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_ The Save Manston Airport group supplied written evidence (C) to the Committee prior to the meeting. A coachload of Save Manston Airport members (M) went up to the TSC committee meeting, as did Sir Roger Gale (N), and the chairman Dr. Beau Webber addressed the Committee (G). Following the meeting SMA sent some further written submissions (H & J) to the Committee, to help answer questions by Committee members

A - Oral Transcript 17966.pdf – The official transcript of the committee meeting.

B - Transport_Committee_02-02-15_16-11-53.mp4 – a video copy of the meeting - fairly entertaining

C - Written evidence from Save Manston Airport Group (SMA0029) - 13433.pdf

D - Evidence to Select Committee - Pauline Bradley + Infratil.pdf – Key points, on Manston ownership, some questions on which were not answered (see F & J). Also some reasons for Manston closure, to be contrasted with evidence in the Avia Report (Appendix A), (E&K) :

E - 2016-10-06 - Avia Evidence re Ryan Air and Manston Airport.pdf

F- Excerpts re ownership of Manston.pdf

G- Manston - National Asset - Diversionary Airport - Oral.pdf – Save Manston Airport and Why Not Manston ? evidence.

H - 2015-02-11 - pro vs anti totals.pdf - SMAa evidence sent to the TSC, following a Committee question.

J - Deduced Manston ownership.jpg - SMAa deductions re Manston ownership, sent to TSC.

K - 2016-10-04 - Avia - Final-Report-for-TDC-Manston-Airport-Viability-Oct2017_2.pdf

L - Mrs Louise Ellman (Chair).jpg

M - Save Manston - members .jpg

N - Sir Roger Gale at Moat.jpg



Transport Committee

Oral evidence: [Smaller airports](#), HC 713

Monday 2 February 2015

Ordered by the House of Commons to be published on 2 February 2015.

Written evidence from witnesses:

- [Manston Skyport Limited](#)
- [RiverOak Investment Corp LLC](#)
- [Thanet District Council](#)
- [Kent County Council](#)
- [Sir Roger Gale MP](#)
- [No Night Flights and Manston Pickle](#)
- [Save Manston Airport Group](#)
- [Why Not Manston?](#)

[Watch the meeting](#)

Members present: Mrs Louise Ellman (Chair); Jim Fitzpatrick; Mr Tom Harris; Karen Lumley; Chloe Smith; Graham Stringer and Martin Vickers.

Questions 48-197

Witnesses: **Pauline Bradley**, Director, Manston Skyport Limited, **Alastair Welch**, Interim Director, Kent Airport Limited **Alan Mackinnon**, Interim Director, Kent Airport Limited, **George Yerrall**, Partner, RiverOak Investment Corp, and **Tony Freudmann**, Partner, RiverOak Investment Corp gave evidence.

Q48 Chair: I would like to welcome everybody here today, witnesses and members of the public. I am pleased to see there is so much interest in this session. I know that a lot more members of the public are waiting to get into the room, and I was intending to wait until everybody had come in before we started our proceedings, but the movement is pretty slow so we will make a start. I know that others will come in as we progress.

This is a formal meeting of the Transport Select Committee. Our session today forms part of the Committee's inquiry into smaller airports. Today's session is taking place under the Standing Orders of the House of Commons. That means that filming and photography are strictly prohibited. Tweeting and blogging are allowed, but I ask anybody who has any

mobile devices to please put them to silent. It is essential during our session that the Committee is able to hear from our witnesses without any interruption from the public gallery. If there is interruption, I will have to ask the doorkeepers to clear the public gallery. I do not anticipate that that will be necessary because I am sure everybody has come here to listen to what is being said. You might also be interested to know that a transcript of today's session will be published online by the end of the week, so you will be able to read exactly what has been said.

I now turn to our witnesses. Would each witness please give their name and organisation for our records?

Tony Freudmann: I am Tony Freudmann from RiverOak.

George Yerrall: I am George Yerrall from RiverOak.

Alastair Welch: I am Alastair Welch, an interim director of Kent Airport Limited.

Pauline Bradley: I am Pauline Bradley, director of Manston Skyport.

Alan Mackinnon: I am Alan Mackinnon, interim director of Kent Airport Limited.

Q49 Chair: Thank you very much. Ms Bradley, how much did Manston Skyport pay Infratil to purchase Manston airport in November 2013?

Pauline Bradley: The consideration we paid was £1.

Q50 Chair: One pound?

Pauline Bradley: Yes.

Q51 Chair: What happened to the airport's debts? Were they factored into that at all? How were they dealt with?

Pauline Bradley: The transaction that we agreed with Infratil was that, although we paid £1 for the shares in the company, we in fact inherited the running costs of the business. In effect, the day after we paid £1 we became responsible for all costs and all losses in relation to the airport.

Q52 Chair: How much was involved?

Pauline Bradley: By the time we made the decision to close the airport the losses incurred at the airport were about £4.5 million.

Q53 Chair: Were any debts written off at that stage?

Alan Mackinnon: Could I answer that? Prior to the acquisition of the airport by Manston Skyport, Infratil—the then owners—capitalised £55 million of intra-group loans. They converted them from loans to share capital.

Q54 Chair: Ms Bradley, the Manston Skyport written evidence which the Committee has received states that you “cut short your due diligence work” before purchasing the airport. When you took control of the airport in November 2013 was the financial situation worse than you had anticipated?

Pauline Bradley: When we took control of the airport at that time we had not bottomed out what the expected financial loss position would be. The reason we had not been able to do that was that Infratil had made it very clear to us towards the end of that year that we had a very short period of time to make a decision on Manston airport in particular. From memory, they gave us one month to make a decision as to whether or not we proceeded with the purchase of Manston, so we had no time, under those circumstances, to complete the due diligence on forward losses at Manston. We had done quite a significant amount of work, but the real problem that we and our advisers had at that time was that the management information given to us when we first started to review the airport as an opportunity, in terms of the losses that management were projecting at the time, was quite different some months down the line, because the trading performance of the airport had deteriorated. To give you an example—

Q55 Chair: Let me go back to the question I am putting to you. Was the financial situation worse than you anticipated?

Pauline Bradley: Yes.

Q56 Chair: Do you think that Infratil maximised profitability at Manston? Could they have done it better?

Pauline Bradley: Certainly in a number of conversations that we had early in the process, parties close to the situation at Manston had confided in us that they had some concerns that Manston had suffered as a result of the remote ownership and management of the previous owner Infratil, who was based in New Zealand. As a result, there was a belief that opportunities to grow the business at Manston had been missed.

Q57 Chair: Did you think that they had an effective business plan?

Pauline Bradley: I do not think I could fully answer the question today, simply because it is a long time since we looked at—

Q58 Chair: But surely that cannot be the case, can it? This was the purchase of a very important asset. I am asking you the question: did you think that the operators had an effective business plan? It is not about remembering, is it? Did you think that or didn't you?

Pauline Bradley: We believed that the strategy the operators had was the correct strategy in terms of trying to grow the revenue at Manston. What I was trying to explain was that, anecdotally, although they had a strategy to try to enhance the revenue, they did not have enough of a presence on the ground to be able to maximise opportunities to do that.

Q59 Chair: Your written evidence, if I can go back to it again, also refers to what you call “a highly regarded chartered accountant who had worked on numerous turnaround strategies” and “an industry professional with extensive aviation experience”. Was that a reference to Mr Mackinnon and Mr Welch?

Pauline Bradley: Yes, it was.

Q60 Chair: Mr Welch, looking at your track record, you have a great deal of experience in the aviation industry, but did you genuinely believe that the Airports Commission would recommend no new runway construction in the south-east, that BA would shift its cargo

operation to Manston and that Ryanair would base itself at Manston? Given the knowledge you have of the aviation sector, did you seriously believe those things?

Alastair Welch: There are three different questions you ask there. In terms of the Airports Commission, ultimately it will be very interesting to see what has happened. I think their initial findings surprised a number. There is—

Q61 Chair: Mr Welch, I am not asking you for a commentary on the findings. Did you genuinely believe at that early time that the commission was likely to recommend no expansion at major airports in the south-east? Did you really believe that was likely?

Alastair Welch: We believed there was certainly a possibility that no incremental runways in the south-east could be a recommendation, yes.

Q62 Chair: Do you know anybody else who thought that?

Alastair Welch: Many; yes.

Q63 Chair: Really? Did you think that BA was going to shift its cargo operation to Manston? What led you to think that?

Alastair Welch: The executive team at Manston previously had been very close to getting British Airways to migrate their cargo operation from Stansted. They went to main board and it stayed at Stansted at that point. It was up for renewal or review in early 2014. The executive team at the airport were confident that they had a very good chance of securing it for Manston.

Q64 Chair: Did it look likely that Ryanair was going to base itself at Manston?

Alastair Welch: Perhaps Ms Bradley can answer that better than I can because there were conversations, before purchase took place, with Michael O’Leary.

Q65 Chair: Ms Bradley, was that a likely proposition?

Pauline Bradley: I believe at the time we made the decision to acquire the airport that that was a likely outcome. If I can just explain, Ann Gloag and I met twice with Michael O’Leary and Michael Cawley at Ryanair to try to persuade them to consider Manston as a base and perhaps to use Manston to operate some of what are called “sunshine flights” to the southern parts of Europe. I have to say that when we first went to see them they had not heard very much, if anything at all, about Manston, and that reinforced our belief that perhaps Infratil were just too remote to capture opportunities there.

However, they did consider Manston. They sent someone down to have a look at it. I think Tony was involved at that stage. They came back with a very positive review at that stage for Ryanair. That led to Michael O’Leary allowing us access to his senior routes planner to begin to discuss what those routes would be, how many times a week they would go and what the passenger numbers would be. At the time we made the decision to acquire the airport, we were talking to Ryanair about five routes that would initially have brought an additional 85,000 passengers to Manston. By 2019 that would have increased to 300,000. There was a real, credible opportunity to do business with Ryanair at that time.

Q66 Chair: Let me go to what happened about the purchase and disposal of Manston. You announced the closure of the airport in March 2014, less than four months after the purchase. When was the decision to close taken—or your intention to close?

Pauline Bradley: The intention to close the airport was as a result of the review that the interim executives had carried out. They were asked to report—

Q67 Chair: When?

Pauline Bradley: They reported to the shareholders at the end of February as to what the options were for the airport going forward.

Q68 Chair: How long was that after the airport was purchased?

Pauline Bradley: Four months.

Q69 Chair: Don't you think it sounds a little strange, after your confidence—the way you put it to us today—about Mr Welch's comments that all these very positive things were going to happen, that within four months there was the decision to close it?

Pauline Bradley: The reason for that is that a number of things happened in a very short period of time. Probably the most serious for Manston was that Ryanair, by the beginning of 2014 and after two profits warnings, had reviewed their operational strategy and come to the conclusion that airports like Manston were exactly not what they wanted in terms of their business going forward. Therefore, as a result, Ryanair withdrew from our discussions. That was not something we could have foreseen at the time. Ryanair, in effect, pulled out.

Obviously in relation to the BA cargo that you referred to, BA changed their strategy on cargo. Some of the cargo operators that we had spoken to in terms of bringing business to Manston were affected by things such as “No Night Flights”, and therefore we could not attract business for that reason. The whole strategy around cargo in terms of the aviation industry was under review. Most cargo was being carried in the belly of planes. The main areas we identified early on to improve the revenue at Manston, to give us a chance of turning it around within a very short period of time, no longer existed.

Q70 Chair: Within four months you went from seeing it as a place where there could be major developments with some confidence to deciding that you would have to close it. Am I correct in saying that?

Pauline Bradley: Yes.

Q71 Chair: The airport closed on 15 May 2014. When did you sell off the assets, such as the emergency equipment and the runway lighting? When were those sold off?

Alastair Welch: The key piece to set out is that it was what we would call an orderly closure, by which we mean a solvent closure; creditors were paid and staff were made redundant, and obviously paid by the company, and as part of that what then followed were the mechanical assets. Things with wheels and so on were sold around three or four months after that. Some of the other items were sold beyond that.

Q72 Chair: Could you clarify for me when the aviation assets, such as emergency equipment and runway lighting, were sold off?

Alastair Welch: I do not think the runway lighting has actually been sold, to my knowledge.

Q73 Chair: Has it been sold?

Alastair Welch: Certainly it was available for sale. I do not think it has value, to be honest. There was a process of sale which ran until roughly September/October last year.

Q74 Chair: I want to know when these particular pieces of equipment were sold off. When was the emergency equipment sold off?

Alastair Welch: If it is helpful, might I suggest that we could write to you with a schedule breaking that down so we can be correct?

Q75 Chair: Yes. We want to know when the emergency equipment and runway lighting were sold off. We have heard that RiverOak attempted to purchase the airport in April 2014 following the closure announcement. How much did they offer?

Pauline Bradley: I can answer that. The original offer from RiverOak was a verbal offer. It was made to me and Ann Gloag. The original offer was to give us our money back. That was the quote.

Q76 Chair: How much was offered?

Pauline Bradley: The offers ranged from the initial offer of giving us back our money. There was then a verbal offer—

Q77 Chair: How much would that be?

Pauline Bradley: My interpretation of that at the time was that they were going to pay us the £1 that we had paid Infratil. The offer was increased to around £2 million or £2.5 million verbally, and offers after that started to come in writing.

Q78 Chair: RiverOak, would you like to comment on that?

George Yerrall: We offered £5 million, £6 million and ultimately £7 million in the space of two or three weeks.

Tony Freudmann: In writing.

Q79 Chair: It was in writing. Ms Bradley, this is something very different. How can there be such a discrepancy?

Pauline Bradley: I do not think it is different. In the original conversations with RiverOak, when they came up to Scotland to visit Ann Gloag and myself—in fact, I think Tony Freudmann was present at that meeting—the offers were made verbally. There was a verbal offer made that day, which was to give us our money back. When that was rejected, the offer was increased at the same meeting to around £2 million or £2.5 million. I do not remember which it was. That meeting then ended, and Mr Freudmann, Niall Lawlor and another gentleman left. The same day we had a telephone conversation to increase the

offer to, I believe, either £3 million or £4 million. When the offers started to come in writing, then Mr Yerrall is correct that we had written offers of £5 million, £6 million and £7 million.

Q80 Chair: So the answer to my question is that you had an offer of how many million?

Pauline Bradley: The initial offer—

Q81 Chair: No; I am asking what the offer was from RiverOak.

Pauline Bradley: The offer ranged from £1 to £7 million.

Q82 Chair: RiverOak, do you have evidence of the offers you made?

George Yerrall: Yes, they are in writing. We have copies of the letters if you would like them.

Q83 Chair: Yes. What was the amount of the offer that you made?

George Yerrall: The highest offer was £7 million. We were rejected at £4 million. We were rejected at £5 million. We ultimately offered £7 million, which we were told was the asking price.

Q84 Chair: Ms Bradley, do you accept that? Are you disputing what RiverOak are saying they offered you and that you rejected?

Pauline Bradley: I do agree that the asking price was £7 million. I certainly do not agree that that was the offer we received from RiverOak. The offer we received was a highly conditional offer, and one of the conditions was that RiverOak would take ownership of the £2 million that sat in our bank account, so it was never a £7 million offer.

Q85 Chair: Would it be the case that you were aware at that point that the land was worth a great deal more as a development opportunity than it was as an airport, and that might have affected your decision?

Pauline Bradley: I am not aware that we actually thought about it in those terms. The decision we took was not affected by what we thought the land might ultimately have been worth. The decision we took around RiverOak was for two reasons. The first reason was that we entered into discussions with RiverOak in good faith; in truth, we saw them at that stage as being, of all the parties that had been introduced to us as buyers of the airport, a credible buyer for the airport, and we were optimistic in our early discussions with them.

One of the things we asked of RiverOak very early on, before we got into much of the debate around price at all, was that any communication between us was kept private and confidential until we agreed the deal. At that point, we would have had no issue with anyone in the public domain being aware of it. But we had just come through a very difficult experience with a previous cash buyer that apparently was going to buy the airport, pay the money and do the deal in a very short period of time. We were going through a consultation process with staff at that time and it was extremely difficult for them and for the interim team, because their hopes were raised and then the cash buyer did not materialise. We explained all that to RiverOak and said, “Look, it is really important to us that we have this private and confidential arrangement, after which we have no issue.”

Unfortunately, within a short period of time, written communication from RiverOak to ourselves started to appear in the public domain. In fact, we heard twice from our own staff at Manston that an offer was coming from RiverOak; on one occasion they could tell us that it was a knock-out offer. We had other people calling our office from the media in Thanet to tell us that another offer was coming, and that they had seen an offer. In effect, on something we had asked to stay private and confidential, third parties were aware of the offers and, in some cases, had seen the offers before we did. We just lost trust in RiverOak. It was a complete—

Q86 Chair: But losing trust is very different from disputing the fact—whether there was or was not an offer. Let me take you back to the written evidence that we received from you. It includes the following sentence: “In September 2014, Manston Skyport sold the site to regeneration specialists.” Is that a reference to Mr Cartner and Mr Musgrave?

Pauline Bradley: Yes, it is.

Q87 Chair: You sold the site to them. Are they the current owners of the airport?

Pauline Bradley: They are. They are the majority—

Q88 Chair: They are the current owners of the airport. Did Manston Skyport Limited maintain an interest in the former Manston airport?

Pauline Bradley: Yes, it did.

Q89 Chair: Who owns it then? Mr Cartner and Mr Musgrave are the owners. Manston Skyport, you agree, retains an interest. Can you tell us the nature of that interest?

Pauline Bradley: The majority of the share capital of that business—as in 80% of the share capital of that business—is owned by Mr Musgrave and Mr Cartner. We have a minority interest in the business going forward.

Q90 Chair: They own 80% of it, do they?

Pauline Bradley: That is correct.

Q91 Chair: Are you, Ms Bradley, a director of a company called Lothian Shelf (718)?

Pauline Bradley: I believe I am, yes.

Q92 Chair: You believe you are. That counts as yes. What assets does Lothian Shelf (718) hold the title to?

Pauline Bradley: Lothian Shelf (718) must own—it is a 20% shareholder in the joint venture. I am trying to be helpful. I am just not entirely sure.

Q93 Chair: You don’t know.

Pauline Bradley: My colleague Mr Mackinnon can help.

Q94 Chair: Mr Mackinnon, what light can you shed on this?

Alan Mackinnon: Lothian Shelf (718) is the JV company and owns the site.

Q95 Chair: It owns the whole of the site, doesn't it?

Alan Mackinnon: Yes.

Q96 Chair: Ms Bradley, you have given me a different answer. It owns the whole of the site. Therefore, is it accurate to state that Manston Skyport sold the site to the regeneration specialists you have named—Mr Cartner and Mr Musgrave? You said it sold the site to them. We now find that the company Lothian Shelf (718), of which you were a director, owns the site, so the first statement is not accurate, is it?

Pauline Bradley: Lothian Shelf (718) is the joint venture company. Mr Cartner and Mr Musgrave own 80% of Lothian Shelf and we own the other 20%. That is the joint venture company.

Q97 Chair: Is there a charge secured against the assets of Lothian Shelf (718)?

Alan Mackinnon: Yes, there is, in favour of Kent Facilities Ltd. There is a charge, I believe, registered against Lothian Shelf (718) Limited in favour of Kent Facilities Ltd, which owned the site.

Q98 Chair: Does that charge relate to a loan of £7 million from Kent Facilities Limited?

Alan Mackinnon: Yes.

Q99 Chair: Ms Bradley does not seem to know. Where does that £7 million come from?

Alan Mackinnon: Sorry, where does it come from?

Chair: Yes.

Alan Mackinnon: It is an amount secured against the site.

Q100 Chair: Where from? Where does the money come from?

Alan Mackinnon: It is securing money that has not yet been paid.

Q101 Chair: Where does it come from? Where does £7 million come from? Can either of you answer that?

Alan Mackinnon: Sorry.

Q102 Chair: Can either of you answer that question? Where does that £7 million come from? Ms Bradley, can you tell me?

Pauline Bradley: Forgive me, but I think to give you an accurate answer, the best thing is that we write to you fully about what the £7 million is.

Q103 Chair: According to documents that we have, the answer to that is Ann Gloag. Are you not aware of that?

Pauline Bradley: As I say, the best thing is that I research it and write to you. I do not want to give you an answer that could be incorrect.

Q104 Chair: Is a share of the profits from Lothian Shelf (718) directed to a company called Highland and Universal Investments under the terms of a joint venture agreement?

Pauline Bradley: Yes, it is.

Q105 Chair: Who is the director and owner of Highland and Universal Investments?

Pauline Bradley: I believe the owner is Ann Gloag.

Q106 Chair: Ann Gloag; that is correct.

Pauline Bradley: I do not know who the directors are.

Q107 Chair: The owner is Ann Gloag. Has Ann Gloag retained a substantial stake in, and financial control of, the former Manston airport site?

Pauline Bradley: The control of the site, whether financially or indeed in any other way, lies with Mr Musgrave and Mr Cartner. We obviously made the decision to sell it to them based on their experience in the area. Therefore, they are very much involved in the regeneration—

Q108 Chair: You talk about them being involved, but that is a completely separate question. That is not what I put to you. I am going to put the question to you again. Has Ann Gloag retained a substantial stake in, and financial control of, the former Manston airport site?

Pauline Bradley: She has a stake in the business. She has no financial control of the business.

Q109 Chair: Is it not correct that Ann Gloag has financial control through the charge secured against the assets of Lothian Shelf (718) and that a share of the profit is directed to her under the joint venture agreement? Is that not correct?

Pauline Bradley: I do not think that necessarily means that she has financial control. I think anyone who has a charge over a business, if there is a breach of the conditions of the charge, will exercise their charge, but I do not think that means they have financial control of a business. You have secured an interest you have with a charge.

Q110 Chair: How would you describe Ann Gloag's connection with this site, in view of the facts that I have read out, some of which you agreed with?

Pauline Bradley: Her connection with the site is that she retains an interest in the site, and that she has secured her interest in the site with some form of fixed charge. That is her interest in the site.

Q111 Chair: Wouldn't you think that, given the facts I have put to you, all of which are well documented and have been researched by the House of Commons Library, that is deliberately misleading this Committee and the public into thinking that Manston airport had been sold to Mr Cartner and Mr Musgrave? Wouldn't you think that was a misleading thing to put forward in view of the facts I have put to you and the documentation we have?

Pauline Bradley: I do not think we have ever tried to say that we do not have a retained interest in Manston going forward. I think that was actually part of the statement that was

made at the time. We have always stated that we retained an interest in Manston airport. In terms of the supplemental questions to do with the charge, and whether in some way having that charge influences the way that business goes forward, that is something that I would have to come back to you on and clarify. I do not believe that the presence of a charge would mean that Ann Gloag had any financial control or other type of control of the business.

Q112 Chair: Or financial interest.

Pauline Bradley: She would have a financial interest.

Q113 Chair: A significant financial interest.

Pauline Bradley: If the regeneration was obviously to be successful and profits would be made, then, yes, she would have a significant financial interest.

Q114 Chloe Smith: I would like to turn to RiverOak and Mr Freudmann and Mr Yerrall. Could you describe to us what previous experience RiverOak has in the aviation industry?

George Yerrall: RiverOak, which is based in Stamford, Connecticut, has not done an aviation project as a company—as RiverOak. However, Mr Freudmann, who is now a partner with RiverOak, and Mr Lawlor who is in the room and is a partner with RiverOak, have extensive aviation experience both operationally and financially.

Q115 Chloe Smith: Specifically picking up on Mr Freudmann's role as you have offered it, Mr Freudmann, you were the MD of Manston airport between 1997 and 2005. The airport ended up in liquidation. What would have been your intention in order to do a better job this time?

Tony Freudmann: I had departed long before the liquidation. Without engaging too much in a history lesson, the then owners of the then company decided to bet the company on a low-cost carrier called EUjet. Those of us whose advice was ignored departed the company, and by the time the company went into administration in July 2005 I was long gone. During my time the airport was successfully transferred from military use to a civilian operation and was building up its cargo business very successfully.

Q116 Chloe Smith: From RiverOak's perspective, what is the broad nature of your business, and in placing your offer on Manston what did you expect to be able to do with this site?

George Yerrall: I didn't hear the middle verb that you used there. What was the something of the? If you wouldn't mind—

Q117 Chloe Smith: What is the nature of your business and what did you expect to be able to do with this site?

George Yerrall: Our story is a relatively simple one. We took a fresh look at this and did not see a passenger airport as the stabilising event for that airport. We saw a cargo business that we felt we could grow. We reached out to a number of the already existing carriers and to a number of new carriers, and got a pretty strong response for what those carriers would be willing to do were we able to reopen the airport. It ended up that we

could make the airport work on 22 flights a week, which we just did not think was so hard to make happen.

Q118 Chloe Smith: What is the nature of your business? One of the items that is obvious from your website is that your interest is principally in property development.

George Yerrall: We are not property developers. We are investors. We have a business back in the States that finds property developers who need cash. We form joint ventures with them, but we do not build and operate the real estate. We are really an asset manager. We have \$350 million of different kinds of assets under management. We have executed 50 deals, and never failed to execute.

To go back to your prior question, the other thing that came along quickly at Manston was the ability to run a repair, maintenance and ultimately teardown facility, which we came to understand is a highly growing field, as more and more planes go in the air and less and less countries are willing to have them parked in the desert. They need to be carefully broken down, re-parted and turned into either recycling or spare parts. That became a second plank that we based our underwriting of the airport on as well.

Q119 Chloe Smith: Did you believe that was going to be profitable?

George Yerrall: I do believe that it will be profitable. We have had extensive talks and tours with an original equipment manufacturer—an OEM—of airplanes, who is very interested in this business. They do not want to own the business but want to be in the business. I believe that is going to be a profitable business, whether it is at Manston or elsewhere in the short run, because there are too many planes in the air and they have to come out of service at some point. A plane is going to run out of its useful life somewhere between 12, 13 and 20 years. It is no longer feasible to just keep parking them somewhere in the sand.

Q120 Chloe Smith: Did you have evidence that that model would have been profitable when you were making the £4 million, £5 million and £7 million offer for Manston?

George Yerrall: No, we did not. We did not base our offer on that and we did not need to. We knew that that was a secondary plank. We based our offer on what we knew or felt we knew we could do very simply in the cargo business. There are a lot of reasons why cargo works in Manston, not the least of which is the enormous amount of apron space and the ability to get service right on to the airfield instead of what a cargo carrier has to do at Stansted or Heathrow. We found we could get goods into London faster from Manston than it could be done from Heathrow.

Q121 Chloe Smith: Would it be your view that Manston remains a viable site for such a venture?

George Yerrall: Completely. I appreciate the opportunity to be here. There is a part of me that says, “I’m just a guy from Massachusetts who is in Parliament today,” and that does not happen very often, but I would not be doing it if I didn’t think we could make money with it. That is why I am here.

Q122 Chloe Smith: Have you ever provided such advice at any time to Skyport or any of the other ventures that we have named today?

George Yerrall: Have we provided advice to them?

Q123 Chloe Smith: Have you formulated your view that it is possible to run Manston profitably on a business model that includes repair and teardown? Have you at any time formulated that into a conversation that could be construed as advice with any of the people named today?

George Yerrall: I do not believe we have talked to them directly about it. *[Interruption.]* We did? If we did, I was not there.

Q124 Chloe Smith: I turned my head just at that point. Whoever it was that said, “We did,” would you please expand on that? *[Interruption.]*

Chair: No, no.

Chloe Smith: Forgive me, Chair, I thought it was a member of the panel.

Q125 Mr Harris: Ms Bradley, this is obviously an incredibly complicated financial situation. You are experienced in these matters. When Infratil purchased the airport for £17 million in 2005 and then offered to sell it to you eight years later for a quid, were any alarm bells ringing at that point?

Pauline Bradley: The original offer on the table being made with Infratil was actually £8 million, but when we were going through the financial due diligence in particular, and you could see the scale of the losses, that was the main reason. I should explain that it was part of a larger transaction at that stage that involved Prestwick airport, and the £8 million offer was for both airports. Because we could not get a handle on the losses—we had the management losses and we had updated trading, and there was quite a difference between the two—we simply could not get comfortable with what the actual level of losses might be, so we withdrew from the Prestwick airport side of things and asked Infratil if we could proceed to buy Manston. The price ticket at that stage was £1.

The reason we did not have alarm bells ringing was what I alluded to earlier. So many people on the ground at Manston had advised us that the reason the business underperformed was that it just had not been managed from a revenue enhancement perspective. That was the opportunity that we saw, and that is why we went to Ryanair and that is why we approached some of the other cargo operators. That is why we went to the local authority and to Kent county council to see what support we could get to give Manston the best chance to begin to turn around. Yes, there were alarm bells to a point, but we believed what we had heard at that time, and, to be honest, had Ryanair not had the situation they found themselves in at the beginning of the year, I think Manston would have had a good chance to turn around.

Q126 Mr Harris: From your perspective back in 2013, looking at the history of Manston and having done all your due diligence, you were absolutely 100% certain, without any kind of serious doubt, that it would be a viable airport in the long term.

Pauline Bradley: When we completed the purchase we had not finished the due diligence. That was part of the problem. By that stage Infratil, having thought they were going to get an £8 million price for two airports, found themselves with a potential purchaser that did not want to buy one, and was only going to pay £1 for the second airport.

Q127 Mr Harris: Presumably you have followed the coverage of this controversy closer than others have. Can you understand why a lot of people on the outside looking at this are thinking, “There is something very fishy here”?

Pauline Bradley: I can understand, first of all, that there is a lot of emotion around Manston. I understand that there is a history at Manston, and a lot of people are very sad that the airport finally closed after such a long time.

Q128 Mr Harris: Sorry, that is not what I meant. A lot of money is involved in this and a lot of people are about to get very wealthy on the back of a £1 purchase. Do you understand why people are looking at that and thinking there has been a very dubious financial sleight of hand here?

Pauline Bradley: Yes, if your headline is, “Well, they bought this airport for £1,” I can understand that some people might think there is a fortune to be made in this, but the reality, as I said earlier, is that by the time we took the decision to close the airport the losses that had been racked up in the period we owned it were £4.5 million. This was an airport that was losing between £10,000 and £12,000 a day. That sometimes gets lost in the—

Q129 Mr Harris: For how long had those losses been endured before you made the purchase? Presumably it was making losses in the years before you purchased it, so by the time you purchased it, it must have lost hundreds of millions.

Pauline Bradley: I do not think it was in the hundreds of millions. I believe the overall loss position to Infratil, including the £17.5 million that they paid for it, was about £55 million.

Q130 Mr Harris: You were slightly dismissive of the allegation that a lot of people are going to make a lot of money out of this. Mrs Gloag is going to make quite a lot of money, isn't she?

Pauline Bradley: If it is successful she would, yes.

Q131 Mr Harris: Are you personally?

Pauline Bradley: No.

Q132 Mr Harris: There is no bonus for you.

Pauline Bradley: No.

Q133 Mr Harris: Mr Welch, you will understand that members of the Select Committee are constantly targeted by air industry organisations concerned about the Davies Commission. We have been involved in a lot of debate as it has gone on over the years. I got involved back in 2008 so I have paid very close attention to that debate. I am delighted that you are here because you are the first person I have met who thinks there is any chance that the Davies Commission will recommend that there are no new airports anywhere in the south-east. Do you still expect that to happen when they make their conclusions? Let me put it this way. Will you be surprised if the Airports Commission actually recommend new runways anywhere in the south-east? Will you be running down Whitehall naked or something?

Alastair Welch: No.

Mr Harris: It's just an idea.

Alastair Welch: That is not an idea I'd pursue. Seriously, at the time of purchase, which I think was the question earlier from the Chair, the point was whether there was a possibility that Davies would recommend no more runways and making the best use of current airports. That was a possibility.

Q134 Mr Harris: In percentage terms how likely do you think that would have been—between 5% and 10%, or less?

Alastair Welch: I think higher than that because his original remit was very broad. Manston put in very strong representations to him before the purchase—because the consultation period, as I am sure you are aware, was before purchase—to the effect that there was plenty of capacity in the south-east. That was the contention from Manston—that Manston had a role to play and potentially could even be the runway that London needed. Davies clearly considered it very carefully and said, “No, that's not what I am going to pursue.” He came back and said he would pursue a further runway, as you know, either at Heathrow or Gatwick. So to your question, “Do I think he will recommend none?”, having said there should be one at either Heathrow or Gatwick, no, I don't. I think he will recommend one.

Q135 Mr Harris: Ms Bradley, Manston Skyport never seriously intended to run Manston as an airport, did they?

Pauline Bradley: Manston Skyport did intend to run Manston as an airport. That was why we had the conversations early on to try in particular to improve the passenger numbers through a volume player like Ryanair. That is why we spent a lot of time and money trying to look at how we could turn Manston around. We also looked, for example—

Q136 Mr Harris: But not a lot of time really. Maybe a lot of money, but in time only a few weeks.

Pauline Bradley: I am referring to the time before the purchase. We did a lot of this work in the months leading up to the purchase. One of the other things we did was to look at the possibility of putting a new terminal building into Manston. If your business plan relies on low-cost carriers, the only way you will make money from a low-cost carrier, as I am sure you know, is to offer services within the terminal building and also through car parking. We also looked at building a new terminal building. We had it costed and one of the reasons we went to Kent county council was to see whether, if we got to that stage, there would be some public support to do that. There was a very clear intent when we bought the airport to run that airport as an aviation operation. We knew that there would be problems and challenges. We understood the risks, and we made the decision to acquire it on that basis.

Q137 Mr Harris: But then a few weeks later you changed your mind.

Pauline Bradley: A few months later, largely because of the Ryanair situation, we changed our mind.

Q138 Chair: Mr Yerrall or Mr Freudmann of RiverOak, could you tell us why Thanet district council declined your offer to act as an indemnity partner in the CPO?

George Yerrall: I can tell you why they said they did that. You are going to hear that we don't have any money; that somehow, in their qualifications, we came up short on dollars. We have spent hundreds of thousands of dollars just pursuing the deal in the six months that we've been looking at it. We have raised plenty of money, and put in our own, to become a CPO indemnity partner with the district council.

When our offers to buy the airport were rejected we had to take a step back. That step back included going to Wragge Lawrence Graham and understanding what the CPO process was about, going to Lord Pannick and getting a read on why our bid as a CPO for the airport would or would not hold water, and we also consulted with a barrister named James Maurici—all at great expense; and it took time. We did all that research and offered to share that research. We could never get a taker from the council to look at that research or—

Q139 Chair: You did your research, but did you comply with all of their diligence-related requests?

George Yerrall: No. In a short answer, we didn't. That was because we felt that the requests they were making were not useful for the exercise we were in. We tried to explain that and we could not get there. I know we are an American company and we are not on a British website, meaning we are not in Companies House. We are a private equity company so we are not necessarily easy to understand, but we went to some pretty great lengths to show who we were, what we had and what our financial wherewithal was, but it did not fit into the box we were trying to be put into.

Q140 Chair: Did you propose that RiverOak, or a subsidiary of RiverOak, would act as the indemnity partner?

George Yerrall: Yes.

Q141 Chair: Is that subsidiary registered in the state of Delaware?

George Yerrall: Yes. We told the council that we knew we would be incorporating in the UK, and that the licence holder would always have to be a UK company. We went as far as to ask the council how much money they would like us to deposit onshore. At that point, we were told that they were no longer taking information and that they were moving towards a decision.

Q142 Chair: Were you prepared to commit to purchasing Manston at the end of the CPO process and running it as an airport?

George Yerrall: Yes.

Q143 Chair: You were prepared to commit to that.

George Yerrall: Yes.

Q144 Chair: Did you propose releasing funds to Thanet district council in a series of payments rather than as one sum?

George Yerrall: I'm sorry, was the question did we agree to release funds to them?

Q145 Chair: Did you propose to release funds to the council as a series of payments?

George Yerrall: Chair, we provided a comprehensive heads of terms on what a CPO indemnity partner—

Q146 Chair: Answer the question. Did you propose a series of payments to the council rather than one payment?

George Yerrall: Yes; a series of payments. It was always going to be a series of payments. That is how the CPO would work.

Chair: Thank you very much to everyone for coming to answer our questions.

Examination of Witnesses

Witnesses: **Paul Carter**, Leader, Kent County Council, **David Smith**, Director of Economic Development, Kent County Council, **Councillor Iris Johnston**, Leader, Thanet District Council, **Madeline Homer**, Acting Chief Executive, Thanet District Council, **Paul Cook**, Interim Director of Corporate Resources, Thanet District Council, and **Sir Roger Gale MP**, gave evidence.

Q147 Chair: Good afternoon and welcome to the Transport Select Committee. Could you give us your name and organisation, please?

Paul Cook: I am Paul Cook, director of corporate resources, Thanet district council.

Madeline Homer: I am Madeline Homer, acting chief executive, Thanet district council.

Councillor Johnston: I am Iris Johnston, leader of Thanet district council.

Sir Roger Gale: I am Roger Gale, Member of Parliament for North Thanet, which includes the Manston site.

Paul Carter: I am Paul Carter, leader of Kent county council.

David Smith: I am David Smith, director for economic development at Kent county council.

Q148 Chair: I would like to ask all of you whether you were aware that Manston Skyport and Ann Gloag had maintained an interest in Manston. You heard the previous session and the information that came from that. I would like to ask each of you if you knew about that. Mr Cook, were you aware of that?

Paul Cook: I was aware that a majority interest had been acquired by the new owners and, therefore, that some interest had been retained.

Q149 Chair: And you knew who had retained it.

Paul Cook: Yes.

Q150 Chair: When you were listening to the previous session in relation to retention of interest in Manston, specifically in relation to Ann Gloag and Manston Skyport, was any of that new to you?

Paul Cook: I knew that only a majority interest had been disposed of. I did not know all the exact details but I understood the overall situation.

Q151 Chair: Ms Homer, what was your information?

Madeline Homer: My understanding was that the majority interest had been sold to Chris Musgrave and Trevor Cartner but that Ann Gloag had retained a 20% interest in the joint venture company. That was my understanding.

Q152 Chair: Councillor Johnston, what was your information?

Councillor Johnston: On 23 September Mrs Bradley phoned me at eight o'clock in the morning to tell me that the person I was seeing that morning would be the people who were the new owners of Manston; I actually had an appointment in my diary for 8.15 with Chris Musgrave. This would appear to have been the exciting news that Mrs Gloag had told me in the summer was coming. I then fairly quickly realised that 80% was with Mr Musgrave and Mr Cartner, and 20% was held by others that Mrs Gloag and Mrs Bradley would have been connected with.

Q153 Chair: Did you have any further information about that?

Councillor Johnston: Not particularly. I had a good meeting with Mr Musgrave and the arrangements became clearer to me at that meeting. It was a very brief meeting. I think he was discussing the breakdown with the MPs and others as well, but for me it was the exciting news that there were going to be some new owners some time in the autumn, and that was it.

Q154 Chair: After listening to the exchanges in the part of the session that has just concluded, did you feel that you had been misled in any way?

Councillor Johnston: I don't know if I was misled, but I had not quite grasped the extent of Mrs Gloag's interest until some time ago when I was alerted to the fact that Mrs Gloag's interest was more than just the 20%.

Q155 Chair: Sir Roger, what was your understanding of this in relation to Mrs Gloag's continued involvement?

Sir Roger Gale: When I was told that Cartner and Musgrave had acquired an interest in the site, I made it my business to find out the structure of the companies behind it. It became apparent to me that in no meaningful sense did Cartner and Musgrave own 80% of anything at all connected with Manston, other than possibly a promise. I said that publicly on BBC Radio Kent. I received a complaint from Cartner and Musgrave indicating that I had misrepresented their position and asking me to withdraw. I wrote back to them and said that I would be grateful if they could confirm that they did in fact own the

unencumbered freehold of 80% of Manston, including the Northern Grass site. I have yet to receive a reply.

Q156 Chair: Councillor Carter, what was your understanding of the position?

Paul Carter: From the moment the sale was announced I have always been aware that Ann Gloag retained a 20% interest in the new joint venture company. I have little information on the details of how the new joint venture company was funded. Obviously from the discussions earlier, Ann Gloag still has quite a lot of money involved, through her charge in this company, hopefully to make interesting things happen at Manston airport.

Q157 Chair: Does what you have heard today disturb you in any way?

Paul Carter: No.

Q158 Chair: Mr Smith, could you tell us if you have heard anything new today in relation to knowledge about Ann Gloag's continued involvement?

David Smith: No, I have not. I would be interested to see the additional evidence that Ms Bradley has promised about the structure of the current ownership. It is my understanding, supported by a letter from Mr Cartner's and Mr Musgrave's solicitors, that in economic terms they have 80% ownership of the company that owns the airport and its assets.

Q159 Chair: Councillor Johnston, could you explain to us why Thanet district council did not proceed with the compulsory purchase order in relation to Manston?

Councillor Johnston: We received a petition on 10 July asking the council to CPO Manston; we have had some difficult experiences of CPOs and the feeling was that we needed an indemnity partner that covered all our costs. I called two urgent meetings, one on 17 July and then one that was in our diary for 31 July, to see how we could move forward. We went out for soft-market testing, and some companies came forward, including RiverOak. Of course, I have known Mr Freudmann for many years. I have been a councillor for 20 years, so I know Mr Freudmann's background.

We eventually got to a stage by the middle of October when we were not satisfied with the information that was coming forward. It is very difficult for a company, particularly an American company, to meet the criteria of the district council. We need to see three years' accounts. Our due diligence is very strong. We must not risk everything that our council does unless we are sure who our partner is. Although I have respect for all of the people involved, it was very difficult for us. Although we could have made a decision in July, we extended the time to 11 December when we said that at the present time we were not going forward with the CPO because we had not found an indemnity partner.

Q160 Chair: RiverOak have told us that they did everything that was asked of them. Are you disputing that and saying that it was not good enough?

Councillor Johnston: Based on officer advice and on my own observations, it was difficult to get the information that we required. In the original responses, the answers were not fully completed. They were unable to give three years' accounts because the company had been set up in Delaware, I believe on 3 July, so they would not have had

three years' accounts for the company that we were going to have to deal with. We had to be very cautious. If we had a difficulty, and perhaps there was a repeat of the situation that Mrs Gloag landed us in, we might find that we had the same situation with RiverOak months or a couple of years down the line and the council might have to underwrite. We also had legal advice talking about a leap of faith. To me that was what it was going to be—a leap of faith.

Q161 Chair: Was the fact that the subsidiary was registered in Delaware a significant factor in your deciding that you could not go along with it?

Councillor Johnston: I think it probably is. I like people to pay tax in this country, thank you.

Q162 Chair: Where did you get your advice for dealing with all of this? Did you have access to the right kind of expertise?

Councillor Johnston: Absolutely. I was obviously dependent on our officers who are sitting beside me, but we also sought outside legal advice. We had considerable evidence from telephone conversations, e-mails and then written advice, which I have in front of me, from Landmark. Elected members—all of us—have to be mindful of the advice we are given. Whatever our personal views are, we have to listen and have regard to it. I have that advice in front of me and it is very clear. We had to think of the rights of the owners. I am now finding out more about the owners today. We also had to meet certain tests for a CPO. With regret and at the present time, we were not totally satisfied with RiverOak. After many months of asking for full information, we saw that there was \$1.6 million in an account somewhere in America. I did not see the bank statement. We were looking for an escrow account in this country, with the council and the indemnity partner having joint rights over it, but we were not at that stage several months later, by 11 December.

Q163 Karen Lumley: How much would you estimate that it has cost the taxpayers of Thanet so far in the extra advice you have received?

Councillor Johnston: We commissioned a report from Falcon, who are a reputable company. I think it was £26,000.

Madeline Homer: The total cost that Thanet district council has spent on seeking advice on this matter is £26,000.

Q164 Chair: Councillor Johnston, do you think that Mr Cartner and Mr Musgrave are good news in relation to Manston airport?

Councillor Johnston: I live in hope.

Q165 Chair: Councillor Carter, could you explain your position to us? The county council has a resolution supporting the continuation of an airport at Manston, but you seem to have made statements welcoming what is called mixed development on the site. Could you clarify what your view is, and the view of the council?

Paul Carter: Yes. Over the last 15 or 16 years, when the airport has been under private ownership, we have done all we could at Kent county council to support the development of a thriving airport at Manston. As has already been referred to this afternoon, the amount

of private sector losses in those 16 years has been exceedingly high, from Wiggins going into liquidation, to EUjet going spectacularly bust as part of that, and Infratil accruing losses of about £55 million during their ownership.

We at Kent county council have done all we can to support Infratil, under my leadership for nearly 10 years. Every time the main board came over from New Zealand we had discussions about how we could help and support them still further. Road and rail connectivity has been dramatically improved, so that accessibility to the airport is good. A new Manston parkway station is proposed; and it is part of our LGF round one success in getting that station, where High Speed 1 trains will bring Thanet and Manston closer to London.

We have made enormous endeavours to help and support more broadly the east Kent economy. You asked me whether I had heard anything this afternoon that concerned me. My answer was no, because Messrs Musgrave and Cartner have a very successful track record in developing commercial parks. They are the owners of Discovery Park just down the road, where Pfizer withdrew almost exactly four years ago. They took on massive financial risk and have turned it into the most phenomenal success. They are now employing 2,200 in jobs when Pfizer, when they made the phone call to David Willetts, and David Willetts to myself asking me to lead the task force, were threatening their total withdrawal from Sandwich, and the demolition ball going into that site within 12 months had we not had a good rescue plan. We are enormously grateful for the support and aid we got from national Government to turn that into a phenomenal success.

It is the same in the north-east of England at an old Samsung site that closed down in 2005 and which again now supports over 2,000 jobs. In partnership with an ex-coalfield site in Sheffield, they turned that into a dramatic success. They were very challenging commercial sites which have been turned round by the expertise of those two partners.

Q166 Chair: Have you seen the detailed proposals from Mr Cartner and Mr Musgrave?

Paul Carter: I did have a meeting with them in my office a week or 10 days ago when they discussed the evolution of their master plan, which will—I do not think there is any secret—try to maximise advanced manufacturing on that site. Indeed they have one or two prospective tenants that would like to be on the airport site.

Q167 Chair: What about housing? How much of it is for housing?

Paul Carter: There is talk of some housing, but predominantly it will be a commercial development. That is what they tell me. I can only repeat what came out of that conversation with both those partners. It will be led by advanced manufacturing, exactly the sort of jobs we want to create in east Kent.

Q168 Chair: What exactly did you see? I would like to be clear what you saw. You had a discussion with them and what did they show you?

Paul Carter: They showed me nothing. We talked about their plan. We had a discussion with David Smith, the director of economic development, about their evolving ideas for the master plan which will eventually be submitted to Thanet district council. That is in its evolution. What I was told was that it will be predominantly commercially led. Advanced manufacturing will be high on the list. They have already potentially secured some very

interesting occupiers in advanced manufacturing, where they believe 550 jobs could be secured there, subject to planning, very quickly. That is enormously exciting when the airport has only previously succeeded in employing 144, many of those part-time jobs. Am I excited about the future? Yes, I am, based on the track record of Mr Cartner and Mr Musgrave in their business ventures elsewhere in this country.

Q169 Mr Harris: First of all, Councillor Carter, welcome back to the Transport Committee. You seem to have a better attendance record here than I do. In July last year, you voted with your colleagues for a motion which expresses disappointment at the closure of the airport, and a commitment to work with Thanet district council to support proposals to retain Manston as an airport. Two months later you were being very enthusiastic about the new regime, as you have been today, and that is perfectly acceptable; but did something change in those two months? It is a very short period of time, when you went from voting unanimously to support the airport to suddenly banging on about the fantastic track record of the new owners in creating non-airport jobs.

Paul Carter: Yes. The motion that was supported unanimously by the county council said we would be prepared to support Thanet district council in a CPO process at Manston, provided a viable and thriving airport could be delivered at Manston. It was caveated by that. The principle of supporting the retention of aviation at Manston airport was there and unanimously agreed by the council, but in my speech—there are records of it—it was caveated by the fact that there was a viable business proposition to retain aviation growth at Manston airport that really did stack up. We asked Thanet district council to submit any propositions that came their way within the time lines that were set, and nothing arrived at Kent county council at all. We have never seen a developed business plan from RiverOak to develop Manston airport as a viable going concern majoring on aviation.

Q170 Mr Harris: The problem may be that I do not know if I have the full resolution of the council here. If you say it was caveated, I certainly do not have any caveats. I have the motion and if you don't mind I will read the whole thing: "Kent County Council supports the actions taken so far by Thanet District Council to maintain Manston as a regional airport. We recognise the value that a regional airport brings to East Kent and are disappointed at its closure. Kent County Council will explore with Thanet District Council ways in which it can support proposals to retain Manston as an airport." Was there more to the motion than that? Do I only have an edited version?

Paul Carter: That was the substantive motion.

Q171 Mr Harris: That was the motion.

Paul Carter: As I said, when I asked the Conservative group on the county council to support it, it was provided we had a viable business plan for aviation retention at Manston and it was positive for growth in the east Kent economy. I have no evidence that any proposition has come forward, which is worthy of a CPO process, that does that. We have worked very closely with Thanet district council. We asked for the submissions that were made by interested parties that may want to get support for a CPO process at Manston airport, and we have received the square root of very little.

Q172 Mr Harris: I get that local and national politicians have a genuine interest in generating the local economy and creating jobs. That is entirely worthy and is exactly what

you want to do. I recognise and accept that. In an ideal world, given all of the complications that this situation involves, if somehow out of the ether a new proposal were to emerge to reinstitute a working, viable airport at Manston, would you prefer that option over what is now planned?

Paul Carter: It depends on the scale of what was offered. I have always suggested that if there were interesting and viable propositions that were good for the east Kent economy and good for aviation growth at Manston, I would look at them, and I am sure the new owners would so do. I remind the Committee that PricewaterhouseCoopers, acting on behalf of Infratil, were marketing this airport fairly aggressively. It was not too aggressive to begin with. I kept phoning them up wanting to make sure that they did aggressively market Manston airport globally to try to get interested parties to continue aviation at Manston. That was peddled around the global aviation market. I did all that I could to encourage various parties to come forward, when Infratil were getting very frustrated that no offers were coming their way. There were various events that took place within the main board in New Zealand which precipitated a very rapid sale at the time Ann Gloag acquired the airport. The chairman of the company died unexpectedly; over a very short period of time, the rest of the directors then passed a resolution to offload the airport very rapidly and get it off their balance sheet. They had had enough.

Q173 Karen Lumley: Councillor Johnston and Sir Roger, what would the people of Thanet prefer—an airport or a business park?

Councillor Johnston: The majority that contact me would prefer to have an airport. We are busily working on our draft local plan at the moment. We have found sites for the 12,000 homes we need by 2031, without needing Manston airport. I have been committed since my last election to support the development of the airport. It is something that I promised at election time and I keep that promise. The majority of people are concerned that the airport was lost in the way it was lost. They want us to support its reopening, but there are concerns in the Ramsgate area about flights—night flights and so on. I know from being in Ramsgate how low those planes go over the town. If the airport was reinstated, we would definitely have to revisit the flight paths.

Q174 Chair: Sir Roger, what is your view of what should happen?

Sir Roger Gale: There is undoubtedly a small body of opinion that is opposed to the airport. It is a curious fact of life that people buy houses under a flight path and then are surprised to find that there are aircraft there. That aside, and it is a small body of opinion, the overwhelming sense of opinion in east Kent—my colleague Laura Sandys and I are fully aware of this—is in favour of the airport; is opposed to other development; and recognises the fact that there is already a significant amount of underdeveloped and undeveloped brownfield industrial land available in Thanet. There is also housing land already available. They want the jobs back in the short term that have been sacrificed. There is also recognition that it is a national asset. That was one of the points that I made. It is a major diversion field; it has been and should be. It is a resource unreplicated anywhere else, certainly in the south-east. It also has the capacity to house the search and rescue helicopters that used to be there, and that Bristows want to bring back to cover the straits of Dover. It is not just a local interest. It is a county and a national interest as well and there is huge support for it. *[Applause.]*

Q175 Chair: Order. Sir Roger, the airport has had varied success in the past. That is perhaps putting it in a very mild way. What makes you think it could be successful in the future?

Sir Roger Gale: I have been a supporter of the airport from the very beginning. I was party to the deal with the MOD which was led by Jonathan Aitken, who was the Member of Parliament at the time and in whose constituency Manston at that time was, to transfer a lease on the ownership—not the whole of the ownership but a lease—to Seabourne Aviation, which was actually a cargo company. Clive Bourne wanted an aviation base to add to his cargo business. That was the foundation—the origin. I think the business was then sidetracked down some extremely unfortunate—glamorous but unfortunate—ventures into passenger traffic, which should have been the icing on the cake but not the cake itself. The thing that has impressed me about the RiverOak proposal is their determination to recognise the value of a transport hub to serve northern Europe, not just the United Kingdom but also the Low Countries.

There is a demand and they believe that they can meet that demand. You have heard that they also believe that they can add not a Steptoe's backyard aircraft-breaking business of the kind that has been tried at Manston in the past, but a properly organised and much needed breaking business, which will go somewhere if it does not go to Manston. I think that that is the fundamental difference; they want to base their operation upon cargo and airport-related businesses rather than solely looking for sunshine passenger holidays.

Q176 Chair: Are you confident that that would be their intention if they became involved, and that they would not see this as another type of development opportunity?

Sir Roger Gale: I understand that is a concern. Apart from Mr Freudmann, whom I had met before, I knew none of the RiverOak team until they came forward and expressed an interest—prior, incidentally, to the closure of Manston. The £7 million offer was made before the airport closed, and that was the asking price. That was what Mrs Gloag had asked for.

I met them on a number of occasions, and have met them on many occasions since. I have been impressed by their determination. I actually thought they would walk away. When the airport was shut I thought they would say, "To hell with it, there are other places we can go. We don't need the hassle." They have stuck with this because I believe they want to do it. The reason they want to do it is that they believe they can make money out of it. You heard Mr Yerrall say that. This is a hard-nosed business approach. It is not anything particularly romantic, but it happens to suit a romantic purpose for those of us who want to keep Manston open. I think they can do it. If I didn't, I wouldn't be sitting here now.

Q177 Martin Vickers: Sir Roger, we heard from Councillor Johnston that Thanet council had spent £26,000 on legal advice. You don't get a lot of legal advice for £26,000. It is a big resource for a district council. I acknowledge that, and I can understand that the council would be mindful of wanting to minimise expenditure, but do you think the advice they received, both externally and internally, was up to standard?

Sir Roger Gale: Brutally, no. I think it is understandable that a local council of the size and shape of Thanet, with the resources that it has, does not have, and cannot be expected to have, officers who are expert in this kind of quite complicated deal. I know that

RiverOak have spent large sums of money on lawyers, and have bought very good legal advice.

I sound as if I am an agent for RiverOak. Please understand that I am not. I will support anybody that wants to open Manston as an airport as a viable and going concern, and RiverOak is the show in town, so if I appear to be representing them it is only in that context. They have offered to pay a sizeable sum of money into an English bank account to meet the costs that have already been incurred by Thanet council—the £26,000—plus any other costs that are incurred up to and through the compulsory purchase order process. At that point, and only at that point, does any other liability cut in legally. At that point they will meet the purchase costs on a back-to-back deal. I honestly do not believe that any company—British, American, Australian, New Zealand or anyone else—could be asked to do more than that.

Q178 Martin Vickers: Sir Roger, as a local MP like me, you have probably seen this document about a proposed joint venture. Would that be correct?

Sir Roger Gale: Yes, I have a copy.

Q179 Martin Vickers: It includes some rather surprising comments; one says, “Given the adverse local reaction to the closure of the airport, the perception that the site is under the control of a non-controversial joint venture partner would be commercially advantageous from a planning perspective.” Could you comment on that, or anything else in the document?

Sir Roger Gale: May I expand the answer a little to take in a tiny bit of background? I was telephoned on 30 November 2013 by Mrs Gloag personally. She told me in terms that she had acquired Manston airport; that she intended to invest heavily in it; that she was going to give it two years to see if she could make it work and that she might need some assistance on night flying, not in terms of scheduled flights but only in terms of unscheduled emergency flights that might become necessary through delay or whatever. I understood that Mrs Gloag had a track record in transport, although not in aviation. Obviously I welcomed the fact, not knowing any of the financial background at that time, that the airport had been acquired by somebody who appeared to want to make it work. On 29 January 2014, heads of agreement were signed by Mrs Bradley with a third party offering the airport for sale for the sum of £8 million. That is two months into the ownership of the airport, and, as you know, the announcement about the closure of the airport was made on Budget day. Mrs Sandys and I heard about it while we were sitting in the Chamber on Budget day. That was actually less than four months into the promised two years.

I believe now that I was completely misled, that I was lied to and that Mrs Gloag had no intention whatsoever of running this as an airport, and every intention of seeking to turn it into an asset-stripping property development. I was shown the document and I was completely taken aback by it—source unknown; authorship believed to be Mrs Bradley, as a briefing note prepared for Mrs Gloag some time in August 2014. It says in totally cynical terms the words that Mr Vickers has read. It spells out under another chapter precisely the terms that, effectively, were agreed between Messrs Cartner, Musgrave, Bradley and Gloag. I am deeply cynical about the way that the whole of this has been handled, and therefore about the people who have been party to the decision.

Q180 Chair: What would you like the Department for Transport to do? Do you see a role for them?

Sir Roger Gale: The Department for Transport, at the request of Downing street, now have in their hands all of the RiverOak papers. I hope they have all of them; I believe they have. I hope that they now also have all the Thanet district council papers. They are being reviewed. I would like the Department for Transport to say either that Thanet council was right in its caution and that RiverOak need to provide more information on their bid, which is still current—we are not talking in the past tense; they still want to buy the airport and if they have to provide more information then they must do so—or the Department for Transport must say that Thanet council, though understandably, was nevertheless over-cautious and can safely proceed with the compulsory purchase on a back-to-back deal with RiverOak.

There is another thing I would ask of this Committee because I do not want to see this happen again. I feel very strongly, as I said in my submission, that national infrastructure is a national asset; once it has gone you don't get it back. I recommended a quasi-listing, rather like listed buildings but not in the historical or architectural sense, so that a site such as this could be protected up until the point when an inspector had looked at it and a Secretary of State had ruled, "Yes, this can properly be sold," or, "No, in the national interest it should be protected." This is a site of national value. The Virgin aircraft that ran into trouble six or nine months ago and shut Gatwick for half a day could have been diverted so easily to Manston had the airport still been open. The planes that are potentially carrying terrorists and currently destined to Stansted—which would bring that airport to a grinding halt—could be diverted safely to not an airport like Manston, because there isn't one, but to Manston with its long and wide runway. I think assets like this have to be protected. The reason I am so grateful to the Select Committee for taking this on board is that these are assets that in the national interest and on a cross-party basis we really have to try to protect.

Q181 Chair: Councillor Carter, did you indicate then?

Paul Carter: I am not privy to the paper to which Sir Roger is referring, but I think—David Smith can correct me if I am in any way wrong—that the offer of a JV two months into Ann Gloag's ownership when the £8 million was mentioned was connected to Mr Freudmann, who originally had potentially introduced the opportunity of buying both Manston and Prestwick airport, which were both owned by Infratil. Mr Freudmann has been very keen on getting some form of ownership or shareholding or interest in the airport over a long period of time. Indeed he was connected in Wiggins' ownership many years ago. One needs clarity on the position of Mrs Gloag potentially going into a joint venture with somebody who, as I understand it, was connected to Mr Freudmann.

Chair: Thank you. Thank you all very much.

Madeline Homer: Can I say something?

Chair: No, we are concluding the session now. If you wish to write to us, you can do so. Thank you.

Examination of Witnesses

Witnesses: **Ms Rosalyn McIntyre**, No Night Flights, **Dr Beau Webber**, Chair, Save Manston Airport Group, and **Angie Sutton**, Why Not Manston?, gave evidence.

Q182 Chair: Good afternoon and welcome to the Select Committee. Could you give your name and organisation, please?

Ms McIntyre: I am Rosalyn McIntyre, No Night Flights.

Dr Webber: I am Dr Beau Webber, Save Manston Airport Group.

Angie Sutton: I am Angie Sutton, Why Not Manston?

Q183 Chair: You have all heard the evidence this afternoon. Are there any specific points you would like to raise with us that either challenge what you have heard or reinforce what you have heard? Could you make brief statements, please?

Angie Sutton: I organised the air show at Manston in 2013. It was extremely successful. I put a lot of pressure on Manston Skyport to tell me whether I could have an air show in 2014 because it takes quite a long time to organise. They did buy it on 29 November, as we said, but I actually got a phone call on 11 January 2014 telling me I was definitely not going to have an air show. In my mind, that definitely said that they were closing it.

Dr Webber: Something I would like to raise is the consultative process over Manston airport closing. SMA believe that the Government-prescribed closure consultation appears to be mainly implemented as an exercise in informing, primarily to the media. Sir Roger Gale has made the point that there should be a listing of regional airports as national assets. They should not then be susceptible to the whims of property developers to asset-strip for personal or corporate gain. SMA would also like very strongly to second RiverOak's call in their submission to the commission for at least a one-year consultation period as and when there is a proposal to close an airport.

The Manston closure consultation was announced on the very day that Government support was announced for the establishment of new air routes. Southend has already benefited. This could have been Manston. I would like to raise the matter of the diversionary history of Manston.

Q184 Chair: Please do it very briefly, because I want to move on to other questions. I just want the very key points you want to make.

Dr Webber: Manston is frequently fog-free when other airports are closed. It is not subject to the strong winds that Gatwick frequently suffers from. It has a long history as a diversionary airport, being the last of three deliberately extended world war two airports.

Q185 Chair: Are you agreeing with that? You want to reinforce that.

Dr Webber: I want to reinforce that it has an important diversionary history and that it should be put back as a diversionary airport.

Q186 Chair: Thank you. Ms McIntyre, what are the key points you would like to make?

Ms McIntyre: The key point is that Manston is a 15-year experiment in turning a world war one airfield into a 21st-century commercial airport, and it has failed. In those 15 years it has never made a profit, if you look at any of the company reports. We can send you data on that. It has never accounted for as much as 0.5% of the diversions. It has never accounted for as much as 0.5% of the UK's passenger or air traffic movements. Its strong suit was freight. Typically, it is about 1% to 1.5% of the UK's freight operation. It is a tiny airport that has never succeeded commercially.

Q187 Chair: Do you welcome the involvement of Mr Musgrave and Mr Cartner?

Ms McIntyre: As a member of the public, it is very hard to tell anybody's credibility in terms of what they promise. What is clear is that promises have been made by successive airport owners and by local politicians about the number of jobs that would be created at Manston. If we listened to Mr Freudmann's estimates, we would now have 6,000 jobs at Manston and 450,000 tonnes of freight. It would be great to have somebody else try a different formula for producing jobs in Thanet, which are desperately needed.

Q188 Mr Harris: Ms McIntyre, if I am right, your primary concern is to campaign against the noise created by night flights at Manston. Is that correct?

Ms McIntyre: Yes.

Q189 Mr Harris: You are raising economic arguments that support your view that it would be better if the airport was not there, but what is your priority? Is it the removal of the nuisance noise of night flights, which is perfectly understandable, or is it about the economy? For example, if the figures stacked up, contrary to what you are suggesting, and if there was a strong economic case for the airport, would you still oppose the airport because of the night flights, or does the economics trump the noise of the night flights?

Ms McIntyre: Economics carries considerable weight, but there is not a viable proposition on the table. It is the same strategy that Wiggins pursued—freight first—and it is why Infratil bought the airport. It is freight first. I think Sir Roger was suggesting that people disappeared down a passenger route, but that came very late indeed.

The challenge for us is that this is an airport that has never had planning permission to be an airport. No environmental impact assessment has ever been done for it to be an airport. It has a very unrestricted night flying programme, in that you can land a 747 unscheduled at any time of day or night.

Q190 Mr Harris: Has that happened very often?

Ms McIntyre: It does happen, and noise levels in excess of 1,000 decibels are recorded on Ramsgate premises.

Q191 Mr Harris: You will have guessed by my accent that I am not from Thanet. Are your views representative of the general population or would you say it is 50:50? I genuinely do not know what the argument comes down to—the pro and anti-airport. Is your view widely held, or are you admitting that you are in a minority view?

Ms McIntyre: The most honest answer anybody can give you is that nobody knows. The last time this was tested in a public consultation people came out two to one in favour of saying no to night flights. That is the closest we have had. Some of the numbers that have been suggested, such as 98% of Kent in favour of reopening Manston via a CPO, when tested, come down to tiny samples of 50 interviews, so I do not think anyone knows.

Q192 Mr Harris: But presumably being against night flights does not necessarily mean you are against the airport.

Ms McIntyre: No, and No Night Flights has consistently taken a pro-airport but anti-night flight stance. What worries us now is seeing the same business plan being suggested by RiverOak, which is cargo reliant. We have always been consistently told by airport owners that cargo must have night flights.

Q193 Chair: Dr Webber, what do you think could happen to make Manston successful in the future?

Dr Webber: The crucial point is that we strongly support RiverOak, because we feel they have been very open with us. We like their business plan. We like what they are proposing for flights. The crucial point is the cargo. No, they do not want night flights; they are not a part of their schedule. We know that cargo flights and others are keen to return. The other part of the aspect is the teardown, and the maintenance, repair and overhaul facilities. We believe that RiverOak want to put in high-quality ISO standard hangars to do this work, as opposed to the present owners who are tearing down derelict planes that are on the site and damaging a recently installed £8 million concrete apron in the process. That is not the way it should be done. We believe RiverOak have described the process the way it should be done. It will bring in money. It will cover the basic costs of the airport so that cargo flights can come in by about 2016, and passenger flights will then become highly viable by 2017.

Q194 Chloe Smith: Dr Webber, could you explain to us why you think Manston is a nationally important asset rather than merely a question for Kent or the south-east?

Dr Webber: Because it can do a substantial amount—we don't say all—of the job of another runway, certainly in the short term for Gatwick and Heathrow. I have been at a number of Gatwick meetings, and they talk about many decades to get a new runway up and running. Manston can be up and running within the year. It is crucial as both a diversionary airport and a base for Bristow Helicopters. The busiest waters in the world are the English channel, which is within a mile of Manston airfield.

Angie Sutton: I spent 33 years as an air traffic controller and for a large part of that I was in charge of all emergencies in the air, at the London air traffic control centre. The diversionary part was my speciality. I retired to Margate, and when I was asked to come to talk to you today I thought, "Well, there couldn't be anybody more perfectly placed to talk about diversions." We have used Manston many times. Logically, I have military coming out of my ears, but we did check; there are many civilian aircraft that have used Manston as diversion. If Heathrow gets fogged in or if there is a problem on any of the runways—of course Gatwick only has one—Manston is the instant diversion. It has the capability to cope with anything. Many years ago they even had 70 aircraft divert there in a week. That will happen again, and it would be utilised.

The other thing is that, although we do not use it very often, Stansted is the one if you have a problem with a hijacked aircraft. It just destroys Stansted; it brings it totally to a halt. With Manston, we have enough space to get it out of the way, to get it into corners—to surround it almost—and to be able to deal with it properly. It is that sort of thing that is missed. It is the fact that it has one of the best equestrian facilities to put horses through. It has cold storage. It has so much to offer, both nationally and internationally, because we are so close to Dover and Folkestone, for Eurotunnel and everything. It is absolutely essential that we have that airfield.

Q195 Chloe Smith: Going on from that very full list—I am very pleased you put it on the record—why has it not been possible to operate Manston commercially? If it is so important to operate Manston for all those reasons, how in your view should that be done?

Angie Sutton: When they took it over from the MOD, I was one of the controllers who used to control all the light aircraft out of Manston going north up to Edinburgh. They were trying to cut corners but using huge aircraft. Those aircraft were 120 passengers, when really they needed smaller ones to do jumps. When we actually brought in the KLM flights, it was starting to take off. To get on an aircraft to fly to America, it takes me over two hours to get to Heathrow, and that's if the M25 is being very nice to me. I then have to check in three hours ahead and walk for miles with my kids to get on an aircraft. I could get to Manston within 10 minutes—don't get me wrong; I do live quite close to Manston, but this applies to a lot of people. We had an hour's check-in at the absolute maximum. We then flew to Schiphol in 55 minutes. I would be in Schiphol before I had even arrived at Heathrow. That is the bit that is missed. But, as they said, that is the icing on the cake; it is not the cake. The cake is the cargoes that can be fully utilised. People are supporting the idea. You cannot get a 747 turned round at Heathrow in 90 minutes; it is just impossible, yet Manston used to do it day in, day out.

Q196 Chloe Smith: Would either Ms McIntyre or Dr Webber like to add anything?

Ms McIntyre: I would. Unfortunately, the numbers that are being quoted do not seem to match what is in the CAA statistics. We can send you this. The CAA statistics say 0.5%—seven or 10 diversions a year—and in many years no diversions whatsoever. The KLM flights peaked a few months in, and then were starting to slowly tail off, and at no point did they reach more than 44.4% capacity. Those are statistics on the Government's own website, at the CAA. At that point, of course, that is not a profit-making flight. I accept that it is very tempting to say we could take all these airlines from other airports and put them through Manston, but airlines have had 15 years to choose to do that and they haven't, because that is not where they want to be.

Dr Webber: Can I dispute some of these figures? For a start, the CEO at Manston apparently says on his website that Manston had reached number five in the UK for cargo transport while he was running the show. Secondly, the CAA site says that in the year it was operating, before it was told to leave, KLM carried 50,000 passengers. Thirdly, we note that from 1999 to 2005 Pauline Bradley was joint ventures at Bank of Scotland and was loaning money to Manston and to airlines using it. We note that shortly after receiving this money they went bust. We note that Pauline Bradley is at present a director of Manston airport. SMA believe that since at least 2005 there has been a continuous process to trash Manston and run it down, to prove that it could only be viable for housing.

Chloe Smith: Thank you, Dr Webber.

Q197 Chair: What could Manston offer that other small airports in the south-east—for example, Lydd—could not

Angie Sutton: The length of that runway is phenomenal. Lydd, even with its £25 million extension, cannot take those sorts of aircraft. Even though it is not the longest in the country by any stretch of the imagination—it is about 11th; even though it has been second, third and fourth, it is going down—Lydd cannot cope with that. Southend cannot cope with that. You could use it for light aircraft, which it has done brilliantly. General aviation puts millions and millions of pounds into the economy, both locally and nationally. That is very well recognised. When you have a 61 metre-wide runway it allows for mistakes by people who cannot fly very well, even though that sounds a little bit dangerous, but it means that it is extremely beneficial for general aviation in all forms.

Dr Webber: The 61 metre-wide runway is only the central section. Either side of that there are large areas which are presently mainly used for taxiways. If you are landing a plane where the control surfaces are giving problems, or the undercarriage is shot to pieces, that width is wonderful.

Chair: Thank you very much for coming and answering our questions so fully.

- 1) **The provision of runway capacity for London and South East England could be dramatically enhanced by making effective use of the fourth longest “London” civilian runway in the UK, at Manston Airport in Kent.** Manston also has one of the widest runways in Europe, as it was originally built with three ‘lanes’ as an emergency landing strip during World War Two.
- 2) **Manston Airport has recently been closed by the owner, we believe in contravention of clear government guidelines regarding local consultation. Since closure, a ‘scorched earth’ asset stripping policy appears to have been implemented.** There is an urgent need to reinstate the airport and its associated aviation industries for the benefit of the local economy, and to provide employment opportunities to the Kent community. It appears that a large percentage of the land may have been transferred recently to property developers who have said they have no intention of reopening the airport.
- 3) **Over 26,500 Manston Airport supporters signed a petition presented to 10 Downing St, and are asking ‘Why close a 9000 foot runway at Manston Airport and build a new one at Heathrow or Gatwick ?’** Unlike many other airports, which are often surrounded by people trying to limit their operations, a significant majority of the people of Kent are actively supportive of Manston. We believe a significant proportion of the excess air traffic, which is fuelling the need for extra runway development at other London Airports, and which is facing so much opposition, could to be transferred to Manston, at least in the short to medium term, even if new capacity is eventually built elsewhere.
- 4) **Aviation Commission discussion document 06 contains the following points:**

(1.17) “It is often suggested that the decline in domestic links into Heathrow is the product of its capacity constraints.”

It makes economic and strategic sense to move this excess traffic to an under-used airport such as Manston as soon as possible. Both passenger and freight traffic would be welcome. Expansion at Heathrow/Gatwick by building extra runways will take many years – Manston Airport can fill this gap in capacity right now. Manston Airport may not reach the 10 million passengers per year required for a ‘nationally significant’ airport, but a Kent County Council document suggests 5 to 6 million is quite feasible with minor upgrades – most of the suggested transport upgrades are either now in place (M2/A299 dual carriageway) or the funding has been announced (Manston Parkway Javelin/HS1 station).

(2.30) Whatever legislative vehicle is used, it is possible that the process for agreeing planning permission for new runway capacity could take some time.

Any expansion at Heathrow and/or Gatwick will take many years; with Manston this is NOT the case, the runway is ready to use and is sitting idle. RiverOak (willing buyers) say that, had been given the go-ahead before the 25th August, they could have had the airport operational again by December 2014. The current owners recent asset stripping may have

added up to £6m to the start-up cost and six months to the opening date, nonetheless, RiverOak have remained committed. The following groups, currently totalling around 24,000 supporters, jointly wrote to the Aviation Minister some time ago, asking for a temporary delay to this 'vandalism', but received no reply. **Save Manston Airport group, Supporters of Manston Airport group, Why Not Manston group, Think Support Manston group, Manston Works group.**

(3.5) In the UK there is a statutory requirement for airports to provide adequate facility for consultation with airport users, local authorities and other local groups on any matter relating to the management and administration of the aerodrome which affects their interests. Government recommends the establishment of an Airport Consultative Committee as best practice in this area and has recently published updated guidance on their operation.

The owner of Manston simply 'informed' Iris Johnston, Leader of Thanet District Council of the closure. Mrs Johnston does not think this constituted a 'consultation'. We can find no record of a consultation with the local community of Thanet or Kent, or with the Kent International Airport Consultative Group, and we have submitted this evidence to the Aviation Commission and DTI. Certainly, as the representatives of many concerned local people, our groups were not consulted. 'Consultation' with TG Aviation, who have a long term lease on their premises on Manston Airport, with 50 years remaining, appears to consist of an ultimatum, that they should leave immediately, and this has resulted in an on-going High court case against the airports owners.

Consequently, the above groups have prepared evidence :

[REDACTED] ?

that the necessary Consultation before closure of the airport, as described in the following government document, has not been correctly carried out :

[REDACTED]

5) "What analysis ought the national or local Government undertake when faced with a potential airport closure?"

- a) Ascertain the expected direct and associated job loss, and the capacity of the surrounding area to absorb these workers and find them equivalent level jobs.
- b) Integrate the total added cost across all passengers per year for additional car/train/parking/hotel expenses and company/personal time travelling to other airports.
- c) Estimate the loss of air-travel business due to travellers no longer taking short/week breaks that now involve up to two extra days travel or journeys and a near doubling of cost.
- d) Estimate the loss of air-travel business from older people who may no longer travel at all, faced with having to get to a more distant airport with all the extra walking and accessibility issues this entails.

6) Community benefits

"(1) Growing global economic integration, leading to increased business travel and movement of international freight.

(2) Rising disposable incomes resulting in increased leisure travel.

(3) Increasing the number of foreign visitors and residents travelling to and from the UK.

(4) The UK's success in acting as a hub for international travel (15% of international air passengers fly to and from the UK)".

Taken from "The Kent County Council's Response to Airport Master Plan - Kent International Airport KIA.

- 7) Surface access requirements, as shown below, appear to be well in place or already funded. Manston Airport, Thanet District, Dover District, indeed all of East Kent, have already benefitted and will further benefit from recent extensive upgrades to Dual-Carriageway roads and upgrades to the Javelin/ HS1 rail system (more this Autumn), with funding in place for a new Parkway Javelin/HS1 station by Manston Airport.



Fig. 1 An uncongested dual-carriageway road runs right to Manston Airport boundary.



Fig. 2: The meeting-point of the A299/M2 to Central London and the A256 to Dover, the A299 to Ramsgate Port and the A256 to the Discovery Park Enterprise Zone (on the old Pfizer site), and Dover Port.

- 8) We +suggest EU funding could be used to upgrade the newly funded Javelin/HS1 station to be a light-freight/package air-road-rail-sea hub, including for firms such as DHL etc. APC East Kent are already located only a couple of minutes drive away.
- 9) (4.15) Expansion at existing sites at Heathrow or Gatwick may not necessitate closures elsewhere and resulting relocation costs. Nonetheless the cost of redesigning airspace for

example and other arrangements prior to operation of any new capacity should not be forgotten.

The airspace for Manston Airport is already in place, is uncluttered, with planes, both passenger and cargo, landing without stacking.

10) Economic Regulation

Local authorities may play a key role in both the decision-making and delivery process and may be the delivery agents for particular mitigations. Local authorities would need to develop or adapt local plans to take account of the economic, environmental and social impacts of any airport development; and

The level of public and parliamentary interest in any scheme and its progress is likely to be high. This will be even greater if public money is invested.

- 11) On Thursday 26th June a petition with ~7,700 signatures, to support a compulsory purchase order to preserve Manston Airport for aviation purposes, was presented to Thanet District Council (TDC) : *“We the undersigned petition the council to make a compulsory purchase of Manston, Kent's International Airport. We would also like Thanet District Council to look into the possibility of members of the public to buy bonds into this purchase.”*
7,700 signatures, well over the required 1000 signatures necessitating a full council meeting.
- 12) On Thursday 10th July the full Thanet District Council (TDC) held a meeting about giving consent to the TDC Cabinet to investigate raising a Compulsory Purchase Order (CPO) on Manston Airport, and this received nearly unanimous approval. Full notice of motion: *“Council affirms its considerable disappointment at the recent closure of Manston as a regional airport. We recognise the public support for its continuation as an airport and endorse the steps taken to date towards that objective. Council urges all available options to that end be explored, including a detailed examination of the legal and financial implications of a Compulsory Purchase Order before a final decision is reached.”*
- 13) On Thursday 17th July Kent County Council (KCC) held a Council Meeting, and **unanimously** supported : *“KCC will explore ways in which it can maintain Manston as an airport.”*
- 14) On Thursday 2nd October a petition with 10,000 signatures “NO TO HOUSES AT MANSTON AIRPORT” was presented to TDC.
- 15) One of the possible Indemnity Partners for the CPO process (RiverOak) has stated : *“To be clear, what is proposed involves a transfer of ALL the risk surrounding the CPO from Thanet District Council to RiverOak. If the CPO fails for some unforeseen reason we will have to meet all the legal costs. Similarly if the eventual price of the land is higher than expected, we will have to pay it. We are not asking for any public funds to support this process; not from Thanet, not from KCC and not from the British Government.”*
They have also stated they will cover all TDC’s legal costs in preparing the CPO.
- 16) Regional airports are often good locations for additional activities that are not always appropriate at a heavily subscribed airport such as Heathrow or Gatwick :
Manston activities, in addition to passenger and standard cargo flights, include handling of show and race horses, race cars, musicians’ and other sensitive equipment, mercy flights, military troop and equipment flights – licensed aircraft recycling – aviation school – flight attendant school – fire training – training airport : BA including A380; Monarch

Airlines : Airbus-320s,321s, KLM : Fokker-70s,Embraer-190s; Net-Jets : Gulfstreams etc.; private jets – diversionary landings including 7 from Heathrow alone in 2013, two RAF Tornados with birdstrike last winter, and an international flight in last operational week - usually fog free, little bird problems, and ideally placed in the event of engine failure over the English Channel, with approaches mostly over water.

17) So for whom does it make sense to use Manston Airport ?

Web data mining has given us extensive evidence that the highly efficient nature of Manston Airport (with 30 minute KLM check-in) means that you can be as far away from Manston as any of the 13 Category-A mainline stations in London, by road or rail, or on the junction 9 roundabout on the M23, at the Gatwick Airport boundary, and you will still be quicker to fly from Manston Airport than either Heathrow or Gatwick Airports.

Manston Catchment Area :

1. Definition :

- a. **Passengers** : Being the region in which one arrives at ones destination sooner via Manston than via any other airport.
- b. **Freight** : Being the region in which perishable freight at its destination in a better condition via Manston than via any other airport.

2. Area :

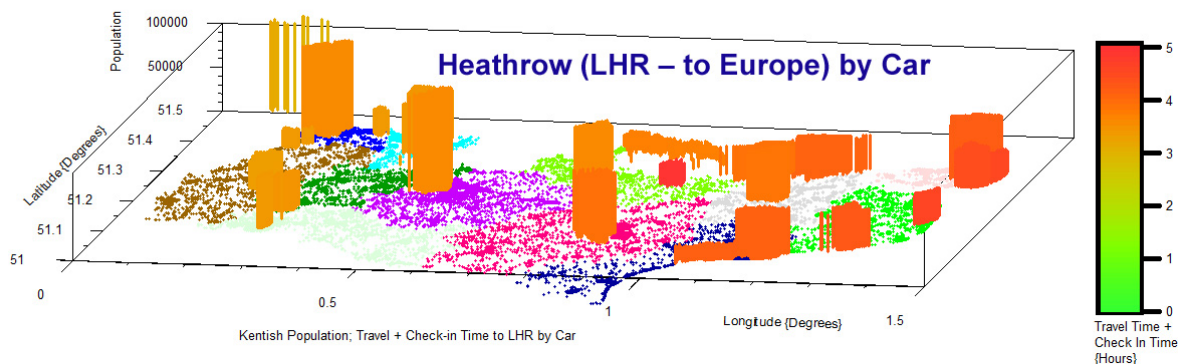
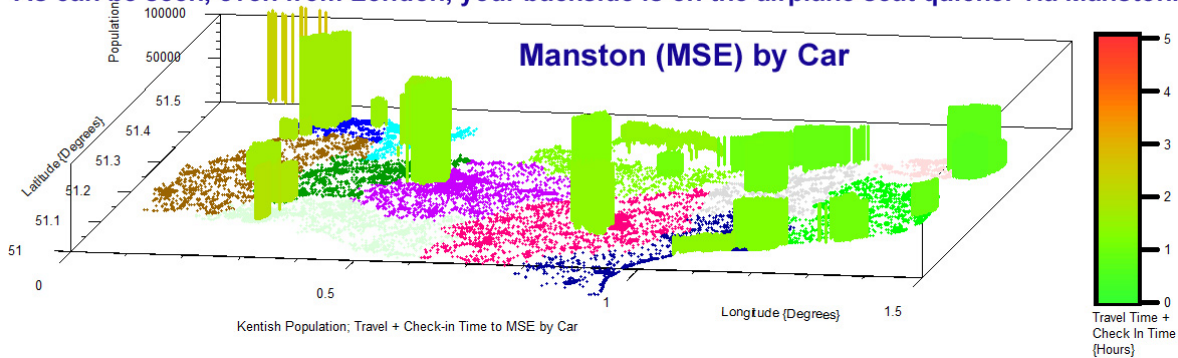
- a. **Passengers**: North beyond the 13 Category-A main-line stations in London (by road or rail) and West to the M23.
- b. **Perishable cargo**: planes land without stacking, full loads are on their way to the M25 and the aircraft back in the air within 80 minutes. At other airports the cargoes are frequently still sitting waiting, uncooled, degrading.

This is some of our evidence, data obtained directly from the web; these are 3D maps of Kent, with height of bars being populations, and colour being time to “backside on plane seat”. (Plotted height at the 13 London Category A mainline stations is arbitrary.)

3D Maps : Travel + Check-in Times From London and Kent to two Airports, MSE & LHR. (v2b-r)

Bright green : zero delay time; through to Bright red : five or more hours.

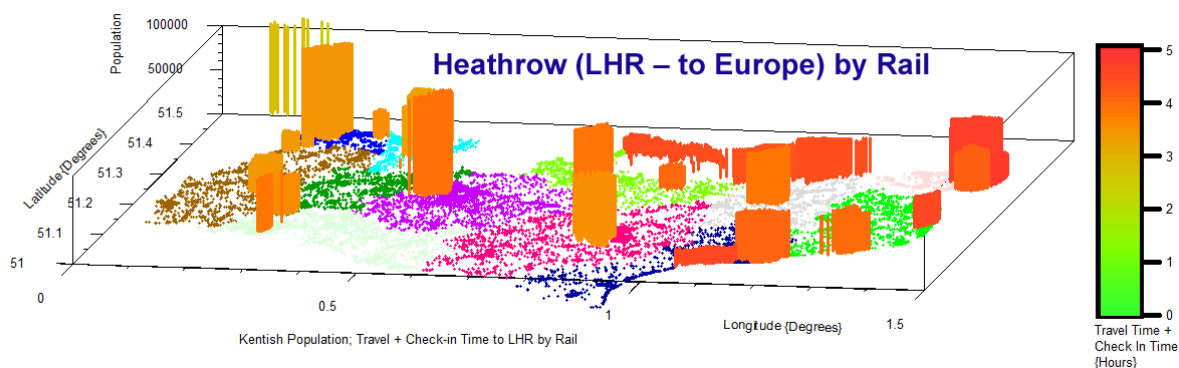
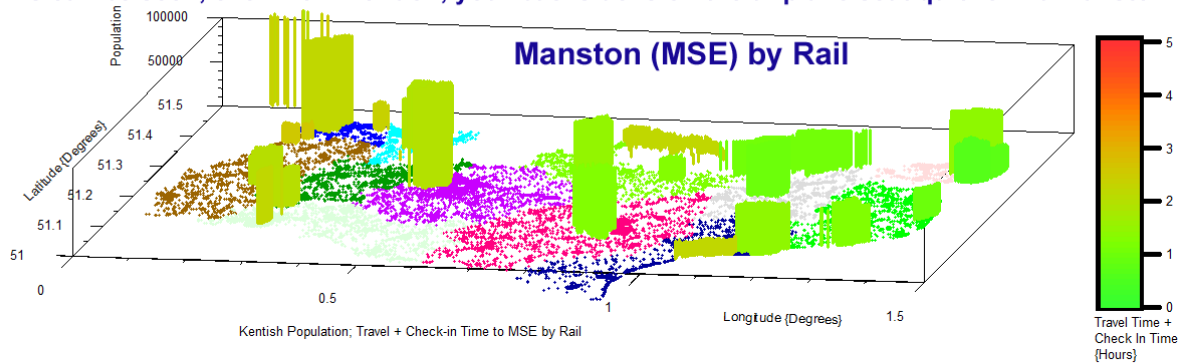
As can be seen, even from London, your backside is on the airplane seat quicker via Manston.



3D Maps : Travel + Check-in Times From London and Kent to two Airports, MSE & LHR. (v2b-r)

Bright green : zero delay time; through to Bright red : five or more hours.

As can be seen, even from London, your backside is on the airplane seat quicker via Manston.



- 18)** It has been government policy for some time to move government work, and hence expenditure, away from London, as a way of helping regenerate the regions. Instead of building more runways at London airports, why not modify UK airport duty, which is paid on each plane ticket, to be less if you fly from regional airports? Also move cargo expansion out

to regional airports and maybe the existing runways like that at Manston would be enough to support the expected expansion of aviation. A fundamentally more economic approach, and with our UK deficit, what is the government doing spending £300M of our money to build those runways and make the overcrowding in London worse? Do they ethically even have that option?

Appendix 1

A preliminary list of businesses and teaching enterprises that have already been affected by the closure and that could particularly benefit from it reopening as part of an enterprise zone, include :

1. **East Kent College** - Stopped the Flight Attendant courses
2. **TG Aviation - Flying School and aviation engineering business**. Family business on the airport site for over 30 years has had to relocate to 3 different locations over a radius of 100 miles. Lost practical use of it's Hangar/business premises. Gloag reneged on 50yr lease, causing them severe financial hardship.
3. **Polar Helicopters** - Lost the ability to book-in fixed wing Aircraft for Pilot training. A side of their business that was increasing.
4. **Airport Cafe** - Closed on day KLM finished. Airport staff as well as Passengers used it.
5. **Spitfire & Hurricane Memorial Museum and RAF Manston History Museum** - reduction of visitors and uncertain future.
6. **Rhodes Distrubution haulage Heathrow** lost contract for perishables cargo
7. **Whites Transport Manston Airport** will have to relocate at end of lease
8. **KLM** Loss of passenger business from Manston.
9. **Cargolux** had to relocate to Stansted higher charges and longer turn around times
10. **Saudia Cargo** as above
11. **AvMan Engineering** loss of contracts and revenue will have to relocate to possibly Lydd ending 30 years in Manston
12. **Atlas/ANA Cargo** relocation to Stansted higher costs and delayed turn around times
13. **MyCargo/Magma** relocation to Stansted higher costs and delayed turn around times
14. **Premier Inn** loss from passengers and pilots over night stays
15. **学立特教育(Xuelite Education)** - English education company based in Zhengzhou China had planned to begin a two week summer programme bringing Chinese students to learn English in Thanet. With the airport closure Xuelite has had to rethink the whole programme and now is in negotiations to send students to study in Malta instead.
16. **Finlays** - operated distribution out of Manston and are no longer able. Had to move operations elsewhere.
17. **Morgan Cargo** - operated out of Manston and are no longer able. Had to move operations elsewhere.
18. **RH Consultants UK** - operated out of Manston and are no longer able. Had to move operations elsewhere.
19. **TET Dover** - freight forwarder who worked out of Manston with clients, including those using the equine facilities.
20. **T & N Caterers (SE) Ltd** - supplied catering, staff have had hours drastically reduced.
21. **Lab-Tools Ltd. (Nano-science)** - European and worldwide travel car/train/underground/parking/hotel cost & time per return journey increased very significantly over multiple journeys per year to/by overseas customers.

22. **Business Computer Solutions.** Although we are still there for a few months, we have been looking after their IT for many years - we have gone from looking after 50+ Systems to 5 and soon it will be nothing.
23. A new building being erected for industrial use has stopped 3/4 into the project because there is simply no point in continuing at the moment.

Appendix 2 – Some local perspectives

Parish Councils local to Manston Airport:

“At a meeting today of the Thanet Rural Regeneration Group it was agreed that we should advise you of our deep concerns at the closure of Manston Airport, the loss of hundreds of jobs and the potential threat to generating business and employment for the people of Thanet. The action of the current owner is denying not only our District, but also the whole of the South East of England the use of a strategically, critically important facility.”

[Redacted signature block]

Yours sincerely

Cllr Sheila Bransfield

On behalf of the Thanet Rural Regeneration Group & the 7 local Parish Councils

Two of numerous meetings :



The effect on families:

A tear fell down the face of Nicola Hill as she watched Manston airport's workers walk out for the final time.

“I hate the people who have done this,” said the mother-of-two from Margate, whose firefighter husband Michael has been forced to take a job at an airport in Afghanistan.

“They don't care about the people who work there but we have to suffer because my children's dad has gone away.”

[Redacted signature block]

How local people feel:



Dot Favell I tell you if ever anything showed what we are fighting for this cam clip is it. Gloag and her cahoots just don't get it do they. All they can see is pound signs. This is OUR land, this is OUR HERITAGE, this is the last green part of Thanet before the whole bloody Isle of Thanet gets swallowed up in housing and half empty industrial sites. Look at this and weep TDC councillors because this is what YOU should be fighting for as well. And shame on those who won't or don't.

October 2014

Written & Oral Evidence to the House of Commons Select Committee on Transport.

Comments on this evidence concerning Infratil can be sent (confidentially or otherwise) to the Clerk of the Select Committee, which is currently considering Manston Airport as a special case : Nicholas Beech :

BEECHN@parliament.uk

Cheers,

Dr. Beau Webber

Chairman, Save Manston Airport group (~9,000 members)

Written evidence: Smaller airports

Manston Skyport Limited (SMA0070) + Infratil

- 2.4. The due diligence, particularly in relation to the financial governance of the airports turned out to be protracted and our financial advisors struggled to get sufficient comfort regarding, in particular the cash management and therefore potential losses of the airports.
- 2.5. It was largely for this reason, that after many months of due diligence, the directors decided not to proceed with Prestwick airport, which was by far the larger of the two operations.
- 2.6. Subsequently, attention then focused on whether Manston on its own represented a viable option and the Directors made the decision to continue with the due diligence on Manston alone.
However, when this was communicated to Infratil, they made it clear that they would only consider a sole acquisition of Manston Airport on the basis the Directors legally committed to purchase the airport by the end of October 2013 and consequently to cover Manston's trading losses from that point. In the event this was not agreed, Infratil made clear their intention was to remove the airport from the market and progress their closure plans.
- 2.7. Faced with this, the directors of Manston Skyport chose to cut short their due diligence work and having agreed a price, proceeded to purchase the business from Infratil. The sale consisted of two businesses, Infratil Kent Airport Ltd and Infratil Kent facilities Ltd (being the operating company and the property owning company which made up the airport business).
-

Oral evidence: Smaller airports, HC 713 3

Pauline Bradley + Infratil

Q54 Chair: Ms Bradley, the Manston Skyport written evidence which the Committee has received states that you "cut short your due diligence work" before purchasing the airport. When you took control of the airport in November 2013 was the financial situation worse than you had anticipated?

Oral evidence: Smaller airports, HC 713 3

Pauline Bradley: When we took control of the airport at that time we had not bottomed out what the expected financial loss position would be. The reason we had not been able to do that was that Infratil had made it very clear to us towards the end of that year that we had a very short period of time to make a decision on Manston airport in particular. From memory, they gave us one month to make a decision as to whether or not we proceeded with the purchase of Manston, so we had no time, under those circumstances, to complete the due diligence on forward losses at Manston. We had done quite a significant amount of

work, but the real problem that we and our advisers had at that time was that the management information given to us when we first started to review the airport as an opportunity, in terms of the losses that management were projecting at the time, was quite different some months down the line, because the trading performance of the airport had deteriorated. To give you an example—

Q55 Chair: Let me go back to the question I am putting to you. Was the financial situation worse than you anticipated?

Pauline Bradley: Yes.

Q56 Chair: Do you think that Infratil maximised profitability at Manston? Could they have done it better?

Pauline Bradley: Certainly in a number of conversations that we had early in the process, parties close to the situation at Manston had confided in us that they had some concerns that Manston had suffered as a result of the remote ownership and management of the previous owner Infratil, who was based in New Zealand. As a result, there was a belief that opportunities to grow the business at Manston had been missed.

Q57 Chair: Did you think that they had an effective business plan?

Pauline Bradley: I do not think I could fully answer the question today, simply because it is a long time since we looked at—

Q58 Chair: But surely that cannot be the case, can it? This was the purchase of a very important asset. I am asking you the question: did you think that the operators had an effective business plan? It is not about remembering, is it? Did you think that or didn't you?

Pauline Bradley: We believed that the strategy the operators had was the correct strategy in terms of trying to grow the revenue at Manston. What I was trying to explain was that, anecdotally, although they had a strategy to try to enhance the revenue, they did not have enough of a presence on the ground to be able to maximise opportunities to do that.

Q125 Mr Harris: Ms Bradley, this is obviously an incredibly complicated financial situation. You are experienced in these matters. When Infratil purchased the airport for £17 million in 2005 and then offered to sell it to you eight years later for a quid, were any alarm bells ringing at that point?

Pauline Bradley: The original offer on the table being made with Infratil was actually £8 million, but when we were going through the financial due diligence in particular, and you could see the scale of the losses, that was the main reason. I should explain that it was part of a larger transaction at that stage that involved Prestwick airport, and the £8 million offer was for both airports. Because we could not get a handle on the losses—we had the management losses and we had updated trading, and there was quite a difference between the two—we simply could not get comfortable with what the actual level of losses might be, so we withdrew from the Prestwick airport side of things and asked Infratil if we could proceed to buy Manston. The price ticket at that stage was £1.

The reason we did not have alarm bells ringing was what I alluded to earlier. So many people on the ground at Manston had advised us that the reason the business underperformed was that it just had not been managed from a revenue enhancement perspective. That was the opportunity that we saw, and that is why we went to Ryanair and that is why we approached some of the other cargo operators. That is why we went to the local authority and to Kent county council to see what support we could get to give Manston the best chance to begin to turn around. Yes, there were alarm bells to a point, but we believed what we had heard at that time, and, to be honest, had Ryanair not had the situation they found themselves in at the beginning of the year, I think Manston would have had a good chance to turn around.

Q126 Mr Harris: From your perspective back in 2013, looking at the history of Manston and having done all your due diligence, you were absolutely 100% certain, without any kind of serious doubt, that it would be a viable airport in the long term.

Pauline Bradley: When we completed the purchase we had not finished the due diligence. That was part of the problem. By that stage Infratil, having thought they were going to get an £8 million price for two airports, found themselves with a potential purchaser that did not want to buy one, and was only going to pay £1 for the second airport.

Q127 Mr Harris: Presumably you have followed the coverage of this controversy closer than others have. Can you understand why a lot of people on the outside looking at this are thinking, "There is something very fishy here"?

Pauline Bradley: I can understand, first of all, that there is a lot of emotion around Manston. I understand that there is a history at Manston, and a lot of people are very sad that the airport finally closed after such a long time.

Q128 Mr Harris: Sorry, that is not what I meant. A lot of money is involved in this and a lot of people are about to get very wealthy on the back of a £1 purchase. Do you understand why people are looking at that and thinking there has been a very dubious financial sleight of hand here?

Pauline Bradley: Yes, if your headline is, "Well, they bought this airport for £1," I can understand that some people might think there is a fortune to be made in this, but the reality, as I said earlier, is that by the time we took the decision to close the airport the losses that had been racked up in the period we owned it were £4.5 million. This was an airport that was losing between £10,000 and £12,000 a day. That sometimes gets lost in the—

Q129 Mr Harris: For how long had those losses been endured before you made the purchase? Presumably it was making losses in the years before you purchased it, so by the time you purchased it, it must have lost hundreds of millions.

Pauline Bradley: I do not think it was in the hundreds of millions. I believe the overall loss position to Infratil, including the £17.5 million that they paid for it, was about £55 million.

2016-10-06 - Avia Evidence re Ryan Air and Manston Airport

Written evidence Manston Skyport Limited (SMA0070)

3. Business review and closure

3.2. At the time of purchase, a number of possible upsides had been identified. The key three ones were:

3.2.3. That Ryanair would set up a major new base at Manston.

3.3. Whilst all of these options had been considered and assessed, by Christmas 2013 it became clear that Ryanair, after two profits warnings was undertaking a major strategic review and announced it was moving from a policy of remote airports to more central ones.

Pasted from <

Transport Committee

Oral evidence: [Smaller airports](#), HC 713

Monday 2 February 2015

Q69 Chair: Don't you think it sounds a little strange, after your confidence—the way you put it to us today—about Mr Welch's comments that all these very positive things were going to happen, that within four months there was the decision to close it?

Pauline Bradley: The reason for that is that a number of things happened in a very short period of time. Probably the most serious for Manston was that Ryanair, by the beginning of 2014 and after two profits warnings, had reviewed their operational strategy and come to the conclusion that airports like Manston were exactly not what they wanted in terms of their business going forward. Therefore, as a result, Ryanair withdrew from our discussions. That was not something we could have foreseen at the time. Ryanair, in effect, pulled out.

Avia Report on Viability of Manston Airport :

P50 :

Ms. Kate Sherry, Deputy Director of Route Development, Ryanair

....

Previous to these discussions, Ryanair held talks with the owners of Manston airport prior to its closure. These talks were halted when the airport closed and therefore not concluded.

Manston ex-employees :

[Adam Satchwell](#) They were round the table when it happened yes

[Mark 'Wolfie' Slade](#) I had heard this, but never had anyone else say it was so until now.. so I had assumed it was myth not fact..

Q86 Chair: Let me take you back to the written evidence that we received from you. It includes the following sentence: "In September 2014, Manston Skyport sold the site to regeneration specialists." Is that a reference to Mr Cartner and Mr Musgrave?

Pauline Bradley: Yes, it is.

Q87 Chair: You sold the site to them. Are they the current owners of the airport?

Pauline Bradley: They are. They are the majority—

Q88 Chair: They are the current owners of the airport. Did Manston Skyport Limited maintain an interest in the former Manston airport?

Pauline Bradley: Yes, it did.

Q89 Chair: Who owns it then? Mr Cartner and Mr Musgrave are the owners. Manston Skyport, you agree, retains an interest. Can you tell us the nature of that interest?

Pauline Bradley: The majority of the share capital of that business—as in 80% of the share capital of that business—is owned by Mr Musgrave and Mr Cartner. We have a minority interest in the business going forward.

Q90 Chair: They own 80% of it, do they?

Pauline Bradley: That is correct.

Q91 Chair: Are you, Ms Bradley, a director of a company called Lothian Shelf (718)?

Pauline Bradley: I believe I am, yes.

Q92 Chair: You believe you are. That counts as yes. What assets does Lothian Shelf (718) hold the title to?

Pauline Bradley: Lothian Shelf (718) must own—it is a 20% shareholder in the joint venture. I am trying to be helpful. I am just not entirely sure.

Q93 Chair: You don't know.

Pauline Bradley: My colleague Mr Mackinnon can help.

Q94 Chair: Mr Mackinnon, what light can you shed on this?

Alan Mackinnon: Lothian Shelf (718) is the JV company and owns the site.

Q95 Chair: It owns the whole of the site, doesn't it?

Alan Mackinnon: Yes.

Q96 Chair: Ms Bradley, you have given me a different answer. It owns the whole of the site. Therefore, is it accurate to state that Manston Skyport sold the site to the regeneration specialists you have named—Mr Cartner and Mr Musgrave? You said it sold the site to them. We now find that

the company Lothian Shelf (718), of which you were a director, owns the site, so the first statement is not accurate, is it?

Pauline Bradley: Lothian Shelf (718) is the joint venture company. Mr Cartner and Mr Musgrave own 80% of Lothian Shelf and we own the other 20%. That is the joint venture company.

Q97 Chair: Is there a charge secured against the assets of Lothian Shelf (718)?

Alan Mackinnon: Yes, there is, in favour of Kent Facilities Ltd. There is a charge, I believe, registered against Lothian Shelf (718) Limited in favour of Kent Facilities Ltd, which owned the site.

Q98 Chair: Does that charge relate to a loan of £7 million from Kent Facilities Limited?

Alan Mackinnon: Yes.

Q99 Chair: Ms Bradley does not seem to know. Where does that £7 million come from?

Alan Mackinnon: Sorry, where does it come from?

Chair: Yes.

Alan Mackinnon: It is an amount secured against the site.

Q100 Chair: Where from? Where does the money come from?

Alan Mackinnon: It is securing money that has not yet been paid.

Q101 Chair: Where does it come from? Where does £7 million come from? Can either of you answer that?

Alan Mackinnon: Sorry.

Q102 Chair: Can either of you answer that question? Where does that £7 million come from? Ms Bradley, can you tell me?

Pauline Bradley: Forgive me, but I think to give you an accurate answer, the best thing is that we write to you fully about what the £7 million is.

Q103 Chair: According to documents that we have, the answer to that is Ann Gloag.

Are you not aware of that?

Pauline Bradley: As I say, the best thing is that I research it and write to you. I do not want to give you an answer that could be incorrect.

Manston - National Asset - Diversionary Airport – Oral Evidence to the HoC Select Committee.

Q180 Chair: What would you like the Department for Transport to do? Do you see a role for them?

Sir Roger Gale: The Department for Transport, at the request of Downing street, now have in their hands all of the RiverOak papers. I hope they have all of them; I believe they have. I hope that they now also have all the Thanet district council papers. They are being reviewed. I would like the Department for Transport to say either that Thanet council was right in its caution and that RiverOak need to provide more information on their bid, which is still current—we are not talking in the past tense; they still want to buy the airport and if they have to provide more information then they must do so—or the Department for Transport must say that Thanet council, though understandably, was nevertheless over-cautious and can safely proceed with the compulsory purchase on a back-to-back deal with RiverOak.

There is another thing I would ask of this Committee because I do not want to see this happen again. I feel very strongly, as I said in my submission, that national infrastructure is a national asset; once it has gone you don't get it back. I recommended a quasi-listing, rather like listed buildings but not in the historical or architectural sense, so that a site such as this could be protected up until the point when an inspector had looked at it and a Secretary of State had ruled, "Yes, this can properly be sold," or, "No, in the national interest it should be protected." This is a site of national value. The Virgin aircraft that ran into trouble six or nine months ago and shut Gatwick for half a day could have been diverted so easily to Manston had the airport still been open. The planes that are potentially carrying terrorists and currently destined to Stansted—which would bring that airport to a grinding halt—could be diverted safely to not an airport like Manston, because there isn't one, but to Manston with its long and wide runway. I think assets like this have to be protected. The reason I am so grateful to the Select Committee for taking this on board is that these are assets that in the national interest and on a cross-party basis we really have to try to protect.

.....

Q194 Chloe Smith: Dr Webber, could you explain to us why you think Manston is a nationally important asset rather than merely a question for Kent or the south-east?

Dr Webber: Because it can do a substantial amount—we don't say all—of the job of another runway, certainly in the short term for Gatwick and Heathrow. I have been at a number of Gatwick meetings, and they talk about many decades to get a new runway up and running. Manston can be up and running within the year. It is crucial as both a diversionary airport and a base for Bristow Helicopters. The busiest waters in the world are the English channel, which is within a mile of Manston airfield.

Angie Sutton: I spent 33 years as an air traffic controller and for a large part of that I was in charge of all emergencies in the air, at the London air traffic control centre. The diversionary part was my speciality. I retired to Margate, and when I was asked to come to talk to you today I thought, "Well, there couldn't be anybody more perfectly placed to talk about diversions." We have used Manston many times. Logically, I have military coming out of my ears, but we did check; there are many civilian aircraft that have used Manston as diversion. If Heathrow gets fogged in or if there is a problem on any of the runways—of course Gatwick only has one—Manston is the instant diversion. It has the capability to cope with anything.

Many years ago they even had 70 aircraft divert there in a week. That will happen again, and it would be utilised.

The other thing is that, although we do not use it very often, Stansted is the one if you have a problem with a hijacked aircraft. It just destroys Stansted; it brings it totally to a halt. With Manston, we have enough space to get it out of the way, to get it into corners—to surround it almost—and to be able to deal with it properly. It is that sort of thing that is missed. It is the fact that it has one of the best equestrian facilities to put horses through. It has cold storage. It has so much to offer, both nationally and internationally, because we are so close to Dover and Folkestone, for Eurotunnel and everything. It is absolutely essential that we have that airfield.

Q191 Mr Harris: You will have guessed by my accent that I am not from Thanet. Are your views representative of the general population or would you say it is 50:50? I genuinely do not know what the argument comes down to—the pro and anti-airport. Is your view widely held, or are you admitting that you are in a minority view?

We have just managed to collate the latest totals, to the best of our knowledge which show a grand total of over 32,000 pro- Manston Airport membership :

Pro- ;	Online	Paper
SMA	9,001	
SuMA	1,239	
WNM	1,149	
MW	193	
TSMA	433	12,507

Anti- :	
NNF	196
MP	262

In addition not members of any group as such but signed up as pro-Manston Airport :
 “Hi Beau, in addition to the totals already sent to you (12,940) in May 2014 we collected an additional 5,409, and in October 2014 we collected another 2,345. These were not membership totals but were still in fact pro Manston and pro CPO, so our overall grand total 20,694”

Thus I believe we have an identifiable pro-Manston Airport total of :
 +/- 9001 1239 1149 193 20694
 32276

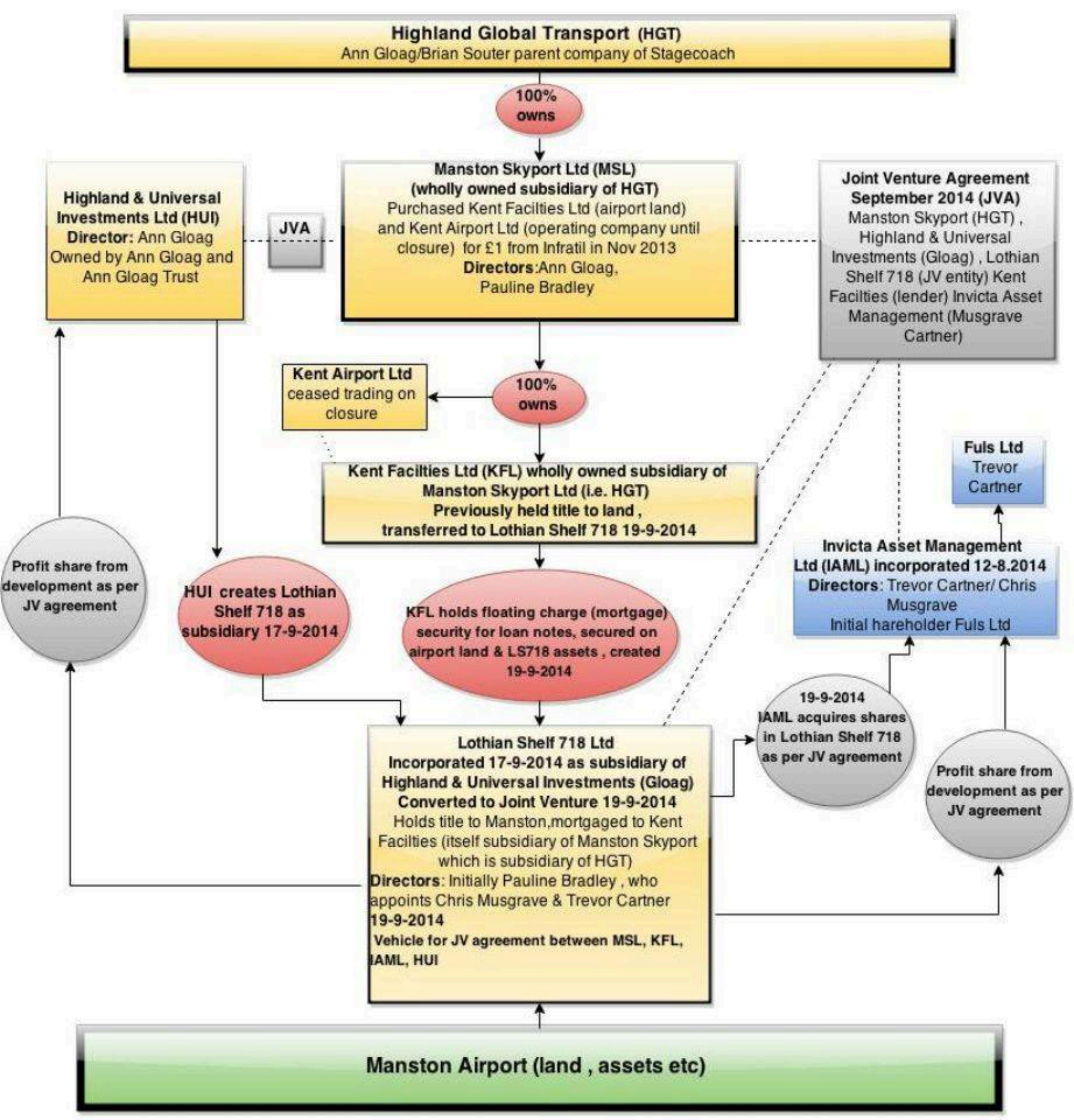
It must be noted that this is total **membership**, and some people may be members of more than one group.

The TSMA total may be broken down by location as follows :

DATE	PLACE	SUB-TOT	TOTAL
--			
17-8-14	HERNE BAY	331	331
22 & 23-8-14	RAMSGATE	2205	2536
27-8-14	CANTERBURY	1023	3559
30-8-14	FAVERSHAM	1530	5089
2-9-14	DEAL	960	6049
5-9-14	RAMSGATE	960	7009
6-9-14	HERNE BAY	1065	8074
12-9-14	RAMSGATE	718	8792
13-9-14	DEAL	930	9722
20-9-14	WC TESCO	1260	10982
19-9-14	BIRCHINGTON	680	11662
27-9-14	MARGATE	768	12430
-----	ODD COLLECTORS	77	12507
8-2-15	ON LINE MEMBERS	433	12940

Thus one may say, for instance, on three days in Ramsgate, nearly 3,000 people signed up as pro-Manston Airport.

Cheers,
 Dr. Beau Webber.






Commercial Viability of Manston Airport

AviaSolutions FINAL Report for Thanet District Council

September 2016



aviasolutions
A GECAS Company



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Glossary of Terms

- **Air Journeys:** Also referred to as Journeys. A unit of measurement for the number of flights taken by passengers.
- **Air Traffic Movement:** Abbreviated to 'ATM'. Defined as an aircraft landing or taking-off for commercial purposes.
- **Belly-hold:** A term referring specifically to passenger aircraft (as opposed to freighters). This term refers to the hold of the aircraft that is utilised for the carriage of passengers' baggage and freight.
- **Capacity per ATM:** A unit of measure defined as the number of seats or freight capacity on each ATM. Often an average of a larger sample.
- **Capacity:** The total capacity of an airport or aircraft to transport passengers or freight.
- **Catchment Area:** Airports draw their passengers from within a catchment area. The size of the airport and its network affect the size of the catchment area. Typically, the smaller the airport the smaller the catchment area that it can draw upon.
- **Discovery Park Limited:** Also referred to as Discovery Park. An entity that is closely linked to Stone Hill Park Limited through shared ownership.
- **Freight per ATM:** A unit of measure defined as the number of tonnes of freight loaded on each ATM. Often an average of a larger sample.
- **Freight:** Also referred to as Cargo or Air Freight. This includes all shipments that are transported for commercial purposes on board the aircraft under an Air Waybill excluding 'Mail'.
- **Freighter:** An aircraft specifically designed for the transportation of freight. This type of aircraft has no seats fitted, and in their place, has a cargo hold.
- **Full Service Carrier:** An airline business model that includes carriers who have traditionally offered all services included in one ticket price. This includes carriers such as British Airways, Lufthansa, Air France-KLM and Virgin Atlantic.
- **IATA Airport Code:** A three letter code designated by IATA to many airports around the world. All major airports are assigned a code, the most commonly used in this report are.
- **Kent Airport Limited:** Formally Infratil Kent Airport Limited. An entity whose main purpose is the operation of Manston, Kent's International Airport.
- **Kent Facilities Limited:** Formally Infratil Kent Facilities Limited. An entity whose main purpose is the provision of facilities to the operator Manston, Kent's International Airport. This entity in effect owns the airport site.
- **London System:** Also referred to as London Area Airports. A term referring to six airports of London (LHR, LGW, STN, LTN, LCY, SEN).
 - London City - LCY
 - London Gatwick - LGW
 - London Heathrow - LHR
 - London Luton - LTN
 - London Southend - SEN
 - London Stansted - STN
- **Low Cost Carrier:** Abbreviated to LCC. Low cost carriers are one of the major airline business models. Major European LCCs include Ryanair, easyJet, Norwegian, Wizz, and Vueling.
- **Million Passengers per annum:** Abbreviated to mppa. A standard unit of measurement for airport capacity or throughput.
- **Narrow-Body:** A type of aircraft, typically distinguished as one which has a fuselage wide enough for one passenger aisle. Includes aircraft such as Boeing B737 series and Airbus A320 family.
- **Passenger Movement:** A unit of measure referring to the number of passengers arriving or departing from an airport.
- **Passenger:** Abbreviated to PAX. The fare paying passengers on board an aircraft. Excludes those travelling on non-revenue tickets such as airline employees.
- **Passengers per ATM:** Abbreviated to PAX per ATM. A unit of measure defined as the number of passengers carried on each ATM. Often an average of a larger sample.
- **Peak Demand:** The demand at its highest point for an airport. There are several forms of peak demand, these include a daily peak (often early morning) and annual peaks (often around holiday seasons).
- **RiverOak Investment Corporation LCC:** Also referred to as RiverOak. An American investment firm that is seeking to acquire the Manston Airport site.
- **RTK:** Revenue tonne kilometre. A unit of measure in the freight industry. Calculated as the tonnes uplifted multiplied by distance flown.

- **Stone Hill Park Limited:** Previously Lothian Shelf (718) Limited. The current entity that owns Manston Airport.
- **Unaccommodated Demand:** A term referring to the demand that cannot be accommodated at a particular airport or combination of airports due to it exceeding the capacity available.
- **Wide-Body:** A type of aircraft, typically distinguished as one which has a fuselage wide enough for two passenger aisles. Includes aircraft such as Boeing 767, 777 and 787 series and Airbus A330, A340 and A350 family.

1. Introduction

1.1. Context

Thanet District Council ("TDC") appointed AviaSolutions to provide independent advice on whether a re-opened Manston Airport might have a financially viable future as an operational airport.

The airport closed in May 2014 and the current owner, Stone Hill Park (formally Lothian Shelf 718), has submitted a planning application for a mixed-use development on the site, comprising 2,500 dwellings, general business and commercial areas which is reported to support the creation of up to 4,000 jobs, and a range of leisure and sports activities.

RiverOak Investment Corporation ("RiverOak") is an American investment firm that wish to acquire the Manston site and re-establish airport operations. The re-established airport would be freight focussed but would also offer passenger services along with ancillary businesses. RiverOak are seeking a Development Consent Order (DCO) under the Planning Act 2008 to compel the sale of the site as a Nationally Significant Infrastructure Project.

TDC is seeking guidance on whether the airport has a reasonable prospect of operating as a financially viable, standalone entity within the period of the Local Plan which extends to 2031.

AviaSolutions commenced this study on 13th July 2016.

1.2. Scope and Limitations

The scope of AviaSolutions work was set out in the procurement document issued in June 2016 by TDC and our proposal for services submitted in the same month. Specifically, the scope requested:

"The Council requires an independent assessment advising whether or not it is possible to run a viable and economically sustainable free-standing airport operation from Manston. The Council is seeking advice from an independent expert aviation consultant who can make this assessment within the context of the national and international air traffic market, the viability of airport operations at a national and international scale and likely future developments in airport operations."

Source: TDC Briefing Document

Our proposal and this subsequent report have been developed in the context of these requirements. It is therefore necessary to indicate specifically those areas which fall outside of the scope of our works, and to which we have given no credence in the application of our analysis. These areas include:

- Whether Manston Airport is an asset of national significance
- The effect of any scenario on the wider Kent economy, or subsequently the effect on the UK economy as a whole
- The legal, planning, environmental, or social effects of any scenario, or whether these elements would present any challenges
- The economic benefit or need for industrial or housing units in the Thanet area
- The comparison between any airport scenario and any other alternative use of the airport site
- Passing judgement on the use of the site beyond that of whether an airport may be viable
- We take a neutral view with regards to the local campaign groups, both those for and against the airport

It should also be noted that many of the stakeholders engaged by AviaSolutions sought to broaden the discussion to include a wide range of airport-related topics. Whilst this has provided useful context and highlights the political sensitivity of the airport, AviaSolutions study is restricted to commercial analysis and does not seek to provide any legal, environmental or socio-economic advice or comments.

1.3. Our Approach

AviaSolutions commenced the study with a review of the various documents that describe the history of Manston Airport, the local and national planning context and the current development proposals for the site. The two main aspects of our work however were seeking the views of stakeholders relevant to the specific topic of airport commercial viability, and an extensive analysis of the relevant air transport market.

In conjunction with TDC, we agreed the primary and secondary stakeholders to be contacted for this engagement. Our interview programme was not intended to canvass the views and opinions of the many parties and individuals with views, many strong held, about the airport and its future. It was intended to seek facts about its historic development and proposed future development from the two prospective developers (Stone Hill Park and RiverOak) and from a range of parties within the air transport and freight industries. It is these parties and their like who will determine whether commercial aviation activities could be viable on the Manston site. Whilst conducting these interviews, many companies and individuals spoke on the condition of anonymity.

Our analysis added to our existing knowledge of the air transport industry the specifics that are associated with Manston Airport, namely its historic traffic performance, details of its catchment area, and the experiences of previous airline and freight users of the airport. AviaSolutions has developed two models specifically for this study. The first assessed the capacity of six airports serving the London Area and how future passenger and freight traffic might be distributed between these airports including Manston, and the second was a financial model to assess the potential cashflow outlook for Manston Airport.

1.4. Report Structure

In this report, we first summarise the history of Manston Airport and describe the different visions of its future put forward by Stone Hill Park and RiverOak. We next describe different scenarios for possible air transport use of Manston Airport, before investigating the passenger and freight traffic potential of each scenario. We then describe our financial model, setting out the basis of our revenue and cost assumptions if Manston were to be brought back to use as an operational commercial airport. Finally, we bring together the different threads of our analysis and reach our conclusions on the financial viability of Manston Airport.

1.5. AviaSolutions' Qualifications

AviaSolutions has been appointed to provide an independent assessment of the prospects for Manston Airport. We are an aviation management consultancy, established in 2001. In October 2012, GE Capital Aviation Services acquired 100% ownership, adding consultancy to the leasing business for which it is known. Since then, AviaSolutions has grown rapidly, building an airline business in addition to our traditional airport advisory services. Over the past 15 years AviaSolutions has earned a strong market reputation in a number of key areas:

- Airport Strategy and Support
- Airline Strategy and Support
- Airport and Aviation Transactions
- Air Service Development
- Regulation, Policy and Planning
- Passenger and Cargo Traffic Forecasting
- Route and Network Strategy
- Ground Handling
- Business and Commercial Advisory

2. Executive Summary

2.1. Summary

AviaSolutions was appointed by Thanet District Council (“TDC”) to advise on whether viable airport operations could be re-instated on the site of Manston Airport. Following ownership by the Ministry of Defence, three separate private companies tried and failed to operate Manston Airport profitably and the airport closed in May 2014. TDC needs to prepare its next Local Plan looking forward to 2031, and has two proposals for the use of the site: an operating airport or a mixed residential, business and leisure development.

AviaSolutions has discussed the re-opening of Manston Airport with a number of organisations and individuals, and carried out a detailed assessment of the air transport market and the potential finances of a re-opened Manston Airport. On this basis of this work, we have concluded that it is most unlikely that Manston Airport would represent a viable investment opportunity even in the longer term (post 2040), and certainly not during the period of the Local Plan to 2031.

The assessment of financial performance of a re-opened Manston Airport is based on relatively favourable assumptions for Manston Airport. We would typically position the financial forecast as a ‘High Case’ as a number of tailwinds are required to deliver the financial forecast in terms of passenger and freight volume and the revenue yield that can be achieved. Throughout the research AviaSolutions has consistently taken a positive outlook with regards to the underlying demand assumptions. Specifically, this means that we have opted for the upper bounds of traffic, the upper bounds of unit operating revenue, the lower bands of unit operating costs, and minimal asset costs and capital investment requirements.

2.2. Background

Since the Ministry of Defence sold Manston Airport in 1998, three separate private sector investors have attempted to develop the airport as a viable commercial undertaking. These ventures have all been unsuccessful and have incurred substantial losses in the process. The airport closed in May 2014. TDC has undertaken extensive exercises to find new investors prepared to re-open the airport, but has failed to identify an appropriate party. One interested party, RiverOak Investment Corporation LLC (“RiverOak”), has though emerged from this process, and is interested in acquiring the site and developing Manston Airport as a freight airport. RiverOak has been critical of previous owners, considering that they were not sufficiently active in seeking to develop and market Manston as a freight airport. In contrast, the current owner of the site, Stone Hill Park Limited (“Stone Hill Park”), has brought forward plans to develop the area for mixed residential, employment and leisure uses. TDC has identified a need to understand whether an airport would be a viable use for the site, and whether there is a reasonable prospect of that occurring within the period of the Local Plan to 2031.

2.3. Historic Performance of Manston Airport

During its years of operation as a commercial airport, Manston had a range of air services to domestic and short haul Europe points, and handled around 30,000 tonnes of freight a year, almost exclusively imports of fresh produce coming on dedicated freighter aircraft. The scale and nature of the passenger traffic suggests that Manston has relatively few air journeys originating or destined for a catchment area of East Kent that it might reasonably be expected to serve: we estimate that demand from this catchment area is about a third of the size of the demand in a catchment area of Southend Airport. While we consider that a re-opened Manston Airport would attract some passenger services and regain freighter operations at a level similar to its historic performance, our financial assessment is that this would be insufficient to support financially viable operations of the airport.

2.4. Manston as an Overflow Airport for London

Manston is located in the South East of England, where there is a need for additional runway capacity. This issue has been researched extensively over recent years, including the Davies Commission which recommended in 2015 that a third runway be constructed at Heathrow. A decision on the new runway

capacity is expected to be made in October 2016. In addition to the recommendation for Heathrow, Davies also considered a second runway at Gatwick, opening up the possibility of alternative decisions, including of course that either both or neither runway may be approved. We have developed a detailed model of how future passenger and freight demand might be distributed around the six airports in the London area under different airport capacity scenarios, in order to assess how much unaccommodated demand would be generated by 2050. We have also assessed how much traffic might be attracted to a re-opened Manston Airport.

These traffic estimates have been inputs to a financial model which AviaSolutions has developed to assess Manston's viability to 2050. We have based our estimates of unit aeronautical revenue, commercial revenue and operating costs on those levels achieved at other UK airports of a similar scale to that projected for Manston. We have also assumed that the site could be acquired for £10 million, and that further capital expenditure of £27 million would be required to re-commission the site as a licensed commercial airport. We further assume that the business is financed initially through an equity injection from shareholders of £50 million with no debt funding.

The scenario recommended to Government by the Davies Commission is the construction of a third runway at Heathrow. Under this scenario, the forecast passenger traffic at Manston would initially grow to almost 2.5 million passengers per annum (mppa) immediately before the opening of the third runway in 2030, but would fall materially afterwards. Retained earnings would not become positive until around 2040, preventing payment of dividends to equity investors until around that date. EBITDA margin would become positive in the early 2030's and grow and reach 41% by 2050. On this basis, we would very much doubt that an informed private sector investor would consider an equity stake in Manston Airport.

The scenario which most supports the re-opening of Manston Airport is one in which no new runways are built in the South East of England in the period to 2050. In this scenario, forecast operating cash flow of Manston Airport is negative until 2025; re-financings of £20 million are required in both 2028 and 2029 to fund terminal expansion; and retained earnings remain negative until 2029 preventing the payment of dividends. Thereafter, financial performance improves significantly, but it is 2043 before EBITDA margin reaches 50%.

It should be noted that these conclusions are based on a set of assumptions that favour Manston Airport at all times, with examples including above market aeronautical yield, aggressive cost reduction projections and minimal acquisition costs, which, while in our opinion are achievable, would nonetheless require some significant management attention. This attention would be focused on two aspects, securing new business at advantageous aeronautical revenue per passengers from LCC's and structuring the business to take advantage of unit cost reduction through scale. . These would not be assumptions which AviaSolutions would suggest are presented as a Base Case to an Investment Committee considering the proposition, but rather ones describing a potential upside scenario. In our experience, it is likely that an Investment Committee would not consider investing on this basis.

This scenario of no runway development in the South East of England before 2050 is also a low probability scenario in our view. It also carries a high risk that a decision in 2016 not to commission another runway could be reversed at any time in the future. If Manston were operational at the time a decision were reversed the impact on the business would be considerable, and the decision is not one in which the owners would have any control whatsoever. To give just one minor illustration of the risk, it was reported in early September 2016 that Heathrow Airport Limited was considering requesting permission to operate an additional 19,000 ATMs each year, which if granted would reduce the traffic that might spill to Manston.

The other runway scenarios which collectively are more likely than 'no runway development', produce worse financial forecasts for Manston Airport.

2.5. Conclusions

AviaSolutions concludes that airport operations at Manston are very unlikely to be financially viable in the longer term, and almost certainly not possible in the period to 2031.

3. Manston Airport: History and Development Proposals

3.1. Introduction

In this chapter, we briefly describe the history of Manston Airport and the different development proposals that are currently being tabled. We also summarise the information and views that we gathered during our interviews with each prospective developer of the site.

3.2. Manston Airport History

The history of Manston Airport has been well documented in a series of reports and investigations about its prospects. Like many airports, it started life as a military airfield and played an important role during the Second World War. Although it continued as an Air Force base after the war, civilian operations were permitted. In 1998, the Ministry of Defence sold the site to the Wiggins Group plc, which endeavoured to build up commercial operations, including investment in an airline (EU Jet) to provide passenger services. However, the airline quickly ceased operations in July 2005 and the parent group (renamed Planestation), went into administration.

The following month, Infratil Limited acquired Manston Airport from the administrators, and sought to continue commercial air transport operations. However, without the support of a based airline, passenger numbers returned to the historically low levels experienced prior to EU Jet. In each year that Infratil Limited owned Manston it incurred losses of more than £3 million per annum and wrote off the purchase price of £17 million. Infratil disposed of the airport and associated liabilities in November 2013 for the notional price of £1.

Manston Skyport Limited completed its acquisition of the airport in December 2013, but in the face of continuing financial losses gave notice to staff in March 2014. The airport closed for operations on 15 May 2014.

TDC then explored the possibility of using a Compulsory Purchase Order (CPO) to buy the airport, and then sell immediately onto a private sector investor willing to use the site as a commercial airport. A month-long search yielded a small number of interested parties but further scrutiny indicated that none provided the Council with sufficient confidence that it would be indemnified were it to exercise its CPO rights. This led the Council to reach an initial conclusion in December 2014 that it was unable to find a CPO Indemnity partner.

At the request of RiverOak Investment Corporation (one of the previously interested parties), in May 2015 it started a review of this decision and in October 2015 reached the same conclusion. Nonetheless, at the start of 2016, the Council launched a further search for a CPO Indemnity partner, but this again proved unsuccessful.

In the meantime, the former airport site was sold in September 2014 to the current owners, Stone Hill Park Limited

3.3. Commercial Activity at Manston Airport

Immediately after Wiggins Group plc acquired the airport Manston saw an increase in freight traffic. This grew rapidly to circa 30,000 tonnes per annum, however the passenger element of the business stagnated. After Wiggins Group plc invested in an airline specifically for the region, EUJet, the airport saw rapid growth in passengers increasing to 200,000 in 2004. EUJet however, quickly fell into financial difficulty and ceased operations in July 2005 bringing an abrupt halt to the passenger growth.

In the years since, through the ownership of Infratil and Manston Skyport, freight volumes were maintained at circa 30,000 tonnes per annum. Passenger volumes increased with the introduction of Flybe in 2010 but

fell back as the routes were withdrawn. Most recently, KLM began operations from the airport in 2013 but were also withdrawn due to the announcement of the airports closure.

Since being taken into private ownership the airport has averaged 30,500 passengers and 25,000 tonnes of freight per annum, with the peak being 207,000 passengers in 2005 and 43,000 tonnes of freight in 2003.



3.4. Stone Hill Park Development Proposal

Stone Hill Park Limited has lodged a planning application with TDC to construct a mixed development of residential and business units on the site of the former airport.

Stone Hill Park set out its position with regard to the history of the airport, indicating its years of financial losses under various ownerships. The company also outlined the steps that had been taken by management and consultants, both when the airport was operational as Manston SkyPort, and when it came into its ownership, to revive the airport's fortunes. It should be noted that Stone Hill Park indicated that no documents or reports were available to evidence these efforts. Stone Hill Park concluded that the airport site would be better utilised as a redevelopment site than as an airport¹.

3.5. RiverOak Investment Corporation Development Proposal

RiverOak was perhaps the most interested party in TDC's search for an Indemnity Partner to support its consideration of a CPO. It has indicated that its plan for the re-opening of Manston Airport is based on attracting 10,000 annual movements by freighter aircraft.

During AviaSolutions interviews, RiverOak provided a high level review of why it wished to acquire the airport and its vision of the airport's future development. The strategy is to develop a freight hub with supporting passenger services. RiverOak criticised the previous owners' lack of effort to develop air freight traffic at Manston.

¹ The scope of this report does not extend to a consideration of other uses for the airport, and AviaSolutions is therefore not able to comment on the reasonableness or otherwise of the alternative use proposals.

RiverOak was unwilling to disclose any material detail of its Business Plan for reasons of commercial confidentiality. Therefore, the discussion over future viability was at a more generic high-level basis, with RiverOak not disclosing any traffic projections, revenue projections, cost base or specific airlines (passenger or freight) with whom it had discussed plans (with the exception of Ryanair). It did not name any parties that had given firm commitments to use a re-opened Manston².

A critical factor for RiverOak's proposal is that in order to establish an airport on the Manston site it will need to obtain ownership of the site from the current owners. They have not secured the site's sale through negotiation with the owners and are currently preparing for a DCO process, a part of which shall aim to demonstrate to the relevant authorities that the airport site is nationally significant transport infrastructure. If successful, RiverOak may then be granted the ability to purchase the site on a compulsory basis. Without this power, there appears little prospect at present of the group securing ownership.

² For the avoidance of doubt, AviaSolutions therefore does not offer any opinion about the reasonableness or otherwise of RiverOak's commercial plans for the airport.

4. Potential Development Scenarios

4.1. Introduction

In this chapter, we describe a number of possible development scenarios for Manston Airport. These scenarios have been developed on the basis of our experience of the air transport industry and provided the background for our discussions stakeholders within the air transport industry.

We first describe two scenarios (4.2 and 4.3) that consider possible developments at Manston with regards to cargo and passengers. These scenarios are considered in isolation from decisions made in relation to the provision of a runway in the London area. However, given that Manston is in the South East of the UK, its potential development is likely to be directly influenced by any runway decision. Consequently, we incorporate the first two scenarios into a wider consideration of possible developments in the London area in view of the possibility that Manston might provide some 'over-flow' airport capacity. These considerations are drawn together in our four distinct demand scenarios for Manston Airport.

4.2. Cargo Activity

In the past, Manston Airport was able to attract a certain level of cargo activity, and a potential future role would be for it to again serve this market. In our assessment, we assume as a minimum that Manston attracts this previous freight, totaling 30,000 tonnes per annum.

We also consider whether the scale of activity might be greater than experienced in the past. There would be two possible causes for this:

- The selection of the East Kent area by a major multinational manufacturing (e.g. an Asian electronics or white goods company) or retail group (e.g. Amazon) as the location of its distribution network. Such location decisions can have a significant impact on freight volumes. However the UK's planned exit from the EU leaves makes this less likely.
- As a consequence of their lower sensitivity to airport location, freighters are generally amongst the first category of traffic to be 'squeezed' out of busy airports. With the pressure on runway capacity in the South East of England, it is possible that freighters currently operating through the London airport systems might seek to move to an alternative airport. We discuss this further throughout the remainder of this chapter.

We also considered the role of integrators in the air freight market. Whilst general cargo traffic tends to be more flexible about the location of the airport it uses than passenger traffic, this does not apply to the major integrated freight operators. The business model of operators such as DHL, FedEx and UPS is based on a hub and spoke principle involving both aircraft and road feeder services: the surface element of the network has a greater requirement for a central location within the market being served. We consider the geographic location of Manston precludes it from being a suitable base airport for an integrator in particular when compared to UK competitors such as East Midlands Airport.

4.3. Regional Passenger Airport

Manston Airport played a role from the early 2000s until its closure as a local airport serving the East Kent region. Although our research and analysis (described in Section 5) has indicated that its core catchment area produces significantly less demand for air travel than the area around Southend Airport, we consider that it might nonetheless be able to support an operation equivalent to one or two 150-200 seat passenger aircraft operated by a LCC based at Manston. However, the longevity of such a development may be limited since if a new runway were to be built at Heathrow or Gatwick, the LCC concerned would in all probability transfer its aircraft to the new runway. There are many reasons why these aircraft would be re-based, including:

- Gaining access to vitally important catchment area

- Competitive positioning, the major LCCs are likely to fiercely compete and attempt to gain first mover advantages
- The airlines will need to base multiple aircraft at the airport with a new runway in order to achieve economies of scale on the cost lines of their business
- Securing slots at valuable airports to secure slots
- Airlines have finite resources, including the number of aircraft they have to operate. A major structural change in the runway capacity environment will demand that those resources be reviewed and the optimum allocation revised.

In our analysis we make the assumption that the airport quickly ramps up to 800,000 passengers per annum on this basis until such a time as a new runway is opened, at which point the aircraft are re-based and the passenger traffic lost. This volume of annual passengers is equivalent to two B737-800 based aircraft with a typical LCC seat configuration. We also assume that Manston would not feature in the network plans of airlines for non-based aircraft.

4.4. Runway Development in the South East

The shortage of airport capacity in the South East of England has been widely debated for many years, if not decades. The most recent public investigation was undertaken by the Davies Commission which reported to Government in 2015. No decision on its recommendation to provide a third runway at Heathrow has yet been made, although one is expected in October 2016. Even if a decision is made as currently planned, it could be ten years or more before that runway would be operational. The Davies Commission considered a long list of possible locations for additional runway capacity in the South East, although it should be noted that Manston Airport (still open at the time) was not one of them, and despite its available capacity a new runway was still deemed necessary.

The Commission short-listed two schemes at Heathrow for a third runway (LHR3) and the provision of a second runway at Gatwick (LGW2), and recommended LHR3. During the next ten years, there will be a shortage of airport capacity in the South East, leading to a scenario in which Manston acts as an overflow airport for demand that cannot be accommodated elsewhere. We consider that there are four possible outcomes from the Government's current decision process:

- Build LHR3: While in line with the Davies Commission recommendation, this choice would nonetheless be the most controversial, and probably take the longest time to deliver.
- Build LGW2: It is likely that a runway at Gatwick would be available earlier than at Heathrow. It is probably the outcome that would be least supportive of a re-opening of Manston Airport, since Gatwick is the closest airport to Manston, and a runway there is likely to be operational several years before one at Heathrow.
- Build both: Should Government indicate that its policy would permit both to be built, Gatwick shareholders might well conclude that while its runway could be operational first, there would be a significant risk of loss of traffic to Heathrow as and when its additional runway opened.
- No expansion: It is possible that Government will not sanction any runway expansion in the South East. It is the outcome that would be most supportive of a re-opening of Manston Airport, albeit an outcome that could be reversed at any time in the future, thereby depriving a re-opened Manston of traffic.

It is feasible that there would be a legal challenge, irrespective of which of the above possibilities were chosen (possibly less so with the fourth 'do nothing' option), further delaying the opening of a new runway. It is unclear whether the Government's decision would indicate simply its preferred location with the airport operator then following the normal planning process to obtain the necessary permissions, or whether it would seek to provide the permissions through a Parliamentary process.

4.5. Dynamics of Traffic in the London Airport System

The six airports of the London Airport system all have different owners, and each has a particular characteristic in the traffic which it handles. However, there is a dynamic in the distribution of traffic between the airports, which also have a particular hierarchy.

Heathrow is the premier airport, and there are numerous examples of airlines moving services there when they are able to do so. This has been evidenced with airlines purchasing slots from incumbent Heathrow

airlines, for example in February 2016 Oman Air purchased a pair of Heathrow slots from Air France-KLM for a reported \$75 million.

Gatwick is clearly the second airport in the system, and secondary slot trading is also beginning to take place. The airports of Stansted and Luton to the north of London play similar roles in supporting the low cost airline market. London City Airport is very much a niche airport and has marginally relieved pressure on Heathrow by serving an increasing range of short haul (often business-oriented) destinations. The least busy airport is Southend which has grown again in the last few years as a result of easyJet basing two to three aircraft at the airport.

4.6. Model Scenarios

Before the construction of a new runway at Heathrow and/or Gatwick, there is expected to be a shortage of airport capacity with passenger demand growing. We have developed a simulation model to estimate the size of unaccommodated demand at one airport, and how the demand might respond to an airport capacity shortage. Our demand cascade follows the form of:

- Some passengers using the airport to connect between flights will choose to use other airports as their connection point (voluntarily to avoid over-crowded facilities and delayed flights, or as a consequence of airlines increasing fares to such passengers);
- Some passengers will choose not to travel, or not to travel by air (as air fares are increased);
- Some passengers will endeavour to use another London airport; and
- The remaining potential travellers are available for attraction by UK airports other than the six London area airports.

We have used our experience and discrete analyses to determine the likely sizes of the first two categories above, and then estimated the passenger handling capacities of the airports. In general, this is based on the number of Air Transport Movements (ATMs) that each airport's runway system can handle³ and the average number of passengers per ATM at the airport. There is a long-term and widespread trend for passengers per ATM to increase, meaning that the passenger handling capability of an airport can grow even though there may be no change in the number of ATMs that it can handle. We have also divided the maximum ATMs between passenger and freighter operations, maintaining freighter operations at the average level seen over the five years 2011 to 2015⁴, except at Stansted. Within this model we have also considered freight demand and the ability of airlines to carry this demand, either on the dedicated freighter ATMs or in the belly-holds of passenger aircraft.

Once the total unaccommodated demand for the London System has been identified we then apply analysis to identify the share of this unaccommodated demand Manston might attract. These 'spill' demand scenarios are in addition to the base loads of 800,000 passengers (up until a new runway) and 30,000 tonnes of freight. Our demand scenarios are therefore:

- LHR3: The spilled passenger demand Manston would capture if a third Heathrow runway were developed and in addition 800,000 passenger per annum and 30,000 tonnes of freight per annum until FY2030.
- LGW2: The spilled passenger demand Manston would capture if a second Gatwick runway were developed and in addition 800,000 passenger per annum and 30,000 tonnes of freight per annum until FY2025.
- Both: The spilled passenger demand Manston would capture if a third Heathrow runway were developed and a second Gatwick runway were developed and in addition 800,000 passenger per annum and 30,000 tonnes of freight per annum until FY2025.
- No Runway: The spilled passenger demand Manston would capture if no new runway were developed and in addition 800,000 passenger per annum and 30,000 tonnes of freight per annum until FY2050.

³ In the cases of Heathrow, Stansted and London City there are also statutory limits

⁴ One of Stansted's S106 conditions specifies the division of ATMs between passenger and freighter, with freighter ATMs being 20,500 per annum, and passenger ATMs 243,500 per annum

4.7. Development Options Outside of Scenarios

We have not included in the possible scenarios any development that does not include commercial air transport operations. Hence, we do not consider the potential use of the Manston site as; a Maintenance, Repair and Overhaul (MRO) centre, an aircraft refurbishment or fit-out location, aircraft 'tear-down' or storage centre, or flight training facility. These and similar activities are often sought by owners of airports with low levels of aircraft activity as a means of generating ancillary revenue to boost income. However, the operators of these businesses are often flexible about the location of the works, and as such, the businesses providing these types of activities are highly sought-after by existing airports and the businesses are able to negotiate favorable commercial terms.

Given the intense competition that exists for these types of business, in our judgment no private sector investor would re-open Manston Airport based primarily on this type of activity. Similarly, while the site has an historic position in aviation and has a heritage centre, and this activity could add to viability, this would be only a marginal financial contribution and would be dependent on there being a commercially viable airport around which to build such an activity.

We also discounted the possibility of Manston developing as a business aviation (GA) centre: it is simply too distant from London to be an attractive offering to corporations and high net-worth individuals using private jets and would struggle against established airports such as Farnborough and London City.

5. Passenger Analysis

5.1. Introduction

In this section, we discuss the passenger market both at Manston and in the London Area as a whole. We then explore the potential demand scenarios outlined in section 4.6.

5.2. Historic Passenger Traffic at Manston Airport

Various passenger services have operated at Manston Airport in the past. In general, they were consistent with the type that might be expected at a small UK regional airport, namely scheduled services to major short haul domestic and European destinations, supplemented by charter flights to the more popular Mediterranean holiday resorts.

Passenger volumes peaked in 2005, when EUJet, then a subsidiary of Planestation, was operating from Manston Airport. A large number of destinations were served, although EUJet was achieving a load factor of only 41% when it ceased trading in July 2005.



Destinations/Origins of Manston Airport Passengers, 2005

Airport	Passengers	Airport	Passengers
Edinburgh	32,259	Gerona	6,177
Dublin	26,879	Newcastle	5,118
Amsterdam	16,600	Belfast	4,563
Manchester	15,091	Barcelona	4,351
Malaga	14,119	Ibiza	3,657
Prague	10,434	Shannon	2,897
Nice	9,848	Valencia	2,316
Murcia	9,774	Glasgow	2,200
Alicante	7,822	Madrid	2,077
Palma	7,584	Other international	12,186
Geneva	6,801	Other domestic	18
Faro	6,502	Total	209,273

Source: CAA Airport Statistics

After EUJet ceased trading, passenger volumes fell dramatically, and remained persistently below 20,000 per annum until 2010/11 when Flybe commenced some limited flying to domestic destinations. The service to Manchester performed poorly, with an average load factor of 26% (source: CAA) and was soon terminated. A Belfast service had a marginally better load factor at 44% but ultimately was unsustainable. The highest performing route in terms of load factor was to Edinburgh which reached a load factor of 53%. Passengers were mainly outbound from Manston and travelling for personal or leisure reasons resulting in fare yields being relatively low. The culmination of this poor demand resulted in Flybe ceasing services from the airport (source: Flybe Interview).

In 2013, KLM commenced a twice daily service on weekdays from and to Amsterdam, aiming to feed its connecting hub at Schiphol as well as facilitating travel to and from the city. KLM operates to many airports in the UK on this basis and in 2013, KLM carried nearly 36,000 passengers. However, in that same year, a further 48,000 passengers from Manston's core catchment area travelled to Amsterdam from other London Area Airports, meaning that the Manston service captured just 42% of the demand that arose from Manston's core catchment area (albeit services started only in April 2013).

Passengers to Amsterdam, 2013

London Area Airport	Passengers to Amsterdam from Manston Catchment Area, 2013
Heathrow	22,008
Gatwick	20,048
London City	4,091
Stansted	1,932
Luton	596
Total	48,675
Passengers on KLM service from Manston	35,854 (42%)
Total Catchment Area Passengers to Amsterdam	84,529 (100%)

Source: CAA Passenger Survey (N.B. Southend not included in survey)

5.3. Local Demand

We have defined an area of eastern Kent as Manston's core catchment area, as shown in the diagram below.



To gauge the demand from Manston Airport's core catchment, we analysed the number of journeys from the core catchment to a basket of easyJet destinations (using Southend Airport's easyJet network as a typical example). The London airports captured 517,000 air journeys to these UK domestic and short haul

European destinations⁵. This figure does not include the small number of passengers that travelled via Manston to Amsterdam in the first three months of the year.

District	Passengers from Manston's Catchment Area
Ashford	59,463
Canterbury	78,339
Dover	48,575
Maidstone	74,279
Medway	131,123
Shepway	41,159
Swale	47,074
Thanet	37,315
Total Using London Area Airports	517,327
Passengers on Services from Manston	12,344
Total Catchment Area Passengers to these points	529,671

Source: CAA Passenger Survey (N.B. Southend not included in survey)

In contrast, in 2014, the core catchment area for Southend generated more than 580,000 passengers to and from these points flying from the other London Airports. This is in addition to the passengers carried by easyJet from Southend to these destinations.

A proportion of the passengers that used services from Southend will have come from outside the airport's core catchment area. The analysis indicates that the maximum proportion of demand from a core catchment area that a small airport might attract is around 60%. This assumed percentage capture is broadly in line with the 42% capture by KLM from Manston during its first nine months of operations in 2013.



Airport Used	Passengers from Southend Catchment Area
Gatwick	270,450
Stansted	251,443
Heathrow	21,978
London City	20,868
Luton	16,820
Total using London Area Airports	581,559 (38%)
Passengers on easyJet services from Southend	959,523 (62%)
Total Catchment Area Passengers to these points	1,541,082 (100%)

Source: CAA Passenger Survey (N.B. Southend not included in survey)

If this same percentage were applied to the 2014 demand from Manston's core catchment area, it suggests that the maximum number of passengers that might be attracted to these points on services from a re-opened Manston would be some 330,000 per annum (529,000 x 62%). To sustain operations, it is therefore conceivable that Manston would, like Southend, almost certainly need to attract passengers from outside its catchment area. Southend is some 55 minutes from central London by rail (with pedestrian access between airport terminal and station), while Manston is scheduled to be 75 to 105 minutes from

⁵ Barcelona, Belfast, Amsterdam, Faro, Alicante, Ibiza, Malaga, Jersey, Palma. Geneva, Venice, Edinburgh, Berlin, Krakow, Tenerife

Central London. Manston would face a significant challenge to match Southend's attraction to passengers from central London.

Train to London from airport, (Assumes Ramsgate connection for Manston)

Airport	Train to London	Connect to Terminal	Vs. Manston
Heathrow	15 minutes every 15 minutes from Paddington	Direct to terminal	75 minutes quicker
Gatwick	30 minutes every 15 minutes from Victoria	Direct to terminal	60 minutes quicker
Stansted	50 minutes every 15 minutes from Stratford / Liverpool Street	Direct to terminal	40 minutes quicker
Luton	40 minutes every 10 minutes to Kings Cross St Pancras	10 minute shuttle	50 minutes quicker
London City	On the DLR Line	Direct to terminal	Variable
Southend	53 minutes to Liverpool Street, 44 minutes to Stratford. 8 trains an hour at peak	Direct to terminal	37 minutes quicker
Manston	75 - 105 minutes to Ramsgate, four trains per hour to Kings Cross St Pancras	15 minute shuttle	n/a

Source: Airport website, national rail

This potential level of passenger demand at Manston for short haul services would be approximately equal to that which could be handled by one 150 seat narrow-body aircraft (such as a Boeing B737 or an Airbus A319) operated by an LCC based at Manston.

5.4. Airline Interviews

AviaSolutions spoke to several passenger airlines with regards to potential future operations at Manston airport. More detailed notes are provided in Appendix A.

Ryanair provided the most positive indication of future service concluding that:

'Ryanair are constantly reviewing their network and remain open to approaches from any airport. If the airport became operational, the airline would review its potential and fit within the wider airline network in due course, and is available to discuss terms with the owners at any time'
Ms. Kate Sherry, Deputy Director of Route Development, Ryanair

Whilst Ryanair remained somewhat open to the possibility of future services, it was in our opinion, far from a commitment to serve Manston airport if it should re-open. We received a similar position statement from KLM, effectively citing that a re-opened Manston would be included in the annual network review.

Discussions with other carriers indicated a less positive outlook for the airport, with Flybe, an airline that had previously served Manston stating:

'It is unlikely that, even if Manston should reopen, the airline would choose to serve the airport.'
Mr. Martin Pearce, Flybe

Other airlines and individuals interviewed had similar stances, stating that:

'...Manston would not be a consideration for us...'
Major European LCC

and that:

'Following the BREXIT vote many airlines will be considering their approach to the UK. During a period of uncertainty, it will be difficult for Manston to convince carriers to open routes to the airport'
Ex-Director of Network Route Development for Major European LCC

We also discussed with a major UK carrier its views on Manston Airport as part of an operational resilience strategy. This is an aspect of the airport which has been made promoted as a potential benefit to the UK aviation sector. Flight Operations within an airline is a highly scrutinised function, in particular with regards to fuel and diversionary airport selection. When calculating a Flight Plan, airlines plan contingency fuel based on regulatory standards that ensure sufficient fuel is available upon landing, meeting this minimum landing fuel is a core part of the duty of all aircraft commanders. Our contact stated that:

'It is my personal view that Manston does not offer any safety or resilience benefits of a material nature to the UK system. The airport is located in close proximity to six London airports which offer excellent resilience already'

Manager, Flight Operations, Major UK Carrier

Based on AviaSolutions interviews in relation to passenger services, we conclude that whilst there is some notional interest in passenger services at Manston Airport, no airline was committed at present, or in the future seeking to serve to the airport should it re-open. No airline wished to give any more commitment beyond that it would consider Manston as part of their process of reviewing their network.

5.5. Potential Overflow from London Area System - Model

We outlined in Section 4 the principles on which we have based our model of how passenger traffic might cascade around the London Area Airport system. In this section we set out the main assumptions and results.

Capacity

The starting point of our assumptions is the ATM capacity of the London airports. At a number of airports, the ATM capacity has a statutory cap (as opposed to an estimate based on its physical capacity). At these airports we have assumed up to 97.5% of the movement cap to reflect constraints on the optimal scheduling and peak demand profiles.

Airport ATM Capacity

Airport	Annual ATM Capacity	Comment
Heathrow	480,000	With two runways. Statutory limit
	720,000	With three runways, from 2030 if added
Gatwick	280,000	Estimated capacity of single runway
	480,000	With two runways, from 2025 if added
Stansted	264,000	Statutory limit. Includes 20,500 for freight flights
Luton	100,000	Estimated. Statutory passenger cap of 18 mppa
London City	111,000	Statutory cap (noise-adjusted) - passenger limit of 6.5 mppa
Southend	53,300	Statutory cap

These ATM capacities are converted into a passenger capacity by multiplying by the average number of passengers per ATM. Passengers per ATM have historically increased over time as a result of larger aircraft with more seats and the increase in the number of seats occupied (the load factor).

We have assumed a continuation of this trend, although at a rate of 0.5% per annum, much lower than seen in recent years. It may be seen that even by 2050, the number of passengers per ATM with this assumption never exceeds 200 at any airport. This assumption acts to increase the demand that cannot be accommodated at the six London Area airports. However, it is likely that when faced with runway capacity constraints, airlines will increase passengers per ATM at a faster rate than would otherwise be the case. Our assumed rate of increase is consequently likely to lead to an over-estimation of the demand that is available to be handled at Manston.

Passengers per ATM

Airport	Passengers per ATM					CAGR 2011 to 2015	CAGR 2015 to 2050	Pax per ATM 2050
	2011	2012	2013	2014	2015			
Heathrow	146.6	149.5	155.0	156.8	159.7	2.2%	0.5%	190.2
Gatwick	137.9	142.5	145.2	149.7	153.5	2.7%	0.5%	182.8
Stansted	142.3	144.1	146.3	149.2	155.9	2.3%	0.5%	185.6
Luton	136.4	139.0	141.8	143.3	145.1	1.5%	0.5%	172.8
London City	49.2	46.9	49.7	52.0	54.5	2.6%	0.5%	64.9
Southend	33.8	84.9	102.4	95.5	100.4	5.7%*	0.5%	119.5

* 2012 to 2015

Demand

We have based our forecasts of future passenger traffic on those set out in the Davies Commission Report - unconstrained carbon traded forecast (the most optimistic). Given that the early forecast volumes have been superseded by actual performance, we have uplifted the forecast figures to reflect actual demand seen across the London System in the intervening years.

Demand Allocation London System

Demand is then compared to capacity available, and assigned to the airport which Davies assumes is its natural first choice. The greatest demand is for Heathrow, and traffic not accommodated there is assumed to (a) spill to other non-London Area airports for connecting traffic, (b) 5% is assumed not to travel (by air), or (c) spill to Gatwick.

A similar process is then followed for Gatwick, with any unallocated demand being allocated to one of the other four London Area airports, until each has reached its capacity. At this point, any unaccommodated demand becomes available for other airports outside the London System to handle. We summarise below the forecast demand at the London Area airports in 2050 for each of our defined scenarios, together with unaccommodated demand.

Forecast Passenger Demand (mppa) at London Area Airports, 2050

Airport	Scenario			
	LHR R3	LGW R2	Both	Neither
Heathrow	134	89	134	89
Gatwick	51	88	88	51
Stansted	45	45	45	45
Luton	17	17	17	17
London City	7	7	7	7
Southend	2	2	2	2
Unaccommodated	44	40	5	79

Unaccommodated Demand (mppa) by Scenario and Year

Year	Scenario			
	LHR R3	LGW R2	Both	Neither
2020	5	5	5	5
2025	11	9	9	11
2030	17	6	2	25
2035	9	9	4	36
2040	16	16	5	49
2045	27	27	3	61
2050	44	40	6	79

Demand Allocation - Regionals

This Unaccommodated Demand is potentially available to airports other than the six London airports and specifically to airports in regions other than the South East as well as to Manston. Using CAA data, we have calculated the origin and destination distribution of passengers at the London Airports split by the part of the UK they are travelling either to or from. This indicates that 49% of total passengers are travelling to or from Greater London and 4% to or from Kent. We have assumed that the distribution of future Unaccommodated Demand matches the pattern of demand seen in 2014, such that if 100 passengers were unaccommodated, 49 of those are travelling to or from Greater London and 4 to or from Kent.

We have then estimated how much of this Unaccommodated Demand Manston may reasonably be assumed to capture. Given its location in Kent it is reasonable to assume it would capture a large share of the Unaccommodated Demand for Kent (4 passengers in the example above). We have assumed that this share is 90% (90% of the 4 passengers). Applying a similar logic, we assume that the Greater London passengers would have more choice and therefore Manston would capture a smaller share of this market. We have assumed Manston will capture 10% of the Greater London market (10% of the 49 passengers).

It is also important to recognise that currently 27% of passengers using the London Area airports do not have origins or destinations in the South East region, but use surface means to access the air services at the London airports. It is our view that airlines will consider adding additional capacity at airports to the North and West of London (potentially Southampton, Bournemouth, Cardiff, Birmingham, Manchester) to dissipate this excess demand and permit the London System to absorb the demand growth in the Greater London area. These non-London airports, in general, have a wider catchment area already provide services from many carriers with the associated economics of scale and mature presence in these markets.

Surface Origin/Destination of Terminating Passengers at London Area Airports, 2014 (mppa)

Area	LHR	LGW	STN	LTN	LCY	Total	%
South East	36.0	28.1	11.6	10.2	3.3	84.2	73%
of which							
Greater London	24.9	15.0	10.1	5.3	3.1	56.7	49%
Kent	0.9	2.5	0.4	0.1	0.1	4.1	4%
Other UK regions	11.3	7.2	7.5	5.0	0.3	31.2	27%
Total Terminating	47.3	35.2	19.1	10.2	3.6	115.4	100%
Connecting	25.8	2.6	0.8	0.2	0.1	29.5	
Total Terminal	73.1	37.9	19.9	10.4	3.6	144.9	

Source: CAA Passenger Survey

In addition to this overflow of unaccommodated demand, in each of our scenarios we have added the introduction of an LCC base of two aircraft supporting 800,000 passengers per annum from 2018, equivalent to two Ryanair B737-800 aircraft. This base continues at Manston until a new runway is opened at Heathrow and/or Gatwick. In the year when new capacity is introduced, the Manston based aircraft are assumed to transfer to the airport with the new runway, as the airline concerned seeks to establish presence at that airport at the same time as consolidating its operations in the London area.

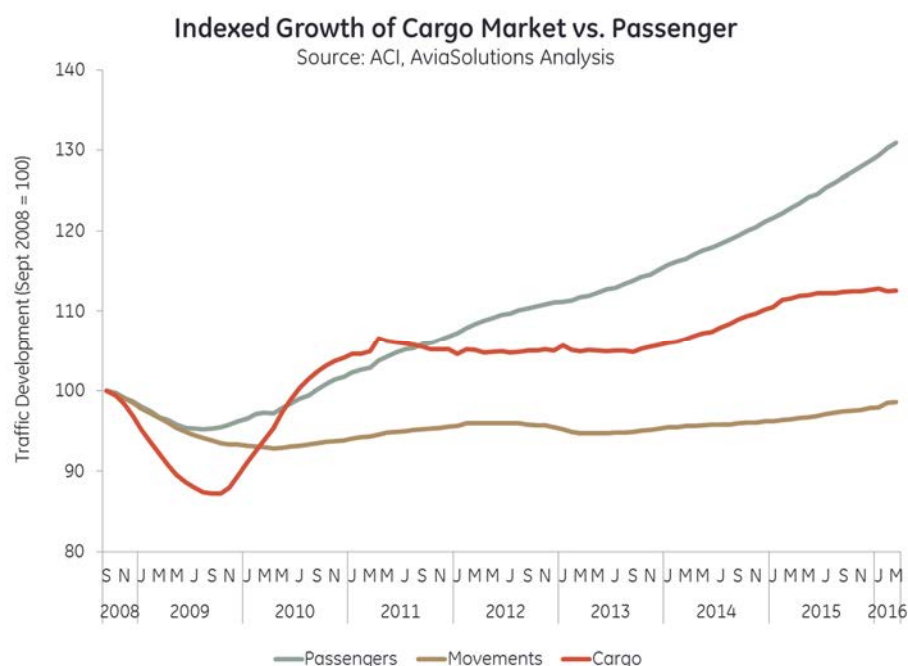
6. Cargo Analysis

6.1. Introduction

In this chapter we examine the air cargo market and its overall prospects. We also consider how freight traffic might develop at Manston Airport in our scenarios.

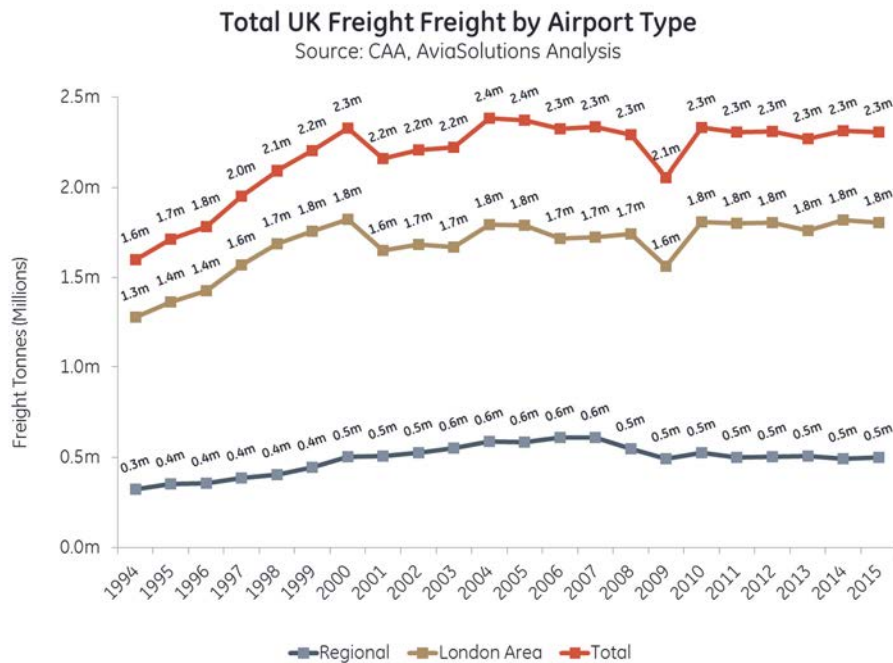
6.2. Overall Cargo Market

The air cargo market declined significantly after the global financial crisis of 2008. Although cargo volumes recovered to previous levels within two years following the crash in 2008, growth over the last five or six years has been modest.



A similar pattern has been observed in the UK. Indeed, total air freight handled at UK airports has been virtually constant at around 2.3 million tonnes per annum since 2000, with the exception of reductions immediately after the start of the recession in the early 2000s and the financial crisis in 2008. Prior to this period, demand for air freight had grown at CAGR of 8% since 1990.

There is a reasonably even split between freight set-down (imports for international freight) at 52.5% and freight picked-up (exports) at 47.5%. More than 95% of UK air freight in 2015 was international.



Within this national context, individual airports' performance has varied, with the five London area airports (Heathrow, Gatwick, Stansted, Luton and City) increasing their aggregate share slightly to just under 80%, with regional airports reducing by an equivalent amount.

The busiest airport for freight has consistently been Heathrow, responsible for two thirds of the country's air freight. This position owes much to the very considerable cargo capacity in the holds of the wide-body aircraft providing the many long haul passenger services from the airport. In contrast, East Midlands' position as the second busiest freight airport is due to its role as the centre of the UK distribution network of the integrated cargo carriers, especially DHL but also UPS and Royal Mail. Stansted is preferred by FedEx and is also used by the cargo operations of a number of airlines. These included British Airways before it discontinued its all-freighter operations in April 2014 and switched to the freighter operations of Qatar Airways.

It has been argued by, for example, York Aviation on behalf of the Freight Transport Association that the stagnation of growth in UK air freight market since 2000 has been caused by a lack of airport capacity in the London area and specifically at Heathrow. Whilst the lack of ATM growth at Heathrow has undoubtedly hampered the development of the national air freight market, it is also true that over this period there was adequate airport capacity available at both Stansted and Manston to support additional dedicated freighter movements. Freight movements at Stansted decreased over the period⁶, while Manston closed. This strongly suggests that the stagnation of UK airfreight is not a consequence of capacity constraints given the excess capacity at Stansted and Manston.

Air freight activity in the UK is highly concentrated, with just six airports handling 95% of the UK's air freight volume.

⁶ Stansted's freight ATMs declined from 13,967 in 2000 to 9,956 in 2015

Freight by UK Airport

Airport	Freight (Tonnes)		% of 2015 Total	Cumulative Share	% carried on Freighters in 2015
	2013	2015			
Heathrow	1,422,939	1,496,551	65%	65%	5%
East Midlands	266,968	291,689	13%	78%	100%
Stansted	211,952	207,996	9%	87%	100%
Gatwick	96,724	73,371	3%	90%	0%
Manchester	96,373	100,021	4%	94%	10%
Manston	29,306	-	0%	94%	100% (2013)
Belfast International	29,288	30,389	1%	95%	100%
Luton	29,074	28,008	1%	97%	96%
Birmingham	21,067	7,164	0%	97%	0%
Edinburgh	18,624	19,322	1%	98%	99%
Total	2,267,812	2,304,345			30%

Source: Analysis of CAA Statistics

In 2015, there were around 60,000 ATMs by all-freight aircraft across UK airports. These were split almost equally between international and domestic operations. Freight movements are relatively concentrated on a small number of airports, with East Midlands and Stansted accounting for 64% of movements in 2015.

Airport	Domestic	Freighter ATMs International	Total	Int. as % of 2015 Total
Heathrow	3	2,385	2,388	8%
East Midlands	9,603	12,516	22,119	42%
Stansted	3,445	6,511	9,956	22%
Gatwick	0	3	3	0%
Manchester	205	830	1,035	3%
Belfast International	4,091	17	4,108	0%
Luton	183	1,519	1,702	5%
Birmingham	0	0	0	0%
Edinburgh	3,883	1,088	4,971	4%
Other	10,136	5,032	15,168	17%
Total	31,549	29,901	61,450	100%

Source: Analysis of CAA Statistics

It is important to note that, in the UK market, only 30% of airfreight is carried on dedicated freight aircraft. This is substantially less than the global average, where approximately 56% of RTK's are transported on freighters. In part, this disparity is due to the excellent belly-hold networks available from UK airports and in particular from Heathrow.

As passenger demand increases additional belly-hold capacity will enter the market. This capacity growth is unhooked from the demand scenario for belly-hold cargo and can result in excess capacity in the market. As a result airlines will often sell this belly-hold capacity using a marginal cost pricing structure. This pricing structure does not need to account for the high cost of the aircraft and must only meet the additional marginal cost that each kilogram of cargo incurs. Through the application of this pricing

structure, belly-hold cargo often undercuts the minimum price that can be charged on dedicated freighter operations.

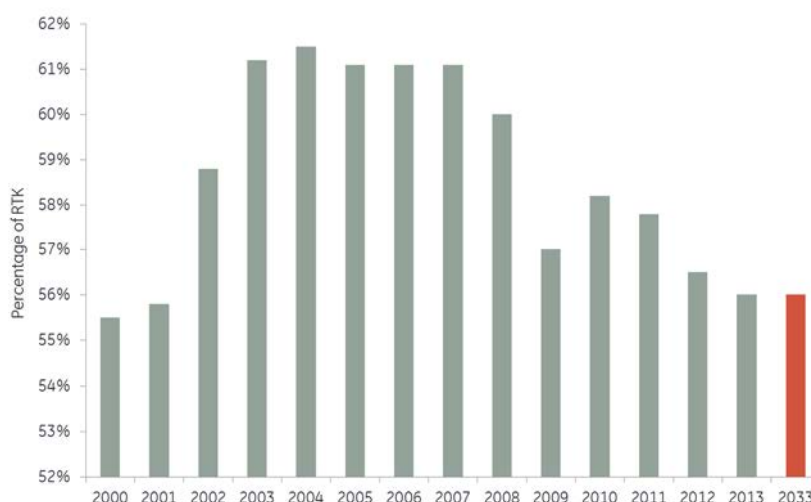
As a result of this market dynamic, an airport focused on airfreight carried by dedicated freighters may be overly exposed to a declining or stagnant total market, or at best to a market that is not exposed to strong potential.

However, there are some elements of the market that appear to be limiting the increase in belly-hold capacity. These include

- Some of the newer aircraft types have a smaller belly-hold cargo capacity than the aircraft they replace; and
- Low Cost Carriers (such as easyJet and Ryanair) are gaining market share but generally ignore the freight market.

World RTK's Carried on Freighters by Percentage

Source: Boeing



Manston

Before its closure in 2014, Manston Airport was the sixth busiest airport in the UK for freight. For the last ten years of operations the airport handled between 25,000 and 30,000 tonnes of freight annually, representing just over 1% of the UK market (refer table 'Freight by UK Airport' on previous page)

In 2013, the overwhelming majority of the airport's freight was carried on all-freight aircraft, CargoLux being the primary operator. There were 511 freighter movements (landings or take-offs) during the year, with an average of 57 tonnes of freight per movement. In reality Manston was almost exclusively used for imports, and this averaged 107 tonnes per import, with virtually no export volume.

6.3. Freight Industry Interviews

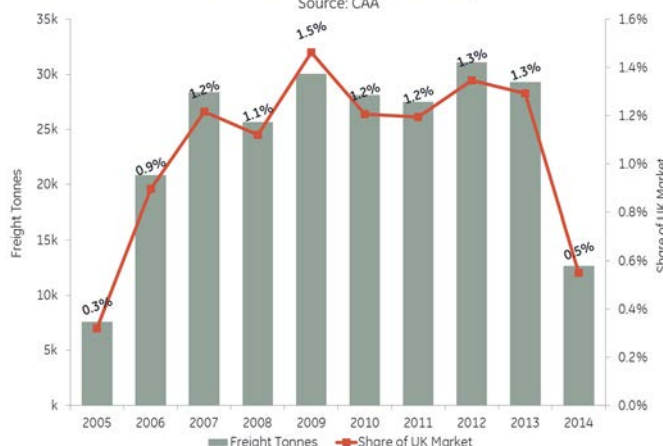
Our discussions with representative of the cargo industry indicate that much of the cargo at Manston was fresh produce from Africa. The airport was popular with shippers as it was uncongested, offered good quality handling services (provided by airport staff) and the airport charges were competitive. While it is close to continental Europe, airlines/shippers nonetheless had to incur the costs of flying freight aircraft virtually empty on the return leg to their base airport (e.g. Luxembourg, Ostend and Liege) after off-loading. When Manston closed, it is understood that some movements transferred to Stansted, whilst others switched to airports on the near-Continent and their loads trucked across the Channel to the UK.

Our primary interest in interviewing representatives of the freight industry (current and former executives), and previous users of the airport was to assess potential future use. It was clear from these discussions that whilst the airport clearly offered a professional service, the strategic position of the airport was a clear disadvantage.

'Airlines base the decision on where to operate their freighters based on a multitude of factors. However, the overriding factor is based on where investments in infrastructure have been made by

Manston Airport Freight History

Source: CAA



their clients, freight forwarders. These capex investments by freight forwarders are required to ensure they maintain economies of scale through their transit facilities and distribution centres. In the UK, these investments are centred at Heathrow, and more recently Stansted'
Senior Executive in Cargo Division for airline operating freighters at Stansted.

The individual went on further to discuss the possibility of relocating his freighters to Manston Airport and was unequivocal in his position:

'The airline would be extremely unlikely to consider moving services to Manston, even if we were no longer able to serve Stansted, regardless of the commercial terms offered. If the airline had to move services, we would consider East Midlands and Manchester or other centrally located airports before Manston'
Senior Executive in Cargo Division for airline operating freighters at Stansted

This view was echoed by Mr. Stanley G. Wraight, a cargo professional with a global reputation, and over 40 years' experience in the cargo industry:

'The conclusion is there is virtually no incentive for operators to move operations to Manston, there are alternative UK airports that offer competitive services on reasonable terms. The UK doesn't need another airport for freight that has no USP. If Manston were to be developed it would be essential for it to gain a niche market such as becoming an Amazon or Alibaba e-commerce base'
Mr. Stanley G. Wraight – Senior Executive Director Strategic Aviation Solutions Limited

Balancing this view were those of an air cargo charter broker who had previously used Manston for charter services. The airport had offered excellent service and, while the broker's use might be for a moderate level of ATMs, it would be keen to re-establish a presence, provided the right commercial terms could be agreed:

'...we would certainly be interested in using the airport again if it re-opened but in order to do so, we would be looking to secure competitive rates for landing, parking and screening charges...'
Air Cargo Charter Broker – UK

We conclude therefore that there is limited interest from the cargo industry in using a re-opened Manston Airport for air freight. The larger scheduled freighter operators are unlikely to relocate their services to the airport, particularly if the airport does not have a unique product offer. We believe it is more likely that were Manston Airport to re-open, the most likely role would be to serve smaller freight operators and the larger operators on an *ad-hoc* basis. There is no compelling reason to believe that the airport would be able to generate appreciably more freight activity than previously, other than in the context of a shortage of airport capacity in the London area.

6.4. Potential Future Freight Operations - Model

Based on our research and analysis, it is AviaSolutions' view that if Manston were to re-open as an airport, it would attract some dedicated freighter operations. However, in the absence of a firm commitment from a multinational to establish a distribution centre near Manston, the growth of freight activity at the airport would be in line with historic performance, with incremental growth resulting from a general expansion of the UK cargo market and a diversion of freighter flights if these were constrained at Stansted.

Demand

There are very few national forecasts for the development of air freight. One example is the report developed by Oxford Economics and Ramboll for Transport for London as part of the investigation of the development of an estuary airport for London. A potential cause of the stagnation of growth in air cargo since 2000 was identified as the increase in oil and jet fuel price. Trend forecasts were based on average growth from 2000 to 2012 (the Lower Bound) and from 1990 to 2012 (the Upper Bound). The difference in growth rates of the two periods produce very different forecast outcomes.

Average Annual Growth	Period	London Area Airports	UK
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Belly Hold Cargo	1990-2012	2.95%	2.87%
Belly Hold Cargo	2000-2012	0.49%	0.48%
Dedicated Cargo	1990-2012	2.76%	3.52%
Dedicated Cargo	2000-2012	0.02%	0.40%

Source: Oxford Economics

We note that despite being one of the world's leading economics consultancy's, Oxford Economics relied on a forecasting technique based on historic trends, rather than econometric regression analysis seeking to correlate historic growth in air cargo with changes in external/exogenous variables such as GDP, international trade etc. that might be driving the freight growth. Boeing and Airbus base their long term forecasts on GDP changes. The Oxford Economics' approach is consistent with it either not being confident in any relationships that exist, or simply not finding any explanation for the stagnation of air freight. Certainly, the forecasts produced have an exceptionally large range between low and upper bounds, which indicate the difficulty of forecasting cargo growth with confidence.

We have used the mid-point of these forecasts to drive our cascade model of how traffic might be distributed across the London area airports as and when airport capacity becomes constrained. We have estimated available capacity for cargo based on belly hold capacity generated on passenger services and on dedicated freighter flights.

Capacity

We have considered only belly-hold capacity Heathrow and Gatwick. At Heathrow with a significant number of wide-bodied aircraft (35%), we estimate the average belly-hold freight capacity to be 7 tonnes per ATM at LHR (2015), significantly higher than the actual freight per ATM of 3 tonnes. In an environment of freight growth, we have assumed this figure would increase at 1% per annum, reaching 4.3 tonnes per ATM in 2050, a load factor of 61%.

Currently, the majority of flights (85%) at Gatwick are narrow-bodied aircraft to short haul destinations, and likely to carry minimal volumes of freight. We estimate Gatwick's belly-hold capacity to be two tonnes per ATM. In 2015, actual belly-hold loads averaged less than 0.3 tonnes per ATM. We have assumed that this increases at 1.5% per annum, and reaches just over 0.3 tonnes per ATM in 2050, reaching a load factor of 15%.

We have assumed that the number of dedicated freighter flights remains at the average activity of the last five years at Heathrow and Luton. However, at Stansted permitted freighter movements may approach the statutory cap of 20,500 per annum. We have not included freighter movements at any of the other London airports. As the capacity per ATM on freighters at both Heathrow and Stansted was significantly above the loads actually carried, we have assumed that loads on freighters at these airports would grow by 1.5% per annum if UK freight market was growing at the forecast rate noted above. These assumptions take average loads on freighters to 55 tonnes and 53 tonnes respectively in 2050, still materially lower than the available capacity. We have assumed that the average load on freighters at Luton continues at 2015 levels.

Airport	Capacity Type	2011	2012	2013	2014	2015	Capacity 2015
Heathrow	Belly Hold load (tonnes)	3.0	3.0	2.9	3.0	3.0	7
	Freighter ATMs	2,456	2,380	2,365	2,084	2,388	2,388
	Freighter load (tonnes)	31.3	30.0	29.9	32.8	32.9	83
Gatwick	Belly Hold load (tonnes)	0.4	0.4	0.4	0.3	0.3	0.3
Stansted	Freighter ATMs	9,359	9,602	9,788	9,340	9,741	20,500
	Freighter load (tonnes)	20.3	21.3	21.2	21.7	21.0*	80*
Luton	Freighter ATMs	1,717	1,810	1,716	1,520	1,701	1,693
	Freighter load (tonnes)	15.6	15.9	16.3	15.1	15.8	15.8

* The average load in international freighter ATMs in 2015 was 31.7 tonnes per ATM, and the capacity on these movements 80.3 tonnes. We have used this as our forecasting base since most freight traffic is international.

Demand Allocation

These assumptions indicate that all forecast freight demand can be accommodated in all scenarios up to 2045. It is only in this year that some demand remains unaccommodated in two of the scenarios, although by 2050 there is unaccommodated demand in all scenarios.

Unaccommodated Demand (Tonnes x 1,000) by Scenario and Year

Year	Scenario			
	LHR R3	LGW R2	Both	Neither
2020	0	0	0	0
2025	0	0	0	0
2030	0	0	0	0
2035	0	0	0	0
2040	0	0	0	0
2045	0	35	0	123
2050	173	178	62	278

There is strong anecdotal evidence that a material proportion, probably around 20%, of air freight flying to and from the UK actually originates or is destined for continental Europe and is trucked across the channel. We have assumed that 20% of unaccommodated demand is lost to the UK air freight industry and flies from continental European airports. For the purposes of our assessment and in recognition of RiverOak's stated intention to develop Manston as a freight airport, we have assumed that half of the remaining unaccommodated demand is flown via Manston, with the other half going to other UK regional airports, potentially led by East Midlands and Manchester.

7. Financial Analysis

7.1. Introduction

In this section, we present the findings of our financial analysis based on the passenger and cargo forecasts set out in the earlier sections following an assumed re-opening of Manston Airport. The principles of the financial model and underlying assumptions are explained, followed by the outputs of the model for the Heathrow Third Runway scenario as it is the recommendation of the Davies Commission to Government. Finally, we present summary results of the other scenarios. A more comprehensive description of the outputs for the other scenarios is given in Appendix C.

7.2. Model Description and Input Assumptions

7.2.1. Financial Model

AviaSolutions has developed a model to assess the financial viability of a re-opened Manston Airport. This model assesses the financial performance of the airport based on various assumptions for four London area capacity scenarios which result in different demand scenarios for Manston. The assumptions have been developed in a number of different ways and draw on a wide range of sources including; analysis of the wider aviation industry, published financial accounts of the companies responsible for Manston Airport, benchmarking of comparable airports, information from our stakeholder interviews and our independent judgment based on knowledge and expertise within the aviation industry.

7.2.2. Brief Overview of Model

The model simulates the financial performance of the airport under different scenarios. This performance is measured through simplified financial statements including a Profit and Loss Statement (P&L), Cash Flow Statement and Balance Sheet. It should be noted that these are simplified statements used to illustrate performance and have not been produced to GAAP standards. The financial statements are modelled over a period from FY2017 to FY2050, on the assumption that the airport is reinstated on the site in FY2018. The Financial Year is assumed to correspond to the calendar year. This time period is typical of that used to evaluate long term infrastructure assets such as an airport, and the specific dates correspond with the period of the passenger forecasts used by the Davies Commission.

7.2.3. Approach to Assumptions

Throughout the research AviaSolutions has consistently taken a positive outlook with regards to the underlying demand assumptions. Specifically, this means that we have opted for the upper bounds of traffic, the upper bounds of unit operating revenue, the lower bands of unit operating costs, and minimal asset costs and capital investment requirements.

We therefore conclude that the assumptions and analysis that follow present the prospects of Manston airport in a very favourable context. We would consider these outputs to represent a 'High Case' and believe they present the airport in a situation where there is a very limited prospect of additional revenue or lower cost structures.

7.2.4. General Assumptions

Revenue

Airports generate revenue from two primary sources: from the charges levied on airlines for using their facilities (referred to as Aeronautical Revenue), and from more discretionary activities including retail, car parking and property (referred to as Non-aeronautical or Commercial Revenue). Manston Airport historically provided ground handling services to its customer airlines, and revenue from these activities is included in Aeronautical Revenues. Previously Manston Airport supplied fuel to some airlines, and our model includes this as a separate revenue line (as a net revenue so that the cost of the fuel does not need to be considered).

Revenue Assumptions within AviaSolutions Model

Revenue	
Aeronautical Revenue per Passenger	£7.00
Revenue per Tonne of Freight	£50.00
Commercial Revenue per Passenger	£5.00
Fuel Revenue per WLU	£0.93

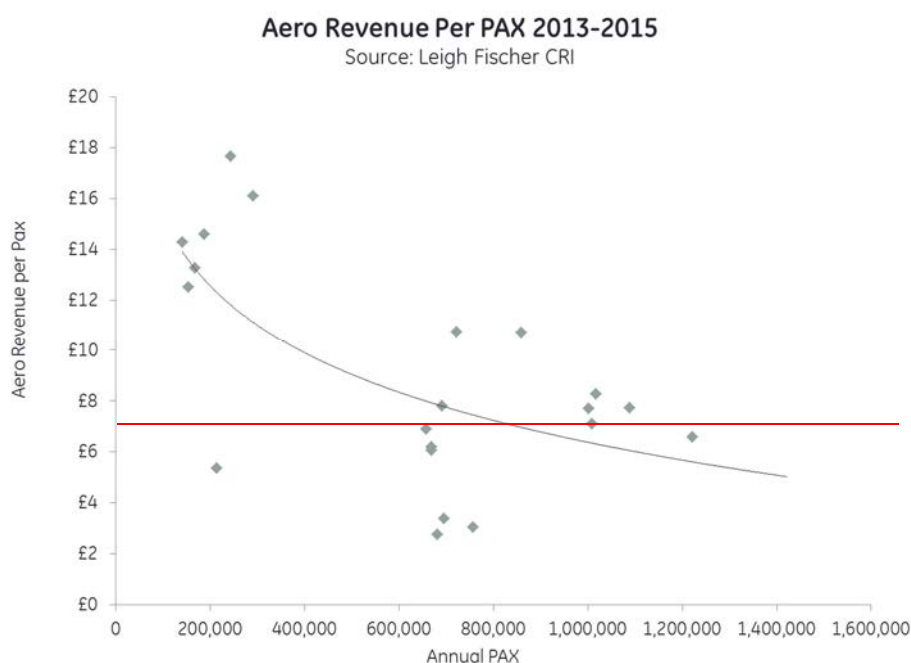
Aeronautical Revenue per Passenger

This revenue includes all airline related fees, including landing charges, passenger charges, and aircraft parking charges. However, it excludes Air Passenger Duty (APD), which is collected by the airline but passed on directly to the UK HMRC. It is normal industry practice, however, and for LCCs in particular to agree a fixed fee per passenger covering the entire range of airport operations (excluding any property rental).

Our experience is that the fees generated by the airport are greatly affected by the type of airline operating at the airport and the level of throughput achieved by the airline. Ryanair's airport charges, across its entire European network in 2015, amounted to €7.80 per total passenger (€15.60 per departing passenger) and during our stakeholder interview the airline indicated it would need to secure a highly competitive airport charge to base aircraft at Manston. The Ryanair average airport charge of €7.80 will include many capital city airports where the airline is very likely to be paying significantly above this average.

We also considered the average aeronautical revenue per passenger of airports that operate with a large share of LCC traffic, as would be expected at a re-opened Manston Airport. In the most recently published accounts (2015) Luton and Bristol airports reported aeronautical revenues of £5.66 and £4.24 per total passenger (£11.32 and £8.48 per departing passenger) respectively.

We have also assessed the aeronautical revenue per passenger achieved across a large sample of similar sized airports in the UK.



Based on these comparisons, we have concluded that a reasonable aeronautical revenue assumption for Manston Airport would be £3.50 per total passenger (£7 per departing passenger) for LCC traffic, and £7.00 per total passenger (£14 per departing passenger) overflowing from the London area.

Revenue per Tonne of Freight

The published accounts of Kent Airport Limited from 2013 identified revenues generated by freight activities. These revenues will reflect the landing charges from freighter movements, the use of the freight warehouses and the handling services provided to the airline. We have confirmed through an independent source that the historic revenue per tonne for freight achieved at Manston is consistent with market rates generally in the UK.

Commercial Aeronautical Revenue

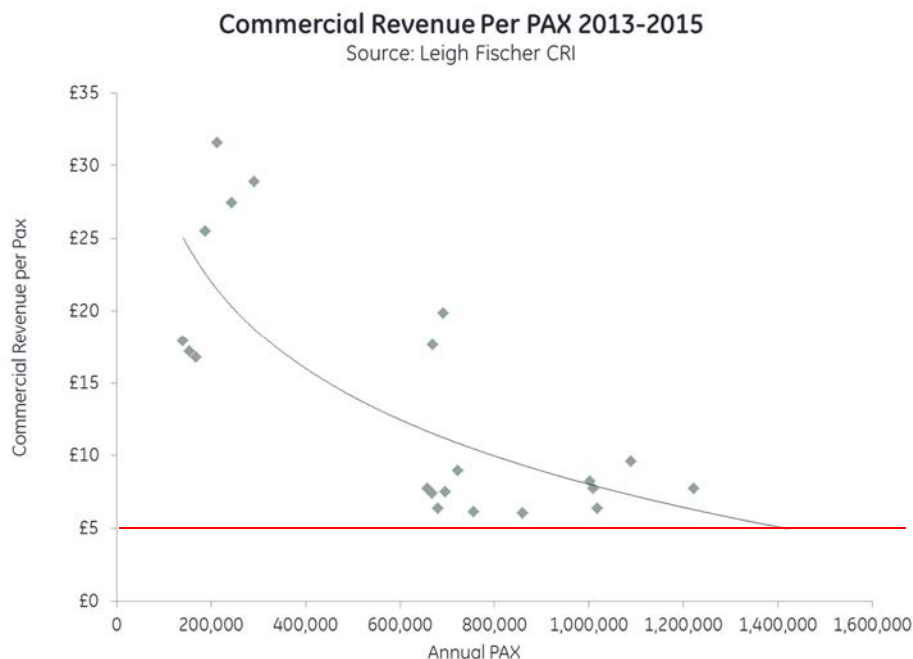
Commercial revenue is generated from passenger-facing services at the airport. One of the main sources of revenue are the airport concessions to operators of the retail shops (including duty free), food and beverage (F&B) outlets, car rental and currency exchange services. The operator will typically pay a percentage of turnover to the airport. Car parking is another source of revenue, with some airports managing operations in-house, whilst others out-source to specialist operators, such as APCOA or NCP.

Property revenue at Manston was £110,000 in 2014, and we have assumed that at a re-opened Manston Airport arrangements would continue on a similar basis.

We have built-up an estimate of potential commercial revenue per passenger by considering typical passenger spending and concession rates (turnover rent) that could be expected at a relatively small airport such as Manston.

In aggregate we have assumed that Manston could generate around £5.00 per total passenger (£10 per departing passenger).

We have also compared the unit commercial revenues generated at a number of smaller UK regional airports. It may be seen that there are a number of airports with low passenger throughputs which record high levels of commercial revenue per passenger. This is almost certainly caused by dividing a relative fixed rental income by a small number of passengers leading to an artificial inflation of the commercial revenue when measured on a per passenger basis.



We therefore conclude that a reasonable initial assumption for commercial revenue per passenger across all non-aeronautical activities is £5.00.

We have also considered the forecast expansion of the terminal to provide the necessary passenger capacity in later years under some scenarios. The terminal expansion would be expected to improve the retail and F&B offer and is assumed to contribute increased commercial revenue by £2 per passenger.

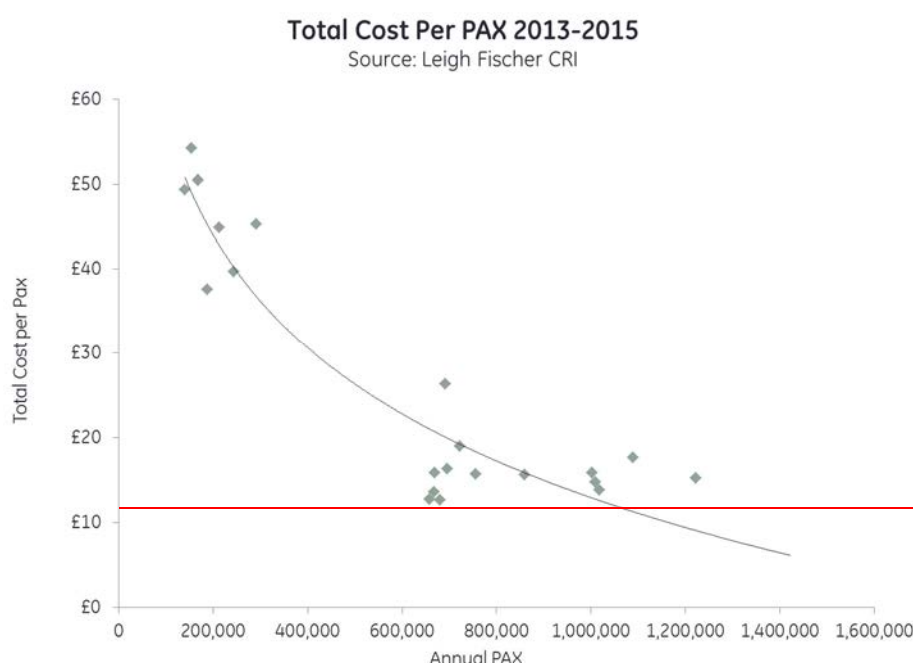
Aviation Fuel

The forecast for aviation fuel revenue is based on the net revenue after cost of fuel has been subtracted. The revenue is effectively the margin payable to the airport for fuel flowage. The margin has been estimated based on industry experience ranging from 3.5% - 7.5%. We have assumed Manston is able to achieve a margin of 5.5% and applied this to the total fuel revenue published in Kent Airport Limited's accounts (2014) to identify the fuel revenue per passenger or tonne of freight.

Total Operating Costs

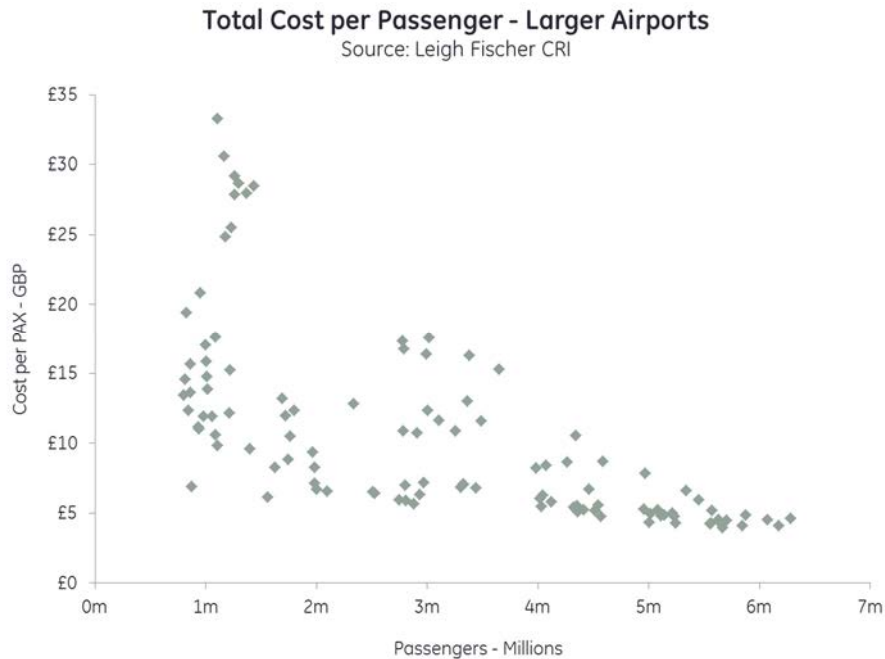
Airports with very low throughput have a high cost of operation per passenger: the fixed cost of airport operations can only be distributed across a low volume. Within a limited range, the marginal operating cost of an additional passenger is zero, but the marginal revenue of an additional passenger will be close to the average revenue per passenger.

This financial characteristic is common to capital intensive infrastructure assets. The chart below illustrates the relationship between volume and unit operating costs (per passenger) at a sample of small UK regional airports.



To reflect the expected evolution of the airport's operating costs over the forecast period we have assumed a fixed total operating cost of £7 million when annual passenger throughput is below 0.5 million. As passenger volume increases beyond 0.5 million we assume that the total operating cost per passenger will decline on a linear basis to reach £12 per passenger at around 1.0 million passengers. This would position Manston Airport amongst the best in class cost per passenger within its UK peer group.

It is reasonable to assume that unit operating costs will continue to decline with further increases in throughput leading to additional economies of scale, as illustrated below. We have linked unit costs to annual passenger throughput such that when annual throughput reaches 6.5 million passengers the unit cost would be £5.00.



Costs specifically associated with freight have been estimated at circa 60% of freight revenue based on the historic performance at Manston.

Overheads

Overheads have been obtained from the published accounts of Kent Airport Limited (2014) and exclude any restructuring costs. In a standard business plan these would often be linked with elasticity to revenue growth. However, as growth would come from a very low base AviaSolutions' view was this would have introduced too many additional costs into the business. Therefore, we estimated that these costs grew at a rate of 0.1x Work Load Units.

Other Assumptions

We have made several assumptions about the initial equity and purchase price of the airport. These assumptions have come from our stakeholder interviews and other research. They are for illustrative purposes only and may differ significantly from any actual investment.

Our estimate of the site purchase price is derived from the recognised value of the airport in Kent Facilities Limited's 2014 published accounts (£7 million) inflated by circa 50%. It is believed that this could be considered a conservative valuation of the site, dependent on the designation of the land at the time of acquisition. The current owners (Stone Hill Park) are seeking planning permission for up to 2,500 dwellings, should this permission be granted, we would assume the land to be valued far in excess of £10m.

We have developed our own estimate of the costs of re-establishing the site as an operational airport based on our industry experience and a site visit. The estimate includes the necessary work to return the airport to a serviceable condition that would satisfy the CAA and facilitate the handling of up to about 2 million passengers annually. We have excluded any advisory or legal fees associated with the Development Consent Order, though these may be considerable.

Cash Flow & Balance Sheet	
Initial Capital Injection	50,000,000
Airport Site Purchase Cost	10,000,000
Airport Site Development Costs	27,000,000
Debt Interest Rate P.A	3.0%
Straight Line Depreciation Years	60
Effective Tax Rate on Net Income	20%
Dividend Payment % of Profit / Cash	0%

We have also assumed that the investment in Manston is funded solely by equity with no debt facility. This is in part to reduce the assumed cash outflow in the early years of operations, but also because we believe that debt-financing would be difficult to secure and relatively expensive.

Additional Capital Expenditure (CAPEX)

Additional capital expenditure is assumed to be required at the point when the airport reaches 2.0 million passengers per annum and is forecast to remain at this level or above. Where the airport is growing rapidly (notably in the 'No Runway' scenario), the additional capacity investment is in two £50 million stages. Where the airport is expected to grow more slowly, additional capacity investment is assumed in a single £30 million stage.

Financial Statements

Taking the combined effect of the financial assumptions and the demand scenarios we have developed a number of illustrative financial statements. These include:

Profit and Loss:

- Operating Statistics
- Revenue Lines
- Direct Cost Lines
- Gross Income
- Overheads
- EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation)
- EBITDA Margin (EBITDA as a percentage of revenue)
- EBIT (Earnings Before Interest and Tax)
- Net Income (EBIT less Interest and Tax)

Cash Flow Statements:

- Opening Cash Balance
- Net cash flow from Operating activity
- Net cash flow from Investing activity
- Net cash flow from Financing activity
- Closing Cash Balance

Balance Sheet:

- Total Assets
- Long Term Liabilities
- Owner Equity
 - Retained Earnings (which in part determines the ability to dividends to equity investors)
 - Share Capital

7.3. Outputs for LHR Third Runway Scenario

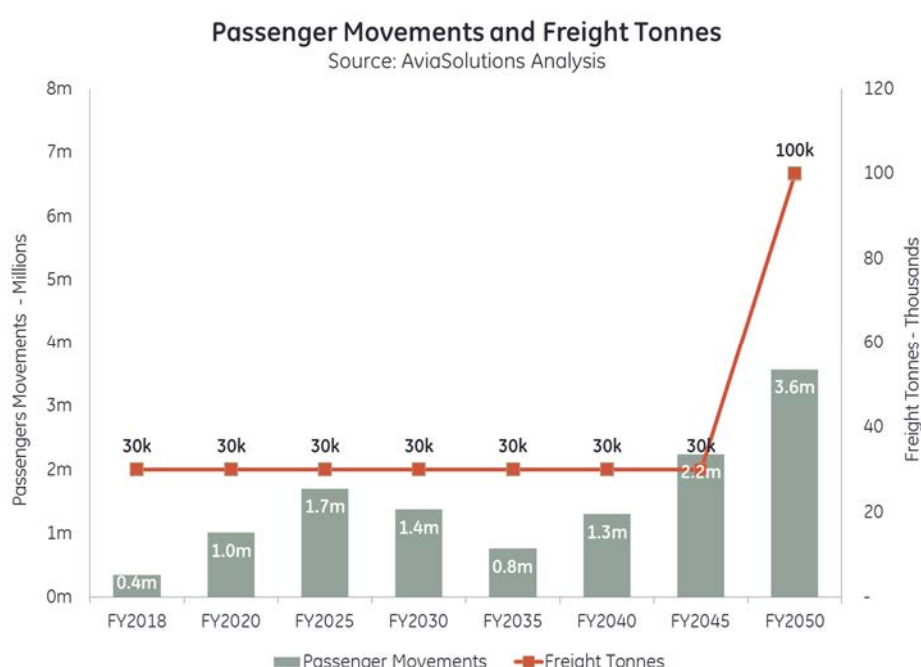
In the following paragraphs we explore the financial viability of Manston Airport based upon there being a third runway at Heathrow. This is the option which was recommended by the Davies Commission and therefore may be presumed to be the most likely outcome. However, the likelihood is that a runway at Heathrow would take longer to commission than one at Gatwick so consequently, Manston may have an initial boost to traffic before falling back and then growing again. This scenario takes spill from the London system in addition to a base level of activity generated from the presumed small LCC operation and freighters. This scenario is more favourable for Manston Airport than a development at Gatwick, and is perhaps the most likely.

7.3.1. Volume Profile

Passenger numbers are forecast to grow to nearly 2.5 million by 2029, the year before the assumed opening of the third runway at Heathrow Airport, but immediately fall back from 2030 and decline to a low of 0.5 million in 2033. From this low point, traffic volume grows as a result of the resumption of overflow, reaching 3.5 million passengers in 2050. Overall growth between FY2018 and FY2050 averages 10% annually.

Freight is not forecast to grow beyond the 30,000 tonnes of the core freighter operations until FY2040, but at that point, freight is assumed to spill from the London Area taking it to some 100,000 tonnes by FY2050.

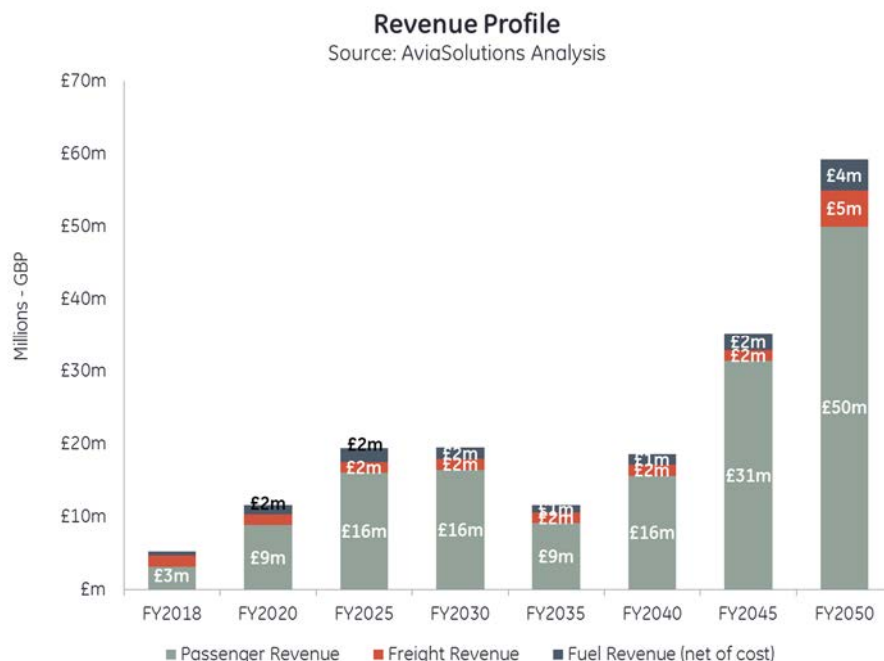
	FY2018	FY2020	FY2025	FY2030	FY2035	FY2040	FY2045	FY2050
Passenger Movements	350k	1,010k	1,700k	1,370k	760k	1,300k	2,240k	3,570k
Freight Tonnes	30k	30k	30k	30k	30k	30k	30k	100k
Total ATMs	1,100	2,900	6,400	9,600	5,300	9,200	15,800	28,000



7.3.2. Revenue Profile

Airport revenue is forecast to grow at CAGR 12% between FY2018 and FY2030, driving revenues to about £20m by FY2030, and at CAGR 8% between FY2018 and FY2050 to reach total annual revenues of around 0m by FY2050.

	FY2018	FY2020	FY2025	FY2030	FY2035	FY2040	FY2045	FY2050
Total Revenue	£5m	£12m	£19m	£19m	£12m	£19m	£35m	£59m

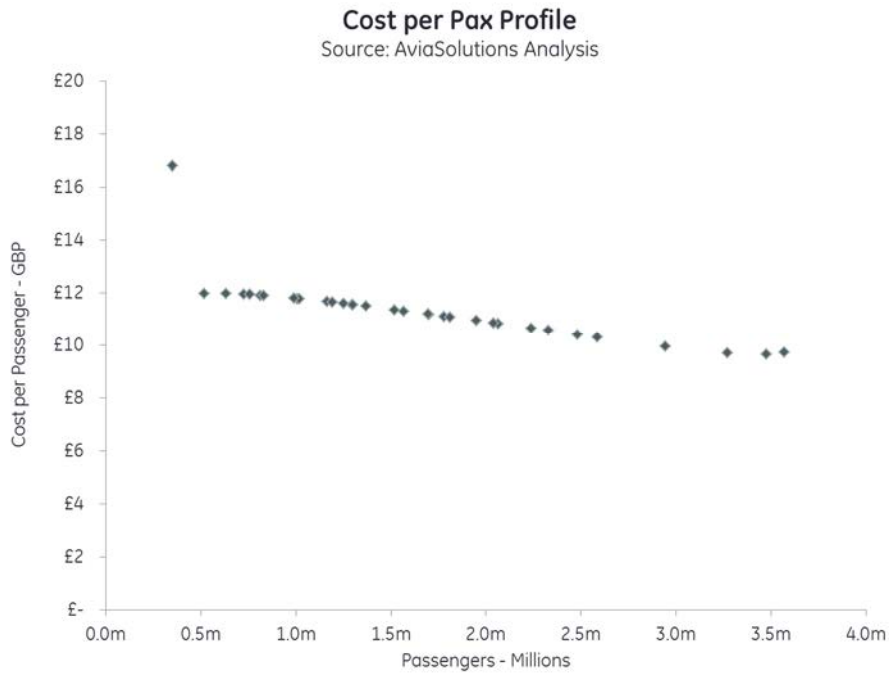


7.3.3. Cost Profile

Total Costs are forecast to grow at 8% per annum on average between FY2018 and FY2030, resulting in total costs of about £15m by FY2030, and at 5% per annum between FY2018 and FY2050 to produce total annual costs of £35m by FY2050.

	FY2018	FY2020	FY2025	FY2030	FY2035	FY2040	FY2045	FY2050
Total Cost	£7m	£12m	£19m	£16m	£10m	£16m	£24m	£35m

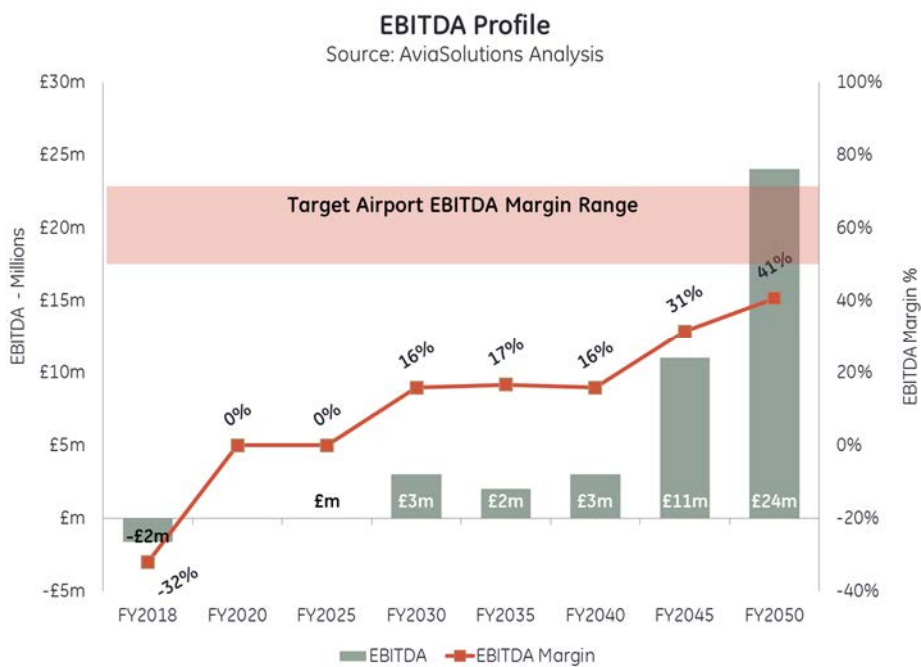




7.3.4. EBITDA Profile

EBITDA is initially forecast to be negative, indicating that the airport would be loss making in the early years at an operational level. It first returns an operating profit in FY2030, generating £9m of operating income and an EBITDA margin of 16%. As the third Heathrow runway comes on-stream, EBITDA at Manston would stagnate due to the lack of available volumes. The EBITDA margin in the long term is forecast to reach 41%, with an EBITDA of £24m in FY2050. This level of EBITDA is significantly below that which we would typically expect for an airport to be attractive to the investment community.

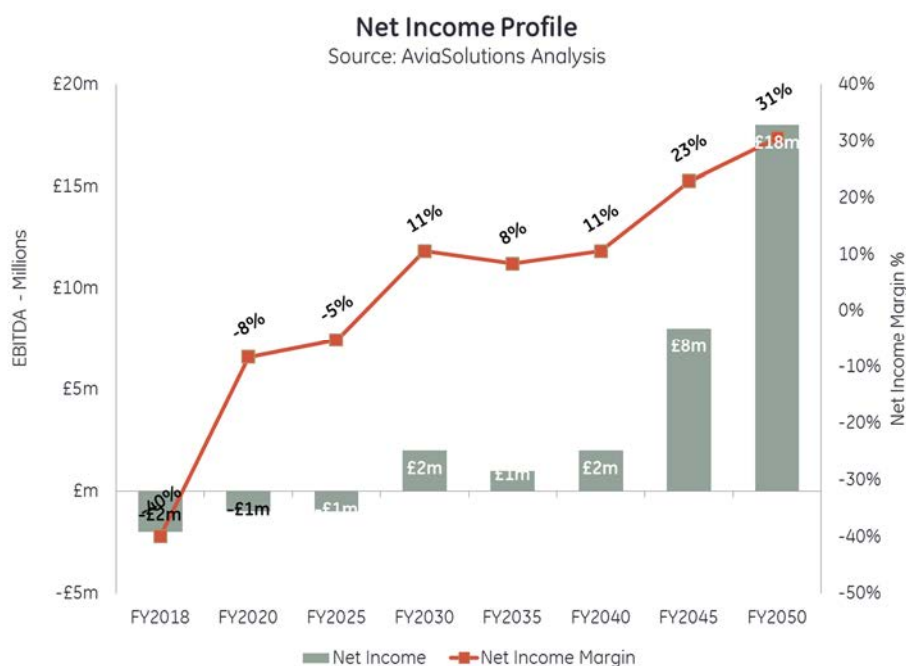
	FY2018	FY2020	FY2025	FY2030	FY2035	FY2040	FY2045	FY2050
EBITDA	-£2m	£m	£m	£3m	£2m	£3m	£11m	£24m
EBITDA Margin	-32%	0%	0%	16%	17%	16%	31%	41%



7.3.5. Net Income Profile

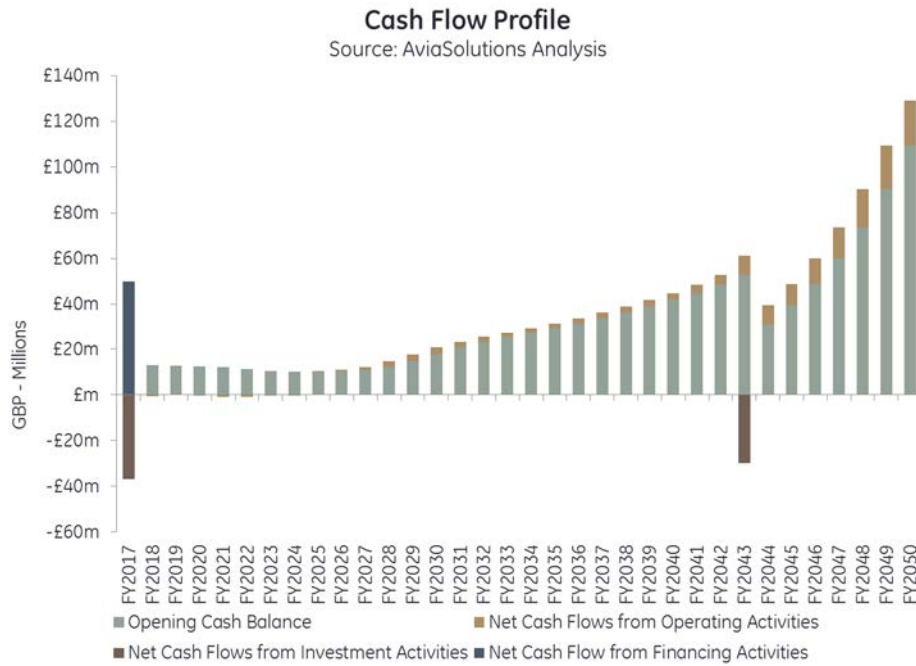
Net income, the profit after deductions, is forecast to be negative until FY2025. The first positive results are generated around FY2030 when the airport is expected to generate net income of £2m. The income stream remains constant for the following 15 years before increasing as capacity becomes constrained once more in the London system. It reaches £18m in FY2050.

	FY2018	FY2020	FY2025	FY2030	FY2035	FY2040	FY2045	FY2050
Net Income	-£2m	-£1m	-£1m	£2m	£1m	£2m	£8m	£18m
Net Income Margin	-40%	-8%	-5%	11%	8%	11%	23%	31%



7.3.6. Cash Flow

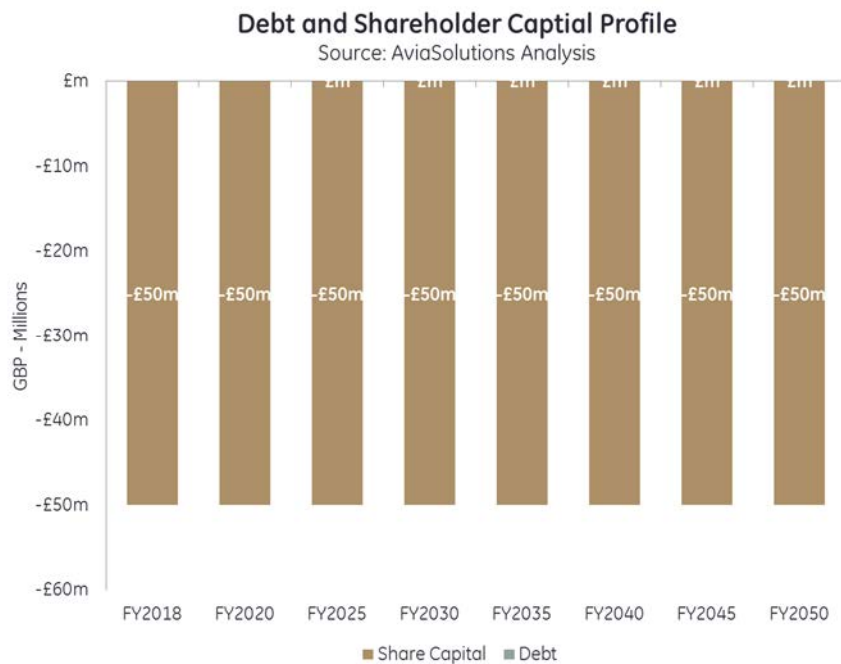
The airport is forecast to develop its cash position with limited additional capital requirements until FY2042 when there would be a requirement to expand the terminal. We have assumed that although demand would exceed terminal capacity in the late 2020s, new terminal capacity would not be provided in anticipation of the loss of traffic following the commissioning of the third runway on 2030. The position shown below excludes any dividend payments that the owner may wish to extract from the asset: such payments would reduce its cash position.



7.3.7. Debt and Shareholder Capital

Whilst the exact nature and mixture of debt and shareholder capital would be subject to complex financial optimisation, we have illustrated below a simple capital structure used in the analysis to illustrate the need for additional capital throughout the period. To maintain the business no further financing would be required. Whilst the business does not generate significant revenues or income, there is little requirement for significant CAPEX investments, thereby eliminating the requirements for additional financing

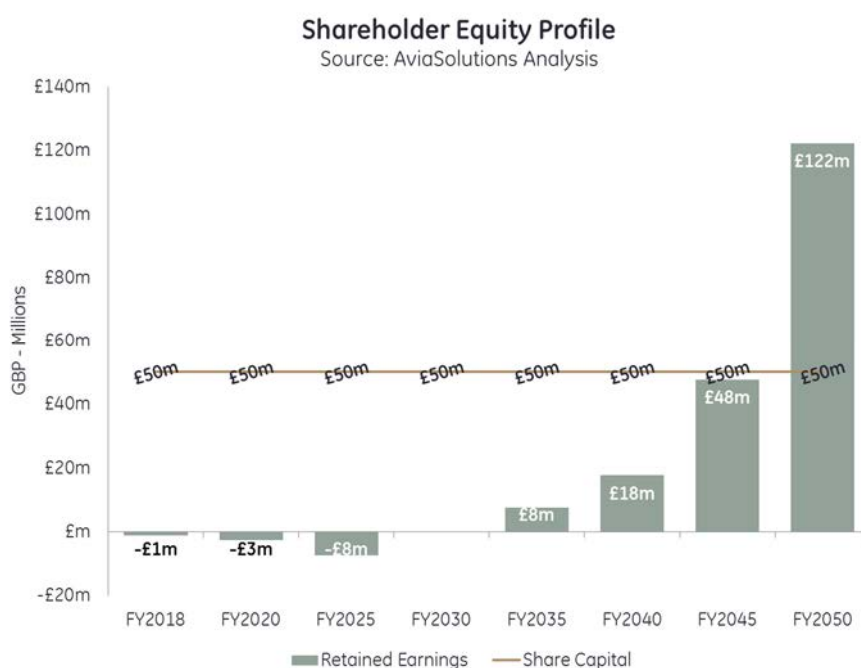
	FY2018	FY2020	FY2025	FY2030	FY2035	FY2040	FY2045	FY2050
Debt	£m	£m	£m	£m	£m	£m	£m	£m
Share Capital	£50m	£50m	£50m	£50m	£50m	£50m	£50m	£50m



7.3.8. Shareholder Equity

Considering the effects of earnings on shareholder equity, the business does not post positive retained earnings until nearly FY2035. This in effect limits the business's ability to pay dividends to shareholders until this point at the earliest.

	FY2018	FY2020	FY2025	FY2030	FY2035	FY2040	FY2045	FY2050
Retained Earnings	-£1m	-£3m	-£8m	£m	£8m	£18m	£48m	£122m
Share Capital	£50m	£50m	£50m	£50m	£50m	£50m	£50m	£50m



7.3.9. Conclusion

The asset would require significant long term investment but would only generate a marginal return on the capital invested. These returns are also predicated on a large number of external variables over which the owner of Manston Airport has limited influence. It is AviaSolutions' view that based on this scenario there is no viable long term prospect of an economically viable airport being established at Manston. It should also be noted that the scenario outlined above excludes any return to the investor, and we have therefore effectively weighted the cost of equity at zero in our model. Investors will always be seeking to maximise the return on their investment in a manner appropriate to the risk they bear in the asset. Given the risks involved with Manston, it would be right to consider that any investor would be seeking the potential for above average returns, which, according to the analyses, may not materialise.

7.3.10. Non-Technical Summary

AviaSolutions' analysis indicates that the airport, operating as a standalone trading entity and in the scenario where a third runway is built at Heathrow, is unlikely to be a financially viable proposition. Airport operations are not anticipated to generate material profit until FY2040.

This is due to the relatively low level of revenue that can be generated and the high level of fixed costs required to operate the airport. This in turn means that the airport would not be able to distribute profits to investors in the airport for many years.

Generally, investors seek to achieve a return on their capital with an expected return commensurate with the risk of the investment. As the risks of investing in Manston are significant there would need to be reasonable prospects of a high return, which does not appear likely based on our analysis.

7.4. Summary of Other Scenarios

We have presented in this main body of text the scenario deemed most likely to occur e.g. LHR3. This is the current recommendation of the Davies Commission and therefore, at the time of writing, believed to be the Government's current preferred option. Details of the three other capacity development scenarios are given in Appendix C.

7.5. Comparison of Scenarios

We compare some key aspects of the four scenarios below.

Measure	LHR R3	LGW R2	Both	Neither
First year retained earnings positive	2031	2032	N/A	2029
Retained Earnings at 2050	£122m	109m	-£20m	£516m
Refinancing				
When?	None	None	None	2028, 2029
Why?	n/a	n/a	n/a	Capex
How much?	n/a	n/a	n/a	£40m
EBITDA Margin				
Year first greater than 50%	n/a	n/a	n/a	2043
or in 2050	41%	40%	34%	60%
Probability	40%	40%	10%	10%

8. Conclusions

8.1. Introduction

In this chapter we draw together the conclusions of our research and analysis to form our conclusions, specifically to opine on whether there is a realistic prospect of a financially viable airport operating on the Manston Site.

8.2. Summary

It is AviaSolutions view that having considered the stakeholder interviews and independent research and analysis into historic accounts and 'reasonable' adjustments for one-off costs that there is little prospect of a financially viable airport on the site.

The only circumstances in which we believe the airport may be viable is that in which no new runway were developed in the South East of England. However, this scenario presents extreme risk to the investor, as a decision to increase runway capacity at those not physically constrained (e.g. legally constrained LHR and STN) could be made at any time, or a new runway may be authorised at any time in the future.

8.3. Stakeholder Interviews

Our stakeholder interviews were split between those focused upon passenger development and those focused upon freight development. The range of interviews provided an understanding from the industry as to their position on the airport.

Our passenger service interviews suggested that overall there is little interest in serving the airport, in particular from airlines that had previously served the airport such as Flybe. There was some limited interest from airlines such as Ryanair and KLM, who would consider the airport as part of their standard UK market review, however they were not actively seeking to serve the airport. It is our view that we must consider this in light of its context; for an airline that bears no risk in an airport's reinstatement and for whom its reinstatement may present upside risk, it would be illogical to rule out the possibility of serving it. Overall, our interviews suggested there was very limited interest in the airport for passenger services thus suggesting a long term viable passenger service may be difficult to sustain.

Our freight interviews indicated that the demand to use the airport for freight was very limited. This, in large parts, is due to two factors; the infrastructure investments that have already been made by the industry around Heathrow and Stansted, and the geographical location of the airport. Infrastructure, and the associated knowledge, skill and supporting industry at airports such as Heathrow and Stansted, as well as the major European hubs such as Frankfurt, and Paris, would be almost impossible for Manston to replicate. The geographic location of the airport, tucked into the corner of the UK, cannot compete with airports such as East Midlands for Integrator services that are sold as fast delivery, due to the increases in surface transportation times. The interviews did however indicate that charter services and ad-hoc freighter flights would certainly return, providing some revenue income for the airport. In summary, we conclude that freight would return to the airport in limited quantities, not dissimilar to the tonnage previously processed at the airport.

8.4. Simulations

AviaSolutions' models provided simulations of the financial performance of an airport on the site under different demand scenarios. These scenarios were developed with a positive view of the potential demand profile, unit revenue and unit cost and investment costs. Two simulations (LHR3 and LGW3) suggested that the airport was unlikely to generate profits at an operational level (EBITDA) until circa FY2025, and that these profits would remain muted through until FY2040. The EBITDA profile suggests that, based on recent industry exit multiples, it would not be possible to recover the initial equity through a sales process as this point. Furthermore, these scenarios suggest that retained earnings would not turn positive for 15 to 20 years, thus limiting the ability of an investor to recover their costs of equity. In summation, these scenarios present very large risks with small returns over a long time horizon.

Our 'Both' runway scenario, naturally, provides an even less favourable result for Manston airport. If this runway scenario were to materialise there would be no prospect of Manston operating on a sustainable basis.

Our 'No Runway' scenario presents some opportunity for the airport. As demand through the London System increases and capacity remains muted, this demand will be spill to alternative airports. Manston, located within reasonable distance to London could be an airport to benefit from this spill, along with airports such as Southampton and Birmingham who are well connected by train to London. In our simulation, this scenario generated sufficient operational income (EBITDA) to support itself, and only required additional financing to expand. However, we must caution that this scenario is balanced in a careful equilibrium, should this be disturbed through the introduction of additional capacity via a new runway or loosening of regulation, the prospects of Manston could be severely diminished.

9. Appendix A: Stakeholder Interviews

Throughout the study, AviaSolutions spoke to many companies and individuals to gather their feedback. Given that these companies operate in a competitive commercial environment, it is not unsurprising that many of those spoke on the condition of anonymity. This is not unusual, particularly given the particular sensitivities around the project. In the following section detailing our interviews, and summarising the comments made, any company or individual that spoke on the basis of anonymity has been identified by only their sector and seniority.

AviaSolutions spoke to the follow stakeholders and / or their representatives:

- Discovery Park / Stone Hill Park
- RiverOak Investment Corporation
- Ryanair Ltd
- Flybe
- KLM
- Mr. Stanley G. Wright
- Sir Roger Gale MP

Anonymous Sources

- Major European LCC
- Freighter Operator at Stansted
- Air Cargo Charter Broker – UK
- Ex-Director of Network Planning – Major European LCC
- Manager, Flight Operations, Major UK Carrier
- Ex-Senior Executive DHL

Disclaimer: The following Stakeholder Interview notes are representative of the views and opinions of the stakeholders only and not that of AviaSolutions. The notes represent, in AviaSolutions view, an accurate account of the interview but are not a verbatim account of our interview.

Mr. Paul Barber, Managing Director, Discovery Park

Mr. Paul Barber is the Managing Director of Discovery Park, and represents the current owners of the airport site.

- Mr. Barber outlined the ownership structure of the airport site. The airport is owned by Lothian Shelf 718 which is ultimately owned by Chris Musgrave, Trevor Cartner and Ann Gloag.
- Paul Barber is Managing Director and responsible for the day-to-day running of Discovery Park which is the *de facto* administrator of the site.
- The current owners, Mr. Cartner and Mr. Musgrave, are specialists in the redevelopment of the brownfield sites; they have redeveloped Discovery Park and a second site in the north of England.
- Mr. Barber gave a frank view as to the difficulties PricewaterhouseCoopers had when attempting to dispose of the site. After two years the only offer made on the site was from Ann Gloag for £1. Thus, in the view of the current owners, demonstrating the lack of financial interest in the site as an airport.
- During the period of ownership by both Manston Skyport, and under Lothian Shelf 718, Mr. Alistair Welch was heavily involved in the airport. Whilst under Manston Skyport, Mr Welch was chairman of the airport. Later in his career Mr. Welch became Managing Director of Southend Airport and was responsible for introducing EasyJet to Southend.
- Throughout the period of ownership whilst the airport was open Mr. Welch made high-level contact with every reputable airline and not a single airline was interested in operating from Manston, even with aeronautical charges at zero. The only airline that even considered operations was Ryanair, but the option was declined within 48 hours.
- Whilst the airport was open for operations freight was the main source of income. This freight was predominantly import driven from Africa. Whilst the site was able to offer quick access from aircraft to road there was little value-add to clients.

- Thanet Parkway Railway Station will add little value. It is not certain if or when it will be operational, and costs appear to be overrunning already. There is a funding gap and it does not improve journey time to London by more than 10-12 minutes.
- Due to the lack of airlines operating from the airport, Mr. Barber stated that the airport losses were running at close to £5.0m per annum.
- Mr. Cartner and Mr. Musgrave bought into the airport site after the airport had closed. They had no stake in the business whilst it ran as an airport. The business men approached Ms. Gloag given their proximity to the airport and specialisms in the development of brown field sites.
- Stone Hill Park Ltd was formed with Ms. Gloag, Mr. Cartner and Mr. Musgrave. The company believe that Thanet District Council require an additional 15,600 homes. The development will offer around 2,500 of these homes, mixed between starter homes up to five bed executive homes. The planning application includes a provision for social infrastructure such as schools.
- At present there are some small costs associated with the site, but these are mainly the single employee and the security of the site, and utilities. The current owners are not fundamentally against the concept of an airport being run, however they see no credible business plan to evidence its possibility, nor do they believe it is best economical use of the site.
- When pressed on RiverOak's desire to reopen the airport, Discovery Park "don't know where RiverOak are coming from stating an airport is viable". Discovery Park has not had sight of any business plan from RiverOak and RiverOak have not made any credible offers for the site.

RiverOak Investment

AviaSolutions met with RiverOak Investment and its representatives:

- Mr. Tony Freudmann
 - Ms. Sally Dixon
 - Mr. Richard Connelly
 - Ms. Angela Schembri
- RiverOak Investment (RiverOak) became interested in Manson airport due to a previous project in the U.S.A. A RiverOak Partner (Nial Oldman) had organised a bond for a U.S airport that was freight driven and found excellent returns on the investment, thus sought an investment of similar characteristics.
 - With regards to the asses itself, RiverOak believes the airport is geographically well positioned to capture freight, being in the South East and near the Channel Tunnel. It acknowledges that considerable investment will be required to return the airport to an operational state. However, they are confident through their initial plans that this is feasible and the asset can quickly be returned to a state in which is can handle in excess of 10,000 freighter movements per annum.
 - The total investment that RiverOak would seek to make is in the region of £300m over the course of a 12 year period. This would ensure the airport site delivers a high level product and service. Further to this investment, the group would need to sink costs in the DCO process, the DCO purchase cost (circa. £4m in RiverOak's view) and finally in compensation to the current owners (although RiverOak have a value in mind, they are unable to disclose). RiverOak believe the minimum investment needed to bring the airport back to viability is circa £20m, excluding DPO, site purchase and compensation.
 - The driving force behind the business plan is air freight and is the vital link to secure a NSIP designation.
 - The absence of a national freight strategy is an opportunity which RiverOak seek to influence and develop.
 - When probed as to the previous failures at the airport, the RiverOak team held strong views as to the causes of this, and what could be done to overcome this situation in the future. The team had strong views that whilst the airport offered excellent service, the previous owners had done nothing to exploit the asset, or its niches, or to improve its market position. In particular, the team felt strongly that the airport had not made any efforts to promote the airport to Freight Forwarders.
 - It is RiverOak's understanding that the airport should be heavily involved in the sale of capacity on board freighters. They believe the previous owners were satisfied to allow freighters to depart with unutilised capacity, and this is an area they would seek to address as owners. **(Note, AviaSolutions understand this to be an irregular market position to take and pressed to clarify this point during our interview).**
 - RiverOak have also considered the geographic location of Manston airport and how it feeds into the ATC systems. They believe Manston is ideally located for aircraft to plug in and out of the national ATC

network. Furthermore, they would expect to receive an EASA license and have had discussions with the CAA to understand the processes required to re-license the airport.

- Further to passenger and freight traffic, RiverOak believe the airport would offer additional services as a diversionary airport within the UK system. There may also be revenue streams from permitting the airport to be used for training purposes.

Traffic

The team talked to AviaSolutions briefly on their Traffic forecast, this area of the business plan has been developed by Ms. Sally Dixon.

- Initially, Ms. Dixon began by reviewing the currently available literature. York Aviation's report of January 2015 suggested that due to capacity constraints 2.1m tonnes of freight will be lost from the London system if no runway is built. RiverOak estimate that this is the equivalent to 100,000 truck movements across the Channel, should this freight all be lost to Europe.
- With regards to capacity type, RiverOak stated that capacity is 70/30 split in the UK with only 30% of capacity offered on Maindeck-freighter services. In Europe, it is stated that this is much closer to 60/40. It is RiverOak's belief that this is caused through a lack of slot availability for freighters in the UK, thus the demand is being constrained.
- The business plan forecast that Manston would achieve 10,000 freighter ATMs in the fifth year of service, these ATMs would be predominantly wide-body aircraft. This level of freighter movement is supported, in RiverOak's view by the wider industry.
- The airport would also seek to develop a passenger business and seek volume from several sources. RiverOak believe that KLM would be keen to return to the airport (despite low load factors). They also state that they are in advance discussions with Ryanair over the potential to base two to three aircraft at the airport. RiverOak are also in preliminary discussions with EasyJet. Finally they believe there is a potential to develop Charter traffic, in particular with the cruise markets and Dover port.
- Taking all these considerations together RiverOak state that they would 2m passengers per annum in the second year of operations.

Ms. Kate Sherry, Deputy Director of Route Development, Ryanair

- Ryanair have recently discussed with RiverOak potential future operations at Manston airport. These conversations have been on the same basis as Ryanair is open to discussions with any airport wishing to obtain services from the airline.
- Previous to these discussions, Ryanair held talks with the owners of Manston airport prior to its closure. These talks were halted when the airport closed and therefore not concluded.
- If Manston were to become an operational airport once again, it is not a foregone conclusion that Ryanair would serve the airport. The airline would look to base any decision on a multitude of factors, including the size and depth of the catchment area and also the commercial terms proposed. Securing a low cost base to the airline is a core aspect of the analysis; this includes the handling and airport charges, effects of APD, operating economics of the route, and in the case of the UK, FX rates to Euros.
- When considering the Catchment delivered from population size Ryanair would look to the airport to sell the benefits of their specific catchment. It is difficult to comment at present on the quality of the Catchment.
- When considering the effects of the London System, Ryanair are not currently concerned with spillage from the London System to periphery airports. The airline is comfortable that there is room for expansion at Stanstead.
- If Ryanair were to serve the airport, the depth of the network would permit the airline to serve it without necessarily basing aircraft at Manston. However, it is possible in the future that the airline could choose to base a single aircraft at the station.
- Once a decision to operate had been reached, generally a lead time is permitted to allow the sales and marketing processes to embed. This also ensures the airline can plan its schedule appropriately, working approximately six to nine months in advance.
- As has been recently stated in the media, BREXIT remains a concern for Ryanair and any effects of the UK's exit from Europe would be factored in to a decision to operate.
- In summary, Ryanair are constantly reviewing their network and remain open to approaches from any airport. If the airport became operational, the airline would review its potential and fit within the wider airline network in due course, and is available to discuss terms with the owners at any time.

Mr. Martin Pearce, Flybe

- Europe's largest regional airline, Flybe, operated several routes from Manston in the years' preceding its closure. The airline did not base aircraft at Manston. In their experience the service offered was excellent with no issues arising from handling or passenger services. The passengers traffic was were mainly leisure and VFR, with very few business passengers.
- Mainly outbound e.g. Manston to the destination, very little in terms of other end originating
- These routes closed predominantly due to poor load factors, there was insufficient demand for the service from the local catchment area and very little demand for inbound traffic to Manston. Furthermore, the yield profile of the traffic did not meet with the airlines expectations.
- In normal circumstances the airline would permit a two to three year ramp up period following a route opening, however given the operating conditions the airline ceased operations within 12 months.
- The reasons the route performed below expectations are varied, but these are believed to have been exacerbated by the relatively small local catchment, less favourable average economic development and poor public transport infrastructure links to London.
- The airlines have reservations as to whether the airport could serve the South East catchment, and do not believe that the airport could realistically serve spilled traffic from the London system.
- It is unlikely that, even if Manston should reopen, the airline would choose to serve the airport.

Major European LCC

- Manston is not an airport the airline is considering. The company focuses on core catchment areas with less than 60 minute travel to the airport, and at most 90 minutes.
- Manston has a weak demand and the local catchment area is not overtly wealthy.
- Alternative airports offer better options, Southend and Stansted tap the London catchment area and can be really cost-effective airports
- Manston would have to tap into Gatwick's catchment and price would need to be very low (no more than a few pounds per passenger).
- The airport is probably not for the LCC in question. If there was no runway capacity available in the South East, the LCC would opt for a larger aircraft type before selecting Manston and would probably consider alternatives such as Southampton and Bournemouth first.
- Other carriers without a footing in Gatwick might consider Manston, as might freighters.

Ex-Director of Network Route Development for Major European LCC

- Following the BREXIT vote many airlines will be considering their approach to the UK. During a period of uncertainty it will be difficult for Manston to convince carriers to open routes to the airport.
- LCC's would look to secure deals with minimal aeronautical charges. Without an extremely competitive rate there is no possibility an LCC would locate services at an airport. In some cases, LCC's have walked away from airports offering negative aero-charge deals due to poor volumes.

Manager, Flight Operations, Major UK Carrier

- The individual plays a key role in the Flight Operations team at a major UK carrier.
- It is the individual's view that Manston does not offer any safety or resilience benefits of a material nature to the UK system. The airport is located in close proximity to six London airports which offer excellent resilience already.
- The airline would also not consider using Manston airport as diversion airport except in an on-board Mayday emergency (which are extremely rare).
- When considering diversion airports the airline considers multiple factors such as; does the airline already offer services at the airport, the size of the airport, the facilities at the airport to handle passengers, the local facilities to provide hotel and accommodation, the equipment at the airport to handle all types of aircraft required e.g. GSE equipment, and other legal requirements such as the provision of sufficient Fire Cover. On these measures, it is considered unlikely that Manston would be selected as an alternative airport, when Gatwick, Heathrow and Stanstead can all provide superior services within London.
- In the individuals view, whilst Manston would be used in an absolute emergency, it would be very unlikely to receive regular diversions for routine operational reasons, such as weather or runway closures.

KLM Position

- We are evaluating our network to the UK on a yearly basis. We are constantly being approached by airports who would like us to operate to their airports. These opportunities that arise are being looked into and MSE could be one of them.
- It is not possible to say how likely the chance would be that this would materialize in a new operation in the next 5 years in case MSE airport would be operational again

Senior Executive in Cargo Division for Airline Operating Freighters at Stanstead

- Airlines base the decision on where to operate their freighters based on a multitude of factors. However, the overriding factor is based on where investments in infrastructure have been made by their clients, Freight Forwarders. These CAPEX investments by Freight Forwarders are required to ensure they maintain economies of scale through their transit facilities and distribution centres. In the UK, these investments are centred at Heathrow, and more recently Stanstead.
- The airlines first choice of destination was Heathrow, as the majority of Freight Forwarders have their major infrastructure in and around Heathrow. The airline was unable to access slots at Heathrow and so selected Stanstead due to runway length, a mature offering including infrastructure development and third party handlers
- Stanstead operates a world class facility and has the competencies to handle freighters. It is questionable whether this would be possible, at least initially, at Manston.
- The airline would be extremely unlikely to consider moving services to Manston, even if they were no longer able to serve Stanstead, regardless of the commercial terms offered. If the airline had to move services they would consider East Midlands and Manchester or other centrally located airports over Manston.
- The individual also believes that there is virtually no chance that a Freight Forwarder would choose to relocate services to Manston.
- Furthermore, as air cargo is a commodity virtually all operators offer the same service and compete on prices. Therefore, most operators implement similar strategies and business models. The result of this is that, in the individual's opinion, other freighter operators would also take a similar stance.

Air Cargo Charter Broker – UK

- The company had made use of Manston Airport in the past (circa. Up to 2 x flights per week) and found it to be a reliable and efficient airport that was well placed for access to the South East of England. The airport had the facilities to handle many aircraft gauges, from small freighters right through to B747F operations. The airport provided good access and the company had no difficulty in obtaining slots. The cost of operating from Manston was more effective than at Stansted, this included the aeronautical landing fees and associated handling costs.
- The company's overriding view was that Manston was an easy airport to use, it provided a good service and gave priority to freight.
- The airport provided all services on the ground, including ramp handling for freight.
- The company was aware that many of its competitors also used the airport along with scheduled operators such as Cargolux and ANA.
- The company was cognizant that, whilst the inbound demand for freight existed, there was little demand for outbound freight, which resulted in aircraft departing with unutilised capacity. The inbound demand was largely from West Africa, with strong volumes of fresh flowers and produce imported. Manston was particularly efficient at handling this cargo and permitted road feeder services to access the apron which resulted in quick access to the UK road network.
- Alongside produce, the airport had a reputation as being able to handle outsized freight such as engines and turbines.
- The airport's location prohibited its use for more northern destinations, East Midlands and Doncaster were favourable in these instances
- The Air Cargo Charter Broker confirmed that they would certainly be interested in using the airport again if it re-opened but in order to do so they would be looking to secure competitive rates for landing, parking and screening charges.

Ex-DHL Aviation Senior Sales Executive

The individual has held senior positions in the cargo industry for over 15 years.

- Whilst Manston may offer an opportunity for some it is unlikely that DHL would relocate its operations. The setup at East Midlands is tuned to its needs. Further, East Midlands is geographically well located for quick access to the UK road network which is exceptionally important for the courier business model.
- In their experience, they believe it unlikely that any integrator would be interested in moving their operations to Manston.
- Generally, more and more freight is being shipped as General Cargo from Heathrow. Given the six hour close out period, it is reasonable to assume carriers could then use road feeder services to distribute this via Manston.
- Regarding other freight uses, Charter operators and scheduled all cargo operators may wish to locate services at Manston but this is highly dependent on the commercial offer. The sole purpose of utilising Manston would be to reduce cost, either through reduced flight operations or lower airport charges.
- One point of note is that the UK is a lot cheaper to export from at present. Thus, a lot of freight originates in continental Europe and moves via belly hold.
- Overall the individual's view was that whilst Manston would undoubtedly attract some business it is unlikely to be significant volumes.

Mr. Stanley G. Wraight – Senior Executive Director Strategic Aviation Solutions Limited

Mr. Wraight is an industry veteran with over 40 years' experience in the air cargo industry. Previously, Mr. Wraight held the position of CEO at AirBridgeCargo, and Senior Executive roles at Atlas Air and KLM.

- The airport offered a good location for freight being imported from Africa; this was the predominant origin market. Generally, the freight that was imported was pre-packed shop-ready fruit and vegetables that could be transported directly into the supply chain.
- When the airport closed, Doncaster and Stanstead tried to win the business from Manston, whilst some gains were made, the majority of the business relocated to European hubs as they are more closely located to the final destination, thus reducing overall cost.
- There are few all-cargo operators who would consider locating operations at the airport. Operators will be tied into their networks, in part due to their clients locating their facilities at the main airports (Heathrow and Stanstead). One opportunity could be Cargo Logistics, an off chute of AirBridgeCargo.
- In order to secure freighters movements at the airport, it will be necessary to demonstrate a cost advantage over competitors. This could be through a reduction in the overall Flight Hours required for operations, however the ability to do this is limited given much of the freight is destined for Europe. The ideal origin market for freight, on minimum Flight Hours basis is the USA.
- With regards to Integrators basing operations at Manston, the probability of this is viewed as slim. The Integrators have committed large capital expenses to existing operations at Stanstead and East Midlands, these barriers to exit are substantial and would be difficult to overcome, in particular given Manston's inferior geographical position within the UK.
- It would be difficult for Manston to compete with East Midlands or Stanstead. EMA in particular offers 24/7 cargo operations with customs available 24/7. They have developed economies of scale in both service and cost.
- Further to this, the saturation of regional airports in the UK and Scotland in conjunction with additional wide-body passenger aircraft create difficult trading conditions for a new regional airport.
- Finally, the centre of power within the industry is held by Freight Forwarders, the majority of whom are based at LHR. As the industry is ever increasingly commoditised, Forwarders refuse to divert their business from Heathrow, instead choosing to truck cargo in from the regions to feed the facilities and consolidation business centred there and achieve the necessary economies of scale required to compete.
- The conclusion being that there is virtually no incentive for operators to move operations to Manston, there are alternative UK airports that offer competitive services on reasonable terms. The UK doesn't need another airport for freight that has no USP. If Manston were to be developed it would be essential for it gain a niche market such as becoming an Amazon or Alibaba e-commerce base.

AviaSolutions Meeting with Sir Roger Gale MP – 13th Sept 2016

As part of the stakeholder engagement process AviaSolutions has, at his request, interviewed Sir Roger Gale (MP for North Thanet) to seek his perspective on the commercial viability of and political support for, Manston Airport. The following comments are intended to reflect the substance of the meeting, rather than a verbatim transcript.

- Sir Roger Gale MP (“SRG”) stated that Manston Airport and its associated runway are national assets of strategic importance to UK PLC.
- SRG noted that he does not support any particular group wishing to use the asset as an airport and that his interest is in solely in keeping the airport open. He notes, however, that to date RiverOak offers the only sustained and viable interest in operating Manston as an airport. SRG noted that he had seen the outline River Oak business plan which in his view was credible. SRG was not surprised that River Oak did not disclose the plan to AviaSolutions, and was not willing to divulge any of the details for reasons of commercial confidentiality. However, SRG also added that all of RiverOak’s case would be made public when the company submitted its` application for a Development Consent Order to a Planning Inspectorate that was qualified to subject the submission to detailed public scrutiny and inquiry.
- SRG said that it was clear that the intentions of those currently in control of the site were to develop the land for residential and commercial purposes, rather than invest in the airport facilities and expand the air service network.
- SRG provided a brief summary of the historical evolution of the airport, including services by Silver City to Jersey and Clive Bourne, a logistics operator.
- With regards to the development of a railway service to the airport SRG noted the scope to develop the railway is limited by the physical constraints of laying the line and precludes a link directly into the airport. The practical alternative is a Thanet Parkway station, which would initially be linked by a shuttle bus service, and ultimately could be linked by a Gatwick-style monorail.
- SRG is of the view that the primary reason that the airport has not been financially sustainable in the past is the nature of the business model that has been pursued. Previous operators have focussed on developing the passenger business, rather than the freight capacity of the airport, which is the reverse of the model that SRG believes, would be more sustainable.
- SRG noted that UK PLC is losing business to Europe already, with freight being switched from the UK to other European hubs (Frankfurt, Amsterdam, and Paris). SRG also noted that a major courier has expressed an interest in relocating to Manston. He was of the view that the UK has reached maximum capacity for London originating freight services and that excess demand was being lost to other hubs.
- SRG observed that post-Brexit it was going to be vital that the UK develops additional and alternative markets outside the European Union. These greater distances will inevitably mean an increase in the demand for air freight capacity between Britain and the rest of the world if the country is not to lose still more aviation business to mainland Europe.
- In terms of runway capacity, SRG suggested that freighter traffic currently using Heathrow could be relocated to Manston, freeing these slots to facilitate additional passenger services to the Far East. SRG also noted that operators that were forced to re-locate following the closure of Manston were waiting for the airport to reopen and would be keen to return.
- SRG stated that Low Cost Carriers are very interested in operating from the airport, and that if the airport were to re-open, would be very likely to start services at the appropriate time in the airport’s re-development. However, SRG was not willing, for reasons of commercial confidentiality, to disclose the source of this information nor the airline in question.
- SRG was keen to stress the importance of ancillary businesses to the airport’s viability, which included aircraft dismantling and engineering firms. SRG also noted the Search & Rescue operations which had recently been permanently located at Lydd. Further options for the airport would include General Aviation (GA) which would be able to access London via Battersea Heliport.
- SRG noted the widespread political support for Manston Airport, including Sir Patrick McLoughlin, the former Transport Minister, The Minister of State for Aviation, John Hayes and David Cameron when Prime Minister. He indicated that that political support at national and local levels was, particularly in the light of the Brexit decision, on-going. SRG also noted that there would not be any need for financial support from Central Government and that the airport should be able to attract sufficient private capital to exist as a standalone business.
- SRG spoke at length on the alternative proposal by Stone Hill Park for the site, noting that that the ability to develop the site for residential and commercial purposes was questionable, with several potential challenges including the likely presence of a war grave, buried low level radio-active waste,

archaeological interests, and issues with the effect upon Thanet's aquifers all needing to be addressed prior to any redevelopment. He indicated that any alternative development would, prior to change of use, require the same intensive Environmental Impact Assessment as that currently being undertaken by RiverOak for airport purposes. Furthermore, SRG noted that there is limited demand for additional industrial space in the area, that there is already a more than adequate supply of industrial land available in East Kent and that the number of new jobs generated at Discovery Park is, contrary to the claims made by the Leader of Kent County Council, low.

- With regard to a new runway in the South East, Sir Roger indicated that he believed that a runway decision would be made fairly soon but that any actual new runway would not be operational for at least 15 years. It is his belief that, even with a new runway in the London airport system, the Manston Airport remains a viable facility with freight as its primary purpose supported by passenger traffic.

Non-Reply

- The following airlines were sent a request for their position on Manston airport but chose not to submit a response.
 - Monarch
 - Thomas Cook
 - Tui

10. Appendix B: Condition Report Manston Airport

Introduction

The following section contains our report on the condition of the airport assets, it should not be read as a definitive summary of the asset condition. Our report is based on a visual inspection of the airport on 3 August 2016 under the supervision of the current airport owner's representative.

Terminal Building

Summary

The current facility has an approximate footprint of 1,900m² and in general would have been suitable for single and dual aircraft operations simultaneously. On balance we would suggest that the building in its current configuration could be re-instated but that the cost of such modifications may make it more economically viable to demolish it and erect a purpose built low cost facility. In general the basic fabric of the building was intact, although there is evidence of water entering the building via the roof at various locations.

General

We observed that the drop off/pickup area was located adjacent to the front of the terminal building. This is in contravention to current security requirements and would necessitate the offsetting of the drop off pickup area. In-turn, this would require the transforming some land currently allocated to parking. The current site could facilitate this change through lateral expansion of the parking area.

We note that the current configuration of the terminal building, along with the apron, limits lateral expansion. To accommodate significant traffic volume would require a significant change to the current layout.

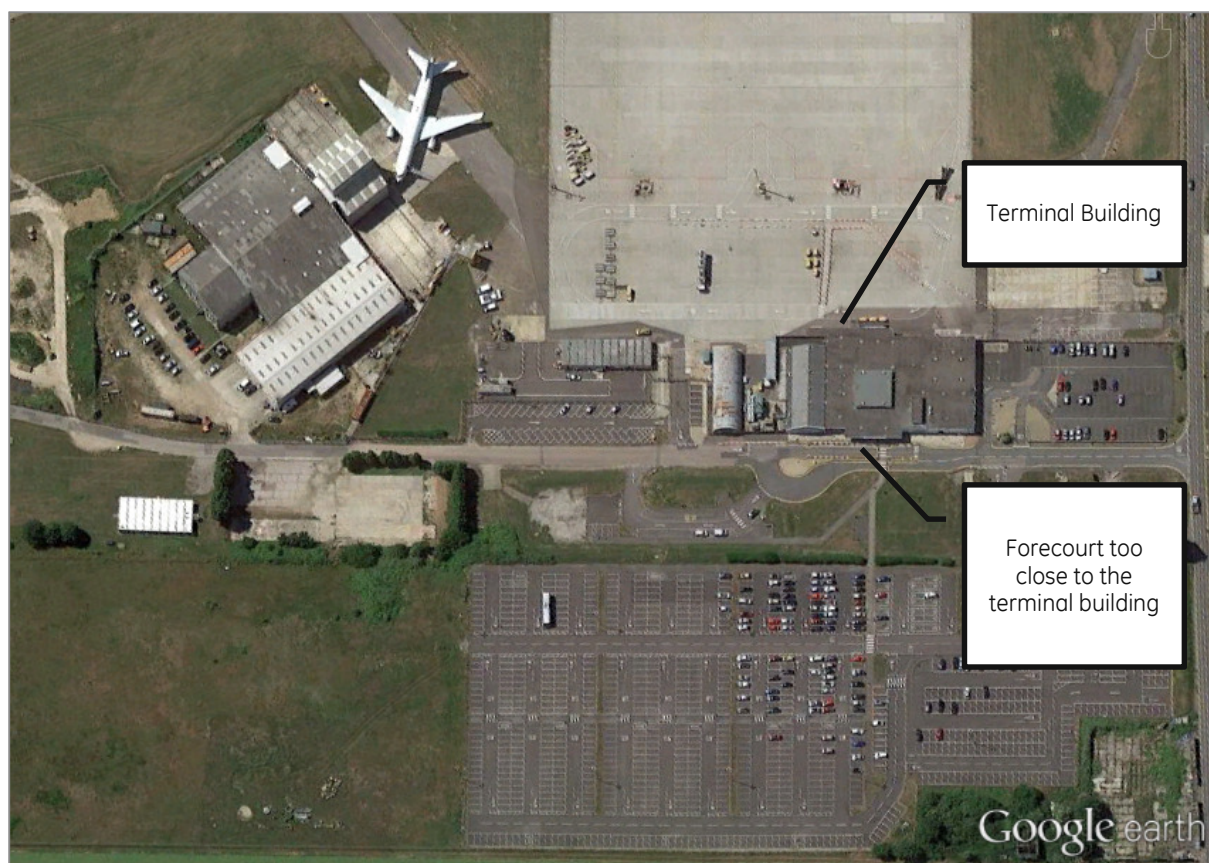




Figure 3: Main foyer of terminal building from arrivals. Check-in area to the left of the image.



Figure 4: Evidence of water damage in may foyer.



Figure 5: Check in hall (desks removed)

Movement Areas

Apron

Summary

The fabric of the apron appeared to be in relatively good condition with space for up to four simultaneous Code C or two Code E operations.

General

Of note was the significant depth of the apron which accommodated a large GSE storage area at the head of the stand. To become compliant the apron marking would need to be re-established, which is relatively straight forward to accomplish.



Figure 6: Apron as viewed from terminal



Figure 7: Apron Drainage. Some growth of plants which will need to be addressed.

Taxiways

Summary

In general we observed that the taxiways were of relatively good condition with only minor spot repairs required. To re-establish services appropriate lighting and marking would be required.

Runway

Summary

A visual inspection of the runway indicated that overall it is in very good condition. There is evidence of some vegetation appearing. Discussions with the current owner's representatives identified a surface friction issue. We note that there were plans to address this through surface treatment issues but to our knowledge this work was not carried out.

General

The runway approach and edge lighting has been removed and require re-installing to permit operations. Additionally, the runway has been painted to accommodate 'Operation Stack'. Considerable work is required to remove the current markings from the runway and repaint it with appropriate aviation markings. However, it is our understanding that this work will be completed as part of the current agreement with the Department for Transport.



Figure 8: Runway (Rwy) 29 Threshold



Figure: 9 Large aggregate used for wearing course may be impacting surface friction characteristics



Figure 10: Shoulders of runway are paved. Evidence of plants establishing a presence in cracks



Figure 11: Runway 27 and evidence of plants establishing presence in cracks

Systems

Navigation

Summary

It is our understanding that the Instrument Landing System and supporting systems were sold upon the airport's closure. These systems, including backup power supply, would need to be re-instated.



Figure 12: Radar tower with radar removed

Lighting

Summary

It is our understanding that the approach, runway, taxiway and apron lighting systems and supporting elements were sold upon the airport's closure. These systems including backup power supply would need to be re-instated.

Control Tower

Summary

No appreciable control tower facilities were available to inspect. To facilitate commercial operations it would be necessary to install a new control tower and associated support systems, including appropriate radar systems.

Rescue & Fire Fighting

Summary

The current Fire Station is unsuitable for use. We believe it would require demolishing and the construction of a new Fire and Rescue Station.



Figure 13: Dilapidated Rescue & Fire Fighting Facility

Ancillary Buildings

Maintenance Hangar

Summary

Adjacent to the primary apron is a large aircraft maintenance hangar with a unique addition allowing it to accommodate aircraft larger than what it was originally designed for. It is our understanding that this building is currently under lease by a maintenance company undertaking limited maintenance work. The building fabric appeared to be in reasonable condition.



Figure 14: Maintenance hangar



Figure 15: Interior of maintenance hangar



Figure 16: Bespoke tail enclosure of hangar

Cargo Hangars

Summary

During the visit we undertook a preliminary inspection of several cargo facilities on the airport site. The location of the facilities was ideal for this type of operation, having access to the local road network and the taxiway system. In general the buildings appeared to be in reasonably good condition. We foresee no reason as to why they could not be re-instated as cargo facilities.



Figure 17: First cargo hangar exterior



Figure 18: First cargo hangar interior



Figure 19: Second cargo hangar exterior



Figure 20: Second cargo hangar interior

Re-Establishment Cost Estimate

The following is an estimate of costs associated with re-establishing the required infrastructure to operate commercial services from the airport.

For the avoidance of doubt, these costs do not include the costs associated with any acquisition of the airport site.

Element	Cost Estimate £	Note
Old Terminal Demolition	400,000	Demolition of existing terminal building
Terminal Building	7,500,000	Construction of new modular single story terminal
Approach Road	750,000	Relocation of approach road to accommodate security requirements
Apron Repairs	200,000	Repairs to apron surface
Airport Lighting	3,000,000	Complete airport navigation lighting system
Navigation Systems	2,500,000	ILS/DME/DVOR
Radar	3,500,000	Secondary Radar System
Runway Treatment	1,500,000	Grooving of runway to address low friction characteristics
Cargo Building Repair	400,000	Minor repair to cargo buildings
Power System	2,500,000	Complete power back up system to accommodate CATI ILS approaches
Mobilisation	1,200,000	Ancillary mobilisation costs of re-instating airport operations
Contingency	3,517,500	15% contingency

£ 26,967,500

11. Appendix C

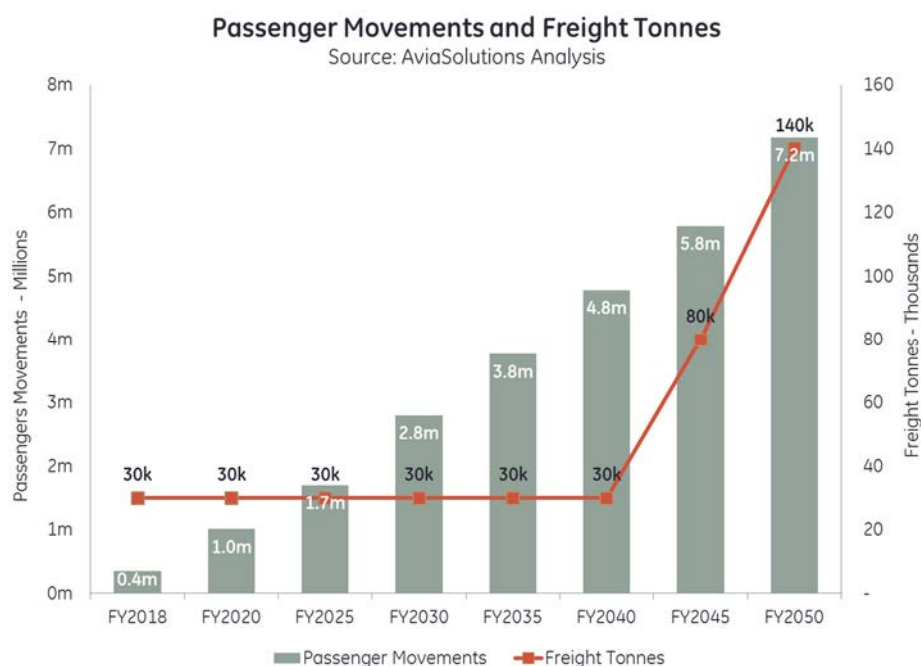
11.1. Outputs for No Runway Development Scenario

In the following paragraphs, we explore the financial viability of the airport based upon there being no new runway in the South East. This scenario takes spill from the London system in addition to a base level of activity generated from the presumed small LCC operation and freighters. Whilst this scenario is the most favourable for Manston airport, as it generates the largest number of passengers and freight, it is perhaps the least likely.

11.1.1. Volume Profile

Passenger movements are forecast to grow at CAGR 19% between FY2018 and FY2030, totalling circa 2.8m passengers by the close of FY2030, growth FY2018 to FY2050 is estimated to be at CAGR of 10%. Freight is not forecast to grow beyond the 30,000 tonnes of the core freighter operations until FY2040, but at that point, freight is assumed to spill from the London Area taking it to some 140,000 tonnes by FY2050.

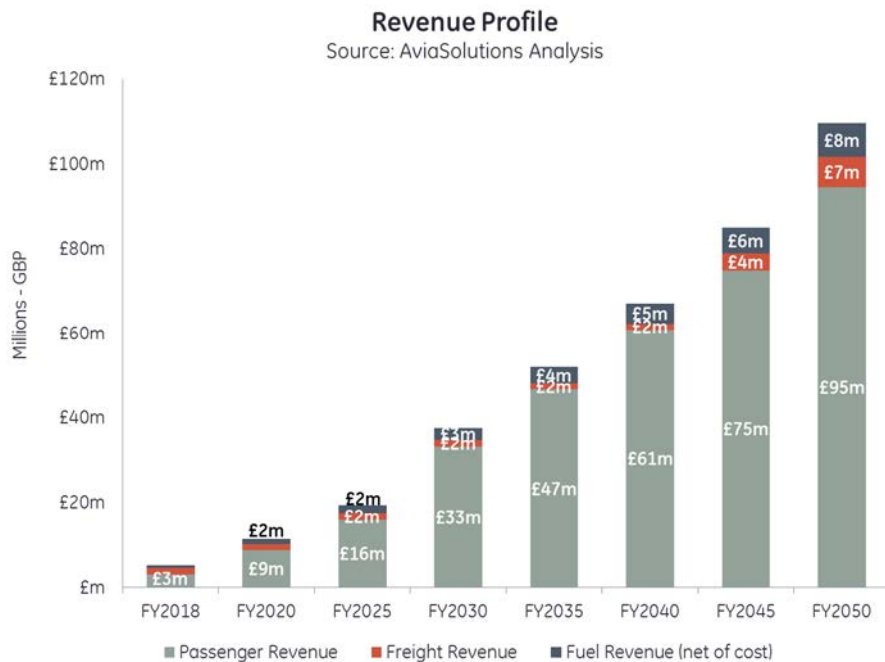
	FY2018	FY2020	FY2025	FY2030	FY2035	FY2040	FY2045	FY2050
Passenger Movements	350k	1,010k	1,700k	2,800k	3,770k	4,780k	5,790k	7,180k
Freight Tonnes	30k	30k	30k	30k	30k	30k	80k	140k
Total ATMs	1,100	2,900	6,400	14,100	20,900	28,100	37,200	49,500



11.1.2. Revenue Profile

Revenue generation is forecast to grow at a CAGR of 18% between FY2018 and FY2030, driving revenues to £38m by FY2030, and at a CAGR of 10% between FY2018 and FY2050 to reach total annual revenues of £110m by FY2050. The revenue profile is exponential in nature due to the increasingly constrained London System environment permitting increasing spill to Manston.

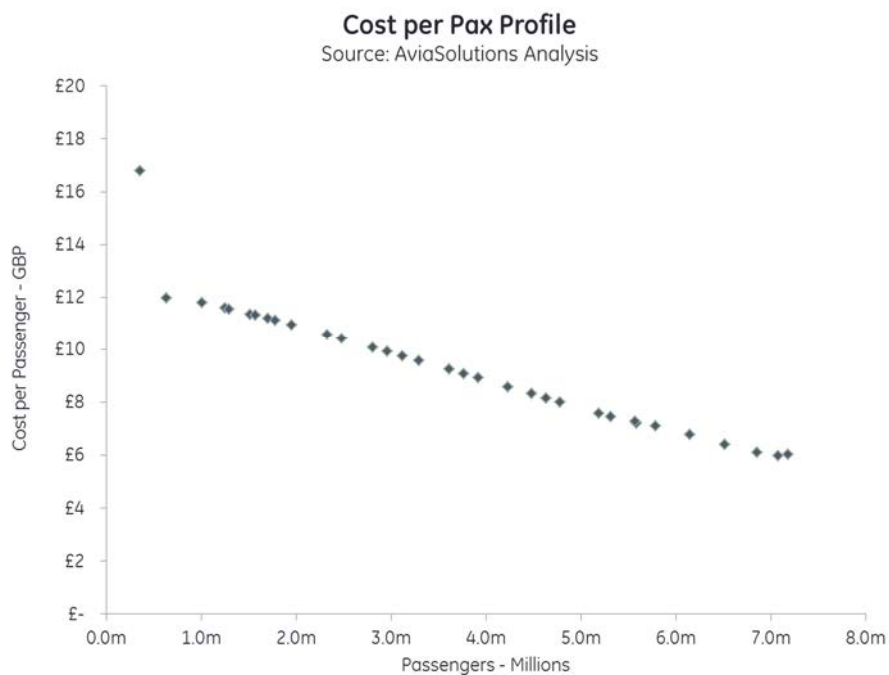
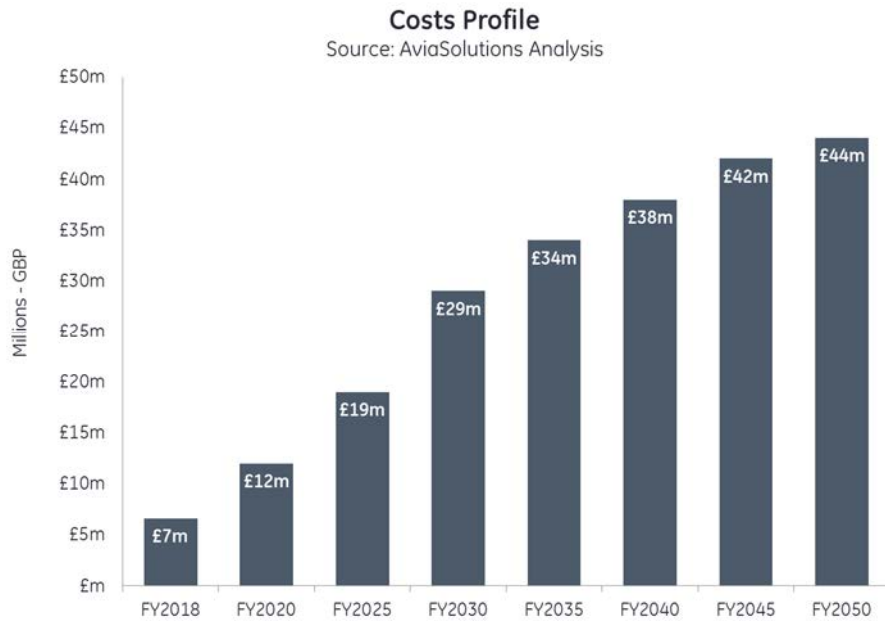
	FY2018	FY2020	FY2025	FY2030	FY2035	FY2040	FY2045	FY2050
Total Revenue	£5m	£12m	£19m	£38m	£52m	£67m	£85m	£110m



11.1.3. Cost Profile

Total Costs are forecast to grow at 13% per annum on average between FY2018 and FY2030, resulting in total costs of £29m by FY2030, and at 6% per annum between FY2018 and FY2050 to produce total annual costs of £44m by FY2050. Costs are increasing more slowly than revenue, leading to greater margin generation. We consider that as the airport generates increased volumes of traffic, it is able to achieve increasing economies of scale, in particular within its passenger operation. Furthermore, as the passenger volume increases, the non-unit driven costs are distributed over an increased base, thereby reducing the average cost per passenger to the airport, an essential element in increasing margin.

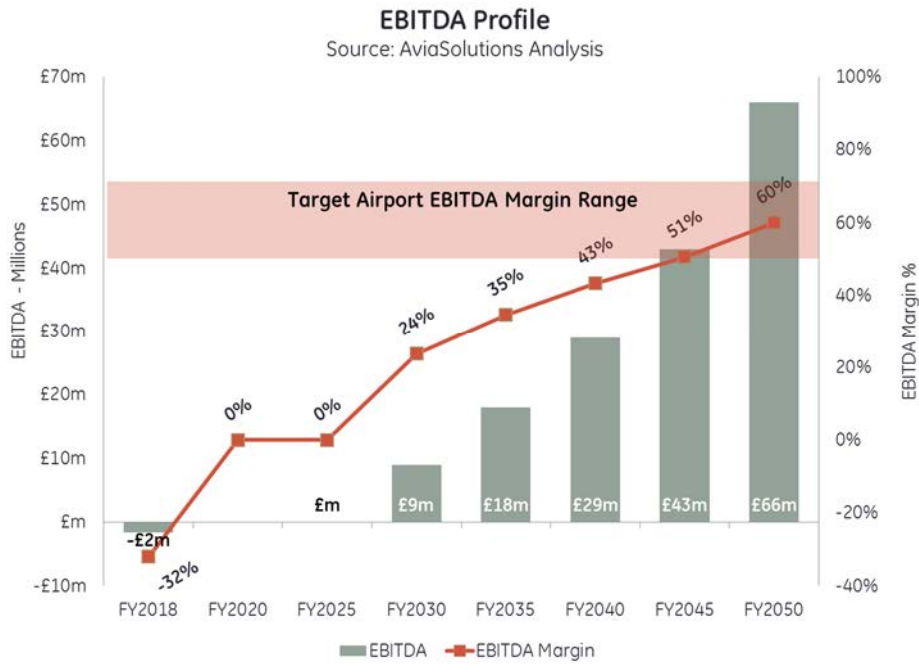
	FY2018	FY2020	FY2025	FY2030	FY2035	FY2040	FY2045	FY2050
Total Cost	£7m	£12m	£19m	£29m	£34m	£38m	£42m	£44m



11.1.4. EBITDA Profile

EBITDA is initially forecast to be negative, indicating that the airport would be loss making in the early years at an operational level. It first turns an operating profit in FY2030, generating £9m of operating income and an EBITDA margin of 24%. The EBITDA margin in the long term is forecast to reach 60%, generating £66m of EBITDA in FY2050. This level of EBITDA is much more akin to a typical airport which requires sufficiently high EBITDA margins to cover the ongoing costs and CAPEX of a large asset base.

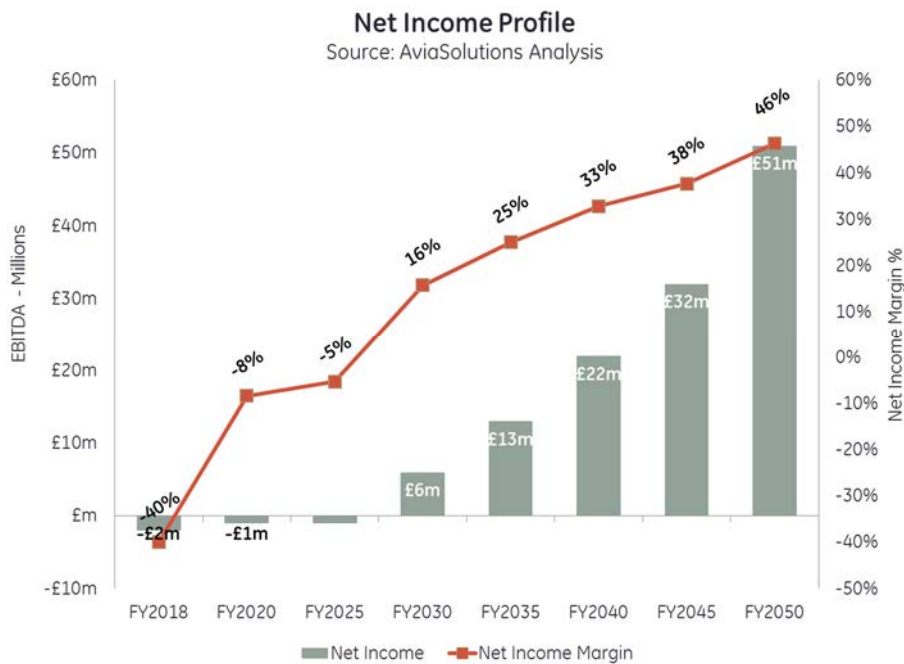
	FY2018	FY2020	FY2025	FY2030	FY2035	FY2040	FY2045	FY2050
EBITDA	-£2m	£m	£m	£9m	£18m	£29m	£43m	£66m
EBITDA Margin	-32%	0%	0%	24%	35%	43%	51%	60%



11.1.5. Net Income Profile

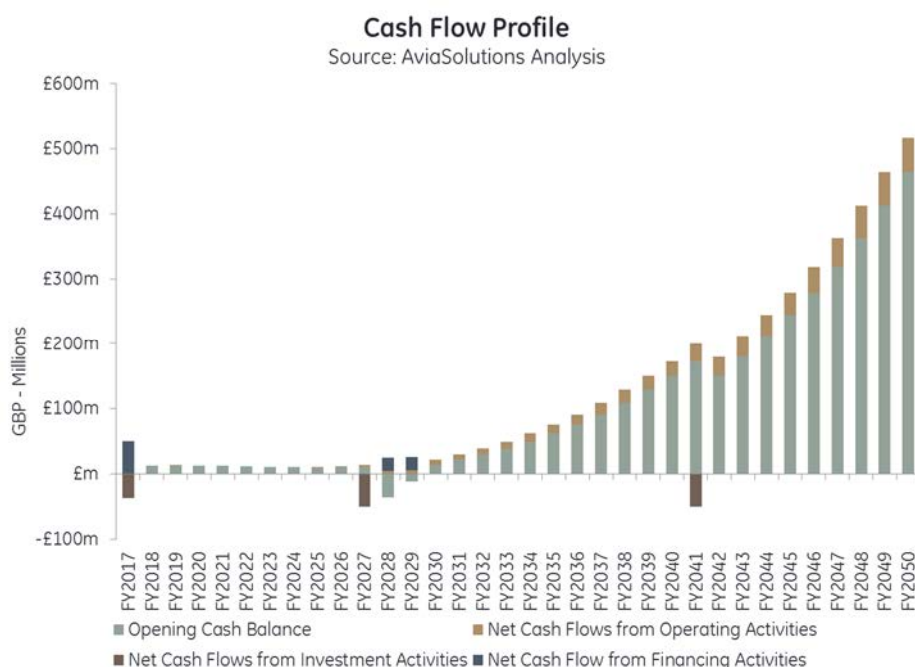
Net income, the profit left after all deductions, is forecast to be negative until FY2025. The first positive results fall circa FY2030 when the airport is expected to generate net income of £6m. This income stream steadily increases through to FY2050 at which point it is expected to be circa £51m per annum.

	FY2018	FY2020	FY2025	FY2030	FY2035	FY2040	FY2045	FY2050
Net Income	-£2m	-£1m	-£1m	£6m	£13m	£22m	£32m	£51m
Net Income Margin	-40%	-8%	-5%	16%	25%	33%	38%	46%



11.1.6. Cash Flow

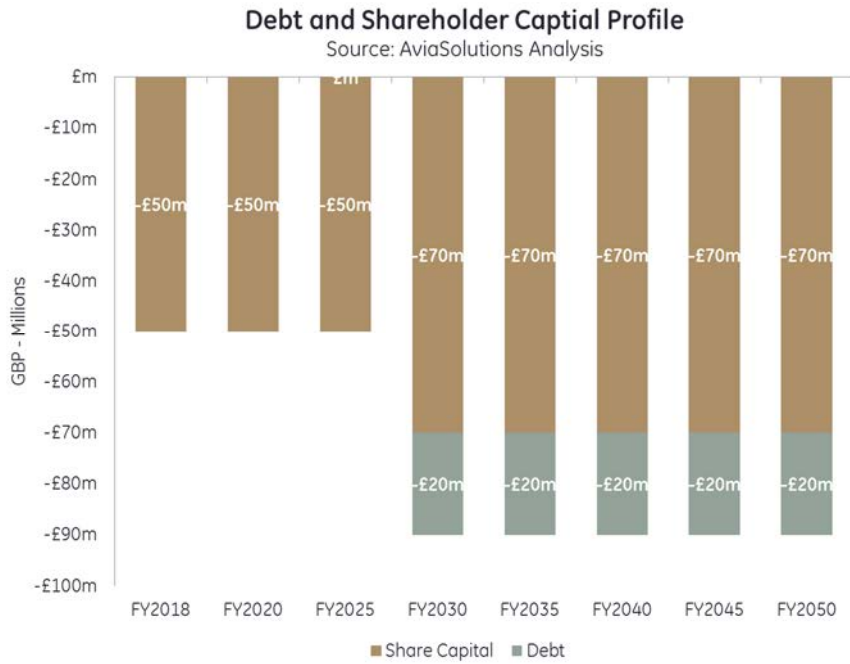
The airport is forecast to develop its cash position with limited additional capital requirements except those required to expand the terminal in FY2027. The position shown below is excludes any dividend payments that the owner may wish to extract from the asset: such payments would reduce its cash position.



11.1.7. Debt and Shareholder Capital

Whilst the exact nature and mixture of debt and shareholder capital would be subject to complex financial optimisation, we have illustrated below a simple capital structure used in the analysis to illustrate the need for additional capital throughout the period. To maintain the business it would be necessary to acquire circa £40m in additional capital around FY2027. For the purposes of modelling this additional capital has been split between debt and equity.

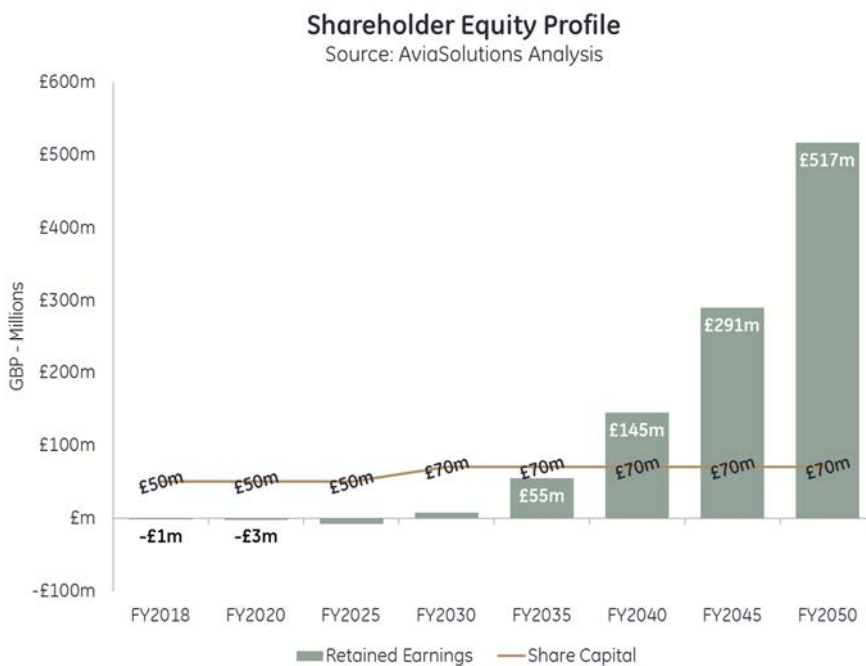
	FY2018	FY2020	FY2025	FY2030	FY2035	FY2040	FY2045	FY2050
Debt	£m	£m	£m	£20m	£20m	£20m	£20m	£20m
Share Capital	£50m	£50m	£50m	£70m	£70m	£70m	£70m	£70m



11.1.8. Shareholder Equity

Considering the effects of earnings on shareholder equity, the business does not post positive retained earnings until circa FY2030. This in effect limits the business's ability to pay dividends to shareholders until this point at the earliest.

	FY2018	FY2020	FY2025	FY2030	FY2035	FY2040	FY2045	FY2050
Retained Earnings	-£1m	-£3m	-£8m	£8m	£55m	£145m	£291m	£517m
Share Capital	£50m	£50m	£50m	£70m	£70m	£70m	£70m	£70m



11.1.9. Conclusion

Given the parameters of this specific scenario it could be feasible to operate a commercially viable airport on the site. However, the risks in doing so are high and many of the elements that cause the proposal to payback can be reversed (such as a new runway being authorised) and are out of the control of the asset manager.

Whilst we believe an airport on the site may be feasible in this scenario, the probability of there being no new runway in the South East is very low, even if a decision is delayed, it is still expected that a new runway will be required at some point. If Manston were to become an established airport it would need many years to reach a point of maturity where it would be able to withstand a new runway becoming operational. The probability of this occurring, given the Government's current position on runway capacity, is uncertain at best. Therefore we conclude that whilst potentially feasible, this scenario is improbable.

11.2. Outputs for LGW Second Runway Scenario

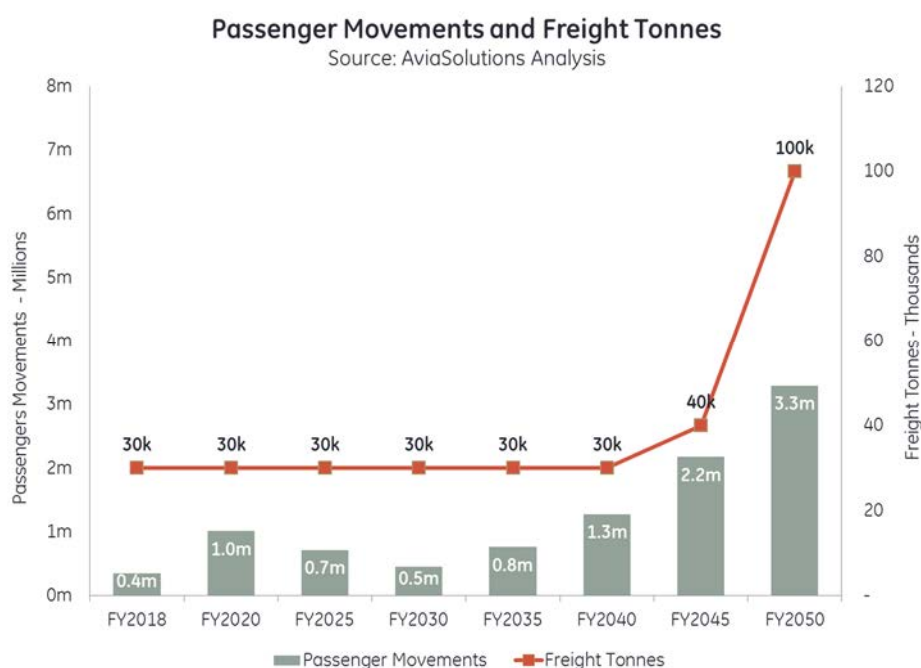
In the following paragraphs, we explore the financial viability of Manston Airport based upon there being a second runway at Gatwick. This was an option short-listed by the Davies Commission and while not finally recommend has a body of support based on its lower environmental impacts and the consequent ability to be delivered earlier (assumed here to be 2025). Manston may have a short initial boost to traffic before the second runway becomes available but then traffic falls before growing again. This scenario takes spill from the London system in addition to a base level of activity generated from the presumed small LCC operation and freighters. This scenario is less favourable for Manston Airport than would be a development at Heathrow.

11.2.1. Volume Profile

Passenger numbers are forecast to grow to more than 1.5 million in 2024, the year before the assumed opening of the second runway, but immediately fall back starting in 2025 and declines to a low of 0.5 million in 2033. From this low point, it grows as a result of the resumption of overflow, reaching 3.5 million passengers in 2050. Overall growth between FY2018 and FY2050 averages 7% per annum.

Freight is not forecast to grow beyond the 30,000 tonnes of the core freighter operations until FY2040, but at that point, freight is assumed to spill from the London Area taking it to some 100,000 tonnes by FY2050.

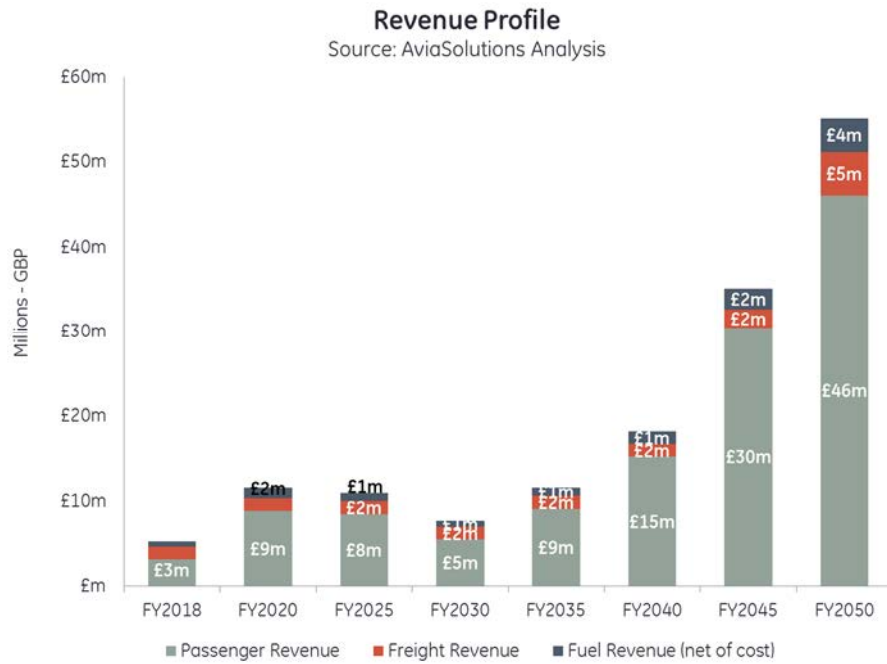
	FY2018	FY2020	FY2025	FY2030	FY2035	FY2040	FY2045	FY2050
Passenger Movements	350k	1,010k	710k	450k	760k	1,270k	2,170k	3,290k
Freight Tonnes	30k	30k	30k	30k	30k	30k	40k	100k
Total ATMs	1,100	2,900	5,000	3,200	5,300	8,900	15,900	26,000



11.2.2. Revenue Profile

Revenue generation is forecast to grow at a CAGR of 4% between FY2018 and FY2030, driving revenues to £8m by FY2030, and at a CAGR of 8% between FY2018 and FY2050 to reach total annual revenues of some £55m by FY2050.

	FY2018	FY2020	FY2025	FY2030	FY2035	FY2040	FY2045	FY2050
Total Revenue	£5m	£12m	£11m	£8m	£12m	£18m	£35m	£55m

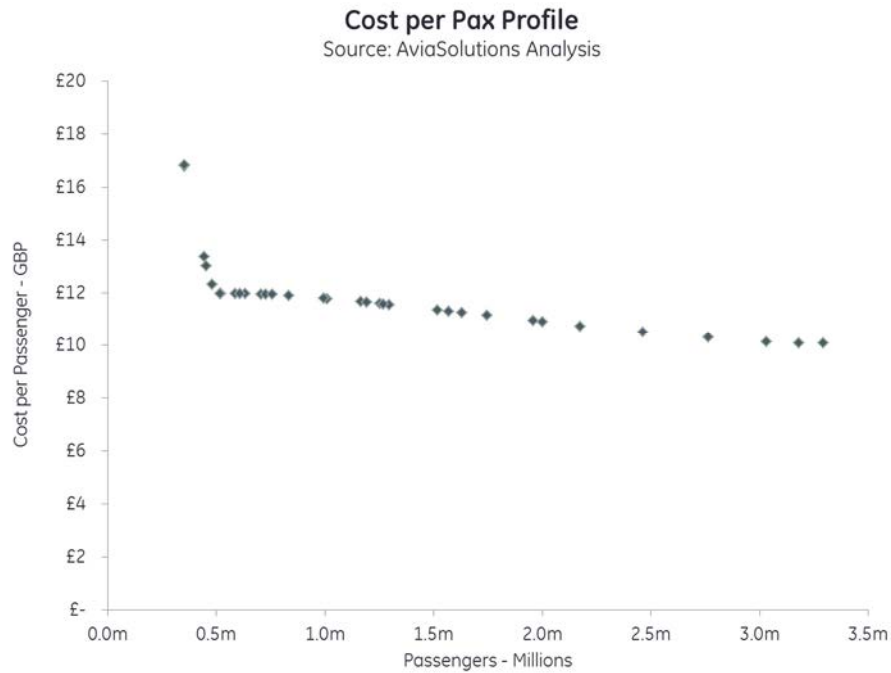


11.2.3. Cost Profile

Total Costs rise prior to the opening of the second runway, but then fall back to £7 million in FY 2030. Thereafter, they increase to nearly £35 million in 2050, representing an average increase between FY2018 and FY2050 of 5% per annum. Cost per passenger falls over the period of the projections.

	FY2018	FY2020	FY2025	FY2030	FY2035	FY2040	FY2045	FY2050
Total Cost	£7m	£12m	£9m	£7m	£10m	£15m	£24m	£33m

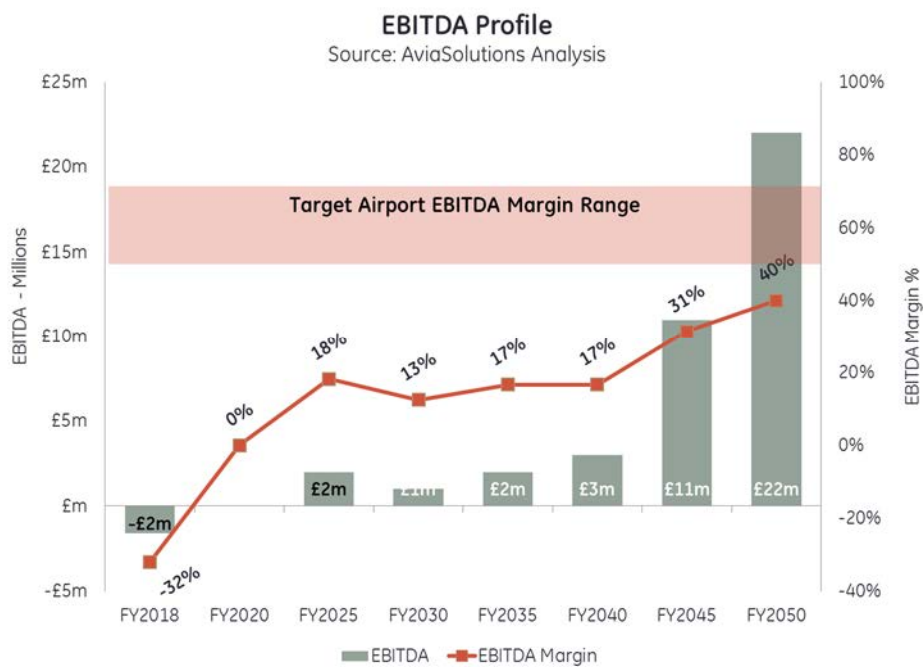




11.2.4. EBITDA Profile

EBITDA is initially forecast to be negative, indicating that the airport would be loss making in the early years at an operational level. It first returns an operating profit in FY2025, generating £2m of operating income and an EBITDA margin of 18%. As the second runway at Gatwick comes on-stream, EBITDA at Manston would stagnate due to the lack of available traffic volumes. The EBITDA margin in the long term is forecast to reach 40%, with an EBITDA of £22m in FY2050. This level of EBITDA is significantly below that which we would typically expect for an airport to be attractive to the investment community.

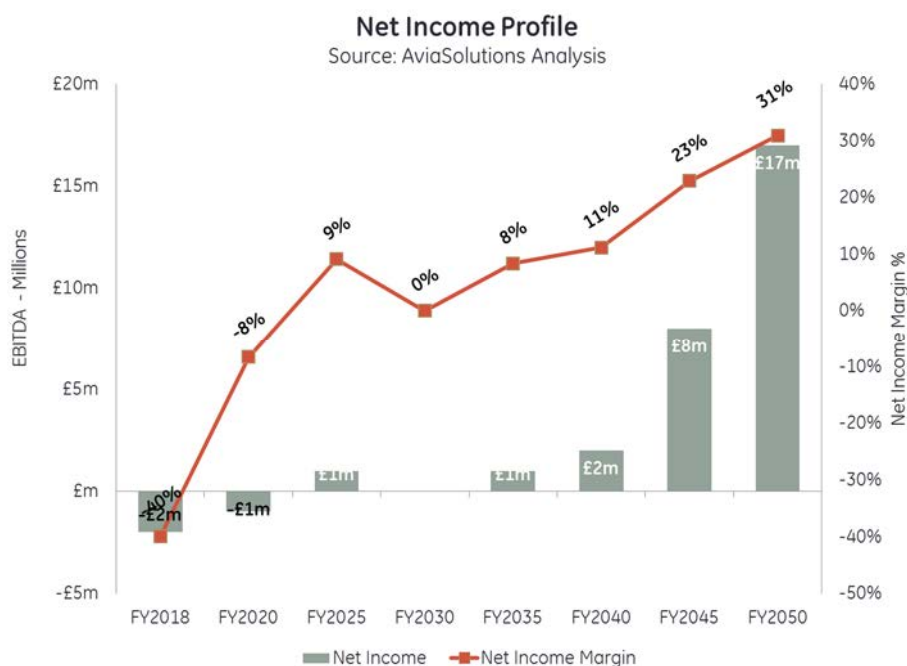
	FY2018	FY2020	FY2025	FY2030	FY2035	FY2040	FY2045	FY2050
EBITDA	-£2m	£m	£2m	£1m	£2m	£3m	£11m	£22m
EBITDA Margin	-32%	0%	18%	13%	17%	17%	31%	40%



11.2.5. Net Income Profile

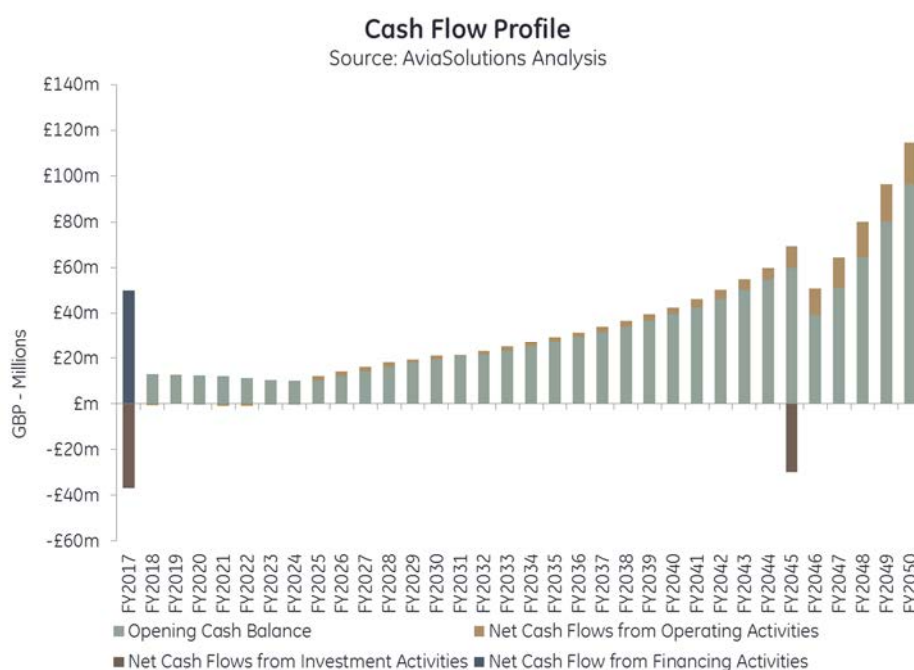
Net income, the profit left after all deductions, is forecast to be negative until after FY2020. The first positive results are generated around FY2025 when the airport is expected to generate net income of £2m, although it falls slightly thereafter as Gatwick's new runway absorbs traffic. The income stream then remains broadly constant for the following 15 years before increasing as capacity becomes constrained once more in the London system. It reaches £17m in FY2050.

	FY2018	FY2020	FY2025	FY2030	FY2035	FY2040	FY2045	FY2050
Net Income	-£2m	-£1m	£1m	£m	£1m	£2m	£8m	£17m
Net Income Margin	-40%	-8%	9%	0%	8%	11%	23%	31%



11.2.6. Cash Flow

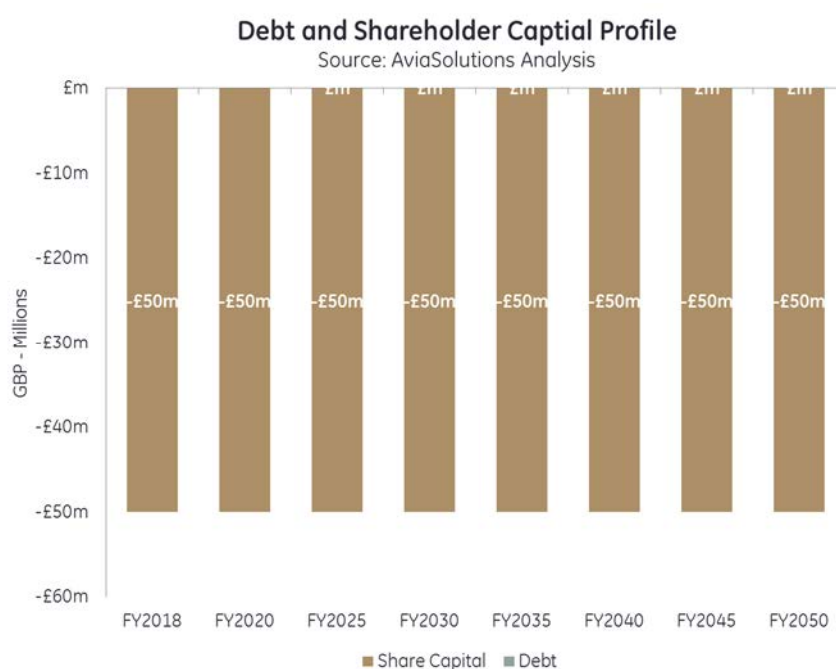
The airport is forecast to develop its cash position with limited additional capital requirements until FY2045 when there would be a requirement to expand the terminal, by which time the company could have built up sufficient cash to be able to finance the CAPEX from reserves. The position shown below excludes any dividend payments that the owner may wish to extract from the asset: such payments would reduce its cash position.



11.2.7. Debt and Shareholder Capital

Whilst the exact nature and mixture of debt and shareholder capital would be subject to complex financial optimisation, we have illustrated below a simple capital structure used in the analysis to illustrate the need for additional capital throughout the period. To maintain the business no further financing would be required. Whilst the business does not generate significant revenues or income, there is little requirement for significant CAPEX investments, thereby eliminating the requirements for additional financing

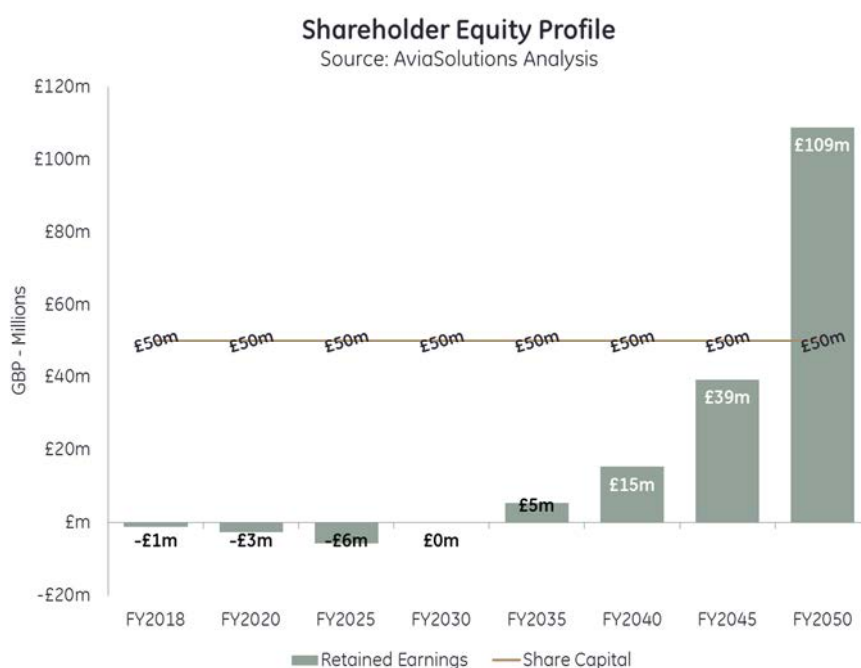
	FY2018	FY2020	FY2025	FY2030	FY2035	FY2040	FY2045	FY2050
Debt	£m	£m	£m	£m	£m	£m	£m	£m
Share Capital	£50m	£50m	£50m	£50m	£50m	£50m	£50m	£50m



11.2.8. Shareholder Equity

Considering the effects of earnings on shareholder equity, the business does not post positive retained earnings until nearly FY2035. This in effect limits the business's ability to pay dividends to shareholders until this point at the earliest.

	FY2018	FY2020	FY2025	FY2030	FY2035	FY2040	FY2045	FY2050
Retained Earnings	-£1m	-£3m	-£6m	£m	£5m	£15m	£39m	£109m
Share Capital	£50m	£50m	£50m	£50m	£50m	£50m	£50m	£50m



11.2.9. Conclusion

The asset would require significant long term investment but would only generate a marginal return. These returns are also predicated on a large number of external variables over which the owner of Manston Airport has very little influence. It is AviaSolutions' view that based on this scenario there is no viable long term prospect of an economically viable airport being established on the site.

11.3. Outputs for Both Runways Scenario

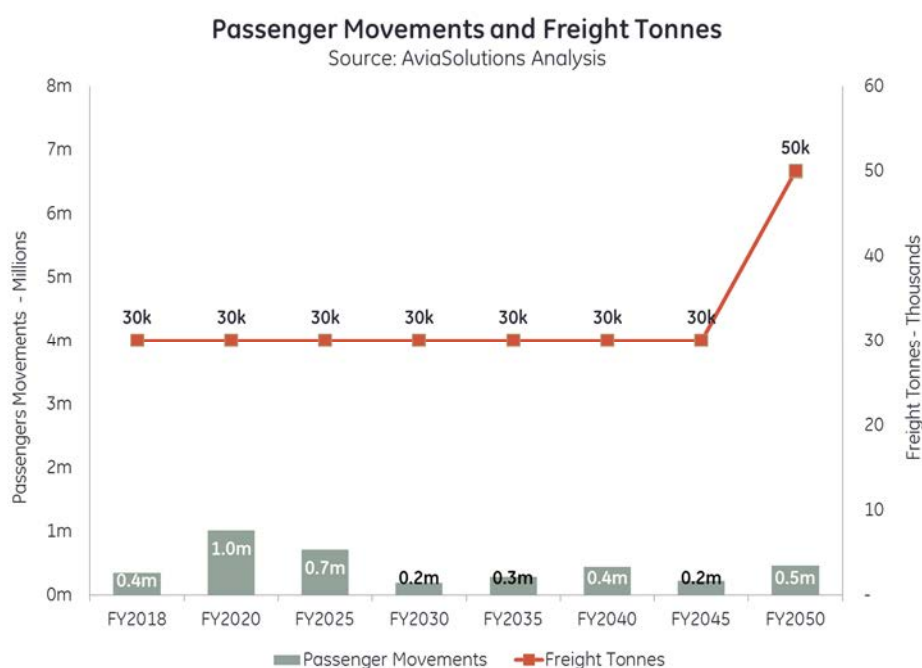
In the following paragraphs, we explore the financial viability of Manston Airport based upon there being two runways constructed in the South East, one at Gatwick and the other at Heathrow. It is clear from this assessment that in the longer term there is forecast to be sufficient demand to require two additional runways. In our assessment, we have assumed that the runway at Gatwick would be opened first, followed later by that at Heathrow. It is though possible that Gatwick might decide to postpone its second runway given its likely loss of traffic Manston would have a short initial boost to traffic before the first of the runways becomes available but then traffic falls and only resumes growth towards the end of the forecasting period. This scenario is the least favourable for Manston Airport.

11.3.1. Volume Profile

Passenger numbers are forecast to grow to more than 1.5 million in 2024, the year before the assumed opening of the first of the runways, but immediately fall back starting in 2025. Passenger traffic remains minimal for the remainder of the forecasting period.

Freight is not forecast to grow beyond the 30,000 tonnes of the core freighter operations until after FY2045, but might reach some 50,000 tonnes by FY2050.

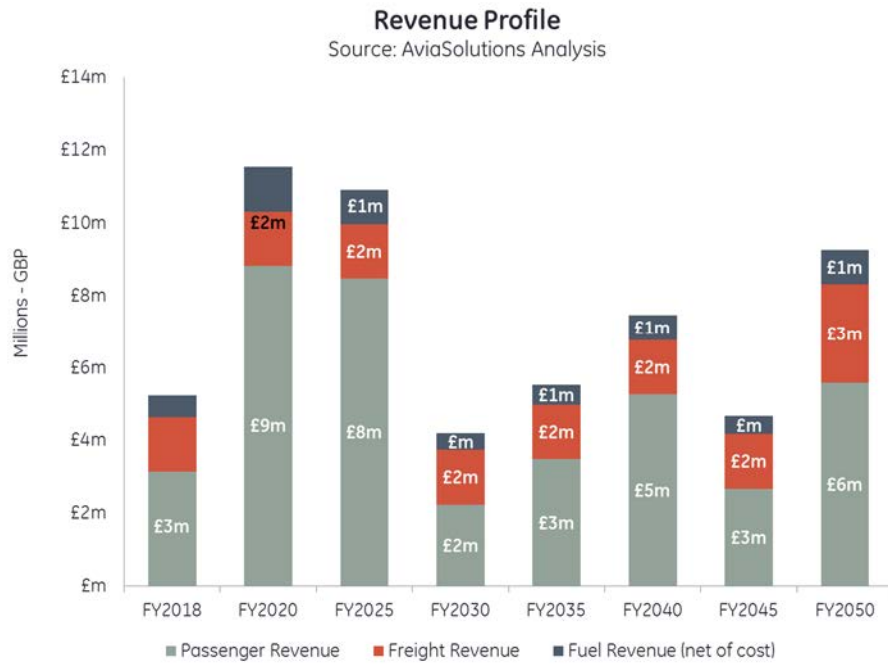
	FY2018	FY2020	FY2025	FY2030	FY2035	FY2040	FY2045	FY2050
Passenger Movements	350k	1,010k	710k	190k	290k	440k	220k	460k
Freight Tonnes	30k	30k	30k	30k	30k	30k	30k	50k
Total ATMs	1,100	2,900	5,000	1,300	2,000	3,100	1,600	4,300



11.3.2. Revenue Profile

Revenue generation reflects the lack of traffic volume and peaks in the period up to FY2025.

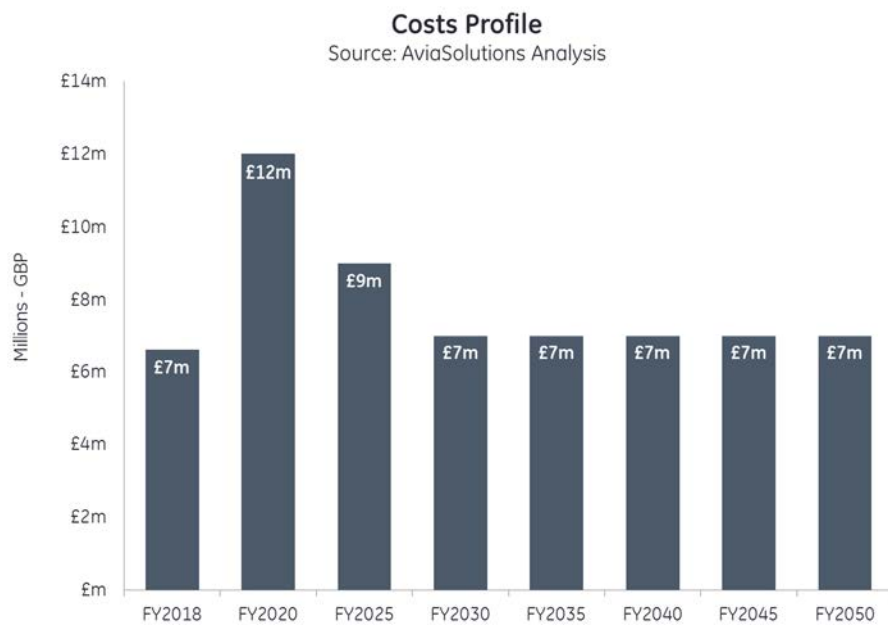
	FY2018	FY2020	FY2025	FY2030	FY2035	FY2040	FY2045	FY2050
Total Revenue	£5m	£12m	£11m	£4m	£6m	£7m	£5m	£9m

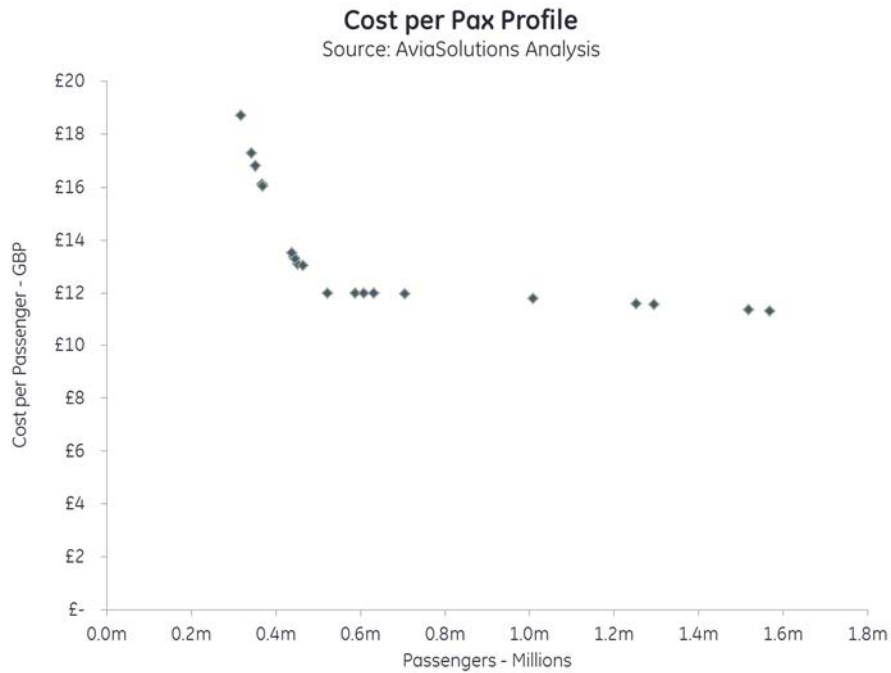


11.3.3. Cost Profile

Total Costs rise a little before the opening of the first of the runways, but then fall back to the core essential fixed costs associated with having the airport open

	FY2018	FY2020	FY2025	FY2030	FY2035	FY2040	FY2045	FY2050
Total Cost	£7m	£12m	£9m	£7m	£7m	£7m	£7m	£7m

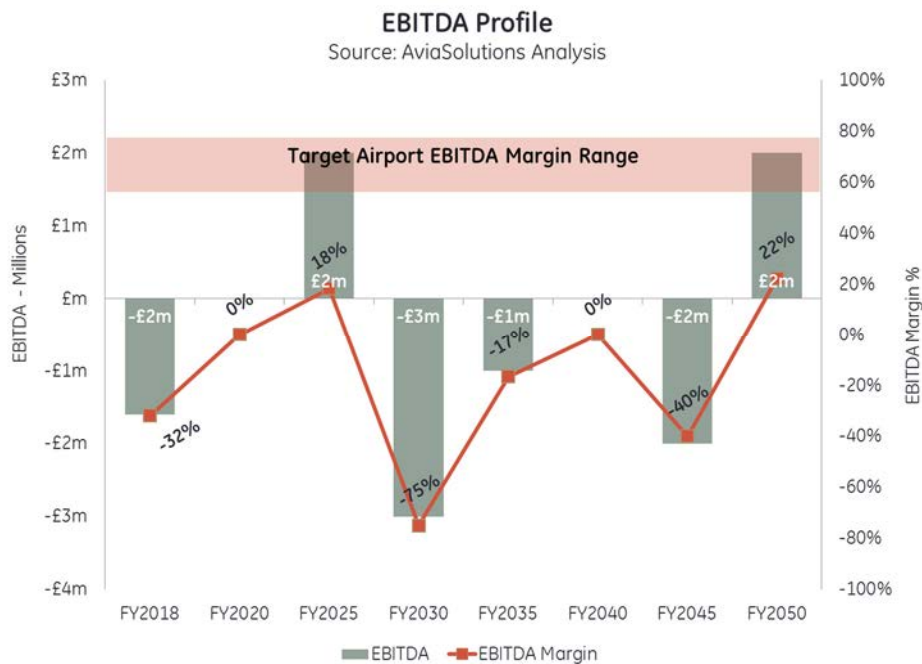




11.3.4. EBITDA Profile

EBITDA is forecast to be negative for the majority of the forecast period, except for the period up to FY2025 and at the very end

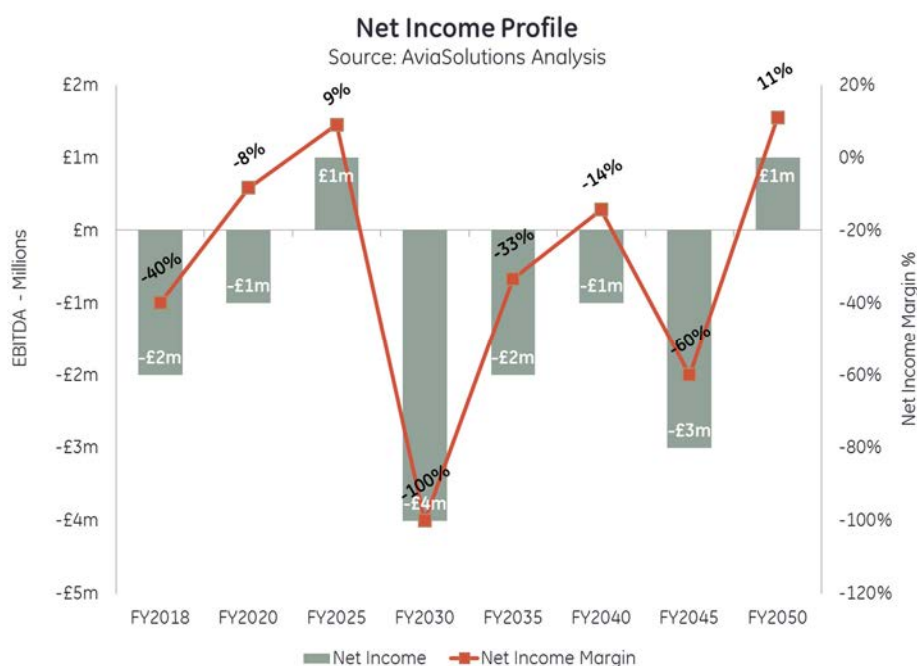
	FY2018	FY2020	FY2025	FY2030	FY2035	FY2040	FY2045	FY2050
EBITDA	-£2m	£m	£2m	-£3m	-£1m	£m	-£2m	£2m
EBITDA Margin	-32%	0%	18%	-75%	-17%	0%	-40%	22%



11.3.5. Net Income Profile

Net income, the profit left after all deductions, is forecast to be negative for almost the entire period.

	FY2018	FY2020	FY2025	FY2030	FY2035	FY2040	FY2045	FY2050
Net Income	-£2m	-£1m	£1m	-£4m	-£2m	-£1m	-£3m	£1m
Net Income Margin	-40%	-8%	9%	-100%	-33%	-14%	-60%	11%



11.3.6. Conclusion

If two runways were to be constructed in the South East, then it is clear that there is no realistic prospect of long term viability for a re-opened Manton Airport. The potential profits in the period to FY2025 would not be adequate to justify the costs of acquiring and re-commissioning the airport, and prospects thereafter would be exceptionally poor.

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