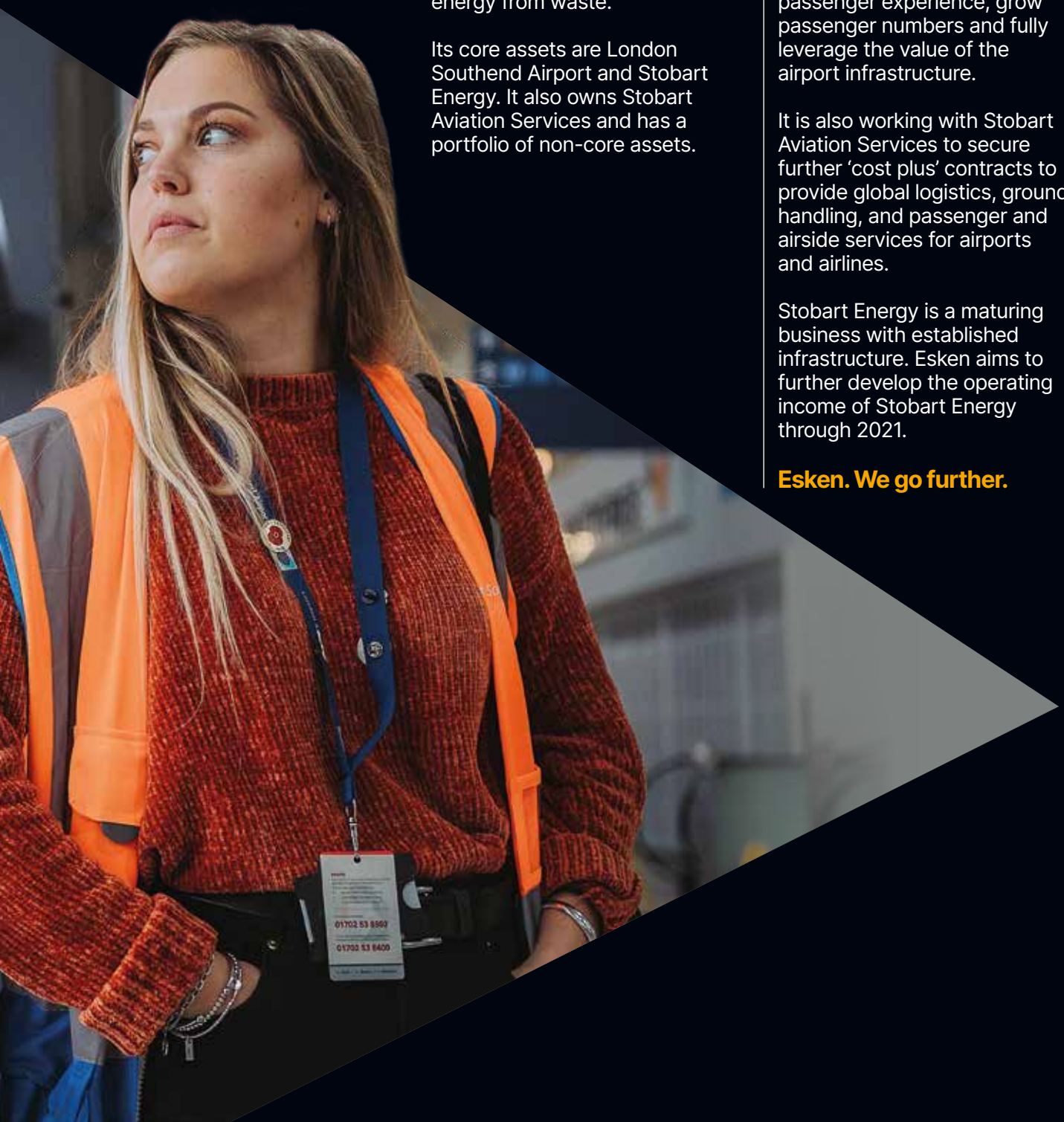
esken

Annual Report and Accounts 2021

We go further.

We go further...

Creating smarter ways to enable people and businesses to travel, connect and grow.



Esken has a clear strategy to develop valuable growth assets from aviation and energy from waste.

Its core assets are London Southend Airport and Stobart Energy. It also owns Stobart Aviation Services and has a portfolio of non-core assets.

Esken is working with London Southend Airport to continuously develop its multi-award-winning passenger experience, grow passenger numbers and fully leverage the value of the airport infrastructure.

It is also working with Stobart Aviation Services to secure further 'cost plus' contracts to provide global logistics, ground handling, and passenger and airside services for airports and airlines.

Stobart Energy is a maturing business with established infrastructure. Esken aims to further develop the operating income of Stobart Energy through 2021.

Esken. We go further.

Highlights

Impact of COVID-19 on our core operating businesses

- Global logistics income and tight cost control are underpinning our Aviation businesses:
  - Lockdown restrictions curtailed much of the commercial passenger operations at London Southend Airport. As a result, 147k passengers flew through London Southend Airport compared to 2.1 million in the prior year.
  - The 93% fall in passenger numbers led to a 56.4% reduction in revenue to £24.7m. However, EBITDA[1] was less impacted, with our Aviation businesses reporting a £6.1m EBITDA[1] loss. This reflects our strict financial discipline, a reduction in airline marketing contributions and continued logistics income.
- Despite the impact of COVID-19, Stobart Energy protected long-term value by ensuring certainty of supply for its customers within a supply-constrained market:
  - The effect of this was that tonnes supplied by Stobart Energy fell by just 5.7% to 1.4 million tonnes.
  - This supply volume was achieved by reducing gate fees and importing waste wood. In turn, the strategic decision to ensure certainty of supply meant EBITDA[1] reduced by 33% to £10m.

The impact of Stobart Air and Propius on liquidity

- Esken reacquired Stobart Air and Propius, the related aircraft leasing company, in order to take control of legacy liabilities which would otherwise have had a significant impact on the Group. Esken funded £42.2m to Stobart Air and Propius from date of acquisition to February 2021.
- Esken immediately commenced a process to sell Stobart Air. This process was affected by the extended lockdown in travel and Aer Lingus' decision to award preferred bidder status for the franchise renewal to another party.
- We announced a sale of Stobart Air, alongside Carlisle Lake District Airport, to Ettyl in April 2021. However, issues with the prospective purchaser's funding led the Board to conclude it was not possible to complete the transaction.
- Esken notified Stobart Air it would no longer provide funding to the airline. This led the Board of Stobart Air to terminate the franchise with Aer Lingus, cease to trade and appoint a liquidator.
- Esken will continue to fulfil its parent company guarantees and fund the lease obligations on Propius' eight ATR aircraft through to termination in April 2023 – reduced from the original lease term that ran through to April 2027. Esken will take immediate steps to sublease the aircraft to mitigate the cost impact on the Group.
- The total cash outflow resulting from the liquidation of Stobart Air and ongoing Propius leases is £82m over three years, on the basis that Esken is unsuccessful in subleasing its aircraft.

Financial performance

- Esken had £77.4m of cash and undrawn bank facilities available as at 28 February 2021, with the majority of cash burn being attributable to maintaining Stobart Air and Propius.
- The continuing loss before tax of £150.3m (2020: £139.4m) includes non-cash items, such as the loss on acquisition of Stobart Air and Propius and the impairment of investments and fixed assets during the current year, and significant one-off impairments in the prior year that have not repeated. The Group's total loss after tax of £155.1m (2020: £137.9m) reflects the impact of discontinued operations of Stobart Rail & Civils (£11.9m).
- Net debt post-IFRS 16 was £250.8m (pre-IFRS 16 net debt was £127.4m) and the net pension deficit was £2.4m as of 28 February 2021.

Going concern

- The Directors' assessment of the going concern position of the Group set out on page 115 in the notes to the consolidated financial statements. These sections of the Annual Report must be read in order to fully understand the significant judgements the Directors have made and the material uncertainties that exist in respect of the going concern assumption for the Group.

[1] EBITDA represents loss before interest, tax, depreciation, amortisation and impairments. Refer to note 3 for reconciliation to statutory loss before tax.

What's inside

For more information:
See pages 28-29

For more information:
See pages 30-31

A message from the Chairman

"The impact of the pandemic on Esken has been significant but I am pleased with the way our people have responded to this and the steps we are taking will set us on the path to recovery."

David Shearer, Executive Chairman

As I present our annual report for the year to the end of February 2021 I know that you will be all too aware of the challenges that we have all faced since last year. The impact of the pandemic on Esken has been significant but I am pleased with the way our people have responded to this and the steps which we have taken over the year along with those we intend to take will set us on the path to recovery as we emerge into a post COVID world.

We successfully exited Stobart Rail & Civils, which led to a loss of £9.5m and after exhaustive attempts to achieve an exit from Stobart Air we concluded that the only option was to cease its funding and it was placed in liquidation in June 2021. These matters are dealt with in detail in my Chairman's Statement on page 24. We recorded a loss of £58.2m on acquisition of Stobart Air and Propius in the year and expect to fund £82m of lease payments and other costs over the next three years. The effect, however, is that the additional cash requirements associated with these legacy businesses are now reduced and exiting will allow management to focus on delivering shareholder value through the recovery and development of London Southend Airport and Stobart Energy.

Lockdown restrictions and the rolling quarantine requirements severely impacted LSA with passenger numbers at 147,208, falling 93% from the 2.1 million achieved in the prior year. While commercial flying is recovering slowly the pace of recovery will be dictated by Government decisions to reopen international travel. This factor similarly impacted our Stobart Aviation Services business. Our global logistics operation delivered uninterrupted revenue during the year due to the significant increase in online shopping. This business which offers an opportunity for further development will continue to provide an important contribution to airport profitability as passenger demand recovers. Our focus will be to deliver profitable growth as we rebuild passenger numbers at LSA and manage capital investment to meet increased demand when the recovery is clear. We provide full information on the performance of the aviation division in our Operational Review on pages 38 to 39.

Carlyle Global Infrastructure Opportunity Fund (Carlyle) has informed Esken that it is seeking final approvals for a definitive transaction agreement in the coming days. This transaction, which is also subject to the successful completion of renegotiated bank facilities and an equity fundraise, would provide important liquidity to the Group while bringing the benefit of Carlyle's global aviation and airport experience to work with our existing operational experience at LSA. Carlyle share the belief that LSA is an important strategic London airport with an exciting future. The funding would be provided by way of a convertible loan of £120m after costs which can convert into just under 30% of the equity in the airport implying a current valuation for the airport of £400m. Securing this partnership will position us well as we negotiate the right airline deals with a mutual opportunity to benefit from an efficient cost-effective London airport which offers a safe and enjoyable passenger experience.

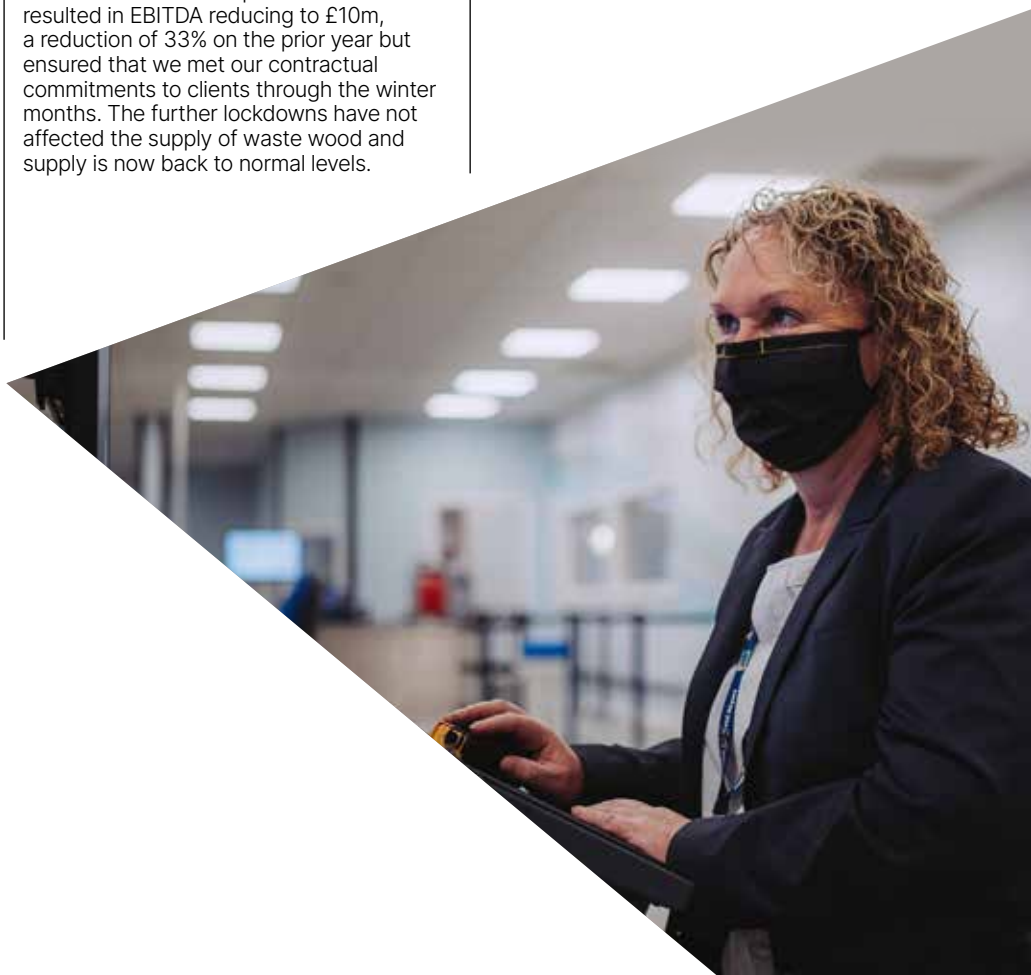
The first lockdown also required the closure of Household Waste & Recycling Centres and much construction activity across the country. This impacted the supply of waste wood which Stobart Energy processes into biomass fuel to supply its renewable energy customers. The summer months are an important period to build stocks to meet winter load demand and a decision was taken to accept a lower margin in the short term to build supply as well as importing waste wood from Europe. These actions resulted in EBITDA reducing to £10m, a reduction of 33% on the prior year but ensured that we met our contractual commitments to clients through the winter months. The further lockdowns have not affected the supply of waste wood and supply is now back to normal levels.

We expect Stobart Energy's performance to return to pre COVID levels in the current financial year and opportunities are being explored to seek additional supply contracts and broaden the base of the market offering. We provide further detail on the Energy performance within our Operational Review on pages 42 to 43.

The deal with Carlyle should allow us to renegotiate debt facilities and will support a proposed equity issue. These transactions along with the planned disposal of infrastructure assets with a book value of £39m provide the business with the funding required to underpin our business plan as we emerge from the pandemic. I look forward to reporting on our progress in the coming year.

For more information:
See pages 24-26

David Shearer
Executive Chairman



Our story

We go further...

It's not enough to build valuable growth businesses. We also want those businesses to be fun and rewarding places to work.

Our values
shape how we work every day with each other, our customers and our partners.

Take care
We're committed to keeping ourselves and others healthy and safe. Every day. We focus on total wellbeing and a people-first approach.

We are committed to being socially and environmentally conscious and are trusted to keep our word, be fair and be ethical.

Stay connected
We listen in order to understand, are open-minded, honest, straight-talking and find connections and work as one team.

Always improve
We never settle and are always finding ways to improve.

We strive to learn more, and are constantly evolving, thriving on new ideas and new thinking to make our business better.

Own it together
We're proactive, agile and flexible, taking pride in our can-do attitude.

We deliver 'great' every time because service, quality and success matter.

We have a clear vision, mission and purpose that truly activates our business...

Our vision
is to create better connections for our partners, people and communities.

Our mission
is to enable people and businesses to travel, connect and grow.

Our purpose
is to create smarter experiences that connect the world around us.

Esken at a glance

Esken has a clear strategy to develop valuable growth assets from aviation and energy from waste.

Our expertise in the aviation and energy sectors spans the highest levels of leadership across strategic, operational, and financial roles.

Aviation division

London Southend Airport

London Southend Airport is an award-winning airport serving London and the South East. It has ambitious plans to grow and a strong customer proposition to support that growth.

London Southend Airport offers quick journey times to and through the airport and delivers an easy passenger experience to ensure everyone enjoys the airport.

It owns the train station, located 100 paces from the departures terminal. Trains depart from London Liverpool Street six times an hour at peak times and it takes 51 minutes to travel to and from the airport. The airport infrastructure also includes a global logistics operation, one of the UK's highest rated Holiday Inn hotels and the Stobart Jet Centre serving private jets.

For more information:
See pages 28-29

Stobart Aviation Services

Stobart Aviation Services is a leading provider of time-critical global logistics operations, ground handling, and passenger and airside services for airports and airlines.

It receives contracted income from airlines and logistics businesses that use its services.

For more information:
See pages 28-29

Energy division

Stobart Energy

Stobart Energy is the UK's number one supplier of biomass fuel. It supplies fuel to dedicated renewable energy plants across the UK and Ireland.

Stobart Energy earns a 'gate fee' for receiving waste wood from over 300 suppliers drawn from sectors such as the construction industry. Stobart Energy can store up to 102k tonnes of unprocessed waste wood at its sites located across the UK. It then processes that waste wood into biomass fuel and earns further income by supplying it to biomass plants, based on long-term contracts. Those plants use the fuel to generate renewable energy which is provided to the National Grid.

For more information:
See pages 30-31

Business model

Esken creates smarter ways to enable people and businesses to travel, connect and grow.

Key strengths and competitive advantages

01

Our people and relationships

People are at the heart of everything we do and are Esken's greatest asset. Our people have lots of logistics know-how and infrastructure development expertise, and a can-do attitude. They develop strong relationships with key stakeholders which help create smarter experiences.

02

Our culture

Innovation and a focus on continuous improvement are at the core of our business culture. We are always striving to find new ways to work more efficiently and deliver better outcomes for our customers and partners to keep our businesses ahead of the curve.

03

Our agility

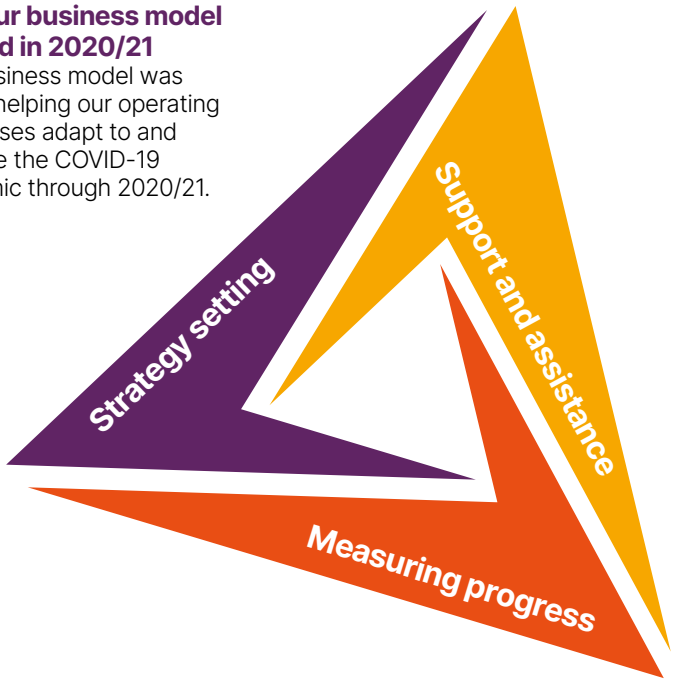
We have a track record of spotting opportunities and making things happen. With this, we bring our proven business agility to navigate changing market conditions.

What we do

Esken's business model is to set the strategy for the operating businesses to enable them to create smarter experiences that provide closer relationships, more sustainable choices and stronger results. It then provides them with the support and assistance they need to achieve their strategic goals and sets targets and measures the progress of the businesses against those targets.

How our business model evolved in 2020/21

This business model was vital to helping our operating businesses adapt to and navigate the COVID-19 pandemic through 2020/21.



Strategy setting

Esken's strategy is to restructure the business by exiting loss-making, non-core businesses such as Stobart Rail & Civils and Stobart Air in order to focus on developing London Southend Airport and Stobart Energy. For those core businesses, Esken quickly identified that strict financial discipline would be required in the event of an extended pandemic. It helped its operating businesses set out strategies that would conserve cash while protecting the long-term value of the business by ensuring we continued to service our strategic partnerships.

Support and assistance

Esken recognised that its operating businesses would need enhanced liquidity as lockdown restrictions inhibited their revenue generation. Esken completed an equity placing of £100m (£91m net of expenses) and secured £40m of further banking facilities in June 2020. Esken also helped its operating businesses interpret and navigate the complexities of the UK Government's furlough scheme to ensure that they could benefit from the scheme effectively.

Measuring progress

The extended COVID-19 pandemic has underlined the importance of strict financial discipline. Esken has strong cash flow modelling and financial planning structures in place to ensure its operating businesses are focused on the bottom line and achieving appropriate targets.

By delivering our strategic goals we can create value for our stakeholders

Employees

Sustained growth will allow our people to flourish in an inclusive and supportive environment.

Partners, customers and suppliers

Our partners, customers and suppliers will share in the successful outcome of our strategy and be able to trust us to deliver on their expectations.

Shareholders and banking partners

We will create significant value for our shareholders by delivering on a strategy that responds to the challenges created by the COVID-19 pandemic and by seeking new opportunities.

Communities

Delivering our growth objectives will allow us to help communities prosper through the creation of local employment opportunities and establish the connections communities need to thrive.

Regulators, government agencies and unions

Maintaining a positive dialogue helps us to share our vision for our business and provide reassurance that we recognise the importance of excellent standards of business conduct.

Our strengths

We are focused on creating smarter experiences that connect the world around us.

We achieve this because we have the following ingredients in place:

Leaders in our field

Our expertise in the aviation and energy sectors spans the highest levels of leadership across strategic, operational and financial roles.

The depth, breadth and quality of this commercial and service experience drive every area of our business, from the terminal to the boardroom table.

Caring about the journey

We're always focused on our destination, but never at the expense of the journey.

For us, it's about much more than simply providing a service or delivering a transaction. It's about creating first-class experiences that strengthen relationships. That goes for customers, partners, investors and our people.

Creating smarter experiences

By applying innovative technology with intelligence, we create smarter experiences for our customers.

Whether evolving aviation or reimagining energy from waste, we will never stop searching for better solutions and rising to tomorrow's challenges.

Value in our assets

In aviation, we own and operate London Southend Airport – the UK's fastest growing airport in 2019.

In energy, we have a maturing business encompassing waste management, feedstock supply and long-term contracts.

Interconnected mindset

We recognise and understand the shared experiences, patterns and trends that interconnect people and business across the UK and Europe.

This means that we can focus on the details and the bigger picture simultaneously; delivering smarter experiences and higher levels of success.

Solution finders

We are solution finders and innovators who are continually looking for future opportunities.

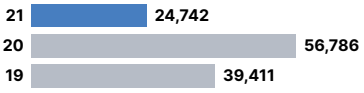
Crucially, we understand that it's not the biggest or wealthiest who enjoy success – rather those who can adapt and evolve at pace to stay relevant.

Key performance indicators

We assess the Group's performance according to a wide range of measures and indicators. Our key performance indicators (KPIs) help the Board and executive management team measure performance against our strategic priorities and business plans.

Aviation

Revenue
(£'000)

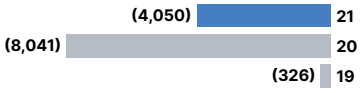


Aviation revenue declined by 56.4% due to the impact of the COVID-19 pandemic on operations, mitigated by the successful increase in cargo operations.

EBITDA[1]
(£'000)

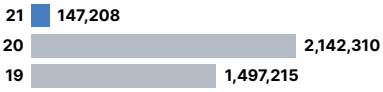
The success of the cargo operations, in addition to management actions to reduce costs and utilisation of the Coronavirus Job Retention Scheme, have helped partially mitigate the total EBITDA impact.

Divisional operating cash flow[2]
(£'000)



Actions to mitigate the EBITDA impact of COVID-19, including a reduction in airline marketing support contributions, has helped improve the cash flow from operating activities by £4.0m.

Total passenger numbers at LSA
(Number)



The unprecedented impact of COVID-19 has resulted in a reduction in passenger volumes of 93%.

Cargo tonnage
(Tonnes)

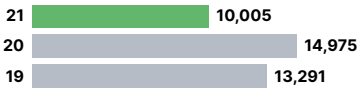
Commencing in October 2019, the cargo operations at Southend continue to grow, increasing by 196.3%, offering a more stable source of EBITDA and cash generation during the current pandemic.

Energy

Revenue
(£'000)

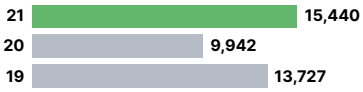
Energy revenue was impacted by the reduction in biomass fuel sales due to the restricted waste wood supplies as a result of COVID-19, with tonnes supplied down from 1.5 million to 1.4 million.

EBITDA[1]
(£'000)



The volume reduction, in addition to COVID-related downward margin pressures, has resulted in a £5.0m reduction in EBITDA.

Divisional operating cash flow[2]
(£'000)



The Energy business is cash generative with strong cash conversion, with strict financial discipline and working capital management resulting in a £5.5m increase in cash generated from operations.

Tonnes supplied
(MT)

The impact of COVID-19 on the availability of waste wood supply has resulted in a 5.7% reduction in tonnes supplied, with the supply levels increasing following the resumption of the construction industry.

Volume of waste wood received
(MT)

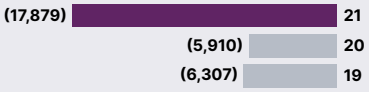
An increase in volume of waste wood was driven by the increase in operations at Tilbury, following lower availability in FY20 (due to unplanned plant outage), with an increased supply of waste wood into the site.

Group: Financial

Revenue
(£'000)

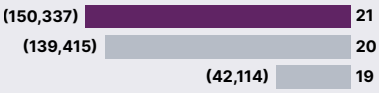
Revenue has decreased by 22.1% to £110.7m, driven by the impact of COVID-19 on the core Aviation and Energy divisions.

Adjusted EBITDA[1]
(£'000)



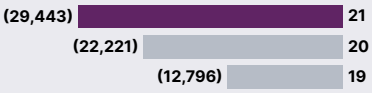
Group Adjusted EBITDA decreased to £17.9m loss, driven by the impact of COVID-19 on the Aviation division, Stobart Air and the Energy division, offset by strict cost control across the Group, including the benefit of the Coronavirus Job Retention Scheme.

Loss before tax
(£'000)



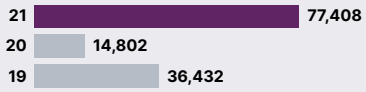
Loss before tax of £(150.3)m has increased from the prior year primarily due to the loss on acquisition of Stobart Air and Propius, in respect of pre-existing relationships, and the impact of COVID-19 on the Investments and Aviation divisions.

Cash flow from operating activities
(£'000)



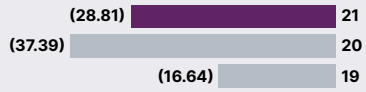
Strict financial discipline put in place to reduce cash burn, with management initiatives to minimise costs and manage the Group's working capital, mitigated the impact of COVID-19 on cash flow from operating activities, resulting in a £7.2m increased outflow from FY20.

Cash headroom
(£'000)



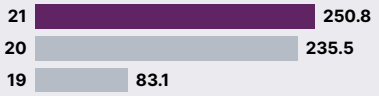
The Group had £77.4m of cash and undrawn bank facilities available at 28 February 2021, driven by the successful £91m capital raise, £40m additional revolving credit facility, and the strict management of the Group's cash burn.

Loss per share – total
(pence)



Earnings per share remained negative at the year-end as the Group recovered from the impact of COVID-19 and sought to dispose of legacy underperforming operating divisions.

Net debt
(£'m)

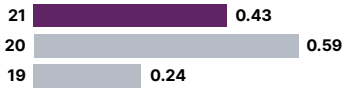


Net debt has increased from the prior year due to leases in Stobart Air and Propius. The increase from FY19 is due to the inclusion of £53.1m of bonds and the impact of the adoptionof IFRS 16.

1 EBITDA represents loss before interest, tax, depreciation, amortisation, loss on acquisition and impairments. Adjusted EBITDA is EBITDA excluding loss on acquisition. Refer to note 3 for reconciliation to statutory loss before tax.
2 Excludes intercompany.

Group: Safety and environmental

Accident/incident rate



The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) 2013, regulates the statutory obligation to report deaths, injuries, diseases and dangerous occurrences that take place at work or in connection with work. The reported figure is arrived at by dividing the number of RIDDORs by the number of hours worked, multiplied by 100,000.

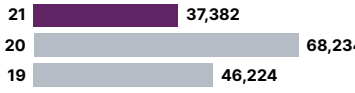
Taking climate action
(Tonnes CO_2 per £m of revenue)

These figures for CO_2 represent the equivalent amounts of CO_2 for greenhouse gases. For more information see page 60.

Minimising our environmental impact
(Percentage of waste)

This number is calculated across all our divisions for waste that is recycled and converted into energy. Waste that cannot be recycled makes up the rest of the 0.5%.

Developing our people
(Number of hours of training)



Reporting the number of hours invested in training fulfils our commitment to developing our people to give them the skills they need to meet their personal development goals.

Stakeholder engagement

We have set out below information and examples of who our stakeholders are, and how we engage with them and have regard to their interests when exercising our duty to promote the success of the Company under s172(1) of the Companies Act 2006.

When making decisions in our business, the Board takes into account (amongst other issues):

- the likely long-term consequences of any decisions we make;
- the interests of our employees;
- the need to foster our business relationships with suppliers, customers and others;
- the impact of our operations on the community and environment;
- our desire to maintain a reputation for high standards of business conduct; and
- the need to act fairly, as between members.

These factors are also borne in mind when developing our strategic priorities, our policies, and in guiding our behaviours and values.

The Board has always considered all stakeholder interests as being a fundamental element in its decision-making. With the recent most challenging environment brought about by the COVID-19 pandemic, it is even more crucial to have effective and meaningful engagement to enable us to support our stakeholders in managing the impact of the virus.

With the development of our new ESG Framework, which sets out our ambitions on social impact and environmental mitigation, the Board are committed to decision making that supports our commitments to our people and planet. Details of our ESG programme can be found on page 45. By positively engaging with our stakeholders we are able to prepare for policy changes, reduce risk and enhance collaborative projects.

Our Chairman, together with the Company Secretary, produces an agenda for each Board meeting that ensures the requirements of s172 are always met and addressed.

For example:

- We have standing items on agendas for meetings where the Executive Directors present and update the Board on our strategic progress, business development, financial performance and risk management. Reports on corporate governance and 'horizon scanning' are also included.
- Papers presented to the Board are required to address relevant stakeholder interests as appropriate.
- Regular presentations and reports to the Board are made on matters such as health and safety, our Environment, Social and Governance Framework, risks and risk management. The Board also considers regularly our competitors and the wider industries in which our businesses operate.
- Our Board minutes detail decisions that the Board has made and the relevant factors that the Board has taken into account when reaching those decisions.

Our Stakeholders

Our people are at the heart of everything we do and are Esken's greatest asset. It has been a very challenging year for our employees – we have had to make difficult decisions that have greatly impacted our workforce.

Employees

The impact of COVID-19 on our business and the world generally has made us focus more this year on employee engagement as we have had to adapt to new ways of working. We recognise that regular dialogue is key.

How did we engage them?

We have invested heavily during the year in our SharePoint system as a means of communicating with our employees and there has been a focus on employee health and wellbeing. We have published information, resources and support on physical, social, financial, mental and emotional wellbeing, with links to sites such as the Mental Health Foundation which has published specific advice about looking after mental health during the coronavirus outbreak. Yammer has also recently been introduced as a further means of communication within the business.

We have launched an employee assistance programme, offering free and confidential support via a 24/7 helpline to employees and their dependants and encouraged employees who were vulnerable to redundancy to utilise this channel of support. Line Managers have kept in touch with colleagues on furlough, checking in with them to support their personal welfare.

Presentations and updates from our Chief Executive (and now our Executive Chairman) are regularly published on performance and strategy following financial results and important announcements.

In December 2020 Ginny Pulbrook was formally appointed as the Designated NED for People Engagement within Esken. Since her appointment, the country has been largely in lockdown so the planned programme of face-to-face workforce engagement for 2021 has predominantly taken place online.

We have continued to run our People Forums, which are meetings with employee representatives, members of the People Team and Ginny Pulbrook. These forums are run across Group, the divisions and sites.

What did we talk about?

- The impact of the COVID-19 pandemic and the national lockdowns;
- Our decision to not make Cost of Living Pay Awards during the year and our reasoning for this;
- Updates on our business performance;
- Heath and wellbeing support for our colleagues;
- The new Esken brand and our new brand values;
- How we can work better together.

How did we respond?

- We decided that it would not be appropriate to carry out an employee engagement survey whilst there was so much uncertainty for employees. We decided instead to focus on improving our communication and methods of supporting our employees, putting together tailormade communications to ensure all employees were kept up to date, engaged and felt supported;
- Our learning and development online library was launched, enabling employees to remotely continue to engage in developing their skills and career potential within the Esken Group. This was offered to all employees regardless of where they carry out their roles;
- SharePoint sites were developed to share information, specific to areas of the business and more generally with input from external websites;
- We have agreed to form a new Board sub-committee that focuses on sustainability (further details on this Committee will be included in next year's annual report.

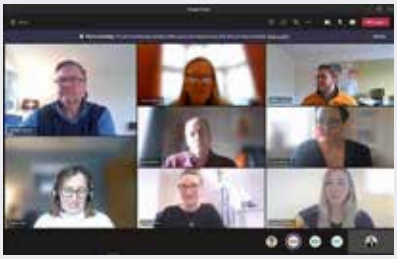
A word from Ginny Pulbrook

I was delighted to be appointed as Esken's designated Non-Executive Director responsible for oversight of the Board's engagement with employees. This year I have undertaken several initiatives to establish communication channels and meet with, albeit virtually, employees from around the Group, with the objective of ensuring that the views of frontline employees are heard and understood. Most importantly this regular communication has enabled me to gain an understanding as to how we can build on our three-year strategy of 'Putting People' at the heart of Esken.

As we move ahead, hopefully in a pandemic-free year, I look forward to continuing this contact on a face-to-face basis with our employees who are at the forefront of the business, identifying how we continue to evolve as a people centred organisation.

I will provide my Board colleagues with feedback and insights on a quarterly basis along with the regular updates employees receive from Angela Smith, Group People Director. Our aim is that employees' views are regularly voiced at Board level and can be incorporated into the Board's decision-making process.

Below is a recent snapshot from one of the People Forums I attended where we discussed how to embed ESG plans into the business, the process for selecting Charity of the Year and COVID-19, amongst other agenda items.



Stakeholder engagement
continued

Maintaining strong and respectful relationships with our business partners, customers and suppliers is key to our long-term success of developing valuable growth from our assets.

Partners, customers and suppliers

Regular communication with our customers enables us to better understand their needs, expectations and priorities. We have a central procurement function to help us formalise our engagements with suppliers and strategic partners as we recognise the benefits that this can bring to our business. Our approach is to engage with and develop relationships with sustainable suppliers wherever possible.

How did we engage them?

- Suppliers are currently engaged on an individual basis via our procurement function and with colleagues within the divisions;
- We hold quarterly reviews with our strategic partners and framework suppliers – these are usually face to face but over the past year these have been held online wherever possible;
- We attend supplier forums and networking events;
- We implement supplier onboarding processes where appropriate.

What did we talk about?

- The impact of the COVID-19 pandemic and the national lockdowns;
- Our need for personal protective equipment (PPE) equipment and sanitary supplies to help keep our colleagues and customers safe – this was particularly important whilst we were still operating at London Southend Airport (LSA);
- Our business performance;
- Our supplier onboarding process;
- We shared our expectations in terms of supplier conduct and ways of working and implemented our Sustainable Procurement Policy;
- The shutdown of the construction industry and the closure of Household Waste Recycling Centres.

How did we respond?

- Over the course of the year the strong strategic relationship between Stobart Energy and our customers formed the foundation for a flexible and dynamic approach which enabled us to secure fuel supply in different ways.

  This included:
  - optimising the utilisation of our strategic infrastructure such as Pollington Storage Facility;
  - identifying alternative domestic feedstock; and
  - securing strategic imports from Europe;
- We are developing a Supplier Code of Conduct to enable us to engage more consistently with our suppliers in this area;
- We have been open and transparent about our procurement challenges and what our business priorities are, whilst being sensitive to the impact of the pandemic on our suppliers own businesses. This approach has been met with understanding and respect from our suppliers and has strengthened our business relationships;
- We have engaged with social enterprise organisations to support our sustainable procurement aspirations.

Case study

Working in partnership with our clients

How did we engage?

We supply around 280,000 tonnes of renewable biomass fuel to our client, Templeborough Power Plant, each year as the exclusive supplier. Our fuel is processed from waste wood by Stobart Energy and our strategic partners. During the global pandemic we adapted our engagement and communication mechanisms with our partners. We utilised Microsoft Teams and moved to a virtual approach to our engagement.

What did we talk about?

- The impact of the pandemic;
- The shutdown of the construction and demolition sectors and the closure of Household Waste Recycling Centres operated by Local Authorities;
- The shutdown of these sectors reduced waste wood available to produce biomass fuel by around 80%.

How did we respond?

- By maintaining a customer focused approach with a transparent and collaborative partnership Stobart Energy and Templeborough Biomass Power Plant were able to minimise the disruption of the national lockdowns and optimise generation of renewable electricity at a time when traditional supply chains had broken down as a result of the pandemic.

The Communities in which we operate

We recognise the importance of contributing to, and working with, the communities in which we operate and seek to do this through a range of activities such as volunteering and community forums.

How did we engage them?

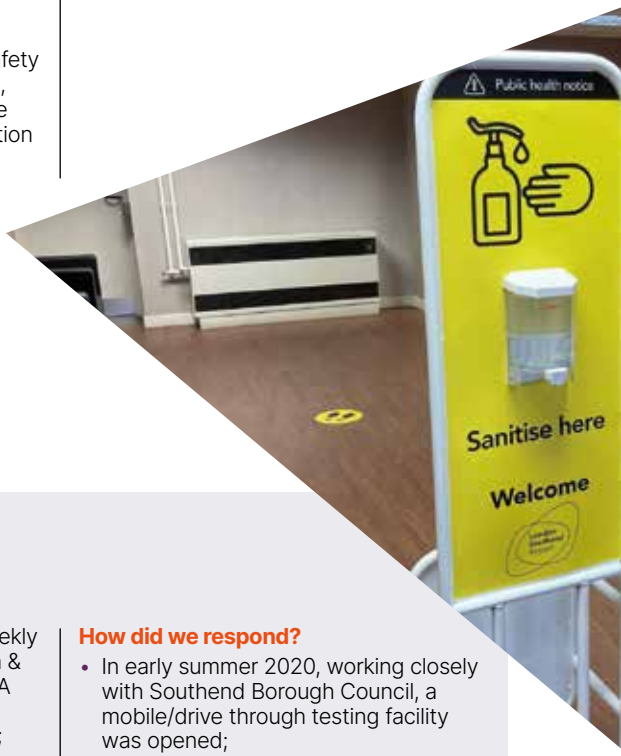
- Social media channels and via our website;
- Airport Consultative Committee meetings.

What did we talk about?

- On a local level, we asked our communities how we could support them with the challenges of COVID-19;
- Local employment and procurement opportunities;
- The closure of London Southend Airport and other sites across the Group;
- The targets and initiatives we have aimed at reducing the impact of our operations on the local environment.

How did we respond?

- We closed our airport and other sites to protect our workforce and visitors and limit the spread of the virus;
- We collected food for local foodbanks;
- Our enhanced passenger experience at London Southend Airport includes plans to establish a new arrivals terminal which will allow more space for post-COVID-19 travel and keep our passengers, workforce and airport crew safe;
- We updated our website to explain safety at the airport in light of the pandemic, linking to the UK Government website for up-to-date guidance and information on how to book COVID-19 tests;
- The Board is now more frequently updated on the impact of our activities on the communities in which we operate and is in the process of establishing a new Sustainability sub-committee to focus on environmental, social and governance matters.



Case study
Supporting our local community

How did we engage them?

London Southend Airport actively reached out to our local authorities and to the NHS directly to understand if our infrastructure could enhance our local communities' COVID-19 testing facilities, which were in high demand. We engaged both the Local Authorities and the NHS via email, Microsoft Teams and onsite meetings, to set up the test centre.

What did we talk about?

- The location of a mobile/drive-through testing facility;
- Capacity of the test centre to support 250 NHS clients daily;
- Operational timings, initially twice weekly until when the Department for Health & Social care working with SBC and LSA saw the facility ramp up significantly, delivering testing seven days a week;
- The private testing of our passengers and our local community who were planning to travel within the restrictions;
- The testing partnership with Prenetics to open a private PCR testing facility onsite where LSA passengers could book online for a private PCR test at the Airport with a guaranteed 24-hour result;
- The financial model of PCR testing where the airport provided the facilities on a 'not for London Southend Airport profit' basis.

How did we respond?

- In early summer 2020, working closely with Southend Borough Council, a mobile/drive through testing facility was opened;
- The Long Stay car park delivered capacity to test more than 250 NHS clients daily;
- Initially the facility was open twice weekly until December 20 when the Department for Health & Social care working with SBC and LSA saw the facility ramp up significantly, delivering testing seven days a week;
- London Southend Airport will continue to offer its car park facility for as long as there is a requirement to support our local community;
- Continued discussion with the NHS on the development of a possible drive-through mass vaccination unit for June 2021 and beyond.

Stakeholder engagement
continued

We strive to create positive and constructive relationships with regulators and other bodies that authorise and regulate our business activities or the industries in which we operate.

Regulators, Government bodies and unions

We feel that maintaining a positive dialogue helps us to share our vision for our business and provide reassurance that we recognise the importance of excellent standards of business conduct and wish to retain our reputation in this regard.

How did we engage them?

During the year we undertook a significant redundancy programme. We carried out a union-led collective redundancy consultation with our unionised employees. This required us to work very closely with Union representatives, in an open and transparent manner in order to manage this difficult situation as efficiently and carefully as possible.

A lot of time was spent during the year liaising with the UK Government on the impact of the pandemic on the aviation industry. Our Airport division has also fed in to the Government Department of Transport study on the impact of the airport.

What did we talk about?

- The impact of the COVID-19 pandemic and the national lockdown;
- Public health;
- Compliance with applicable laws, regulations and licence conditions;
- The shutdown of London Southend Airport and the impact of easyJet closing its base at the airport;
- Government policies around movement within and between nations, evolving quarantine conditions, virus testing and passenger safety;
- The decrease in passenger traffic and the collapse in demand for travel;
- The application of the Airport and Ground Operations Support Scheme;
- The increased demand for global logistics operations as a result of more home deliveries;
- The impact on supply of the shut-down for three months of the construction industry and all household waste and recycling centres;
- Negotiation of collective redundancies.

How did we respond?

- A large number of employees were placed on furlough, utilising the Government support package;
- We re-deployed employees where possible and engaged some on zero-hour contracts, allowing them to seek employment elsewhere during the pandemic but still retain employment within the Group;
- We utilised unused car parks at our airport as alternative storage solutions for our increased logistics operations;
- We lobbied UK Government to request the reopening of the recycling centres and recommended that all available waste wood was prioritised for use in biomass energy plants;
- Our CEO at London Southend Airport has escalated our concerns about navigating a return to safe travel via local and national media.

Shareholders and banking partners

The Board considers this a vital two-way communication channel which has demonstrated its benefits in particular during this challenging year where our approach to open and transparent engagement has been rewarded by our shareholders supporting us and our long-term aspirations for our business.

How did we engage them?

The Chairman and Chief Executive regularly engage with shareholders throughout the year on our financial results and this year, to discuss our progress through the pandemic. We also seek to update our shareholders on material events and activities such as our progress with the disposal of Stobart Air or the news that EasyJet were closing their base at London Southend Airport.

Additional dialogue took place with shareholders around the capital raise to explain our position and the need for the liquidity raise and to answer any concerns or questions that shareholders had.

Investor presentations are carried out to accompany results at the half-year and year-end and where appropriate to support our business plans. These presentations and results are posted on our website for reference.

We held a number of live broadcasts during the year to engage with retail investors and potential new investors about our business strategy and business model.

What did we talk about?

- Financial and operational performance of the business;
- The impact of COVID-19 on our operations;
- Our strategy and how we are performing against it;
- Our capital raise and the reasons for it;
- Climate change;
- The shutdown of London Southend Airport and the impact of easyJet closing its base at the airport;
- Our stakeholders and how we engage with them;
- The economic climate;
- Industrial relations.

How did we respond?

- We have sought feedback from our shareholders following major announcements we have made;
- We have worked hard during the pandemic to keep our shareholders updated with our progress against plans and how our business operations have been affected by the global crisis;
- We held our AGM as a closed meeting in accordance with Government guidelines and to ensure the safety of our colleagues and those who would usually attend and encouraged shareholders to provide questions in advance for the Board to respond to;
- We will continue to hold webcasts to engage with Retail investors as this method of communication was well received;
- We are currently considering what other ways we can engage with our investor base and banking partners.

Stakeholder engagement
continued

Effect and impact – example Board decisions and how the Board considered stakeholder views.

Response to COVID-19

Decisions considered by the Board	Stakeholders considered	How did we engage	Effect of engagement
Response to COVID-19 – the global pandemic and the significant uncertainty created. The Board and our businesses considered how best to respond to the crisis, with a view to emerging in a position that enables us to continue with long-term growth plans and success. These decisions were balanced with the need to support our employees and their wellbeing and safety, whilst continuing to deliver for our customers and partners.	**Employees:** the health, safety and wellbeing of our employees remains a priority for Esken. The Board considered the infrastructure needs to enable colleagues to work from home where possible. For those who needed to remain onsite, risk assessments were carried out to ensure our COVID-19 safety protocols were fit for purpose. **Customers:** our Energy division implemented continuity plans to ensure that we were able to meet demand. **Shareholders:** the Board met regularly to discuss and consider the impact of COVID-19 on the liquidity of the business and what actions were necessary to ensure cash flow remained positive.	Throughout the pandemic, we have continued to engage with furloughed employees with 'check-ins' from managers to keep lines of communication open. We have increased our use of SharePoint to publish information that our employees can benefit from. For example, online learning tools, access to wellbeing resources, videos from our CEO regarding business performance. The Energy division liaised directly with customers to keep them informed of any delays or changes to supply. We spoke with major shareholders individually to share our response to the pandemic and our plans to adapt and protect our business.	The Board is satisfied that the measures taken to ensure the health, safety and wellbeing of our employees was sufficient. People Forums have continued throughout the pandemic and feedback from employees suggests that online resources have been well received. The Group completed a successful capital raise in June 2020, raising gross proceeds of £100.1m. The Board is of the view that the success of the engagement was positively reflected in the capital raise exercise.

Hold closed AGM in July 2020

Decisions considered by the Board	Stakeholders considered	How did we engage	Effect of engagement
The Board decided to hold a closed AGM due to the risks associated with COVID-19.	**Shareholders:** would usually have the ability to attend in person and hold Board to account through Q&A and discussion. **Employees:** concerns around health and safety if AGM went ahead as normal.	Following UK Government guidance to hold closed AGM, we arranged for shareholders to attend the meeting virtually. Shareholders were encouraged to submit questions in advance of the meeting and vote via proxy forms.	The AGM went ahead with minimal risk to health and safety. Shareholders were able to ask questions (in advance) but were not able to ask questions on the day.

Redundancies

Decisions considered by the Board	Stakeholders considered	How did we engage	Effect of engagement
Redundancies of approx. 320 employees, predominantly in Aviation Services.	**Employees:** direct impact on employees losing their jobs and remaining employees' motivation and morale. **The Communities in which we operate:** significant redundancies of this number will impact the local job market. **Shareholders:** reputation management of the process was an important factor.	Collective redundancy consultations were held, and these were union-led where appropriate. Major shareholders were updated with our plans and progress with the redundancy program.	The redundancies resulted in a significant headcount reduction for the Group. Our business has been impacted hugely by COVID-19, particularly the Aviation division and we have been reliant on the Government's Job Retention Scheme (furlough) to retain employees. Unfortunately, with no end to the ban on international travel in sight, we had to take the difficult decision mid-year to make a number of redundancies, which was a last resort. We will continue to utilise the Job Retention Scheme until September 2021 to safeguard as many jobs as possible.

Sale of Stobart & Eddie Stobart brands

Decisions considered by the Board	Stakeholders considered	How did we engage	Effect of engagement
The Board had to consider if disposing of the Stobart brand was the right thing to do for the future of the business and if a re-brand was appropriate.	**Shareholders:** asked to vote on a change of name at a General Meeting on 3 February 2021. **Customers/Suppliers:** indirectly impacted as needed to update systems to reflect change of name. **Employees:** training and communication on brand tool kit.	Used SharePoint to share new Esken Brand toolkit with employees. Drafted communications to suppliers and customers to notify them of the change of name. Engaged with major shareholders to seek feedback on our plans.	Immediate cash receipt into the business. Helped investors and stakeholders to differentiate our business from that of Eddie Stobart.

Our focused strategy

With the emergence of the global coronavirus pandemic, it was necessary to refresh the strategy as we navigate the recovery into a post-COVID-19 world.

The key strategic objective will be to drive shareholder value from our core aviation and energy assets over the medium term. We will do this by:

- retaining Stobart Energy. While it was intended at the time of the capital raise to seek to monetise the Energy business within an 18-24-month period, the Board concluded that this is not the right answer from a shareholder value perspective. It is anticipated that the business performance will return to pre-COVID-19 levels in the current financial year and opportunities are being explored to seek additional supply contracts and look to broaden the base of the market offering.

- developing London Southend Airport. Esken will continue to invest in the infrastructure of London Southend Airport in step with passenger demand recovery allowing it to meet the needs of airline partners for an efficient cost-effective London airport and offer a safe and enjoyable passenger experience. In addition, there is an opportunity to develop the logistics offering both with the existing global logistics partner and other related businesses.

Key strategic actions taken during the year included:

Initiative	Progress	Summary
Withdraw from Stobart Rail & Civils during the course of FY21.	Done	The Company divested of Stobart Rail & Civils to Bavaria Industries Group AG in July 2020.
A focused aviation and energy business operating under a new brand.	Done	Stobart Group announced the change of its name to Esken on 4 February 2021.
Design and implement an improved airport passenger experience for post-COVID-19 travel.	Done	A revised airport passenger experience is now in place, including next-generation baggage screening equipment designed to minimise contact and avoid bottlenecks.
Exit Stobart Air.	Done	Esken announced a sale of Stobart Air to Ettyl in April 2021. However, the continuing uncertainties around travel and issues with the prospective purchaser's funding package led the Board to conclude it was not possible to complete the transaction. As a result, we notified the Board of Stobart Air that Esken was no longer prepared to continue to provide funding to the airline, and the Board of Stobart Air appointed a liquidator. Esken will continue to fund its lease obligations on the eight ATR aircraft through to termination of the leases in April 2023. However, it will take immediate steps to seek sublease arrangements for the aircraft. However, on the basis that it is unable to sublease the aircraft, Esken forecasts total cash outflows of £82m over three years.
All other non-core businesses or assets will be realised for value over the next three years.	In progress	Esken continues to retain c.£39m of non-core assets and will realise value as market conditions for asset sales improve.


London Southend Airport

Chairman's Statement

The effort at the outset of the pandemic to respond to challenges and ensure that the Group had the resources to manage through the crisis has allowed it to maintain the operational capability of our core businesses.

David Shearer, Executive Chairman

I am pleased to present my Chairman's statement for the year to the end of February 2021. I am sure it does not need me to remind our shareholders that this is likely to have been the most eventful and challenging year in decades.

The impact of the pandemic has been significant on people, society and the economy and the ramifications are likely to continue for some period of time. The effort at the outset of the pandemic to respond to these challenges and to ensure that the Group had the resources to manage through the crisis has allowed it to maintain the operational capability of our core businesses. Carlyle Global Infrastructure Opportunity Fund (Carlyle), has now informed us it is seeking final approvals for a definitive transaction agreement in the coming days for a long term strategic financing partnership in relation to London Southend Airport (LSA). We also intend to conclude a new £20m working capital facility to support treasury management and an equity issue of around £40m by way of a documented prospectus offering. Doing so will enable Esken to repay all outstanding bank debt, meet its ongoing working capital requirements, underpin its business plan going forward and meet certain of its legacy obligations.

Review of the year

As we entered the year we were already aware of the growing threat from the pandemic and the impact which it was likely to have on the business. An early casualty was the failure of Connect Airways in early March 2020 due to its inability to access additional financing given the collapse in demand for air travel. This resulted in a total loss of our investment in the airline and led to a decision by the board to reacquire Stobart Air and Propius, the related aircraft leasing company, from the administrator. This was to allow the board to take control of legacy liabilities which would otherwise have had a significant and immediate impact on the group. In view of the economic outlook for the business, the board took the decision in early March 2020 to review the financial structure for the group to ensure we had the finance to allow it to sustain a prolonged period of reduced activity. We announced a successful capital raise of £100m together with additional bank facilities of £40m in June 2020 which has allowed us to maintain the operational integrity of our businesses through this period of reduced demand while also meeting our legacy obligations.

At that time we announced our intention to focus on two core businesses being energy and aviation with the stated intention of exiting the other businesses by the end of February 2021 and the remaining infrastructure assets by June 2023. We announced the sale of the Rail & Civils business to Bavaria Industries Group AG in July 2020 and embarked on a process to find a buyer for Stobart Air and Propius with the objective being to mitigate the residual liabilities attaching to the group. This process was affected by the extended lockdown in travel between the UK and Ireland and the decision by Aer Lingus to award preferred bidder status in relation to the franchise renewal from January 2023 to another party. While we announced an agreement to sell the business to Ettyl in April 2021, the continuing uncertainties around travel and issues with the prospective purchaser's funding package led the board to the conclusion that it was not possible to complete the transaction. As a result we notified the board of Stobart Air that Esken was no longer prepared to continue to provide funding to the airline. This led the board of Stobart Air to terminate the franchise with Aer Lingus, cease to trade and appoint a liquidator. While this was not the outcome which the board hoped to achieve it was just not possible despite the exhaustive attempts of the respective management teams to save the business. The Group has retained responsibility for the eight ATR aircraft which were the subject of a pre-existing guarantee until the expiry of the leases in April 2023 and will look to sub lease the aircraft to other operators to minimise the impact on the Group. Although the Group retains certain liabilities through the period these are now clear as to quantum and timing (£82m over three years assuming Esken does not successfully sublease the aircraft) and the lease term and associated cost is less than it could have been had the airline not been reacquired by Esken in April 2020 and failed then.

During the year the Group made use of the various government support schemes including furlough, rates relief and deferral of payments to HMRC. In view of the fact that aviation continues to be one of the hardest hit sectors in the economy, a number of our colleagues remain on furlough pending clarity on future demand for passenger travel at the airport.

Results

As mentioned above, Aviation has been particularly affected by COVID-19, with passenger numbers at London Southend Airport ('LSA') falling by 93% year on year following restrictions on air travel and airlines reducing the number of flights at both our airport and across the air travel industry. In addition, easyJet announced it was closing its LSA base from 31 August 2020. The impact of COVID-19 on revenues led Aviation division EBITDA increasing to a loss of £6.1m, from a loss of £0.7m in the prior year.

This performance was partially offset by a reduction in cost of sales, tight control of overheads and the benefit of uninterrupted income from our global logistics operation.

Whilst on face value the Energy division appears less exposed to COVID-19, given the nature of its operation, it has had two key challenges. The first was the closure of the construction industry and recycling centres nationwide for a three-month period. This created an abnormal supply and demand issue. This then drove the second key challenge, which was the weakness in gate fee revenues as wood supply came back online following the return of construction. The impact on gate fees, combined with an increased cost of procuring material, including the decision taken to import waste wood in order to meet contractual obligations, put pressure on margins. The result was that while revenue and the tonnes supplied of 1.4m (2020: 1.5m) are similar to the prior year, EBITDA reduced by 33.2% to £10.0m (2020: £15.0m). During the year, a £3.1m settlement was reached with Tilbury Green Power in relation to issues arising through the commissioning of the plant. A portion of this settlement was recognised in the prior year and £2.4m has been recognised in the current year as a one-off.

The total loss before tax of £150.3m (2020: £139.4m) includes non-cash items, being the loss on acquisition of Stobart Air and Propius and the impairment of investments and fixed assets during the current year, and significant one off impairments in the prior year that have not repeated. Whilst the loss on acquisition of Stobart Air and Propius transaction has been accounted for as a non-cash item this has subsequently resulted in significant cash losses and additional funding requirements

Strategy and funding

The impact of the pandemic being both greater and over a longer period than anticipated last June at the time of the capital raise has led the board to undertake a refresh of the strategy and the medium term funding requirement for the Group. This has concluded that the Group owns two attractive businesses which can generate significant value for shareholders over the medium term as markets recover post COVID-19. The key strategic objective will be to drive shareholder value from these core assets over the medium term and any decision on the realisation of value will be deferred until the businesses recover fully from the pandemic and become mature cash generative business units. While it was intended at the time of the capital raise to seek to monetise the energy business within an 18 to 24 month period, the board has concluded that this is not the right answer from a shareholder value perspective.

Stobart Energy is a recovering cash generative business with a strong market position and long-term supply contracts. The business' performance is returning to pre COVID-19 levels and opportunities are being explored to seek additional supply contracts and look to broaden the base of the market offering within the energy from waste space where existing operational expertise can be applied over the medium term. The business offers the opportunity to generate returns from an infrastructure type asset with an environmental benefit in recycling waste wood to produce energy rather than going to landfill.

In the Aviation business the prime asset is LSA which prior to the pandemic offered passenger services to over 40 destinations to a market of c.8 million people living within one hour travel time to the Airport. Whilst aviation has been one of the hardest hit sectors by the pandemic the fundamental long term value drivers of the Airport remain sound. This is soon to be recognised through the strategic partnership transaction in relation to LSA which is covered below.

Esken will continue to invest in the infrastructure of the Airport in step with passenger demand recovery allowing LSA to meet the needs of airline partners for an efficient cost effective London airport and offering a safe and enjoyable passenger experience. In addition there is an opportunity to develop the logistics offering both with the existing global logistics partner and other related businesses. Given the award of the Thames Freeport status in the Estuary and proximity to East London, the Airport is well placed to capitalise on accelerated airfreight growth and movements.

In order to realise the full value potential of LSA we expect to conclude a funding arrangement with Carlyle, subject to shareholder approval and the conclusion of a new £20m working capital facility to support treasury management and an equity issue of around £40m. Carlyle would represent a long term strategic financial partner for the development of the airport. It is a major global funds business with $260b under management and has concluded 16 airport transactions around the globe. Our expectation is Carlyle will provide funding of £120m net of costs by way of a secured loan with an option to convert in to 29.99% of the equity in the airport (which implies a valuation of the airport of £400m). Of this funding, £100m would be released to the rest of the Group to refinance the bank facilities which expire in January 2022 and the remaining £20m would be retained within the LSA business to meet its funding requirements. It is intended that future capex funding of LSA will be arranged on a standalone basis as demand recovers.

Chairman's Statement
continued

The combination of the proven operational capability of the LSA management along with the airport development experience of Carlyle and its financial muscle is expected to provide a strong partnership as we rebuild our commercial relationships with our airline and other partners into the recovery.

We have also put in place plans for a new funding package of £60m gross comprising a new £20m working capital facility to support treasury management and an equity issue of around £40m by way of a documented prospectus offering. Doing this will allow us to refinance fully the existing bank debt, meet certain of its remaining legacy obligations and provide the necessary working capital to underpin our business plan. It is also our intention to actively look to realise the residual infrastructure assets with a net book value of £39m at the year end to provide additional resources for investment.

Board and People

I would like to express my personal thanks to my board and all of our colleagues at Esken for their strong support throughout the last year. It has been a difficult time for everyone, whether at work or on furlough and the continuing dedication and support to each other has been appreciated as we managed our way through these challenging times.

Our Chief Executive Warwick Brady tendered his resignation from the board on 8 February 2021 and stepped down on 30 April 2021 having been head hunted to another CEO role with a large global services business in the sector. Warwick has been in the business for almost five years and during that period has been fully committed to the business during some rather turbulent times. On behalf of the board and personally I would like to express our thanks for his service to Esken and wish him well in his new role. I have taken on the role of Executive Chairman on an interim basis and following completion of the various transactions announced today I will undertake a review on the future leadership structure and requirements for the Group as we move forward.

I was pleased to welcome Clive Condie to our board in July as a Non-Executive Director. Clive has significant experience in the aviation and airport sectors and his advice and counsel has been very valuable to the board over his time with us. It was our stated intention last year to add a further non-executive director to the board in addition to provide for normal succession and add to the board's diversity. In view of the significant disruption in the business it was decided to defer this until after the pandemic and a recruitment process will be undertaken in the months ahead.

Environmental Social & Governance ('ESG')

The board continues to recognise the importance of its ESG responsibilities and its importance to all stakeholder groups.

From the outbreak of the pandemic up to today, the focus on our ESG Framework remained at the core of our business decision making. The Framework developed was shaped into 'Our Five Pillars': Developing Our People; Supporting Sustainable Communities; Taking Climate Action; Excelling in Health & Wellbeing, Safety and Security; and Minimising Our Environmental Footprint. Admittedly, and perhaps unsurprisingly, progress across some priority areas was hindered by the pandemic, with many of our teams placed onto the government furlough scheme. However, we were able to develop and make progress on some initiatives, to place the focus of our business on sustainable growth.

We have focused our attention on processes to gather and monitor data over the past year which will allow us to drive engagement and communication through the business and across its stakeholders.

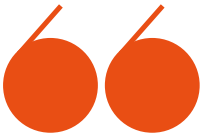
We intend to emerge from the pandemic in a sustainable way and are embedding ESG in our decision making as we implement our long term plans.

Future

The success of the vaccination programme and the staged release of lockdown measures offer some encouragement as we look ahead. The differing pace of these measures across Europe will continue to create uncertainty as to the timing of the recovery in passenger demand in the next few months. A consistent vaccine and testing regime across Europe will be required before people will feel confident to travel in numbers but the short haul leisure market is likely to be the first to recover. The airport continues to benefit from strong activity levels in our logistics operations and our energy operations continue to meet our expectations. While there remains market uncertainty the fact that we are progressing plans to secure new financing for the Group will allow us to look ahead with a degree of confidence as we navigate the recovery into a post COVID-19 world.

David Shearer
Executive Chairman

30 June 2021



While there remains market uncertainty, we are progressing plans to secure the financing for the Group that will allow us to look ahead with a degree of confidence as we navigate the recovery into a post COVID-19 world.

David Shearer, Executive Chairman


Stobart
Energy

Strategy in action – London Southend Airport

Delivering a compelling customer proposition

The team at London Southend Airport implemented a cost-effective but thorough revised passenger experience following the end of the first lockdown and ahead of the Summer 2020 flying schedule.

They identified that the best way to keep people safe and deliver passenger confidence was to ensure passengers could move smoothly and efficiently through the airport without cause to gather at particular points.

London Southend Airport was already recognised for having the joint-fastest security queues in the UK. Queuing times were reduced further by the introduction of next-generation security scanning equipment which means liquids and laptops can remain within bags.

Hand sanitisation stations were installed every 20 paces of the terminal journey and the airport reduced touch points throughout.

Deep cleaning took place nightly whilst the cleaning team sanitised handrails and surfaces throughout the day.

Bio-screens were introduced at all face-to-face locations and temperature cameras were installed to check passengers approaching security e-gates. Once through security and into the departure terminal, passengers were encouraged to socially distance. Whilst the airport's main retail outlets remained closed, a new pop-up café was introduced serving hot drinks and snacks. Vending machines were also located throughout the terminal.

These initiatives meant that London Southend Airport was able to deliver a compelling customer proposition that enhanced passenger confidence.

For more information:
See pages 36-39

Strategy in action – Stobart Energy

Strong commercial partnerships

We supply around 280,000 tonnes of renewable biomass fuel to Templeborough Power Plant each year as the exclusive supplier.

Our fuel is processed from waste wood gathered across the country by Stobart Energy and its strategic partners. When the first COVID-19 national lockdown was introduced by the UK Government in March 2020, the construction and demolition sectors shut down completely and Household Waste Recycling Centres ran by local authorities closed. The shutdown of these sectors reduced the availability of waste wood needed to produce biomass fuel by around 80%.

One of the plants affected by these shutdowns was Templeborough Power Plant. Over the course of the year, the strong strategic relationship between Stobart Energy and our customer formed the foundation for a flexible and dynamic approach which enabled us to secure fuel supply in different ways. This included optimising the utilisation of our strategic infrastructure such as Pollington Wood Processing Facility, identifying alternative domestic feedstock and securing strategic imports from Europe. By maintaining a customer-focused approach with a transparent and collaborative partnership, Stobart Energy and Templeborough Power Plant were able to minimise the disruption of the national lockdowns and optimise generation of renewable electricity at a time when traditional supply chains had broken down as a result of the pandemic.

For more information:
See pages 40-43

Financial Review

Building on the foundations we put in place in FY20, we have been able to demonstrate our team's financial capability and resilience to be able to have managed the most difficult of times for any organisation.

Lewis Girdwood,
Chief Financial Officer

COVID-19

The COVID-19 pandemic has had an undoubted impact on both the Group and the industry sectors in which the divisions operate. It is important to recognise what this means at year end and the continuing impact into the new financial year.

Aviation has been significantly affected by COVID-19, with passenger numbers at London Southend Airport (LSA) falling by 93% year on year following restrictions on air travel and airlines reducing the number of flights at LSA and across the air travel industry. In addition, easyJet announced it was closing its LSA base from 31 August 2020.

Whilst the Energy division appears less exposed to COVID-19, given the nature of its operation, it has had two key challenges. The first was the closure of the construction industry and recycling centres nationwide for a three-month period which created an abnormal supply and demand issue. This then drove the second key challenge, which was the weakness in gate fee revenues as wood supply came back online following the return of construction. This has resulted in a far greater impact on EBITDA than was originally envisaged; however, we have in the remainder of the year started to see this return to normality.

Stobart Air and Propius

During the year, the Group acquired an effective indirect economic interest of 78.75% in Stobart Air and Propius which resulted in these businesses being accounted for as subsidiaries. As previously outlined, the acquisition was necessary to take control of pre-existing obligations the Group has to these businesses. Whilst the costs associated with Stobart Air and Propius have been greater than expected, due to COVID-19 restrictions delaying the return of flights, we are satisfied that the rationale to acquire remains valid. Despite concerted efforts to find new owners to take the Stobart Air business forward a suitable buyer could not be sourced. As a result, post year end the Group was forced to cease providing financial support to Stobart Air leading to Stobart Air to cease trading and appoint a liquidator. The Group has undertaken certain contingency planning measures as a result of this and will continue to fund the lease obligations on the eight ATR aircraft in Propius through to termination of the leases in April 2023 under the terms of its pre-existing guarantee with GOAL.

Financial discipline

Whilst the challenges faced by the Group this year are undoubted, the Group has moved quickly to mitigate their impact and place the business on a sounder footing than would have been the case. Cash outflows from the Group were minimised, through use of the UK government furlough scheme, securing payment holidays on asset financing and deferral of VAT payments. The Group disposed of its investment in Stobart Rail, removing the need to fund the expected ongoing losses of this business. Unfortunately, as part of these measures we had to make a number of our valued members of staff redundant. This decision was not taken lightly but we felt it was necessary for the long-term recovery of the Group. Next, there was a structural change with greater centralising of cash control, with all discretionary divisional expenditure moved to the Group centre and a new procedure for cost sign-off. This enabled quicker decision making as a group and greater oversight on operational spend. The strict centralised cash control will continue for the foreseeable future until we emerge from the current climate.

The Group completed a successful capital raise in June 2020, resulting in greater than expected gross proceeds of £100.1m (£91.0m net). If the Group had not done the raise at this time it may not have been in a position to do it at all. Agreement was reached with the Group's current bank lenders to fund an additional £40m revolving credit facility bringing the Group's total revolving credit facility to £120m, further increasing headroom for the Group.

Looking forward

As announced on 4 February 2021, Stobart Group Limited changed its name to Esken Limited. This allows the Group to move away from its legacy history and gives clarity on what we are about. The disposal of the Stobart brands and trademarks also gave rise to a cash injection of £8.5m in the year.

The Energy division has been the first of the operational divisions to start its recovery from the impacts of COVID-19 and has seen gate fees increase through the year approaching levels seen under pre-COVID conditions. The Aviation division is well positioned to take advantage of the pent-up demand for travel once flights can restart.

Revenue

	2021 £m	Restated[1] 2020 £m	Movement
Aviation	24.7	56.8	-56.4%
Energy	75.0	76.3	-1.7%
Revenue from two main operating divisions	**99.7**	**133.1**	**-25.1%**
Investments	9.0	2.1	+324.7%
Non-Strategic Infrastructure	1.1	2.8	-61.9%
Group Central and Eliminations	0.9	4.1	-78.6%
	110.7	**142.1**	**-22.1%**

Revenue from continuing operations has decreased by 22.1% to £110.7m. Revenue from our key growth divisions, Aviation and Energy, has decreased by 25.1% to £99.7m. Revenue in the Aviation division has been significantly impacted by COVID-19 with passenger numbers at LSA down by 93.1% year on year. The acquisition of Stobart Air in the year is the main driver for the increase in the Investments revenue.

Profitability

	2021 £m	Restated[1] 2020 £m	Movement
EBITDA[2]			
Aviation	(6.1)	(0.7)	-772.8%
Energy	10.0	15.0	-33.2%
EBITDA[2] from two main operating divisions	**3.9**	**14.3**	**-72.5%**
Investments	(10.4)	(7.6)	-35.7%
Non-Strategic Infrastructure	(1.7)	(4.2)	60.7%
Group Central and Eliminations	(9.7)	(8.7)	-13.4%
Adjusted EBITDA[2]	**(17.9)**	**(6.2)**	**-187.9%**
Depreciation	(31.8)	(20.0)	
Amortisation	–	(7.5)	
Loss on acquisition	(58.2)	–	
Impairment	(22.1)	(93.4)	
Impairment of loan notes	(8.0)	(2.8)	
Finance costs (net)	(12.3)	(9.5)	
Loss before tax	**(150.3)**	**(139.4)**	
Tax	7.0	8.4	
Loss for the year from continuing operations	**(143.3)**	**(131.0)**	
Loss from discontinued operations, net of tax	(11.8)	(6.9)	
Loss for the year	**(155.1)**	**(137.9)**	

1 2020 results have been restated where required in line with IFRS 5 Discontinued Operations.
2 EBITDA represents loss before interest, tax, depreciation, amortisation and impairments. Adjusted EBITDA is EBITDA excluding loss on acquisition, only impacting the Investments division. Refer to note 3 for reconciliation of divisional EBITDA to loss before tax.

Profitability

In the current year, the Group has moved away from the classification of underlying and non-underlying items in the financial statements, see note 1. Adjusted EBITDA and profit before tax are the Group's key measures of profitability. Adjusted EBITDA has decreased by 187.9% to £17.9m loss (2020: £6.2m loss) and the loss before tax has increased by £10.9m to £150.3m (2020: £139.4m). The increase in loss before tax is principally driven by losses in the Investments division partially offset by one-off impairments in 2020.

The Aviation division EBITDA has decreased by 772.8% to a loss of £6.1m (2020: £0.7m) due to the impact of COVID-19 on revenues, partially offset by a reduction in cost of sales and tight control of overheads. In the Energy division, challenging market conditions have impacted gate fees and led to increased cost of procuring material, including the need to import waste wood in order to meet contractual obligations. This meant that while revenue and the tonnes supplied of 1.4m (2020: 1.5m) are similar to the prior year, EBITDA has reduced by 33.2% to £10.0m (2020: £15.0m). During the year, a £3.5m settlement was reached with Tilbury Green Power. A portion of this settlement was recognised in the year ending 29 February 2020 and £2.4m has been recognised in the current year.

Investments and Non-Strategic Infrastructure are discussed in more detail below. The Group Central and Eliminations EBITDA loss increased by 13.4% to £9.7m (2020: £8.7m) mainly due to the six-year deferred income from Eddie Stobart ending in the year ended 29 February 2020.

Business segments

The business segments reported in the financial statements are Aviation, Energy, Investments and Non-Strategic Infrastructure, which represent the operational and reporting structure of the Group.

The Operational review contains further details about the performance of the operating divisions.

The adjusted EBITDA loss of £10.4m (2020: £7.6m) in the Investments division is due to the inclusion of Stobart Air and Propius, which were acquired in the year. The fair value of the investment in Logistics Development Group plc (LDG), formerly Eddie Stobart Logistics plc, increased by £5.7m (2020: £40.2m reduction) due to an increase in the LDG share price and additional investment in the year. The gain on revaluation of the investment to current market share price is presented in the consolidated statement of comprehensive income.

The Non-Strategic Infrastructure division continues to realise value from its property assets when the time and price is right. At 28 February 2021, the book value of Infrastructure assets held was £39.2m (2020: £47.3m). During the year, there was one (2020: two) property disposal that generated net proceeds of £1.4m (2020: £2.3m). The disposal relates to four acres of Widnes land. Year-on-year EBITDA increased from a loss of £4.2m to a loss of £1.7m, mainly driven by a one-off revaluation loss on investment property in the prior year coupled with a year-on-year decrease in overheads.

Financial Review
continued

Depreciation and amortisation
Depreciation has increased from £20.0m to £31.8m, principally due to right-of-use aircraft acquired as part of the purchase of Stobart Air and Propius in the year. There was no amortisation in the year (2020: £7.5m) due to the Stobart brands being reclassed to assets held for sale at year ended 29 February 2020.

Loss on acquisition
The Group's acquisition of equity interests in Stobart Air and Propius from the administrators of Connect Airways led to the consolidation of both businesses as 100% subsidiaries. A £58.2m loss on acquisition was recorded, due to the settlement of pre-existing relationships, which is presented on its own line in the consolidated income statement.

Impairments
Shareholder loan notes relating to Mersey Bioenergy Holdings Limited, the Widnes biomass plant owner, were impaired from £8.0m to £nil in the year based on discounted forecast future cash flows provided, which had deteriorated over the period with the awaited refinancing still not complete. The loss on revaluation is shown on a separate line, Impairment of loan notes, on the consolidated income statement.

At the year end three land and building and property inventory assets were subject to external independent development valuations. This led to an overall reversal of impairment of £0.8m.

The Group carried out an impairment review of all plant, property and equipment in Stobart Air and the right-of-use aircraft in Propius. The assets were written off in full leading to an impairment charge of £22.9m.

Finance costs
Finance costs increased by £2.8m to £17.2m, mainly due to higher interest charges on the revolving credit facility (RCF) and interest on IFRS 16 leases in Stobart Air and Propius. Finance income decreased by £0.1m to £4.8m primarily due to no interest received on the loans to Connect Airways after it entered administration in March 2020, partially offset by the revaluation of financial liabilities in the current year.

Loss before tax
The total loss before tax of £150.3m (2020: £139.4m) including non-cash items, such as the loss on acquisition of Stobart Air and Propius and the impairment of the loans to Mersey Bioenergy during the current year, and significant one-off impairments in the prior year that have not repeated. This is in addition to the trading performance of the Aviation division and Stobart Air, which has been significantly affected by COVID-19.

Tax
The tax credit on continuing operations of £7.0m (2020: £8.4m) reflects an effective tax rate of 4.4% (2020: 5.3%). The effective rate is lower than the standard rate of 19%, mainly due to deferred tax assets not recognised in respect of certain temporary differences in the year. The deferred tax liabilities have been calculated at 19%, as this was the rate that was substantively enacted at the statement of financial position date.

Discontinued operations
On 14 July 2020, the Group divested of Stobart Rail Limited (Stobart Rail) to Bavaria Industries Group. The operational results of Stobart Rail prior to the date of disposal and the loss on disposal of £9.5m are presented in discontinued operations. The operations of Stobart Rail prior to the date of disposal resulted in a loss of £2.4m, which along with the loss on disposal of £9.5m, are presented in discontinued operations. The prior period results have been restated within the consolidated income statement, consolidated statement of cash flows and accompanying notes accordingly.

Loss per share
Loss per share from continuing operations was 26.61p (2020: 35.52p). Total basic loss per share was 28.81p (2020: 37.39p).

Share movements and dividends

	2021	2020
Interim per share	–	–
Final per share	–	3.0p
Total dividend per share	**–**	**3.0p**

The Board suspended the dividend during the prior year, therefore no final dividend is proposed. The final dividend in the table for the prior year relates to the year ended 28 February 2019.

On 29 June 2020, the Group issued 250,273,461 new ordinary shares following a Firm Placing and Placing and Open Offer (Capital Raise). The Capital Raise resulted in gross proceeds of £100.1m (£91.0m net).

The number of shares held by the employee benefit trust increased from 2,980,992 at 29 February 2020 to 3,778,457 at 28 February 2021 after the trust purchased 797,465 shares issued on the Capital Raise.

Balance sheet

	2021 £m	2020 £m
Non-current assets	369.4	388.9
Current assets	55.4	75.3
Non-current liabilities	(172.6)	(222.0)
Current liabilities	(203.9)	(139.1)
Net assets	**48.3**	**103.1**

Net assets have decreased by £54.8m, mainly due to the loss in the year, partially offset by the Capital Raise and the increase in the fair value of the investment in LDG, recognised in other comprehensive income.

The overall value of property, plant and equipment (PPE) of £285.6m (2020: £306.6m) has decreased in the year mainly due to the disposal of Stobart Rail and the annual depreciation charge across the Group. The revaluation of, and further investment in, LDG led to an increase in other financial assets of £5.6m. The impairment of the loans to Mersey Bioenergy Holdings reduced non-current other receivables by £8.0m.

Current assets have reduced principally due to an overall decrease in trade and other receivables across the Group of £12.8m and the disposal of the Stobart brands £10.0m, which were held for sale at the year ended 29 February 2020.

Non-current liabilities have decreased primarily due to the RCF liability of £52.3m being presented as a current liability. There was an increase in provisions of £15.2m, mainly relating to maintenance reserves in Stobart Air and Propius, and reductions in the defined benefit pension and deferred tax liabilities.

Current liabilities have increased primarily due to the £52.3m RCF liability being presented as current and Propius IFRS 16 leases being recognised following acquisition. Year on year the RCF has reduced by £22.4m.

Debt and gearing

	2021	2020
Asset-backed finance	£139.8m	£168.9m
IFRS 16 lease obligations	£123.4m	£76.4m
Cash	(£12.4m)	(£9.8m)
Net debt	**£250.8m**	**£235.5m**
Adjusted EBITDA/interest	-1.4	-0.7
Net debt/total assets	59.0%	50.7%
Gearing	519.2%	228.4%

See note 25 for more details on net debt. The alternative performance measures of net debt and gearing are explained in note 36.

During the year, the Group agreed an additional £40m variable rate committed RCF with Lloyds Bank plc and Allied Irish Bank plc in addition to the existing £80m RCF. At 28 February 2021, these facilities were drawn at £55.0m (2020: £75.0m).

Asset-backed finance has reduced year on year primarily due to a net repayment of the RCF. Aircraft lease liabilities recognised on the balance sheet following the acquisition of Stobart Air and Propius have driven the increase in IFRS 16 lease obligations.

Cash flow

	2021 £m	2020 £m
Operating cash flow	(28.7)	(15.1)
Investing activities	6.0	(12.5)
Financing activities	28.8	29.2
Increase in the year	6.1	1.6
Discontinued operations	(3.5)	(6.2)
At beginning of year	9.8	14.4
Cash at end of year	**12.4**	**9.8**

Discontinued cash flow in the year relate to the operations of Stobart Rail & Civils.

Investing activities include an inflow of £8.5m of the total £10.0m consideration for the disposal of the Stobart brands. There was a cash outflow for the purchase of PPE of £3.1m.

Financing activities includes net proceeds from the Capital Raise of £91.0m. Offsetting this there were outflows for the net repayment of the RCF £24.3m, the repayment of the capital element of lease obligations £24.0m, interest payments £9.4m and the repayment of loans to Virgin and Cyrus £4.5m.

Lewis Girdwood
Chief Financial Officer

30 June 2021

Market Review: Aviation

The past 12 months have seen the aviation industry impacted like never before. The extended effects of the pandemic led to complete travel bans being in place for many months of the year unless for essential purposes.

There were a number of months of the past year when travel was allowed, but the continual changes to travel corridors meant there were very few destinations available without a quarantine requirement.

Esken continues to take a long-term view of aviation, with most analysts and aviation businesses expecting a return to 2019 levels in the mid-2020s.

Glyn Jones
Chief Executive, Aviation

The ensuing uncertainty caused by continued changes created a lack of demand, with many customers delaying and cancelling holidays and airlines subsequently removing flights.

Esken, however, continues to take a long-term view of aviation, with most analysts and aviation businesses expecting a return to 2019 levels in the mid-2020s. The travel sectors in which London Southend Airport operates are those expected to return to 2019 levels the fastest; short-haul, leisure and visiting friends and relatives. Only 12% of London Southend Airport's travel was business related in 2019. Although this percentage will grow in the longer term, in the short term it is an advantage not to be reliant on business travel.

In 2019, London remained the largest air travel market in the world. The London market has shown resilience to previous falls in global demand, with quick recovery and a growth trajectory which is above UK GDP. London will again become a constrained market as demand begins to recover from 2022. Low-cost airlines are expected to be at the forefront of this, and these airlines will all be aiming for market share growth. This will require slot growth across the London airports.

Many carriers, especially network carriers, shifted capacity to Heathrow in 2021, taking advantage of surplus slots created by a continued alleviation of the historic rights. This has in turn allowed further access at Gatwick and Luton. Some carriers have therefore been able to commence new services to Heathrow and Gatwick and some new carriers have entered the market. All of this will unwind over the next year or so, when airlines reclaim their historic slot rights from 2019. It's likely that from 2022 there won't be slot capacity for this to continue. Therefore, these airlines will need to relocate if they are to continue longer-term operations.

There have been slot transactions by easyJet at Stansted, selling based aircraft slots to Ryanair, and by Norwegian selling slots at Gatwick to easyJet. This again leads to a position of very little slot availability across the London airport system as there is unlikely to be any growth in airport slot or passenger capacity in the near future.

This puts London Southend Airport in a strong position in the coming years, with low-cost airlines and network carriers relocating traffic, and likely to be seeking available runway slots at the right price and the right service levels to aid their recovery.

The rate of growth is still undetermined as the market recovers from the coronavirus pandemic. However, with short-haul and low-cost airlines at the forefront of the recovery, there is a good opportunity for the airport to recover faster than some of its counterparts focused on network carriers and long-haul traffic. The rail connectivity direct to London Liverpool Street will continue to be a huge advantage to the airport and will play an important part in the attractiveness to both airlines and customers.


Gates 7 8 9 10
Lifts
Skylife Lounge
SALADS
Gates
7
8
STOP.

Operational Review: Aviation

COVID-19 created unprecedented challenges for London Southend Airport and the aviation sector as a whole.

Key points

- Passenger numbers were down 93%, reflecting the impact of COVID-19 on the aviation sector.
- However, strict financial discipline resulted in a reduction in our current cash burn.
- The global logistics operation remained active throughout the year, providing important income.

The UK Government's policies around movement within and between nations, evolving quarantine arrangements, testing, and the passenger costs associated with those policies, resulted in the almost complete collapse in demand for air travel. In the first two weeks of February 2021, the decrease in passenger traffic at European airports stood at -89% versus 2020, with airports in the UK, at -92%, reporting the sharpest declines. London Southend Airport is very much in line with that overall trend, down 93% in passenger numbers on the previous 12 months.

However, our global logistics operation remained open throughout and heightened demand for home deliveries drove a significant revenue stream. We have taken a proactive approach to finding new revenue streams, for example by using car park space for storage and by increasing general aviation flying.

At the same time, we took steps to manage costs. We suspended all recruitment, modified employment contracts to improve flexibility and cut both bonus and any annual cost of living increases, as well as making some roles redundant. In addition, we took advantage of government support packages, for example putting large numbers of staff on furlough and applying to the Airport and Ground Operations Support Scheme. We have also reduced capex to regulatory and compliance items only, deferring further capex in line with the return of passenger demand.

We also took further steps to reduce costs within Stobart Aviation Services, our check-in, baggage handling and logistics services business. With activity impacted by the restrictions to flying it closed its operations in Edinburgh and Glasgow Airports. This allowed the business to manage costs and focus on operations at London Southend Airport, London Stansted Airport and Manchester Airport. Stobart Aviation Services is developing a strong reputation within global logistics and cargo operations and is exploring further growth opportunities in that sphere.

Whilst our overall performance has been impacted by enduring COVID-19 lockdown restrictions, strict financial discipline has aided the conservation of cash and the delivery of an EBITDA loss of £6.1m for the Aviation division, compared to a £0.7m EBITDA loss in the prior year. The loss before tax was £17.5m compared to a loss before tax of £9.8m in the prior year.

Looking forward, the outlook for FY22 is one of slow but sure recovery, assuming continued progress in the fight against COVID-19. It is clear that there is underlying demand for air travel. This is evident from the reaction to markets like Portugal and the Canary Islands opening up in Autumn and Winter 20/21, or from the response to the Government's announcement of international travel from 17 May 2021, when airline bookings increased by several hundred percent. Once vaccination programmes in the UK and overseas mature and the pandemic-related restrictions ease, it is clear that the air travel market will recover relatively rapidly.

Within that, segments served particularly well by London Southend Airport are widely accepted to be among the first to return. Low-cost leisure travel where London Southend Airport has historically been strongest is likely to see an early return to strong demand.

London, a magnet for international travellers and, pre-COVID-19, a generator of more than 60% of London Southend Airport's outbound passengers, is the largest aviation market in the world and, in previous crises, one of the most resilient.

The decision of easyJet to close its base at London Southend was disappointing. However, it opens up opportunities for other carriers to move onto established and profitable routes and we are engaged in several discussions with different airlines.

We do not expect Brexit to have a significant impact on passenger numbers. The majority of our passengers are UK nationals travelling to EU countries for leisure purposes. Given the importance of UK visitors to EU economies, it is unlikely that those economies will want to see Brexit reduce UK visitor numbers.

There was a short-term impact on cargo movements through January and February 2021. This has already been resolved and long term we see no significant change due to Brexit.

The continuing uncertainties represented by the ongoing pandemic means that the immediate term will be challenging but the fundamentals of London Southend Airport remain compelling: very low costs, very high service levels and great access to London. The consensus view is that demand will return to and then exceed 2019 levels by the mid-2020s. Capacity will once again be constrained at London's airports and we confidently expect London Southend Airport to play its part in that return to long-term growth.

Market Review: Energy

This has been a challenging year for everyone and the biomass supply market has certainly not been immune from the coronavirus pandemic.

There is now strong momentum within the sector. It is well placed to benefit from a green economic recovery from the pandemic.

Richard Jenkins
Chief Executive, Energy

We have had to overcome unprecedented challenges. In a normal year, there are c.4.5 million tonnes of waste wood produced annually in the UK. A large proportion (c.75%) of this is processed into biomass and is used as a fuel in biomass plants to produce renewable green energy. Exports of waste wood from the UK are minimal. Indeed, there are increasing imports of material from Europe to meet the UK market demand following a period of major unpredictability.

The COVID-19 pandemic materially disrupted the availability of waste wood in the market at the start of the year, leading to disruption in the supply chain. The significant downturn in construction sector activity and the closure of the Household Waste Recycling Centres significantly impacted the availability of waste wood during the first lockdown at the start of the financial year. As a result, we experienced a 70% reduction in volume during the first lockdown.

Gate fees, a fee that we can charge suppliers for taking their unprocessed waste wood, were impacted significantly at this time. This reflected the scarcity of waste wood in the market and therefore the fee we could charge. We needed to draw in as much material as we could from wider geographical areas. Waste wood volumes tend to follow a seasonal pattern, with more available in the Summer months. Unfortunately, this coincided with this market disruption, adding further pressure on market gate fees.

Many fuel suppliers, including ourselves, opted to supplement normal supply routes with imported volume. This provided certainty for our customers at a time of challenge and enabled us to commence the new year on a solid footing as the UK market stabilises. The import of waste wood from Europe was not materially impacted by Brexit and we do not expect Brexit to present any significant challenges to our business in the future.

The reopening of the Household Waste Recycling Centres and recommencement of activity in the construction sector following the first lockdown led to waste wood volumes recovering. They have gradually normalised through the course of the year. The national lockdown restrictions that took place through November and from late December onward did not impact the construction sector as much as during the first lockdown.

Household Waste Recycling Centres also largely remained open. As a result, volumes of waste wood have continued to stabilise in the market. We are well placed to take advantage of the upturn in the market thanks to our established supply chain and first-class infrastructure, and in particular, our storage operations across the UK.

Gate fees and supply chain margins increased through the year, approaching pre-COVID-19 conditions by the end of the financial year. Gate fee pricing is regional and post year end, in some regions, prices are now at or marginally above pre-COVID-19 levels. However, nationally the gate fee recovery is expected to continue over the next 12 months. Management believes that the steps we have taken are proving effective in managing the gate fee and supply margin recovery. This margin optimisation will need to be sustained for a longer period of time, before we can assert that margins have fully recovered post COVID-19.

Due to the volume recovery and our asset base, we have been able to meet the demand needs of our partners at the biomass plants. Overall, supply was 93.3% of last year's volumes. However, this came at a cost of lower gate fee income. It is expected that plant performance will improve moving forward as the plants are now optimised following commissioning.

There is now strong momentum within the sector. It is well placed to benefit from a green economic recovery from the pandemic. The Energy White Paper continues to set the UK's net-zero aspirations and the March Budget announced the creation of a new National Infrastructure Bank and a Net-Zero Innovation Fund. This puts us in a good position to assess all opportunities within the biomass sector and expand our fuel service offering where practical.

Operational Review: Energy

Stobart Energy entered the year having made significant operational progress in recent years and was reaching a level of operating maturity.

Key points

- The COVID-19 pandemic caused a national shortage of waste wood.
- This supply shortage, combined with additional demand pressures, led to reduced gate fee income and margin pressure.
- Stobart Energy worked closely with its partners to ensure certainty of supply and margins are now trending back toward pre-COVID-19 levels.

All customers, with the exception of Port Clarence, had successfully completed commissioning in the prior year. The focus was therefore turning to optimising the efficiency of our supply chain and operations. We were also exploring ways to leverage our strong fuel supply 'platform' for scale, diversifying into additional waste streams.

However, the COVID-19 pandemic impacted in the first month of FY21 with the national lockdown announcement on 23 March 2020. This initially resulted in the closure of Household Waste and Recycling Centres and the construction sector. A significant proportion of UK waste wood is generated via these channels. This caused a national shortage for waste wood.

Waste wood supply is seasonal. A greater proportion of waste wood is generated during the Summer months. As a result, gate fees, the fee Stobart Energy charges third parties for taking waste wood from them, typically peak in the Summer months and reduce in the Winter months.

In the prior year, Winter seasonality was also impacted by the additional demand pressures following the nationwide commissioning of the Biomass plant network. This caused a negative short-term compounding effect on gate fees.

As such, Stobart Energy entered the FY21 year at its lowest level of gate fees in recent years. There was an expectation that the combination of steady demand profiles nationally and established supply chains would mean gate fees would gradually recover upwards.

Unfortunately, the pandemic lockdown coincided with the beginning of the typical 'Summer' months compounded by the COVID-19 supply shortages.

Supply constraints led Stobart Energy to issue force majeure notices to a number of its customers. This resulted in sales volumes being impacted from April through to September 2020. However, by year end, all force majeure notices with customers had been lifted.

Stobart Energy responded by working closely with our customers to co-design forecasting models to help them to mitigate some of the challenges. Utilising the benefits of our scale as the UK's number one biomass fuel supplier, we also leveraged our strong data and market intelligence, facilitating timely data-driven planning decisions by all parties.
The combination of these transparent supply forecasts and our long-term contract approach to customer management enabled us to make timely, longer-term supply decisions with our customers. In turn, this helped to protect the long-term value of our businesses by successfully strengthening the working relationships with our customers allowing us to agree a supply plan with each through to Spring 2021.

The actions taken in the face of these significant challenges mean Stobart Energy is able to report EBITDA of £10.0m (FY20: £15.0m). In the prior year there were a number of contractual settlements reached, accounting for c.£5.6m of non-recurring net gains, and adjusting for these non-recurring items, the FY21 trading performance was a 6.7% increase on the prior year.

We are pleased with this outcome, which demonstrates the robustness of our business and the ability to utilise our scale and long-term contractual positions to somewhat mitigate what was a very challenging year.

Our EBITDA performance was largely a result of two factors: the continued maturity of our operations, resulting in a favourable year-on-year positive variance of £6.1m (primarily due to full-year supply of Tilbury Green Power contract); and secondly the impacts of the pandemic, which gave rise to an adverse year-on-year variance of £5.6m (primarily due to adverse volume and supply margin impacts). We are pleased to report that by the end of FY21, all of our customer plants were fully operational once again and our supply margin pricing was trending back towards pre-COVID-19 levels.

Over the next 12 - 24 months, we expect our customer plants to enter the next stages of plant performance optimisation. This should benefit Stobart Energy through increasing reliability and throughput volumes. The continued focus on strong customer management and collaboration is a complementary focus for us. This should also assist in our supply chain optimisation strategy. Assuming a managed national COVID-19 recovery over the next 12 months, we expect to be able to continue the managed recovery of our supply margins and thus optimise our EBITDA performance.

I would like to thank all our employees, customers and supply partners for the continued support and proactive collaborations over the past 12 months. The whole biomass supply chain was significantly tested during this period. The robustness that we have collectively demonstrated, together with increased collaboration to optimise our collective positions, should place us in an even stronger position to deliver on our long-term strategies.

Sustainability Report

As a people led business, we placed them at the heart of our response. Their well-being was our main priority during this extraordinary time.

Nick Dilworth, Executive Sponsor

The challenges which the global pandemic of 2020 has triggered across the world, both socially and economically, is unprecedented. For us, it impacted all our business divisions, their supply chains and customers. As a people led business, our people were at the heart of our response. Their well-being was our main priority during this extraordinary time.

From the outbreak of the pandemic up to today, our focus on our Environmental, Social and Governance Framework still remained at the core of our business decision making. The Framework we developed was shaped into 'Our Five Pillars': Developing Our People, Supporting Sustainable Communities, Taking Climate Action, Excelling in Health & Wellbeing, Safety and Security, Minimising Our Environmental Footprint.

Admittedly, and perhaps unsurprisingly, progress across some priority areas was hindered by the pandemic, with many of our teams placed onto the government furlough scheme as a result of the pandemic. However, we were still able to develop and make progress on some initiatives, to place the focus of our business firmly on sustainable growth.

In 2019 we conducted a materiality assessment and committed to reviewing and repeating at regular intervals. We remain committed to this process and have maintained our communication on our progress against our ESG strategy.

We continue to future proof our plans by embedding the Sustainable Development Goals to ensure we emerge from the pandemic with a more resilient business by being fairer and greener.

Across all our businesses we will use this challenging year to build our partnerships to level-up inequalities and build back better. We will maintain our priority of the health and wellbeing of our people and balance the economic requirements with the needs of our planet and society.

We have focussed our attention on our governance over the past year. We believe that increasing our data monitoring will increase transparency and continuity. We want to bring our people on the journey with us, so we aim to drive engagement and communication. Our implementation plans will include informed targets, realistic timeframes for delivery and will identify resource requirements to implement the changes and deliver the programmes to achieve our objectives.

In keeping with our focus on strong governance we have established a number of internal working groups, consisting of representatives across each of our businesses. These working groups are designed to focus attention on the aspirations set out in our Five Pillars. Meeting monthly, the teams are working to deliver positive change to our people, communities and environment. They are making good progress across these areas, which I know will translate into tangible results in time.

As you will see in this report, we are open about not being able to progress at the pace we were hoping to achieve this year. But in a year which no one could have foreseen, with impacts that we could never have anticipated, I am proud that we have been able to make strong progress in some areas which has set us up for success for 2021 and will help us achieve a step change in our ESG ambitions.

I would also like to take this time to thank our team, who during this turbulent year worked incredibly hard to ensure the health and wellbeing of our people throughout.

Materiality matrix

Focus areas: ● Environment ● Social ○ Governance

Our ESG framework

Developing our people
We help our people to flourish and grow in an inclusive and supportive environment.

For more information:
See pages 48-51

Supporting sustainable communities
We create sustainable, long-term opportunities in our communities to support social and economic development.

For more information:
See pages 52-53

Excelling in health & wellbeing, safety and security
We are committed to the health & wellbeing, safety and security of our people, customers and operations.

For more information:
See pages 54-56

Taking climate action
We minimise our emissions and support the development of low carbon infrastructure, to help the UK deliver on its net-zero carbon emissions target.

For more information:
See pages 57-61

Minimising our environmental footprint
We minimise our impact on the environment and aim to manage noise, protect air quality, and support the circular economy.

For more information:
See pages 62-63

Sustainability Report
continued

Non-Financial Information Statement

In line with the Non-Financial Reporting Directive, we have set out below where relevant information we need to report on can be found.

Reporting Requirement	Policies and Standards	Reference in Annual Report
1. Environmental Matters	• Environmental, Social & Governance (ESG) Policy General Statement • ESG Framework • Group Environmental Policy • Sustainable Procurement Policy	• Our Story page 4 • Sustainability Report pages 44 to 63 • Stakeholder Engagement and s172 pages 14 to 21 • Key Performance Indicators pages 12 to 13 • Principal Risks and Mitigations pages 64 to 70
2. Employees	• Recruitment Policy • Group Health & Safety Policy • Equality, Diversity & Inclusion Policy	• Our Story page 4 • Developing Our People pages 48 to 51 • Stakeholder Engagement and s172 pages 14 to 21 • Excelling in health & wellbeing, safety and security pages 54 to 56
3. Human Rights	• Modern Slavery Statement • Modern Slavery & Human Trafficking Policy • Dignity at Work Policy • Data Protection Policy • Safeguarding Policy	• Supporting sustainable communities pages 52 to 53 • Stakeholder Engagement and s172 pages 14 to 21
4. Social Matters		• Sustainability Report pages 44 to 63 • Principal Risks and Mitigations pages 64 to 70 • Stakeholder Engagement and s172 pages 14 to 21
5. Anti-Corruption & anti-bribery	• Anti-Bribery & Corruption Policy • Whistleblowing Policy • Ethics & Business Integrity Policy	• Stakeholder Engagement and s172 pages 14 to 21 • Principal Risks and Mitigations pages 64 to 70
6. Business Model		• Business Model, pages 8 to 9
7. Principal Risks		• Risk Management & our principal risks, pages 64 to 70
8. Non-Financial KPIs		• Key Performance Indicators, pages 12 to 13

Our performance in 2020

We have identified metrics aligned to our new ESG framework to enable us to monitor and measure our performance against our sustainability strategy going forward. We report here on our performance during the year and will be providing comparative figures along with additional metrics for future years, including supporting sustainable communities.

Developing our people

Employees with more than five years' service

22% (2020: 23%)

Attrition:

55% (2020: 21.6%)
All

49%
Less all TUPE (Rail, SAS & Promotions)

Attrition:
All Leavers within 6 & 12 months

157 (2020: 377)
Leavers within 12 months

52 (2020: 233)
Leavers within 6 months

Total number of employees
(of this 762 Full time, 26 zero hours & 124 part-time)

912 (2020: 1,482)

Average training hours per person

30.88 (2020: 55)

Leavers within 6 & 12 months less all TUPE

167
Leavers within 12 months

59
Leavers within 6 months

Taking climate action

% electricity from renewable sources

22% (2020: 19.4%)

Tonnes CO_2e per £m of revenue

197.7

Excelling in health & wellbeing, safety and security

RIDDOR accidents rate

0.43 (2020: 0.59)

Number of accidents

68 (2020: 174)

Number of RIDDOR incidents

8 (2020: 18)

Accident frequency rate

3.64 (2020: 5.67)

Reduction in incidents

23% (2020: 3.2%)

Minimising our environmental footprint

Volume and % of recovered waste used for energy feedstock by Stobart Energy

1.0 million tonnes
Waste diverted from landfill supplied as fuel (Total waste Wood-sourced fuel supplied)
(2020: 1.2 million tonnes)

1.4 million tonnes
Total supplied (Including waste and virgin sources)
(2020: 1.4 million tonnes)

71.4%
Supply is waste diverted from landfill
(2020: 83%)

Group waste recycled or converted to energy (%)

99.5%
(2020: 99.5%)

Reportable environmental incidents

1 (2020: 0)

Sustainability Report
continued

Developing our people

It is our people who continue to deliver the strategy for the business. Our aim is to make Esken a better place for our people to work and become an Employer of Choice in the communities we operate within.

Our People Strategy achievements in 2020/21

- 3-year People Plan
- Establish a clear Employee Value Proposition (EVP) which runs through everything we do.
- Created an integrated Occupational Health and Employee Assistance Programme provision to support our Wellbeing plan.
- Implementation of an applicant tracking platform which gives our candidates a best-in-class experience and provides the business with real time analytical data.
- Group People Policies and associated processes reviewed to ensure a more contemporary and gender-neutral tone of voice.
- Online onboarding experience for new starters including e-signature software launched across the business.
- New centralised Careers Portal for all jobs across the business providing a one-stop-shop for applicants, with an ability to build a talent pipeline and run a talent referrals programme online through the dedicated referrals portal.
- Updated our Appraisal Process.
- Further development of our HR Self Service System to transfer further manual processes online.

Our next steps and priorities for 2021/22

- Embed our new brand and values through engaging employees and culture workshops.
- Focus our Wellbeing activity on mental and financial wellbeing, and help employees recognise how they are inextricably linked.
- Fully benchmark and put all roles through job evaluation to ensure that there is no unconscious bias in our reward structures.
- Apprenticeship, Management & Leadership Programmes.
- Implement a Learning Management System (LMS) to support our employees' personal and professional development.
- Further develop our recruitment and selection.
- New performance management process.
- New Induction & Probation processes.
- Executive Leadership and Succession planning.
- Learning analytics.

Total number of employees (as at 28 February 2021)

912

Total number of training hours invested (per person)

30.88

Employees with more than five years' service

201

Employee Engagement, Health & Wellbeing

Our 2019 Employee Survey told us that our employees wanted us to review our reward and benefits packages, wanted better communication and more robust Health & Wellbeing interventions, particularly stress and mental health provisions from the company.

COVID-19 expedited our Health & Wellbeing plans exponentially. As the country went into lockdown, we introduced an Employee Assistance Programme (EAP) as we recognised that we needed to help fill in the gaps when public sector services were overstretched or unable to operate. It is estimated that up to 20% of adults in the UK are expected to need mental health support in the coming year, and we are proud to have put free services in place for our people such as counselling, webinars and wellbeing apps to support employees with a good self-care routine including a healthy approach to diet, relaxation and sleep.

We have also invested heavily in national health campaigns this year including Mental Health Awareness Week, Men's Health Week and Menopause Awareness Week, as well as offering employees free seasonal flu jabs. We have put stringent measures in place to protect employees from the risk of infection and ensure our workplaces are COVID-Safe by implementing public health measures like social distancing. This has also meant supporting large sections of the workforce to work from home wherever possible. As well as worries about becoming ill, many employees have been more isolated, others have faced income or job loss, while working parents have to juggle caring responsibilities and work in their households. We ensured we had in place a holistic wellbeing framework to support people's physical health and safety, and mental health.

Diversity
As a progressive employer, we understand why gender equality in the workplace is so important. In the UK today, women are more educated and employed than ever before. In part, we can thank changing social mindsets along with the development of more progressive workplace cultures where a focus on diversity and inclusion is clear to see. Through the continued work on our People Strategy, underpinned by our new Esken Values, we aim to be an inclusive employer where employees can flourish by bringing their whole selves to work and having a true sense of belonging.

The global pandemic has been catastrophic for our business in many ways, but with the overnight success of telecommuting has recruited some great talented women from as far away as Spain who have joined our business over the past 12 months.

We recognise that inflexible working environments drive away talented women from the business where there is a need to balance work with home life. We have therefore put in place solutions such as job sharing, part-time jobs, remote working, family leave, and flexible start and end times for many of our roles.

We know that being an inclusive workplace for women is a win-win as it helps us to not only retain the females we already have but to also attract more female talent. Earlier this year we implemented our first ever Menopause Policy and we're still one of the few businesses in the UK to do so. With a greater understanding of women's issues within the workplace we can ensure support is available when it's needed the most.

Despite making progress, women are still under-represented in the workplace, particularly women from BAME communities, women with disabilities and LGBT women. Strategies like unconscious bias training and sharing metrics can help overcome this unequal representation but mindsets also need to change for women to succeed in the workplace. We were proud to support this year's International Women's Day; to celebrate the progress we've made over the past 12 months and to raise awareness about how our men can be allies and change agents in this area. As set out in our Equality, Diversity and Inclusion policy, we are committed to providing equal opportunities in employment. Employees who are, or become disabled, are encouraged to tell us about their condition so that we can support them through our integrated occupational health and employee wellbeing programme and consider what reasonable adjustments we can make to accommodate employee needs. This year has seen a focus on supporting employees with long-term mental health disabilities with the introduction of a wellness action plan for the Line Manager to use to help support disabled employees and others who might want support with their mental health.

Sustainability Report
continued

Developing our people
continued

Gender split – Board (%)

Female (13%)
Male (87%)

Gender split – Group Management (%)

Female (33%)
Male (67%)

As at 28 February 2021, the Group employed 912 people. Of the total number of employees, 241 (27%) are female.

We set out here a breakdown of the gender split within our Group, comprising the Board, the Executive Committee, senior managers below the Executive Leadership Team and all other employees, as at 28 February 2021.

The Board overlaps in terms of membership with the Executive Leadership Team as both include the three Executive Directors.

We define senior managers as those at divisional board level, or direct reports to the Executive Committee. This group is the most senior management population below the Board and the Executive Committee and together, these three groups form our leadership team.

Further information in relation to diversity can be found in the Corporate Governance report on page 74 and the Nomination Committee report on page 83.

Gender Pay Gap reporting

We will be publishing the Esken Gender Pay Report on our website **www.esken.com** in accordance with the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017, despite this being non-mandatory submission in 2020 due to COVID-19.

Esken recognises that in order to attract talent and build a sustainable business we need to ensure that we are working towards becoming a truly inclusive and diverse organisation, and despite some divisions employing less than 250 people, we continue to voluntarily provide information for all divisions of our business.

Gender split – Senior Management (%)

Female (29%)
Male (71%)

Gender split – All other employees (%)

Female (27%)
Male (73%)

Education, Employment & Skills

Our Talent & Performance strategy identified two fundamental systems required to enable us to attract the best talent into the business and to identify and deliver training and development solutions to our employees using a mobile first approach.

Applicant Tracking System

Our talent acquisition platform was successfully implemented in the third quarter of 2020 and has enabled us to significantly reduce our reliance on agencies and the associated cost. We also now have a dedicated careers site for applicants to view all roles across the business. With integrated links to most job boards and social media advertising we can reach a much wider and more targeted audience than previously.

The use of video interviewing technology has also enabled hiring managers to save time in the interview process and hiring managers in our 24/7 operations are able to screen applicants at times to suit them. We are also able to collate analytical data regarding all elements of the recruitment and selection process as well as collating anonymised equality data from applicants, informing our D&I strategy and collating applicant feedback through the customer satisfaction survey.

The next phase is to further develop the recruitment and selection skills of our hiring managers so we can further leverage the technology we have invested in, and to embed our new values and behaviours into the recruitment process so we can source and hire the very best talent.

Esken Learning Hub

A key driver in our decision to invest in a business wide learning management system was to enable us to see real time analytical data on compliance training for our employees. Training data held on spreadsheets and paper has been gathered from all areas of the business and will come together within the Learning Management System (LMS) as a single source of compliance data. This will be surfaced on Compliance Dashboards which will provide executive level visibility of the compliance status of all divisions and departments within the business. Compliance training can be monitored, this new approach improves consistency and efficiency and can be analysed, providing data to support business decisions and to demonstrate our commitment to safety and compliance to our partners.

A longer term plan for this project is to identify which training can be converted to e-learning allowing employees to undertake training and development at a time and place that suits them, and potentially reducing the impact on operational activity. Our LMS will enable us to deliver this to our operational workforce who expect a mobile first approach to learning and development as all e-learning modules can be completed on phones and tablets.

Sustainability Report
continued

Supporting sustainable communities

The pandemic highlighted the disparity in our communities and the impact on the most vulnerable in our society.

We are a socially responsible neighbour to the communities in which we operate. Our ambition is to further support our communities as outlined in our Supporting Sustainable Communities Pillar. We will increase our community engagement by building partnerships with stakeholders to create and implement investment initiatives to help drive social and economic growth.

As part of the new governance structure we have established a number of working groups to help us define, develop and implement our programmes. These working groups include community stakeholder engagement, charitable giving, employee volunteering and education, employment and skills. Our people are our community and we want to support our colleagues to volunteer, fundraising, support skills development and help people back into the world of work in partnership with local organisations and educational institutions.

Despite the difficulties of the global pandemic this year, our teams demonstrated their commitment to supporting our local communities through their continued volunteering and fundraising. This include foodbank donations, Christmas Jumper Day and Mission Christmas.

Case study
Energy

At Stobart Energy the team used their daily exercise during the government-imposed lockdown to cover the equivalent length of the distance between all of their operational sites across the country which totalled 1,700 miles. They walked, ran, cycled and even went horse riding to fundraise for NHS Charities Together. This initiative started on 20th March and by 11th May they had surpassed the target of 1,700 miles and reached over 2000 miles. A new target was then set to see if between them they could cover the distance around their sites twice, a total of 3,400 miles. They were successful in achieving the new target and by 1st June they had raised £1,150 for NHS Charities Together.

Total raised for NHS charities

£1,150

Case study
London Southend Airport

Total raised for the NHS

£6,000

With many flights grounded a member of the airport team identified an opportunity to raise money for the NHS. On Friday 29th May London Southend Airport hosted a charity event for 40 members of the airport who were joined by MP James Duggridge to run or cycle the length of the runway as they hope to achieve a total of 290 kilometres – approximately the distance to Amsterdam. The team worked together and exceeded the target by travelling over 475 kilometres – the distance to Paris! The runway is a total of 3.6 km on a return journey, and the participants exceeded their target by completing 132 laps, £6,000 was raised for the NHS.

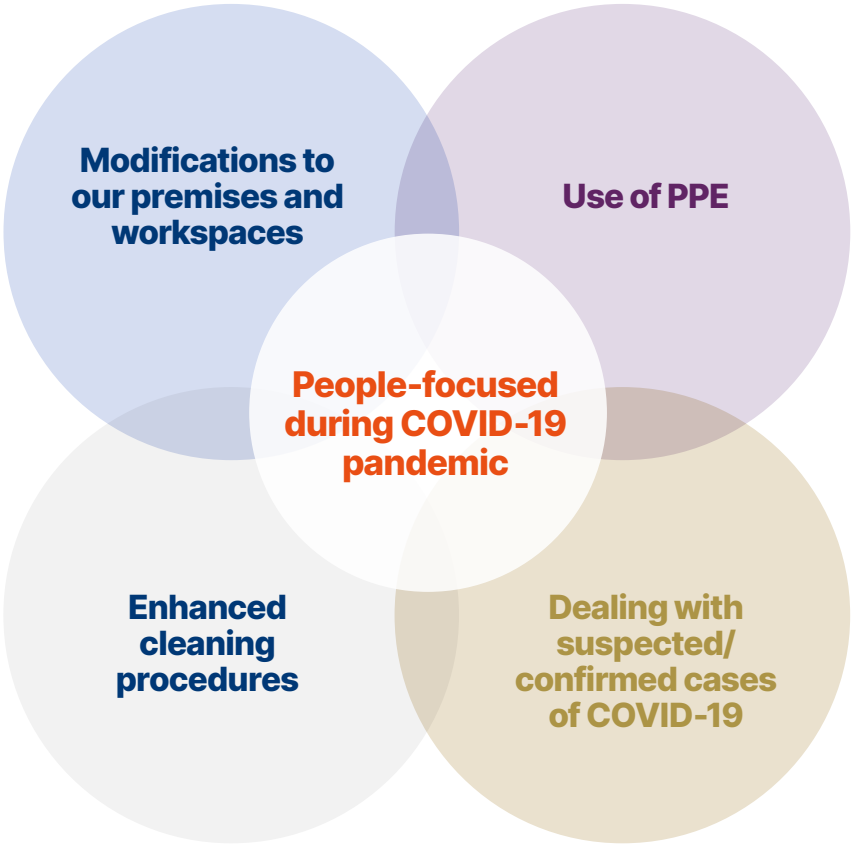
Sustainability Report
continued

Excelling in health & wellbeing, safety and security

Our priority across all our operations is the health, safety, security and physical and mental wellbeing of our people, passengers and partners.

We drive for continuous improvement by monitoring our health and safety performance. Our goal is no harm to our people, passengers or partners.

We focus on health, safety and wellbeing in all that we do and as set out in our business strategy. We set high standards across all our divisions for health and safety management processes, track our performance and investigate incidents to identify opportunities to improve. We have a robust audit process to review our compliance standards. We are using behavioural safety approaches to develop and improve our safety culture. We invest significantly in training.



COVID-19

The focus of the health and safety team across all divisions has been to deliver a safe working environment during the COVID-19 Pandemic. We supported our people to work from home and to maintain our operations safely and securely. As we begin to emerge out of the pandemic, in line with the government roadmap, we are looking to make preparations. We will be undertaking the CAA and Public Health Corridor Assessment Process, to support our people and passengers back safely. As we are all aware the impact the pandemic has had on individuals both personally and professionally and we will be looking to invest in mental health provision for our people.

As well as providing regular communications to our employees and the briefing of management teams, we established a clear plan focussed on four key areas to ensure that those Key Workers who continued to come to work could do so safely and with minimal risk using the government advice available at that time. The plan was formally reviewed each week during lockdown as well as when restrictions started to be lifted and a comprehensive risk assessment was carried out for each workspace within the business.

In our workplaces, we held briefings for all those entering the workplace and office environment. New signage was created not only to ensure that the rules and procedures were followed by everyone, but to reassure employees that we were a COVID-Safe environment.

Our workplace control measures during the initial office induction:

- Demarcated areas around hotspots such as photocopiers, reception, and kitchen areas
- Utilisation of meeting rooms as desk space where necessary
- Limiting travel between business locations
- Implementation of an online employee weekly movement sheet to allow for control and visibility over who is expected to be in the workplace each day, with capped numbers
- Elimination of face to face meetings. These will be carried out via software solutions such as Teams and Skype
- Limiting the number of people in meeting rooms, kitchen areas and toilets
- Staggered breaks by department
- Staggered arrival and departure times at work to reduce the crowding at the entrance doors
- Where reasonably practicable, one-way systems have been established for access and egress to buildings
- Hand sanitiser stations have been provided at building entry and exit points
- Employees are discouraged from unnecessary movements around the workplace. For those who are working in the workplace, the use of phones and virtual meetings from the workstation are encouraged. Radios and phones are to be used from a position of safety to communicate with others rather than travelling to have a face to face conversation
- Access and egress routes have been restricted to enable one-way systems to be established
- Lifts have been limited to use by one person at a time. Lift operation controls are cleaned before and after use by the individual using them

Continuous Improvement

Our learning and development team have worked to develop a health and safety Learning Management System (LMS). The system will support a number of training modules including compliance.

We remain committed to delivering a safety campaign to deliver 'Mission Zero' across all our divisions and will support World Health and Safety at Work Day.

Barbour EHS

To ensure we continuously develop and improve health and safety and bring in new policies and processes as required by the consistently changing legislative landscape, Esken invested in an online facility. The Barbour EHS was brought into the business in 2019 and throughout the last year the system has been fully embedded across all divisions. This system is a source of information to support the compliance processes but also provides a library of best practice and tools to improve our workplace culture.

Performance in the year

The safety performance over the past year is reflective of the pandemic as many of our locations have not been fully operational. The safety performance throughout the divisions has led to an overall decrease in employee accidents of 61% and a 23% reduction in employee incidents across all divisions to the year ending February 2021, compared with the year ended 29 February 2020.

Governance of the safety strategy

We continue to strengthen our health and safety governance across all business areas. There is a Group wide Risk and Safety monthly report to the Executive Team which is discussed. Through the ESG Governance there is a Group wide ESG Working Group. We continue to deliver against the priorities identified for 2020/21 and to improve collaboration and communications across divisions.

Each division rigorously monitors and reviews operational safety risk, identifying potential hazards and removing and mitigating identified risks. The Group Safety and Compliance team drives the progress of our safety performance with regular compliance audits conducted by internal audits at all levels of our business divisions.

Making safety risks clearer

The safety and wellbeing of our people is our top priority. Our continuous improvement drive ensures we continually review our reported event data and this identifies the areas of safety and operational risk. Through our governance structure all analysis of the data is reported to each divisional board and the Esken Group Management Board. The Head of Group Risk and Safety attends all Group Board meetings to provide additional information and context to the identified risks and mitigations. This visibility amongst the Executive and senior team supports the development of new mitigation measures. A further drive on risk is to ensure all our operational Head of Departments receive the required level of training to conduct risk assessment.

Sustainability Report
continued

Excelling in health & wellbeing, safety and security
continued

Case study

The introduction of the SiteZone Proximity Warning System

At Stobart Energy our focus is protecting the health and safety of our people across all our operational sites. As part of continuous improvement culture we are always looking for more innovative ways to enhance our health and safety procedures. One such area we invested in this year was the introduction of a SiteZone Proximity Warning System (PWS). This is a mechanism used when people and vehicles work together in close proximity.

The PWS is an audible and visual system designed to reduce the risk of vehicle-personnel collisions.

Across many of our operational sites we have close interaction between the plant vehicles and our people. The introduction of this safety system will protect vulnerable areas by implementation of an exclusion zone between people and vehicles. We identified our sites with a high level of interactions between pedestrians and vehicles. We have since implemented the PWS at a number of sites, namely Widnes, Tilbury 1&2, Rotherham, Pollington and Port Clarence. The system has been fitted to all our loading shovels and telehandlers working in conjunction with each of our sites' transport management plans. The system utilises telematics information which provides intelligence on potential areas of concern by identifying where alarms have sounded frequently and alerting the sites to these frequent occurrences.

Case study

The introduction of SAFARI – SAFety And RItuals

Stobart Aviation Services introduced SAFARI, a new strategy to change mindset and implement a safer culture. This is primarily achieved by moving away from a compliance-led approach and engaging all levels of the divisional hierarchy in behavioural based safety techniques. The programme aims to drive cultural and behavioural change, through increased visibility of management teams in the operations, with a by-product of increased numbers of Safety Reports.

Colleagues are encouraged to intervene in unsafe conditions and agree actions to drive preventative incident management. SAFARI was designed to focus on increasing awareness, and furthermore, to drive cultural change through leadership with engagement of Line Managers and Supervisors. All Health & Safety programmes require robust reporting and through SAFARI we have taken to increasing our reporting to include near misses, which report any event, conditions and behaviours that have the potential to cause an injury or ill health to our people and operationally any damage to aircraft, equipment, property, plant, or materials. The other additional metric was safe observations, which champion strong health and safety cultural values. This included observing a high level of execution of safety procedures and precautions, in particular if the person has performed above and beyond the call of duty. Safe observations aim at recognising and encouraging safe behaviours and attitudes towards excellence in health and safety.

To deliver the SAFARI a robust communications plan, and a suite of tools was established to deliver the programme. The plans included offering two-way interaction for feedback & observation and achievements & evaluations. A poster campaign was launched with promotional material placed in areas of large footfall including meeting rooms. The campaign also included case studies which highlighted the impact on people when health and safety procedures are not

adhered to. Colleagues were given cards to support with running safety talks to explain how to capture observations and agree team actions. The campaign ran for 10 weeks and the impact was measured by online feedback forms. Reporting of near misses and safe observations continue as a result of the pilot programme.

Ultimately, through raising awareness on safety issues is a key input in moving towards establishing a behaviour-based safety culture and raising employee engagement.

Taking climate action

We are committed to supporting the UK to deliver on its net-zero carbon emissions target. Our aim is to drive efficiency, reduce emissions and increase offsetting.

Reducing carbon emissions
We have established a Carbon Reduction Working Group as part of the ESG Governance structure. This group is focussed on carbon reduction across all our all business operations and supply chain. The Group is developing realistic targets, innovative solutions and partnerships to contribute towards net-zero in the UK.

Introducing energy efficiency and management
Driving energy efficiency is a key component to delivering on our carbon reduction mission. Within the ESG Working Groups we keep abreast of policy, thought leadership and new innovation in energy efficiency. As part of our continuous improvement processes we track, manage and minimise our energy usage of our fleet and buildings. We play our part in supporting the UK transition to a low carbon economy across all our business divisions including circular energy solution, rail links and operational efficiencies.

We are also working to reduce our climate impacts by investing in renewable energy infrastructure electrification and exploring climate smart operating protocols. We invest in climate-smart energy solutions in our vehicle fleets and across all our operational sites to support a reduction in our energy usage. We will expand our renewable energy production through our energy business and increase our renewable energy use across all three divisions.

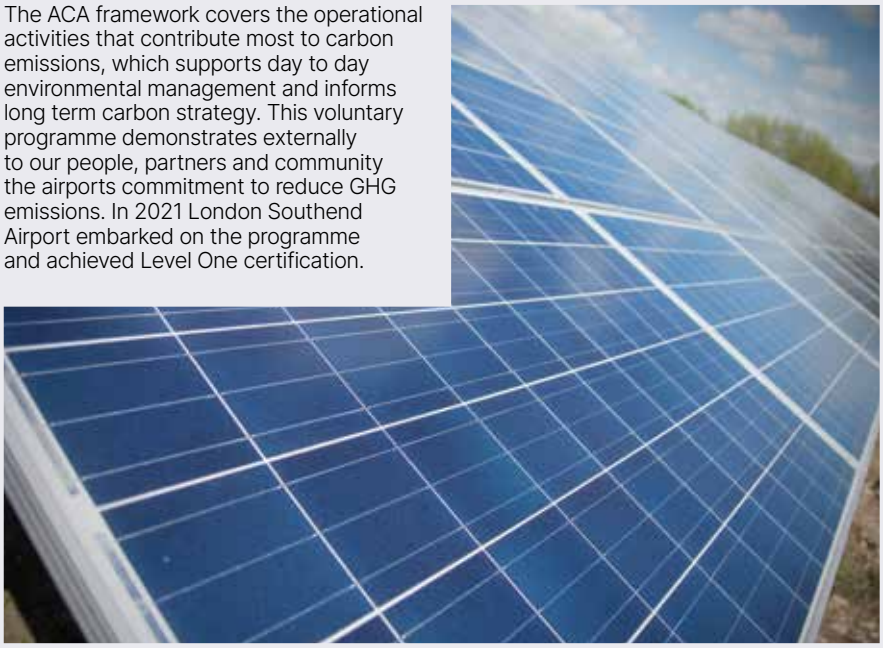
Case study

Committed to Taking Climate Action

One of our five ESG Pillars is Taking Climate Action and at London Southend Airport, we have committed to the Airport Carbon Accreditation (ACA), which is a scheme to support airports measure, manage and reduce their carbon footprint.

The Airports Carbon Accreditation programmes provides a framework for airports to be certified at six different levels of accreditation. These are: Level 1 Mapping, footprint management (Scope 1&2). Level 2 Reduction, carbon management towards a reduced carbon footprint. Level 3 Optimisation, third party engagement in carbon footprint reduction. Level 4 Neutrality, carbon neutrality for direct emissions by offsetting. Level 5 Transformation, transforming airport operations and those of its business partners to achieve absolute emissions reductions. Level 6 Transition, compensation for residual emissions with reliable offsets.

The ACA framework covers the operational activities that contribute most to carbon emissions, which supports day to day environmental management and informs long term carbon strategy. This voluntary programme demonstrates externally to our people, partners and community the airports commitment to reduce GHG emissions. In 2021 London Southend Airport embarked on the programme and achieved Level One certification.



Sustainability Report
continued

Taking climate action continued

Activities and performance
Carbon and climate change

The global pandemic has been challenging but shifts in business operations, the workforce and lifestyle changes that are helping tackle climate change and the government is now setting out plans for a Green Recovery.

Introduction
The Esken Group and each of the divisions are committed to decarbonisation and supporting the UK Government 2050 net zero target. To support us deliver on our ambitions we remain committed to taking a science-based approach.

With the global pandemic our climate ambition for the business remains:

- to minimise our emissions and support the development of low carbon infrastructure; and
- to help the UK deliver on its net-zero carbon commitment.

Esken Group is committed to low carbon operations across all of our divisions. Our ESG Framework has set out the measures we are taking to mitigate our climate impacts, manage climate-related risks and provides information on our climate and energy performance. Our ambition is to undertake the Climate-related Financial Disclosure (TCFD) and as we progress, we take into consideration the guidance provided by the TCFD Task Force. Our reporting remains in line with the Streamlined Energy and Carbon Reporting (SECT) framework.

As part of our continuous improvement we have improved our management of our energy consumption across our buildings and fleet by enhanced tracking. We are also working to reduce our climate impacts by investing in renewable energy infrastructure, electrification and developing climate smart operating protocols.

We understand the importance of governance and accountability of reporting environmental data to track progress against our commitments and climate management. The ESG Steering Group, has representation from the head of each division and key business functions and is chaired by Nick Dilworth, Chief Operating Officer, as Board sponsor. An ESG update is presented to the PLC Board quarterly and an ESG sub-committee of the PLC Board is being established. The Steering Group meets monthly and has oversight of all climate-related management.

Our carbon emission and energy reduction priorities
Fleet efficiency
Stobart Energy as an energy-from-waste business has a fleet of 150 trucks transporting biomass fuel to our customers. The current fleet is predominantly made up of the Scania R450s, a model which was the winner of the Green Truck Award 2019. The Scania R450s is renowned for its onboard low carbon technology innovations that ensure fuel efficiency and reduced emissions, which include active prediction and Opticruise functions, which is software that adjusts flywheel torque according to speed sensors on the wheels, that combined can reduce fuel consumption by over 10%.

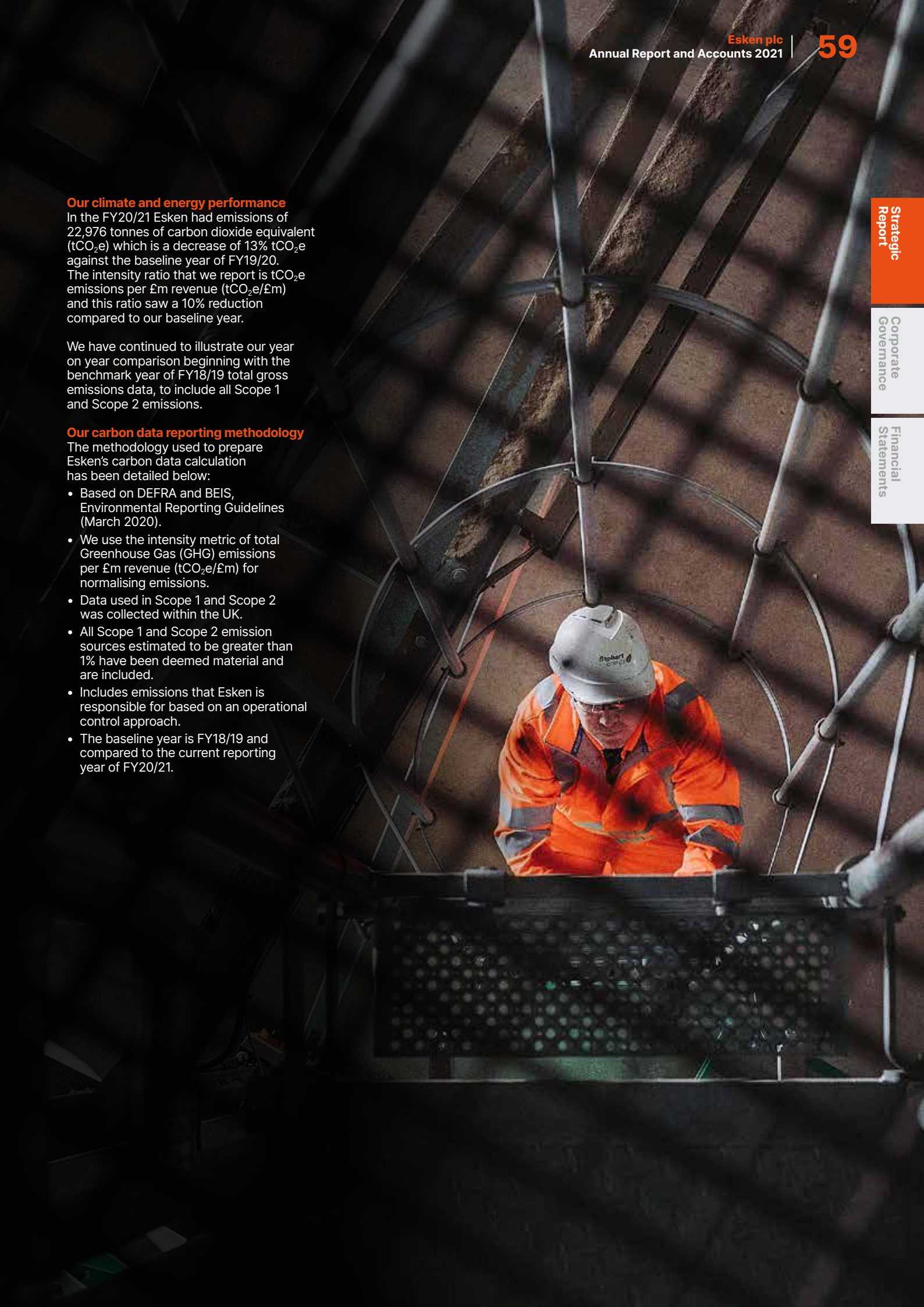
Stobart Energy's continued use of the newest models of material handling and processing equipment and Euro VI-compliant HGVs helps to minimise fuel use and carbon emissions, whilst the routine inspection and maintenance programmes in place also ensure these items are running in accordance with manufacturer's specifications. We have in place a vehicle replacement programme resulting in all vehicles being less than five years old. Euro VI vehicles come with the additional benefit of the AdBlue engine treatment which further reduces the emission of harmful exhaust gases.

Our climate and energy efficiencies
Our governance structure has established individual working groups. Through this structure we have representatives from all our business divisions and they are focussed on ways we can reduce our consumption of energy, waste and water. We have chosen to report our 2019/20 energy consumption in kWh for the Group and will use this as a benchmark year going forwards.

Energy efficiency activities in 2020/21 included:

- We have made improvements to data collection and the methodology for assessing Scope 1 and Scope 2 carbon emissions and energy consumption for the Group.
- Route planning for the Stobart Energy fleet where routes and schedules are being constantly improved to ensure optimal efficiency and all drivers use the GloSmart app.
- The procurement team expanded to include a manager dedicated to managing and optimising the procurement of fuel across Stobart Group.

We have completed our Energy Saving Opportunity Scheme (ESOS) phase II compliance activities. We remain committed to considering and implementing the recommendations where appropriate. The impact of the pandemic has meant that we will defer any implementation during 2021/22.



Our climate and energy performance

In the FY20/21 Esken had emissions of 22,976 tonnes of carbon dioxide equivalent (tCO_2e) which is a decrease of 13% tCO_2e against the baseline year of FY19/20. The intensity ratio that we report is tCO_2e emissions per £m revenue (tCO_2e/£m) and this ratio saw a 10% reduction compared to our baseline year.

We have continued to illustrate our year on year comparison beginning with the benchmark year of FY18/19 total gross emissions data, to include all Scope 1 and Scope 2 emissions.

Our carbon data reporting methodology

The methodology used to prepare Esken's carbon data calculation has been detailed below:

- Based on DEFRA and BEIS, Environmental Reporting Guidelines (March 2020).
- We use the intensity metric of total Greenhouse Gas (GHG) emissions per £m revenue (tCO_2e/£m) for normalising emissions.
- Data used in Scope 1 and Scope 2 was collected within the UK.
- All Scope 1 and Scope 2 emission sources estimated to be greater than 1% have been deemed material and are included.
- Includes emissions that Esken is responsible for based on an operational control approach.
- The baseline year is FY18/19 and compared to the current reporting year of FY20/21.

Sustainability Report
continued

Taking climate action continued

Greenhouse gas (GHG) emission source

	FY18/19		FY19/20		FY20/21		Total change *baseline FY18/19		
	tCO_2e	tCO_2e/£m	tCO_2e	tCO_2e/£m	tCO_2e	tCO_2e/£m	tCO_2e	% change	tCO_2e/£m
Scope 1	**23,523**	**160**	**23,987**	**133**	**19,623**	**176**	**-3,900**	**-17**	**10**
Fuel combustion	**20,561**	**140**	**20,696**	**115**	**18,536**	**166**	**-2,025**	**-10**	**18**
– Vehicle fleet (mobile)	16,825	115	16,176	90	16,623	149	-202	-1	29
– Sites (stationary)	3,735	25	4,520	25	1,913	17	-1,822	-49	-32
Operation of facilities	**2,963**	**20**	**3,291**	**–**	**1,087**	**10**	**-1,876**	**-63**	**-51**
– Fugitive emissions	2,963	20	3,291	18	1,087	10	-1,876	-63	-51
– Process emissions	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Scope 2	**2,968**	**20**	**2,420**	**13**	**3,353**	**30**	**385**	**13**	**50**
Purchased electricity	2,968	20	2,420	13	3,353	30	385	13	50
Purchased heat	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Purchased steam	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Purchased cooling	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total gross emissions	**26,492**	**180**	**26,408**	**147**	**22,976**	**206**	**-3,516**	**-13**	**14**

Scope 1 and Scope 2 data all collated from within the UK.

Total emissions tCO_2e (Scope 1 and 2) for FY20/21

22,976

- Scope 1 (85.4%)
- Scope 2 (14.5%)

Total emissions tCO_2e (Scope 1 and 2) for FY18/19

26,492

- Scope 1 (89%)
- Scope 2 (11%)

Analysis of Scope 1 emissions by key sources (tCO_2e in FY19/20)

198 Intensity ratio tCO_2e/£m (increase of 10%) in FY18/19

- Diesel (71.8%)
- Domestic oil (10.47%)
- Gas oil (21.75%)
- Natural gas (0%)
- Refrigerants (6.11%)
- Petrol (0%)

Operational control

The operational control approach accounts for Esken's Scope 1 and 2 emissions from all its operations. This includes all sites that are operated by Esken whether they are owned or leased. This approach to consolidation is different to the financial control basis that is used to compile the Company accounts.

Definition of operational control

The definition of the operational control where Esken is deemed to have operational control. If the Group or one of its subsidiaries has the full authority to introduce and implement its operating policies at each individual site.

The following operational divisions were captured within the FY20/21 reporting year:

Company divisions

Division	Under Company operational control
Aviation	London Southend Airport
	Stobart Jet Centre
	Stobart Solar
	Thames Gateway Airport Limited (Holiday Inn Southend)
	Stobart Aviation Services
Energy	Stobart Energy

Scope 3 emissions

Within our GHG disclosure, we have not included Scope 3 emissions. We are developing our reporting to include Scope 3 emissions, to include them for this reporting year would have required us to undertake an additional separate analysis. We will continue to review the parameter of our GHG disclosure and take a decision on when Scope 3 emissions will be included and how these will be defined.

Energy consumption

Over the last two financial years we have been able to establish the energy consumption for Esken Group across all divisions. The methodology we continue to use is the operational control approach for calculating carbon emissions, with all emissions sources estimated to be greater than 1% have been included in the statement of energy consumption.

The results for financial year FY21 state that the total energy consumption is 92 million kWh and the intensity ration is 0.82 million kWh/£m (energy consumption per million pound revenue).

Energy consumption by source

	FY18/19		FY19/20		FY20/21			
	kWh	kWh/£m	kWh	kWh/£m	kWh	kWh/£m	Change kWh	Change kWh/£m
Scope 1	**81,673,740**	**556,024**	**84,056,727**	**466,425**	**76,171,065**	**681,315**	**-7%**	**23%**
Fuel combustion	**81,673,740**	**556,024**	**84,056,727**	**466,425**	**76,171,065**	**681,315**	**-7%**	**23%**
– Vehicle fleet (mobile)	67,936,456	462,502	66,272,118	367,739	68,362,793	611,474	1%	32%
– Sites (stationary)	13,737,284	93,522	17,784,608	98,686	7,808,273	69,841	-43%	-25%
Operation of facilities	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
– Fugitive emissions	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
– Process emissions	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Scope 2	**12,908,788**	**87,881**	**11,754,401**	**65,224**	**16,546,980**	**148,005**	**28%**	**68%**
Purchased and consumed electricity	10,486,380	71,390	9,469,754	52,547	14,382,500	128,645	37%	80%
Self-generated and consumed renewable electricity	2,422,408	16,491	2,284,647	12,677	2,164,480	19,360	-11%	17%
Purchased heat	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Purchased steam	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Purchased cooling	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total energy consumption	**94,582,528**	**643,905**	**95,811,127**	**531,649**	**92,718,045**	**829,320**	**-2%**	**29%**

Our next steps and priorities for 2021/22

Our ambition is to undertake the science-based approach to inform our future work on climate, energy and to reduce CO_2 emissions.

Sustainability Report
continued

We remain committed to minimising our impact on the environment. Our mission is to manage noise, protect air quality, and support the circular economy.

Minimising our environmental footprint

Managing noise
We responsibly manage noise across all our operations and minimise the impact on the communities living close to all our sites. We carefully manage the economic and social benefit while continually managing the environmental impacts of all our business divisions.

At Stobart Energy's processing plants they all undertake an independent noise assessment to ensure they meet the required standards as set by Local Planning authorities. The independent assessments are continually undertaken when any part of the operation may change such as site operating hours or equipment used on site to avoid impacts on neighbours.

We continue to invest in the latest models of processing equipment vehicles which helps to minimise noise, whilst routine inspection and maintenance programmes also ensure these items are running in accordance with manufacturer's specifications.

Our airport operations have established a robust noise monitoring and management system. We work in partnership with our airlines, ground handlers and regulators to continually reduce noise. We carefully monitor noise complaints to improve our policies, procedures and performance. Engaging with our local communities and residents remains a priority for noise management and mitigation.

Promoting a circular economy
Stobart Energy being an energy from waste business turns products destined for landfill into a valuable energy source. By the very nature of the business we enable the circular economy. We offer a full waste management solution and strive to improve the social and environmental credentials of the products and services we source.

Sustainable forest management
At Stobart Energy we ensure that the forest biomass we use is sourced from sustainably managed UK forests. We source material produced from forestry practices that are certified against sustainable forest management standards. Stobart Energy has an Forestry Certification Scheme, where customer driven requirements for virgin material are met under the FSC Chain of Custody Standard. This allows Energy to transfer claims for various types of FSC material from the source to the customer.

Protecting air quality
We aim to maintain clean, healthy air for our people, partners and communities at all our operations. We have robust monitoring in place to ensure we remain under the government guidelines and identify and establish mitigation programmes. One such initiative is trialling dust suppression equipment at Stobart Energy's operational sites which has significantly reduced the potential for off-site impacts.

Managing waste
Our mission is to eliminate waste from our operation and where possible send zero waste to landfill.

Across our business divisions we seek to minimise waste across all our operations. The airport has a number of initiatives to reduce and recycle waste from the terminal and office buildings including partnership with an energy from waste company to deliver zero waste to landfill. Stobart Energy ensure that all residual waste streams arising from biomass fuel production and office-based activities are sent for further treatment and recycling.

Protecting biodiversity
Throughout our planning and management of our operations we protect biodiversity. We identify important biodiversity that may be impacted by our operations and establish management plans to control and mitigate impacts.

Through the formal planning, permitting and licensing of our operations we have undertaken impact assessments and we minimise any potential adverse impacts on the local ecosystem.

Conserving water
We aim to continuously improve our water consumption and drive efficiency and reduce our water footprint across all our operations. We prioritise minimising our impact on our environmental impact by preventing pollution and limiting discharge.

At Stobart Energy we use water in dust suppression equipment, which supports our wide environmental impact areas. We regularly monitor the water used for this and continually seek to use the most efficient equipment to provide the required level of control.

Case study

Sustainable management of water and sanitation

The UN Sustainability Goal 6 is to ensure availability and sustainable management of water and sanitation for all. As the impacts of climate change causes unpredictable and more erratic weather patterns, we will begin to see more floods and drought, this uncertainty will put more strain on water infrastructure. The correlation between water and energy will become more prevalent as water is used to pump, treat and be used as heated water. It is for these reasons the London Southend Airport has measures in place to drive water efficiency.

We continually look to improve water efficiency, eliminate water demand, and source sustainable water at the airport. At London Southend Airport we have begun this journey by using sustainable water in our operation. Rainwater is collected from the terminal roof and held in two 60,000 litre underground water reserves. The rainwater collected is used to flush all 59 toilets in the terminal. It works by feeding the harvested water through a series of filters in a Stormsaver rainwater recovery system. Water consumption is monitored on an ongoing basis to identify opportunities to further reduce consumption and waste.

Activities and performance

Our business and climate change
Stobart Group provides important low carbon infrastructure to support the UK transition to a low carbon economy. This includes supporting rail links, circular energy solutions and providing efficient airport operations.

Biomass energy
Stobart Energy plays a vital role in delivering the UK's renewable energy targets with biomass power plants throughout the UK. Our business model of long-term contracts with our customers to recover waste wood for fuel which amounts to approximately 2% of the UK's population of annual electricity need. In 2020/21 we diverted approximately 1 million tonnes of waste wood from landfill.

We seek to find innovative solutions for sustainable energy. Our mission is to create a circular waste management solution by recycling all waste where possible and only turning waste into fuel where it is not possible to recycle by-products. Our approach has been to 'think local'. This sustainable model aims to provide energy solutions locally and minimise any unnecessary waste movement.

Waste to energy
We continually evaluate how we manage our waste and implement initiatives to reduce our landfill waste. In 2020/21, 99.5% of our waste was recycled or converted into energy.

% of our waste in 2020/21 that was recycled or converted into energy

99.5%

Risk management and our principal risks

Risk is inherent in running any business. At Esken, we aim to deliver our objectives and business ambitions, for the benefit of our shareholders and stakeholders, whilst operating within the risk tolerances set by our Board.

Overview

Within Esken, the management of risk is treated as a critical aspect of our business activities. Understanding the risks currently faced, and identifying changing and emerging risks enables the Group to focus resources to manage and mitigate risks appropriately, enhancing our ability to make better decisions, deliver on objectives and improve Group performance. The Board has ultimate responsibility for ensuring the Group has robust risk identification and management procedures, and has put in place a risk framework to facilitate this. The framework sets out the mechanisms through which the Board identifies, evaluates, monitors and manages significant risks, and receives assurance about the effectiveness of the controls in place to mitigate them.

Risk management activities are delegated to the level that is most appropriately placed to oversee and manage the risks, and oversight of the process as a whole rests with the Audit Committee.

Our principal and corporate risks are documented in a format which includes a comprehensive overview of the key controls in place to mitigate the risk and the potential impact. Changes to the principal risks can only be made with approval from the Audit Committee or Board.

The Board undertakes a full review of the corporate and principal risks on an annual basis, and they are reviewed by the Audit Committee at each of its meetings. A robust assessment of the principal risks facing the Group is regularly performed by the Directors, taking into account the risks that could threaten our business model, future performance, solvency or liquidity, as well as the Group's strategic objectives. In order to gain a comprehensive understanding of the risks facing the business, the Audit Committee also receives presentations from senior managers and external advisers.

There were no significant weaknesses identified in the risk management process during the year, and no changes were made to the framework by either the senior management team or the Audit Committee.

Risk appetite

The Group's appetite for and tolerance of risk is set by the Board, and is the level of risk we are willing to accept to achieve our strategic objectives. Our overall risk tolerance is low and this, alongside our culture, informs how our staff respond to risk. Our open and collaborative management style ensures that potential problems, risks or issues are identified quickly, to enable consideration and appropriate action to be taken.

The Group has no appetite for risk relating to the health, safety and welfare of employees, customers and the wider community. We do, however, have an increasing appetite for risk in relation to activities which are directed towards creating additional demand for our services, to drive revenues and increase financial returns for the Group.

Board risk management objectives

The Group's risk management objectives, as set out through the risk framework, are:

- robust and well defined processes for identification and evaluation of current and emerging risks
- analysis and evaluation of the likelihood and impact of key risks on a consistent basis
- consideration and, where appropriate, formal acceptance of risks within key decision-making processes
- Directors are aware of the risks that could prevent Esken Group from delivering its strategic objectives
- the Board is aware of the key risks affecting the Group and has the opportunity to monitor the positions taken and challenge the approach towards the mitigation of such risks
- risk awareness is promoted as a key part of our culture, and everyone in the organisation views the management of risk as part of their day job
- there is a proportionate approach to the management of risk, which balances the requirement to document risk and control decisions with processes which are not overly bureaucratic

Risk Management process across the Group

The Group maintains a Corporate Risk Register which includes the principal risks and other high level and strategic risks. The Audit Committee receives and reviews information relating to these corporate and principal risks, together with details of actions taken and relevant mitigating controls, prior to advising the Board in this regard.

Within Divisions and Group functions, significant business risks are identified and reviewed at Director level, with results reported at Divisional Board meetings. Business managers across the Group own and manage these risks, with regular reports designed to keep the Board fully appraised of all current and emerging risks within the business, ensuring a consistent and controlled approach to risk management.

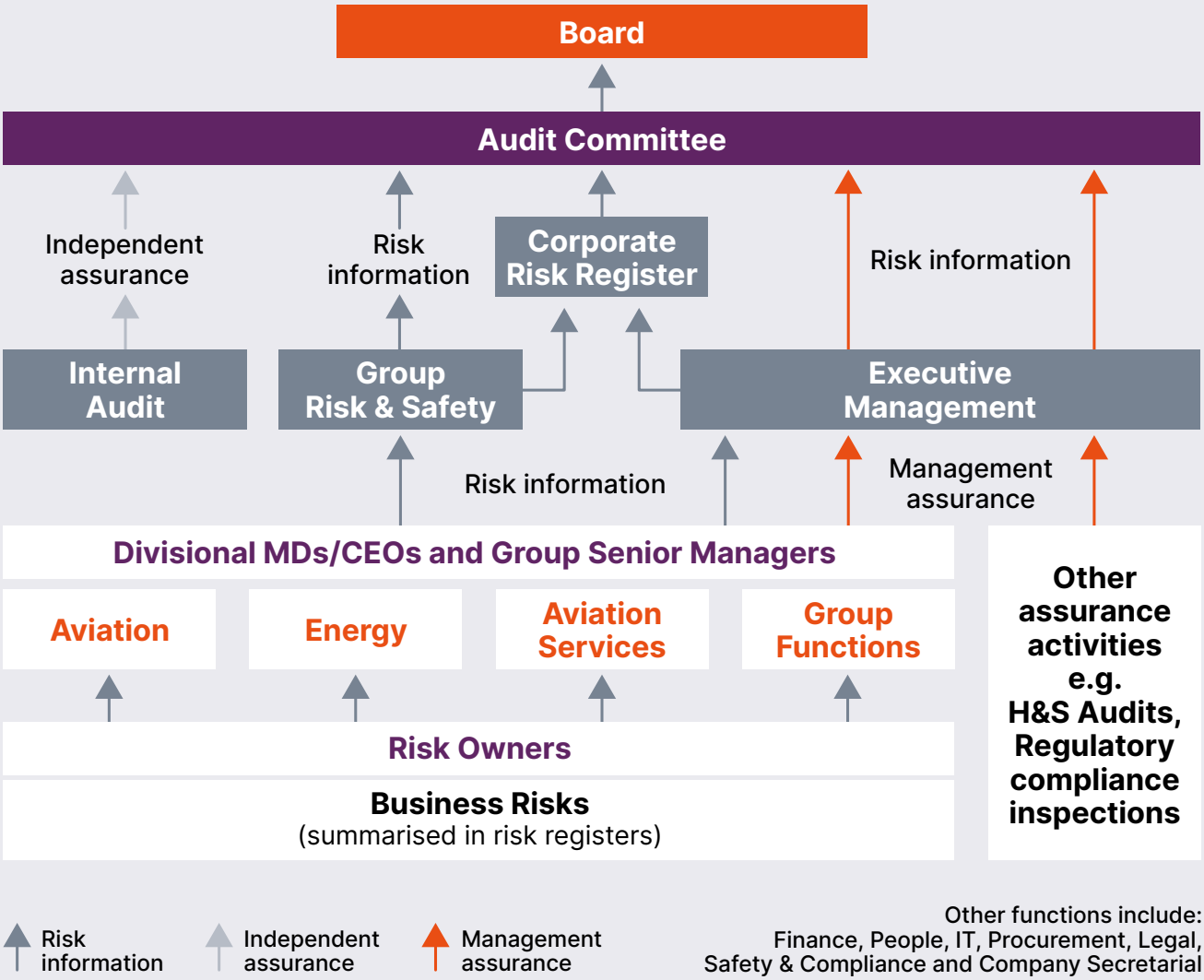
Information from the risk process is used to prioritise and plan focus areas for the completion of assurance work, which is also reported to the Audit Committee.

Principal risks

Principal risks are those which are considered material to the Group's development, performance, position or future prospects. The principal risks are captured in the Corporate Risk Register and are reviewed by the Board and Audit Committee, who consider:

- any substantial changes to principal risks;
- material changes to control frameworks in place;
- changes in risk scores;
- changes in tolerance to risk;
- any significant risk incidents arising; and
- progress with any additional mitigating actions which have been agreed.

Risk Management Framework



Risk management and our principal risks continued

Changes in principal risk during the year

Through its' regular reviews of risk during the year, the Board identified three new risks which it considers sufficiently significant to the Group to be added to the schedule of principal risks. The evaluation of exposure to some of our principal risks has also changed during the year, as business pressures have changed.
The new principal risks are:

- a risk that **passenger numbers at SEN may not reach the growth levels** that we had achieved and forecast prior to the COVID-19 pandemic. We consider we are excellently placed, being a London airport, with good transport links to the centre of the capital, with first class facilities, a clear focus on developing in partnership with airlines, and the capacity for increased activity. However, it is difficult to determine how quickly travel will return to pre-COVID-19 levels, and we have therefore included this as a specific principal risk.
- whilst we have always included **liquidity and funding support** within the corporate risk register, given the commercial impact of the COVID-19 pandemic, which significantly impacted our ability to generate funds, we now consider that the potential loss of funding support, and what would therefore be a liquidity shortage, should be considered a principal risk.
- we have also added a risk relating to the **impact of climate change** on our business. In assessing this, we have considered both the direct and indirect impacts they pose.

We consider the potential impacts to be:

Direct	Indirect
Reduction in demand for flights	Increasing costs
Increasing regulatory burden	Poor publicity or reputational damage
Adverse weather events impacting on operations	Reductions in asset values
Investor relations impacted negatively	Shortening of asset lives

Climate change risks are identified and monitored not only through our risk management process, but through the Group's wider approach to its' ESG responsibilities. For more detailed information relating to risks around climate change, and the Group's plans and mitigations, please see the ESG section within this report.

We have removed two principal risks, following detailed consideration by the Board:

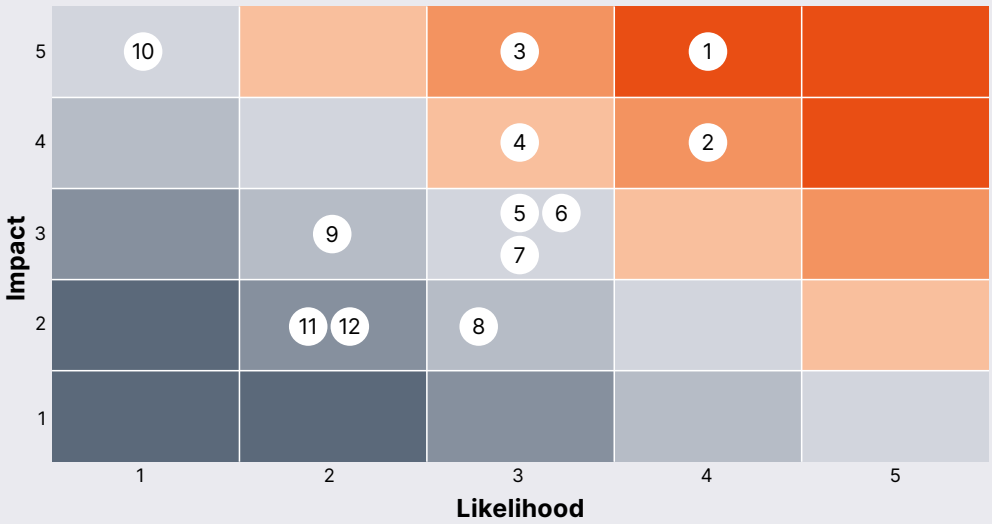
- Change to the market for our assets held for sale is no longer considered a principal risk, as investment assets are not a significant part of the business structure or activities, and the remaining assets are held at the values recommended by external specialist valuation teams.
- We also no longer consider the uncertainties caused by Brexit to be a principal risk. The logistics business at London Southend was initially impacted, but has now returned to pre Brexit levels. We continue to assess other potential impacts across the Group, but overall do not consider them significant enough to be considered a principal risk.

Both risks remain on our corporate risk register, and are regularly reviewed.

Principal risk heat map as at 28 February 2021

All risks are evaluated on a consistent basis across the Group, which includes both the likelihood of the risk crystallising and the potential impact. Our model evaluates both inherent exposure (i.e. before any mitigating controls or actions) and residual, or current, exposure. This assessment allows us to see the positive impact of control on the underlying inherent risk.

The heat map summarises current principal risk residual exposures.



1 Impact of the Coronavirus pandemic
2 Passenger numbers at SEN fail to increase
3 Impact of parent company guarantees/ other guarantees
4 Liquidity shortage, loss of banking support
5 Cyber crime, significant data loss or breach
6 Loss of significant customer
7 Significant breach of key legislation
8 Impact of climate change
9 Significant breach of customer related regulatory or licence conditions
10 Major aircraft incident, at one of our operated or service airports
11 Disruption to aviation schedules, loss of access to or use of infrastructure
12 Failure of energy plant with which we have a long term supply arrangement

Principal risks and mitigations

Potential impact	Risk mitigation	Direction of risk
Business area – Groupwide		
1. Coronavirus pandemic		
Overall, the pandemic has impacted on the delivery of our ambitions, as commercial, liquidity and funding challenges restrict our ability to grow the business, and slow our ability to deliver on our business strategy. However, the pandemic shutdown has lasted significantly longer than could originally have been anticipated, and we are therefore continuing to work within the constraints that sets.	Each Division has implemented mitigation plans, including the reduction of activities and costs, furloughing of staff, contractual reviews and additional cash monitoring reviews. Group functions, in particular the People and Legal teams, have plans in place to ensure the Group is doing everything possible to support the business and its workforce. At a Group Finance level we are working with funders to manage our cash and debt positions, and to negotiate contract revisions where this is appropriate and possible.	– No change.
Business area – Groupwide		
2. Liquidity shortage, loss of funding support		
We are reliant on funding support from our banking partners, particularly because of the impact of the COVID pandemic, which has severely impacted our ability to generate revenues and profits. We had a successful fundraise during 2020, and agreed appropriate support from the financial sector, but this will need to be renegotiated during 2021. Cash shortages will impact on our ability to invest and deliver on our strategy and business plans.	Our operational response to COVID, which includes review and reduction of costs wherever possible; work with our creditors and stakeholders to manage expectations and cash flows; and utilisation of government support, has enabled us to manage our cash position well, ending the year in a strong position. We are in regular working contact with our banking partners, to ensure they are fully informed of relevant activities and issues, and understand our business plans and challenges. Our Treasurer works closely with the CFO and Divisional FDs to manage, monitor and forecast cash requirements. We have implemented the Anaplan system to improve the quality and accuracy of forecasts and projections, and other cash reporting. Within the Group we have a strong control framework for the management of cash and commitments, with clearly delegated levels of authority.	– New.
Business area – Group		
3. Parent Company Guarantees		
The Group has given parent company guarantees for potential liabilities associated with some activities of the Group. The most significant are for Stobart Air and Propius, and relate to aircraft leases, unflown revenues and fuel and fx hedges. If these guarantees are called on, there could be a significant charge to the Group, impacting on our ability to fund and deliver our business plans.	The position in relation to the guarantees is continuously monitored. The risk has increased because of the COVID-19 pandemic, and the associated impact on the position of the airline.	↓ Some of the guarantees are reducing over time. In other cases, we have been working with the third parties involved to review and manage potential liabilities.
Business area – Aviation		
4. Passenger numbers at London Southend fail to recover		
If the current limited fight operations from Southend do not improve as anticipated after the COVID-19 restrictions are lifted, the airport may not achieve its revised business plans and targets.	We are working closely with our partner airlines to understand their plans, and to accurately forecast activity. Airport operations have been reviewed to ensure they are managed safely and will enable us to handle increasing passenger numbers under the expected pandemic / social distancing guidelines. COVID safe operations will be widely communicated, to provide assurance to passengers that we are taking all necessary steps to ensure their safety.	– New.

Principal risks and mitigations continued

Potential impact	Risk mitigation	Direction of risk
Business area – Groupwide		
5. Cyber crime attack, data loss or breach		
We rely on our technology solutions and strong information security to deliver business across the Group. A significant cyber crime attack including, for example, a denial of service attack or incidents which prevent key systems from operating could present a significant risk impacting on our ability to deliver services safely and consistently. A significant data breach or loss could impact on the Group's ability to deliver its business, and may also be the cause of investigations from regulatory bodies and potentially significant fines and costs for remedial action.	We continuously monitor and invest in our information security framework, and have brought in additional senior resource during the year to enhance our information governance structure. We have built on the results of a focused cyber security review which was completed at the end of 2019, and helped us prioritise forward plans. We have moved away from hosting our servers on premise, and have our data in cloud based storage, where the providers specialise in providing secure, robust data storage facilities and tools, and have the ability to invest heavily in security routines and resources. As a group, the majority of data we process is not sensitive, and we do not hold detailed financial or similar information about our customers or suppliers.	– No change.
Business area – All operating divisions		
6. Loss of significant customer		
There is reliance on a number of key customers. Loss of a significant customer would impact on revenues and profits, and challenge cost models.	There are strategies in place to secure additional customers in key areas to dilute the share of business represented. Relationship management of significant customers remains a priority, with both Divisional and Group senior management closely involved.	↑ The increase is linked to the COVID pandemic, as the economy has been impacted negatively.
Business area – Groupwide		
7. Significant breach of key legislation		
A significant breach of legislation could lead to prosecution, fines, costly remediation and reputation damage for the Group. In addition, in some circumstances, operational activities could be suspended where remedial actions are needed to address a breach or reduce the likelihood of future breaches arising.	We have an experienced team, with good knowledge of the operational and legislative requirements in each area of business. The Group and each Division have documented systems in place in key areas, which include procedures designed to ensure legal compliance. Documentation is supported by detailed training for staff, monitoring and reporting routines, key risk analysis and regular internal and external inspections and audits. We have little tolerance to risks in these areas, and seek to meet the highest standards, with close management attention to detail, and a culture of compliance across the Group. In particular, we have no tolerance towards health and safety risks for our staff, operating partners or other third parties. We have dedicated health and safety functions in each Division, and a Group function providing assurance and oversight. Any incidents or near misses are recorded, escalated and reviewed, and where necessary appropriate steps are taken to mitigate the risk going forward. We are very conscious of our environmental responsibilities, and have processes in place to ensure that we meet all appropriate standards, and the conditions of any licences or permits which relate to our operations. In addition to internal reviews, we are subject to external inspections by the relevant regulatory bodies. Our focus on ESG is also helping to drive innovation and improvement in this area.	– No change.

Potential impact	Risk mitigation	Direction of risk
Business area – Groupwide		
8. Impact of climate change		
Climate change may have an increasing impact across the business, which could include: • Reduction in demand for flights, impacting on Aviation and SAS • Increasing regulatory burden • Increasing costs • Adverse weather events impacting on operations • Poor publicity or reputational damage • Reductions in asset values • Investor relations impacted negatively • Impact on asset values	We are investing significantly in the development of the Group's ESG strategy and roadmap. That will include our understanding of where our activities may impact on, or be impacted by, climate change, and the plans being put in place to mitigate these risks. We have recruited an experienced ESG Manager, and have engaged external resources to ensure we are taking the most appropriate and effective actions. An ESG Working Party is in place, and is working across the Group to prioritise plans and resources. The main opportunities will arise from our ability to adapt and respond to risks appropriately, so energy efficiency, for example in buildings and vehicles, plus efficient operations planning and management of plant and site equipment, will be key.	– New.
Business area – all operating Divisions		
9. Significant breach of customer related regulatory or licence conditions		
A significant breach to the conditions of licence, regulatory or operating requirements which could lead to the loss of our operating licences or approvals. This could have a significant impact on the Group's revenues and profits, as activities could be curtailed whilst remedial actions were taken. Significant breaches could also impact on the business reputation, with the regulators, customers or wider public.	We have experienced management teams, with business systems in place designed to ensure that licence and regulatory requirements are recognised and fully addressed. These include appropriate induction, training and oversight arrangements. Responsibilities are clearly allocated within the Group and Divisional structure. There are oversight arrangements, including an operational audit programme, undertaken by a central Group team.	– No change.
Business area – Aviation and Aviation Services		
10. Major aircraft incident at our operated airports		
An incident (related to a Group activity) resulting in the loss of an aircraft and/or passenger, or which rendered the airport out of use for a significant period of time.	Activities are undertaken in compliance with the requirements of the Civil Aviation Authority and other appropriate regulations, and we have comprehensive operational arrangements in place to ensure activities are carried out appropriately and to a consistently high standard. We have experienced and appropriately trained and qualified management teams in place, which monitor compliance with our documented, standard, operating procedures. We are also subject to external reviews by the relevant regulators.	– No change.

Principal risks and mitigations continued

Potential impact	Risk mitigation	Direction of risk
Business area – Aviation		
11. Disruption to aviation schedules, loss of access to or use of infrastructure		
Loss of access to, or use of, airport facilities, for example, through significant fire or flood on site or at a nearby location, from activist demonstrations, drones or significant system failure. The resulting impact on flight schedules could have an impact on the Group's reputation and revenues.	Contingency plans have been developed and agreed with the Civil Aviation Authority, Police, Border Force and other relevant organisations. We work closely with local businesses sharing information, resources and planning, and similarly with other airports. Resilience is built into key systems and equipment where this is possible.	No change.
Business area – Energy		
12. Failure of Energy plant with which we have long term supply arrangements		
We have supply contracts with a number of energy plants/customers. Should one or more of these plants have problems which reduce their demand, Group revenues and cash would be impacted, and there may be additional operational impact from the need to store and manage excess stock.	Contracts with significant customers include 'Take or pay' clauses, which are typically set at 80% of contractual volume. Whilst these offer a degree of security, should problems arise with one of our customers, we could be faced with a situation where not all costs and penalties could be recovered contractually. We have flexibility around the operation of processing sites and transport fleet which allows us to switch supply/logistics to other fuel supply contracts, and we have increased the amount of storage capacity available, to enable peaks and troughs in demand to be smoothed.	We increased the level of risk last year, primarily because of the impact of the COVID pandemic. We have now seen the Energy market, business activity and results making a good return, and therefore consider that the overall level of risk here has decreased.

Viability Statement for the year ended 28 February 2021

The Directors have assessed the viability of the Group over a three-year period from the date of signing to June 2024, considering the Group's current position and the potential impact of the Principal Risks documented in the Principal Risks and Mitigation controls section.

Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period, subject to the assumption that the material uncertainty regarding funding is satisfactorily resolved.

In making this statement, the Directors have considered the resilience of the Group, taking account of its current position, including reliance on the current revolving credit facility (RCF) facility for all group funding to the end of August 2021, noting that this facility could be withdrawn at any point if the Group fails to agree resolution with the lenders, reliance on the planned equity raise through a rights issue (£40m), proposed convertible debt instrument (£125m) and proposed new RCF (£20m) that is expected to mature and require refinancing in January 2023. The equity raise and convertible debt instrument are both subject to shareholder approval and as explained in the basis of preparation the proposed RCF facility has not yet been approved by the bank's credit committee. The Principal Risks facing the business in the severe but plausible scenarios and the effectiveness of any mitigating actions, including the ongoing coronavirus pandemic impact on the Aviation industry, have also been taken into account. This robust assessment has considered the potential impacts of these risks on the business model, future performance, solvency and liquidity over the period and takes into account future obligations including the GOAL aircraft leases.

In addition to the matters identified in the basis of preparation in respect of going concern, including the possibility that, before mitigating actions, the Group will have a shortfall of £11m under a severe but plausible scenario by the end of January 2023 even if the planned and proposed funding options noted above are successfully obtained, the following matters are relevant to the viability of the Group:

i) The period that going concern has been assessed is through to January 2023. However, the obligations under the GOAL aircraft leases held by Propius extend through to August 2023. From February 2023 to August 2023 these obligations are expected to result in cash outflows of c.£30m. This cash outflow of c.£30m is expected to be funded by non-core asset sales and/or subletting the aircraft. Should this not achieve the required funding, the Group would need to generate additional operational cash flows or seek to raise additional finance.

ii) The exchangeable bond matures in May 2024. At maturity, this exchangeable bond would result in a c.£45m net cash repayment based on the current shortfall between the gross debt and market value of the associated secured shares at the year end. There is an ongoing review to ascertain the most efficient option at maturity, which includes refinancing the cash outflow should a shortfall between the gross debt and market value of the associated secured shares still exist at that time. The ability of the Group to successfully refinance any shortfall would be dependent on the future success of the Group in executing the current strategy in addition to the Group making sustainable cash flows in both the Energy and Aviation businesses. If the Group is unable to refinance any shortfall, the Group would need to raise additional funds although there is no guarantee that this would be achieved.

iii) London Southend Airport, in the base case forecast, is expecting to achieve over 2m passengers per annum in FY23 and beyond, which is broadly comparable with actual passengers pre-COVID. However, this includes the return of a major airline and also an additional aircraft from an existing airline. In addition, there is expected growth in the logistics service. The risks of these events not occurring is reflected in the severe but plausible downside scenario and would result in a material reduction in projected cash flows in the viability period. Any reductions in cash flows in London Southend Airport are largely sheltered by the £20m intercompany facility that will be made by the Group to LSA following receipt of funds from the convertible debt instrument. This £20m intercompany facility is expected to meet the planned liquidity requirement of LSA for three years. However, any additional cash requirements in the viability period for the Aviation division would need to be funded by either third party debt or other means before the wider Group considers introducing additional intercompany funds.

iv) The Energy division, in the base case forecast, is expecting to process over 1.8m tonnes of product in FY23 and beyond. The base case forecasts include the risk that there are unplanned shutdowns. However, this is based on an average level of unplanned shutdowns over an extended period. A sudden and major unplanned shutdown for several months to one of the larger power plants would likely result in a material impact to cash flows significantly above the modelled risk. The division is also subject to fluctuations in gate fee income receipts which are dictated by supply and demand forces, as seen in summer FY21 as construction returned and demand outstripped supply. Whilst the division is modelling an upward trajectory to gate fees by the end of FY23, and is currently on track to achieve this, a £2 per tonne deviation can have a material impact on cash flows. Gate fee receipts have been sensitised to this extent in the severe but plausible downside scenario.

The Directors have determined that the three-year period from date of signing to June 2024 is an appropriate period over which to provide its Viability Statement as this period in the business plan covers all known significant events impacting liquidity, including the maturity of the exchangeable bond in May 2024, whilst still providing an appropriate long-term outlook. Whilst the reviews performed do not consider all of the risks that the Group may face, the Directors consider that the scenario based assessment prepared of the Group's prospects is reasonable in the circumstances. The Directors have a reasonable expectation that the Group will be able to continue to meet liabilities as they fall due over the coming three-year period. However, as described, there are several uncertainties regarding the availability of appropriate funding arrangements during the going concern period and subsequently. In addition, if disruption caused by the COVID-19 pandemic or other operational issues is more prolonged than modelled in the Group's base case then additional finance above that available from the proposed sources of finance will be required, as such there is a possibility that the Group could be required to find additional sources of liquidity although there is no guarantee that this will be achieved.

Board of Directors

	David Shearer Executive Chairman	**Lewis Girdwood** Chief Financial Officer	**Nick Dilworth** Chief Operating Officer	**John Coombs** Non-Executive Director
Appointed to the Board	1 June 2019	1 April 2019	1 September 2018	1 July 2014
Background/ experience	David joined the Board on 1 June 2019 and was appointed Non-Executive Chairman on 23 July following the 2019 AGM. He became Executive Chairman on an interim basis with effect from 9 February 2021. David is an experienced independent director, corporate financier and turnaround specialist. He is Non-Executive Chairman of Speedy Hire Plc, Socium Group Holdings Limited and the Scottish Edge Fund. David was previously the senior partner of Deloitte LLP for Scotland and Northern Ireland, and a UK executive board member of the firm until 2003. Since then, David has held the positions of co-Chairman of Martin Currie (Holdings) Limited, Chairman of Mouchel Group plc and Crest Nicholson plc and a Non-Executive Director of City Inn Limited, in each case standing down after completing the successful restructuring of these businesses. David was also Non-Executive Chairman of Aberdeen New Dawn Investment Trust plc, Liberty Living Group plc and Liberty Living Finance plc, Senior Independent Director of Renold plc, STV Group plc and Superglass Holdings plc and a Non-Executive Director of Mithras Investment Trust plc and a Governor of The Glasgow School of Art.	Lewis was appointed Chief Financial Officer on 1 April 2019. Lewis previously served as Chief Financial Officer to IAG Cargo Limited, which provides global cargo services to British Airways, Iberia, Aer Lingus and other IAG airlines. Prior to that, he was Head of Financial Planning and Analysis at easyJet, responsible for financial business partnering across the airline. Lewis has also held senior finance roles at Premier Foods PLC, British Bakeries Ltd and Racal Electronics Group International. He is also a member of the Audit Committee of charity Tommy's.	Nick was appointed Chief Operating Officer in September 2018, having worked as Group Commercial Director since October 2017. Nick previously worked for BES Utilities, where he was Managing Director. He has also previously occupied a number of leadership roles at Practice Plan Limited and Medenta Finance and has a strong commercial background. Nick qualified as a Chartered Accountant with BDO LLP before joining Grant Thornton as a Corporate Financier. He is currently a Non-executive Director of AirPortr Ltd.	In 2018, John stepped down after 16 years from the position of Managing Director of Unilever Ventures Ltd, during which time he chaired the Investment Committee and made investments in 50 early-stage businesses in the UK, US and Europe. He has sat on the boards of 20 companies, including five as chairman. Currently John also serves as Non-Executive Chairman of The Co-op's Federal Retail and Trading Services Limited, which coordinates purchasing for Cooperative retailers in the UK.
Committee membership	Chairman of the Nomination Committee.			Chairman of the Remuneration Committee and member of the Audit and Nomination Committees.

Ginny Pulbrook
Non-Executive Director

1 October 2018

With a background in investment banking and financial public relations, Ginny brings more than 30 years' experience as a board-level adviser to quoted companies in the infrastructure, industrial and support services sectors. Her specific areas of expertise include high-profile capital markets transactions, ESG and change management.

Ginny is currently a Partner at Capital Market Communications (Camarco) and is Vice Chair and Chair of the Nomination Committee of Carers UK, the leading charity for unpaid carers.

Previous positions include co-founder and director of Citigate Dewe Rogerson, and Chair, Patrons' Programme and Development Council Member of the Natural History Museum.

Ginny is the designated Non-Executive Director for People Engagement within Esken.

Member of the Remuneration, Nomination and Audit Committees.

David Blackwood
Senior Independent Director

1 March 2019

David has significant experience at senior levels of finance, audit and risk. He is currently Non-Executive Chairman of Smith's News plc and has previously been Audit Committee Chairman and Senior Independent Director of Scapa plc and Dignity plc.

Previously, David was the Chief Financial Officer of Synthomer plc, where he served for seven years until 2015, prior to which he held a number of senior roles with ICI plc.

David has previously served as a member of the Cabinet Office Audit and Risk Committee and the Board for Actuarial Standards. He is a member of the Institute of Chartered Accountants in England and Wales and a Fellow of the Association of Corporate Treasurers.

David was appointed as Senior Independent Director with effect from 1 November 2020.

Chairman of the Audit Committee and member of the Remuneration and Nomination Committees.

Clive Condie
Non-Executive Director

1 July 2020

Clive was Chairman of London Luton Airport until June 2018, a position he held for almost 5 years. Besides being Chairman, he was interim CEO during 2014. Clive was also a director of Exolum Pipeline System Ltd (formerly CLH-PS Ltd), the owner and operator of the UK's largest fuel pipeline and storage facility until resigning in March 2021.

Clive has 40 years' experience in the aviation industry, having worked for Manchester Airport and British Airways amongst others. Clive has also served on the boards of a number of airports, including London Luton Airport some 20 years ago, Lima in Peru and Curacao in the Dutch Antilles.

Clive is a fellow of the Royal Aeronautical Society.

Member of the Remuneration, Nomination and Audit Committees.

Warwick Brady resigned as Chief Executive on 9 February 2021 and ceased to be a director of Esken Limited on 30 April 2021. Mr Brady has now reduced his commitment to Esken to one day per week until 30 June 2021 when he will leave Esken's employment.

Corporate Governance

The Board's primary responsibility is to ensure that the Group provides long-term and sustainable growth for its shareholders.
David Shearer, Executive Chairman

Dear Shareholder

I am pleased to present the Corporate Governance Report for the year ended 28 February 2021 on behalf of the Board. In a year that has presented many challenges to our businesses, we have relied on our governance framework to provide us with the foundations upon which to increase our internal reporting and respond to the fast-evolving pandemic landscape.

We continue to operate in accordance with the revised 2018 UK Corporate Governance Code (the Code) and set out below further information on how we have applied the Code to our business.

The UK Corporate Governance Code

This report has been prepared in accordance with the Code and takes into account other UK regulations that address governance matters. The Board considers the Company was in full compliance with the relevant provisions of the Code throughout the financial year ended 28 February 2021, except where highlighted in this report.

The Code can be downloaded from the website of the Financial Reporting Council (www.frc.org.uk).

The next external evaluation of the Board is to take place in the year ending 28 February 2022. The Board and Committee evaluations this year have therefore been undertaken internally. Further information in this regard can be found on page 83 of this report.

Stakeholder Engagement

In a year where our ways of working have had to adapt radically, the importance of regular engagement with our stakeholders, and in particular our employees, cannot be underestimated. We recognise the importance of incorporating stakeholder views in our strategic planning and decision making. Further information on our stakeholders and our approach to shareholder engagement can be found on pages 14 to 21.

Environmental, Social and Governance (ESG)

We recognise the increasing importance of ESG as a key area of focus for our stakeholders, and as a business we are very mindful of the impact on the environment and the communities in which we operate. We have set out on pages 14 to 63 how we are progressing against our strategy in this area.

Seven members

Gender split

Opportunities and risks

The consideration of opportunities and risks remains a key area of focus for the Board and given the ongoing global COVID-19 pandemic it will be of no surprise to note that the main risk to our business currently is the pandemic itself. The Board reviews the Group's risk appetite annually and regularly considers the principal and emerging risks relevant to our business, together with mitigations and controls.

Our Strategic Report sets out in more detail how the Board assesses and manages risk and we list the Group's principal risks and how we seek to mitigate those risks on pages 64 to 70.

Leadership and Board effectiveness

To enable us to deliver sustainable and long-term value to our shareholders, the Board must function effectively in supporting, challenging and guiding management to deliver the Group's strategy.

The effectiveness of the Board and the effective leadership of the executive team has most certainly been under pressure as we have navigated the uncharted waters of the COVID-19 pandemic. I have been impressed with the determination and resilience that my colleagues have continued to demonstrate and the significant efforts to continuously adapt our business in response, whilst also striving to maintain "business as usual" where possible.

The Non-Executive members of the Board have continued to commit their time and broad business expertise to support the executive through this period. This is a true measure of board effectiveness.

Further information in relation to the key areas of focus for the Board this year and expected areas of focus for next year are outlined on page 79 of this report.

Board Appointments

In the previous year, the Board was in the process of recruiting two additional Non-Executive Directors. However, this process temporarily paused when COVID-19 hit. Recruitment for one of the roles was resumed during the year and Clive Condie was appointed to the Board on 1 July 2020 as Non-Executive Director. As a result of the delay in the recruitment process and contrary to principle 12 of the Code, there was a period of time during the financial year when the Board did not have a Senior Independent Director. I'm pleased to confirm that David Blackwood was appointed as Senior Independent Director with effect from 1 November 2020 and Ginny Pulbrook was appointed as designated NED for employee engagement in December 2020. Further information regarding employee engagement can be found on page 15 and page 48.

Warwick Brady resigned in February 2021 and stepped down as Chief Executive and as a member of the Board on 30 April 2021. I have assumed the role of Executive Chairman on an interim basis to help support Esken as it continues to navigate the impact of the pandemic. For the majority of the year, the roles of Chair and Chief Executive have been separate. However, due to the timing of the Chief Executive's resignation and in the context of the wider pandemic, the Board felt it was in the best interests of all of our stakeholders that I become Executive Chairman for a period of time. Whilst in principle this goes against the provision 9 of the Code, this decision was taken in exceptional circumstances and we consulted with major shareholders regarding our decision on announcement of the Chief Executive's resignation.

Impact of COVID-19 on Governance

A number of decisions that were scheduled to be taken during the year were postponed to a later time in the year or after the year-end. This was to enable a clearer picture of the impact of COVID-19 on the business and to reflect that the business currently continues to receive Government support via the employee furlough scheme.

The Board has worked especially hard during the year to support our business operations and colleagues in navigating the sustained level of uncertainty that has resulted from the pandemic and I would like to extend my thanks to my Board colleagues for their ongoing commitment.

AGM

We will notify shareholders about our AGM in due course. Due to the pandemic and Government restrictions, our last AGM was held virtually. We hope to be able to offer attendance in person at our AGM this year, providing the Government roadmap out of lockdown permits this. For further details please refer to the AGM Notice that will be sent out to shareholders under separate cover.

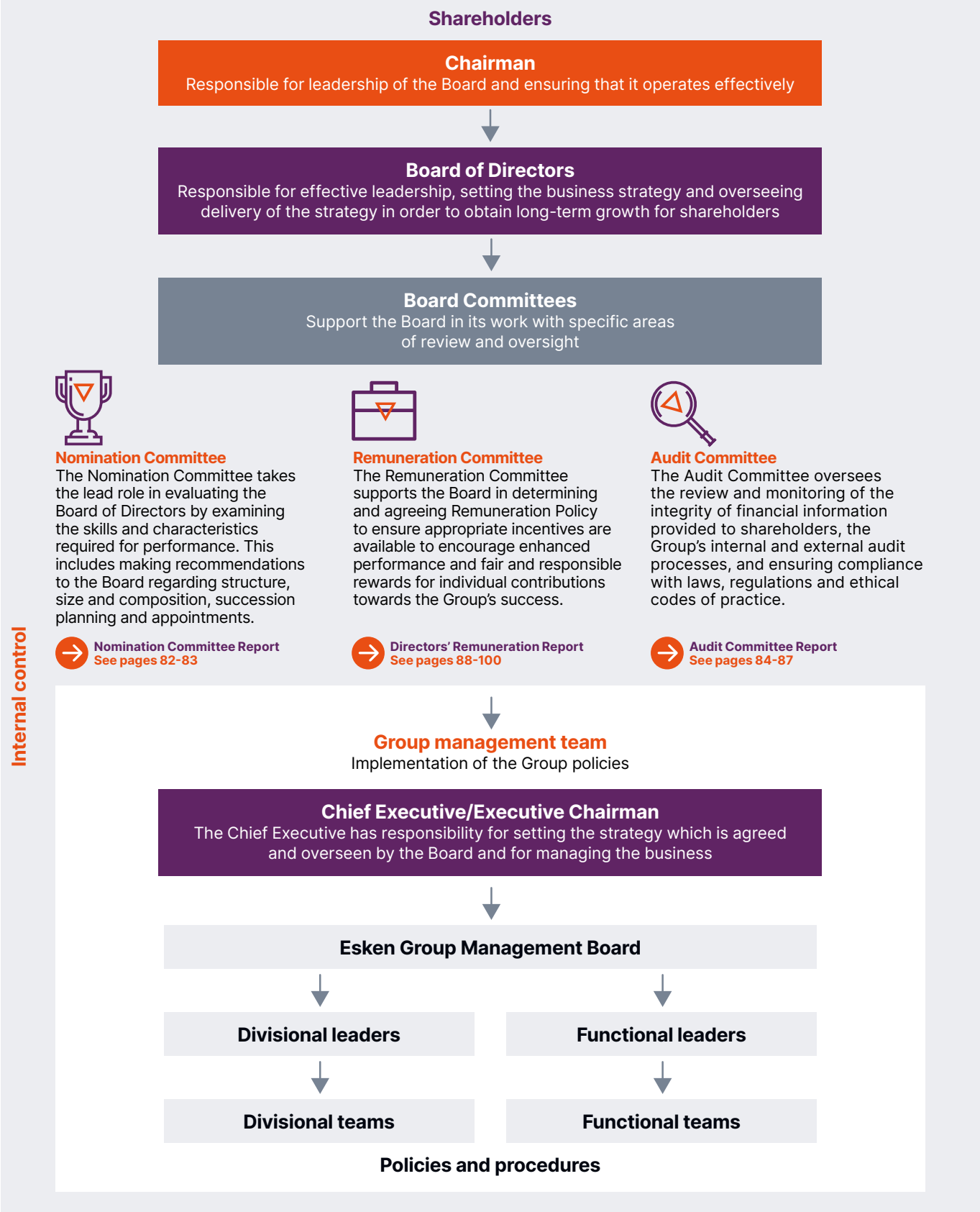
David Shearer
Executive Chairman

Corporate Governance continued

Governance framework

The Board is structured to allow for focus on business strategy, as well as monitoring performance of the Group and regular review of controls and risks across the business.

The key features of the Group's governance structure are shown in the schematic below:



Responsibilities of the Board

The Board is collectively responsible for the long-term success of the Company, including the effective oversight of the Group and its businesses. The Board's primary responsibility is to set the Company's strategic objectives and ensure that these are monitored and resources are available (both financial and human resources) to meet them. As part of the Board's oversight of operations, it also ensures maintenance of a sound system of internal control and risk management.

In accordance with the Code, the Board has a formal schedule of matters that are reserved for its' consideration, including significant investments of capital expenditure, dividend policy and changes to Group capital structure.

The Board's main areas of focus during the year are set out on page 79.

Board composition and independence

The Board continues to have an effective balance of Executive and Non-Executive Directors. As at 28 February 2021, the Board consisted of eight individuals: an Executive Chairman, four independent Non-Executive Directors and three Executive Directors. David Blackwood was appointed as Senior Independent Director on 1 November 2020. Warwick Brady resigned in February 2021 and stepped down as Chief Executive and as a member of the Board on 30 April 2021.

Whilst during the relevant year the roles of Chairman and CEO have largely been held by different individuals in accordance with the Code, following the resignation of Warwick Brady as CEO, announced on 9 February 2021, David Shearer assumed the role of Executive Chairman with immediate effect to provide stability and continuity to the Board and the business during this critical period.

The Board believes that it has an appropriate composition and blend of backgrounds, skills and experience to fulfil their duties effectively and, importantly, to comply with the Code. However, the Board continues to keep its membership, and that of its Committees, under review to ensure that an acceptable balance is maintained, and that the collective skills and experience of its members continue to be refreshed.

The Board is satisfied that all Directors have sufficient time to devote to their roles and that undue reliance is not placed on any individual.

Board Committees

As set out in the diagram opposite, the Board has established committees to carry out certain aspects of its duties. Each is chaired by a non-executive member of the Board and has written terms of reference which are available on the Esken website **www.esken.co.uk**

The Chair of each committee reports regularly to the Board as to how that committee has discharged its' responsibilities. After the year-end, but prior to the publication of this Report, the Board agreed that a further Board committee should be established to focus on ESG. Terms of Reference for this committee, once approved by the Board, will be added to the Esken website and further details on this committee will be included in the Annual Report for the next financial year.

Board attendance

The Board held seven scheduled meetings during the course of the year. In response to the pandemic, the Board also held regular weekly meetings, primarily to allow the Board to consider the impact of the pandemic on its' business operations and financial performance, and agree necessary actions in response. The Audit, Nomination and Remuneration Committees held five, four and seven scheduled meetings respectively. The Board and Committees also meet as required on an ad hoc basis to deal with urgent business, including the consideration and approval of transactions that are reserved to the Board.

The table below shows the Directors' attendance at the scheduled Board and Committee meetings during the year ended 28 February 2021. Each meeting was attended by every Board member eligible to attend, other than where noted below.

The agenda and relevant briefing papers are distributed by the Company Secretary on a timely basis, usually one week in advance of each Board and Committee meeting, via board portal software. This allows Directors secure access to Board and Committee papers they need before, during and after meetings and facilitates better Board communications for increased engagement and effective decision-making while enhancing corporate governance.

Board meetings are an opportunity for the Non-Executive Directors to challenge the performance of the various divisions against strategic objectives and key performance indicators, to review transactions which have taken place since the preceding meeting and to receive reports from the Board's Committees.

All meetings of the Board and its Committees have minutes recorded by the Company Secretary. Board minutes are reviewed and approved by the Chairman in the first instance, circulated to the Board for further comments and tabled at the next Board meeting for approval. Committee minutes are also reviewed by the Chairman of that meeting and then tabled for approval at the next meeting. Any concerns raised by Directors are clearly recorded in the minutes of each meeting.

	David Shearer	Warwick Brady	Nick Dilworth	Lewis Girdwood	David Blackwood	John Coombs	Ginny Pulbrook	Clive Condie
Scheduled Board 7 meetings	7/7	7/7	7/7	7/7	7/7	7/7	7/7	5/5
Nomination Committee 4 meetings	4/4	–	–	–	4/4	4/4	4/4	2/2
Audit Committee 5 meetings	–	–	–	–	5/5	4/4	5/5	4/4
Remuneration Committee 7 meetings	–	–	–	–	7/7	7/7	7/7	4/4

Corporate Governance continued

Individual Directors' key responsibilities
The key responsibilities of individual Directors are set out below.

Title	Responsibility
Executive Chairman	The positions of Executive Chairman and Chief Executive have for the majority of the year, been held by different individuals in order to provide segregation of roles. The Chairman is responsible for leading the Board, ensuring its effectiveness and looking after the interests of shareholders as a whole. As David Shearer assumes the role of Executive Chairman following Warwick Brady's resignation, the responsibilities of the Chairman and Chief Executive will be combined for a period.
Executive Directors	The Executive Directors are responsible for the day-to-day management of the business. They are accountable for developing the Group's strategy and budget for Board approval and for monitoring the financial, operational and service performance of the Group. The Esken Group Management Board (the Company's senior leadership team) comprises the three Executive Directors, Group People Director, Group General Counsel and Company Secretary, Group Head of Communications and Head of Group IT. Meetings of this group are held weekly to discuss general business activity and also monthly to discuss strategic issues in the business. Senior management from across the divisions will also attend the Esken Group Management Board meetings by invitation.
Chief Executive	The Chief Executive's role is to implement strategy laid down by the Board and to manage the Group and its operations. The Board is collectively responsible for the success of the Group.
Chief Operating Officer	The Chief Operating Officer is responsible for all operational matters affecting the Group.
Chief Financial Officer	The Chief Financial Officer is responsible for ensuring sound financial management of the Group's business and providing strategic and financial guidance to ensure that the Company's financial commitments are met.
Senior Independent Director (SID)	In addition to the role as a Non-Executive Director, the role of the SID is to provide a sounding board for the Executive Chairman and to serve as an intermediary for other Directors where necessary. The SID makes himself available to shareholders if they have concerns which cannot be dealt with by the Executive Chairman, and also makes himself available to other Directors if they have any concerns regarding the Executive Chairman. The SID meets with non-executive members of the Board at least once a year without the Executive Chairman being present, or the other Executive Directors, in order to review the Executive Chairman's performance in his role. The Board considers this role to be of particular importance whilst David Shearer carries out the role of Executive Chairman.
Non-Executive Directors	The Non-Executive Directors provide a breadth of experience and independent judgement to Board discussions. Their role is to challenge and support the executive team whilst being ultimately responsible for overseeing corporate governance and protecting shareholder interests. Each Director has specialist knowledge that helps provide the Board with valuable insights and, in some situations, key contacts in related industries. The appointment letters of the Non-Executive Directors are available for inspection at each AGM, and at the Company's registered office during normal business hours.
Company Secretary	The Company Secretary's role is to act as adviser to the Board on matters relating to corporate governance and, in conjunction with the Chairman, to ensure good information flows between the Board, its various Committees, the Non-Executive and Executive Directors and the Esken Management Board. The Non-Executive Directors have access to the Company Secretary's advice and services in addition to independent, professional advice if required (at the Group's expense).

Principal Committees of the Board
The main Committees established by the Board are the Audit Committee, the Remuneration Committee and the Nomination Committee.

Board focus during the year
During the year ended 28 February 2021, the Board provided its main focus on the following matters:

	Activity in year
Governance and risk	– Received regular updates on the impact of COVID-19 on business operations and determined strategies to manage impact; – Considered Brexit-related risks and the contingency planning for it within Group; – Discussed outcomes/themes from the internal Board effectiveness review; – Received training and updates on relevant new laws and regulations, corporate governance, Directors' responsibilities, and whistleblowing; – Appointed a new NED, a designated NED for employee engagement and a Senior Independent Director.
Strategy	– Board Strategy Day held to discuss and review the strategy; – Monitored performance against strategic objectives; – Reviewed and adapted business priorities as the COVID-19 pandemic evolved; – Approved acquisition of Stobart Air/Propius from Connect Airways; – Oversaw and monitored plans to dispose of Stobart Air and de-risk the business; – Approved deal for sale of Stobart brand and re-branding strategy; – Monitored the disposal of Rail & Civils; – Discussed and supported Energy division strategies for maintaining wood stock supplies during shutdown of construction and household recycling centres.
Leadership and a Responsible Business	– Board and Senior Managers voluntarily agreed pay reduction for 6 months; – Kept under review level and impact of health and safety incidents and near-misses; – Monitored level and content of communication to employees across Group, focusing in particular on wellbeing; – Supported the supply as a priority of PPE for employees and customers.
Financial performance and stewardship	– Approved the annual operating and capital expenditure budgets; – Reviewed monthly business performance reports against budget and forecast; – Reviewed and approved the half-year and full-year results and related announcements; – Implemented robust cash controls to protect cash flow; – Reviewed and negotiated revised credit facility; – Implemented capital raise resulting in gross proceeds of £100.1m.
Shareholder Engagement	– Keeping major shareholders appraised of our response to the COVID-19 pandemic. – Reviewed feedback from roadshows and presentations to shareholders. – Approved Annual Report and Accounts and information to shareholders for the AGM.
COVID-19	– Sought and received support under the UK Government furlough scheme which allowed the furlough of c.57% of employees across the Group during the year; – Kept under review the Company's going concern and viability position; – Determined that no dividends would be payable during the year; – Held additional board meetings to consider the impact of COVID-19 on the business and agreed contingency plans; – Agreed that there would be no pay awards or bonuses payable;

Corporate Governance continued

Experience of the Board
The members of the Board maintain the appropriate balance of status, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities and to ensure that the requirements of the business can be met.

The experience which each member of the Board brings to their role is outlined in the Board biographies on pages 72 and 73.

Directors' terms of appointment
Further details of the Directors' service contracts and letters of appointment are set out in the Directors' Remuneration Report on page 91.

Expected Board focus for next year
At the date of writing this Annual Report, the COVID-19 crisis continues to have an unprecedented impact on our business. The Board has spent significant time during the financial year focusing on the impact of the COVID-19 situation upon the business and it will continue to do whilst planning for operations and business beyond COVID-19.

It is anticipated that the following areas will also receive focus by the Board during the year ending 28 February 2022:
- Review strategy for the Group as a more focused business;
- Senior leadership roles, capabilities and requirements;
- ESG;
- Any new major projects arising in the year;
- Succession planning.

Information, induction and professional development
The Chairman is responsible for ensuring all Directors receive comprehensive information on a regular basis to enable them to perform their duties properly. Updates, where necessary, are provided at Board meetings and governance updates are provided in each Board pack to keep all Directors up to date with regulatory requirements.

New Directors receive an appropriate induction on joining the Board, typically including meeting members of the senior management team and visits to operational sites (COVID-19 permitting). All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with.

Non-Executive Director site visits
Due to the ongoing COVID-19 pandemic, site visits by Board members have been suspended during the year ended 28 February 2021. We hope that these can resume during the new financial year.

Environmental, Social and Governance Policy
Our approach to issues regarding sustainability is continuously evolving and we anticipate further focus on this in future Annual Reports. More information about the Group's approach to ESG matters can be found on pages 44 to 63.

Whistleblowing Policy
The Group's Whistleblowing Policy sets out procedures to enable all employees to report any concerns about wrongdoing or dangers in the workplace such as theft, fraud or malpractice. The Group has an independently-run, confidential hotline where any such concerns can be reported. The directors and Audit Committee consider that all whistleblowing allegations have been appropriately dealt with.

The Whistleblowing Policy can be found on the Group's website and via sharepoint.

Internal control and risk management
The Directors' responsibilities in connection with the financial statements are set out in the Directors' Report on page 101. The Board, through the Audit Committee, is responsible for the Group's system of internal control and for reviewing its effectiveness.

The Board considers risk assessment, implementation of mitigating actions and internal control to be fundamental to delivering the Group's strategy. Internal control gives the Board reasonable but not absolute assurance. The Board has an ongoing process for identifying, evaluating and managing the principal risks faced by the Group and maintains a risk register.

The system of internal control is based upon:
- The Board's overall responsibility.
- The Group's organisational structure, with established lines of accountability, as well as clearly defined levels of authority.
- Regular review by the Board and the Audit Committee.
- Support by Company policies in other areas, such as finance.
- Management rather than elimination of the risk of failure to achieve strategic objectives. Systems of internal control can only provide reasonable and not absolute assurance against material misstatement or loss.

The Audit Committee and the Board have reviewed the effectiveness of internal control (including financial, operational and compliance controls together with risk management in accordance with the Code) over the period of this report, and to the date of its publication. Systems compliance and confirmation of corrective actions are the subject of a detailed report which is submitted to the Board at each meeting.

The Audit Committee reviews the independence of the auditor at the interim stage and at year end. The Audit Committee has a policy of reviewing the status of the auditing firm and its lead engagement partner after five years from initial appointment and each year thereafter.

The Group has a business systems internal audit function which reviews performance against the agreed policies and procedures. The Board agreed an internal audit programme for the year ended 28 February 2021 to cover financial controls and procedures.

Shareholder relations

The Company is committed to maintaining good communications with its shareholders and engaging regularly. Senior executives, including the Chairman and Chief Executive, have had ongoing dialogue during the year with individual institutional shareholders in order to develop an understanding of their views. These views are periodically fed back to the Board to ensure that all of the Directors, in particular the Non-Executive Directors, develop an understanding of the views of major shareholders about the Company.

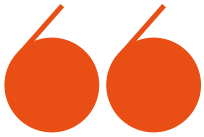
During the year, shareholders are kept informed of the progress of the Group through regular corporate communications: the annual results announcement; the interim statement; trading updates and press releases regarding other important developments as well as the distribution of regulated information.

Twice a year, general presentations are given to analysts and investors covering the annual and half-year results. In addition, members of the Board meet with institutional investors and analysts on a periodic basis.

The Company Secretary generally deals with enquiries from individual shareholders. The website **www.esken.com** contains published information and press releases.

Further information on how Esken engages with shareholders and other stakeholders can be found on pages 14 to 21.

Nomination Committee Report



I am pleased to present the Nomination Committee Report for the year ended 28 February 2021 and to provide shareholders with an overview of the work carried out during the period under review.

David Shearer,
Chairman of the Nomination Committee

Dear Shareholder

I am pleased to present the Nomination Committee Report for the year ended 28 February 2021 and to provide shareholders with an overview of the work carried out during the period under review.

Role of the Committee

The Nomination Committee is required to meet at least once a year, or more often if so required, to carry out its key functions and duties. These include:

- regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and make recommendations to the Board with regard to any changes;
- ensure plans are in place for orderly succession to Board and senior management positions, and oversee the development of a diverse pipeline for succession, taking into account the challenges and opportunities facing the Company, and the skills and expertise needed on the Board in the future;
- be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise;
- review the results of the Board performance evaluation process that relate to the composition of the Board and succession planning; and
- the re-election of directors under the annual re-election provisions of the Code.

Attendance

The Nomination Committee met four times during the year. Details of individual attendance by its members is shown in the chart on page 77.

Board Appointments

As reported last year, the Board had previously tasked the Committee with recruiting two further independent Non-Executive Directors to join the Board. That recruitment activity was paused as the COVID-19 pandemic began to impact the business. The recruitment process, supported externally by Russell Reynolds, was picked up in May 2020 and as a result, Clive Condie was appointed as Non-Executive Director to the Board with effect from 1 July 2020. Clive has extensive experience in the aviation industry and has offered huge support to the business during this challenging year.

Due to the ongoing pandemic and the impact on the Group, the Committee has continued to pause the recruitment of a second Non-Executive Director. This decision will be reviewed again in 2021, once more business-critical priorities for the business have been addressed.

During the year, the Committee proposed and the Board approved, the appointment of Ginny Pulbrook as the designated Non-Executive Director for employee engagement. This will enable the Board to ensure that the views and concerns of our workforce are taken in to account by the Board, particularly when decisions are made that will impact them. Ginny's role in this regard will be to ensure that those views are articulated at Board meetings and that appropriate steps are taken to evaluate the impact of proposals and developments on the workforce, and consider what steps should be taken to mitigate any adverse impact which has been identified.

Further information on how the views of employees, and other stakeholders are taken into account by the Board in their decision-making can be found in our report on stakeholder engagement, starting on page 14.

Board evaluation

An internal Board evaluation was undertaken during the year. A questionnaire was circulated to all Board members and used as an aide memoire for the Chairman to hold 1:1 discussions with each Director to consider their individual performance as well as the performance of the Board as a whole. Separately, the Senior Independent Director met with Board members to discuss the Chairman's performance during the year.

Discussions were focused on risk management, Group strategy, financial monitoring and performance as well as the overall performance of the Board and each of its' committees. The review highlighted that the Board continues to operate effectively, particularly during the challenges of the pandemic, and offers strong support to management. Areas identified as opportunities to develop the Board's effectiveness further include:

- clear communication from the Board on revised strategic objectives;
- enhance Board reporting with enhanced external market insights;
- establishing a clear statement of risk appetite.

The Chairman and the Company Secretary are putting in place appropriate action plans in response to the evaluation findings and these will be reviewed with the Board during the 2021/22 year, together with a review against the last external review which was concluded in January 2019.

In addition to evaluation of the Board as a whole, separate appraisals are held for individual Directors. The Chief Executive conducts annual appraisals with the Executive Directors and has regular one-to-one discussions with them about their performance, as does the Chairman with the Chief Executive.

Diversity

All new appointments to the Board are made on merit, taking into account the specific skills, knowledge and experience of candidates and are made irrespective of personal characteristics such as ethnicity, religion or gender. The appointment of further Non-Executive Directors will be used as an opportunity to further increase the diversity of the Board.

More widely, the Group continues the development of its' Equality, Diversity and Inclusion strategy which is reported upon in detail on pages 49 to 51 of this Annual Report. For the year ended 28 February 2021, the gender split at Board level was 13% women and 87% men. Women represented 29% of senior management and their direct reports across the Group.

Succession planning

Succession planning has not been a principal area of focus for the Committee during the year as Committee members have instead focused their time and effort in supporting the business in its' response to the pandemic.

The Committee plans to review its' approach to succession planning during the new financial year to ensure that our approach to Board recruitment and composition continues to allow for the development of a diverse pipeline for succession, taking into account the challenges and opportunities facing the Company, and the skills and expertise needed on the Board to support the Esken strategy.

The Committee has recommended the re-election of all Directors at the AGM in 2021.

David Shearer
Chairman of the Nomination Committee

Nomination Committee membership

- **David Shearer**, Chairman
- **John Coombs**, Non-Executive Director
- **Ginny Pulbrook**, Non-Executive Director
- **David Blackwood**, Non-Executive Director
- **Clive Condie**, Non-Executive Director

The Chairman may also invite others to attend meetings of the Committee as required such as the Chief Executive and Group People Director.

Key activities during the year

- Recruitment and appointment of Non-Executive Director
- Appointment of Senior Independent Director
- 2021 Board evaluation
- Re-election of Directors

Audit Committee Report

On behalf of the Audit Committee (Committee) I am pleased to present our Audit Committee Report for the year ended 28 February 2021.

David Blackwood
Chairman of the Audit Committee

Dear Shareholder

Having conducted careful reviews, the Committee concluded that the 2021 Annual Report is fair, balanced and understandable and advised the Board accordingly.

Other Directors, including the Non-Executive Chairman, Chief Executive Officer, Chief Operating Officer and Chief Financial Officer, the Group Financial Controller and the Group's internal and external auditors attended meetings by invitation. As Chairman, I also meet independently with the external auditor, the internal auditor and Chief Financial Officer. I have an open and professional relationship with each of them and I am confident in their capabilities and the level of assurance that they provide.

Details of the membership of the Committee, the key activities of the Committee during the year, the matters related to the engagement of the external auditor and an overview of our risk management and internal control framework are set out in this report. Also included are details of the significant accounting matters and judgements considered by the Committee and how these have been addressed during the year.

The Committee terms of reference are available on the Group's website at **www.esken.com**.

David Blackwood
Chairman of the Audit Committee

30 June 2021

Audit Committee membership

- **David Blackwood**, Audit Committee Chairman
- **Ginny Pulbrook**, Non-Executive Director
- **Clive Condie**, Non-Executive Director (appointed 1 July 2020)
- **John Coombs**, Non-Executive Director

Key activities during the year

- Review of the Annual Report to ensure it is fair, balanced and understandable.
- Review of significant judgements and estimates applied in the preparation of the interim review and Annual Report.
- Review of the impact of COVID-19 on the financial statements, especially in relation to the going concern disclosures.
- Review of the Viability Statement.
- Review of impairments and asset carrying values.
- Review of the acquisition of Stobart Air and Propius.
- Review of the disposal of brands and trademarks and discontinued operations following disposal of Stobart Rail Limited.
- Review of guarantees, contingent liabilities and claims.
- Approve the Group to no longer present material items separately as non-underlying, following review communicated in the prior year report.
- Confirm the independence of the external auditor.
- Approve the external audit plan and strategy for the year ended 28 February 2021.
- Approve the internal audit plan for the year ended 28 February 2021.
- Review of the findings from the external audit for the year ended 29 February 2020.
- Review of the findings from the external review by the auditor of the interim period to 31 August 2020.
- Review of the findings from internal audits conducted during the year.
- Review Committee terms of reference.
- Consider and review the activity and effectiveness of the Whistleblowing Policy.

The Committee terms of reference are available on the Group's website at **www.esken.com**.

Audit Committee membership during the year

The members of the Committee and their meeting attendance during the year are set out below. All members of the Committee are independent Non-Executive Directors. The Company Secretary acts as the Committee's secretary. David Blackwood, Committee Chairman, is a qualified accountant and is considered by the Board and the Nomination Committee to hold the requisite recent and relevant financial experience for the purposes of the UK Corporate Governance Code and competence in accounting or audit for the purposes of DTR 7.1.

Committee member	Meeting attendance
David Blackwood	5/5
Ginny Pulbrook	5/5
Clive Condie (appointed 1 July 2020)	4/4
John Coombs	4/5

Fair, balanced and understandable information

The Committee acknowledges that as a whole, the Annual Report needs to be fair, balanced and understandable in order to provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The Committee advises the Board on whether it believes that the Annual Report meets this requirement. In order for the Committee to make this assessment it considers reports from management that monitor financial performance, received during the year and at year end in support of the financial statements, and also reports from the external auditor on the findings of its annual audit.

Formal review processes are in place to ensure that the Annual Report is factually accurate. Following a detailed review, the Committee concluded that the Annual Report is fair, balanced and understandable and advised the Board accordingly.

The responsibility statement of the Directors in respect of the Annual Report is on page 102.

Engagement of the external auditor

The external auditor is engaged to express an opinion on the Group's financial statements. The audit includes the review and testing of the systems of internal financial control and the data contained in the financial statements to the extent necessary for expressing an audit opinion on the truth and fairness of the financial statements.

KPMG LLP (KPMG) has been the Group's auditor since September 2012, following the last audit tender conducted. KPMG provides the Committee with relevant reports, reviews and advice throughout the year, as set out in their terms of engagement.

In accordance with UK regulations, the Company's auditor adheres to a lead partner rotation policy every five years. There has been a change to the lead partner this year to Michael Froom. This was due to a change of role within KPMG for the previous lead partner, who had two years remaining before rotation at the time of the change. The Committee believes that KPMG continues to be best placed to conduct the audit given the challenges that COVID-19 has had on the Group, particularly the Aviation division, so there are no plans to tender the audit prior to the ten-year mandatory tenure as per the Financial Reporting Council requirement.

During the year, the performance of the auditor and effectiveness of the audit process was formally assessed by the Committee, in conjunction with the management team. In making this assessment the Committee focused on the robustness of the audit, the quality of delivery of audit services and the quality of the auditor's staff. The Committee is satisfied that the audit continues to be effective and provides an appropriate independent challenge of the Group's management.

Audit Committee Report continued

The Committee has adopted a policy which sets out a framework for determining whether it is appropriate to engage the Group's auditor for non-audit services and for pre-approving non-audit fees. A full copy of this policy is available on the Group's website.

The overall objective of the policy is to ensure that the provision of non-audit services does not impair the external auditor's independence or objectivity. This includes, but is not limited to, assessing:

- the scope of the work to be undertaken;
- any threats to independence and objectivity resulting from the provision of such services;
- whether the skills and experience of the audit firm make it a suitable supplier of the non-audit service;
- whether there are safeguards in place to ensure that there is no threat to objectivity and independence in the conduct of the audit resulting from the provision of such non-audit services by the external auditor, the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit fee; and
- the criteria which govern the compensation of the individuals performing the audit.

Non-audit fees charged by the auditor in the year were £493,000 compared to an audit fee of £1,281,000. The non-audit fees relate to the half-year review and reporting accountant work in relation to the equity raise which took place in June 2020. The objectivity and independence of the auditor has been reviewed and considered to be safeguarded.

Internal audit

The Group's Safety and Compliance team performs audits against documented processes. Reports summarising findings and key actions are discussed at each Board meeting and circulated to the Executive Directors and divisional management.

The Group has a dedicated internal financial audit function which is operated by an independent external firm. The scope of these audits is prepared by the Chief Financial Officer and approved by the Committee at the beginning of the financial year. There were three projects completed during the year and reports were produced summarising the findings and recommendations. Significant issues identified within these reports are considered in detail along with the mitigation plans to resolve them. The Committee is provided with a summary of the reports and an update is provided at each meeting on the progress of any ongoing or planned projects.

Significant accounting matters

As part of monitoring the integrity of the financial statements, the Committee reviews whether suitable accounting policies have been adopted and whether management has made appropriate judgements and estimates. The Committee seeks support from the external auditor as part of its review.

The main items reviewed for the year ended 28 February 2021 are set out below:

COVID-19	COVID-19 has impacted both of the operating divisions, Aviation and Energy. London Southend Airport (LSA) has seen minimal passenger numbers during the year as flights have been cancelled by airlines following government-imposed travel restrictions. Furthermore, easyJet closed its LSA base from 31 August 2020 and Flybe, which was due to commence operations from LSA this year, entered administration. However, the partnership with our global logistics partner operating at LSA has performed well, which along with tight cost control and marketing cost savings has minimised losses in the Aviation division. The Energy division experienced abnormal supply and demand challenges when the construction industry and household waste recycling centres were closed nationwide. As the wood supply came back online the gate fee had weakened which impacted on revenues and EBITDA. Towards the end the year, the Energy division had started to see trade return to more normal levels and as such this is the division that is expected to recover first, whereas Aviation continues to be heavily impacted by the ongoing travel restrictions. The impact of COVID-19 has not been presented separately as it is not possible to reliably calculate the cost of the pandemic on the business. The Committee has reviewed this treatment and is satisfied that this is the correct approach.
Going concern and funding	COVID-19 has impacted the cash headroom of the Group. To conserve cash, management introduced a freeze on recruitment and all discretionary capital expenditure. No bonuses have been paid and temporary pay reductions were accepted by the Board and senior leadership team. The government furlough scheme has been utilised and the difficult but necessary decision was taken to make redundancies. Owing to the combined efforts throughout the business the impact on cash has been minimised. The latest five-year forecast indicates that, despite setbacks from COVID-19, the headroom remains at an acceptable pre-COVID-19 level thanks to the efforts to conserve cash described above. Our expectation is Carlyle will provide funding of £120m net of costs by way of a secured loan with an option to convert in to 29.99% of the equity. We have put in place plans for a new funding package of £60m gross comprising a new £20m working capital facility to support treasury management and an equity issue of around £40m by way of a documented prospectus offering. Doing this will allow us to refinance fully the existing bank debt, meet certain of its remaining legacy obligations and provide the necessary working capital to underpin our business plan. The Committee is satisfied that although the Group has material uncertainty, it is a going concern and the Annual Report has been prepared on this basis. The Committee has reviewed the disclosures about going concern and is satisfied that they are appropriate.

Impairment of property, plant and equipment and intangible assets	An independent external valuation was obtained at 28 February 2021 for certain property assets, namely land at Widnes and Runcorn and Carlisle Lake District Airport. These property assets are carried at cost less impairment and the valuations were conducted on a fair value less costs to sell basis. As Carlisle Lake District Airport is no longer operating as a passenger airport this was deemed the most appropriate basis for the valuation. Impairment reviews were carried out for intangible assets and property, plant and equipment within the Aviation division. Despite the impact of COVID-19 at LSA, the carrying value of the airport remains appropriate. The recoverable amount of all assets subject to impairment review were above the carrying value of these assets so no impairments were required in the year. The judgements used in the impairment reviews largely relate to the assumptions underlying the fair value less costs to sell and value-in-use calculations. Primarily, the achievability of long-term business plans and macroeconomic assumptions, together with the appropriateness of the discount factors used. The Committee has considered the carrying values of the assets together with the assumptions underlying the impairment reviews and is satisfied that no impairments are required.
Acquisition of Stobart Air and Propius and liquidation of Stobart Air	On 27 April 2020, the Group acquired equity investments in Stobart Air and Propius from the administrators of Connect Airways, which resulted in the consolidation of both Groups as 100% subsidiaries and gave rise to a loss on acquisition of £58.2m. The acquisition was necessary for the Group to take control of pre-existing obligations and at the time of the acquisition the Group made clear its intention was to exit these businesses. Stobart Air entered liquidation post year end. The results of Stobart Air in the year ending February 2022 will be presented as discontinued operations. The Committee is satisfied with the presentation of Stobart Air and Propius results in the current year, as well as the disclosures in relation to the acquisitions and liquidation.
Disposal of Stobart brands and trademarks	The Group disposed of the Stobart brands and trademarks for £10.0m on 7 May 2020. There was no profit or loss on disposal following the write-down of these assets at 29 February 2020. The full consideration has been recognised, of which £8.5m has been received and £1.5m is receivable 36 months after the date of disposal, presented within other receivables. The Committee has reviewed the disposal treatment and is satisfied that it is appropriate.
Disposal of Stobart Rail Limited	The Group disposed of Stobart Rail on 14 July 2020. The trading results of the business for the period up to disposal and the resulting loss on disposal have been presented as discontinued operations. Additional consideration may be received, dependent upon the outcome of a single legacy contract. Management estimates the contingent consideration to have a fair value of £0.3m at the year end. The Committee has reviewed the disposal and assumptions around contingent consideration and is satisfied with the presentation.
Guarantees and contingent liabilities	The disclosure of contingent liabilities depends upon the likelihood of an economic outflow of resource from the Group. Judgement is made on the likelihood and only when it is not considered remote is a contingent liability disclosed. The Committee has reviewed the judgements made and the disclosures presented in the financial statements and is satisfied that they represent the year end position of the Group.
Contractual dispute	A claim made by the Energy division has been settled in the year. A portion had been recognised in revenue at the time the contractual entitlement arose and the remaining £2.4m was provided for at 29 February 2020. As the claim has now been settled, the remaining £2.4m has been recognised in revenue in the current year. A further £0.6m per annum will be invoiced and recognised in revenue each year for the remainder of the contract to 2036. The Committee has reviewed the treatment and is satisfied that the revenue has been appropriately recognised and presented.
Presentation of non-underlying items	As disclosed in the prior year report, the review into the presentation of non-underlying items was completed. Upon review, as the Group's businesses are now more established, it is no longer deemed necessary to present these items separately. As a result, the financial statements no longer separately present items as underlying and non-underlying. The Committee is satisfied with the revised presentation.

Directors' Remuneration Report

On behalf of the Group's Remuneration Committee, I'm happy to present this year's report, for what has been a most challenging year for our employees.

John Coombs,
Chairman of the Remuneration Committee

Remuneration Committee members

- **John Coombs**, Chairman,
- **Ginny Pulbrook**, Non-Executive Director
- **David Blackwood**, Non-Executive Director
- **Clive Condie**, Non-Executive Director

Activities during the year

During the year the Committee met seven times and a summary of the main areas dealt with by the Committee is set out below:

- Consideration and decisions on:
  - Levels of base salaries for Executive Directors and other executives within its remit
  - Executive Directors' bonus arrangements
  - Performance of LTIPs over the year
  - LTIP grants
  - Directors' Remuneration Report
  - Fees for the Chairman and his new role as Executive Chairman
  - Review of the terms of reference of the Committee

Contents of the Directors' Remuneration Report

The Directors' Remuneration Report is not subject to audit.

The Committee has written terms of reference which are available in the 'about' section of the Group's website at: **www.esken.com**

1.1 Annual Statement by the Remuneration Committee Chairman

Dear Shareholder

On behalf of the Board and as Chairman of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the year ended February 2021. As a Guernsey registered company, we are not obliged to follow the UK Companies Act regulations (specifically the Large and Medium sized Companies and Group (Accounts and Reports) Regulations 2008, as amended) governing Directors' remuneration disclosure and voting, but we elect to do so.

Our Directors' Remuneration Policy, which was supported by 96% of our shareholders, was approved at the AGM on 30 July 2020 and is available in our 2020 Annual Report at **www.esken.com/investors**. The Annual Report on Remuneration, which provides details of the remuneration earned by Directors for the year ended February 2021 and how we intend to apply the Directors' Remuneration Policy in the year ending February 2022, is set out on pages 92 to 100 and will be subject to a separate vote at the AGM.

Remuneration decisions during the year

Due to the ongoing and significant impact of COVID-19, the Group has put in place strict financial discipline in order to preserve liquidity and protect operational capability for the long-term. From the start of the initial lockdown in March 2020, Esken has utilised the UK Government's Job Retention Scheme. Initially, c.50% of the Group's 1,500+ employees were furloughed (as of 1 April 2020). The number of affected employees on furlough has reduced over the year, and as at 28 February 2021 there were 179 employees who remained on furlough, with a further 108 employees on part-time furlough. In addition to those furloughed, approximately 320 employees were sadly made redundant. These redundancies were predominantly in our Aviation Services business and at London Southend Airport.

Given the Group's assistance from Government under the furlough scheme, it was agreed that bonuses earned for the year ended February 2020 would not be paid. In addition, and for the same reason, no bonus scheme was put in place for the year ended February 2021. The Board and senior leadership team agreed to a 20% pay reduction and all other non-furloughed management accepted 10% pay reductions for a period of six months in recognition of the Company's position and to demonstrate leadership. Cost-of-living awards usually made for all employees were not implemented where possible.

As a result of the uncertainty and the impact of the pandemic on our business, no LTIP awards for the year ended February 2021 have been granted during the year.

The awards granted under the approved 2014 Long-Term Incentive Plan (LTIP) in June 2018 and July 2018 in respect of performance for the year ending February 2021 for Nick Dilworth did not vest as the threshold performance targets were not met.

Due to his resignation as Chief Executive during the year, Warwick Brady is not entitled to any benefit from the Stobart Aviation Incentive Plan (SAIP). The SAIP itself will close as there are no participants left in the scheme.

Looking forward to the year ending February 2022

Mr Brady has stepped down from the Board and with effect from 1 May 2021, will continue to provide support to Esken on a limited part time basis until he leaves employment on 30 June 2021. Mr Brady's salary and benefits will be adjusted on a pro-rata basis to reflect this change and he will no longer be entitled to participate in any bonus or LTIP scheme for the period.

David Shearer has assumed the role of Executive Chairman of Esken with effect from 9 February 2021 and will receive a total fee of £350,000 per annum for his executive duties, for as long as he holds that position. He will not be entitled to any benefits and will not participate in any bonus scheme, or be eligible for LTIP awards. We have taken the view in this report to continue to report on remuneration for Mr Shearer as a Non-Executive given that his move to an executive position was taken so late in the financial year being reported. In addition, a fee of £150,000 plus VAT is payable to Buchanan Shearer Associates LLP, an advisory business in which Mr Shearer is a partner, for services provided in relation to the restructuring and refinancing of the business.

We are not currently in a position to put in place a bonus scheme for Executive Directors for the new financial year. However, the Committee is conscious that bonuses have now not been awarded for two years and would like to put a bonus scheme in place for the year ending February 2022 if possible. The Committee has agreed to review the position on bonuses later in the year.

The Committee intends to put in place an LTIP scheme during the year that will be market competitive and align Executive Directors' interests with those of shareholders.

Whilst these are our intentions, the Committee recognises that plans may need to change as we take decisions in the best interests of all stakeholders having regard to the continued impact of COVID-19.

John Coombs
Chairman of the Remuneration Committee

30 June 2021

Directors' Remuneration Report continued

1.2 Remuneration at a Glance

Performance highlights

Adjusted EBITDA

£(17.9)m

Loss before tax

£(150.3)m

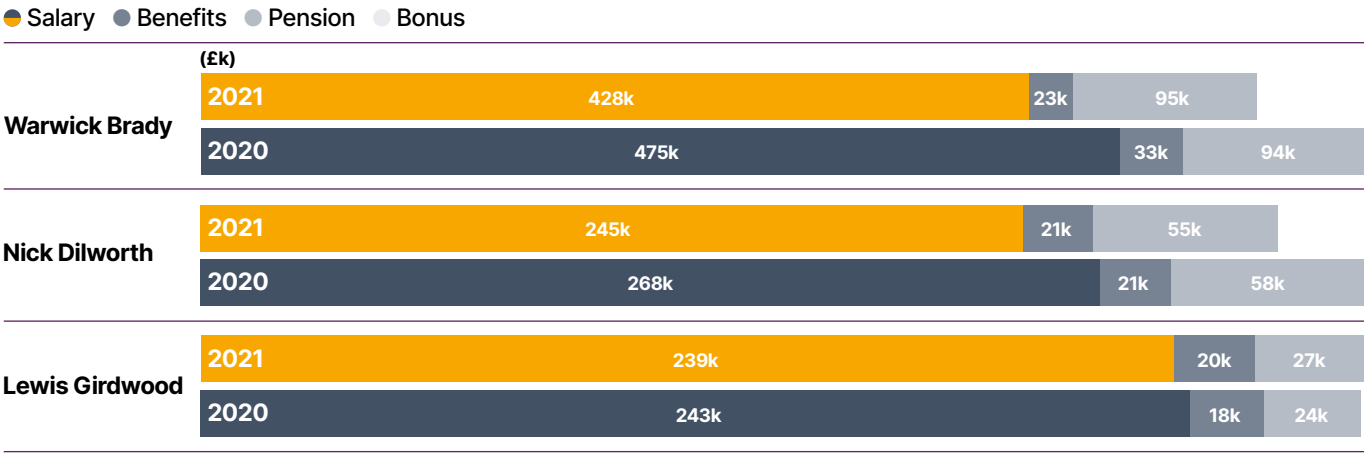
Aviation – EBITDA

£(6.1)m

Energy – EBITDA

£10.0m

2021 Remuneration (year ended 28 February 2021)



LTIP outcomes

LTIP awards were granted in June 2018 with vesting based on EPS and TSR performance over a three-year period ended February 2021. Performance against those measures was below threshold and the awards will not vest.

Shareholding guidelines

Purpose:

To align Executive Directors' interests with those of shareholders

Guidelines for Executive Directors:

To build up shareholdings of at least 200% of salary

Current shareholdings (percentage of salary):

Warwick Brady[1]	28%
Nick Dilworth	20%
Lewis Girdwood	37%

1 Mr Brady ceased to be a director of Esken on 30 April 2021

Further details on our shareholding guidelines, and how these are affected post-employment, can be found on page 92.

Policy on service contracts

The service contracts for the Executive Directors are dated as set out in the table below:

Executive Director	Position	Date of contract	Date of commencement
Warwick Brady[1]	Chief Executive	3 January 2017	1 July 2017
Lewis Girdwood	Chief Financial Officer	29 March 2019	1 April 2019
Nick Dilworth	Chief Operating Officer	30 October 2017 (amended 16 August 2018)	1 September 2018

1 Warwick Brady originally joined the business as Deputy CEO on 3 January 2017, and was subsequently appointed to the Board, following his move to become Chief Executive, with effect from 1 July 2017. Mr Brady ceased to be a director of Esken on 30 April 2021.

The Company's policy is for service agreements with Executive Directors to be capable of termination by either the Company or the Executive Director by the giving of six months' notice in the case of Lewis Girdwood and Nick Dilworth and 12 months' notice in the case of Warwick Brady. Mr Brady resigned on 9 February 2021 and it was mutually agreed with Esken that he be allowed to leave employment on 30 June 2021, having stepped down from the Board and his role as Chief Executive on 30 April 2021 and seen his time commitment reduced to one day per week from the same date.

Non-Executive Directors are engaged under letters of appointment that set out their duties and responsibilities. Non-Executive Directors are ordinarily appointed for an initial period of three years, subject to annual shareholder re-election. John Coombs has been appointed on a rolling letter of appointment with no fixed end date, but subject to annual shareholder re-election. The continued appointment of each Non-Executive Director is subject to the requirements of the Company's Articles of Incorporation.

The Non-Executive Directors' letters of appointment are dated as set out in the table below:

Non-Executive Director	Commencement date
David Shearer[1]	1 June 2019
David Blackwood	1 March 2019
John Coombs	1 July 2014
Ginny Pulbrook	1 October 2018
Clive Condie	1 July 2020

1 David Shearer is included in this table as a Non-Executive Director as this is the role he performed for the majority of the year.

Directors' Remuneration Report continued

1.3 Annual Report on Remuneration

The Committee has implemented the Remuneration Policy during the year in accordance with the policy approved by shareholders at the AGM held in July 2020.

Single figure of total remuneration for Executive Directors

The table below sets out the single figure of total remuneration (and its breakdown into its constituent parts) for each Executive Director for the years ended February 2021 and February 2020:

	Salary		Taxable benefits		Pension		Total fixed remuneration[1]		Bonus		Long-term incentives vesting		Total variable remuneration		Total remuneration	
£'000	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Warwick Brady	427.6	475.1	23.2	32.8	95.0	93.6	545.8	601.5	–	–	–	–	–	–	545.8	601.5
Nick Dilworth	245.3	267.5	20.6	20.6	54.5	57.5	320.4	345.6	–	–	–	–	–	–	320.4	345.6
Lewis Girdwood	238.5	242.9	20.0	18.3	26.5	24.3	285.0	285.5	–	–	–	–	–	–	285.0	285.5

1 The Executive Directors agreed to a 20% reduction in base salary for the period from the start of the financial year until 30 September 2020. Their salaries returned to their contractual level from 1 October 2020.

Salary

No Executive Director salary increases were awarded during the relevant period. Due to COVID-19's impact on the business, the Executive Directors agreed to a 20% pay reduction for the period 1 April 2020 to 30 September 2020. The annual salary and the reduced salary reflecting the 20% reduction are both shown in the table below.

Executive Director	Salary effective 1 July 2019	Salary for the period 1 April 2020–30 Sept 2020	Salary effective 1 October 2020	Increase
Warwick Brady	£475,087	£380,070	£475,087	–
Nick Dilworth	£272,500	£218,000	£272,500	–
Lewis Girdwood	£265,000	£212,000	£265,000	–

Benefits

The Company currently provides other benefits which comprise standard executive medical cover and death-in-service cover to Executive Directors. Executive Directors are also entitled to a company car of a size and type deemed appropriate for the proper performance of their duties, or a cash allowance in lieu. During the period, Nick Dilworth and Lewis Girdwood opted to take an additional salary supplement of £20,000 in lieu of an equivalent car benefit. Warwick Brady returned his company car mid-way during the year and opted for a cash allowance in lieu, to a value of £11,231.

Pension

For the financial year ended February 2021, the Executive Directors received a pension contribution or a cash supplement in lieu of contributions to a pension plan, or a combination of pension contribution and cash supplement. Pension contributions are based on salary only. The voluntary 20% reduction in pay for six months was applied to base salary only and as such, pension contributions or cash supplements in lieu of pension contributions were unaffected by this reduction.

Annual bonus

On the basis that the Company was in receipt of Government support under The Coronavirus Job Retention Scheme, the Committee felt it would not be appropriate to put in place a bonus scheme for the year.

Long-term incentive Plans for the year ended February 2021

No long term incentive awards in respect of the year ended February 2021 were granted during the year. In accordance with the Directors' Remuneration Policy and the rules of the LTIP, awards in respect of that year are proposed to be granted during the year ending February 2022. The performance conditions applying to any such award will be included in the Directors' Remuneration Report for the year ending February 2022 and will also be included in the regulatory announcement when the awards are granted.

Outstanding share awards

The table below sets out details of Directors' outstanding share awards held under the LTIP, including those interests awarded during the financial year.

	Type of award	Date of LTIP grant	Market price on date of grant	Number of performance shares at 1 March 2020	Granted during the year	Vested during the year	Lapsed during the year	Number of performance shares at 28 February 2021	Performance period	Vesting/ lapse date[1]
Warwick Brady[2]	2014 LTIP	20 June 2018	£2.568	131,408	–	–	–	131,408	3 years	20 June 2021
	2014 LTIP	3 July 2019	£1.173	303,686	–	–	–	303,686	3 years	3 July 2022
				435,094	–	–	–	435,094		
Nick Dilworth	2014 LTIP	20 June 2018	£2.568	52,563	–	–	–	52,563	3 years	20 June 2021
	2014 LTIP	3 July 2019[3]	£1.883	127,660	–	–	–	127,660	3 years	20 June 2021
	2014 LTIP	3 July 2019	£1.173	348,376	–	–	–	348,376	3 years	3 July 2022
				528,599	–	–	–	528,599		
Lewis Girdwood	2014 LTIP	3 July 2019	£1.173	225,858	–	–	–	225,858	3 years	3 July 2022
				225,858				225,858		

1 The vesting date may be a short period after the end of term date to allow any consideration of discretion by the Committee as well as administrative matters to take place.
2 Mr Brady's LTIP awards will lapse when he leaves employment with Esken on 30 June 2021.
3 As set out in last year's Directors' Remuneration Report, this is the price at the date the Committee agreed to grant the award.

Save As You Earn (SAYE) Scheme

There were no options granted under a SAYE scheme during the year ending February 2021.

Directors' Remuneration Report continued

Directors' shareholding and share interests

Details of the Directors' interests in shares are shown in the table on page 94

As set out in the Directors' Remuneration Policy which was approved by shareholders at the AGM in July 2020, Esken has a formal shareholding requirement whereby Executive Directors are expected to build a shareholding equal to the value of 200% of their annual salary, to be achieved within the later of five years of their appointment to the Board or the introduction of this guideline on 27 June 2017.

A new requirement, introduced for the first time in the Directors' Remuneration Policy last year, is the requirement that for 12 months following their cessation as Executive Director, the relevant director must retain an equal value of "relevant" shares (as at cessation) as held during service, and 50% of this value for a further 12-month period. Shares which are purchased by an Executive Director, or which have been acquired pursuant to share awards granted before this policy was approved by shareholders (such approval was on 30 July 2020), or acquired pursuant to SAYE scheme options are not "relevant" shares for the purposes of the post-employment requirement.

Mr Brady has not been awarded any "relevant" shares since the 30 July 2020, and as such, there are no post-employment shareholding requirements to be complied with.

Based on the share price at 28 February 2021, Nick Dilworth and Lewis Girdwood have yet to meet the full requirement, with their holdings as a percentage of salary set out on page 90.

Share interests of Directors and connected persons at 28 February 2021

The following table shows the Directors' interests in shares as at 28 February 2021 or date of cessation as a Director. David Shearer is included in this table as a Non-Executive Director as this is the role he performed for the large majority of the year being reported.

	Beneficially owned	Outstanding under share award arrangements[1]	Total interest in shares
Executive Directors			
Warwick Brady	404,701	560,269[2]	964,970
Nick Dilworth	163,593	547,570	711,163
Lewis Girdwood	300,000	244,829	544,829
Non-Executive Directors			
David Shearer	512,500	–	512,500
John Coombs	170,006	–	170,006
Ginny Pulbrook	22,500	–	22,500
David Blackwood	169,534	–	169,534
Clive Condie	185,000	–	185,000

1 Executive Directors' outstanding share awards are under the LTIP or the SAYE scheme. Awards under the LTIP are subject to performance conditions as set out in detail for each grant in the Annual Report on Remuneration for the year in respect of which the award was granted. Awards under the SAYE scheme are not subject to performance conditions.
2 Mr Brady's LTIPs and his participation in the SAYE scheme will lapse when he leaves employment with Esken on 30 June 2021.

There have been no changes in the holdings of the Directors between 28 February and 26 May 2021.

Percentage change in the remuneration in Director and employee remuneration

	Base Salary %	Taxable Benefits %	Annual Bonus %
Executive Directors			
Warwick Brady	(10.0)	(29.3)	–
Nick Dilworth	(8.3)	–	–
Lewis Girdwood	(1.8)	9.3	–
Non-Executive Directors			
David Shearer[1]	20.0	–	–
John Coombs	(8.5)	–	–
Ginny Pulbrook	(6.0)	–	–
David Blackwood	(1.7)	–	–
Clive Condie[2]	–	–	–
Employee Population[3]	16.4	(28.1)	–

1 David Shearer joined the Board after the beginning of the financial year ended February 2020 (appointed with effect 1 June 2019).
2 Clive Condie was appointed to the Board on 1 July 2020. On this basis there is no comparable data to calculate any change in remuneration.
3 As a result of the liquidation of Stobart Air, employees within that business have not been included in this calculation.

The above table shows the percentage year-on-year change in salary, benefits and bonus earned between the year ended February 2020 and the year ended February 2021 for all Directors and for the average of all other employees in the Group.

Employee average remuneration has been calculated on a median basis. Employees working part-time have had their remuneration grossed up to full time for the purpose of the calculation. Employees on zero-hour contracts and those identified as being under the furlough scheme during the year have had their remuneration included at actual rates in the calculation. Employees across the Group have been chosen as the comparator as the Committee felt that due to the relatively small number of colleagues employed by Esken Limited only (5% of overall employee population) would not be representative of the employee population across the wider group.

The percentage change table reflects a reduction in the employee population from 1,442 to 912 a rise in average employee salary from £31,194 to £36,294 and a reduction in benefits from an average of £700 per employee to £503.

David Shearer is included in this table as a Non-Executive Director as this is the role he performed for the large majority of the year being reported.

Payments for Directors' loss of office

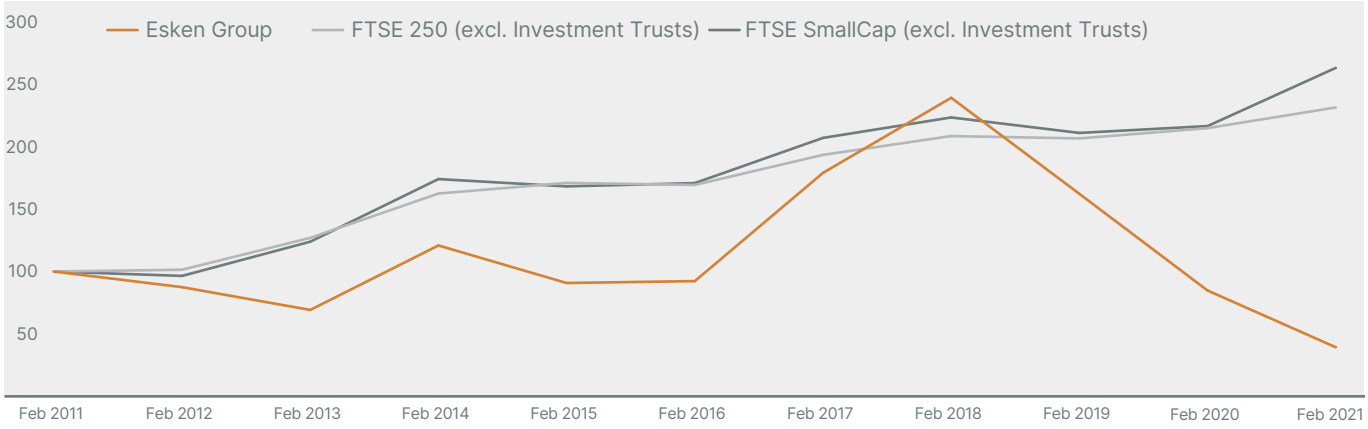
There were no payments in relation to loss of office during the year. Mr Brady will not receive any payments from the Company in relation to his loss of office from 30 April 2021.

Payments to past Directors

There were no payments of money or other assets to former directors during the year.

Historical TSR performance chart

The chart below shows the TSR performance of Esken against the FTSE 250 and FTSE SmallCap for the last ten years. Esken has been a member of both the FTSE 250 and FTSE SmallCap during the period shown.



Chief Executive remuneration outcomes

The table below shows the total remuneration figure for the Chief Executive for the last ten years. The total remuneration figure includes the annual bonus and any long-term incentives which vested based on performance in those years.

	For the year ended 28/29 February										
	Andrew Tinkler							Warwick Brady			
Chief Executive	2012	2013	2014	2015	2016	2017	2018[1]	2018[2]	2019	2020	2021
Chief Executive's total single figure of remuneration £'000	253.6	259.9	251.2	1,309.3	931.3	951.1	235.31	648.82	915.8	601.5	545.8
Bonus paid % of maximum	–	–	–	76.3%	96.6%	97.0%	91.0%	91.0%	73%	–	–
LTIP vesting % of maximum	–	–	–	–	–	–	100%	–	–	–	–

1 Andrew Tinkler stepped down from the position of Chief Executive on 30 June 2017. The remuneration figure used represents one-third of his single figure remuneration and takes account of the alterations made to his level of remuneration for the year as explained in the notes to the single figure table on page 61 of the Directors' Remuneration Report in the 2019 Annual Report.
2 Warwick Brady was appointed as Chief Executive on 1 July 2017. The remuneration figure used represents the total single figure remuneration.

Chief Executive pay ratio

The table below compares the Chief Executive Officer single total figure remuneration (as set out on page 92), with the total remuneration of the Group's employees, paid at the 25th, 50th and 75th percentiles.

Pay ratios have been calculated using Option A as this is considered to be the most statistically accurate. Under Option A, we determined the total full-time equivalent remuneration for all our UK employees, ranked those employees based on their full-time equivalent remuneration and then identified the lower quartile, median and upper quartile employees based on this ranking. The employees were identified by reference to their remuneration as at February 2021. Employees working part time have had their remuneration grossed up for the purpose of this calculation. Zero-hour contract and furloughed employees remuneration is included at the actual rate of pay.

Directors' Remuneration Report continued

Year	Methodology	25th percentile	50th percentile (median)	75th percentile
2020/21	Option A	1:25	1:19	1:13
2019/20	Option A	1:28	1:21	1:15

The Committee considers that the median pay ratio for the year ended February 2021 is consistent with the pay, reward and progression on policies for the Group's UK employees taken as a whole. The change in ratios compared to the previous year are as a result of the voluntary reduction in Chief Executive pay for 6 months. Whilst employees who were furloughed also saw a reduction in pay, this was for varying periods of time and was not applicable across the whole employee group.

We have set out below further detail of the base salary and total remuneration received by employees during the year used for the calculation above. Total remuneration was calculated on the same basis as the Chief Executive Officer single figure table set out on page 92. As a result of the liquidation of Stobart Air, employees within that business have not been included in the calculation below and the Relative Importance of spend on pay calculation.

	25th percentile	50th percentile (median)	75th percentile
Base salary	£22,180.96	£28,454.40	£40,572.19
Total remuneration	£22,180.96	£29,307.98	£41,585.67

Relative importance of spend on pay

The table below shows the year-on-year change in losses, staff costs and distributions to shareholders.

	2021	2020	% change
Remuneration paid to or receivable by all employees of the Group (including Directors)	£34.0m	£49.8m	(31.7%)
Distributions to shareholders	nil	£11.1m	(100%)
Loss for the year from continuing operations	£(143.3)m	£(131.0)m	(9.4%)

Single figure of total remuneration for Non-Executive Directors

The table below sets out the single figure of total remuneration (and its breakdown into its constituent parts) for each Non-Executive Director. All Directors (Executive and Non-Executive), with the exception of Clive Condie, voluntarily agreed to a 20% reduction in their salary or fee for the period 1 April 2020 to 30 September 2020. This reduction is reflected in the table below. Clive Condie joined the Board on 1 July 2020 and it was agreed by the Committee that due to his start date in the year and the support offered to the Aviation Division, it would not be appropriate to immediately reduce his fee. David Shearer is included in this table as he was a Non-Executive Director for the majority of the year being reported.

	Fees		Taxable benefits		Total	
£'000	2021	2020	2021	2020	2021	2020
David Shearer[1]	180.0	150.0	–	–	180	150.0
John Coombs[2]	57.2	62.5	–	–	57.2	62.5
Ginny Pulbrook[3]	49.3	52.5	–	–	49.3	52.5
David Blackwood[4]	57.3	58.3	–	–	57.3	58.3
Clive Condie[5]	35.0	–	–	–	35.0	–

1 With effect from 9 February 2021, David Shearer will receive a fee of £350,000 as Executive Chairman.
2 Includes base fee of £52,500 plus additional fees of £10,000 for chairing the Remuneration Committee.
3 Include base fee of £52,500 plus additional fees of £5,000 for acting as Designated Non-Executive Director with effect from 1 October 2020.
4 Includes base fee of £52,500 plus additional fees of £10,000 for chairing the Audit Committee and fulfilling the role of Senior Independent Director with effect from 1 November 2020.
5 Clive Condie's fee is based on his commencement date of 1 July 2020.

Non-Executive Directors' fees for the year ended February 2021

As indicated above, there was a reduction in fees of 20% for the period 1 April 2020 to 30 September 2020 for all Non-Executive Directors other than Clive Condie. There were no other increases to Non-Executive Director fees. As indicated above, David Shearer assumed the role of Executive Chairman following the resignation of Warwick Brady and his Chairman fee will increase to £350,000 per annum from 9 February 2021.

External appointments

During the year, Warwick Brady continued in his role as Non-Executive Director for FirstGroup plc and his fees for the year ended February 2021 were £54,133.30. This amount includes a voluntary reduction in fees of 20% for part of the year to reflect the impact of COVID-19 on the business.

Service contracts and Letters of Appointment

The terms and conditions of appointment of Non-Executive Directors and the service contracts of the Executive Directors are available for inspection at the Company's registered office during normal business hours.

Non-Executive Directors are engaged under letters of appointment that set out their duties and responsibilities and are subject to annual shareholder re-election.

Name	Commencement	Notice period[1]
Warwick Brady	3 January 2017	12 months[3]
Nick Dilworth[2]	1 September 2018	6 months[3]
Lewis Girdwood	1 April 2019	6 months[3]
David Shearer[4]	1 June 2019	3 months
John Coombs	1 July 2014	3 months
Ginny Pulbrook	1 October 2018	3 months
David Blackwood	1 March 2019	3 months
Clive Condie	1 July 2020	3 months

1 Notice periods apply in the same manner for both Directors and the Company.
2 Nick Dilworth's contract was varied with effect from 1 September 2018 on his appointment to the Board.
3 Service contracts on a rolling basis with no defined expiry date. Mr Brady and the Company mutually agreed that he would leave employment without being required to serve his full notice period on his resignation in February 2021 and he will leave employment on 30 June 2021.
4 David Shearer's terms of appointment have been amended with effect from 9 February 2021 to reflect his role as Executive Chairman.

Implementation of the Policy for the year ending February 2022

This section provides a summary of how the Committee intend to implement the Directors' Remuneration Policy in the financial year ending February 2022. Due to the continued uncertainty around the impact of COVID-19 and expectations that the business will recover during the course of the year, the position set out below will be subject to review by the Committee.

Salary

It has been agreed that, as at the date of this report, no salary increases will be awarded for the year ending February 2022. Accordingly, the salaries will remain the same as those applying at the end of the year ended February 2021, as set out below.

Executive Director	Salary
Warwick Brady	£475,087
Nick Dilworth	£272,500
Lewis Girdwood	£265,000

Benefits

The Group does not currently envisage any adjustments to benefits for the year ending February 2022, except as necessary to reflect the market cost of providing the benefits described.

Pension

No changes in pension are proposed for the year ending February 2022. Company contributions to a pension plan will remain at 10% for the Chief Financial Officer and capped at £54,500 (being 20% of salary effective as at 1 July 2020) for the Chief Operating Officer. As set out in the Directors' Remuneration Policy any new Executive Director will receive a pension contribution not exceeding the percentage applicable to the majority of the Group's workforce. This principle will apply to any new executive appointments.

Annual bonuses

The Committee determined that it was not appropriate to approve a bonus scheme for the Executive Directors for the year ending February 2022 at this time in light of the Company's continued receipt of Government support via the furlough scheme. It is anticipated that support will end over the new few months. The Committee will then put in place a bonus plan for the Executive Directors for the second half of the financial year, based on key performance targets of the Group for the second half of the year ending February 2022. Full details of the bonus plan and the outcomes will be disclosed in next year's remuneration report.

LTIP

LTIPs for the year ending February 2022 have been considered, but given the ongoing uncertainty caused by the COVID-19 pandemic, the Committee has not yet reached any formal decisions regarding awards. LTIPs for the new year will be kept under review by the Committee.

Chief Executive Officer

The Committee will need to determine how it will attract and seek to retain a candidate to replace Mr Brady as Chief Executive Officer after his stepping down from the role at the end of April 2021. The Committee will apply the principles in the Directors' Remuneration Policy in making such determination as it relates to remuneration.

Directors' Remuneration Report continued

Non-Executive Directors' fees

For the financial year ending February 2022, the Non-Executive Director fees remain unchanged and will therefore be as set out below. The Executive Chairman shall receive a fee of £350,000 per annum for the period he undertakes executive duties.

	Fee
Executive Chairman Fee[1]	£350,000
Non-Executive base fee	£52,500
Additional fees	
Committee Chair	£10,000
Senior Independent Director	£10,000
Designated Non-Executive Director	£5,000

1 A fee of £150,000 plus VAT is payable to Buchanan Shearer Associates LLP, an advisory business in which Mr Shearer is a partner, for services provided in relation to the restructuring and refinancing of the business.

The Remuneration Committee

Remuneration Committee members

During the year, the Committee comprised the following independent non-executive directors:

John Coombs, Committee Chairman
Ginny Pulbrook,
David Blackwood,
Clive Condie, (from July 2020)

Attendance at Committee meetings is shown on page 77. While no others have rights of attendance or voting, the Committee may invite the Group Chairman, Chief Executive, external advisers and others holding key positions to attend some or all of its meetings.

No individual was present when their own remuneration was being discussed. The Company Secretary attended meetings as secretary to the Committee.

Overview and role of the Committee

The role of the Committee is to determine and recommend to the Board a fair and responsible remuneration framework for ensuring that the Company's Executive Directors and designated senior management are appropriately rewarded and incentivised for their contribution to Group performance.

The Committee determines Executive Director remuneration, reviews and approves remuneration for other senior executives, and oversees the remuneration policy for the broader workforce. The remuneration of non-executive directors is decided by the Board, on the recommendation of the Chairman of the Board and the Executive Directors and is determined within the limits set out in the Company's Articles of Association and the Directors' Remuneration Policy.

Committee membership

The membership of the Committee is determined by the Group Board and is confined to independent Non-Executive Directors, with the Company Secretary acting as secretary to the Committee.

External advisers

During the year ended February 2021, the Committee received external advice from Deloitte LLP who were appointed as independent advisers to the Committee in January 2019. Deloitte LLP is a founding member of the Remuneration Consultants' Group and as such voluntarily operates under a code of conduct in relation to executive remuneration consulting in the UK. Fees of £44,900 were paid in respect of remuneration services during the year which included advising on best practice, the impact of COVID-19 on remuneration matters, updates on legislative requirements and fees for Executive Chairmen.

Committee activities during the year

During the year, the Committee met seven times and a summary of the main activities and decisions dealt with by the Committee are set out below:

- Level of base salaries for Executive Directors and other executives within its remit, including lifting of the 20% reduction in salary
- Bonus arrangements for Executive Directors for the years ended February 2020, February 2021 and February 2022
- Performance of LTIPs over the year
- LTIP grants
- Directors Remuneration Report
- Fees for the Chairman and his role as Executive Chairman
- Recruitment of a Non-Executive Director
- Review of the terms of reference of the Committee

All members of the Committee are independent Non-Executive Directors, as defined under the UK Corporate Governance Code.

Committee attendance for the year ended February 2020

	Number of meetings	Meetings attended
John Coombs	7	7
Ginny Pulbrook	7	7
David Blackwood	7	7
Clive Condie[1]	7	4

1 Clive Condie's attendance is based on his commencement date of 1 July 2020.

Under its Terms of Reference, the Committee shall have a Chairman and at least two members, all of whom shall be independent. For the period 1 March 2020 to 30 June 2020 membership was three independent Directors and for the period 1 July 2020 onwards membership was four independent Directors.

Statement of shareholder voting

At last year's AGM on 30 July 2020, the Directors' Remuneration Report and the Directors' Remuneration Policy received the following votes:

AGM	Item for approval	Votes for (% total votes cast)	Votes against (% total votes cast)	Votes withheld
30 July 2020	Approval of the Directors' Remuneration Report	99.65%	0.35%	30,949
30 July 2020	Approval of the Directors' Remuneration Policy	96.02%	3.98%	44,929

Our approach to remuneration

We are required by the Code to report to you on various matters relating to remuneration and in particular with regard to those matters set out in provisions 40 and 41 of the Code. These matters are as follows:

The strategic rationale for executive directors' remuneration policies, structures and any performance metrics:

The key principles that underpin the design of our Remuneration Policy for Executive Directors, including the structure of remuneration, are to:

- attract, retain and motivate high-calibre talent to ensure continued growth and success of the Group;
- recognise and reward stretching performance taking into account the skills and experience of the Directors and the nature and complexities of their responsibilities;
- encourage and support an entrepreneurial and high performance culture, providing incentives that promote the delivery of sustainable growth and are aligned to medium and longer-term business strategy;
- align the interests of the Executive Directors, senior management and employees with those of shareholders;
- ensure that remuneration and incentives adhere to the principles of good corporate governance, support good risk management practice and promote sustainable Group performance; and
- have a competitive mix of fixed remuneration and short-term and long-term incentives, with an appropriate proportion of the package determined by stretching targets linked to the Group's performance.

The reasons why the remuneration is appropriate using internal and external measures, including pay ratios and pay gaps:

We regularly review the remuneration of our Executive Directors to align it to the strategy and results of the Group, to remuneration in our industry more generally and for senior executives of the type and quality we wish to employ and we remain cognisant of the relative pay of our employees. We believe that our remuneration structures reflect these requirements and benchmarks but we are conscious that remuneration and our ability to pay bonuses and make long term incentive awards has been impacted by the pandemic and will need to be addressed during FY22 as the aviation industry in particular seeks to return to a greater level of activity. We are also conscious that the impact of the COVID-19 pandemic on our business, particularly through the measures we have deployed to control costs partly through a hiring freeze and pay restraint in the year, have impacted our ability to adjust relative pay across the Group.

A description, with examples of how the remuneration committee has addressed the factors in Provision 40 of the Code, which are as follows:

a. clarity – we believe our remuneration arrangements are transparent and promote effective engagement with shareholders and the workforce. We report in full on executive director remuneration in our annual report and we engage regularly with our workforce on many matters, including executive pay, as set out on pages 15, 20 and 21 of this report. We have a Board member, Ginny Pulbrook, who acts as a direct link with our employees and we use our various employee engagement forums to ensure we are aware of the diverse view of our employees;

b. simplicity – we believe that our base remuneration, bonus and long-term incentive awards are simple and easy for stakeholders to understand, avoid complexity and their rationale and operation are easy to understand. Our Remuneration Policy was supported by our shareholders at last year's AGM after consultation with them and we continue to implement our policy in all of our considerations with regard to remuneration;

c. risk – we strive to ensure that our remuneration arrangements avoid reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, and that possible risks are identified and mitigated. We have robust clawback arrangements in our incentive structures and require holding periods for shares issued under LTIP awards and bonuses. We closely monitor the assessment of performance against targets set and our Audit Committee provides a robust check and challenge with regards to the assessment of the Group's financial performance and systems of financial control and risk management;

Directors' Remuneration Report continued

d. predictability – the range of possible values of rewards to individual directors and any other limits or discretions have been identified and explained at the time of approving the policy by shareholders last year. We review the likely outcome of remuneration structures against the Group's projected financial performance but also strive to ensure that the elements of remuneration incentivise recipients to deliver exceptional performance;

e. proportionality – we believe that the link between individual awards, the delivery of strategy and the long-term performance of the company is clear (rewards are geared to the generation of long-term value for shareholders and appropriately reference performance of the business over both the short and longer-term via the balance between annual bonus and long-term incentive awards) and we do not believe that outcomes should reward poor performance. The Committee retains a discretion over bonuses and vesting of awards in circumstances where the financial position of the Group is not reflected in the outcome of individual award criteria. We took action during the year to reduce base remuneration to reflect the effects of the pandemic and the receipt of government funding and delayed the annual bonus scheme and the award of LTIPs.

f. alignment to culture – incentive schemes should drive behaviours consistent with the Company's purpose, values and strategy. Esken has a clear strategy to develop valuable growth assets from aviation and energy from waste. We believe that our remuneration structures are clearly dedicated to rewarding our executives for the development of long-term value via our LTIP awards (which reward performance based on stretching financial performance targets, including TSR) whilst also motivating good performance in the short term via the annual bonus scheme. We believe this growth will come as we create smarter experiences that connect the world around us in fulfilment of our purpose.

An assessment of whether the remuneration policy has operated as intended in terms of performance and quantum:
We believe that the remuneration policy has operated as intended in terms of company performance and quantum, whilst recognising that FY21 was a particularly challenging year for the Group which required us to take extraordinary measures with regard to remuneration, including reducing pay for six months and delaying the implementation of bonus and LTIP schemes. We believe that these measures helped to improve the Group's financial position in the year and demonstrated our senior management's commitment to helping to deliver on the Group's strategy for the long-term.

The Company's engagement with shareholders and the impact this has had on policy and outcomes with regard to remuneration:
Details on how we engaged with our shareholders during the year is set out on pages 19 to 21. We consulted widely with them in the previous financial year in relation to setting our remuneration policy, which was subsequently approved by shareholders at our 2020 AGM, our engagement with them during FY21 was more limited.

The Company's engagement with the workforce to explain executive remuneration and how it aligns with wider company pay policy:
The extent of our engagement with the workforce is set out on pages 15, 20 and 21 of this report. We engage with them directly via our People Forums and via their union representatives. We consulted with them about our decision to not making cost of living increases in salaries during the year and we took action to show commitment to the business by reducing senior executive pay for six months and delaying other variable pay awards. Unfortunately, in this difficult year, we had to make a significant number of our colleagues redundant and to place yet more of them on furlough. Our focus has been on the health and well-being of our employees.

The discretion applied to remuneration outcomes and why:
We applied discretion to remuneration during the year by reducing executive pay for six months, not making cost of living increases to base salaries, not paying out bonuses for hitting personal performance targets under our senior executive bonus scheme for the year ended February 2020 despite targets being met and delaying the regular implementation of variable pay awards in the form of bonuses for the year ending February 2021 and LTIPs. The Committee and the Board as a whole felt that this was necessary in light of the impact of the pandemic on the Group's financial position, our receipt of considerable Government support via the furlough scheme and the uncertain economic environment which persisted for much of the year.

Approval
The Directors' Remuneration Report has been approved by the Board of Directors.

Signed on behalf of the Board of Directors.

John Coombs
Chairman of the Remuneration Committee

Directors' Report

Introduction

As a Guernsey registered Company, we are not obliged to follow the UK Companies Act 2006 but we choose to do so as indicated in relevant places in the Directors' Report. The Directors' Report also sets out certain information in accordance with the requirements of the Financial Conduct Authority's Listing Rules and Disclosure and Transparency Rules (DTR).

The Directors' Report should be read in conjunction with the Strategic Report (pages 1 to 71) and Governance (pages 72 to 103) which are incorporated by reference into the Directors' Report.

Results and dividends

The financial statements set out the results of the Group for the year ended 28 February 2021 and are shown on pages 104 to 158.

There were no dividends paid in respect of the year end 28 February 2021.

Directors' and Officers' insurance and indemnities

The Group maintains an appropriate level of Directors' and Officers' insurance whereby Directors are indemnified against liabilities to third parties to the extent permitted by Guernsey company law. The Group also, in addition to the indemnity granted to the Directors under the Articles of Incorporation, entered into instruments of indemnity with each Director. These instruments of indemnity contain provisions that are permitted by the director liability provisions of the Companies Act 2006 (in accordance with the Listing Rules), The Companies (Guernsey) Law, 2008 and the Articles of Incorporation and remain in force as at the date of this report.

Directors' interests

No Director had any interests in contracts of significance in relation to the Company's business during the year.

Political Donations

No donations were made for political purposes during the year in question.

Share capital

Details of the authorised and issued share capital and reserves of the Company are shown in note 30 to the financial statements.

During the year ended 28 February 2021, the Company issued 250,273,461 ordinary shares on 29 June 2020 in connection with the Firm Placing and Placing and Open Offer announced on 25 June 2020.

As at 28 February 2021, the Company held no treasury shares. The share capital of Esken Group Limited at 28 February 2021 was made up of 624,926,123 ordinary shares of 10p and the total number of voting rights was 624,926,123. The ordinary shares are listed on the London Stock Exchange.

Shareholdings, Voting Rights and Articles of Incorporation

The Board has absolute discretion to decline to register any transfer of any share which is not a fully paid share or on which the Company has a lien, provided that this would not prevent dealings in the share from taking place on an open and proper basis on the London Stock Exchange (if applicable).

The Articles also provide that the Board may decline to register a transfer of shares if:

(a) in relation to a share in a certified form, if evidence on title cannot be provided;
(b) it is in respect of more than one class of share; or
(c) it is in favour of more than four joint transferees; or
(d) it is in favour of any Non-Qualified Holder (as defined in the Articles).

Registration of a transfer of an uncertified share may only be refused in the circumstances set out in the rules and regulations applicable to CREST and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertified shares is to be transferred exceeds four.

The Board, under the Articles of Incorporation, may appoint a Director but any such Director must stand for election at the next General Meeting. Directors are elected or re-elected by ordinary resolution at a General Meeting. Under the Articles, Directors retire and offer themselves for re-election annually. The Articles of Incorporation may only be amended by a special resolution.

Substantial shareholdings

The table below sets outs, as at 30 April 2021 those shareholders who owned 3% or more of the issued ordinary shares of the Company.

Name	Number of ordinary shares 30 April 2021	%
Toscafund Asset Management	180,835,223	28.94
Harwood Capital	55,000,000	8.8
Invesco	41,778,906	6.69
Strategic Value Partners	31,740,314	5.08
Mr Richard Griffiths	28,314,347	4.53
Royal London Asset Management	26,382,791	4.22
Lombard Odier Asset Management	23,152,976	3.70
Hargreaves Lansdown Asset Management	23,037,168	3.69
Mr Allan Jenkinson	19,549,649	3.13

Directors' Report continued

Other information

The Company has chosen to set out in the Strategic Report certain information which would be required under Section 414C (11) of the Companies Act 2006 (if that Act were to apply to the Company) to be contained in the Directors' Report. That information, together with other disclosures required by the Companies Act 2006 (as if that Act applied to the Company) and the DTR, can be found on the pages listed below.

Corporate governance	DTR 7.2.1R to DTR 7.2.11R	Pages 74 to 81
Directors' biographical details and dates of appointment	Companies Act 2006 Section 416(1)(a)[1]	Pages 72 to 73
Directors' interests in shares		Page 94
Diversity	DTR 7.2.8AR	Page 49 to 51
Employment of disabled persons	Paragraph 10, Schedule 7, Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 (2008 Regulations)	Page 49
Engaging with stakeholders	Paragraphs 11B and 11C, Schedule 7, 2008 Regulations[1]	Pages 14 to 21
Employee Engagement	Companies (Miscellaneous Reporting) Regulations 2018	Pages 14 to 21
Future developments in the business	Paragraphs 7(1)(a) and 7(2), Schedule 7, 2008 Regulations[1]	Pages 22 to 26
Greenhouse gas emissions	Paragraphs 15,-20 Schedule 7, 2008 Regulations[1]	Pages 60 to 61
Energy and carbon information	Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018	Pages 60 to 61
Risk management and internal control: How the business manages risk	Paragraph 6, Schedule 7, 2008 Regulations and DTR 4.1.11R(6)[1]	Pages 64 to 70

1 As if the Companies Act 2006 and the 2008 Regulations applied to the Company.

Going concern

The Group's business activities, together with factors likely to affect its future performance and position, are set out in the Chairman's statement on pages 24 to 26 and the financial position of the Group, its cash flows and funding are set out in the Financial Review on pages 32 to 35.

For detailed going concern disclosures, please refer to note 1 on page 115.

Directors' responsibilities

The Directors are responsible for preparing the annual financial statements in accordance with applicable Guernsey Law and International Financial Reporting Standards (as adopted by the EU). Our Guernsey registration dates back to January 2002, the days of the Westbury Property Fund. We have looked at options to re-register in the UK and have found it to be too complicated and costly to enact at this time. Guernsey company law requires the Directors to prepare financial statements for each financial period.

Under the law they are required to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the EU and under applicable law. Under common law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period.

In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently.
- Make judgements and estimates that are reasonable, relevant and reliable.
- State whether they have been prepared in accordance with IFRSs as adopted by the EU.
- Assess the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern.
- Use the going concern basis of accounting unless they either intended to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies (Guernsey) Law 2008.

They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Board and senior executives of the Group are accountable to the shareholders and communicate with them on a regular basis in a number of ways. Communication methods and channels include:

- Annual general and extraordinary meetings.
- Announcements on the London Stock Exchange.
- Regular briefings on the Group's website.
- Bi-annual presentations to institutional shareholders.

Responsibility statement of the Directors in respect of the Annual Report and Group financial statements

The Directors confirm to the best of their knowledge that:

- The financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group.
- The Annual Report includes a fair view of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the Principal Risks and uncertainties that the Group faces.
- The Directors consider the Annual Report and Accounts taken as a whole to be fair, balanced and understandable and contain the information necessary for shareholders to assess and provide the Group's position and performance, business model and strategy.
- A robust assessment of the Principal Risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity has taken place.

Auditor

Resolutions to reappoint KPMG LLP as auditor of the Company and for the approval of its remuneration are to be proposed at the 2021 AGM.

The Directors who held office at the date of the approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware; and each Director has taken all the steps that they ought to have taken as Director to make themselves aware of any relevant audit information and establish that the Group's auditor is aware of that information.

The Directors' Report was approved by the Board and signed on its behalf by:

Matthew Joy
Company Secretary

30 June 2021

Independent Auditor's Report
to the members of Esken Limited

1. Our opinion is unmodified

We have audited the financial statements of Esken Limited ("the Group") for the year ended 28 February 2021 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cashflows for the year then ended, and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's affairs as at 28 February 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the EU;
- the financial statements have been prepared in accordance with the requirements of Companies (Guernsey) Law, 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the shareholders in September 2012. The period of total uninterrupted engagement is for the 9 financial years ended 28 February 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: group financial statements as a whole	£985,000 (2020:£1,300,000) 0.9% (2020: 0.8%) of revenue	
Coverage	93% (2020: 100%) of group revenue	
Key audit matters		**vs 2020**
Recurring risks	Going concern	↑
Event driven	**New**: Stobart Air and Propius – provisions for guarantees given by the group prior to reacquisition of lease obligations, impairment of acquired Right of Use assets post acquisition and post balance sheet decision to liquidate Stobart Air	

2. Material uncertainty relating to going concern

	The risk	Our response
Going concern We draw attention to note 1 to the financial statements which describes a material uncertainty in respect of securing the necessary funds from i) the banks not recalling the existing RCF ii) the banks allowing the further planned drawdowns through to August 2021 iii) executing the term sheet in respect of the convertible debt instrument, iv) successful completion of the Capital Raise and v) obtaining the new RCF. These events and conditions, along with the other matters explained in note 1, constitute a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in this respect. Refer to Audit Committee Report on page 86.	**Disclosure quality** The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group. That judgement is based on an evaluation of the inherent risks to the Group's business model and how those risks might affect the Group's financial resources or ability to continue operations over a period of at least year from the date of approval of the financial statements. There is little judgement involved in the director's conclusion that the risks and circumstances described in note 1 to the financial statements represent a material uncertainty over the ability of the Group to continue as a going concern for a period of at least a year from the date of approval of the financial statements. However, clear and full disclosure of the facts and the directors' rationale for the use of the going concern basis of preparation, including that there is a related material uncertainty, is a key financial statement disclosure and so was the focus of our audit in this area. Auditing standards require that to be reported as a key audit matter.	Our audit procedures included: **Assessing transparency** We considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks, the availability of funding including the related inter-dependencies between various lenders and investors, and the likely outcome should the required funding not be obtained104in the timetable expected. We assessed the completeness of the going concern disclosure. **Testing application** We inspected correspondence from the existing and proposed lenders, being the banks and proposed convertible debt investor, in respect of the expected level of funding that was expected to be obtained. This included further facility drawdowns and associated covenant deferrals. We also directly corresponded with those parties. We inspected the aircraft leasing agreements held by Propius to assess the expected payment profile of these obligations and compared this to management's model. We inspected correspondence with the aircraft lessor to assess the impact of liquidating Stobart Air on these aircraft leasing agreements. **Assessing forecasts** We critically assessed assumptions in base case and downside scenarios relevant to liquidity, in particular in relation to securing additional funding and the ability to achieve forecasts. We assessed whether downside scenarios applied mutually consistent and severe assumptions in aggregate, using our assessment of the possible range of each key assumption and our knowledge of inter-dependencies. We also inspected a working capital report prepared by management's expert. We evaluated the achievability of the actions the directors consider they would take to improve the position should the risks materialise, which included deferral of discretionary outflows and the sale of non-core assets, taking into account the extent to which the directors can control the timing and outcome of these. **Our results** We found the going concern disclosure in note 1 with a material uncertainty to be acceptable.

Independent Auditor's Report continued
to the members of Esken Limited (formerly Stobart Group Limited)

3. Other key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. Going concern is a significant key audit matter and is described in section 2 of our report. We summarise below the other key audit matter, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Stobart Air and Propius – provisions for guarantees given by the group prior to reacquisition of lease obligations, impairment of acquired Right of Use assets post acquisition and post balance sheet decision to liquidate Stobart Air. Provisions (note 28), Loss on acquisition (notes 6), property, plant and equipment (note 15), Post balance sheet events (note 33), disclosure of material uncertainties related to going concern (note 1)	**Subjective estimates** Propius (as lessee) leases 8 aircraft from a third party that it then leases (as lessor) to Stobart Air. Prior to the reacquisition of Propius and Stobart Air from Connect Airways Limited during the year (see note 6), the group had given certain guarantees to the owner of the aircraft leased by Propius and, during the year and prior to reacquisition, the group had recognised a provision for the expected cost of those guarantees once Connect Airways Limited went into administration. Following the reacquisition of Propius, the lease obligations that were the subject of the guarantee were recognised as liabilities by the group together with related Right of Use assets. Those assets were subsequently tested for impairment at the balance sheet date and an impairment recognised to reduce their carrying amount to £nil. The Group's intention to dispose of Propius and / or Stobart Air meant that the estimate of the recoverable amount of the Right of Use assets involved significant estimation uncertainty. The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the amount of the provision and the recoverable amount of the Right of Use assets had a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. In conducting our final audit work, as a result of the impairment recognised by the Group, we reassessed the degree of estimation uncertainty to be less than materiality. **Disclosure quality** While the Group's intention at the balance sheet date was to dispose of Propius and / or Stobart Air, subsequent to that date no buyer could be identified for Propius. Whilst the group had identified a potential buyer for Stobart Air this potential transaction did not complete and instead the group decided to place Stobart Air into Liquidation. Clear and full disclosure of the facts and circumstances of the outcome of the Stobart Air liquidation, including the impact on the Directors going concern assessment and long term viability, are key financial statement disclosures and so was a focus of our audit (see separate KAM). The Directors' original intention was to present Stobart Air as a disposal group held for sale and as a discontinued operation as at 28 February 2021. However, in our planning we identified a number of conditions and uncertainties related to the planned sale of Stobart Air, for example, banking consent, change in control consents and the existing guarantees in respect of Stobart Air and we considered that there were significant judgements as to whether Stobart Air was available for immediate sale in its present condition subject only to terms that are usual and customary at the year-end and that the sale was highly probable. Following our challenge, the Group concluded that Stobart Air did not meet the criteria necessary to be classified as Held for sale as at 28 February 2021 and Stobart Air is presented as a continuing operation. Subsequent to the year end the Directors notified Stobart Air that it would no longer provide funding and hence Stobart Air ceased trading and a liquidator was appointed. The financial effects of the liquidation on the Group may be significant and therefore we considered the appropriateness of the disclosure of the post balance sheet event (PBSE).	**Accounting analysis** We assessed and challenged the director's judgement in relation to amount of provision that was recognised in respect of the guarantees and the loss that was recognised in respect of the settlement of pre-existing relationships and appropriate presentation. **Enquiry of Directors** We challenged the director's judgement in relation to Stobart Air being available for immediate sale in its present condition subject only to terms that are usual and customary. We made inquiries of the Board to understand and challenge their assessment that conditions attached to the sale of Stobart Air were usual and customary. We considered publicly available information, evidence of correspondence with third parties including the sale and purchase agreements and minutes of relevant Board meetings. **Test of detail** We challenged the key inputs used in the director's impairment review including the ability of the Group to sub-lease the Propius aircraft. We challenged the director's to provide external evidence to support these assumptions. **Testing application** We inspected correspondence with the owners of the Propius aircraft, Aer Lingus and other third party evidence in respect of the estimated cost to the Group to liquidate Stobart Air to identify the contractual mechanisms by which cash outflows may arise for the Group. **Assessing transparency** We assessed whether the Group's disclosure in respect of the provision for guarantees, impairment of Right of Use assets, loss in relation to the settlement of pre-existing relationships and post balance sheet events, have been adequately disclosed. **Our results** As a result of our work, we consider the carrying amounts of Right of use assets at 28 February 2021 to be acceptable and disclosure of the financial effects of the guarantees, impairments and PBSE to be balanced.

The impact of uncertainties due to the UK exiting the European Union on our audit, presentation of potential Group indemnities in respect of previously disposed subsidiaries to Connect Airways Limited in which the Group has a joint venture interest were event driven and not applicable for the current year. Following a change in presentation by the director's, the presentation of items as non-underlying is not assessed as one of the most significant risks in our current year audit.

4. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £985,000 (2020: £1,300,000), determined with reference to a benchmark of Group revenue from continuing operations (2020: total revenue) , of which it represents 0.9% (2020: 0.8%). We consider total revenue to be the most appropriate benchmark as it provides a more stable measure year on year than Group loss before tax.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 65% (2020: 50%) of materiality for the financial statements as a whole, which equates to £640,000 (2020: £650,000) for the group. We applied this percentage in our determination of performance materiality based on changes in the control environment during the current period.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £49,250 (2020: £65,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

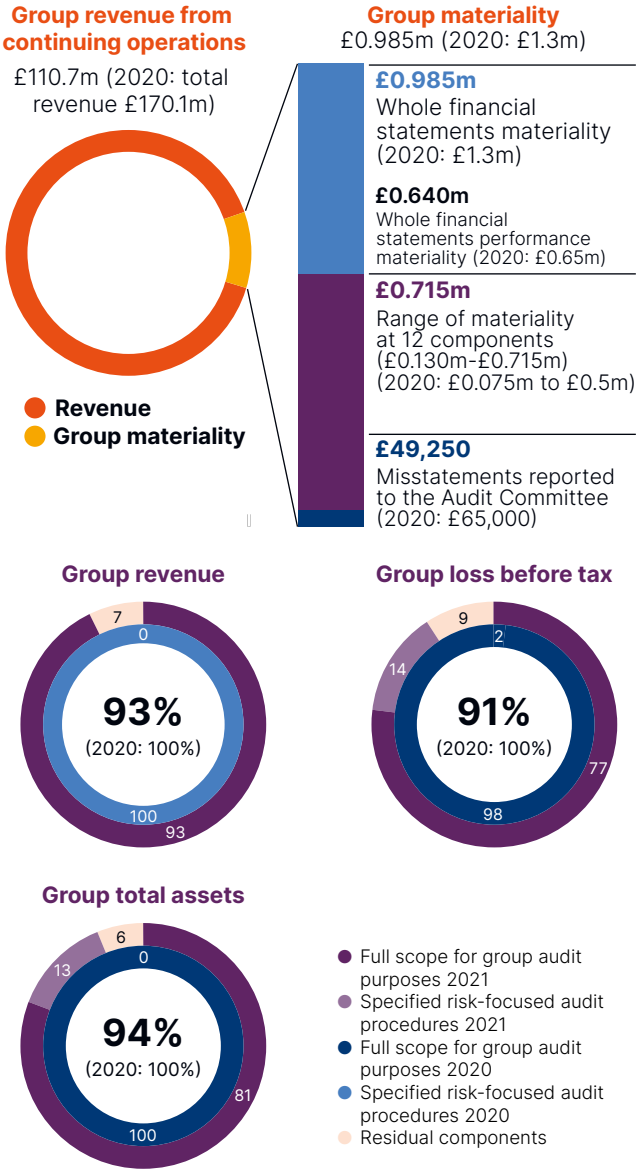
Of the Group's 17 (2020: 21) reporting components, we subjected 6 (2020: 17) to full scope audits for group purposes and 6 (2020: 1) to specified risk-focused audit procedures. The latter were not individually financially significant enough to require a full scope audit for group purposes, but did present specific individual risks that needed to be addressed. We conducted reviews of financial information (including enquiry) at a further 5 (2020: 3) non-significant components to identify any risks in these components. No such risks noted.

The components within the scope of our work accounted for the percentages illustrated opposite.

The remaining 7% (2020: 0%) of total group revenue, 9% (2020: 0%) of group loss before tax and 6% (2020: 0%) of total group assets is represented by 5 (2020: 3) reporting components, none of which individually represented more than 10% (2020: 0.7%) of any of total group revenue, group loss before tax or total group assets. For these components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £130,000 to £715,000 (2020: £75,000 to £500,000), having regard to the mix of size and risk profile of the Group across the components. The work on 1 of the 17 components (2020: 1 of the 21 components) was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team.

Video and telephone conference meetings were held with this component auditor. At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.



5. Going concern basis of preparation

The Directors have prepared the financial statements on the going concern basis as it does not intend to liquidate the Group or to cease its operations, and as they have concluded that the Group's financial position means that this is realistic for at least 19 months from the date of approval of the financial statements ("the going concern period"). As stated in section 2 of our report, they have also concluded that there is a material uncertainty related to going concern.

An explanation of how we evaluated management's assessment of going concern is set out section 2 of our report.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have nothing material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting, and their identification therein of a material uncertainty over the Group's ability to continue to use that basis for the going concern period, and we found the going concern disclosure in note 1 to be acceptable; and
- the related statement under the Listing Rules set out on page 103 is materially consistent with the financial statements and our audit knowledge.

Independent Auditor's Report continued
to the members of Esken Limited

6. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the Audit Committee, internal audit, internal and external legal counsel and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and Audit Committee meeting minutes.
- Considering remuneration incentive schemes and performance targets for Directors and key management personnel.
- Using analytical procedures to identify any unusual or unexpected relationships.
- Using our own forensic specialists to assist us in identifying fraud risks based on discussions of the circumstances of the Group.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the group to full scope component audit teams of relevant fraud risks identified at the Group level and request to full scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at group.

As required by auditing standards, and taking into account possible pressures to meet profit targets we perform procedures to address the risk of management override of controls, in particular the risk that Group and component management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because there are limited incentives, rationalizations and/or opportunities to fraudulently adjust revenue recognition, in addition to the fact revenue levels have significantly fallen as a result of COVID-19. We did not identify any additional fraud risks.

We discussed with the audit committee and those charged with governance matters related to actual or suspected fraud, for which disclosure is not necessary, and considered any implications for our audit.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience , through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at group.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of Group's license to operate. We identified the following areas as those most likely to have such an effect: environmental regulations, aviation regulations, health and safety, anti-bribery, employment law, and certain aspects of company legislation recognising the nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the Audit Committee matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

7. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Disclosures of emerging and principal risks and longer-term viability

- We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.
- Based on those procedures, other than the material uncertainties related to going concern referred to above, we have nothing further to add or draw attention to in relation to: the directors' confirmation within the viability statement page 71 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the Audit Committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in this respect.

8. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies (Guernsey) Law, 2008. we are required to report to you if, in our opinion:

- the Group has not kept proper accounting records; or
- the consolidated financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

We have nothing to report in these respects.

9. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 103, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditors responsibilities.

10. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Michael Froom
for and on behalf of KPMG LLP
Chartered Accountants and Recognised Auditor
1 St Peter's Square
Manchester
M2 3AE

30 June 2021

Consolidated income statement
for the year ended 28 February 2021

	Notes	Year ended 28 February 2021 £'000	Restated[1] Year ended 29 February 2020 £'000
Continuing operations			
Revenue	4	110,724	142,098
Other income	7	5,798	4,700
Operating expenses – other	8	(134,263)	(142,943)
Share of post-tax losses of associates and joint ventures	16	(218)	(9,765)
Gain/(loss) on swaps	24	80	(300)
Adjusted EBITDA		**(17,879)**	**(6,210)**
Depreciation	15	(31,814)	(20,024)
Amortisation	18	–	(7,456)
Loss on acquisition	6	(58,182)	–
Impairment – other	8	(22,097)	(48,330)
Impairment – loan receivables from joint venture	8	–	(45,105)
Operating loss		**(129,972)**	**(127,125)**
Impairment of loan notes	11	(8,000)	(2,754)
Finance costs	11	(17,214)	(14,453)
Finance income	10	4,849	4,917
Loss before tax		**(150,337)**	**(139,415)**
Tax	12	7,083	8,390
Loss for the year from continuing operations		**(143,254)**	**(131,025)**
Discontinued operations			
Loss from discontinued operations, net of tax	5	(11,859)	(6,870)
Loss for the year		**(155,113)**	**(137,895)**

	Notes	Year ended 28 February 2021	Year ended 29 February 2020
Loss per share expressed in pence per share – continuing operations			
Basic	13	(26.61)p	(35.52)p
Diluted	13	(26.61)p	(35.52)p
Loss per share expressed in pence per share – total			
Basic	13	(28.81)p	(37.39)p
Diluted	13	(28.81)p	(37.39)p

1 The 2020 results have been restated where required due to IFRS 5 Discontinued Operations. Refer to note 5 for more details.

The notes on pages 115 to 156 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
for the year ended 28 February 2021

	Notes	Year ended 28 February 2021 £'000	Restated[1] Year ended 29 February 2020 £'000
Loss for the year		**(155,113)**	**(137,895)**
Exchange differences on translation of foreign operations		3,826	–
Discontinued operations, net of tax, relating to exchange differences		–	(173)
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent years, net of tax		**3,826**	**(173)**
Remeasurement of defined benefit plan	26	1,176	(2,049)
Change in fair value of financial assets classified as fair value through other comprehensive income	17	4,643	(40,212)
Tax on items relating to components of other comprehensive income	12	(182)	348
Other comprehensive income/(expense) not being reclassified to profit or loss in subsequent years, net of tax		**5,637**	**(41,913)**
Other comprehensive income/(expense) for the year, net of tax		**9,463**	**(42,086)**
Total comprehensive expense for the year		**(145,650)**	**(179,981)**

1 The 2020 results have been restated where required due to IFRS 5 Discontinued Operations. Refer to note 5 for more details.

Of the total comprehensive expense for the year, a loss of £133,791,000 (2020: £172,938,000) is in respect of continuing operations and a loss of £11,859,000 (2020: £7,043,000) is in respect of discontinued operations.

The notes on pages 115 to 156 are an integral part of these consolidated financial statements.

Consolidated statement of financial position
as at 28 February 2021

	Notes	28 February 2021 £'000	29 February 2020 £'000
Non-current assets			
Property, plant and equipment	15	285,621	306,584
Investment in associates and joint ventures	16	1,372	1,590
Other financial assets	17	10,392	4,776
Intangible assets	18	54,669	54,669
Net investment in leases	31	15,824	13,247
Trade and other receivables	20	1,495	8,000
		369,373	**388,866**
Current assets			
Inventories	19	15,334	13,893
Trade and other receivables	20	27,378	40,167
Cash and cash equivalents	25	12,408	9,802
Assets held for sale	21	–	11,408
Corporation tax	12	324	–
		55,444	**75,270**
Total assets		**424,817**	**464,136**
Non-current liabilities			
Loans and borrowings	25	(122,116)	(177,788)
Defined benefit pension obligation	26	(2,418)	(4,422)
Other liabilities	23	(8,271)	(9,687)
Deferred tax	27	(261)	(5,736)
Provisions	28	(39,534)	(24,346)
		(172,600)	**(221,979)**
Current liabilities			
Trade and other payables	22	(52,735)	(61,899)
Financial liabilities	25	(1,581)	(3,500)
Loans and borrowings	25	(89,121)	(15,780)
Exchangeable bonds	25	(52,010)	(51,689)
Provisions	28	(8,457)	(6,191)
		(203,904)	**(139,059)**
Total liabilities		**(376,504)**	**(361,038)**
Net assets		**48,313**	**103,098**
Capital and reserves			
Issued share capital	30	62,492	37,465
Share premium		390,336	324,368
Foreign currency exchange reserve		3,826	–
Reserve for own shares held by employee benefit trust		(7,480)	(7,161)
Retained deficit		(400,861)	(251,574)
Group shareholders' equity		**48,313**	**103,098**

The notes on pages 115 to 156 are an integral part of these consolidated financial statements.

The financial statements were approved and authorised for issue by the Board of Directors on 30 June 2021 and were signed on its behalf by:

David Shearer
Chairman

Lewis Girdwood
Director

Consolidated statement of changes in equity
for the year ended 28 February 2021

For the year ended 28 February 2021

	Notes	Issued share capital £'000	Share premium £'000	Foreign currency exchange reserve £'000	Reserve for own shares held by EBT £'000	Retained deficit £'000	Total equity £'000
Balance at 1 March 2020		37,465	324,368	–	(7,161)	(251,574)	103,098
Loss for the year		–	–	–	–	(155,113)	(155,113)
Other comprehensive income for the year		–	–	3,826	–	5,637	9,463
Total comprehensive income/(expense) for the year		–	–	3,826	–	(149,476)	(145,650)
Issue of ordinary shares	30	25,027	65,968	–	–	–	90,995
Employee benefit trust		–	–	–	(319)	3	(316)
Share-based payment credit	29	–	–	–	–	190	190
Tax on share-based payment credit	27	–	–	–	–	(4)	(4)
Balance at 28 February 2021		**62,492**	**390,336**	**3,826**	**(7,480)**	**(400,861)**	**48,313**

For the year ended 29 February 2020

	Notes	Issued share capital £'000	Share premium £'000	Foreign currency exchange reserve £'000	Reserve for own shares held by EBT £'000	Retained deficit £'000	Total equity £'000
Balance at 1 March 2019		37,082	324,379	480	(12,154)	(52,833)	296,954
IFRS 16 transition adjustment, net of tax		–	–	–	–	(2,846)	(2,846)
Balance at 1 March 2019 (adjusted)		37,082	324,379	480	(12,154)	(55,679)	294,108
Loss for the year		–	–	–	–	(137,895)	(137,895)
Other comprehensive expense for the year		–	–	(173)	–	(41,913)	(42,086)
Total comprehensive expense for the year		–	–	(173)	–	(179,808)	(179,981)
Issue of ordinary shares	30	383	(11)	–	–	(382)	(10)
Employee benefit trust		–	–	–	4,993	(4,937)	56
Removal of foreign exchange reserve on disposal of subsidiary		–	–	(307)	–	–	(307)
Share-based payment credit	29	–	–	–	–	1,271	1,271
Tax on share-based payment credit	27	–	–	–	–	(914)	(914)
Dividends	14	–	–	–	–	(11,125)	(11,125)
Balance at 29 February 2020		**37,465**	**324,368**	**–**	**(7,161)**	**(251,574)**	**103,098**

The notes on pages 115 to 156 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows
for the year ended 28 February 2021

	Notes	Year ended 28 February 2021 £'000	Restated[1] Year ended 29 February 2020 £'000
Cash used in continuing operations	34	**(28,209)**	**(15,077)**
Cash outflow from discontinued operations	5	(769)	(7,144)
Income taxes paid		(465)	–
Net cash outflow from operating activities		**(29,443)**	**(22,221)**
Purchase of property, plant and equipment		(3,101)	(14,311)
Purchase of investment property		–	(85)
Purchase/development of property inventories	21	(164)	–
Proceeds from the sale of property inventories		–	226
Proceeds from the sale of property, plant and equipment		426	4,456
Proceeds from the sale of investment property		–	2,111
Proceeds from disposal of assets held for sale		9,867	–
Proceeds from sale and leaseback (net of costs)		–	(62)
Receipt of capital element of IFRS 16 net investment in lease		768	761
Acquisition of subsidiary undertakings (net of cash acquired and fees)		(864)	–
Cash disposed on sale of subsidiary undertaking	5	(1)	(1,729)
Equity investment in associates and joint ventures	16	–	(2,667)
Acquisition of other investments	17	(973)	(70)
Net amounts advanced to joint ventures	35	–	(2,114)
Interest received	10	10	999
Cash (outflow)/inflow from discontinued operations	5	(989)	2,734
Net cash inflow/(outflow) from investing activities		**4,979**	**(9,751)**
Dividend paid on ordinary shares	14	–	(11,125)
Issue of ordinary shares (net of issue costs)	30	90,996	(12)
Proceeds from issue of exchangeable bond (net of costs)	25	–	51,305
Repayment of grants	24	–	(834)
Principal element of lease payments	25	(24,018)	(19,022)
Net (repayment)/drawdown from revolving credit facility (net of costs)	25	(24,286)	16,996
Repayment of other borrowings	25	(4,500)	–
Interest paid	11	(9,386)	(8,112)
Cash outflow from discontinued operations	5	(1,736)	(1,854)
Net cash inflow from financing activities		**27,070**	**27,342**
Increase/(decrease) in cash and cash equivalents		2,606	(4,630)
Cash and cash equivalents at beginning of year		9,802	14,432
Cash and cash equivalents at end of year		**12,408**	**9,802**

1 The 2020 results have been restated where required due to IFRS 5 Discontinued Operations. Refer to note 5 for more details.

The notes on pages 115 to 156 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements
for the year ended 28 February 2021

1 Accounting policies of Esken Limited

Basis of preparation and statement of compliance

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

These Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) as adopted by the European Union (adopted IFRSs).

The financial statements of the Group are also prepared in accordance with the Companies (Guernsey) Law 2008.

Esken Limited is a Guernsey-registered company. The Company's ordinary shares are traded on the London Stock Exchange. Esken Limited announced on 4 February 2021 that it had changed its name from Stobart Group Limited.

Measurement convention

The financial statements are prepared on the historical cost basis except financial assets held at fair value through other comprehensive income (FVOCI) and derivative financial instruments which are stated at their fair value.

Going concern

The Group's business activities, together with factors likely to affect its future performance and position, are set out in the Chairman's statement on pages 24 to 26 and the financial position of the Group, its cash flows and funding are set out in the Financial Review on pages 32 to 35.

Note 25 of the financial statements includes details of the Group's loans and borrowings at the year end together with the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and its exposure to credit risk and liquidity risk. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future through to January 2023. Accordingly, the financial statements have been prepared on a going concern basis. However, there is a material uncertainty in respect of this going concern assumption and the Directors have exercised a very significant degree of judgement in concluding that the Group remains a going concern, in particular the identification of the going concern period and identifying and describing the material uncertainties that exist in concluding that the going concern basis of preparation remains appropriate.

In performing the going concern assessment, the Directors have reviewed the cash flow forecasts together with the funding options that may be available to the Group and the likelihood of them being accessible, including the current revolving credit facility (RCF), in the timelines required and anticipated in the forecasts, which cover the period up to January 2023.

As at 28 February 2021, the Group was drawn £55.0m on its £120m existing RCF and had cash balances of £12.4m, resulting in headroom as of that date of £77.4m. However as explained below any further drawdowns from the existing RCF are subject to bank consent. Whilst the Group continues to tightly manage its cash resources during the post year end period, the current position is that the Group has drawn down £95m on its existing RCF and plans to draw down a further £13m during July 2021 and £5m in August 2021. Whilst the banks have indicated in writing their willingness to allow the Group to draw down those funds through to August 2021, there is no certainty that this will be the case. In addition, the banks have indicated in writing their willingness to defer certain covenant tests attached to the existing RCF. Should the bank not defer the covenant tests, or not allow the planned drawdowns to August 2021, the Group may be unable to continue trading.

To enable the Group to repay its current RCF, the Group has announced it has entered into a signed term sheet on a £125m convertible debt instrument issued by its 100% owned subsidiary London Southend Airport Company Limited. The Group is currently still in negotiations with this lender and the agreed exclusivity period expires on 30 June 2021. Should this transaction not complete, the Group, in all likelihood, would need to market London Southend Airport for sale. In addition, the Group has announced its intention to raise net proceeds of approximately £40m by way of a documented equity raise (Capital Raise) that will be conditional upon, among other things, the approval of shareholders. A combined Prospectus to shareholders containing additional details on the convertible debt instrument and Capital Raise is intended to be published towards the end of July 2021. Should shareholders approve these transactions it is expected that the funds will be received by the Group before the end of August 2021. The funds raised will be used to repay the existing RCF, which is expected to be drawn down by £113m at the end of August 2021.

The completion of the convertible debt instrument is dependent on both the Capital Raise raising at least £40m and the Group securing a new RCF of £20m. In respect of the latter, the Group is in talks with its current banks to enter into a new RCF of £20m that would mature in January 2023. This has not yet been subject to the bank's credit committee approval process so there is a significant risk that this funding will not be secured. However, the banks have indicated in writing their willingness to support a RCF of £20m. The covenant requirements of this new RCF have been proposed but not yet been agreed. In addition, whilst the Group has had communication with a significant shareholder in respect of a Capital Raise of this magnitude, there is no certainty that this will successfully complete. Consequently, particularly given the interdependencies between the three funding transactions (being the convertible debt instrument, Capital Raise and new RCF) meaning all three need to complete or none will complete, there is a high risk that the necessary funds will not be obtained.

The reasonableness of the Group in assuming these funds will be received is a significant judgement and consequently there is a material uncertainty in respect of securing the necessary funds from i) the banks not recalling the existing RCF ii) the banks allowing the further planned drawdowns through to August 2021 iii) executing the heads of terms in respect of the convertible debt instrument, iv) successful completion of the Capital Raise and v) obtaining the new RCF.

Notes to the consolidated financial statements continued
for the year ended 28 February 2021

1 Accounting policies of Esken Limited continued

The Directors have prepared base case forecasts to January 2023, together with sensitivity analysis on those forecasts, including a severe but plausible downside set of assumptions around the continued COVID-19 recovery for the Group whilst recognising the different recovery periods likely to be seen given the nature of the different operating divisions. Those severe but plausible forecasts reflect the benefit of certain controllable mitigating actions that the directors could take should the group require it, for example the deferral of discretionary cash outflows. On the assumption that the above planned debt and equity raises are substantially successful, the base case forecast indicates headroom of c.£15m, which would increase to c.£27m if non-controllable non-core asset sales of £12m successfully complete, at January 2023; and the severe but plausible downside indicates that the Group will have a shortfall of c.£11m at this point. This excludes any cash inflows from non-core asset sales or sublease of aircraft.

The Energy division has almost recovered to its pre-COVID volumes and the gate fee declines observed as a result of COVID-19 have now reversed. The Aviation division has not shown any signs of recovery as both airlines and passengers continue to be impacted by government COVID-19 restrictions and regular government policy changes making it difficult for airlines to plan and restart commercial flights. In particular, and for the purposes of this going concern analysis only, the base case forecast assumes:

- The banks allow the Group to draw down £13m in July 2021 and £5m in August 2021 and does not require the Group to repay the existing RCF before the end of August 2021;
- The Group completes the Capital Raise and convertible debt issue discussed above, resulting in the receipt of gross proceeds of at least c.£165m which will largely be used to repay the existing RCF, which is expected to be drawn by £113m at the point of completion of the Capital Raise and convertible debt instrument.
- The Group enters into a new RCF of £20m and that this is refinanced prior to maturity in January 2023;
- A gradual resumption of flying from June 2021, with full year passenger volumes from LSA of c.0.3m for the year ending February 2022 and c.2.0m passengers in the year ending February 2023;
- Continued improvements in gate fee income along with the plants we supply experiencing improved availability;
- The liquidation of Stobart Air and payments for the remaining Propius obligations will result in cash outflows of c.£82m through to August 2023, which includes outflows in respect of aircraft lease payments, break fees in respect of the aircraft leases, maintenance obligations in respect of the aircraft, professional fees in respect of the liquidation and a contingency for unforeseen costs of liquidation;
- Significant professional fees in respect of the convertible debt instrument, equity raise and new RCF;
- An expectation that the Group will receive no sublease income in respect of the aircraft that will continue to be held by Propius; and
- No specific sector support from government and withdrawal of the Job Retention Scheme from 30 September 2021.

Should the banks refuse to allow the planned drawdowns or require repayment of the existing RCF before the end of August 2021, or the Capital Raise, convertible debt transaction and new RCF are not successfully completed before the end of August 2021 the Group will have severe liquidity issues and the Director's would have a limited amount of time to raise additional funds, for example through a larger equity raise or a distressed sale of major assets, and this may not be completed in sufficient time to allow the Group to continue trading. Should this transaction not complete, the Group, in all likelihood, would need to market London Southend Airport for sale.

The Directors have considered a severe but plausible downside forecast. This scenario indicates that, before non-controllable mitigating actions such as non-core asset disposals, the Group will have a shortfall in headroom of c.£11m at January 2023.

The downside detailed above is deemed by the Directors to provide a severe but plausible stress test on forecast trading results. This includes a significant reduction in 2022 and 2023 performance as a result of COVID-19 and reduced trading performance across both operations, resulting in a pre-mitigation cash reduction to forecast. If outcomes are unexpectedly significantly worse, the Directors would need to consider what additional mitigating actions were needed, for example, accessing the value of the asset base to support liquidity. Consequently, the Directors have concluded that to stress test a level of increased severity (beyond the downside modelled) that may create circumstances that represent further instances of a material uncertainty and which may cast an additional significant doubt about the group's ability to continue as a going concern, is not currently reasonable.

The severe but plausible downside forecast includes:

- The new £20m RCF is not refinanced before maturity in January 2023;
- Passenger flying from LSA does not start increasing until September 2021 and passenger growth is slowed through to the year ending February 2023 with 1.3m passengers;
- No new incremental business in Aviation Services in the next financial year;
- Volume of waste wood supplied to energy plants is restricted to pre-COVID levels and with raw material in short supply due to low levels of construction activity, average gate fees reduce to c.90% of base case;
- An assumption that the proposed new £20m RCF is not refinanced prior to its maturity in January 2023;
- No aircraft sublease income received; and
- No cash received in respect of non-core asset disposals.

These severe but plausible forecasts beyond 31 August 2021 assume the Capital Raise, convertible debt instrument and new RCF are successfully completed. If they are not completed by the end of August 2021 the Group will have severe liquidity issues and as noted above may not be able to continue trading beyond this point. The Board will of course seek to further mitigate the financial impact of this severe but plausible downside forecast should it arise. The main avenues to mitigate this include the disposal of non-core asset disposals and sub-letting the Propius aircraft. However, in the current environment the timing and value of these transactions may not be sufficient and, should this transaction not complete, the Group, in all likelihood, would need to market London Southend Airport for sale.

Overall, despite the material uncertainty set out above, the directors are satisfied that the group will have sufficient funds to continue to meet its liabilities as they fall due until at least January 2023 from the date of approval of the annual financial statements and therefore have prepared the financial statements on a going concern basis.

However, this is dependent on the successful completion of the Group's refinancing plans (certain of which are interdependent), notably:

- the banks not requiring repayment of the existing RCF before the end of August 2021;
- the banks allowing the Group to draw down from the existing RCF £13m in July 2021 and £5m in August 2021;
- the successful completion of the Capital Raise of net £40m before the end of August 2021,
- successful completion of the convertible debt instrument of gross £125m before the end of August 2021; and
- the successful completion of the new RCF of £20m maturing in January 2023, before the end of August 2021, and it's refinancing on maturity in January 2023.

The successful completion of the Group's refinancing plans, along with other matters referred to above, represent a material uncertainty that may cast significant doubt on the ability of the Group to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would be necessary if the going concern basis was inappropriate.

Significant accounting policies

Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

(a) New standards, amendments to existing standards and interpretations to existing standards adopted by the Group

The International Accounting Standards Board issued an amendment to IFRS 16 Leases relating to COVID-19 rent concessions. The amendment introduces a practical expedient that exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. The expedient applies to periods commencing on or after 1 June 2020; however, the Group has chosen early adoption and applied the expedient retrospectively.

The Group has also considered the following amendments and definitions that are effective in this financial year and concluded that they do not have a material impact on the financial position or performance of the Group:
Amendments to References to Conceptual Framework in IFRS Standards
Definition of a Business (Amendments to IFRS 3)
Definition of Material (Amendments to IAS 1 and IAS 8)
Interest Rate Benchmark Reform - Phase 1 (Amendments to IFRS 9, IAS 39 and IFRS 7)

(b) New standards and interpretations not applied

There are no new EU-endorsed standards and amendments that are issued but not yet effective that would be expected to have a material impact on the Group in future reporting periods and on foreseeable future transactions.

Summary of significant accounting policies

Revenue

Stobart Aviation provides some of its services under contracts and others relate to the sale of goods. Revenue is recognised in the consolidated income statement at the point in time when the performance obligation has been met, and this is the same for all revenue streams. It is recognised at the fair value of the consideration received or receivable, net of VAT. The principal sources of revenue within the Aviation division are aeronautical income, jet fuel sales, retail and concession income, hotel income, surface access income and ground handling services.

A receivable is recognised when the services are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. Any marketing contributions paid to airlines under contractual agreements are separately disclosed, not netted against revenue, as the marketing contributions arise from a separate transaction that is not linked to the revenue generated.

Revenue from Stobart Energy mainly relates to gate fee income, in relation to waste wood taken, and delivery of processed material to biomass power plants. Gate receipts are not contracted, and revenue received is recognised on receipt of waste material as this is the point in time that the consideration is unconditional. The majority of revenue from the supply of processed material is contracted. These contracts detail the specification of material required, annual tonnages required and the price per tonne. Revenue and a contract asset are recognised on delivery of the material as that is when the performance obligations have been met. Contract assets are transferred to receivables when proof of delivery paperwork has been processed and the right becomes unconditional, which is around two weeks from delivery.

Within certain fuel supply agreements there are 'take or pay' provisions where revenue can be recognised on material not taken by plants. This revenue is recognised at a point in time in line with specific contractual provisions. During the year, the tonnages delivered under each contract are reviewed to ensure that contracted tonnages will be met. As soon as there is reason to believe contract tonnages will not be met, a contract liability is provided to reduce the revenue recognised to date.

Stobart Investments revenue in the current year relates to passenger flights and other airline services and is recognised in the period in which the services are provided. Revenue in the prior year relates to dividend income and was recognised on receipt of dividend as that is the point in time that the consideration was unconditional.

Revenue from Stobart Non-Strategic Infrastructure relates to rental income under contracts. Revenue is recognised in the consolidated income statement at the contractual rental income over the term of the lease, as these charges represent the service provided.

Revenue generated in Group Central principally relates to rental income and is recognised at a point in time. Group Central also generates royalty revenue from the licence of its trademarks and designs. Revenue is recognised in the consolidated income statement over the licence agreement period as the obligations of the licence agreement are met.

Revenue is analysed by segment in note 4.

Notes to the consolidated financial statements continued
for the year ended 28 February 2021

1 Accounting policies of Esken Limited continued

Presentation of consolidated income statement

In prior years, the start-up nature of the Group's growth divisions merited the presentation of underlying and non-underlying items in separate columns of the consolidated income statement. It was always the Group's intention to move away from this presentation format, as disclosed in the prior year annual report. With COVID-19 naturally accelerating this change the Group has moved to the new single total column presentation of the consolidated income statement for the year ended 28 February 2021 as this provides the most appropriate disclosure of the Group's ongoing performance. The presentation of the prior year comparatives has been updated accordingly.

Adjusted EBITDA, a non-GAAP measure, is the key profitability measure used by management for performance review in the day-to-day operations of the Group. The Group's calculation of adjusted EBITDA precludes significant non-cash items such as impairments and the loss on acquisition, separately disclosed on the face of the consolidated income statement, and is explained in more detail in note 36. Non-GAAP measures are used as they are considered to be both useful and necessary. They are used for internal performance analysis; the presentation of these measures facilitates comparability with other companies, although management's measures may not be calculated in the same way as similarly titled measures reported by other companies.

Functional and presentation currency

The Group's functional and presentational currency is GBP. The functional currency of subsidiaries Stobart Air and Propius are Euro and USD respectively.

Basis of consolidation

Where the Company has the power, either directly or indirectly, to control the relevant activities of another entity or business, has exposure, or rights, to variable returns from its involvement with the entity, and has the ability to use its power over the entity to affect the amount of the returns to the Company, it is classified as a subsidiary. The consolidated financial statements present the results of Esken Limited and its subsidiaries (the Group) as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

Discontinued operations and business disposals

A subsidiary is derecognised when the Group no longer has control. A profit or loss on disposal is recognised in the consolidated income statement, calculated as proceeds less net assets disposed and disposal costs incurred.

The post-tax results of discontinued operations along with any gain or loss recognised on the measurement to fair value less costs to sell (FVLCS) or on the disposal of the assets or disposal groups constituting the discontinued operation are disclosed as a single amount in the consolidated income statement. The comparative period results are restated accordingly. Further analysis of the results and cash flows from discontinued operations is set out in note 5.

Business combinations (from 1 March 2010)

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition-date fair value, and the amount of any non-controlling interest in the acquiree. Acquisition costs are expensed and included within operating profit/loss.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. Any contingent consideration payable to be transferred by the acquirer is recognised at fair value at the acquisition date.

Goodwill is initially measured at cost, being the excess of the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree) over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination.

Identifiable intangible assets, meeting either the contractual-legal or separability criterion, are recognised separately from goodwill.

Contingent liabilities representing a present obligation are recognised if the acquisition-date fair value can be measured reliably. If the aggregate of the acquisition-date fair value of the consideration transferred (and where the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree) is lower than the fair value of the assets, liabilities and contingent liabilities, and the fair value of any pre-existing interest held in the business acquired, the difference is recognised in non-underlying items in the consolidated income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs) (or groups of CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated shall represent the lowest level within the entity at which goodwill is monitored for internal management purposes and shall not be larger than an operating segment before aggregation. See note 6 for details on business combinations.

Business combinations (prior to 1 March 2010)

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The minority interest is accounted for using the Parent-entity extension method, whereby the difference between the consideration paid and the book value of the share in net assets acquired is recognised as goodwill.

Goodwill was initially measured at cost, being the excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Where the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities was greater than the cost of investment, the difference was recognised in the consolidated income statement.

Goodwill
Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities incurred and equity instruments issued.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated income statement. Where the fair value of identifiable assets, liabilities and contingent liabilities exceeds the fair value of consideration paid, the excess is credited in full to the consolidated income statement.

Impairment of non-financial assets
Impairment tests of goodwill and intangible assets with indefinite useful lives are undertaken at least annually at the financial year end and also if there are indicators of impairment. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value-in-use and fair value less costs to sell), the asset is written down accordingly. Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's CGU (i.e. the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows). Goodwill is allocated on initial recognition to each of the Group's CGUs that are expected to benefit from the synergies of the combination giving rise to the goodwill.

The Group's CGUs are the lowest groups of assets for which there are separately identifiable cash inflows. These are predominantly the trading legal entities.

Impairment charges are included in the consolidated income statement, except to the extent they reverse gains previously recognised in the consolidated statement of other comprehensive income. Impairment losses, except losses relating to goodwill, can be reversed in certain circumstances.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Cash and cash equivalents
Cash and cash equivalents are defined as cash in hand, demand deposits and highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

Financial instruments
The Group uses derivative financial instruments such as put options relating to business acquisitions, and fuel and currency swaps to mitigate the risk of fuel price and currency fluctuations. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value at each reporting date. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Forward contracts are entered into by the Group to purchase and/or sell biomass-related products and management judges that these forward commodity contracts are entered into for the Group's 'own use' rather than as trading instruments. They continue to be held in accordance with the Group's expected purchase, sale and/or usage requirements. Accordingly, these contracts are not accounted for as derivatives or other financial instruments.

Foreign currency
Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their 'functional currency') are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the consolidated statement of financial position date.

Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the consolidated income statement.

The assets and liabilities of foreign operations are translated into GBP at the rate of exchange prevailing at the statement of financial position date. The income statements are translated at the average rate. The exchange differences arising on the translation are taken directly to a separate component of equity.

Financial assets
Financial assets are classified at initial recognition and subsequently measured at amortised cost, FVOCI or fair value through profit or loss. The classification of financial assets is determined by the contractual cash flows and where applicable the business model for managing the financial assets.

A financial asset is measured at amortised cost, if the objective of the business model is to hold the financial asset in order to collect contractual cash flows and the contractual terms give rise to cash flows that are solely payments of principal and interest. It is initially recognised at fair value plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, the financial asset is measured using the effective interest method less any impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

All equity instruments and other debt instruments are recognised at fair value. For equity instruments, on initial recognition, an irrevocable election (on an instrument-by-instrument basis) can be made to designate these as at FVOCI instead of fair value through profit and loss. Dividends received on equity instruments are recognised in profit or loss when the right of payment has been established.

Notes to the consolidated financial statements continued
for the year ended 28 February 2021

1 Accounting policies of Esken Limited continued

Financial liabilities

Financial liabilities are measured at amortised cost, unless they are required to be measured at fair value through profit or loss, such as instruments held for trading, derivatives or the Group has opted to measure them at fair value through profit or loss. Debt and trade payables are recognised initially at fair value based on amounts exchanged, net of transaction costs, and subsequently at amortised cost. Interest expense on debt is accounted for using the effective interest method, and other than interest capitalised, is recognised in profit or loss.

For convertible debt, the host contract is accounted for at amortised cost and the embedded derivative is separated from the host and accounted for at fair value through profit or loss.

Share capital

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's ordinary shares are classified as equity instruments.

Own shares held by the employee benefit trust

Esken Limited shares held by the employee benefit trust are designated as own shares held, classified in shareholders' equity and recognised at cost. Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from sale and original cost taken to retained earnings.

Pension arrangements and other post-employment benefits

The Group has pension schemes of both a defined benefit and defined contribution nature. The Group's defined benefit pension liability, which is assessed each period by actuaries, is based on key assumptions including return on plan assets, discount rates, mortality rates, inflation, and future salary and pension costs. These assumptions, individually or collectively, may be different to actual outcomes. Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 27.

The liability in respect of defined benefit schemes is the present value of the relevant defined benefit obligation at the consolidated statement of financial position date less the fair value of scheme assets. The trustees commission a full actuarial valuation triennially and the present value of the obligation is updated annually by external professional actuaries using the projected unit method for financial reporting purposes. The present value of the obligation is determined by the estimated future cash outflows using interest rates of high-quality corporate bonds which have terms to maturity approximating to the terms of the related liability. The current service cost, and gains and losses on settlements and curtailments, are recognised in operating costs in the consolidated income statement.

The Group determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability/(asset), taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contributions and benefit payments. Net interest expense/(income) and other expenses related to defined benefit plans are recognised in the consolidated income statement. Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in the consolidated statement of comprehensive income.

For defined contribution schemes, costs are charged to the consolidated income statement as they accrue.

Share-based payments

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is normally charged to the consolidated income statement over the vesting period. If the vesting conditions are directly related to a capital asset then the charge is debited to the cost of the related asset.

Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each consolidated statement of financial position date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

At each reporting period end before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous statement of financial position date is recognised in the consolidated income statement, with a corresponding entry in equity.

Where the Group issues share options as consideration for services received, the share-based payment charge reflects the difference between the fair value of services received and the consideration paid for the services and is charged to the consolidated income statement at the point in time when services are received.

Where cash-settled share-based payment arrangements are awarded to employees, the liability is assessed at each reporting period end and any change in the liability is recognised in the consolidated income statement. For schemes that are part settled in cash and part settled with equity the respective parts of the scheme are treated as outlined above.

Leased assets

A lease liability is recognised in the statement of financial position at the present value of the future minimum lease payments, discounted at the incremental borrowing rate, along with a corresponding right-of-use asset. The interest element of the lease liability is charged to the consolidated income statement over the period of the lease. Right-of-use assets are depreciated over the period of the lease and the

depreciation is charged to the consolidated income statement. Where the lease is short term or the asset is of low value (less than £5,000) the lease payments are charged to the consolidated income statement. Any variable payments above the future minimum lease payments are charged to the consolidated income statement. The lease liability is remeasured when there is a change in future lease payments arising from a revision to in-substance fixed lease payments. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset.

The Group has subleases in place for two of its property assets. For each, a net investment is recognised at the present value of the future minimum lease payments receivable, discounted at the incremental borrowing rate of the headlease.

Amortisation of externally acquired intangible assets (excluding goodwill)

Externally acquired intangible assets are initially recognised at cost and are subsequently amortised on a straight-line basis over their useful lives. The amortisation expense is included as 'amortisation of acquired intangibles' in the consolidated income statement. Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights.

Current taxation

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the consolidated statement of financial position date. The Group is subject to corporate taxes in the UK and Ireland jurisdictions, and judgement is required in determining the appropriate provision for transactions where the ultimate tax determination is uncertain. In such circumstances, the Group recognises liabilities for anticipated taxes based on the information available and where the anticipated liability is estimable. Where the final outcome of such matters differs from the amount recorded, any differences may impact the current tax and deferred tax provisions in the period in which the final determination is made. Liabilities are classified as current.

A current tax provision is recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Tax provisions are based on management's interpretation of tax law and the likelihood of settlement. The Directors use in-house tax experts, professional firms and previous experience when assessing tax risks.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the consolidated statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the consolidated statement of financial position date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable Group company; or
- different Group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Where the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is credited to deferred income and released to the consolidated income statement to match the depreciation of the related asset.

UK government Coronavirus Job Retention Scheme (furlough)

Payments received by the Group from the UK Government for furloughed employees are in the form of a grant. The payments are recognised in the same period in which the related expense is incurred and are netted off against the expense. The amount received is disclosed in the note 9.

Provisions

A provision is recognised in the consolidated statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when paid. In the case of final dividends, this is when approved by the shareholders at the AGM.

Notes to the consolidated financial statements continued
for the year ended 28 February 2021

1 Accounting policies of Esken Limited continued

Property, plant and equipment

Freehold land and buildings, and plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment in value. Depreciation is provided on items of property, plant and equipment, other than land and assets under construction, to write off to their residual value the carrying value of items over their expected useful lives. Assets under construction are not depreciated until they are in the location and condition necessary for them to be capable of operating in the manner intended. Right-of-use assets are depreciated over the term of the lease. Useful lives and residual values are reconsidered on an annual basis.

Depreciation is applied at the following rates:

Buildings	2%–20% per annum straight line
Modular buildings	3%–10% per annum straight line
Plant and machinery	2%–100% per annum straight line
Commercial vehicles	5%–33% per annum straight line
Fixtures, fittings and equipment	10%–33% per annum straight line

An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the consolidated income statement in the period the asset is derecognised. Borrowing costs attributable to qualifying assets are capitalised.

Self-constructed assets

The cost of a self-constructed asset is determined using the same principles as for an acquired asset. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Costs include employee benefits, site preparation, delivery and handling, installation and assembly, testing and professional fees. For assets made for sale or similar to those made for sale then the cost is the same as the cost of constructing an asset for sale including fixed and variable overheads which are considered directly attributable. Internal net profits are eliminated in arriving at such costs.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale.

Inventories include property assets which are held for development and/or disposal, to the extent that they are not used in the Group's operations or held for investment purposes. The net realisable value of these property inventory assets is determined by assessment of fair value less costs to sell, using a similar method to that used in impairment workings, except for the cash flows not being discounted.

Exchangeable bond

The financial liability element of the exchangeable bond is measured at amortised cost. The option for bondholders to convert to shares in Logistics Development Group has been accounted for as a separate derivative which is separate from the host contract. The fair value of the embedded derivative is considered at each reporting date and the movement in fair value is recognised through profit and loss.

Non-current assets held for sale and disposal groups

Non-current assets are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- it is highly probable that a sale is expected to complete within 12 months from the date of classification (or an extended period if the delay is caused by circumstances beyond the entity's control but the Group remains committed to the plan to sell the asset).

Non-current assets classified as held for sale are measured at the lower of their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy and fair value less costs to sell. Following their classification as held for sale, non-current assets are not depreciated. The results of operations disposed of during the prior year are included in the consolidated income statement up to the date of disposal.

Associates

The Group's investments in its associates are accounted for using the equity method of accounting unless the investment is classified as held for sale. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the equity investment in the associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised. Loans to associates, where the settlement is planned or expected to be repaid in the foreseeable future, do not form part of the equity investment and are included in other receivables or non-current amounts owed by associates and joint ventures according to the expected repayment terms.

The consolidated income statement reflects the share of the results of operations of the associate, but the loss is limited to the equity investment made, plus any loans which form part of the net investment in the associate, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity and the statement of other comprehensive income. The Group's share of profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each consolidated statement of financial position date whether there is any objective evidence that the investment in the associate is impaired. If this is the case and there is a resulting impairment, the amount is recognised in the consolidated income statement.

Joint ventures

Investments in joint ventures, which are jointly controlled entities, are included in the financial statements using the equity method of accounting unless the investment is classified as held for sale.

Under the equity method, the equity interest in the joint venture is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the joint venture but any loss is limited to the equity investment made, unless the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture. Goodwill relating to the joint venture is included in the carrying amount of the investment and is not amortised. Loans to joint ventures, where the settlement is planned or expected to be repaid in the foreseeable future, do not form part of the equity investment and are included in other receivables or non-current amounts owed by associates and joint ventures according to the expected repayment terms. These loans are recognised at fair value with any difference being recognised against the cost of investment.

The consolidated income statement reflects the share of the results of operations of the joint venture, but the loss is limited to the equity investment made, plus any loans which form part of the net investment in the joint venture, unless the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture. Where there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity and the statement of other comprehensive income. Profits and losses resulting from transactions between the Group and the joint ventures are eliminated to the extent of the interest in the joint venture, unless the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its joint ventures. The Group determines at each consolidated statement of financial position date whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case and there is a resulting impairment, the amount is recognised in the consolidated income statement.

Aircraft maintenance reserves

Under certain lease arrangements in Propius Holdings Limited, the Group is responsible for major overhaul aircraft maintenance costs. The estimated cost of major airframe and engine maintenance checks are provided for over the shorter of the period to the next check or the remaining life of the lease.

2 Summary of significant accounting judgements and estimates

The Group makes judgements and estimates in preparing the financial statements. Judgements and estimates are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these judgements and estimates. The judgements and estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Judgements

(a) Going concern

The accounts have been prepared on the going concern basis. This treatment is based on judgements including the performance of the business, the forecast cash flows for the foreseeable future, the capital requirements of the Group and the funding options available, see note 1 for the basis of preparation.

(b) Acquisition of subsidiaries

During the year the Group acquired an effective indirect economic interest of 78.75% in Stobart Air and Propius. Judgement was required in relation to the Group's 100% consolidation of the investments. The main judgement was whether control was achieved and took into account the equity investment, the level of reliance on the Group to fund and operate these businesses, the reacquisition of a loan and other factors. Judgement was also required regarding the release of a provision that the Group held relating to a pre-existing relationship and considered that, following acquisition, the Group had no obligation to settle the liability as they had all been brought on to the Groups balance sheet.

(c) Contract settlement

During the year, a settlement was reached with Tilbury Green Power (TGP) over contractual 'take or pay' amounts due to Stobart Energy. As part of this one-off settlement, £2.4m has been recognised within revenue under IFRS 15 by applying contract modification accounting. Judgement was required when accounting for the modification as a termination of the existing, and creation of new, contract. The amount in dispute under the contract that was terminated represented variable consideration which was constrained to £nil in the prior year due to it not being highly probable that a significant reversal of revenue wouldn't occur. The judgement to account for the modification of the contract as a termination of the existing, and creation of a new, contract meant that immediately prior to termination, the uncertainty over the variable consideration was removed. Therefore management recognised the unconstrained variable consideration of £2.4m, which was receivable on signing the new contract, in line with IFRS 15.

Notes to the consolidated financial statements continued
for the year ended 28 February 2021

2 Summary of significant accounting judgements and estimates continued

(d) Classification of property assets

The Group owns a number of property assets and judgement is required when classifying these properties in the consolidated statement of financial position, between land and buildings in property, plant and equipment, investment property or property inventory. Classification is based on whether the assets are used in the day-to-day operation of the business and their intended future use. Incorrect classification of property assets could lead to a different valuation method.

Estimates

(a) Impairment of London Southend Airport property, plant and equipment

Where there is an indication that an asset may be impaired, the Group is required to test whether assets have suffered any impairment. The recoverable amount of London Southend Airport (LSA) was determined based on fair value less costs of disposal calculations. The material estimations related to the forecast EBITDA and appropriate EBITDA multiple for a London airport, and it is the view of the Directors that the FVLCS is in excess of £400m.

(b) Defined benefit pension obligation

The Group operates a defined benefit pension scheme. The year-end valuation has been performed by a qualified actuary using the projected unit method. Estimates include the discounts rate applied to future pension payments, price inflation and mortality after retirement. Further information, including carrying values, is set out in note 26.

(c) Tax provisions

An estimate of the liabilities for ongoing tax enquiries is made in assessing the tax provisions. The key estimates taken include the calculation of available tax attributes and the level of interest and penalties levied by HMRC. The provision that is subject to this estimation is £16.1m.

(d) Fair value of assets acquired from business combinations

Estimates were required as to the fair value of right-of-use assets consolidated following the acquisition of Stobart Air and Propius. This included the selection of a suitable discount rate and market value for the aircraft assets, see note 6 for more detail.

3 Segmental information

The reportable segment structure is determined by the nature of operations and services. The operating segments are Stobart Aviation, Stobart Energy, Stobart Investments and Stobart Non-Strategic Infrastructure. In the prior period the results of Stobart Rail were included as a separate reporting segment, Stobart Rail & Civils. However, due to the disposal of Stobart Rail, the results of the division are no longer included as a separate segment but are presented as discontinued operations on the face of the consolidated income statement. The results of Stobart Air are also included in discontinued operations. See note 5 for more detail on discontinued operations.

The Stobart Aviation segment specialises in the operation of commercial airports and the provision of ground handling services. The Stobart Energy segment specialises in the supply of sustainable biomass for the generation of renewable energy. No segmental assets or liabilities information is disclosed because no such information is regularly provided to, or reviewed by, the Chief Operating Decision Maker.

The Stobart Investments segment primarily represents the operations of our regional airline operator, Stobart Air, and an aircraft leasing business, Propius. The segment also holds a non-controlling interest in a transport and distribution business, and a baggage handling business. The Stobart Non-Strategic Infrastructure segment specialises in management, development and realisation of a portfolio of property assets, including Carlisle Lake District Airport, as well as an investment in a renewable energy plant.

The Executive Directors are regarded as the Chief Operating Decision Maker. The Directors monitor the results of each business unit separately for the purposes of making decisions about resource allocation and performance assessment. The main segmental profit measure is EBITDA, which is calculated as loss before tax, interest, depreciation, loss on acquisition and swaps. Income taxes and certain central costs are managed on a Group basis and are not allocated to operating segments.

Year ended 28 February 2021	Aviation £'000	Energy £'000	Investments £'000	Non-Strategic Infrastructure £'000	Group Central and Eliminations £'000	Total £'000
Revenue						
External	24,611	75,019	9,034	909	1,151	110,724
Internal	131	–	–	150	(281)	–
Total revenue	**24,742**	**75,019**	**9,034**	**1,059**	**870**	**110,724**
Adjusted EBITDA	**(6,075)**	**10,005**	**(10,367)**	**(1,660)**	**(9,782)**	**(17,879)**
Loss on acquisition	–	–	(57,457)	–	(725)	(58,182)
EBITDA	**(6,075)**	**10,005**	**(67,824)**	**(1,660)**	**(10,507)**	**(76,061)**
Depreciation	(9,362)	(8,635)	(12,390)	(446)	(981)	(31,814)
(Impairment)/impairment reversal	(656)	–	(22,921)	1,480	–	(22,097)
Finance costs (net)	(1,429)	(2,036)	(3,873)	(8,346)	(4,681)	(20,365)
Loss before tax from continuing operations	**(17,522)**	**(666)**	**(107,008)**	**(8,972)**	**(16,169)**	**(150,337)**

Restated Year ended 29 February 2020	Aviation £'000	Energy £'000	Investments £'000	Non-Strategic Infrastructure £'000	Group Central and Eliminations £'000	Total £'000
Revenue						
External	56,655	76,339	2,127	2,440	4,537	142,098
Internal	131	–	–	337	(468)	–
Total revenue	**56,786**	**76,339**	**2,127**	**2,777**	**4,069**	**142,098**
EBITDA	**(696)**	**14,975**	**(7,638)**	**(4,228)**	**(8,623)**	**(6,210)**
Depreciation	(7,824)	(8,467)	–	(1,981)	(1,752)	(20,024)
Amortisation of acquired intangibles	–	(23)	–	–	(7,433)	(7,456)
Impairments	–	–	(46,846)	(26,676)	(19,913)	(93,435)
Finance costs (net)	(1,235)	(1,293)	(2,577)	(2,701)	(4,484)	(12,290)
(Loss)/profit before tax from continuing operations	**(9,755)**	**5,192**	**(57,061)**	**(35,586)**	**(42,205)**	**(139,415)**

Internal revenue above relates to inter-segment revenues that are eliminated within Group central and eliminations. Intra-segment revenues are eliminated within each segment.

In the prior year EBITDA was presented before the impact of swaps. This year the loss on swaps of £42,000 (2020: £300,000) is included within EBITDA.

4 Revenue

Disaggregation of revenue

Revenue is primarily from contracts with customers. Other sources of revenue are from owned and leased fixed assets. The following tables detail the split between revenue from contracts with customers and other revenue, and disaggregate the revenue from contracts with customers.

Year ended 28 February 2021	Aviation £'000	Energy £'000	Investments £'000	Non-Strategic Infrastructure £'000	Group Central and Eliminations £'000	Total £'000
Revenue from contracts with customers	23,890	75,019	9,034	191	292	108,426
Other revenue – lease income	721	–	–	718	859	2,298
	24,611	**75,019**	**9,034**	**909**	**1,151**	**110,724**

Year ended 28 February 2021	Aviation £'000	Energy £'000	Investments £'000	Non-Strategic Infrastructure £'000	Group Central and Eliminations £'000	Total £'000
Major product/service line						
Sale of goods	3,840	73,861	–	30	7	77,738
Rendering of services	20,050	1,158	9,034	161	–	30,403
Royalties/commissions	–	–	–	–	285	285
	23,890	**75,019**	**9,034**	**191**	**292**	**108,426**
Primary geographical markets						
United Kingdom	20,273	75,019	6,443	190	292	102,217
Europe and Ireland	3,615	–	2,591	1	–	6,207
Rest of world	2	–	–	–	–	2
	23,890	**75,019**	**9,034**	**191**	**292**	**108,426**
Timing of revenue recognition						
Products and services transferred at a point in time	23,890	75,019	9,034	191	7	108,141
Products and services transferred over time	–	–	–	–	285	285
	23,890	**75,019**	**9,034**	**191**	**292**	**108,426**

Notes to the consolidated financial statements continued
for the year ended 28 February 2021

4 Revenue continued

Year ended 29 February 2020	Aviation £'000	Energy £'000	Investments £'000	Non-Strategic Infrastructure £'000	Group Central and Eliminations £'000	Total £'000
Revenue from contracts with customers	55,592	75,638	2,127	1,459	4,249	139,065
Other revenue – lease income	1,063	701	–	981	288	3,033
	56,655	**76,339**	**2,127**	**2,440**	**4,537**	**142,098**

Restated Year ended 29 February 2020	Aviation £'000	Energy £'000	Investments £'000	Non-Strategic Infrastructure £'000	Group Central and Eliminations £'000	Total £'000
Major product/service line						
Sale of goods	14,653	66,951	–	757	152	82,513
Rendering of services	40,939	8,687	2,127	702	–	52,455
Royalties/commissions	–	–	–	–	4,097	4,097
	55,592	**75,638**	**2,127**	**1,459**	**4,249**	**139,065**
Primary geographical markets						
United Kingdom	38,738	75,638	2,127	984	4,249	121,736
Europe and Ireland	16,756	–	–	384	–	17,140
Rest of world	98	–	–	91	–	189
	55,592	**75,638**	**2,127**	**1,459**	**4,249**	**139,065**
Timing of revenue recognition						
Products and services transferred at a point in time	55,592	75,638	2,127	1,448	163	134,968
Products and services transferred over time	–	–	–	11	4,086	4,097
	55,592	**75,638**	**2,127**	**1,459**	**4,249**	**139,065**

In both the current and prior year, no customer amounted to more than 10% of the Group's total continuing revenue.

Contract balances

Opening and closing receivables, contract assets and contract liabilities from contracts with customers are provided in the table below.

Contract balances	2021 £'000	2020 £'000
Receivables	9,301	20,981
Contract assets	5,463	8,155
Contract liabilities	(6,326)	(167)
	8,438	**28,969**

Contract assets relate to the Group's right to consideration for work completed but not billed at the reporting date on contracts in the Energy division. Contract assets are transferred to receivables when the right becomes unconditional and have decreased in the year primarily due to the disposal of the Rail & Civils division.

Contract liabilities primarily relate to advance consideration received from customers for flight bookings not yet fulfilled in Stobart Air and have increased in the year mostly due to the acquisition of Stobart Air. The £167,000 prior year contract liabilities related to deferred brand licence income. Consideration was received in advance and released to revenue over the life of the licence agreement. This prior year contract liability balance has been recognised in revenue in the current year.

In the current year, following the settlement of a contractual dispute, £2,400,000 revenue was recognised in the Energy division relating to contractual performance obligations met in prior years. Stobart Air agreed a settlement with its franchise partner over forward sales which led to £1,951,000 being recognised in revenue in the year.

5 Discontinued operations

Disposal of Stobart Rail Limited

On 14 July 2020, the Group divested of Stobart Rail Limited to Bavaria Industries Group AG for initial cash consideration of £1,000 and contingent consideration with a fair value of £331,000. The net assets disposed totalled £8,902,000 and £940,000 costs were incurred, resulting in a loss on disposal of £9,510,000. The contingent consideration, up to £2.9m, relates to the outcome of a single legacy contract and takes into account costs and likelihood to complete the contract. Under the SPA, the Group provided warranties up to a maximum of £500,000. The warranties are title and capacity only, with no trading warranties. There are no material indemnities provided to Stobart Rail by the Group.

The operations of Stobart Rail Limited represented a separate major line of business. The results of the operations, along with the loss on disposal, have been reported as part of the single line loss from discontinued operations, net of tax on the face of the consolidated income statement. The prior year results have been restated on the same basis.

Results of discontinued operations	2021 £'000	2020 £'000
Revenue	6,309	28,077
Operating expenses	(7,902)	(35,345)
Depreciation	(854)	(2,699)
Impairments	–	(8,474)
Net finance costs	(22)	(128)
Results from operating activities before tax	**(2,469)**	**(18,569)**
Loss on disposal	(9,510)	–
Loss before tax	**(11,979)**	**(18,569)**
Tax	120	–
Loss for the year from discontinued operations, net of tax	**(11,859)**	**(18,569)**

The loss from discontinued operations of £11,859,000 (2020: £18,569,000) is attributable to the owners of the Company.

The cash flows in relation to this operation have been included in the following table.

Cash flows used in discontinued operations	2021 £'000	2020 £'000
Net cash used in operating activities	(769)	(1,133)
Net cash (used in)/generated from investing activities	(989)	419
Net cash used in financing activities	(1,736)	(1,854)
Net cash flows for the year	**(3,494)**	**(2,568)**

Effect of the disposals on individual assets and liabilities	2021 £'000	2020 £'000
Property, plant and equipment	5,499	–
Inventories	88	–
Trade and other receivables	10,599	–
Deferred tax asset	1,020	–
Cash and cash equivalents	2	–
Trade and other payables	(7,569)	–
Lease liabilities	(177)	–
Provisions	(560)	–
Net assets and liabilities	**8,902**	**–**
Consideration received, satisfied in cash	1	–
Cash and cash equivalents disposed of	(2)	–
Net cash outflow	**(1)**	**–**

Disposal of Propius Holdings Limited

In the prior year, the Group completed its disposal of Propius Holdings Limited on 8 November 2019. The profit from operating activities of Propius included was £906,000. The cash consideration received for disposal of Propius Holdings Limited was £nil. The profit on disposal recorded in discontinued operations was £7,025,000 after deducting net liabilities of £7,025,000. The cash disposed amounted to £1,729,000. As part of the disposal, £2,697,000 of an onerous lease contract provision, that had been provided for by the Group, was released and included in discontinued operations.

Notes to the consolidated financial statements continued
for the year ended 28 February 2021

5 Discontinued operations continued

In the prior year, £1,645,000 was released from the provision for the costs of the UK Flybe Franchise Operation (UKFFO), which was operated by the group headed by Everdeal Holdings Limited, and £574,000 was provided for litigation and claims in Everdeal Holdings Limited. These amounts were included in discontinued operations in the prior year. In the current year Propius was re-acquired, see note 6.

The operations of the subsidiary represented a separate major line of business. The results of the operations are reported as part of the single line loss from discontinued operations, net of tax on the face of the consolidated income statement. A summary of the Propius results included in discontinued operations is as follows:

Results of discontinued operations	2021 £'000	2020 £'000
Revenue	–	8,137
Operating expenses	–	(8,377)
Depreciation	–	–
Net finance income	–	426
Results from operating activities before tax	**–**	**186**
Profit on disposal of Propius	–	7,025
Propius provision released	–	2,697
Everdeal provision made	–	(574)
UKFFO provision released	–	1,645
Profit before tax	**–**	**10,979**
Tax	–	720
Profit for the year from discontinued operations, net of tax	**–**	**11,699**

The loss from discontinued operations of £nil (2020: £11,699,000 profit) is attributable to the owners of the Company. Of the revenue included in the above table, £nil (2020: £8,137,000) was from the group headed by Everdeal Holdings Limited.

The revenue from one customer amounted to more than 10% of the Group's discontinued revenue in the prior year. The revenue from this one customer reported within discontinued operations was £8,137,000 for the year to 29 February 2020.

The cash flows in relation to this operation have been included in the below table.

Cash flows used in discontinued operations	2021 £'000	2020 £'000
Net cash used in operating activities	–	(6,011)
Net cash generated from investing activities	–	2,315
Net cash used in financing activities	–	–
Net cash used in discontinued operations	**–**	**(3,696)**

Summary of discontinued operations recognised within the consolidated income statement

	2021 £'000	2020 £'000
Stobart Rail	(11,859)	(18,569)
Propius	–	11,699
Loss for the year from discontinued operations, net of tax	**(11,859)**	**(6,870)**

Summary of cash flows from discontinued operations

	2021 £'000	2020 £'000
Stobart Rail	(3,494)	(2,568)
Propius	–	(3,696)
Net cash flows for the year	**(3,494)**	**(6,264)**

6 Loss on acquisition

In April 2017, when Propius Holdings Limited was a subsidiary of the Group it entered into the sale and leaseback of eight ATR72-600 aircraft to a third party. The Group provided guarantees to the third party over the $15.4m annual rentals payable by Propius which expire in April 2027. These guarantees remained in place on disposal of Propius to Connect Airways Limited (Connect Airways). On 18 March 2020, Connect Airways, the parent company of Stobart Air and Propius, entered administration. The administration of Connect increased the probability of cash outflows in respect of the guarantees provided and the likelihood of these being called upon increased as a result of the administration, and hence the Group recognised a provision of £57.5m in respect of these guarantees (see note 28). Once Stobart Air and Propius were reacquired by the Group, these provisions were reversed, due to both companies being accounted for as 100% subsidiaries, therefore the liabilities on which the Group had PCGs were recognised in full on the consolidated statement of financial position. The Directors reviewed all options available to the Group in relation to the future of Stobart Air and Propius, and concluded that the best course of action was to buy back Stobart Air and Propius to give the Group effective control over the pre-existing guarantee obligations it has in respect of those businesses. Accounting for the recognition of these pre-existing guarantee arrangements has resulted in the current period loss of £58,182,000. The net liabilities recognised on the subsequent acquisition reflect this loss.

The Group re-acquired equity in Stobart Air and Propius Limited on 27 April 2020 for initial cash consideration of £343,000, deferred consideration of £2,000,000 paid on 15 December 2020, and deferred contingent consideration up to a maximum of £6,250,000, based on the equity value achieved after disposal costs, on a realisation of value in respect of both of the businesses prior to 31 December 2023. The deferred contingent consideration has a £nil fair value. On completion of the disposal of Stobart Air post year end there is no deferred consideration payable. These businesses have been accounted for as 100% subsidiaries due to them being solely reliant on the Group for funding in addition to the equity voting rights held.

In the period between acquisition and year ended 28 February 2021, Stobart Air and Propius contributed revenue of £9,034,000 and a loss before tax of £48,124,000 in the consolidated income statement. If the acquisition had occurred on 1 March 2020, management estimates that Stobart Air and Propius' revenue would have been £15,993,000 and loss before tax would have been £52,021,000. In determining these amounts management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 March 2020.

Consideration transferred

The following table summarises the acquisition date fair value of each major class of consideration transferred.

	£'000
Cash	343
Deferred consideration	2,000
Deferred contingent consideration	–
Total consideration transferred	**2,343**

Acquisition-related costs

The Group incurred acquisition-related costs of £725,000 on legal and due diligence costs. These costs have been included as part of the loss on acquisition in the consolidated income statement and as part of the net cash outflow from operating activities in the consolidated statement of cash flows.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired, and liabilities assumed at the date of acquisition:

	£'000
Right-of-use assets	35,171
Property, plant & equipment	1,561
Inventory	4,208
Cash and cash equivalents	1,479
Trade and other receivables	28,993
Trade and other payables	(34,270)
Current tax liability	(879)
Lease obligations	(64,884)
Provisions	(32,457)
Derivative financial instruments	(3,661)
Net identifiable assets and liabilities at fair value	**(64,739)**

Fair values

The aircraft lease liabilities have been calculated using the lease cashflows with the lease being terminated at the break clause in April 2023 on the payment of the termination charge, in line with what a market participant would do. An interest charge based on an incremental borrowing rate has been reflected.

Spare part inventory held by Stobart Air for Embraer aircraft was fair valued to £nil in line with the expected hand back of aircraft.

The right-of-use aircraft in the Propius balance sheet following transition to IFRS 16 was based on the contractual monthly lease charge of $160,000 per aircraft. Under IFRS 3, the fair value of these right-of-use assets was recalculated using a market lease rate of $90,000 per aircraft over the lease term to the break clause in April 2023, which became effective following the loss of the Aer Lingus franchise. This adjustment did not impact the liability as that is based on the contractual lease obligation. The estimate of the lease liabilities is materially sensitive to the discount rate used, being 8.5%. A 1% movement in discount rate equates to a $1,103,000 change in lease liabilities.

Notes to the consolidated financial statements continued
for the year ended 28 February 2021

6 Loss on acquisition continued

Post acquisition and prior to the year end an impairment review was carried out on all plant, property and equipment in Stobart Air and the right-of-use aircraft in Propius. This led to these assets being written off in full. Post year end Stobart Air entered liquidation.

Propius held deferred profit on disposal on its balance sheet relating to a sale and leaseback transaction. As this liability will never be settled in cash in the future, as it relates to a past transaction that has been settled in cash, it has been attributed a fair value of £nil on acquisition. In the Group's 31 August 2020 Interim Statement it was disclosed that a deferred tax asset of £1,790,000 was recognised on acquisition of Propius. However, as the majority of the asset is related to deferred sale and lease back profit it has been fair valued to £nil.

For all other assets and liabilities book value was equal to fair value.

Onerous lease contract provision

Esken Limited held a provision for an onerous lease contract for £9,625,000 relating to amounts payable to Connect Airways in connection with the lease of aircraft which has now been acquired as part of the transaction. Following the acquisition, there is no obligation for Esken Limited to settle this liability in cash, as the lease liability is now on the Group's balance sheet, and so the reversal of the provision has been reflected in the acquisition assessment.

	£'000
Cash and deferred consideration	2,343
Costs of acquisition	725
Reversal of onerous lease contract provision held as at 29 February 2020	(9,625)
Loss on Stobart Air and Propius transactions reflected in the subsequent acquisition	(58,182)
Fair value of identifiable net liabilities	**(64,739)**

7 Other income

In the current year there was other income of £5,465,000 (2020: £nil) relating to Public Service Obligation income in Stobart Air. The remainder of the other income in the year is primarily due to profit on disposal of property plant and equipment.

Other income in the prior year is principally due to a settlement with a renewable energy plant owner relating to forgone future revenues following the termination of a long-term fuel supply agreement.

8 Operating expenses

Operating expenses are after charging the following:

	2021 £'000	Restated 2020 £'000
Employee benefits expenses excluding share-based payment charge	45,890	43,291
Share-based payment charge	81	1,271
Direct material costs	40,755	44,189
Diesel and jet fuel	8,970	18,985
Maintenance	11,751	3,906
New business and new contract set-up costs	–	19,135
Litigation and claims	3,318	977
Other purchases and external expenses	23,498	11,189
Operating expenses – other	**134,263**	**142,943**

New business and new contract set-up costs and Litigation and claims were classed as non-underlying in the consolidated income statement for the year ended 29 February 2020.

Loss before interest and tax is stated after charging/(crediting) the following:

	2021 £'000	Restated 2020 £'000
Depreciation of property, plant and equipment (PPE)	31,814	20,024
Amortisation of acquired intangibles	–	7,456
Impairment	22,097	93,435
Loss on disposal/in value of investment property	–	1,974
Loss on sale and leaseback	–	62
Loss on disposal of property inventories	–	49
(Profit)/loss on disposal of PPE	(98)	68
Release of government grants	(479)	(565)
Operating lease expense (relating to short-term leases and leases of low-value assets)		
– Plant and machinery and commercial vehicles	34	435
– Property	70	39

Amounts receivable by the auditor and its associates in respect of the following:

	2021 £'000	2020 £'000
Remuneration receivable in respect of the audit of the Company	705	551
The auditing of accounts of any subsidiary of the Company	576	469
Audit-related services – interim results review	173	80
Audit-related services – working capital review for capital raise	320	–
Transaction services – potential airport sale	–	125
	1,774	**1,225**

9 Staff costs

Staff costs (including Directors) comprise:	Note	2021 £'000	2020 £'000
Wages and salaries		40,640	48,059
Social security costs		4,302	4,706
Other pension costs		1,035	1,257
Share-based payment charge	29	81	1,151
		46,058	**55,173**

Included in staff costs above are costs which have been capitalised within assets under construction totalling £87,000 (2020: £345,000).

UK government Coronavirus Job Retention Scheme (furlough)

In the year ending 28 February 2021 the Group utilised the Coronavirus Job Retention Scheme implemented by the UK Government where those employees designated as being 'furloughed workers' were eligible to have a proportion of their wage costs paid up to a maximum amount of £2,500 per month. Payments received for furloughed employees are in the form of a grant and are recognised in the same period in which the related expense is incurred and are netted off against the expense in the consolidated income statement.
During the year £9,419,000 (2020: £nil) was received by the Group under the furlough scheme.

10 Finance income

	2021 £'000	2020 £'000
Bank interest receivable	10	18
Foreign exchange gains	1,836	7
Interest on loans to joint venture	–	4,311
Change in fair value of financial liabilities	2,378	–
Interest receivable from net investment in lease	607	564
Other	18	17
	4,849	**4,917**

11 Finance costs

	2021 £'000	Restated 2020 £'000
Bank loans and loan notes	4,574	2,664
Net interest of retirement benefit schemes	64	74
Finance charges payable under leases	8,661	4,534
Amortisation of deferred issue costs	2,229	455
Foreign exchange losses	985	621
Dividend paid to exchangeable bondholders	–	2,127
Change in fair value of financial liabilities	458	3,500
Other interest	243	478
	17,214	**14,453**

During the year no (2020: £nil) interest was capitalised. In addition to the amounts above, an impairment charge of £8,000,000 (2020: £2,754,000) has been recognised in relation to shareholder loan notes relating to Mersey Bioenergy Holdings Limited, the Widnes biomass plant owner. The fair value was calculated on the basis of expected credit losses. The discounted future cash flows, which had deteriorated over the period with the awaited refinancing still not complete, identified the impairment recognised.

During the year interest paid in cash amounted to £9,386,000 (2020: £8,112,000), this included bank loans and loan notes of £3,734,000 (2020: £2,203,000), finance charges payable under leases of £5,652,000 (2020: £3,694,000), interest payable on grant reimbursement of £nil (2020: £88,000) and dividend paid to exchangeable bondholders of £nil (2020: £2,127,000).

Notes to the consolidated financial statements continued
for the year ended 28 February 2021

12 Tax

Total tax charged in the consolidated income statement from continuing and discontinued operations	2021 £'000	2020 £'000
Corporation tax:		
Current year overseas corporation tax	(456)	–
Adjustment in respect of prior years	54	(774)
Total corporation tax	**(402)**	**(774)**
Deferred tax:		
Origination and reversal of temporary differences	(5,174)	(8,581)
Adjustment in respect of prior years	(1,920)	245
Effect of changes in tax rates	293	–
Total deferred tax	**(6,801)**	**(8,336)**
Total credit in the consolidated income statement	**(7,203)**	**(9,110)**
Split between:		
– Continuing operations	(7,083)	(8,390)
– Discontinued operations	(120)	(720)

Included in the above tax charges are a total current tax credit on continuing operations of £402,000 (2020: £nil) and a total deferred tax credit on continuing operations of £6,681,000 (2020: £8,390,000) giving a total tax credit on continuing operations in the consolidated income statement of £7,083,000 (2020: £8,390,000). In addition, there is a total tax credit on discontinued operations of £120,000 (2020: £720,000) giving a total tax credit on continuing and discontinued operations in the consolidated income statement of £7,203,000 (2020: £9,110,000).

The current tax adjustment in respect of prior years is in relation to the R&D expenditure credit in Stobart Energy Limited, there is a deferred tax adjustment of an equal and opposite amount.

The deferred tax adjustment in respect of prior years is primarily in relation to differences in fixed asset timing differences between the financial statements and the final submitted tax returns for the period.

The effective tax rate in the year was 4.4% which was driven by deferred tax assets not being recognised in respect of certain temporary differences in the year.

Reconciliation of income tax charge

A reconciliation of the income tax credit applicable to the results from ordinary activities at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the year is as follows:

	2021 £'000	2020 £'000
Net loss before tax from continuing and discontinued operations	(162,316)	(147,005)
UK income tax at rate 19%[1] (2020: 19%)	(30,840)	(27,931)
Effects of:		
Income not taxable	(4,976)	(2,964)
Impact of change in tax rate	1,948	918
Expenses incurred not relievable against current tax	23,223	10,080
Reversal of deferred tax on fair value adjustment	–	(589)
Losses carried forward not recognised	5,308	11,905
Adjustments in respect of prior years	(1,866)	(529)
Total credit in the consolidated income statement from continuing and discontinued operations	**(7,203)**	**(9,110)**

1 The Parent Company of the Group is tax resident in the UK. As such, the tax rate in the reconciliation of income tax charge is the UK corporation tax rate.

Expenses incurred not relievable against current tax include the impairment of intercompany loans, legal fees in relation to the acquisition and disposal of investments, and interest expenses that are not deductible for tax purposes. Included in the statement of other comprehensive income is a tax charge of £182,000 (2020: £348,000), all in relation to deferred tax. Included in the statement of changes to equity is £4,000 (2020: £nil), all in relation to deferred tax.

Non-taxable income includes profit on the disposal of net liabilities in relation to subsidiaries and dividend receipts from non-controlled investments.

The deferred tax credit in the consolidated income statement is analysed as follows:

	2021 £'000	2020 £'000
Accelerated allowances on plant and machinery	(1,603)	(2,103)
Revaluation of properties to fair value on acquisition	469	(1,097)
Brands recognised on acquisition	(1,700)	(5,341)
Other temporary differences	(3,967)	151
	(6,801)	**(8,390)**

Deferred tax on temporary differences in the year amounting to £59,329,000 (2020: £10,619,000) has not been recognised in the financial statements on the basis that these temporary differences relate to tax losses of certain Group entities that have a history of making losses. Convincing other evidence is required before these unused tax losses can be recognised and at the year end this evidence was not of a convincing enough level. These losses do not have an expiry date.

Esken Limited's affairs are conducted such that it is considered to be resident in the UK for tax purposes. HM Revenue & Customs (HMRC) has not objected to this position. As a result, the Company is liable to pay UK corporation tax on its profits.

Factors that may affect the future tax charge

A change to the UK corporation tax rate was announced in the March 2021 Budget. Following this announcement on 3 March 2021, the corporation tax rate will now increase from 19% to 25% on 1 April 2023. Given the change is yet to be substantively enacted, the deferred tax assets/liabilities as at 29 February 2020 have all been recognised/provided at the current enacted rate of 19%. The deferred tax liability at the year end totals £261,000. On the assumption this new rate will be substantively enacted by the next balance sheet date, recognition/provision at 25% will result in the provision of an additional deferred tax liability and a deferred tax charge of approximately £82,000. This will be included within the Group accounts for the year ending 28 February 2022.

There are a number of tax enquiries across the Group which management is working with HMRC and professional advisers to satisfy and resolve. There are uncertainties around the outcomes and potential liabilities in connection with these enquiries. The Directors believe that a responsible range of outcomes for the liabilities under these enquiries is between £nil and £16.1m. Provisions have been made for corporation tax and other taxes, including interest and penalties, at a level that the Directors believe is a reasonable estimate to cover the potential liabilities on an enquiry-by-enquiry basis.

The Group is not expecting significant tax implications to arise as a result of the UK leaving the EU.

No deferred tax assets have been recognised as at 28 February 2021 in respect of tax losses carried forward within various group entities. This is on the basis that there is insufficient visibility of future taxable profits against which the potential deferred tax assets would unwind.

13 Earnings per share

Basic earnings per share (EPS) amounts are calculated by dividing net profit or loss for the year attributable to ordinary equity holders of the Parent by the weighted average number of ordinary 10p shares outstanding during the year.

Diluted EPS is calculated by dividing net profit or loss attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares, adjusted for share options which have exercise prices below the average market price of shares during the year. No share options have been included in the calculation of diluted EPS as the exercise prices of the SAYE schemes are above the average market share price and the other options have performance conditions which have not been unconditionally met at the year end.

The following table reflects the income and share data used in the basic and diluted EPS calculations:

Numerator	2021 £'000	Restated 2020 £'000
Continuing operations		
Loss for the year used for basic and diluted earnings	(143,254)	(131,025)
Discontinued operations		
Loss for the year used for basic and diluted earnings	(11,859)	(6,870)
Total		
Loss for the year used for basic and diluted earnings	**(155,113)**	**(137,895)**

Denominator	Number	Number
Weighted average number of shares used in basic EPS	538,444,665	368,839,579
Effects of employee share options	–	–
Weighted average number of shares used in diluted EPS	**538,444,665**	**368,839,579**
Weighted average of own shares held and therefore excluded from weighted average number	3,514,092	3,761,537

Notes to the consolidated financial statements continued
for the year ended 28 February 2021

13 Earnings per share continued

On 1 September 2015, the Group introduced an HMRC-approved SAYE scheme available to all employees. During prior years 748,187 shares were exercised. There were no shares outstanding from this award at the year-end date.

On 17 June 2016, 1,687,748 awards were made to Executive Directors and other senior employees under a Long-Term Incentive Plan. During prior years, 907,184 shares were exercised, 508,931 were forfeited and 271,633 lapsed. There were no shares outstanding from this award at the year-end date.

On 22 June 2017, 896,721 awards were made to Executive Directors and other senior employees under a Long-Term Incentive Plan. During prior years, 2,700 shares were exercised, 361,026 shares were forfeited and 69,111 shares lapsed. During the year, the remaining shares lapsed. There were no shares outstanding from this award at the year-end date.

On 3 November 2017, 2,333 awards were made to other senior employees under a Long-Term Incentive Plan. During the year, these options lapsed. There were no shares outstanding from this award at the year end.

On 20 June 2018, 726,522 awards were made to Executive Directors and other senior employees under a Long-Term Incentive Plan. During the prior years, 1,946 shares were exercised, 15,576 shares were forfeited and 53,526 shares lapsed. During the year, 196,363 shares lapsed. There are 459,111 shares outstanding from this award at the year-end date. These are potentially dilutive instruments but were not included in the calculation of diluted EPS because the performance conditions had not been met unconditionally at the year-end date.

On 21 December 2018, the Group invited qualifying employees to join a SAYE scheme. During prior years, 92,100 options were forfeited and 1,031,291 options were cancelled. During the year, 16,448 shares were forfeited and 29,766 shares were cancelled. There are 43,546 shares outstanding at the year-end date. These are potentially dilutive instruments but have not been included in the calculation of diluted EPS because the exercise price is higher than the average market share price during the year.

On 3 July 2019, 1,939,896 awards were made to Executive Directors and other senior employees under a Long-Term Incentive Plan. During the year, 295,665 shares lapsed. There are 1,644,231 shares outstanding at the year-end date. These are potentially dilutive instruments but were not included in the calculation of diluted EPS because the performance conditions had not been met unconditionally at the year-end date.

On 2 August 2019, the Group invited qualifying employees to join a SAYE scheme. During prior years, 66,016 shares were forfeited and 308,456 shares were cancelled. During the year, 504,994 shares were forfeited and 927,453 shares were cancelled. There are 1,156,009 shares outstanding at the year-end date. These are potentially dilutive instruments but have not been included in the calculation of diluted EPS because the exercise price is higher than the average market share price during the year.

No treasury shares were held at year end (2020: nil). Treasury shares are not included in the weighted average number of shares used to calculate EPS. Own shares held in an employee benefit trust are excluded from the weighted average number of shares.

14 Dividends

Dividends paid on ordinary shares	2021 Rate p	2021 £'000	2020 Rate p	2020 £'000
Final dividend for 2019 paid 31 July 2019	–	–	3.0	11,125
	–	–	**3.0**	**11,125**

In the prior year, the Board took the decision to suspend dividends therefore no final dividend is proposed.

15 Property, plant and equipment

Year ended 28 February 2021	Land and buildings £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Commercial vehicles and aircraft £'000	Total £'000
Cost					
At 1 March 2020	283,758	72,241	12,145	34,806	402,950
Acquisition of subsidiary	1,618	1,098	463	33,554	36,733
Additions	3,460	1,046	225	352	5,083
Right-of-use asset additions	866	390	–	163	1,419
Disposals	(542)	(559)	(66)	(809)	(1,976)
Right-of-use asset disposals	(4,436)	(25)	–	(15)	(4,476)
Transfers between categories	(1,464)	3,901	6,959	(7,611)	1,785
Disposal of subsidiary undertaking	(37)	(11,785)	(2,213)	(475)	(14,510)
Transfer from inventory	470	–	–	–	470
FX on exchange	355	(50)	(88)	(3,752)	(3,535)
At 28 February 2021	**284,048**	**66,257**	**17,425**	**56,213**	**423,943**
Aggregate depreciation and impairment charges					
At 1 March 2020	53,546	17,682	6,846	18,292	96,366
Charge for the year	4,685	6,994	2,560	3,273	17,512
Charge for the year on right-of-use assets	3,635	239	–	11,283	15,157
(Impairment reversal)/impairment	(1,201)	1,493	353	20,500	21,145
Disposals	(542)	(382)	(45)	(678)	(1,647)
Right-of-use asset disposals	(926)	(22)	–	(5)	(953)
Transfers between categories	(1,293)	7,954	2,835	(7,711)	1,785
Disposal of subsidiary undertaking	(35)	(6,658)	(2,035)	(283)	(9,011)
FX on exchange	(41)	(54)	(88)	(1,849)	(2,032)
At 28 February 2021	**57,828**	**27,246**	**10,426**	**42,822**	**138,322**
Net book value at 28 February 2021	**226,220**	**39,011**	**6,999**	**13,391**	**285,621**
Net book value of right-of-use assets included in the table above	53,270	26,696	803	13,192	93,961

Year ended 29 February 2020	Land and buildings £'000	Plant and machinery £'000	Fixtures, fittings and equipment £'000	Commercial vehicles and aircraft £'000	Total £'000
Cost					
At 1 March 2019	211,918	69,823	9,320	33,678	324,739
Additions	13,599	5,213	592	9,714	29,118
Right-of-use asset additions	61,121	498	–	355	61,974
Disposals	(3)	(3,823)	(424)	(8,631)	(12,881)
Transfers between categories	(2,877)	530	2,657	(310)	–
At 29 February 2020	**283,758**	**72,241**	**12,145**	**34,806**	**402,950**
Aggregate depreciation and impairment charges					
At 1 March 2019	26,693	11,880	3,581	19,670	61,824
Charge for the year	4,546	7,811	2,874	3,750	18,981
Charge for the year on right-of-use assets	3,535	131	–	76	3,742
Impairment reversal	18,779	111	812	–	19,702
Disposals	–	(2,258)	(421)	(5,204)	(7,883)
Transfers between categories	(7)	7	–	–	–
At 29 February 2020	**53,546**	**17,682**	**6,846**	**18,292**	**96,366**
Net book value at 29 February 2020	**230,212**	**54,559**	**5,299**	**16,514**	**306,584**
Net book value of right-of-use assets included in the table above	60,645	29,137	614	16,508	106,904

Of the total depreciation charge for the year of £32,669,000 (2020: £22,723,000) included in the above tables, £854,000 (2020: £2,699,000) is included within the loss from discontinued operations, net of tax, on the consolidated income statement.

There was a correction in the year to adjust for a historical reclassification. The correction impacted the cost and accumulated depreciation of individual plant, property and equipment categories but on aggregate there was no impact to the plant, property and equipment total net book value.

Notes to the consolidated financial statements continued
for the year ended 28 February 2021

15 Property, plant and equipment continued

Impairment of assets

At the year end, the Group subjected two land and buildings assets at Carlisle Lake District Airport (CLDA) and water port and storage site at Weston Point Runcorn (Runcorn), to external independent development valuations carried out by Colliers International Valuation UK LLP on a fair value less costs to sell basis. The valuations were performed in accordance with the RICS Valuation Standards issued by the Royal Institution of Chartered Surveyors. These valuations have driven a reversal of impairment of £2,432,000. The key assumptions taken in arriving at the valuations include rental yields and rates per acre.

At the year end, the Group carried out an impairment review of all plant, property and equipment in Stobart Air and the right-of-use aircraft in Propius, based on the Fair Value Less Costs to Sell (FVLCS) of the assets. The assets were written off in full leading to an impairment charge of £22,921,000.

The impairment charges in the current and prior years are presented on a separate line on the face of the consolidated income statement. Any future increases in value will be recognised as a gain through the same line on the face of the consolidated income statement.

Impairment testing of other property, plant and equipment where no charge for impairment has been recognised

The London Southend Airport (LSA) CGU comprises the business operations of the commercial airport, airport hotel and railway station ancillary operations. The CGU has been tested for impairment as the business suffered a loss before tax in the year to 28 February 2021. The Group estimated the FVLCS of the CGU and determined that no charge for impairment was necessary. There has been a change in the basis for measuring recoverable amount in the current year, with FVLCS replacing value-in-use used in the prior year as the Directors believe this better represents the value of the assets. During the year and post year end, the Directors have been in discussion with Carlyle Global Infrastructure Opportunity Fund regarding acquiring a stake in LSA, which has provided further evidence towards the FVLCS recoverable amount. Taking into account climate change factors in addition to the current aviation market due to COVID-19, it is the view of the Directors that the FVLCS is in excess of £400m and as such is more than sufficient to cover the carrying amount of the LSA CGU assets. The carrying amount of the LSA CGU asset base as at 28 February 2021 is £155,883,000. The assumptions used to determine this recoverable amount include future forecast EBITDA and multiples achieved by London airports.

Other disclosures in relation to property, plant and equipment

Bank borrowings are secured on the Group's freehold land and buildings, see note 25 for further details.

Included in land and buildings at 28 February 2021 are assets under construction of £9,098,000 (2020: £8,760,000). The current year assets relate principally to development work at LSA.

16 Investments in associates and joint ventures

Entity	Year end	Issued ordinary shares	Company holding direct investment	Residence	Principal activity of the entity or group headed by the entity	% of nominal value of issued shares or members' capital held
Convoy Limited[1]	5 April	2	SPD1 Limited	Isle of Man	Property investment	50%
Mersey Bioenergy Holdings Limited	31 December	100	Stobart Green Energy Limited	UK	Operation of energy plant	39.6%
Connect Airways Limited[1]	31 December	500,000,100	Stobart Aviation Limited	UK	Commercial airlines	30%
AirPortr Technologies Ltd	31 December	8,248,892	Stobart Group Limited	UK	Aviation services company	16.3%
AirPortr Technologies Ltd	31 December	8,248,892	Stobart Group Brands LLP	UK	Aviation services company	3.0%

1 These entities are joint ventures; all others are associates.

None of the entities above is strategic to the Group's activities.

On 30 November 2020 AirPortr Technologies Ltd issued 105,965 new ordinary shares. The Group did not acquire any new shares in the company and so its shareholding was diluted to 19.3%. This investment is an associate due to the Group holding significant influence but no control.

Associates and joint ventures

	2021 £'000	2020 £'000
At 1 March	1,590	10,459
Additions	–	2,667
Impairment	–	(1,771)
Share of post-tax losses	(218)	(9,765)
At 28 February	**1,372**	**1,590**

Loans to associates and joint ventures, where the settlement is planned or expected to be repaid in the foreseeable future, do not form part of the equity investment and are included in other receivables or non-current amounts owed by associates and joint ventures according to the expected repayment terms.

The balance at 28 February 2021 relates to the investment in AirPortr Technologies Ltd.

Aggregate joint ventures

	2021 £'000	2020 £'000
Carrying amount	–	–
Share of post-tax losses	–	(9,108)

The 30% investment in Connect Airways Limited (Connect) was fully written down in the prior year due to Connect entering administration on 18 March 2020.

Aggregate associates

	2021 £'000	2020 £'000
Carrying amount	1,372	1,590
Share of post-tax losses	(218)	(657)

During the year, the Group did not take a 39.6% share of the Mersey Bioenergy Holdings Limited losses (2020: £nil) as equity-accounted losses had already reached the cap at the value of the investment. During the year, AirPortr Technologies Ltd contributed equity-accounted losses of £218,000 (2020: £657,000). The Group's exposure for AirPortr Technologies Ltd's losses is limited to its investment in the company. There was no impact on the consolidated statement of cash flows.

17 Other financial assets

	2021 £'000	2020 £'000
At 1 March	4,776	44,918
Additions	973	70
Impairments	(70)	–
Revaluation – FVOCI	4,713	(40,212)
At 28 February	**10,392**	**4,776**

On 9 December 2020 AIM-listed Eddie Stobart Logistics plc (ESL) announced an Open Offer of new shares in the company at 5p per share. The Group purchased a total of 19,454,688 shares for £973,000. Following the share issue, the Group's share of the total nominal value of issued shares of ESL was 9.14%.

The exchangeable bond (see note 25) is secured on ordinary shares in ESL and of the total shares purchased in the share issue 7,013,367 were added to the pool of shares for which the bond may be exchanged. Of the total 64,149,500 shares held by the Group, the pool of shares for which the bond may be exchanged is 51,708,179.

On 9 February 2021 ESL changed its name to Logistics Development Group plc (LDG) and at 28 February 2021 the Group's investment was worth £10,392,000 (2020: £4,706,000).

During the year the Group impaired its 7% shareholding in Connect.IO Ltd from £70,000 to £nil.

The Group made an irrevocable election to account for LDG as FVOCI, on adoption of IFRS 9 on 1 March 2018, and Connect.IO Ltd on acquisition. The fair value of LDG is calculated using the market price per AIM. The revaluation in the year relates to the change in LDG share price.

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18 Intangible assets

	Goodwill £'000	Brand names £'000	Customer relationships £'000	Total £'000
Cost				
At 1 March 2019	87,419	60,000	1,793	149,212
Transferred to assets held for sale	–	(60,000)	–	(60,000)
At 29 February 2020 and 28 February 2021	**87,419**	**–**	**1,793**	**89,212**
Amortisation and impairment				
At 1 March 2019	28,375	18,585	1,770	48,730
Amortisation charge	–	7,433	23	7,456
Impairment	4,375	23,982	–	28,357
Transferred to assets held for sale	–	(50,000)	–	(50,000)
At 29 February 2020 and 28 February 2021	**32,750**	**–**	**1,793**	**34,543**
Net book value				
At 28 February 2019	59,044	41,415	23	100,482
At 29 February 2020 and 28 February 2021	**54,669**	**–**	**–**	**54,669**

No internally generated intangible assets are recognised in the financial statements.

Brand names relates to Stobart and Eddie Stobart trademarks and designs, and other Stobart-associated trademarks and designs. Customer relationships consist of contractual relationships with customers recognised on acquisitions.

In the prior year, indefinite life brands were impaired to their fair value less costs to sell and transferred to assets held for sale. In the current year those brands were disposed of, see note 21.

Goodwill

The goodwill from a business combination has been allocated to a CGU. Carrying amounts of goodwill allocated to each CGU are set out in the following table. These assets are considered to have indefinite lives because there is no foreseeable limit to the period over which the assets are expected to generate net cash inflows for the Group.

	Stobart Energy		Total	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Carrying amount of goodwill	**54,669**	54,669	**54,669**	54,669

Impairment testing of goodwill

In accordance with IAS 36 Impairment of Assets, the Group has undertaken impairment testing for each CGU. The key assumptions applied in respect of each CGU are set out below. A sensitivity analysis has been performed, at the individual CGU level, in order to review the effect of changes in key assumptions.

Stobart Energy CGU

The recoverable amount of goodwill in the Stobart Energy CGU has been based on value-in-use calculations using projections from financial forecasts approved by senior management covering a five-year (2020: five-year) period. The main assumptions on which the forecasts were based include gate fee income cash flows and estimated contracted volumes supplied. The gate fee income and profit margins are based on management's past experience and are primarily determined by gate fees received and material costs. The pre-tax discount rate applied to the cash flow projections was 12.8% (2020: 9.8%) based on a weighted average cost of capital based on market participant parameters, taking into account the cost of equity and debt for the CGU, and adjusting for risk specific to the CGU. Cash flows beyond the five-year period have been recognised up to 2037, being the expiration of Renewable Obligation Certificates (ROCs) issued to renewable energy plants, with an annual growth rate of 2.0% (2020: 0.0%) assumed in the calculations beyond year five. This change in method to restrict the forecast cash flows to 2037, as opposed to the prior year where cash flows were assumed to continue in perpetuity, reflects the cash flows and contracted supply to renewable energy plants. Whilst not all long-term fuel supply agreements go out to at least 2037 the Directors are satisfied that it is more likely than not that all will run to at least this point through contract renewals and extensions.

No impairment losses have been recognised in the current or prior year. The calculation of the value-in-use is most sensitive to the discount rate, gate fee income received, and substantial achievement of contracted volumes as the business matures. Whilst individually sensitising these key assumptions does not result in an impairment a combination of all could result in a material impairment. However, the Directors are satisfied that the risk of all sensitivities crystallising is remote. In order for the estimated recoverable amount to equal the carrying amount, the pre-tax discount rate would have to increase to 17.5% or cash flows would have to reduce by 13.9%.

The discount rate used in the impairment workings for the Energy CGU is in line with those used in the prior year. The methods used to determine the factors within the discount rate calculations were consistent with the prior year. Reasons for changes in some of the discount rates include an increase in size premium and variations in gearing and beta values for comparative companies used to calculate cost of equity.

The Stobart Energy CGU is the same as the Energy segment.

19 Inventories

	2021 £'000	2020 £'000
Consumable supplies	3,771	844
Goods held for resale	112	176
Property inventories	11,451	12,873
	15,334	**13,893**

Property inventory relating to Widnes is subject to a fixed charge under the RCF, see note 25 for further details.

Development land at Widnes was subject to an external independent development valuation carried out by Colliers International Valuation UK LLP. The valuation was performed in accordance with the RICS Valuation Standards issued by the Royal Institution of Chartered Surveyors. The valuation provided a value of £10,675,000 indicating an impairment of £952,000 which has been recognised.

In the prior year, following an external valuation, an impairment of £5,000,000 was recorded against the development land at Widnes to recognise that some of the land may be sold undeveloped. During the year 24 acres of land at CLDA, with carrying value of £470,000, was reclassed from property inventories to land and buildings to reflect its intended use.

20 Trade and other receivables

	2021 £'000	2020 £'000
Non-current		
Deferred consideration	1,495	–
Amounts owed by associates and joint ventures	–	8,000
	1,495	**8,000**
Current		
Trade receivables – net	15,657	27,771
Other taxes and social security	–	14
Other receivables and prepayments	11,721	12,382
	27,378	**40,167**
Movement in the loss allowance		
At 1 March	210	182
Movement in the year	207	28
At 28 February	**417**	**210**

The analysis of trade receivables due is as follows:

	2021 Receivable £'000	2021 Provision £'000	2020 Receivable £'000	2020 Provision £'000
Current	7,480	(11)	15,133	(41)
1 month	1,145	(11)	10,760	(3)
2 months	609	8	373	(4)
3+ months	6,840	(403)	1,715	(162)
	16,074	**(417)**	**27,981**	**(210)**

The standard period for credit sales varies from 30 days to 60 days. The Group assesses creditworthiness of all trade debts on an ongoing basis providing for expected credit losses in line with IFRS 9. The Group has considered credit risk rating grades, which are based on the ageing categories above. COVID-19 has not had a material impact on the collection of 28 February 2021 year end trade receivables. New customers are subject to stringent credit checks. Post year end, £11,127,000 of the above trade debtor balance has been received in cash. The analysis of trade receivables past due but not impaired is as follows:

	2021 £'000	2020 £'000
Neither past due nor impaired	8,514	22,182
<30 days	1,036	3,469
31–60 days	747	931
61–90 days	976	823
91–120 days	2,343	46
>120 days	2,458	530
	16,074	**27,981**

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21 Assets classified as held for sale

At the year ended 29 February 2020, brand assets totalling £10,000,000 were transferred from intangible assets to assets classified as held for sale. On 20 May 2020 the brand assets were sold to Eddie Stobart Logistics plc (ESL) for cash consideration of £10,000,000. The consideration equalled the carrying value of the asset held for sale so there was no gain or loss on disposal. Cash of £6,000,000 was received upon completion, a further £2,500,000 was paid on 1 December 2020 and £1,500,000 is to be paid 36 months after completion.

At the year ended 29 February 2020, four acres of land at Widnes within the Non-Strategic Infrastructure division, with a carrying value of £1,408,000 was reclassified from property inventories to assets held for sale. During the year, development of the land held for sale, relating to the addition of a cycle path, increased its carrying value by £164,000. The land was sold on 2 October 2020 for cash proceeds of £1,364,000 leading to a loss on disposal of £208,000.

22 Trade and other payables

	Note	2021 £'000	2020 £'000
Trade payables		16,789	21,939
Other taxes and social security		3,382	–
Other payables and accruals		31,064	39,448
Government grants	24	1,500	512
		52,735	**61,899**

23 Other liabilities

	Note	2021 £'000	2020 £'000
Other payables and accruals		34	–
Government grants	24	8,237	9,687
		8,271	**9,687**

24 Government grants

The Aviation division has received several grants for development work at London Southend Airport on runway refurbishment and extension, operational buildings, new road and radar. The grants are released to the consolidated income statement in line with the useful life of the assets to which they relate.

The Energy division has received a number of grants for site development at several locations with conditions on job creation and spend in designated geographical areas. The grants are released to the consolidated income statement in line with the useful life of the assets to which they relate.

The Non-Strategic Infrastructure division was awarded a grant from the Regional Growth Fund and related to job creation for land remediation at the 3MG site in Widnes. The grant is held on the balance sheet and released to the consolidated income statement based on the number of jobs created. The division was also awarded a grant for the creation of jobs and employment space at Carlisle Lake District Airport. The grant is released to the consolidated income statement in line with the useful life of the asset.

Payments received under the UK government Coronavirus Job Retention Scheme are in the form of a grant and are recognised in the same period in which the related expense is incurred, see note 9.

In the year, the Group also received government assistance in the form of deferral of VAT payments.

Reconciliation of movement in grant liability to cash flows arising from financing activities

	2021 £'000	2020 £'000
Balance at 1 March	10,199	11,598
Changes from financing cash flows:		
New grants received	–	318
Grants repaid	–	(1,152)
Total changes from financing cash flows	–	**(834)**
Release to consolidated income statement	(480)	(565)
Reclass from other creditors	18	–
Balance at 28 February	**9,737**	**10,199**

25 Financial assets and liabilities

Loans and borrowings	2021 £'000	2020 £'000
Non-current		
Obligations under leases (pre IFRS 16)	22,709	29,903
Revolving credit facility (net of arrangement fees)	–	74,757
	22,709	**104,660**
Current		
Exchangeable bonds	52,010	51,689
Obligations under leases (pre IFRS 16)	12,784	12,499
Revolving credit facility (net of arrangement fees)	52,329	–
	117,123	**64,188**
Total loans and borrowings (pre IFRS 16)	**139,832**	**168,848**
Cash	(12,408)	(9,802)
Comparable net debt (pre IFRS 16)	**127,424**	**159,046**
Non-current		
IFRS 16 obligations	99,407	73,128
Current		
IFRS 16 obligations	24,008	3,281
Net debt	**250,839**	**235,455**

Reconciliation of movements of liabilities to cash flows arising from financing activities

Liabilities	Exchangeable bond £'000	Revolving credit facility £'000	Obligations under leases £'000	Total £'000
Balance at 1 March 2020	51,689	74,757	118,811	245,257
Changes from financing cash flows:				
Net cash repaid	–	(20,000)	–	(20,000)
Cash outflow from debt issue costs	(51)	(4,286)	–	(4,337)
Principal elements of lease payments – continuing operations	–	–	(24,018)	(24,018)
Principal elements of lease payments – discontinued operations	–	–	(187)	(187)
Total changes from financing cash flows	**(51)**	**(24,286)**	**(24,205)**	**(48,542)**
Release of deferred issue costs	372	1,858	–	2,230
New leases entered into	–	–	3,408	3,408
Termination of lease	–	–	(63)	(63)
Unwind of discount	–	–	141	141
Acquisition of subsidiary	–	–	64,884	64,884
Disposal of subsidiary undertaking	–	–	(1,707)	(1,707)
The effect of changes in foreign exchange rates	–	–	(4,752)	(4,752)
Non-cash interest accruals	–	–	2,391	2,391
Balance at 28 February 2021	**52,010**	**52,329**	**158,908**	**263,247**

Notes to the consolidated financial statements continued
for the year ended 28 February 2021

25 Financial assets and liabilities continued

Liabilities	Exchangeable bond £'000	Revolving credit facility £'000	Obligations under leases £'000	Total £'000
Balance at 1 March 2019	–	57,567	39,987	97,554
Changes from financing cash flows:				
Proceeds from bond issue (net of costs)	51,305	–	–	51,305
Net cash drawn	–	17,000	–	17,000
Cash outflow from debt issue costs	–	(4)	–	(4)
Principal elements of lease payments	–	–	(20,783)	(20,783)
Total changes from financing cash flows	**51,305**	**16,996**	**(20,783)**	**47,518**
Release of deferred issue costs	260	194	–	454
Exchange derivative recognised	124	–	–	124
New leases entered into	–	–	21,037	21,037
Unwind of discount	–	–	134	134
Transition liability recognised	–	–	78,252	78,252
Non-cash interest accruals	–	–	184	184
Balance at 29 February 2020	**51,689**	**74,757**	**118,811**	**245,257**

Any variable lease payments that were not included in the calculation of IFRS 16 lease obligations have been expensed as incurred in the consolidated income statement. These amounts are not material.

The £120m variable rate committed RCF, with end date January 2022, was drawn at £55,000,000 (2020: £75,000,000) at the year end. The RCF variable rate is based on LIBOR plus a margin. Under the RCF, Esken Limited and all material subsidiaries have charged security to the lenders via a debenture, and the material subsidiaries are also guarantors and obligors in relation to the facility agreement. There are fixed charges over land and properties including LSA, CLDA, Widnes and Runcorn, in addition to floating charges and charges over shares. The facility agreement contains typical security protections for the lender including negative pledge, and restrictions on disposals and financial indebtedness, together with allowances for permitted disposals, permitted security and permitted financial indebtedness.

Included in the RCF and bond liabilities on the balance sheet at the year end are deferred issue costs of £2,671,000 and £1,189,000 respectively.

Esken Limited provides support to its subsidiaries where required. Examples of support include intercompany funding arrangements and the provision of guarantees in relation to financing lines provided by a number of lenders. In addition, one Energy contract has a covenant relating to the market capital of Esken Limited, where a breach would be remedied by additional letters of credit. The Group was in compliance with, or received waivers for, all financial covenants throughout both the current and prior year and subsequent to the year end.

The book value and fair values of financial assets and financial liabilities are as follows:

	Book value 2021 £'000	Fair value 2021 £'000
Financial assets		
Cash	12,408	12,408
Other investments	10,211	10,211
Trade receivables	15,658	15,658
Other receivables	9,258	9,258
Swaps	310	310
Financial liabilities		
Trade payables	19,558	19,558
Revolving credit facility	52,329	52,329
Exchangeable bonds	52,010	47,920
Lease obligations	158,908	148,647
Other payables	2,034	2,034
Swaps	404	404

	Book value 2020 £'000	Fair value 2020 £'000
Financial assets		
Cash	9,802	9,802
Other investments	4,776	4,776
Amounts owed by associates and joint ventures	8,385	8,385
Trade receivables	27,771	27,771
Other receivables	2,380	2,380
Swaps	364	364
Financial liabilities		
Trade payables	21,937	21,937
Revolving credit facility	74,757	74,757
Exchangeable bonds	51,689	46,389
Lease obligations	118,811	113,446
Other payables	8,573	8,573
Swaps	416	416

The following financial assets and liabilities, included in the above tables, are measured at fair value: other investments, swaps and £1,581,000 (2020: £3,500,000) within other payables. All others are measured at amortised cost. For trade and other receivables/payables with a remaining life of less than one year, the carrying amount is considered to reflect the fair value.

The fair values of loans and borrowings have been calculated by discounting the expected future cash flows at prevailing interest rates. The fair value of lease liabilities and of loans and borrowings are classified as level 2 in the fair value hierarchy.

On 3 May 2019, the Group placed £53.1m of secured guaranteed exchangeable bonds (Bonds). The Bonds have a five-year maturity, bear interest at 2.75% per annum and are exchangeable into ordinary shares of 1 pence each in the capital of Logistics Development Group plc (LDG). The bondholders have an unconditional right to require the Group to settle the bonds by giving the bondholders shares in LDG at any time. The Directors have obtained legal advice that confirms the liquidation of Stobart Air does not result in additional rights to redemption of the Exchangeable Bond.

The Group entered into a put option with fellow Connect Airways shareholder Cyrus Capital Partners (Cyrus) on 11 January 2019. This agreement gave Cyrus the option to exchange £23m of second ranking six-year 8% RCF debt with Connect Airways, for equity shares in Esken Limited at 247p per share. The option can only be exercised after two years following the acquisition of Flybe plc by Connect Airways and requires 30 days' notice. Another requirement that must be satisfied to allow the option to be exercised includes a measure of passenger volumes at LSA driven by Connect Airways over a 12-month rolling period. The put option £1,581,000 (2020: £3,500,000) is contained within other payables in the above tables.

Post year end, the put option was exercised and 6 million shares were issued. The exercise meant that the associated financial liability had a fair value of £nil and was released and presented within finance costs in the consolidated income statement. The share issue resulted in an increase in share capital and a reduction in retained earnings.

This level 3 year-end fair value of the put option has been recognised within finance costs in the consolidated income statement with a corresponding financial liability on the statement of financial position.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Financial assets and liabilities measured at fair value

As at 28 February 2021	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets				
Other financial assets	10,392	10,392	–	–
Currency swaps	310	–	310	–
Financial liabilities				
Other financial liabilities	1,581	–	–	1,581
Currency swaps	358	–	358	–
Diesel swaps	46	–	46	–

Notes to the consolidated financial statements continued
for the year ended 28 February 2021

25 Financial assets and liabilities continued

As at 29 February 2020	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets				
Other financial assets	4,776	4,706	–	70
Currency swaps	194	–	194	–
Diesel swaps	170	–	170	–
Financial liabilities				
Other financial liabilities	3,500	–	–	3,500
Diesel swaps	416	–	416	–

The Connect Airways put option is disclosed above under other financial liabilities. The calculation methodology of this option is disclosed in note 1.

Fair value calculation methodology
Other investments are valued based on quoted market price. Swaps are valued based on market rates and market-accepted models. Fair value for financial instruments held at amortised cost has been estimated by discounting cash flows at prevailing interest rates.

During the current and prior year, there were no transfers between level 1 and level 2 fair value measurements, and no transfers into and out of level 3 fair value measurements.

Financial instruments – risk management
The Group is exposed through its operations to the following financial risks:
- Credit risk
- Liquidity risk
- Diesel price risk
- Currency price risk
- Fair value or cash flow interest rate risk
- Capital risk

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them.

Principal financial instruments
The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:
- Trade and other receivables
- Exchangeable bonds
- Floating-rate revolving credit facility
- Cash at bank
- Trade and other payables
- Lease obligations

General objectives, policies and processes
The Board has overall responsibility for the determination of the Group's risk management objectives and policies. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or a counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales. It is Group policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings are taken into account by local business practices.

All credit sales are made under Group payment and delivery terms and conditions and are mostly covered by insurance. All credit limits are formally set and are in agreement with the bank.

The recoverability of the net trade receivables, including contract assets, is considered highly likely. This is supported by the collection history of the Group. In generating the expected credit loss (ECL) provision, historical credit loss rates for the preceding five years are observed, including consideration given to factors that may affect the ability of customers to settle receivables, and percentages applied to the trade and other receivable ageing buckets at the year end. The Group applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

The expected credit losses on other receivables have not been recognised as the resultant provision would not be material to the financial statements.

Interest rate risk
The Group is exposed to cash flow interest rate risk from long-term borrowings and cash at variable rates. There are loan facilities at variable rates as well as amounts held on deposit. These borrowing policies are managed centrally. Although the Board accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks.

The Group's borrowings at variable rate were denominated in GBP and the fixed rate borrowings were denominated in US Dollars and GBP.

Capital risk
The Group is exposed to capital risk in relation to its shareholding in Logistics Development Group. Any adverse movement in the quoted share price will directly impact the fair value of the investment held.

Diesel price risk
The Group is exposed to diesel price risk as diesel fuel is a key supply to the transport fleet of vehicles in the Energy business. If diesel prices rise, there will be increases in the base costs that cannot be fully passed on to customers. In order to mitigate this risk, the Group has taken out diesel swap contracts to manage its exposure.

The fair value of diesel swap contracts falling within level 2 of the fair value hierarchy as at 28 February 2021 is £46,000 liability (2020: £416,000 liability) and the gross swap coverage was £333,000 (2020: £1,877,000). The fair value of the swaps is calculated by Lloyds Bank Corporate Markets plc and Mitsui Bussan Commodities Ltd based on mid-market levels as of the close of business on 28 February 2021.

Jet fuel price risk
During the year the Group was exposed to jet fuel price risk as jet fuel is a key supply to the fleet of aircraft in Stobart Air. If jet fuel prices rose there would have been increases in the base costs that could not be fully passed on to customers. In order to mitigate this risk the Group took out jet fuel swap contracts to manage its exposure. Due to the Group's intention to dispose of Stobart Air, which entered liquidation post-year end in June 2021, the jet fuel swap contracts were not renewed and ceased before the year end.

Foreign exchange risk
The Group is exposed to currency price risk as it undertakes certain transactions denominated in foreign currencies, primarily the leasing of aircraft, and purchase of spare parts, maintenance and fuel in US Dollars and Euros. In order to mitigate this risk, the Group has taken out currency swap contracts to manage its exposure.

The fair value of currency swap contracts falling within level 2 of the fair value hierarchy as at 28 February 2021 is £48,000 liability (2020: £195,000 asset) and the gross swap coverage was £10,052,000 (2020: £13,305,000). The fair value of the swaps is calculated by Lloyds Bank plc based on mid-market levels as of the close of business on 28 February 2021.

Sensitivity analysis
The sensitivity analysis set out in the following table summarises the sensitivity of the market value of financial instruments to hypothetical changes in market rates and prices. Sensitivity is calculated based on all other variables remaining constant.

The interest rate analysis assumes a 1% change in interest rates, the currency analysis assumes a 1% change in currency price and the diesel price analysis assumes a 10% price change. The diesel and currency price sensitivity analysis is based on diesel and currency-related derivative instruments held at the end of each reporting period.

The impact of a 1% increase in interest rates, a 1% increase in currency price and a 10% increase in the diesel price is disclosed. A corresponding decrease results in an equal and opposite impact on the consolidated income statement.

	Interest rate 1% increase £'000	Diesel price 10% increase £'000	Currency price 1% increase £'000
At 28 February 2021			
Increase in fair value of financial instruments	767	30	6
Impact on profit: (loss)/gain	(731)	30	6
At 29 February 2020			
Increase in fair value of financial instruments	799	146	134
Impact on profit: (loss)/gain	(770)	146	134

Capital management
The objective of the Group's capital management is to ensure that it maintains a strong credit rating and for capital ratios to be at a level that supports the business strategy going forward and maximises shareholder value.

The Group monitors capital using gearing ratios. Gearing based on net debt divided by capital was 519.2% at 28 February 2021 (2020: 228.4%). The Group includes the following within borrowings: bank loans, lease obligations (including IFRS 16 leases) and exchangeable bonds. Capital comprises equity attributable to the equity holders of the Parent. Excluding IFRS 16 leases, gearing was 121.4% at 28 February 2021 (2020: 147.1%).

The Group uses share capital to partly fund major acquisitions where considered appropriate. The Group is not subject to any externally imposed capital restraints except compliance with normal bank covenants. Dividends are payable after considering the solvency of the Group and the forecast funding requirements and headroom.

Liquidity risk
Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. See the maturity profile of loans and borrowings below.

Notes to the consolidated financial statements continued
for the year ended 28 February 2021

25 Financial assets and liabilities continued

The Group prepares and reviews rolling weekly cash flow projections. Actual cash and debt positions along with available facilities and headroom are reported weekly. These are monitored by Group management.

In addition, full annual five-year forecasts are prepared including cash flow and headroom forecasts. These are full, detailed forecasts prepared by each division and consolidated for the Group.

The financial statements have been prepared using the going concern basis. See note 1 for further details.

The table below summarises the maturity analysis of financial liabilities based on contractual undiscounted payments:

	<1 year £'000	1 to 5 years £'000	>5 years £'000	Total £'000
At 28 February 2021				
Loans and borrowings	55,882	–	–	55,882
Obligations under lease	39,821	68,571	92,684	201,076
Trade payables	19,558	–	–	19,558
Swaps	404	–	–	404
	115,665	**68,571**	**92,684**	**276,920**
At 29 February 2020				
Loans and borrowings	1,944	129,857	–	131,801
Obligations under lease	20,135	52,300	125,003	197,438
Trade payables	13,279	–	–	13,279
Swaps	416	–	–	416
	35,774	**182,157**	**125,003**	**342,934**

26 Employee benefits – pension schemes

The Ansa plan remains open for employees of Ansa Logistics Limited, a subsidiary of the Group. The latest actuarial valuation of the Ansa plan was as at 31 December 2016 and was carried out by an independent qualified actuary using the projected unit method. At the date of the latest actuarial valuation, the realisable value of assets was £27,889,000, which was sufficient to cover 82% of the value of benefits that had accrued to members, measured on the continuing basis. The 2019 valuation is expected to be concluded prior to the interim period end 31 August 2021. Total contributions payable for the year to 28 February 2021 amounted to £1,176,000 (2020: £1,155,000) with no contributions (2020: £97,000) due to the plan at 28 February 2021.

The scheme is established under trust law and has a corporate trustee that is required to run the scheme in accordance with the scheme's trust deed and rules and to comply with all the relevant legislation. Responsibility for governance of the scheme lies with the trustee. The trustee is a company whose Directors comprise representatives of the Group and the scheme participants, in accordance with its Articles of Association and UK pension law.

The scheme was formed after 1997 and therefore Guaranteed Minimum Pension (GMP) is not an issue.

The principal assumptions for the purpose of the actuarial valuations used in these consolidated financial statements were as follows:

	2021	2020
Discount rate for scheme liabilities	1.90%	1.60%
Rate of inflation (RPI)	3.10%	2.80%
Rate of inflation (CPI)	2.40%	2.10%
Rate of general increase in salaries	n/a	n/a
Mortality table used	S3NA, CMI_2019, 1.25% minimum annual improvement	S3NA, CMI_2018, 1.25% minimum annual improvement
Expected rate of return on assets for the forthcoming year	2.70%	2.70%

Longevity assumptions for members of the Ansa plan

The life expectancies based on the plan's IAS 19 mortality assumptions at the plan's normal retirement age of 65 are as follows:

	Male life expectancy	Female life expectancy
28 February 2021	87	89
28 February 2041	88	90
29 February 2020	87	89
29 February 2040	88	90

The figures for the members 20 years in the future show how the expected future improvements in longevity, as a result of the CMI projections and the 1.25% per annum minimum annual improvements, affect life expectancies. An 'improvement' means the decrease in the rate of mortality at a given age over the time period.

Sensitivities to principal assumptions

The principal risk to the Group in relation to the plan is that the Group would be required to fund any deficits in the plan, the level of which is variable and depends upon mortality rates, inflation and returns on plan assets.

The most significant sensitivity stems from the following assumptions:

- **Discount rate:** This is a key assumption because it is applied to the future pension payments.
- **Price inflation:** This is a key assumption because it is used to determine increases to pensions in payment and in deferment and increases to pensionable salaries for the one active member.
- **Mortality after retirement:** This is a key assumption because it determines how long pensions are paid for when they come into payment. The central assumptions are the S3NA base tables, with the CMI_2019 projections of future experience, subject to a 1.25% per annum minimum annual improvement with no age rating.

Sensitising the assumptions listed above would have the following effects on the total liabilities, assets and deficit positions. For the purposes of the mortality sensitivity illustrations, we have varied the minimum annual improvement.

Discount rate assumption	1.65% £'000	1.90% £'000	2.15% £'000
Liabilities	32,197	30,862	29,606
Assets	28,444	28,444	28,444
Deficit	(3,753)	(2,418)	(1,162)

RPI inflation assumption	2.85% £'000	3.10% £'000	3.35% £'000
Liabilities	29,935	30,862	31,810
Assets	28,444	28,444	28,444
Deficit	(1,491)	(2,418)	(3,366)

Minimum annual improvement	0.75% £'000	1.25% £'000	1.75% £'000
Liabilities	30,213	30,862	31,531
Assets	28,444	28,444	28,444
Deficit	(1,769)	(2,418)	(3,087)

Amounts recognised in the consolidated statement of financial position

	2021 £'000	2020 £'000
Present value of funded obligations	30,862	32,311
Fair value of scheme assets	28,444	27,889
Net liability recognised in the consolidated statement of financial position	**(2,418)**	**(4,422)**

Amounts recognised in the consolidated income statement

	2021 £'000	2020 £'000
Return on scheme assets	445	689
Interest expense	(509)	(763)
Finance expense	**(64)**	**(74)**
Current service cost (included in staff costs)	**(4)**	**(4)**

Notes to the consolidated financial statements continued
for the year ended 28 February 2021

26 Employee benefits – pension schemes continued
Amounts recognised in the consolidated statement of comprehensive income

	2021 £'000	2020 £'000
Actual return less return recognised in profit or loss	201	1,814
Experience gains/(losses) arising on the scheme liabilities	326	(226)
Changes in financial assumptions underlying the present value of the scheme liabilities	649	(3,637)
Amounts recognised in the consolidated statement of comprehensive income	**1,176**	**(2,049)**
Deferred tax	(182)	348
Remeasurement on defined benefit plan	**994**	**(1,701)**
Cumulative net losses recognised	**(2,952)**	**(3,946)**
Actual return less return recognised in profit or loss		
Actual return on scheme assets	646	2,503
Less return recognised in profit or loss	(445)	(689)
	201	**1,814**

Changes in the present value of defined benefit obligations and the fair value of scheme assets are as follows:

	2021 £'000	2020 £'000
Defined benefit obligation		
Opening defined benefit obligation	32,311	28,850
Current service cost	4	4
Interest expense	509	763
Actuarial (gains)/losses	(975)	3,863
Employee contributions	1	1
Benefits paid	(988)	(1,170)
Closing defined benefit obligation	**30,862**	**32,311**
Fair value of scheme assets		
Opening fair value of scheme assets	27,889	25,680
Return recognised in profit or loss	445	689
Actuarial gains	201	1,814
Contributions made by the Group	1,176	1,155
Employee contributions	1	1
Benefits paid	(988)	(1,170)
Expenses	(280)	(280)
Closing fair value of scheme assets	**28,444**	**27,889**

The fair value of the scheme assets at the year end is analysed as follows:

	2021 £'000	2020 £'000
Equity instruments	7,201	6,557
Bonds	14,097	14,742
Diversified growth funds	6,912	6,489
Other (including cash)	234	101
Fair value of scheme assets	**28,444**	**27,889**

The plan assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group. The trustees of the Ansa plan regularly review their investment strategies to ensure that wherever possible the nature of assets held in each scheme is appropriate to the maturity profile of the underlying pension obligation. The types of assets held are shown above, all of which have quoted prices in active markets with the exception of other assets. The age profile of the Ansa plan members, which provides an indication of the maturity profile of the defined benefit obligation, is as follows:

	2021 Years	2020 Years
Normal retirement age	65	65
Average age of deferred members	56	56
Average age of pensioner members	68	68

The Group expects to contribute £1,204,000 to the Ansa plan in the year ended 28 February 2022. A schedule of contributions was agreed with the trustees in the year ended 29 February 2016 to cover a 16-year period to 28 February 2031, setting out the deficit contributions payable into the scheme. The trustees seek to align the investment strategies with the maturity profile of the liabilities in the schemes. An additional liability for any surplus contributions payable as a result of this agreement has not been recognised as the Group has the right to a refund of any surplus.

The Group operates a defined contribution plan. The charge in the year to the consolidated income statement was £1,018,000 (2020: £1,251,000). The value of contributions outstanding as at 28 February 2021 and included in other payables is £187,000 (2020: £97,000).

27 Deferred tax

Deferred tax liabilities

	2021 £'000	2020 £'000
Accelerated allowances on plant and machinery	(4,816)	(4,316)
Roll-over relief	2,030	2,543
Revaluation of properties to fair value on acquisition	6,449	5,980
Brands recognised on acquisition	–	1,700
Other temporary differences	(3,402)	(171)
	261	**5,736**

Deferred tax assets have been recognised in respect of temporary differences giving rise to deferred tax assets because it is probable that the assets will be recovered. These temporary differences on which deferred tax has been recognised relate to fixed assets, provisions, pensions, share-based payments and interest disallowance carried forward. All deferred tax assets recognised relate to the UK.

Deferred tax has not been recognised in respect of tax losses of certain Group entities of £59,329,000 as at 28 February 2021 (2020: £10,619,000) on the basis that there is uncertainty over whether taxable profit will be available within the trades operated by these entities against which the unused tax losses can be utilised in future periods. These losses do not have an expiry date.

The deferred tax balances have been calculated at 19%, as this was the rate that was substantively enacted at the statement of financial position date. The deferred tax liability at the year end totals £261,000. A change to the UK corporation tax rate was announced in the March 2021 Budget. Following this announcement on 3 March 2021, the corporation tax rate will now increase from 19% to 25% on 1 April 2023. On the assumption this new rate will be substantively enacted by the next balance sheet date, recognition/provision at 25% will result in the provision, an additional deferred tax liability and a deferred tax charge of approximately £82,000. This will be included within the Group accounts for the year ending 28 February 2022.

Movement in recognised deferred tax balances during the year

	Balance 28 February 2019 £'000	Recognised in profit or loss £'000	Recognised in other comprehen-sive income £'000	Recognised in retained earnings £'000	Balance 29 February 2020 £'000	Transfer out on disposal £'000	Recognised in profit or loss £'000	Recognised in other comprehen-sive income £'000	Recognised in retained earnings £'000	Balance 28 February 2021 £'000
Provisions	414	50	–	–	464	(6)	951	–	–	1,409
Tax losses	489	(489)	–	–	–	–	–	–	–	–
Share-based payments	1,227	(193)	–	(914)	120	(31)	(29)	–	(4)	56
Pension	540	(134)	348	–	754	–	(113)	(182)	–	459
Roll-over relief	(2,543)	–	–	–	(2,543)	–	513	–	–	(2,030)
Revaluation of properties to fair value on acquisition	(7,077)	1,097	–	–	(5,980)	–	(469)	–	–	(6,449)
Brands recognised on acquisition	(7,041)	5,341	–	–	(1,700)	–	1,700	–	–	–
Accelerated allowances on plant and machinery	2,213	2,103	–	–	4,316	(1,103)	1,603	–	–	4,816
Capitalised interest	(1,782)	–	–	–	(1,782)	–	1,782	–	–	–
Corporate interest restriction disallowance	–	615	–	–	615	–	863	–	–	1,478
	(13,560)	**8,390**	**348**	**(914)**	**(5,736)**	**(1,140)**	**6,801**	**(182)**	**(4)**	**(261)**

Notes to the consolidated financial statements continued
for the year ended 28 February 2021

28 Provisions

	Parent company guarantees £'000	Site restoration £'000	Onerous leases/ contracts £'000	Tax £'000	Litigation and claims £'000	Development commitment £'000	Maintenance reserves £'000	Total £'000
At 1 March 2020	–	2,962	10,589	11,355	1,689	3,942	–	30,537
Acquisition of subsidiary	–	–	74	3,311	1,262	558	27,252	32,457
Provisions used	–	(893)	(39)	–	(2)	(20)	(5,483)	(6,437)
Provisions made	57,457	893	125	2,470	2,427	41	8,714	72,127
Provisions utilised	–	–	(76)	–	(1,459)	–	(8,779)	(10,314)
Provisions reversed during the year	(57,457)	–	(9,625)	(1,000)	(109)	(52)	–	(68,243)
Unwind of discount	–	74	18	–	–	–	–	92
Currency retranslation	–	–	2	–	(27)	(3)	(1,640)	(1,668)
Disposal of subsidiary	–	–	(560)	–	–	–	–	(560)
At 28 February 2021	–	**3,036**	**508**	**16,136**	**3,781**	**4,466**	**20,064**	**47,991**
Analysis of provisions:								
Current	–	–	86	3,311	2,721	–	2,339	8,457
Non-current	–	3,036	422	12,825	1,060	4,466	17,725	39,534

Provisions comprise liabilities where there is uncertainty about the timing of settlement, but where a reliable estimate can be made of the amount. Details of each provision category are as follows:

Parent company guarantees
The parent company guarantees (PCGs) provision relates to guarantees the Group provided in respect of Stobart Air and Propius which remained in place following their disposal to Connect Airways Limited (Connect) in February 2020 and November 2020 respectively. Connect, which was the parent company of Stobart Air and Propius, entered administration on 18 March 2020. The administration of Connect increased the probability of cash outflows in respect of the guarantees provided and the likelihood of these being called upon increased as a result of the administration. Once Stobart Air and Propius were reacquired by the Group, these provisions were reversed, due to both companies being accounted for as 100% subsidiaries; therefore the liabilities on which the Group had PCGs were recognised in full on the consolidated statement of financial position.

Site restoration
The Group leases a long leasehold property which is currently unoccupied, in respect of which it has annual holding costs and dilapidation obligations. The estimated liability is discounted to its present value.

Onerous leases/contracts
At the year ended 29 February 2020 a provision of £9,625,000 was held in relation to amounts payable to the former owners of Propius, linked to lease payments on the ATR aircraft in excess of $100k per month. Following acquisition, there is no obligation for Esken Limited to settle this liability in cash and as such the provision has been released as part of the acquisition accounting, see note 6.

Tax
There are a number of tax enquiries across the Group which management is working with HMRC and professional advisers to satisfy and resolve. There are uncertainties around the outcomes and potential liabilities in connection with these enquiries. The Directors believe that a responsible range of outcomes for the liabilities under these enquiries is between £nil and £16.1m. Provisions have been made for corporation tax and other taxes at a level that the Directors believe is a reasonable estimate to cover the potential liabilities on an enquiry by enquiry basis. During the year the Group reclassified £1,470,000 of tax liabilities from trade and other payables to provisions. During the year, a £3,311,000 increase has arisen on acquisition of Stobart Air.

Litigation and claims
This primarily relates to a £2,300,000 provision for part 1 claims relating to London Southend Airport. At the prior year end the claim was considered a contingent liability, see note 32. It is expected that these claims will be settled within 12 months. Also included within litigation and claims is a £1,060,000 provision for EU261 flight compensation claims in Stobart Air.

Development commitment
This mainly relates to a provision for the estimated cost of required remediation works. The impact of discounting is not material and has not been recognised.

Maintenance reserves
Following the acquisition of Propius and Stobart Air, the Group recognised provisions for the maintenance of aircraft. The provisions represent the estimated cost of ensuring the aircraft are kept in a suitable condition for when they are handed back at the end of the leases. The impact of discounting is not material and has not been recognised.

29 Share-based payments

The table below shows the expenses arising from share-based payment transactions (credited)/charged to operating profit.

	2021 £'000	2020 £'000
Long-Term Incentive Plan 2014 to date	98	99
SAYE schemes to date	(88)	1,090
Stobart Energy Incentive Plan	–	34
Stobart Aviation Incentive Plan	180	(72)
Services rendered	–	120
	190	**1,271**

The share-based payment plans are described as follows.

Long-Term Incentive Plan 2014 to date

During the prior years, performance shares were awarded to Executive Directors and other senior management under a Long-Term Incentive Plan. These performance shares vest subject to the TSR and the cumulative adjusted EPS, both measured over three-year periods.

50% of the share awards vest dependent on the TSR performance of the Group. None of these share awards will vest if the TSR performance of the Group is less than that of the comparator group (the TSR of the FTSE 250). 25% of the awards will vest if the TSR performance of the Group equals that of the comparator group and the remaining 75% will vest proportionately in line with how the TSR performance of the Group exceeds that of the comparator group between 0% and 10%.

50% of the share awards vest dependent on the cumulative adjusted EPS over the three financial years ending at the end of the third February after grant. None of these share awards will vest if the cumulative adjusted EPS is less than threshold, 25% of the shares will vest if the cumulative adjusted EPS is threshold and the remaining 75% will vest proportionately in line with how the cumulative adjusted EPS performs between threshold and stretch.

If both elements of the performance conditions are achieved in full, the awards will be subject to a multiple up to a maximum of 2x multiplier if the Group's three-year TSR outperforms the index by 40% per annum or more. Further details are included in the Directors' Remuneration Report.

EPS threshold and EPS stretch for each issue

Grant date	Number of awards	EPS threshold	EPS stretch
22 June 2017	896,721	52.0p	60.0p
1 November 2017	2,333	52.0p	60.0p
20 June 2018	726,522	20.0p	28.0p
3 July 2019	127,660	20.0p	28.0p
3 July 2019	1,796,415	4.4p	14.1p
11 December 2019	15,823	4.4p	14.1p

SAYE schemes to date

During prior years, qualifying employees and Directors were invited to join the SAYE schemes, where participants entered into a contract to save a fixed amount per month of up to a maximum of £500 for three years and were granted an option over shares at a fixed option price, set at a 20% discount to average market price for the three days prior to the invitation to participate. The number of shares comprising the option is determined by the monthly amount saved on maturity of the savings contract. Options granted under the SAYE scheme are not subject to any performance conditions.

Grant date	Number of awards	Option price
21 December 2018	1,213,151	162p
2 August 2019	2,962,928	94.88p

Stobart Aviation Incentive Plan (SAIP)

In January 2017, an eligible participant entered into an incentive plan which gives the participant the opportunity to benefit from a potential increase in value of the Aviation division. This scheme will be part settled with cash and part settled with Esken shares. The updated terms of the SAIP were provided in the Directors' Remuneration Report of the 2019 Annual Report at the 23 July 2019 AGM. This scheme was cancelled during the year and no awards will be made from the scheme. Further details are provided in the Directors' Remuneration Report.

Notes to the consolidated financial statements continued
for the year ended 28 February 2021

29 Share-based payments continued

Services rendered

The Group has used share options as partial consideration for services received. The fair value was determined using a market price for the services received. These share options will vest dependent on the market capitalisation of the Group during the performance period.

Movements in the year

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, outstanding share awards during the year:

	2021 No. '000	2021 WAEP	2020 No. '000	2020 WAEP
Outstanding at 1 March	5,740	£0.48	3,353	£0.57
Granted during the year	–	–	4,921	£0.59
Exercised during the year	–	–	(897)	£0.00
Lapsed during the year	(576)	–	(156)	£0.00
Forfeited during the year	(522)	£0.97	(152)	£1.62
Cancelled during the year	(957)	£0.97	(1,329)	£1.50
Outstanding at end of year	**3,685**	**£0.32**	**5,740**	**£0.48**
Exercisable at end of year	**–**	**–**	**–**	**–**

The weighted average contractual life of awards/options outstanding at the year end is 18 months (2020: 20 months).

Valuation details

The fair value of the options granted without market-based performance conditions is estimated using a Black-Scholes model taking into account the terms and conditions upon which the options were granted. The fair value of the options granted with market-based performance conditions are estimated using a Monte Carlo model taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the models used for the current and prior year.

2018 LTIP share awards	Long-Term Incentive Plan subject to TSR	Long-Term Incentive Plan subject to EPS
Dividend yield (%)	5.74	5.74
Expected volatility (%)	25.46	25.46
Risk-free interest rate (%)	0.24	0.24
Expected life of options (years)	3	3
Weighted average share price (£)	2.568	2.568
Fair value at date of grant (£)	1.258	2.132
Model used	Monte Carlo	Black-Scholes

2019 LTIP share awards	Long-Term Incentive Plan subject to TSR	Long-Term Incentive Plan subject to EPS
Dividend yield (%)	2.46	2.46
Expected volatility (%)	25.46	25.46
Risk-free interest rate (%)	0.24	0.24
Expected life of options (years)	3	3
Weighted average share price (£)	1.220	1.220
Fair value at date of grant (£)	0.598	1.013
Model used	Monte Carlo	Black-Scholes

2018 SAYE scheme	SAYE plan
Dividend yield (%)	3.97
Expected volatility (%)	36.13
Risk-free interest rate (%)	0.83
Expected life of options (years)	3.5
Weighted average share price (£)	1.51
Fair value at date of grant (£)	0.29
Model used	Black-Scholes

2019 SAYE scheme	SAYE plan
Dividend yield (%)	5.14
Expected volatility (%)	55.21
Risk-free interest rate (%)	0.83
Expected life of options (years)	3.5
Weighted average share price (£)	1.17
Fair value at date of grant (£)	0.29
Model used	Black-Scholes

The fair value at the date of grant of the awards subject to the multiplier was £0.009 (2020: £0.009).

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

30 Issued share capital and reserves

	2021 £'000	2020 £'000
Ordinary share capital		
Authorised – 505,272,670 (2020: 505,272,670) shares of 10p each	50,527	50,527

	2021 £	2020 £
Ordinary share capital – deferred shares		
Authorised – 1,000 shares of 0.1p each	1	1

Ordinary shares issued and fully paid	Number of shares 2021 '000	Share capital 2021 £'000	Number of shares 2020 '000	Share capital 2020 £'000
At 1 March	374,653	37,465	370,822	37,082
Share issue	250,273	25,027	3,831	383
At 28 February	**624,926**	**62,492**	**374,653**	**37,465**

During the year, the Company issued 250,273,461 (2020: none) ordinary shares of 10p each for 40p per share raising £100,109,000 (2020: £nil). The share capital increased by £25,027,000 (2020: £nil) and share premium increased by £65,968,000 (2020: £nil), net of costs. The employee benefit trust purchased 797,465 of the ordinary shares issued.

During the year, the Company issued no (2020: 3,830,947) ordinary shares of 10p each for £nil consideration (2020: £nil) to settle employee share options.

The number of shares held by the employee benefit trust increased from 2,980,992 at 29 February 2020 to 3,778,457 at 28 February 2021, following the purchase of ordinary shares.

The Group has a retained deficit at 28 February 2021; however, this does not prevent dividends being paid. Esken Limited is registered in Guernsey and under Guernsey Law, prior to making payments to shareholders, a company must satisfy the solvency test, which requires that it is able to meet its liabilities as they fall due and has assets which are greater than its liabilities, and the Directors must certify that this is the case. Taking into account the significant share premium account, the Company continues to satisfy these requirements.

Voting rights

Ordinary shareholders are entitled to vote at all general meetings.

The deferred shares have no voting rights.

Nature and purpose of other reserves

Own shares held by employee benefit trust

This comprises the weighted average cost of own shares held by the employee benefit trust.

Notes to the consolidated financial statements continued
for the year ended 28 February 2021

31 Lease commitments

Group as lessee

The Group leases a number of premises, vehicles and equipment with varying terms, renewal rights and termination options. Under IFRS 16, each lease is reflected in the consolidated statement of financial position as a right-of-use asset and a lease liability, with the exception of short-term leases and leases of low-value underlying assets.

The following amounts have been recognised in the consolidated income statement and the consolidated statement of cash flows:

	2021 £'000	2020 £'000
Interest on lease liabilities	8,682	4,098
Expenses relating to short-term leases	379	1,352
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	36	44
	9,097	**5,494**

Recognised in the consolidated statement of cash flows	2021 £'000	2020 £'000
Total cash outflow for leases	**27,512**	**21,961**

Group as lessor

The Group has commercial property leases on some of its properties including subleases on two properties that have been presented as right-of-use assets. The lease and sublease of the first property have an expiration date of February 2038, which is unchanged from the prior year. The second property sublease has been modified during the year so that it is back-to-back with the headlease. This has led to a change in accounting treatment with the sublease now recognised as a net investment in lease, with both the headlease and sublease having an expiration date of March 2025. Both subleases are presented as net investment in lease in the consolidated statement of financial position.

The maturity analysis of the future undiscounted lease receivables is shown in the table below.

	2021 £'000	2020 £'000
Less than one year	1,859	1,060
One to two years	1,859	1,060
Two to three years	1,726	1,060
Three to four years	1,845	1,060
Four to five years	1,061	1,060
More than five years	12,729	13,790
Total undiscounted lease receivable	**21,079**	**19,090**
Finance income	(5,255)	(5,843)
Net investment in lease	**15,824**	**13,247**

Capital commitments

At 28 February 2021, the Group had commitments of £1,209,000 (2020: £nil). The commitments relate to development works at LSA in the Aviation division.

32 Contingent liabilities

Liability under financial guarantees exist across the Group and a number of these liabilities are no longer considered remote.

Logistics Development Group (LDG), formerly Eddie Stobart Logistics plc (ESL), property rent guarantees have been in place since the disposal of ESL in April 2014. The Group believes that the possibility of any outflow in settlement is no longer remote. However, an outflow would only materialise if LDG failed in its lease obligations to the landlord, in addition to a new tenant not stepping into the lease. The Group's maximum exposure over the period to February 2034 is £54.9m.

During the year, a claim made against the Aviation division relating to land compensation, that was classed as a contingent liability at year ending 29 February 2020, has been recognised as a provision, see note 28.

33 Post balance sheet events

On 14 June 2021, the Ireland High Court appointed liquidators to Stobart Air. The total cash outflow resulting from the liquidation of Stobart Air and ongoing Propius leases is £82 million over three years, on the basis that Esken is unsuccessful in subleasing its aircraft. Of these cash flows, £43m relates to aircraft lease payments and break fees, £20m relates to maintenance and £7m of other obligations which are all included within the liabilities on the consolidated statement of financial position as at 28 February 2021. In addition, a further £4m of maintenance and up to £8m of other liquidation costs, including legal and advisor fees, are estimated to be incurred and recognised post year end. The current estimation of the post year end profit on liquidation is believed to be in the range of £15m to £25m, which has predominantly arisen due to the derecognition of liabilities in respect of Stobart Air, however, this is subject to final costs and detailed workings. As such, the final reported number could be materially different.

The Group received a grant of £1.2m post year end from the Department for Transport, relating to the Airport and Ground Operations Support Scheme. The grant funding scheme provides financial support to airports and ground handling operators which have been adversely impacted by COVID-19. The grant award covers the year from 1 April 2021 to 31 March 2022.

34 Notes to the consolidated cash flow statement

	Notes	Year ended 28 February 2021 £'000	Restated Year ended 29 February 2020 £'000
Loss before tax from continuing operations		**(150,337)**	**(139,415)**
Adjustments to reconcile loss before tax to net cash flows:			
Non-cash:			
Loss in value of investment properties		–	1,835
Realised (profit)/loss on sale of property, plant and equipment and investment properties		(98)	155
Share of post-tax losses of associates and joint ventures accounted for using the equity method	16	218	9,765
Loss on disposal of assets held for sale		208	–
Loss on sale and leaseback, net of costs		–	62
Loss on sale of property inventories		–	49
Depreciation of property, plant and equipment	15	31,814	20,024
Finance income	10	(2,406)	(4,346)
Finance costs	11	23,622	13,269
Release of grant income	8	(479)	(565)
Release of deferred premiums		(167)	(2,617)
Impairment		22,097	96,189
Amortisation of intangibles	8	–	7,456
Loss on acquisition		57,457	–
Charge for share-based payments		81	1,271
Foreign exchange retranslation		579	–
(Gain)/loss on swaps mark to market valuation	25	(3,761)	300
Retirement benefits and other provisions		(137)	(4,400)
Working capital adjustments:			
Decrease in inventories		1,253	14
Decrease/(increase) in trade and other receivables		6,434	(18,381)
(Decrease)/increase in trade and other payables		(7,397)	4,258
Decrease in maintenance reserves		(7,190)	–
Cash used in continuing operations		**(28,209)**	**(15,077)**

35 Related parties

Relationships of common control or significant influence

W A Tinkler was a related party until 14 June 2018 when he ceased to be a Director of the Group. The amounts outstanding are unsecured and were entered into under normal commercial terms.

WA Developments International Limited is owned by W A Tinkler. There were no related party sales or purchases during the current or prior years. At the year end £60,000 (2020: £63,000) was due from WA Developments International Limited. The reduction in the year is due to the disposal of Stobart Rail Limited with which part of the balance was due. As of 14 June 2018, WA Developments International Limited was no longer a related party.

Apollo Air Services Limited is owned by W A Tinkler. There were no related party sales or purchases during the current or prior years. At the year end £83,000 (2020: £83,000) was owed by the Group and £46,000 (2020: £46,000) was owed to the Group by this company. As of 14 June 2018, Apollo Air Services Limited was no longer a related party.

WA Tinkler Racing is owned by W A Tinkler. There were no related party sales or purchases during the current or prior years. At the year end £26,000 (2020: £26,000) was owed to the Group. As of 14 June 2018, WA Tinkler Racing was no longer a related party.

During the current and prior years, the Group made no purchases from or sales to Stobart Capital Limited, a business part-owned by W A Tinkler, relating to investment management. At the year end £6,000 (2020: £6,000) was owed to the Group. As of 14 June 2018, Stobart Capital Limited was no longer a related party.

Speedy Hire plc is a related party from 1 June 2019, when David Shearer became Non-Executive Chairman of the Group, as he is also Non-Executive Chairman of Speedy Hire plc. During the year, the Group made purchases of £4,000 (2020: £285,000) relating to equipment hire of which £1,000 (2020: £5,000) was owed by the Group at the year end.

Notes to the consolidated financial statements continued
for the year ended 28 February 2021

35 Related parties continued

Associates and joint ventures

The Group has loans, not part of the net investment, outstanding from its associate interest, Mersey Bioenergy Holdings Limited, of £nil (2020: £7,302,000) at the year end due to the loans being impaired by £8,000,000. At 28 February 2019, the balance was shown within trade and other receivables in non-current assets. The interest outstanding at the year end, net of amounts provided, was £nil (2020: £698,000) and was disclosed within trade and other receivables in non-current assets at 28 February 2019. The loans are unsecured and have a ten-year term ending in November 2024.

During the year, the Group made sales of £5,937,000 (2020: £6,684,000) to Mersey Bioenergy Limited (a subsidiary of Mersey Bioenergy Holdings Limited) relating to the sale of material. At the year end, £507,000 (2020: £535,000) was owed to the Group.

At 29 February 2020, the Group had loans outstanding to a subsidiary of Connect Airways Limited, of £18,038,000. This amount is no longer a related party balance at the year end due to the Group acquiring the subsidiary from Connect Airways Limited during the year. During the year, the Group made sales of £5,000 relating to fuel and landing fees to subsidiaries of Connect Airways Limited of which £5,000 was owed to the Group at the year end.

There were no other balances between the Group and its joint ventures and associates during the current or prior year.

All loans are unsecured and all sales and purchases are settled in cash on the Group's standard commercial terms.

Key management personnel

Key management personnel are the Executive and Non-Executive Directors and the Chief Financial Officer. Total aggregate emoluments, including pension contributions, were £1,534,000 (2020: £1,704,000) and consisted of:

	2021 £'000	2020 £'000
Emoluments	1,358	1,529
Share-based payment	229	43
Company contribution to money purchase pension plan	176	175
	1,763	**1,747**

Further details of the Executive and Non-Executive Directors' remuneration are set out in the Directors' Remuneration Report.

36 Alternative performance measures

In the reporting of financial information, the Directors have adopted various alternative performance measures (APMs). These measures are not defined by International Financial Reporting Standards (IFRS) and therefore may not be directly comparable with other companies' APMs.

APMs should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements. Non-GAAP APMs are used as they are considered to be both useful and necessary as well as enhancing the comparability of information between reporting periods, by adjusting for non-recurring or uncontrollable factors which affect IFRS measures, to aid users in understanding the Group's performance.

Consequently, APMs are used by the Directors and management for internal performance analysis, planning, reporting and incentive-setting purposes. The presentation of these measures facilitates comparability with other companies, although management's measures may not be calculated in the same way as similarly titled measures reported by other companies.

Adjusted EBITDA

Adjusted EBITDA is the key profitability measure used by management for performance review in the day-to-day operations of the Group.

Adjusted EBITDA represents loss before interest, tax, depreciation, amortisation, loss on acquisition and impairments. Refer to note 3 for reconciliation to statutory loss before tax.

Earnings per share from continuing operations

This APM is based on loss after tax, which is loss for the year from continuing operations, see note 13 for further details.

Net debt and net debt before IFRS 16

Net debt is defined as the sum of obligations under leases, revolving credit facility and exchangeable bond, less cash. Net debt before IFRS 16 is net debt less obligations under IFRS 16 leases. See note 25 for reconciliations of these measures.

Gearing

This is defined as Group shareholders' equity per the consolidated statement of financial position, divided by net debt as defined above.

Divisional operating cash flow

This is defined as a division's net cash flow from operating activities, less net intercompany cash flows. Group operating cash flow for the year is an outflow of £29,443,000 (2020: £22,122,000) which is made up of Aviation £4,050,000 outflow (2020: £8,041,000), Energy £15,440,000 inflow (2020: £9,942,000) and other £40,833,000 outflow (2020: £24,122,000).

Directors, officers and advisers

Executive Directors

Warwick Brady Former Chief Executive	Appointed 1 July 2017 (stepped down from the Board with effect from 30 April 2021)
Nick Dilworth Chief Operating Officer	Appointed 1 September 2018
Lewis Girdwood Chief Financial Officer	Appointed 1 April 2019

Non-Executive Directors

David Shearer	Appointed 1 June 2019 as Director, appointed 9 February 2021 as Executive Chairman
John Coombs	Appointed 1 July 2014
Ginny Pulbrook	Appointed 1 October 2018
David Blackwood	Appointed 1 March 2019
Clive Condie	Appointed 1 July 2020

Company Secretary
Matthew Joy

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Registered number
39117

Administrator
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Auditor
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Banker
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Black Horse House, 91 Sandyford Road, Newcastle upon Tyne NE1 8HQ

Corporate Broker and Financial Adviser
Canaccord Genuity Limited
88 Wood Street, London EC2V 7QR

Financial Adviser
UBS Investment Bank
5 Broadgate, London EC2M 2QS

Notes

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