium payable to the Government is still to be determined. Clearly it remains to be seen whether enough has been done to persuade the banks to return to active commercial lending although we understand that there is considerable political pressure.

The full details of these schemes are still to be announced and we will provide regular updates as further information becomes available.



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