

PRIME MINISTER

MR. ALAN BOND

Following his approach to you at the NSPCC dinner, you agreed to a short meeting with Mr. Alan Bond about Airship Industries. The Bond Corporation underwrote a £7 million rights issue by Airship Industries in March.

I attach a brief prepared by DTI. It is rather lengthy but the main points are:

- modern materials and technology have made airships a serious contender once again for certain specialised transport applications;
- the main opportunities at the moment are military;
- DTI have already provided Airship Industries with some £1.25 million; and the MOD just under £100,000;
- but the company is still in serious financial difficulty;
- as a result, DTI are unlikely to approve their request for additional support of £2 million. In their view "the keys to longer term survival and development are the attitudes of the Bond Corporation and the market to the real financing needs of the company and the validity of its revenue earning projections".

|| Mr. Lamont would like to join the meeting, if you agree, and I have provisionally arranged for him to do so.

AMB

5 July 1984



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PS / Secretary of State for Trade and Industry

4 July 1984

David Barclay Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear David,

PRIME MINISTER'S MEETING WITH MR ALAN BOND: 6 JULY 1984

I attach background briefing on Airship Industries Ltd for the Prime Minister's meeting with Mr Alan Bond in his capacity as Chairman of Airship Industries Ltd. The briefing has been prepared in consultation with the Ministry of Defence and the Department of Transport.

2 Mr Bond, who has been involved with the company since his Bond Corporation underwrote a £7 million rights issue in March, can be expected to urge that further Government financial support be offered to the company to help it overcome its current financial difficulties. Though some £20 million of private sector equity funding has been raised in the past 3-4 years (in addition to Government pre-production order assistance of £1.25 million), the company has consistently under-estimated the time and costs of translating its activities from a development to a commercial phase.

3 Whereas initially the company stressed equally civil and military uses for airships, it now seems that in the short to medium term (or until a larger version with greater passenger carrying capacity is available) the greatest potential lies in military or para-military applications. MOD have confirmed their own serious interest (and that of the United States Navy and Coastguard Service) in further evaluation of the capabilities of airships and acknowledge that Airship Industries have established a clear world lead in the development of a modern technology non-rigid airship. In addition to the existing pre-production order assistance (in respect of which the company sought, and the Department agreed in April, an extension of the repayment schedule) Airship Industries has submitted an application for a second pre-production order for £2 million (+ VAT) for the larger Skyship 600. When he met the company in June, Mr Lamont warned that he was pessimistic of the application being successful but promised that it would be given detailed consideration.



4 The Industrial Development Unit's (IDU) preliminary report reveals that the company has critical short term financial difficulties and that on the company's own projections net additional funds of £20 million will be required over the coming year to support its operations until sales revenues exceed operating costs. Further Government assistance could make a significant contribution but it is doubtful whether, in isolation, it would ensure even short term survival. Uncertainty about the validity of the company's forward trading projections and the credibility it will have in seeking additional funding from existing or new investors and the banks is so great that the conclusion drawn in the IDU's preliminary report is that there can be no further justification for committing further public funds at this time.

5 In view of his involvement in the company's applications for DTI financial assistance, Mr Lamont hopes, with the Prime Minister's agreement, to attend the meeting with Mr Bond. I should be grateful if you would let his office know whether the Prime Minister would like him to do so.

6 I am copying this letter and enclosures to Nick Evans (MOD).

Yours truly,
Andrew Lansley

ANDREW LANSLEY
Private Secretary

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PRIME MINISTER'S MEETING WITH MR ALAN BOND : 6 JULY 1984

AIRSHIP INDUSTRIES (UK) LTD

Line to Take

1 The Company's proposals for further financial support from DTI are receiving urgent and careful consideration. Your Company's application to MOD for funding of a £500,000 Feasibility Study is also receiving careful consideration.

2 Funds for support of civil projects such as this are very limited and there are many competing claims, all of significant merit. I cannot therefore hold out any expectation that your application for further financial support (in the form of a £2m Pre-Production Order for Skyship 600) will prove successful.



PRIME MINISTER'S MEETING WITH MR ALAN BOND: 6 JULY 1984

AIRSHIP INDUSTRIES (UK) LTD

Background

The Company

Airship Industries was incorporated in 1978 and the core of the present design team goes back to 1971. The company is now concentrating wholly on non-rigid airships. In 1983 the company was launched on the Unlisted Securities Market.

2. The company's first commercial project is the Skyship 500, a helium-filled non-rigid airship capable of carrying up to 12 passengers or equivalent load at a maximum 60 knots. Production began in 1983 after a £5.8m rights issue. A further £7m rights issue was made in March 1984, underwritten by the Bond Corporation and resulting in that company holding 31% of Airship Industries' equity. Other significant shareholders are European Ferries (Mr Keith Wickenden was formerly Chairman of Airship Industries), Royal Bank of Canada, Commercial Union, Legal and General and the Kuwait Investment Office.

DTI Assistance

3. With Mr Lamont's approval in March 1983 the Department placed a pre-production order for Skyship 500-02 for £1.25m (plus VAT) and leased the airship back to the company to enable it to complete certification and offer trials to prospective customers. The company was due to repay £1.087m (plus VAT) to the Department by August 1984.



4. However in November 1983 the company submitted a further proposal, subsequently amended in February 1984 to a proposal:

- i) to phase the repayments on Skyship 500-02 over a longer period;
- ii) for a second pre-production order for £2m (+ VAT) for the larger Skyship 600-01 (up to 24 passengers, maximum speed 65 knots).

The rescheduling of payments on Skyship 500-02 was agreed in April and repayment to the Department will now be extended to December 1984. Repayments received to date total £287.500 (+ VAT).

5. It was indicated to the company verbally that their proposal for a second pre-production order gave rise to considerable difficulty. Quite apart from the merits of the case, the Support for Innovation budget is severely constrained and the Department decided in December 1983 that in future pre-production orders would only be placed in very exceptional circumstances.

6. The company has also received a grant of £125,000 under the Department's fibre-optics scheme.

Present Situation

7. The company's request to the Department for a pre-production order for Skyship 600-01 remains on the table.

8. On 2 May, the company made a presentation to Lord Trefgarne on the prospects and defence applications for airships. On 14 June, Mr Lamont met the company to discuss their request for further Government assistance. At that meeting, the company confirmed that it was again facing serious financial problems.



Mr Lamont stressed that funds for assistance of the type sought were severely limited and that he was fairly pessimistic of the company's chances of success in their application, but promised that it would be given detailed consideration. Accordingly a detailed examination of the company's financial position and prospects is currently being undertaken by the DTI's Industrial Development Unit (IDU).

... 9. The preliminary IDU report (copy attached) discloses that, based on the company's own current projections, further net additional funds of some £20 million will be required to sustain the company's operations until mid-1985 when it is projected that sales/lease revenues will begin to exceed operating costs. The company proposes to raise the additional funding from further rights issues and bank borrowings. Short term cash forecasts show however that the company will not be able to meet its outgoings over the next three months without immediate new finance.

10. Though a DTI pre-production order could make an important contribution, it is doubtful whether in isolation it would ensure survival of the company even in the short term, without a substantial injection of additional new finance from the Bond Corporation and/or other shareholders and the banks. The IDU report therefore concludes that there is no justification for committing public funds to the company at this time.

11. The company currently employs approximately 200 people in London and at Cardington (Bedfordshire) where the company has its assembly and operational base in a pre-war airship hanger leased from the Royal Aircraft Establishment (through PSA). The RAE are withdrawing from Cardington in January 1985, but while the possibility of a defence requirement exists the property will not be passed to the PSA for disposal.



The Product

12. The Skyship 500 is a small twin-engined non-rigid airship. The envelope is filled with non-flammable helium to provide lift and retains its shape by internal gas pressure, not by rigid structure. Attached to the bottom of the envelope is the gondola or cabin which has seats for two pilots and seven passengers and has twin Porsche car engines mounted at the rear. These drive two propulsive fans mounted in ducts, which can be tilted to direct the thrust up or down. The layout of the airship is conventional, like many which have been built in the past, apart from its tiltable fans but it makes use of modern materials and technology to improve its performance greatly.

13. Skyship 500-02 received a Special Category Certificate of Airworthiness in September 1982 and its certificate for the Aerial Work category in November 1983. Certification to full Transport category which will allow it to carry paying passengers is scheduled for summer 1984.

14. In addition to the Skyship 500, the company have developed a slightly larger version, the Skyship 600, with a bigger envelope and lengthened gondola capable of carrying up to 20 passengers. The prototype Skyship 600 made its maiden flight in March 1984 and the Company claims that certification will be achieved during early 1985. Although there have been significant delays in completing the 500 certification programme, the CAA report that steady progress is currently being made on both the 500 and 600 programmes.

Market Potential

15. Potential applications for airships spread across the military, para-military and civil fields. These include coastal and off-shore surveillance and protection, aerial survey work, aerial advertising, freight transport to inaccessible sites and passenger carrying operations. The Company had a short lease contract from



the US Naval Air Development Centre for evaluation trials of a Skyship 500 during Summer/Autumn 1983.

16. In addition to the US Naval interest the Skyship 500 underwent short evaluation trials with MOD and the French Navy during Summer 1983. MOD have confirmed, on the basis of the two week trial of Skyship 500, an interest in pursuing evaluation of modern technology airships for a variety of military or para military applications. A similar short trial of the larger 600 version had been planned for July 1984, but the company recently advised MOD that these trials would have to be deferred as the 600, with an electro-optic flight-control system ('fly by light'), would not be ready in time. Depending on the results of these trials, MOD would give consideration to the acquisition of one or more Skyships for intensive testing and evaluation by a joint services trial unit.

17. MOD's financial involvement to date amounts to less than £100,000. The Company recently met Lord Trefgarne in connection with their request for funding of a £500,000 Feasibility Study, which is currently being considered.

18. The Prime Minister will wish to be aware that the MOD has also received an approach from a firm, WrenSkyships Ltd, who are preparing proposals for a much larger, "rigid" type aircraft. In particular Wren have asked to be allowed to lease hanger accommodation at Cardington. It is clear that Wren's ideas are, for the present at least, somewhat behind those of AIL. Wren have similarly approached DTI with an enquiry about start-up assistance.

19. MOD confirm firm interest by the US Navy and US Coastguard Services (USCG) in airships as a cost effective alternative to surface vessels, aircraft or helicopters in many applications. The USCG is shortly to begin 9 months of intensive evaluation trials with a Skyship 600. Growing concern about drug smuggling



on the South Eastern seaboard has caused USCG to bring forward by one year an expanded counter measures programme. USCG recently confirmed to MOD officials that the Skyship 600 is currently the favoured candidate and if the forthcoming trials go well they could ultimately have a requirement for up to 50 airships of the 600 type.

20. The company recently concluded its first commercial sale of a Skyship 500 to a subsidiary of Japan Air Lines for feasibility studies and crew training with a view to starting commercial operations in Japan in Summer 1985. Other prospective commercial sales appear to have been ^{deferred} pending certification to full transport category.

21. Another Skyship 500 is currently on a 6 months lease to Dentsu Inc (an advertising agency) on behalf of Fuji Film. It will be based in Los Angeles for the Olympic Games period.

22. In the UK, Airship Industries should benefit from Department of Transport's recent relaxation of the aerial advertising regulations. A statutory instrument which came into effect on 7 February 1984 removed the blanket prohibition on aerial advertising so as to allow advertising by banners towed by aircraft, balloons and airships. The intention to relax the prohibition was announced by Mr Iain Sproat in July 1982 but progress was disappointingly slow because of lobbying by environmentalists and local authorities.

COMMERCIAL IN CONFIDENCE

AIRSHIP INDUSTRIES LIMITED

FINANCIAL POSITION AND PROSPECTS

Airship Industries Limited financial results for the last three years and projections for the next are as follows:

£000	Period to	Actual			Forecast		
		Jan 1982	March 1983	1984	June 1985	1986	1987
Turnover - Airship Sales		-	-	-	4.0	9.0	38.0
- Airship Leases		-	-	0.4	10.2	38.1	61.4
- Total		-	-	0.4	14.2	47.1	99.4
Profit/(Loss)		(1.7)	(3.7)	(5.8)	(8.1)	16.3	55.3
Assets Employed		2.5	3.4	4.9	18.8	31.5	36.8
Financed by							
Share Capital		6.0	13.9	13.2	24.4	24.4	24.4
Accumulated (Deficit)/Earnings		(3.9)	(7.6)	(13.4)	(21.4)	(5.1)	50.2
Convertible Loans		2.1	6.3	(0.2)	3.0	19.3	74.6
Other Loans		-	-	6.9	6.9	6.9	6.9
Bank (Balances)/Borrowings		0.3	0.3	0.3	-	-	-
		0.1	(3.2)	(2.1)	8.9	5.3	(44.7)
		2.5	3.4	4.9	18.8	31.5	36.8

The results up to March 1984 reflect four years of investment in research, development and manufacture of prototype, trial and first off production skyships amounting in total to almost £20m, against which the only revenues have been the £0.4m of Lease income reported in 1983/4 and the sale to the DTI for £1.25m of Skyship 500-02 under a Preproduction Order (which is due to be repurchased by December 1984). This investment has been financed by a series of share and loan stock issues, the last in March 1984, the proceeds of which had largely been used-up by the end of that month.

The projections from April 1983 assume that with certification of the Series 500 Skyship in July/August 1984 and the Series 600 in early 1985, the company will begin to earn substantial revenues from both sales and long and short leases:

	1985	1986	1987
Skyships - Nos			
- Sold in the year	4	2	15
- On Lease for all or part of the year	8	19	27
Revenue - £m	8.4	47.1	99.4

COMMERCIAL IN CONFIDENCE

To achieve this revenue earning capability, the company has to finance the production and marketing of skyships to the point where revenues routinely exceed operating costs. The projections suggest that this will occur in mid-1985, by which time the business will have absorbed net additional funds of some £20m over those available at 31 March 1984.

The company proposes to raise the additional funding from

- further rights issues in - September 1984	£5.6m
- March 1985	£5.6m
- bank borrowings	£8.8m

It has two major problems in raising this finance

- (1) in convincing the market that the business can justify further funding so soon after the March rights issue which made no mention of further calls:
- (2) in surviving until the proceeds of the proposed September issue can be collected. Current short term cash forecasts show that the company will not be able to meet its outgoings over the next three months without immediate new finance.

It has three possibilities:

- renegotiation of borrowing limits with its bankers. The current facilities are for £4m but borrowings above £1.25m have to be covered 1.5 times by trade debtors. The prospects of obtaining a "bankable" sale or substantial lease contract in the period, to make use of the additional facility, are slim:
- temporary finance from the Bond Corporation either as an advance on its share of the September rights issue or as a down payment on a Skyship which it has suggested it may purchase in the next year:
- a Preproduction Order (PPO) for Skyship 600-01 from DTI. This would, for the company, have the additional benefit of "underwriting" the September rights issue with a declaration of Government support.

It is clear that immediate DTI funding through a PPO would make a major contribution to the survival of Airship Industries and the future of airships in the short term. The keys to longer term survival and development are however the attitudes of the Bond Corporation and the market to the real financing needs of the company and the validity of its revenue earning projections. Since neither have yet been tested and, since, if either fell short of what was required, the company would not survive, there can be no justification for committing public funds at this time.

J G ALLEN
IDU
R.326-KH/212-0371

3 July 1984



10 DOWNING STREET

From the Private Secretary

28 June 1984

Mr Alan Bond

The Prime Minister recently met Mr Alan Bond, who is (among other things), Chairman of Airship Industries Limited. Mr Bond asked whether the Prime Minister would be interested in a brief account of this company's activities, and of the potential for airship transport in general. The Prime Minister has agreed to a short and informal meeting which will take place on Friday 6 July.

I should be grateful if you could provide a short background brief for this occasion, in consultation as appropriate with the Department of Transport. Could this please reach me by close of play on Wednesday 4 July?

I am sending a copy of this letter to Andrew Melville (Department of Transport).

David Barclay

Andrew Lansley Esq
Department of Trade and Industry

4/7
file
SS
at NSPCC dinner

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