

24 July 2014

Cllr Iris Johnston
Leader
Thanet District Council

RE: MANSTON AIRPORT CPO

Dear Iris:

I am writing to you in order to put RiverOak's position in relation to Manston Airport firmly on the record. We have been following events very closely since our informal meeting on 18 June but during that time we have made no formal or public statement as to our position. In light of the motion approved by your Council on 10 July and the fact that our name was mentioned publicly we feel that it is now appropriate for us to make our intentions clear. RiverOak seeks to be Thanet's commercial partner through the CPO process and is willing to negotiate partnership and indemnity agreements in good faith and in short order.

About RiverOak

RiverOak is a broad-based strategic asset manager specializing in the restructuring and rehabilitation of troubled assets. We presently manage over \$350 million in current assets and have completed well over \$1 billion in transactions over the last fifteen years. The principals at RiverOak have extensive experience in both operational turnaround and asset enhancement including ground up management of complex asset restructuring and large scale infrastructure rehabilitation which includes specific experience with airport turnarounds and restructuring in the northeast and southwest US. Our strategies focus on fostering the growth of productive, and sustainable long term commercial enterprises. We are firm in our belief that Manston has a viable future across many lines of air freight, aviation services including maintenance, recycling, private charter and commercial passenger services, once the airport is on a firm financial footing. We bring very relevant experience in underwriting, financing and structuring cargo airports, airport fuel depots and MRO operations.

Our Dealings with Ann Gloag

We first expressed an interest in Manston in the third week of April when the closure consultation was underway but before the airport actually closed. Mrs. Gloag's team immediately gave us full financial disclosure. On 29 April we visited Manston and on 2 May we met Mrs. Gloag at her Perthshire home.

During this time our team carried out a full analysis of Manston's operating performance and produced a turnaround plan which showed the airport moving from annual trading losses of over £3 million to break even in approximately sixteen months. We budgeted for those losses; we added a significant contingency in case the turnaround took longer and we allowed for essential capital expenditure. We also budgeted for the purchase price and essential legal costs.

We made three offers to Mrs. Gloag, culminating on 15 May with an offer to pay the full asking price. All three offers were rejected for reasons which have never been made clear to us. We have had no contact with Mrs. Gloag or her team since 15 May.

RiverOak's Actions since the Closure of Manston on 15 May

Within days of the closure it became clear that the community in Thanet faced a stark choice: either accept the closure with all the consequent economic damage, or seek to gain ownership and control of Manston through a compulsory purchase. It soon became apparent that there was strong groundswell of local support for CPO and that the only body with statutory CPO powers was Thanet District Council. It was also made clear by you that Thanet had neither the funds nor the expertise to embark on a CPO procedure without the full support of a well-funded partner.

Despite the closure of Manston we remained convinced that it could be successful and profitable and that we should put ourselves forward as Thanet's partner. However, as a US fund with limited understanding of English law, and as a matter of standard practice,, we decided to take the best legal advice possible. We hired Wragge Graham for both the public and private sectors. We also consulted with James Maurici QC and Lord David Pannick QC, both experienced and distinguished practitioners in the field of public law. I have set out below a summary of the questions we raised and the answers we received.

1. In these particular circumstances is Thanet obliged to put a proposed partnership with a private sector partner out to tender? *No, because the contract is not for public supply and is essentially for the acquisition of land and the reinstatement of an operating airport. Thanet can therefore enter into an agreement with RiverOak without any further process.*
2. Do the EU's State Aid restrictions apply here? *No, not if RiverOak is going to fully indemnify the Council against all costs incurred in the CPO process no public money will be used and therefore there will be no State Aid issues*
3. Is Thanet Council able to enter into an agreement with RiverOak whereby RiverOak covers all the Council's costs, including the eventual purchase price; takes a transfer of the freehold title from the Council and enters into an obligation to reinstate the airport and operate it as an airport? *Yes, and agreements of this kind are becoming the norm in CPO procedures throughout England and Wales. In a letter to Sir Roger Gale dated July 9, 2014, the then Planning Minister, Nick Boles MP, said "I can confirm that it is quite usual for a private developer to indemnify a local authority for the costs of a compulsory purchase order, including both the compensation to be paid to those whose land is taken and the administrative costs of the order."*

4. Are there any circumstances in which individual councilors could be held personally responsible? *Given that there will be a full indemnity from RiverOak there is no prospect of a personal financial risk to Councilors.*

We have given careful consideration to this advice. 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

We have carried out our own risk assessment and we are prepared to carry that risk Why? Because we believe that a well conducted CPO process will succeed and because we believe that a reinstated Manston Airport can become successful and profitable over time.

RiverOak's Commitment to the Manston Project

When we offered Mrs. Gloag her asking price on 15 May it was for a fully equipped, fully operational and fully licensed international airport. Two months later over 90% of the staff have terminated, the license has been revoked and most of the equipment has been sold . You might say that the business has been systematically stripped. So why in the face of this are we willing, on behalf of our investors, to accept all the risks of a CPO? Allow me to offer you the following facts and observations:

- * There are strong indications that the carriers and freight forwarders who used Manston prior to its closure will return as soon as it is operational. One of the carriers has already promised to increase the number of their flights by 30%.
- * The factors which led those carriers new to Manston to indicate a willingness to switch to Manston when we worked on our turnaround plan at the end of April have not altered. The pressures they face at other airports continue to increase, and for perishable business in particular, other airports are simply unable to match the quality and speed of service for which Manston was legendary.
- * Cargo capacity constraints continue to mount at airports in the South East of England. The Department for Transport forecasts that by 2020, £42 billion of air cargo will be lost to London airports because of capacity constraints. Manston's restoration to full operating status will leave it well placed to capture part of that business
- * We believe that the task of reassembling the Manston workforce can be readily accomplished.. Many are still without work and others who have accepted jobs further afield have indicated a willingness to return. There is a loyalty and commitment to Manston on the part of former staff which has survived the brutality of the closure

- * The Aviation Minister and the Civil Aviation Authority have indicated a willingness to work closely with us to achieve a speedy restoration of the license.
- * The demand for aviation engineering services continues to strengthen. This covers a range of activities from maintenance and repair (MRO) to aircraft teardown and re-cycling in partnership with a major airframe manufacturer, with whom we are in the process of commissioning a major piece of research.
- * There are interesting changes taking place in the passenger market with Easyjet's competitors considering their response to Easyjet's newly dominant position at Gatwick. We have strong grounds to believe that one of those competitors will consider Manston as a possible base for operations south of the Thames commencing in the summer of 2016.
- * Demand by business jet users in the south east of England market continues to grow rapidly and we have already identified potential customers who would make use of an Fixed Base Operating facility at Manston.

RiverOak's Plan to re-open Manston

We will work closely with the Council under the terms of our proposed partnership and indemnity agreement to ensure that the compulsory purchase order is achieved as quickly as possible. This includes a possible public inquiry and legal challenges. As soon as we obtain possession of the site we will:

- * Work with the CAA towards an early and full reinstatement of the aerodrome license
- * Begin an urgent and comprehensive procurement process for essential equipment to replace what has been sold off in recent weeks
- * Begin the work of recruiting and reinstating an operational team necessary to meet licensing requirements and to handle restored and new business
- * Set a date for Manston's re-opening with maximum publicity and media exposure locally, in the UK and internationally.

RiverOak's Plan for a re-opened Manston

* Perishable cargo represented Manston's core business for several years before closure. Its reinstatement and expansion will be RiverOak's top priority. This will be accompanied by the re-commissioning of the Border Inspection Post and by a major marketing effort directed at growers in the countries of origin, as well as freight forwarders and carriers.

* Previously, inbound aircraft carrying perishables usually departed Manston empty to take on return loads at other airports. Promoting outbound loads from Manston will be made a top priority.

* New non-perishable cargo business will be handled for already identified carriers who seek a reliable base within the European Union, close to a major population center, at an airport which can offer them the quality and speed of service not available at competitor airports. The relocation of these new carriers to Manston will be secured during the first 12 months following the airport's re-opening.

* RiverOak's firmly held view is that Manston's cargo traffic will represent the foundation upon which the financial stability of the business will be based. Subject to this caveat, RiverOak remains interested in exploring the overtures from the low cost passenger carrier referred to above. If market conditions in the passenger sector enable a sensible and profitable deal to be done it is possible that passengers could return to Manston during the summer of 2016. RiverOak will never make the kinds of extravagant passenger forecasts of our predecessors, but at the same time we remain firmly of the view that there can be a role for Manston to offer flights to leisure destinations in southern Europe.

* Aircraft engineering, in the form of teardown and MRO, is the other core element in RiverOak's plan. This will take longer to put in place but represents a major opportunity for Manston to secure first mover advantage in a market which is growing very rapidly as a direct consequence of soaring sales of new aircraft.

* Typically new aircraft are much more fuel efficient and require less maintenance. However their maintenance requires new and sophisticated technology which is often not available at legacy MRO operations. It is because of this opportunity that discussions about a major investment in a new state-of-the-art MRO facility at Manston have been ongoing with a major manufacturer for several months. The intention is that Manston would become a recognized international center for the maintenance of new generation aircraft.

* Teardown or parting-out describes the process by which mid-life or end of life aircraft are carefully dismantled with as many parts as possible being either re-used or re-cycled. This is partly a response to market conditions but mainly the discharge on the part of aircraft manufacturers of their international obligations to ensure that old aircraft are no longer left to rot in the desert or dumped in landfill sites. The discussions with the major aircraft manufacturer envisage the creation of a number of teardown lines in newly built and equipped airside hangars at Manston. Capital investment and new job creation will both be significant aspects of this focus on repairs, maintenance and teardowns.

* Executive jet business is one of the fastest growth areas in aviation and demand in the south east of England is particularly strong. Manston's strength is that it is outside London air space and has excellent road connections. We have already identified a number of opportunities and intend to invest in the facilities necessary to support this type of business which can be very profitable.

Next Steps

Our view is that the signing of an agreement between the Council and RiverOak has to be the top priority. The Council's instruction to the Cabinet made it clear that support for the CPO is conditional upon the Council obtaining a full indemnity from a commercial partner. Equally, from RiverOak's point of view, we are ready to commit ourselves to the process but we cannot do so until an agreement between us is in place.

Earlier in this letter I expressed my belief that there is nothing preventing the Council from entering into an agreement with RiverOak immediately. This would enable work on the CPO to begin without further delay. Indeed it is my view that time will be our greatest enemy. The CPO process itself is likely to take many months. We are prepared for that. What we are not prepared for is undue or in our view unnecessary or bureaucratic delay at this preliminary stage.

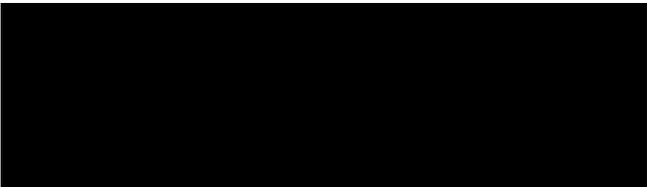
Conclusion

I feel it is important to have set out our position at length. We are strongly committed to this project; we believe very strongly in the commercial case for Manston; we have already allocated significant financial and human resources to the project; we have the full support of our investors; we are ready to give Thanet a full indemnity. We are now anxious to start and have a goal of having an agreement with the Council in place in the next 21 days.

In order to assist the process I have attached to this letter a copy of the Opinion of James Maurici QC and Heads of Terms drafted by our solicitors.

With kindest regards,

Sincerely,



Stephen DeNardo
Chief Executive Officer