South Canterbury Finance Limited

Analysis of a $125m debt facility provided by the Crown (the “Crown Facility”) to South Canterbury Finance Limited (“SCF”) on commercial terms to facilitate repayment of SCF’s $US100m Private Placement note issue.

Summary

In the event the USPP note holders exercise either of the options outlined below, the analysis suggests the Crown would be materially better off directly providing the funding to repay the USPP. The aggregate benefit is between $107m and $117m assuming that satisfactory arrangements in relation to security for the loan can be arranged.

However, it should be noted that if the USPP noteholders were prepared to swap their existing securities for new securities that had the benefit of a prior charge, that would likely be the preferred option for SCF’s majority shareholders. In that case, in the event of a subsequent default by SCF, the net cost to the Crown (excluding post acceleration interest) would increase by $NZ32m compared to the status quo.

Assumptions

The analysis assumes that:

1. If the Crown lends the money to SCF directly or not, recovery by the Crown in the event of default by SCF is against the assets securing the facility and not, in the first instance, against the assets of SCF. The effect of this is that the advance effectively becomes an equity injection into SCF in the event of default,
2. In the event that the Crown initially advances the funds to another entity, the subsequent flow of funds from that entity to SCF is by way of either a capital injection or a sub-ordinated advance that ranks behind any other secured or un-secured creditors in the event of a wind-up,
3. Any advance by the Crown is fully recovered in the event of a default by SCF,
4. The status quo position excludes the effect arising from the acceleration of future interest payable on the notes in the event the notes are callable as a result of covenant breaches by SCF.

Analysis

Full analysis of the individual options is set out in the appendix.

Crown Funds Repayment of USPP note holders

If the transaction were to proceed, the expected **benefit** to the Crown is **$85m compared to the status quo**. Although the Crowns share of the loss increases from 88% to 94% as a result of the USPP repayment, the aggregate loss (excluding any post acceleration interest payable by the Crown to eligible creditors) declines from $576m to $451m.

USPP note holders call for repayment as a result of covenant breaches

If the Crown does not provide the Crown Facility, and the notes are called as a result of the covenant breach the expected additional **cost** to the Crown is estimated at **$22m compared to the status quo**. The increase results from the fact that the acceleration provisions increase SCF's liability on the notes by the amount of future interest payable (estimated at $NZ35m. Therefore, although the Crown share of any loss decreases slightly, the overall loss increases by $NZ35m with the bulk of that borne by the Crown.

USPP note holders swap existing securities for new notes with the benefit of a prior charge on SCF

If the USPP noteholders agree to the swap their existing notes (which rank pari passu with other secured obligations of SCF) for replacement securities with the benefit of a priority charge as permitted by SCF's Trust Deed, the additional **cost** to the Crown in the event of default is estimated at **$32m compared to the status quo**. That reflects no change to the estimated loss given default but an increase in the share of that loss borne by the Crown as a result of the priority charge held by the USPP noteholders.

Proposed SCF/Southbury Equity Raising

The proposed recapitalisation of SCF is understood to rely substantially on the establishment of a new holding company with significant assets apart from SCF. The key assets in that regard would likely be Helicopters (N.Z) Limited and/or Scales Corporation Limited. The type of security arrangements proposed for the Crown Facility would likely require that the Crown agree to a security sharing arrangement (subject to the proceeds of any capital raising by the holding company flowing through to SCF in the form of additional equity capital) in order to ensure the capital raising could proceed.

Security Arrangements

It is expected that the Crown would have to enter several Deeds of Priority, and/or Deeds of Subordination and Postponement to achieve perfected security in line with the approach outlined above including:

1. A first ranking specific security interest (SSA) over the shares of Helicopters (N.Z) Limited and/or Scales Corporation Limited and/or Southbury Limited,
2. A (expected not to be first ranking) general security interest (GSA) over Helicopters (N.Z) Limited and/or Scales Corporation Limited and/or Southbury Limited and and/or South Canterbury Finance Limited,
3. A second ranking specific security interest over the key assets of Helicopters (N.Z) Limited and/or Scales Corporation Limited;
4. Mortgages over any land owned by Helicopters (N.Z) Limited and/or Scales Corporation Limited;
5. An unlimited guarantee from South Canterbury Finance Limited in favour of the Crown;
6. An unlimited person guarantee from each of the major shareholders of Southbury Limited in favour of the Crown.

Appendix

SCENARIO ONE - $125M CAPITAL INJECTION FROM SOUTHBURY ALLOWS THE REPAYMENT OF THE USPP.

Balance Sheet One - Assumptions
The loss given default illustrated in the Crowns accounts for the year ending June 2009

Balance Sheet One - South Canterbury Finance Limited (BB+/Negative/Aug 09)

ASSETS		LIABILITIES		
Trade Creditors (@ 50%)	10	Guaranteed Deposits	1,855	
Fixed Assets (@ 10%)	10	Liquidation Costs (@ 5% of Book)	5	
Equity Investments (@ 25%)	28	Other Liabilities (inc Bank Funding)	247	
Cash (@ 100%)	124	**Total Liabilities**	**2,106**	
Other Liquid Assets (@ 80%)	0			
Other Assets (@ 15%)	61	**Equity (Loss)**	(576)	
Net Loan Book	1,296			
Total Adjusted Assets	**1,530**	**Total Adjusted Assets**	**1,530**	
		Crown Share of Loss	(507)	88.1%
		Post Acceleration Interest	(160)	
		Total Crown Loss	(667)	

Balance Sheet Two - Assumptions
The US$100m USPP is paid out in full, with no accelerated interest.
Post acceleration interest remains unchanged.

Balance Sheet Two - South Canterbury Finance Limited (BB+/Negative/Aug 09)

ASSETS		LIABILITIES		
Trade Creditors (@ 50%)	10	Guaranteed Deposits	1,855	
Fixed Assets (@ 10%)	10	Liquidation Costs (@ 5% of Book)	5	
Equity Investments (@ 25%)	28	Other Liabilities (inc Bank Funding)	122	
Cash (@ 100%)	124	**Total Liabilities**	**1,981**	
Other Liquid Assets (@ 80%)	0			
Other Assets (@ 15%)	61	**Equity (Loss)**	(451)	
Net Loan Book	1,296			
Total Adjusted Assets	**1,530**	**Total Adjusted Assets**	**1,530**	
		Crown Share of Loss	(422)	93.6%
		Post Acceleration Interest	(160)	
		Total Crown Loss	(582)	

Increase (Decrease) in Total Crown Loss (85)

SCENARIO TWO - THE USPP IS CALLED, SCF FAILS, AND THE USPP LIABILITY INCREASES ALL INTEREST IS ACCELERATED AND PAYABLE.

Balance Sheet Three - Assumptions
The loss given default illustrated in the Crowns accounts for the year ending June 2009

Balance Sheet Three - South Canterbury Finance Limited (BB+/Negative/Aug 09)

ASSETS		LIABILITIES		
Trade Creditors (@ 50%)	10	Guaranteed Deposits	1,855	
Fixed Assets (@ 10%)	10	Liquidation Costs (@ 5% of Book)	5	
Equity Investments (@ 25%)	28	Other Liabilities (inc Bank Funding)	247	
Cash (@ 100%)	124	**Total Liabilities**	**2,106**	
Other Liquid Assets (@ 80%)	0			
Other Assets (@ 15%)	61	**Equity (Loss)**	(576)	
Net Loan Book	1,296			
Total Adjusted Assets	**1,530**	**Total Adjusted Assets**	**1,530**	
		Crown Share of Loss	(507)	88.1%
		Post Acceleration Interest	(160)	
		Total Crown Loss	(667)	

Balance Sheet Four - Assumptions
The US$100m USPP is called, and interest payment of NZ$35.175m is accelerated.
Post acceleration interest remains unchanged.

Balance Sheet Four - South Canterbury Finance Limited (BB+/Negative/Aug 09)

ASSETS		LIABILITIES		
Trade Creditors (@ 50%)	10	Guaranteed Deposits	1,855	
Fixed Assets (@ 10%)	10	Liquidation Costs (@ 5% of Book)	5	
Equity Investments (@ 25%)	28	Other Liabilities (inc Bank Funding)	282	
Cash (@ 100%)	124	**Total Liabilities**	**2,142**	
Other Liquid Assets (@ 80%)	0			
Other Assets (@ 15%)	61	**Equity (Loss)**	(611)	
Net Loan Book	1,296			
Total Adjusted Assets	**1,530**	**Total Adjusted Assets**	**1,530**	
		Crown Share of Loss	(530)	86.6%
		Post Acceleration Interest	(160)	
		Total Crown Loss	(690)	

Increase (Decrease) in Total Crown Loss 22

SCENARIO THREE - THE USPP BECOMES A DEBT RANKING IN PRIORITY TO ALL OUTER CREDITORS

Balance Sheet Five - Assumptions
The loss given default illustrated in the Crowns accounts for the year ending June 2009

Balance Sheet Five - South Canterbury Finance Limited (BB+/Negative/Aug 09)

ASSETS		LIABILITIES		
Trade Creditors (@ 50%)	10	Guaranteed Deposits	1,855	
Fixed Assets (@ 10%)	10	Liquidation Costs (@ 5% of Book)	5	
Equity Investments (@ 25%)	28	Other Liabilities (inc Bank Funding)	247	
Cash (@ 100%)	124	**Total Liabilities**	**2,106**	
Other Liquid Assets (@ 80%)	0			
Other Assets (@ 15%)	61	**Equity (Loss)**	(576)	
Net Loan Book	1,296			
Total Adjusted Assets	**1,530**	**Total Adjusted Assets**	**1,530**	
		Crown Share of Loss	(507)	88.1%
		Post Acceleration Interest	(160)	
		Total Crown Loss	(667)	

Balance Sheet Six - Assumptions
The US$100m USPP is amended to allow it to rank in prority to the Guaramted Deposits.
Post acceleration interest remains unchanged.

Balance Sheet Six - South Canterbury Finance Limited (BB+/Negative/Aug 09)

ASSETS		LIABILITIES		
Trade Creditors (@ 50%)	10	Guaranteed Deposits	1,855	
Fixed Assets (@ 10%)	10	Liquidation Costs (@ 5% of Book)	5	
Equity Investments (@ 25%)	28	Other Liabilities (inc Bank Funding)	247	
Cash (@ 100%)	124	**Total Liabilities**	**2,106**	
Other Liquid Assets (@ 80%)	0			
Other Assets (@ 15%)	61	**Equity (Loss)**	(576)	
Net Loan Book	1,296			
Total Adjusted Assets	**1,530**	**Total Adjusted Assets**	**1,530**	
		Crown Share of Loss	(539)	93.6%
		Post Acceleration Interest	(160)	
		Total Crown Loss	(699)	

Increase (Decrease) in Total Crown Loss 32