

## Introduction

In the light of the 2013 Review of the Airport and a subsequent review of its Governance, the Shareholders have confirmed that their objectives for the Airport Company are to:

*“Manage the operation and development of the Airport in a manner aimed at delivering environmentally sustainable and profitable growth, supporting the sub-regional economy and delivering financial returns to Shareholders.”*

At present, the profits generated by the operation of the Airport are sufficient to repay the loans on investment in upgrading the runway (RSP) and funding the LGPS pension deficit, but dividends to the Shareholders are not possible. A fundamental objective of the Vision is to set out a strategy to improve the profitability of the Airport and deliver both financial and wider economic returns to the Shareholders. This Business Plan sets out how this will be delivered in more detail.

## Economic Impact

It is worth reiterating that the Airport provides high value employment in the region, with a strong GVA impact through direct, induced and indirect employment.

In 2013, Gloucestershire Airport directly supported 401 jobs directly related to the aviation sector, amounting to 361 Full Time Equivalent (FTE) positions and contributing £23.7m of GVA to the regional economy. A further 59 jobs (56 FTEs) and £2.1m of GVA were supported by non-aviation related activities at the Airport and 805 jobs (796 FTEs) and £30m of GVA were supported through the broad employment base in the Meteor Business Park. Including indirect and induced employment, the Airport business contributed £67.3m of GVA and supported over 1,500 jobs in 2013.

The Airport plays a role in supporting the wider economy with a number of local businesses using both scheduled services and business aviation to support their travel needs.

Although the Aerospace cluster originally developed in the area as a result of the proximity of the Airport, relatively few companies within the cluster continue to rely on the Airport. However, the existence of the Airport at the heart of this cluster demonstrates a catalytic role in attracting additional investment into the area, as recognised by GFirst.

## Vision

The 1998 Vision set for Gloucestershire Airport was:

*“To be a Super General Aviation Airport”*

This remains a valid vision for the future as the success of Gloucestershire Airport is founded in the diversity of the activities operating there and its status as the busiest and best General Aviation Airport in the UK.

Implicit in this vision are:

- maintaining the highest levels of safety;
- delivering profitability for our shareholders;
- retaining our status as the busiest General Aviation airport in the UK.

Achieving this Vision requires a focus on sustaining and growing the Airport’s market share in all sectors of general aviation activity in the short to medium term.

In the long term, as the Airport approaches its agreed movement limits and, in order to maximise the value of its estate, there may be a need to focus on higher value growth but this is not envisaged to be a constraint within the 10 year period covered by this Strategic Vision or the Business Plan.

Within this Vision, sustaining commercial scheduled services are a second order priority but the Airport will continue to exploit opportunities in this sector so long as it can be done profitably, having regard to the potential costs of infrastructure enhancements to support such services, and to provide wider support to the regional economy.

### **Strategy**

In the short to medium term delivering this Vision will require:

- Continued control on operating costs, subject to the identified need to strengthen the Airport's Management Team to provide a stronger commercial focus and a strengthened Board;
- Attracting more based aircraft to drive movement and revenue growth, which will in turn require investment to support the provision of additional hangarage;
- Investment in improvements to landing aids (GPS) and pilot controlled lighting and in the resurfacing of the runway in the medium term;
- Realising the potential of the property assets through release of more land for development of ancillary supporting activities, subject to planning. Opportunities include:
  - development on the northern airfield, including extensions to the Meteor Business Park and development adjacent to the Bamfurlong Industrial Estate;
  - seeking redevelopment and reconfiguration of some already occupied sites to maximise their income potential and contribution to the business overall;
  - exploring other commercial opportunities on land to the east of the Airport access road to provide supporting facilities such as hotel accommodation for pilots, retail and catering facilities to service staff and passengers and office accommodation.

Specific actions include:

- Establishing a FBO (fixed base operator) service to attract additional business aviation aircraft by developing the internal handling capabilities and upgrading an area of the terminal for pilots and Business Aviation customers, as well as potentially seeking to franchise with a major global operator such as Signature Aviation. This may include some rebranding to appeal better to corporate users;
- Building on the existing scheduled service offer by seeking an additional route to Scotland and developing other niche opportunities such as seasonal leisure flights to Europe as well as the return of flights from Ireland to support the Cheltenham Festival.

In the longer term, it is envisaged that the focus will be on growth in Business Aviation and by major based operators and priority will need to be given to such activities.

In the medium to long term, as the Airport's financial performance improves, it will be attractive for the Airport to invest itself in more of the property development opportunities so as to realise higher returns from rental income.

If additional scheduled and charter services can be attracted in the short to medium term, this may create a platform for the attraction of additional services but this is likely to require additional investment in terminal facilities and car parking.

### **Current Business Performance**

Despite a shortfall in aircraft movements in FY2014/15, compared to the original budget, the Airport expects to make a profit of approximately £104,000 by the year end, representing a 202% improvement over the originally projected loss of £101,000,

Reductions in staff costs accounted for an equivalent to 60% of the improvement in projected profits, with delays in appointing a Senior Air Traffic Control Officer and a number of other posts. There were marginal increases in some other costs and small reductions in some other revenue streams.

### **Growth Opportunities**

The Business Plan sets out in detail specific growth opportunities which have been identified.

First and foremost, as identified previously, there is a critical need to provide more high quality hangarage at the Airport to support growth in the number of based aircraft and growth of the business overall. The Business Plan identifies a number of specific and immediate opportunities for hangar development, including on a new site adjacent to the South East Camp (the existing developed part of the airfield) for up to 10 new hangars over the medium term and for which GFirst has provided Growth Deal grant funding for the enabling works.

Furthermore, release of a site on the Meteor Business Park for an aerospace related development is generating a capital receipt, which can be used to fund some replacement hangarage and other facility upgrades by the Airport.

The development of additional hangars, in the first instance mainly by other developers, is seen as the principal means to generate the desired step-change in business performance, increasing income from landing fees and fuel as well as rental income.

Achieving some market opportunities will require some improvements to other facilities and infrastructure. This will include aircraft de-icing facilities, remote controlled airfield lighting, upgraded GPS approach systems, refurbishment of the passenger facilities and expanded car parking among others.

There is also potential for some growth in commercial air services, with services from Ireland expected to operate during the Cheltenham Festival in 2016 and with the possibility of additional scheduled services to Scotland or on niche leisure routes also being delivered by 2016.

It is intended to establish a Fixed Base Operation to attract more visiting business aviation aircraft to the Airport.

There remains strong interest in non-aviation related development in proximity to the Airport, with a number of opportunities likely to materialise, but these will be subject to achieving appropriate land use zoning through the JCS and Tewkesbury Local Plan, which will take more time to deliver than the short term aviation related opportunities.

### **Capital Receipts**

Although cash flow for the business has been a long term concern of both the Management and Shareholders, three short term opportunities will provide significant cash receipts to the business

which will allow the infrastructure investment required to drive the growth and improvement in the financial performance. These are:

- A cash receipt in FY2015/16 associated with 99-year lease for a 3 acre site on the Meteor Business Park, in lieu of on-going ground rent. There will be some short term reduction in rental income from the site but this will be more than compensated for by increased rentals as the capital receipt will be invested in new Airport property;
- A cash receipt in FY2015/16 from the re-gearing of properties within the portfolio of an existing tenant. This will come with no negative impact on the ground rents received as the premium is to secure longer leases to allow the tenant to improve his buildings;
- A cash receipt in FY2016/17 as a premium from a developer to secure the development of a new hangar.

A critical part of the Business Plan is to ensure that the benefit of these receipts are realised through profitable investment by providing infrastructure which will deliver long term financial returns to the business in order to position it to be able to pay a dividend to Shareholders in the medium to long term.

These receipts largely underpin the capital investment in the early years, aimed at further upgrading the Airport estate and facilities without significant recourse to further loans. Some loans will be required in later years to fund the resurfacing of the runway, radar upgrading and new fuel storage facilities but by this point the loans to fund the Runway Safety Project will largely have been paid down.

### **Capital Expenditure**

Capital Expenditure can be broadly divided into 5 categories, with the total sums over 10 years indicated:

- |   |              |
|---|--------------|
| • Airside Business Resilience               | £3.6 million |
| • Commercial Development                    | £1.8 million |
| • Landside Business Resilience              | £0.1 million |
| • Plant & Machinery                         | £0.2 million |
| • Scheduled Service and Fixed Base Operator | £0.3 million |

Some capex items are required to provide resilience to the business, to maintain the existing level of traffic, or to retain existing operators through provision of new technologies.

In order to make tax-efficient use of the Capital Receipts in each year, some capital expenditure has been accelerated by up to a year, although priority has been given in these circumstances to schemes which will directly deliver growth in income.

Towards the end of the 10 year period, there remain some larger scale items, such as runway resurfacing and the replacement of the radar which will need to be funded probably through new loans. In some cases, these large items may not generate additional income, but the business case for their refurbishment will be predicated on the potential loss of traffic and income without the work.

There is scope for the timing of some items, and their funding source, to be reviewed over the life of the Business Plan and beyond. Other investment opportunities may be brought forward where there is a business case to do so.

In all cases, operating costs and revenues associated with capital expenditure and developments have been built into the financial plan.

**Financial Projections**

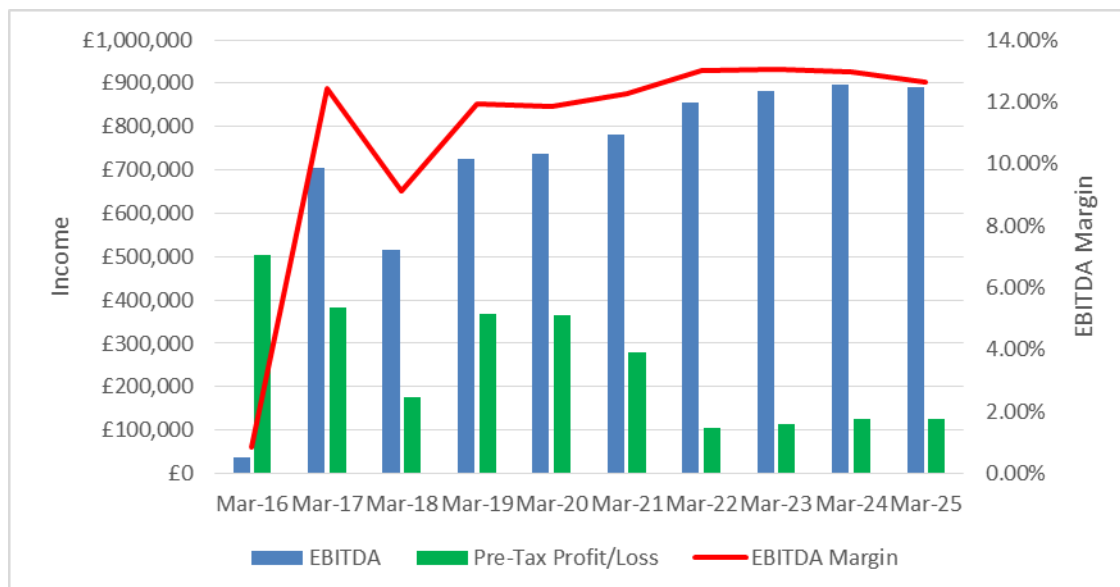
The Airport is projected to make a profit for each year of the Business Plan, initially in part as a result of the release of the cash receipts and grant to the P&L, but even without these elements, the operational aspect of the Business will in itself be profitable by Year 2 of the plan, and then grow forward. Operational performance is impeded in the first year as a result of several factors, including:

- Salary provision for three new staff, including a senior member of staff, possibly at Director level;
- Allowance for the funding of two external Board members;
- An anticipation that oil prices will not immediately rise, meaning that the Airport will make a smaller margin on all fuel sold for the year over the previous year.

The income benefits from the Capital Expenditure in the year are expected to be generated from the later part of the year, particularly from hangar development. In Year 2 and beyond, however, profits are projected to climb quickly to sustainable levels and to support the necessary investment in runway resurfacing and radar upgrading

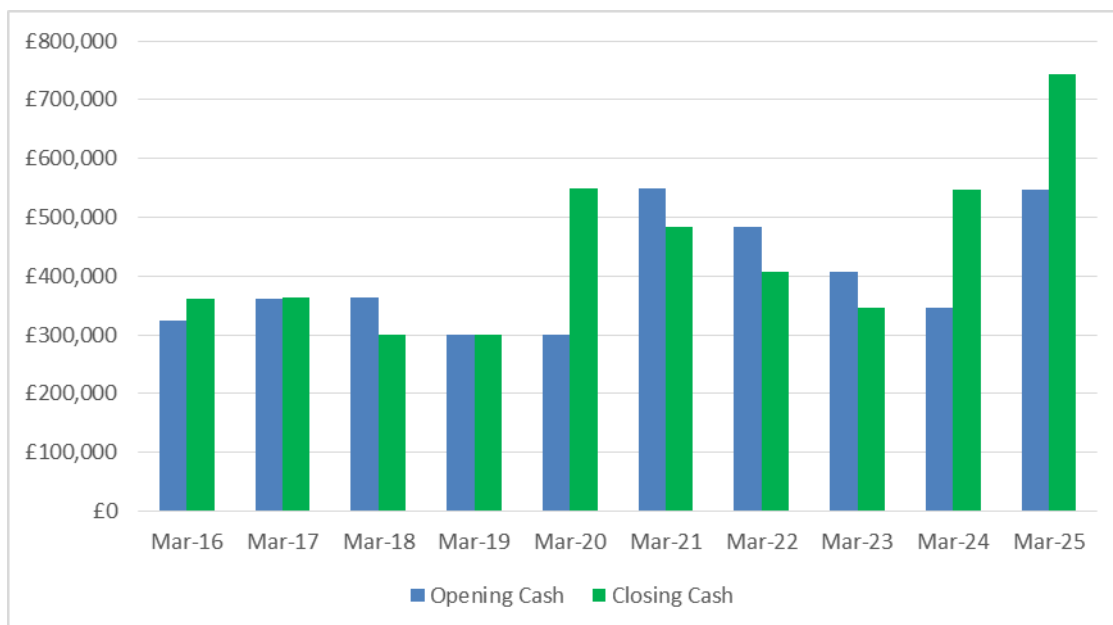
In the medium to long term, the EBITDA margin earned by the Airport is expected to grow substantially as a result of the initial investment funded by capital receipts. Pre-tax profits will be impacted from 2021 by the anticipated requirement to take out new loans to fund essential runway and radar replacement works. This can be seen in Figure E1.

Figure E1: 10-Year P&L and EBITDA Projections



The cash reserves will grow over the same timeframe. This may allow some projects earmarked to be funded by loans to be funded from capital, so improving profitability. This can be seen in Figure E2.

Figure E2: Balance Sheet Cash Projections



Overall, the balance sheet of the company could be expected to exceed the Pension Deficit by the end of the first year of the Business plan, meaning that in principle payments of dividends may be possible in the early years of the plan, although this will be subject to the annual valuations of the Pension. However, there may be a case for retaining the cash in the business to fund further infrastructure improvements and minimise the need for further loans. There will also be increases in the ground rent pass-through to the Shareholders associated with more hangars and commercial development, albeit this will be relatively small in scale initially.

**Risks and Upside Potential**

The three principal risks to achievement of the Business Plan are:

- **Planning Risks:** The Hangar Development will need to go through a CLOPUD Application, including an Environmental Scoping Statement. Initial discussions with Tewkesbury Borough Council have been positive, but some risk of delay remains. Broader property development, particularly on the North-side of the site, also remains subject to some planning risks but such development has not been assumed within the Business Plan until beyond Year 3 to allow sufficient time for planning to be sought.
- **Fuel Price:** Given that the Airport’s current operating income is generated by fuel sales, there is significant vulnerability for the business if fuel prices remain at current low levels for a prolonged period, albeit lower fuel prices could stimulate movement growth to some degree; and
- **Traffic Movements:** Leaving aside the inability to achieve significant growth in aircraft movements if new hangar development is delayed, the Airport’s achievement of

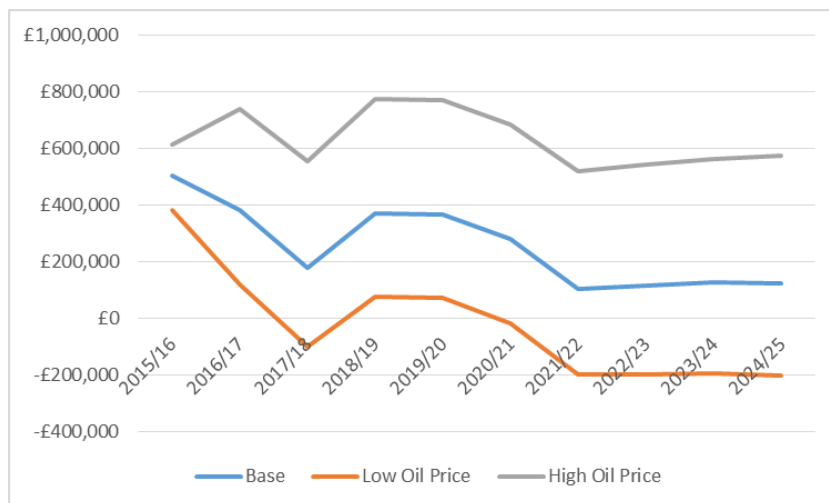
movement growth will always remain vulnerable to broader influences on General Aviation, including regulatory burdens or the impact of bad weather on flying.

There would also be resource related risks, if the new Board and enhanced Management Team are not put in place promptly.

There remain a number of upside opportunities not yet included in the Business Plan because of relatively low confidence in deliverability or the early nature of discussions. Furthermore, upside from land development adjacent to the entrance road and main airport site is not yet included in the Business Plan, pending further analysis and planning discussions, but would represent a significant upside on property incomes. Other opportunities may also come forward more quickly.

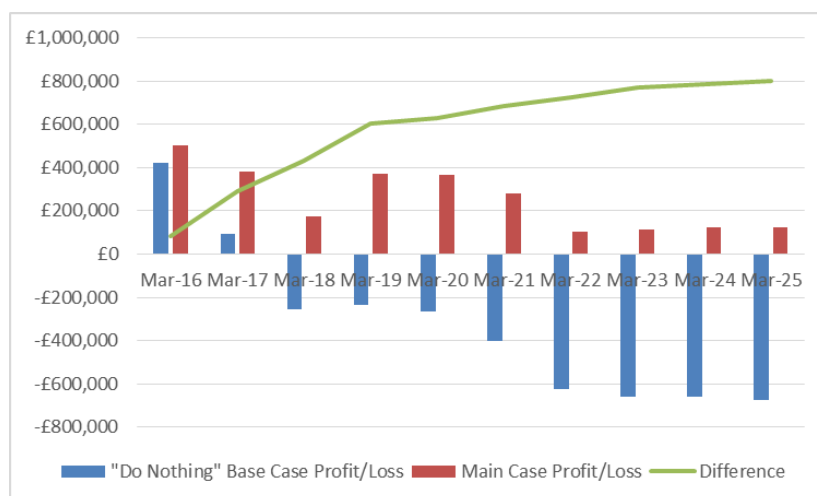
Upward fuel price fluctuations could significantly improve the performance of the Business and the implications of fuel price variance on the P&L, both through higher fuel prices and through the risks of long term stagnation of fuel prices at the current level, are shown in Figure E3.

Figure E3: Profit & Loss Implications of Fuel Price Variation



We strongly believe that the cash receipts which are expected over the first two years of the Business Plan should be invested in development to drive growth towards a long term sustainable position. We do not believe that it is appropriate to simply retain this cash to fund the larger business resilience schemes in the long term, such as the runway resurfacing and radar upgrade. If the Airport therefore continued with business as usual rather than growth, and retained these profits (and excluded income from the new hangar development site), then the Airport would quickly return to long term and unsustainable losses, as can be seen in Figure E4 on the basis of the other assumptions within the plan. Using the cash receipts to deliver growth in the short term would generate additional income of up to £800,000 per annum by the end of the 10-year projections.

Figure E4: Profit & Loss Comparison of Main Business Plan and 'Do Nothing' Base Case



### Key Performance Indicators

KPIs for the business have been defined for the first year of the Plan, and these are:

- Achievement of CLOPUD status for the hangar site adjacent to the South East Camp by July 2015.
- Completion of the hangar enabling works to ensure delivery of at least the 1<sup>st</sup> hangar on the new site plus 2 further additional on-site hangars by December 2015.
- Completion of all rent reviews by the due date (unless there are demonstrable business benefits from doing otherwise).
- New FBO operation to be confirmed and marketed by May 2015.
- Maintain a suitable gross fuel margin provided it is profitable to do so.
- Achieve 78,000 aircraft movements in the year ending March 2016 and at, of which at least 2,000 should be business aviation or air taxi operations,
- Control of costs to within budget or to increase by no more than deliverable improvements in income in year.
- CAA License status maintained.
- Achieve budget profits (losses) or better, subject to recovery of fuel prices in line with plan.
- Implement the new governance and management arrangements by October 2015.

These KPIs will form the basis for monitoring the performance of the Airport by the Board and Shareholders and will be reviewed and updated in subsequent years.