The information contained within this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon the publication of this announcement, this inside information is now considered to be in the public domain.

4 November 2020

Stobart Group Limited

("Stobart" or the "Group")

Interim results for the six months ended 31 August 2020

Strict financial discipline in place protecting operational capability

Stobart Group Limited, the aviation and energy infrastructure group, today announces its interim results for the six months to 31 August 2020.

Warwick Brady, Chief Executive, Stobart Group said,

"COVID-19 has created unprecedented challenges for the Group. In response, we have taken decisive action to bolster liquidity, reduce cash burn and protect our long-term strategic objectives. These actions should allow us to emerge from this crisis in the best possible position to deliver our focused strategy."

"Whilst passenger travel has been severely disrupted by lockdowns and evolving quarantine arrangements, London Southend Airport has benefited from uninterrupted income from its global logistics operation. At Stobart Energy, we are seeing a more consistent demand profile and have taken appropriate actions to ensure certainty of supply of waste wood for customers over the winter period to fulfil our valuable long-term supply contracts. We remain focused on realising value for shareholders from Stobart Energy as a maturing, cash generative and stable business over the next 18 months and are considering all options to achieve this."

"Looking forward, the Group has immediate access to liquidity, with £119.1m in cash and undrawn banking facilities. Our focus remains on what we can control, namely managing our operations well, optimising both cost and cash management and rationalising the portfolio to maximise value. We continue to believe our future strategy and the medium-term move to a pure play airport and aviation services business will deliver superior shareholder returns."

Financial highlights

- The Group has £119.1m of cash and undrawn banking facilities following its £100m capital raise in June.
- Within the period under review, the cash burn, excluding capex, for Stobart Group's core business (excluding Stobart Air and Propius), was reduced to an average of c.£2.0m per month. Of this, c.£1.9m is represented by lease and rental payments and other debt servicing costs.
- The total cash burn (funding provided by the Group) for Stobart Air and Propius since acquisition is c.£14.7m. In August 2020, the cash burn for those businesses was £3.6m, of which £1.6m was legacy lease payments and £0.5m was maintenance and insurance costs. The Group is actively working towards an exit of these businesses in early course.
- Group losses before tax excluding the impact of Stobart Air and Propius were £16.1m compared to £15.5m in the six months ended 31 August 2019. However, Stobart Group incurred £68.5m of non-cash items, including a £55.0m non-cash loss on acquisition of Stobart Air and Propius and £14.4m of depreciation. This meant the total Group loss before tax was £77.4m.

- Net debt pre-IFRS 16 was £89.2m (post IFRS 16 net debt was £223.7m) and the net pension deficit was £5.7m as of 31 August 2020.

£'m	**2020**	**2019**	***% change***
Revenue by division			
Aviation	13.5	26.4	*(48.9%)*
Energy	33.2	42.9	*(22.5%)*
Revenue for two main operating divisions	**46.7**	**69.3**	***(32.6%)***
Investments and Non-Strategic infrastructure	6.0	3.4	*73.7%*
Central costs and eliminations	0.5	2.1	*(75.5%)*
Total revenue	**53.2**	**74.8**	***(28.9%)***
EBITDA by division			
Aviation	(0.9)	(1.7)	*44.1%*
Energy	2.4	10.6	*(77.3%)*
EBITDA for two main operating divisions	**1.5**	**8.9**	***(83.5%)***
Investments and Non-Strategic infrastructure	(2.2)	(2.2)	*(0.2%)*
Central costs and eliminations	(4.2)	(4.2)	*(1.0%)*
Total EBITDA	**(4.9)**	**2.5**	***(294.6%)***
Non-cash loss on acquisition of Stobart Air and Propius	(55.0)	-	-
Loss before tax	(77.4)	(15.5)	(399.0%)
Discontinued operations, net of tax	(11.6)	(8.5)	(35.6%)
Net debt - excluding IFRS 16	89.2	139.7	36.2%
Net debt - total	223.7	216.7	(3.2%)
Cash and undrawn banking facilities	119.1	36.7	224.3%

Uninterrupted global logistics income and tight cost control is underpinning the Aviation Division

- The Aviation Division has been severely impacted by COVID-19. Passenger flights resumed from June 2020 but rolling quarantine arrangements led passenger numbers to fall by 89.5% to 124.5k passengers, with revenues down 48.9% to £13.5m.
- Despite this backdrop, Aviation EBITDA improved from a loss of £1.7m to a £0.9m loss due to strong uninterrupted income through the global logistics operations and lower marketing support costs at London Southend Airport.
- The Group is carefully managing the cash burn through the winter period and the second national lockdown and is confident in its partnerships with its existing carriers. It is in positive discussions in relation to the post-winter schedule, which starts in April 2021.
- With a best-in-class passenger experience, London Southend Airport is well positioned to benefit from any recovery in the short-haul leisure travel market as restrictions ease. We are specifically designing and implementing an improved passenger experience for post-COVID-19 travel, making use of significant unutilised space and technology to enhance passenger safety and confidence, while providing a cost-efficient base of operation to airlines.

Stobart Energy has protected long term value by ensuring certainty of supply for its customers

- Disruption to the construction industry and the closure of recycling facilities during the initial COVID-19 period resulted in a reduction of available waste wood.

- The business took the strategic decision to ensure certainty of supply for customers over the winter period and beyond by building stock levels of waste wood. This action put short-term pressure on margins, and this is expected to recover in the first half of the next calendar year.
- Stobart Energy also imported waste wood, taking pressure off UK supply availability and worked closely with its biomass plant partners to plan rolling production stoppages that allowed for maintenance.
- As a result of these actions, Stobart Energy achieved 86.1% of the supply volumes it delivered in the six months ended 31 August 2019 and supplied 616k tonnes of fuel to biomass plants. EBITDA reduced from £10.6m to £2.4m, with the business impacted by lower supply volumes and downward margin pressures.
- We are encouraged that the actions taken have alleviated pressure on gate fees whilst ensuring continuity of supply and delivery of a reliable service to customers.
- September and October 2020 gate fees and volumes show an improving trend, and we remain focused on realising value from Stobart Energy as a maturing, cash generative and stable business over the next 18 months.

The Group remains focused on exiting Stobart Air

- The trading outlook for Stobart Air has deteriorated significantly since the capital raise due to the continued quarantine arrangements in Ireland, with limited flights operating.
- At the time of the capital raise in June 2020, Stobart Group planned for a potential no-fly scenario through the winter period and has consequently taken appropriate action to manage its cost base and minimise cash burn.
- The Group is seeking to exit that business in early course. To that end, it is engaging actively with parties interested in acquiring its stake and with Aer Lingus to enter a new commercial arrangement beyond December 2022 as part of this process.

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Divisional review

Group

The COVID-19 pandemic has disrupted economic activity globally. The sectors in which Stobart Group operates have been particularly impacted. The aviation industry has never experienced business interruption like this in its history. Stoppages to the construction industry for parts of the year also restricted the availability of waste wood, affecting Stobart Energy.

Stobart Group responded to these huge challenges by taking decisive action. Within the last six months we have proactively managed costs, taken difficult decisions to reduce headcount, exited the loss-making Rail & Civils business, sold the Stobart brand receiving an immediate cash payment, acquired Stobart Air in order to take control of legacy risks and increased our liquidity following the successful £100m capital raise in June 2020.

We have put in place strict financial discipline in order to preserve that liquidity and protect operational capability for the long-term. From the start of the initial lockdown, Stobart Group immediately utilised the UK Government's Job Retention Scheme to put on furlough c.50% of Stobart Group's 1,500+ employees as of 1 April 2020. The Board and Senior Leadership agreed to 20% pay reductions and all other non-furloughed management accepted 10% pay reductions through to the end of September 2020. A recruitment freeze has been in place since early March 2020 and all variable pay awards were deferred.

We are confident that we have taken the right actions to stabilise the business in the face of significant headwinds. Our priority is to dispose of Stobart Air and Propius in a timely manner. Once that is achieved, we will hold two strong and valuable businesses, with significant growth opportunities, together with a manageable portfolio of non-core assets, with a book value of c.£40m that will be disposed of over the next three years. The Group has reduced costs significantly and is primed to respond to growth opportunities quickly once restrictions are eased.

It is important to recognise that the actions that we have taken to stabilise the business have been a collective effort. I would therefore like to recognise the immense contribution of our teams. People across the business have responded effectively to new ways of working and remained focused on protecting our operational capability for the long-term.

This review will consider the specific impacts that we have experienced, detail the actions we have taken and provide a view on how we see activity evolving over the coming periods.

Aviation

The impact of COVID-19

As the first UK lockdown took effect, London Southend Airport closed its scheduled passenger operation from late March 2020. The airport re-started scheduled services in late June 2020, having put in place an enhanced COVID-19-secure passenger experience. However, passenger numbers stayed low as a result of the UK Government's decision to put in place rolling quarantine measures with countries put on quarantine lists at short notice.

The quarantine policy significantly impacted passenger confidence to book holidays outside of the UK. As a result, airline load factors fell. In response, airlines – already suffering from the cost burden of the initial lockdown period – took the decision to cut capacity. Airlines have also closed bases across Europe as they look for further ways to cut costs. As previously announced, easyJet closed three UK bases, including its long-established base at London Southend Airport.

The combination of the airport closure during the initial lockdown period, reductions in airline capacity and the closure of the easyJet base led to passenger numbers at London Southend Airport falling 89.5% to 124.5k passengers during the period from March 2020 to the end of August 2020.

The significant reduction in airline flying and the closure of airport bases, in particular the closure of easyJet bases at London Stansted Airport as well as London Southend Airport, also impacted the operations of Stobart Aviation Services. That business had been growing rapidly pre-COVID-19 and provides check-in and baggage handling across London Stansted Airport, London Southend Airport, Manchester Airport, Edinburgh Airport and Glasgow Airport. However, despite the significant reduction in activity across those airports, Stobart Aviation Services and London Southend Airport benefited from uninterrupted income from the global logistics operation based at the airport.

The actions we have taken
London Southend Airport put most of its capex investments on hold. Capex spend will be reviewed in step with future passenger growth. A minimal level of capex was invested to put in place an enhanced passenger experience once the initial lockdown was eased.

At the outset of the initial lockdown, London Southend Airport put over 50% of its staff on furlough. London Southend Airport is currently awaiting clarity regarding the latest furlough scheme announced on 31 October 2020 and the parameters under which it will be implemented. With airline capacity and passenger volumes reduced, London Southend Airport made the difficult decision to restructure its operations and regrettably make 10% of staff redundant. This was not a decision taken lightly, but one that was sadly necessary in order to protect the long-term operation of the airport. The airport also froze recruitment and staff accepted pay reductions and revised contract terms where necessary.

However, the greatest single cost saving resulted from a significant reduction in marketing support payments to airlines. Airline marketing incentives are primarily linked to passenger volumes. With passenger numbers down, marketing support was substantially reduced. easyJet's decision to close its base also meant that all marketing support payments to that airline stopped.

Stobart Aviation Services benefitted from having "cost-plus" operations in place at London Stansted Airport and its Scottish airport bases. This essentially meant that its airline partners covered its costs. However, the business had to make significant cost savings at its other bases. This included extensive use of the furlough scheme and also required the difficult decision to make redundancies. Stobart Aviation Services also elected not to extend rental agreements on equipment at airport bases with low activity.

The performance outcomes
Considering the significant challenges facing the aviation sector across the world, the improvement in Stobart Aviation losses was a positive achievement. Aviation EBITDA improved from a loss of £1.7m to a £0.9m loss. In part, this was due to a reduction in airline marketing support costs, as well as reductions in staff costs. However, a major contributor to this performance was the uninterrupted income generated from the global logistics operation based at London Southend Airport and operated by the Stobart Aviation Services team. The continued demand for online shopping throughout 2020, the efficient management of the operation and the resulting performance bonuses optimised that income further.

Outlook
The key focus for London Southend Airport is to rebuild passenger numbers in the New Year once the current national lockdown has ended. We remain confident in our relationships with our existing carriers, Ryanair and Wizz Air and are in positive discussions in relation to the post winter schedule which starts in April 2021.

We are also actively engaging with a range of other low-cost carrier airlines regarding their interest in our established proven routes. There are several reasons why the airport and its proven routes should be attractive to other carriers.

Firstly, we have already put in place an enhanced passenger experience for the post-COVID-19 world. Critical protections such as hand sanitising stations every 20 steps and bio shields have been in place for some months now. But we are also seeking to further differentiate our airport offering by deploying contactless technology and are trialling next generation baggage screening equipment. The use of technology will allow us to avoid bottlenecks and provide a quick and stress-free experience that delivers confidence to airline passengers.

Our airport proposition aligns with the strategy of low-cost carriers. The airport is located in an 8m plus catchment area that allows airlines significant coverage of the valuable and attractive London market. It is our expectation that London air travel will be at the vanguard of any recovery.

It is also our belief that low-cost carriers will be the first airlines to recover, offering short haul point-to-point flights on a cost-efficient basis. London Southend Airport, and its proven, well established routes, previously operated by easyJet without direct competition, will allow airlines to generate similar yields to other London airports but at a lower cost of operation. Our airport also provides the best opportunity to secure London slots as the UK recovers from the pandemic over the coming years. Given the significant year-on-year growth achieved in the years leading up to the COVID-19 pandemic we are confident that we will secure additional deals with airlines once better visibility of passenger demand returns. We will target agreements with existing airlines, new low-cost carriers, full service and regional niche carriers. The airport will seek individually tailored agreements, based on size of operation and expected passenger volumes. The key will be to agree deals that are cost neutral from the start and tie incentives to passenger volumes.

Across our aviation assets we will also explore further aviation logistics opportunities. There is available land to base further logistics operations at London Southend Airport. Stobart Aviation Services has developed significant expertise in handling cargo and will also look to secure additional logistics contracts at other locations.

Stobart Energy

The impact of COVID-19

Stobart Energy has not been exposed to the same level of business interruption as our aviation businesses. However, it has not escaped significant challenges. The initial lockdown period led to a pause in construction work and the closure of Household Waste and Recycling Centres. The volume of waste wood available to then convert into biomass fuel that could be supplied to biomass plants fell considerably as a result.

Despite the reduction in the availability of waste wood, our biomass plant partners still required their contracted volumes of fuel. Stobart Energy therefore had to deploy a range of actions to meet its contracted volumes, including the issuance of force majeure notices, and this impacted operating margins in the short term.

The actions we have taken

Stobart Energy has taken positive action to manage its ability to supply waste wood and deliver on its long-term contracts.

With less waste wood available and competing demand for that waste wood from both the biomass sector and furniture manufacturers, Stobart Energy had to take steps to ensure certainty of supply for its customers. Stobart Energy has storage sites strategically located across the UK. These are capable of storing up to 100,000 tonnes of unprocessed waste wood at any one time. Stobart Energy utilised its stockpiles and has been working to restock, particularly in view of the key winter period when waste wood is traditionally in shorter supply.

In order to rebuild stock levels and in line with its competitors, Stobart Energy reduced its gate fee – the fee it charges to those businesses that supply waste wood to Stobart Energy so that those business can avoid much higher landfill charges. Stobart Energy also imported waste wood. This took the pressure off the demand for waste wood from within the UK. Importing waste wood is more expensive. However, reducing the demand on UK waste wood allowed Stobart Energy to gradually increase the gate fee it charges to those that supply it, with the intention of mitigating a prolonged period of margin pressures into 2021. Stobart Energy also worked closely with its biomass plant partners to put in place planned rolling production stoppages further reducing the demand for UK waste wood.

The performance outcomes
As a result of the strategic decisions taken by its management team, Stobart Energy achieved 86.1% of the supply volumes it delivered in the six months ended 31 August 2019 and supplied 616k tonnes of fuel to biomass plants. EBITDA however reduced from £10.6m to £2.4m. This outcome reflected the impact of lower supply volumes caused by the initial lockdown and the interruption to the construction sector. The return of construction activity came at a time when demand for waste wood exceeded supply. This resulted in Stobart Energy needing to lower its gate fees to attract waste wood suppliers which led to short-term downward margin pressures.

Outlook
We are confident that Stobart Energy has taken appropriate actions to successfully protect the longer-term value of its operational capability. Throughout a challenging year the business has continued to supply contracted volumes of fuel to its long-term biomass plant partners. By importing some waste wood, it has taken pressure off the demand for waste wood within the UK. This is already showing signs of allowing gate fee prices to increase. September 2020 and October 2020 gate fees and volumes show an improving trend. We also remain focused on realising value for shareholders from Stobart Energy as a maturing, cash generative and stable business over the next 18 months. COVID-19 has hampered the operational and financial performance in the short term but has not materially impacted the prospective longer term cashflows of a business that generated EBITDA of £15m in the year ended February 2020.

Non-strategic assets
The COVID-19 pandemic and resulting quarantine measures have had a particularly severe impact on Stobart Air and Propius. That business, and the liabilities attached to it, had previously been transferred in to the Connect Airways consortium as part of the acquisition of Flybe. Sadly, Flybe was an early victim of the COVID-19 pandemic and its impact on forward funding. Flybe, and Connect Airways entered into administration in March 2020. This led to uncertainty regarding the future of Stobart Air and Propius. Stobart Group is a guarantor for various obligations of Propius following a sale and leaseback of aircraft arrangement which was entered into by Propius in April 2017.

The Board of Stobart Group reviewed all options available to the Company in relation to the future of Stobart Air and Propius and concluded that the best course of action financially was to buy back Stobart Air and Propius, taking effective control over the pre-existing obligations it has in respect of those businesses.

Stobart Air's core business is the operation of a regional flying programme across the UK and Ireland under a franchise agreement with Aer Lingus. This agreement expires in December 2022. Under a normal trading environment this is a stable and profitable business. However, quarantine rules enforced by the Irish Government mean that demand for the majority of the programme is very low and therefore most of the fleet is currently grounded. This has placed a significant cash strain on the business given the ongoing lease agreements in place for those aircraft. The total cash burn for Stobart Air and Propius since acquisition is c.£14.7m. In August 2020, the cash burn for those businesses was £3.6m, of which £1.6m was legacy lease payments and £0.5m was maintenance and insurance costs.

We are taking immediate action to seek an exit from Stobart Air and Propius before the end of the current financial year. The first step has been to reduce costs. This has included negotiating rate reductions with key suppliers, making redundancies, exercising temporary layoffs, putting in place temporary pay cuts and utilising the Irish employee subsidy schemes (furlough equivalent). We are also engaged in a competitive tender process in order to put in place a ten-year commercial agreement with Aer Lingus from 2023. A decision on the new agreement is expected by the end of 2020. A reduced cost base and a franchise agreement with Aer Lingus will make Stobart Air a more attractive proposition and Stobart Group is in active discussions with a number of parties interested in acquiring our stake in Stobart Air.

Following the commitment made at the time of Stobart Group's capital raise in June 2020, we divested of the Rail & Civils division to Bavaria Industries Group AG for an initial cash consideration of £1,000 on 14 July 2020. An additional cash consideration of up to £2.9m may be received based on the conclusion of a legacy contract. The fair value of this deferred consideration is £0.3m at 31 August 2020. The sale of the Rail & Civils business removed the obligation for the Group to fund that business. The sale resulted in a loss on disposal of £9.3m.

Stobart Group continues to hold c.£40m of non-strategic assets that it is seeking to divest of over the next three years. The Group is making progress in terms of those divestments.

ESG

Stobart Group has put in place a framework for our ESG strategy which is based around five pillars: developing our people, supporting sustainable communities, taking climate action, excelling in health, wellbeing and safety and minimising our environmental footprint. This is about us positioning our business for the future and considering how the needs of all our stakeholders are met.

During the six months under review, Stobart Group has put in place a COVID-19 support program for team members and revised the London Southend Airport Safety Management System. We recognised the need to do more and are now also developing a new internal Health and Safety campaign as part of our programme to excel in health, wellbeing and safety. We have started to put in place a holistic diversity strategy, which includes positive actions to support women leaders as part of our focus on "developing our people".

Our commitment to supporting all the communities we operate within continues, which is especially relevant given the impact of COVID-19 and our ongoing response. We are pleased to be developing a formal community strategy, aligning our purpose and values, which we will launch in 2021 and this will help us measure our impact and show how we are "supporting sustainable communities".

The expectation is that carbon emissions will have reduced during the period, given the fall in passengers and flights. But this does not mean that we have put our environmental progress on hold. We are currently developing an energy data management structure to help us better record, and understand, our environmental footprint and emissions – especially as we transition to those classified as Scope 3. We have also signed up to the Airports Council International (ACI) and are currently progressing on their Airport Carbon Accreditation programme.

Financial Review

Key events in the period

The Group completed a successful capital raise in the period, which was approved at the Annual General Meeting on 30 June 2020. The capital raise resulted in gross proceeds of £100.1m (£91.1m net) and the issue of 251.1m new shares in Stobart Group Limited. This enabled the Group to repay certain amounts drawn under the Revolving Credit Facility (RCF), mitigate the effects of COVID-19 on the Aviation and Energy businesses and allow those divisions to best position themselves for the COVID-19 recovery period.

Agreement was reached with the Group's current bank lenders to fund an additional £40m RCF. This brought the Group's total RCF to £120m, giving increased headroom for the Group.

The Group divested of Stobart Rail Limited (Stobart Rail) for initial cash consideration of £1,000, resulting in a loss on disposal of £9.3m. Additional cash consideration of up to £2.9m could be received based on the outcome of the conclusion of a single legacy contract. The divestment follows the commitment made alongside the Group's full year February 2020 results to exit the Stobart Rail business by the end of the February 2021 financial year end. This transaction removes the need to fund the expected ongoing losses of Stobart Rail and allows the Group to focus on investment in aviation.

The acquisition of an effective indirect economic interest of 78.75% in Stobart Air and Propius, as mentioned in the Annual Report and Accounts for the year ending 29 February 2020, resulted in these businesses being accounted for as subsidiaries. The acquisitions of Stobart Air and Propius gave rise to a loss on acquisition of £55.0m, accounting for the recognition of pre-existing guarantee arrangements. See note 6 for further details.

As previously reported to the market, it is the Group's intention to sell its stake in Stobart Air and Propius. The Group is in early-stage discussions with a number of interested parties regarding the potential sale.

The ongoing COVID-19 global pandemic has had a significant impact on the Group, both operationally and financially. The most significant operational impact has been within our regional airline Stobart Air, which was re-acquired in April 2020, where passenger numbers have been significantly reduced following the continued quarantine arrangements in Ireland.

The Energy division has been impacted financially following the disruption to the construction industry and the closure of many recycling facilities which reduced waste wood availability for many months. Following the return of construction and the re-opening of recycling facilities the availability of wood, whilst improved, has seen an excess demand as various sectors look to obtain wood, which has resulted in our gate fee income reducing.

Whilst LSA operationally remained open to facilitate ongoing flights of both passengers and logistics, the level of passenger volumes was greatly reduced and saw increased variability as quarantine legislation dictated both airline and passenger volumes. Despite the reduction in passenger numbers the Aviation division was able to see a slight improvement in losses year-on-year due to strong uninterrupted income through the global logistics operations and greatly reduced marketing costs at London Southend Airport.

Revenue

Revenue from continuing operations has decreased by 28.9% to £53.2m (2019: £74.8m) in the six months to 31 August 2020, primarily driven by COVID-19 lockdown restrictions affecting the two operating divisions, Aviation and Energy. Aviation revenue has decreased by 48.9% to £13.5m (2019: £26.4m) with passenger numbers through LSA falling by 89.5% to 124,499 period-on-period. Energy revenue has decreased by 22.5% to £33.2m (2019: £42.9m) and biomass tonnages supplied fell by 13.9% to 616,290 period-on-period.

Profitability

Divisional Continuing Profit Summary	**31 August 2020 £m**	**31 August 2019 £m**
Aviation	(0.9)	(1.7)
Energy	2.4	10.6
EBITDA from operating divisions[1]	**1.5**	**8.9**
Investments	(1.6)	(0.2)
Non-Strategic Infrastructure	(0.6)	(2.0)
Central costs and eliminations	(4.2)	(4.2)
EBITDA[1]	**(4.9)**	**2.5**
(Loss)/gain on swaps	(0.4)	0.1
Depreciation	(14.4)	(10.0)
Amortisation	-	(3.7)
Loss on acquisition	(55.0)	-
Finance costs (net)	(2.7)	(4.4)
PBT	**(77.4)**	**(15.5)**
Tax	0.9	3.2
Loss from discontinued operations, net of tax	(11.6)	(8.6)
Loss for the period	**(88.1)**	**(20.9)**

[1] Defined in glossary in note 20

In this period, the Group has moved away from the classification of underlying and non-underlying items in the financial statements. EBITDA and PBT are the Group's key measures of profitability.

EBITDA has decreased by 294.6% to a loss of £4.9m (2019: £2.5m profit). Aviation has seen EBITDA increase by 44.1% to a loss of £0.9m (2019: £1.7m) due to careful control of costs as revenues fall, including the use of the UK Government's furlough scheme, and because of airline marketing costs incurred in the prior period not being incurred in the current period. Energy EBITDA has decreased by 77.3% to £2.4m (2019: £10.6m) caused by the availability of material and challenging market conditions impacting gate fees. The division has imported material from abroad to maintain contractual supply and build up stock for the winter period, although this has been at the expense of short-term profitability.

The loss before tax from continuing operations is £77.4m (2019: £15.5m). Depreciation of £14.4m (2019: £10.0m) has increased mainly due to the inclusion of Stobart Air and Propius results in this period. Amortisation is nil (2019: £3.7m) following the disposal of the Stobart brands and licences. The loss before tax includes the £55.0m non-cash loss on acquisition. Finance costs of £7.8m (2019: £7.2m) have increased principally due to the increased cost of borrowing on the RCF. Finance income of £5.1m (2019: £2.8m) has grown mostly because of the revaluation of financial liabilities and foreign exchange gains, see note 7.

A summary of divisional profitability is set out on page 11 and further details of divisional performance are set out in the Divisional Reviews section.

Discontinued operations and restatement

Following the divestment, the results of Stobart Rail for the period have been included within discontinued operations. The prior period results have been restated within the Condensed Consolidated Income Statement, Condensed Consolidated Statement of Cash Flows and accompanying notes accordingly.

Taxation

The tax credit of £0.9m (2019: £3.2m) arises due an accelerated unwind of the Group's deferred tax liability relating to the disposal of the Stobart brands and licences, offset by the change in tax rate from 17% to 19% (see note 8 for further details).

Loss per share

Loss per share from continuing operations[1] was 12.41p (2019: 3.37p) (see note 9 for further details).

[1] Defined in glossary in note 20.

Dividends

There were no dividends paid in the period. In the prior period a final dividend of 3.0p per share totaling £11.1m was declared on 29 May 2019 and was paid on 31 July 2019.

Balance sheet

	31 August 2020	**29 February 2020**
	£m	**£m**
Non-current assets	404.4	388.8
Current assets	71.9	75.3
Total assets	**476.3**	**464.1**
Non-current liabilities	(214.1)	(222.0)
Current liabilities	(159.0)	(139.0)
Net assets	**103.2**	**103.1**

The increase in the net asset position of £0.1m principally relates to the £100m capital raise, partially offset by the loss for the period of £88.1m.

Non-current assets have increased in the period, largely due to the inclusion of right-of-use assets in Stobart Air and Propius, offset by depreciation in the period and the disposal of Stobart Rail.

Current assets have decreased primarily because the Stobart brand and licences, which were held for sale at £10.0m at the 29 February 2020 year end, have been sold in the period. This is partly offset by an increase in inventories, as Stobart Air's balances are included at the period end, and the Energy division increases its stock in readiness for the Winter period, alongside an increase in trade and other debtors.

Non-current liabilities have fallen by £7.9m, the main drivers of which are a decrease in the amount drawn on the RCF facilities, offset by an increase maintenance reserves and leases following the acquisition of Stobart Air and Propius.

Current liabilities have increased by £20.0m, largely due to the inclusion of Stobart Air's lease liabilities, maintenance reserves and other creditors balances.

Debt and gearing

	31 August 2020	29 February 2020
Net debt:		
- Revolving credit facility (net of arrangements fees)	£7.1m	£74.8m
- Obligations under leases	£40.4m	£42.4m
- Exchangeable bonds	£51.8m	£51.7m
- IFRS 16 lease obligations	£134.5m	£76.4m
- cash	(£10.1m)	(£9.8m)
Total net debt	**£223.7m**	**£235.5m**
EBITDA[1]/interest	-1.1	-0.7
Net debt/total assets	47.0%	50.7%
Gearing	216.8%	228.4%

[1] Defined in glossary in note 20.

Following the increase in RCF from £80m to £120m, the committed undrawn headroom on the facility at 31 August 2020 was £109m (29 February 2020: £5m), and with cash balances of £10.1m (29 February 2020: £9.8m), total headroom was £119.1m (29 February 2020: £14.8m).

Cash flow

	31 August 2020 £m	31 August 2019 £m
Operating cash flow	(7.9)	(18.6)
Investing activities	2.0	(9.4)
Financing activities	6.2	21.3
Increase/(decrease) in the period	0.3	(6.7)
Cash at beginning of period	9.8	14.4
Cash at end of period	**10.1**	**7.7**

There was an operating cash outflow in the period of £7.9m (2019: £18.6m) principally relating to the operating cash outflows of Stobart Air and Propius, partly offset by positive operating cash flows in Aviation and Energy. The prior period outflow was mainly due to adverse working capital movements in the Energy and Aviation divisions.

Investing inflows include £6.0m of the £10.0m due from the disposal of the Stobart brand and licences. There were investing outflows include £3.5m relating to the disposal of Stobart Rail. The prior period included £13.0m for the purchase of property, plant and equipment, principally relating to the development at London Southend Airport.

The main financing inflow was from the issue of new shares which resulted in a net receipt of £91.1m after costs, which was used to repay the drawn amount of the RCF in full. When offset by drawdowns on the RCF, the net repayment of RCF was a £68.2m outflow. Other outflows in the period included the repayment of loans from Virgin and Cyrus (£4.5m), relating to equity investments in Connect Airways prior to Connect entering administration, and repayment of leases (£8.0m). In the prior period financing activities included proceeds from the issue of Bonds (£51.4m), repayment of leases (£9.5m), the net repayment of the RCF (£7.0m) and dividends paid (£11.1m).

Key Risks and Uncertainties
As with any business, risk assessment and the implementation of mitigating actions and controls are vital to successfully achieving the Group's strategy. The Board has overall responsibility for risk management and internal control within the context of achieving the Group's objectives. The key risks are set out in our statutory accounts for the year ended 29 February 2020 and are still applicable. In addition, at the year end COVID-19 was accounted for as an unadjusted post-balance sheet event, whereas COVID-19 is now considered a key risk and uncertainty for all divisions in the Group.

Going concern
The directors are satisfied that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 15 months from the date of approval of the interim financial statements and therefore have prepared the financial statements on a going concern basis. However, the substantial achievement of forecasts, the continued availability of existing facilities and the renewal of the Group's existing RCF by January 2022, represent material uncertainties that may cast significant doubt on the ability of the Group and Company to continue as a going concern.

The base case forecasts indicate that the Group will have facility headroom of c.£47m at February 2022. However, there is a forecast breach of some covenants in November 2021. The directors believe that given the need to refinance the RCF before the end of January 2022, a covenant reset will form part of these discussions and therefore should not result in the RCF being recalled in advance of its maturity.

The directors have considered a severe but plausible downside forecast, which represents a scenario before non-controllable mitigating actions such as asset disposals and other controllable mitigating actions. This forecast indicates that the Group may require additional funding by February 2022 and may breach some covenants in May 2021. The Board will of course seek to mitigate the financial impact of this downside forecast, should it arise, and reset the RCF covenants if necessary. Refer to note 1 for further information.

Directors' Responsibility Statement

We confirm that to the best of our knowledge:

- The condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU; and

- The interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the statutory accounts for the year ended 29 February 2020 that could do so.

The above statement of Directors' responsibilities was approved by the Board on 4 November 2020.

Lewis Girdwood
Director
4 November 2020

Stobart Group Limited

Condensed Consolidated Income Statement
For the six months ended 31 August 2020

Continuing operations	Notes	Six months ended 31 August 2020 Unaudited £'000	Restated[1] Six months ended 31 August 2019 Unaudited £'000
Revenue	4	53,171	74,756
Other operating income		255	127
Operating expenses – other		(58,224)	(69,992)
Share of post-tax losses of associates and joint ventures		(148)	(2,350)
EBITDA		**(4,946)**	**2,541**
(Loss)/gain on swaps		(397)	114
Depreciation		(14,446)	(9,984)
Amortisation		-	(3,739)
Loss on acquisition	6	(54,977)	-
Operating loss		**(74,766)**	**(11,068)**
Finance costs	7	(7,755)	(7,206)
Finance income	7	5,079	2,755
Loss before tax		**(77,442)**	**(15,519)**
Tax	8	933	3,182
Loss for the period from continuing operations		**(76,509)**	**(12,337)**
Discontinued operations			
Loss from discontinued operations, net of tax	5	(11,589)	(8,547)
Loss for the period		**(88,098)**	**(20,884)**
Loss per share expressed in pence per share – continuing operations			
Basic	9	(16.74p)	(3.37p)
Diluted	9	(16.74p)	(3.37p)
Loss per share expressed in pence per share – total			
Basic	9	(19.27p)	(5.70p)
Diluted	9	(19.27p)	(5.70p)

[1] The 2019 results have been restated where required due to IFRS 5 Discontinued Operations. Refer to note 5 for more details.

Stobart Group Limited

Condensed Consolidated Statement of Comprehensive Income
For the six months ended 31 August 2020

	Six months ended 31 August 2020 Unaudited £'000	Restated Six months ended 31 August 2019 Unaudited £'000
Loss for the period	**(88,098)**	**(20,884)**
Exchange differences on translation of foreign operations	18	**-**
Discontinued operations, net of tax, relating to exchange differences	-	(1,212)
Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods, net of tax	**18**	**(1,212)**
Re-measurement of defined benefit plan	(1,702)	(1,231)
Change in fair value of financial assets classified as FVOCI	(1,354)	(16,358)
Tax on items relating to components of other comprehensive income	323	273
Other comprehensive expense not being reclassified to profit or loss in subsequent periods, net of tax	**(2,733)**	**(17,316)**
Other comprehensive expense for the period, net of tax	**(2,715)**	**(18,528)**
Total comprehensive expense for the period	**(90,813)**	**(39,412)**

Stobart Group Limited

Condensed Consolidated Statement of Financial Position
As at 31 August 2020

	Notes	31 August 2020 Unaudited £'000	29 February 2020 Audited £'000
Non-current assets			
Property, plant and equipment	11	323,606	306,584
Investment in associates and joint ventures		1,442	1,590
Other financial assets		3,422	4,776
Intangible assets		54,669	54,669
Net investment in lease		13,256	13,247
Other receivables		8,000	8,000
		404,395	**388,866**
Current assets			
Inventories		18,706	13,893
Trade and other receivables		41,673	40,167
Cash and cash equivalents	12	10,109	9,802
Assets held for sale		1,408	11,408
		71,896	**75,270**
Total assets		**476,291**	**464,136**
Non-current liabilities			
Loans and borrowings	12	(159,176)	(177,788)
Defined benefit pension scheme		(5,713)	(4,422)
Other liabilities		(9,523)	(9,687)
Deferred tax		(2,671)	(5,736)
Provisions	13	(37,052)	(24,346)
		(214,135)	**(221,979)**
Current liabilities			
Trade and other payables		(72,936)	(61,899)
Financial liabilities	7	(1,122)	(3,500)
Loans and borrowings	12	(22,820)	(15,780)
Exchangeable bonds	12	(51,822)	(51,689)
Corporation tax		(500)	-
Provisions	13	(9,767)	(6,191)
		(158,967)	**(139,059)**
Total liabilities		**(373,102)**	**(361,038)**
Net assets		**103,189**	**103,098**
Capital and reserves			
Issued share capital	14	62,492	37,465
Share premium	14	390,411	324,368
Foreign currency exchange reserve		18	-
Reserve for own shares held by employee benefit trust		(7,161)	(7,161)
Retained deficit		(342,571)	(251,574)
Total Equity		**103,189**	**103,098**

Stobart Group Limited

Condensed Consolidated Statement of Changes in Equity
For the six months ended 31 August 2020

For the six months ended 31 August 2020
Unaudited

	Issued share capital £'000	Share premium £'000	Foreign currency exchange reserve £'000	Reserve for own shares held by EBT £'000	Retained earnings £'000	Total equity £'000
Balance at 1 March 2020	37,465	324,368	-	(7,161)	(251,574)	103,098
Loss for the period	-	-	-	-	(88,098)	(88,098)
Other comprehensive income/(expense) for the period	-	-	18	-	(2,733)	(2,715)
Total comprehensive income/(expense) for the period	-	-	18	-	(90,831)	(90,813)
Issue of ordinary shares	25,027	66,043	-	-	-	91,070
Employee benefit trust	-	-	-	-	(318)	(318)
Share-based payment credit	-	-	-	-	(8)	(8)
Tax on share-based payment credit	-	-	-	-	160	160
Balance at 31 August 2020	**62,492**	**390,411**	**18**	**(7,161)**	**(342,571)**	**103,189**

For the six months ended 31 August 2019
Unaudited

	Issued share capital £'000	Share premium £'000	Foreign currency exchange reserve £'000	Reserve for own shares held by EBT £'000	Retained earnings £'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 period	-	-	-	-	(20,884)	(20,884)
Other comprehensive expense for the period	-	-	(1,212)	-	(17,316)	(18,528)
Total comprehensive expense for the period	-	-	(1,212)	-	(38,200)	(39,412)
Employee benefit trust	-	-	-	3,395	(3,294)	101
Share-based payment credit	-	-	-	-	420	420
Tax on share-based payment credit	-	-	-	-	84	84
Dividends	-	-	-	-	(11,125)	(11,125)
Balance at 31 August 2019	**37,082**	**324,379**	**(732)**	**(8,759)**	**(107,794)**	**244,176**

Stobart Group Limited

Condensed Consolidated Statement of Cash Flows
For the six months ended 31 August 2020

	Notes	Six months ended 31 August 2020 Unaudited £'000	Restated Six months ended 31 August 2019 Unaudited £'000
Cash used in continuing operations	17	**(11,012)**	**(15,210)**
Cash inflow/(outflow) from discontinued operations		3,150	(3,402)
Income taxes paid		-	-
Net cash flow from operating activities		**(7,862)**	**(18,612)**
Purchase of property, plant and equipment		(1,554)	(12,934)
Purchase of investment property		-	(78)
Proceeds from the sale of property, plant and equipment		314	2,136
Proceeds from disposal of asset held for sale		6,000	-
Receipt of capital element of IFRS 16 net investment in lease		129	-
Acquisition of subsidiary undertakings (net of cash acquired and fees)		603	-
Cash disposed on sale of subsidiary undertaking		(3,529)	-
Equity investment in associates and joint ventures		-	(2,667)
Net amounts repaid from joint ventures		-	2,938
Interest received		-	670
Cash inflow from discontinued operations		24	576
Net cash flow from investing activities		**1,987**	**(9,359)**
Dividend paid on ordinary shares		-	(11,125)
Issue of ordinary shares less costs of issue		91,071	-
Proceeds from issue of exchangeable bonds		-	51,354
Proceeds from grants		-	318
Principal element of lease payments		(7,985)	(8,401)
Net drawdown from revolving credit facility		(68,247)	(7,000)
Repayment of borrowings		(4,500)	-
Interest paid		(3,950)	(2,746)
Cash outflow from discontinued operations		(207)	(1,136)
Net cash flow from financing activities		**6,182**	**21,264**
Increase/(decrease) in cash and cash equivalents		307	(6,707)
Cash and cash equivalents at beginning of period		9,802	14,432
Cash and cash equivalents at end of period		**10,109**	**7,725**

1 Accounting policies of Stobart Group Limited

Corporate information

The Condensed Consolidated Financial Statements of the Group for the six months ended 31 August 2020 (interim financial statements) were authorised for issue in accordance with a resolution of the Directors on 4 November 2020. Stobart Group Limited is a Guernsey registered company whose ordinary shares are publicly traded on the London Stock Exchange. The principal activities of the Group are described in note 3.

Basis of preparation

The interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

The interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 29 February 2020. Except for the 29 February 2020 statutory comparatives, the financial information set out herein is unaudited but has been reviewed by the auditors, KPMG LLP, and their report to the Company is attached.

The audited comparative financial information set out in these interim financial statements does not constitute the Group's statutory accounts for the year ended 29 February 2020 but has been derived from those accounts. Statutory accounts for the year ended 29 February 2020 have been published and KPMG LLP has reported on those accounts. Their audit report was unqualified, however, it highlighted a material uncertainty regarding going concern related to the capital raise, see note 14, the extension of the RCF and covenant compliance. The annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU.

Restatement

Following the disposal of Stobart Rail Limited (Stobart Rail) (see note 5), all prior period results have been restated where applicable to remove the results of Stobart Rail from continuing operations.

Going concern

Position adopted at year end February 2020

The Group's financial statements for the year ended 29 February 2020 were issued on 4 June 2020. Those financial statements were prepared on the basis that the Group was a going concern although there were material uncertainties in respect of the position adopted.

In arriving at that expectation, the Directors had reviewed the Group's updated cash flow forecasts together with the projected covenant compliance of the Group, which covered a period up to February 2022. Following the Group's success in securing, on 4 June 2020, an additional £40m revolving credit facility (RCF) from current lenders and fully expecting to raise at least £80m from an imminent equity raise, the Directors were satisfied the Group had sufficient cash headroom to continue trading for the period assessed.

Update to position

Subsequent to the issue of the February 2020 financial statements, the Group successfully raised £100m of gross proceeds from the equity raise and also disposed of Stobart Rail. Following the completion of the equity raise, the new £120m RCF became unconditional. The Directors, in forming their going concern conclusion, believe that the new and amended RCF maturing in January 2022, will be able to be successfully renewed or replaced, prior to or during January 2022, at a level sufficient to meet the Group's requirements. Should this not occur, the Group will need to find alternative funding or other mitigating actions from January 2022.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Group's interim financial statements have been prepared on a going concern basis. However, there remains a material uncertainty in respect of this going concern assumption and the Directors have exercised judgement in concluding that the Group remains a going concern. The uncertainties are in respect of the substantial achievement of forecasts (including in particular the successful disposal of Stobart Air and Propius), the continued availability of existing facilities (including the waiver or amendment of any covenants that may be breached) and the renewal of the Group's existing RCF by January 2022.

Base case forecast

In considering the going concern position, the Directors have reviewed the Group's updated base case forecasts through to February 2022, together with sensitivity analysis on those forecasts, including a new severe but plausible downside set of assumptions around the cessation of ongoing COVID-19 restrictions, imposed by national governments, and the subsequent recovery for the Group, whilst recognising the different recovery periods likely to be seen given the nature of the different divisions. The Directors consider the Energy division will recover first, with the Aviation division likely to see a slower recovery as both airlines and passengers adapt to the post COVID-19 environment.

The base case forecasts indicate that the Group will have sufficient funds to meet its liabilities for the period covered by the forecasts and anticipate facility headroom of c.£47m at February 2022. However, there is a forecast breach of some covenants in November 2021. The Directors believe that given the need to refinance the RCF before the end of January 2022, a covenant reset will form part of these discussions and therefore should not result in the RCF being recalled in advance of its maturity. A key assumption in respect of liquidity in the base case forecasts is the disposal of Stobart Air and Propius during this financial year, with no assumptions made for the final transaction cash flows. This assumption is material as Stobart Air and Propius are using approximately c.£30m of cash per annum and as previously disclosed, the lease agreements between Propius and the aircraft owners contain a break clause which, if exercised in April 2023, may cost approximately $21m.

Severe but plausible downside forecast

The directors have considered a severe but plausible downside forecast. This scenario indicates that, before non-controllable mitigating actions such as asset disposals, the Group may require additional funding by February 2022 and may breach covenants in May 2021. The amount of additional funding that may be required in the severe but plausible downside forecast, and the risk of breaching covenants earlier increases the greater the cash shortfall against operational forecasts.

The severe but plausible downside forecast includes the following:

- There is no disposal of Stobart Air and Propius before the end of the forecast period (February 2022);
- Assumed additional passenger volumes do not materialise for summer 2021 at LSA;
- There is an unplanned shut down for 3 months at a major plant serviced by the Energy division; and
- Additional cash outflows of approximately £13m for certain provisions, liabilities and contingent liabilities to reflect the risk of crystallisation during the going concern period.

The Board will of course seek to mitigate the financial impact of this downside forecast should it arise.

Conclusion
Overall, the directors are satisfied that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 15 months from the date of approval of the interim financial statements and therefore have prepared the financial statements on a going concern basis.

However, the substantial achievement of forecasts (including in particular the successful disposal of Stobart Air and Propius), the continued availability of existing facilities (including the waiver or amendment of any covenants that may be breached) and the renewal of the Group's existing RCF by January 2022, together with the other matters referred to above, represent material uncertainties that may cast significant doubt on the ability of the Group and Company 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
The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 29 February 2020. These accounting policies are expected to be applied for the full year to 28 February 2021. New accounting policies adopted in the period are as follows:

Unearned revenue
Stobart Air receives consideration from customers for flights that have not yet been flown. This unearned revenue is a contract liability as defined by IFRS 15 and is held on the Consolidated Statement of Financial Position until it is realised in the income statement when the performance obligation is complete.

Aircraft
Stobart Air and Propius lease aircraft from third party lessors. 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. A right-of-use asset is recognised based on the present value of current market rate payments for similar aircraft, discounted at the incremental borrowing rate. 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.

Furlough
Payments received from the UK Government under the furlough job retention scheme are recognised in the same period in which the related expense is incurred and are netted off against the expense.

Key estimates and judgements
The estimates and judgements taken by the Directors in preparing these interim financial statements are comparable with those disclosed in the annual financial statements for the year ended 29 February 2020, with the addition of the following.

Acquisition of Stobart Air and Propius

Judgement was required in relation to the Group's 100% consolidation of the newly acquired Stobart Air and Propius. 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. Judgements and estimates relating to the fair value of assets and liabilities acquired, and the recognition of a loss on acquisition, have been disclosed in note 6.

Presentation of Condensed Consolidated Income Statement

In the Group's interim financial statements for the period ended 31 August 2019 and the annual financial statements for the year ended 29 February 2020, the income statement was presented with a split of underlying and non-underlying items. The Condensed Consolidated Income Statement for the period ended 31 August 2020 is presented as one total column and the prior period comparatives have been restated accordingly.

EBITDA is the key profitability measure used by management for performance review in the day-to-day operations of the Group. EBITDA is a non-GAAP measure and is explained in note 20. Non-GAAP measures are used as they are considered to be both useful and necessary. They are used for internal performance analysis and 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.

The post-tax results of discontinued operations along with any gain or loss recognised on the disposal of the assets or disposal groups constituting the discontinued operation are disclosed as a single amount in the Condensed Consolidated Income Statement. The comparative period results are restated accordingly.

COVID-19

Management have considered the impact of the COVID-19 pandemic on the assets and liabilities of the Group. For example, impairment reviews have been performed in respect of non-financial assets, the credit risk of trade and other receivables has been reassessed at the period end and management has considered the fair value of assets and liabilities. There have been no material adjustments to assets or liabilities as a direct consequence of COVID-19. Further details on how COVID-19 has impacted London Southend Airport are disclosed in note 11.

2 Seasonality of operations

There is a material effect of seasonality in both of our largest operating divisions. In the Aviation division there are higher seasonal sales in summer, due to increased demand for overseas travel, and this is partly offset by higher seasonal sales in winter in the Energy division, due to higher energy consumption. COVID-19 has impacted the effect of seasonality in the current period; however, this does not alter the long-term seasonality of operations of the Group.

3 Segmental information

The reporting segments are Stobart Aviation, Stobart Energy, Stobart Investments and 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 Condensed Consolidated Income Statement, see note 5.

The Stobart Aviation segment specialises in the operation of a commercial airport and the provision of ground handling services. The Stobart Energy segment specialises in the supply of sustainable biomass for the generation of renewable energy.

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 two investments in non-controlling interests, the results of which are immaterial. Substantially all of the results reported in this segment are in respect of Stobart Air and Propius.

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 profit/(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.

Six months ended 31 August 2020	**Aviation**	**Energy**	**Investments**	**Non-Strategic Infrastructure**	**Group central and eliminations**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Revenue						
External	13,402	33,223	5,169	730	647	53,171
Internal	65	-	-	76	(141)	-
Statutory revenue	**13,467**	**33,223**	**5,169**	**806**	**506**	**53,171**
EBITDA	**(936)**	**2,402**	**(1,577)**	**(636)**	**(4,199)**	**(4,946)**
Swaps	-	-	(111)	-	(286)	(397)
Depreciation	(4,599)	(4,333)	(4,523)	(498)	(493)	(14,446)
Loss on acquisition	-	-	(54,977)	-	-	(54,977)
Net interest	(418)	(961)	(1,084)	(221)	8	(2,676)
Loss before tax	**(5,953)**	**(2,892)**	**(62,272)**	**(1,355)**	**(4,970)**	**(77,442)**

Restated Six months ended 31 August 2019	**Aviation**	**Energy**	**Investments**	**Non-Strategic Infrastructure**	**Group central and eliminations**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Revenue						
External	26,307	42,883	2,127	1,170	2,269	74,756
Internal	65	-	-	142	(207)	-
Statutory revenue	**26,372**	**42,883**	**2,127**	**1,312**	**2,062**	**74,756**
EBITDA	**(1,674)**	**10,582**	**(223)**	**(1,986)**	**(4,158)**	**2,541**
Swaps	-	-	-	-	114	114
Depreciation	(3,653)	(4,442)	-	(1,016)	(873)	(9,984)
Amortisation	-	(22)	-	-	(3,717)	(3,739)
Net interest	(581)	(585)	(479)	(255)	(2,551)	(4,451)
(Loss)/profit before tax	**(5,908)**	**5,533**	**(702)**	**(3,257)**	**(11,185)**	**(15,519)**

Internal revenue above relates to inter-segment revenues that are eliminated within Group central and eliminations. Intra-segment revenues are eliminated within each segment.

4 Revenue

In the following table, revenue is disaggregated by major products and service lines, primary geographical market, and timing of revenue recognition.

Six months ended 31 August 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	2,268	33,223	-	27	7	35,525
Rendering of services	10,749	-	5,169	77	-	15,995
Royalties/commissions	-	-	-	-	207	207
Property rentals	385	-	-	626	433	1,444
	13,402	**33,223**	**5,169**	**730**	**647**	**53,171**
Primary geographical markets						
United Kingdom	11,225	33,223	1,964	728	647	47,787
Europe and Ireland	2,175	-	3,205	2	-	5,382
Rest of world	2	-	-	-	-	2
	13,402	**33,223**	**5,169**	**730**	**647**	**53,171**
Timing of revenue recognition						
Products and services transferred at a point in time	13,402	33,223	5,169	678	440	52,912
Products and services transferred over time	-	-	-	52	207	259
	13,402	**33,223**	**5,169**	**730**	**647**	**53,171**

Restated Six months ended 31 August 2019	Aviation £'000	Energy £'000	Investments £'000	Non-Strategic Infrastructure £'000	Group central and eliminations £'000	Total £'000
Major product/service line						
Sale of goods	6,976	37,960	-	352	26	45,314
Rendering of services	18,924	4,839	2,127	344	42	26,276
Royalties/commissions	-	-	-	-	2,068	2,068
Property rentals	407	84	-	474	133	1,098
	26,307	**42,883**	**2,127**	**1,170**	**2,269**	**74,756**
Primary geographical markets						
United Kingdom	24,848	42,883	2,127	1,124	2,269	73,251
Europe and Ireland	1,411	-	-	7	-	1,418
Rest of world	48	-	-	39	-	87
	26,307	**42,883**	**2,127**	**1,170**	**2,269**	**74,756**
Timing of revenue recognition						
Products and services transferred at a point in time	26,307	42,883	2,127	691	208	72,216
Products and services transferred over time	-	-	-	479	2,061	2,540
	26,307	**42,883**	**2,127**	**1,170**	**2,269**	**74,756**

Opening and closing receivables, contract assets and contract liabilities from contracts with customers are provided in the table below.

	31 August 2020 Unaudited £'000	29 February 2020 Audited £'000
Receivables	10,109	18,094
Contract assets	33	-
Contract liabilities	(10,150)	(167)

Contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on contracts in Stobart Air. Contract liabilities relate to an entity's obligation to transfer goods or services to a customer for which the entity has received consideration.

Receivables have decreased in the period mainly due to a provision posted against a receivables balance relating to a processing plant.

The contract liabilities have increased since year end primarily due to the acquisition of Stobart Air in the period and relate to advance consideration received from flights booked in advance but not flown.

5 Discontinued operations

On 14 July 2020, the Group divested of Stobart Rail Limited (Stobart Rail) 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 £779,000 costs were incurred, resulting in a loss on disposal of £9,349,000. 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. The fair value of contingent consideration will be reviewed at each reporting date.

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 results of Stobart Rail in the period, along with the loss on disposal, have been reported on a single line, net of tax on the face of the Condensed Consolidated Income Statement. The Condensed Consolidated Income Statement for the period ended 31 August 2019 has been restated on the same basis.

The loss for the period from discontinued operations, net of tax for the period ended 31 August 2019 also includes the results of the operations of Propius Holdings Limited (Propius). Propius was held for sale at the year ended 28 February 2019 and was fully disposed in November 2020. In the current period Propius and Stobart Air have been re-acquired, see note 6 for more details.

A summary of the Stobart Rail results included in discontinued operations is as follows:

	Six months ended 31 August 2020 Unaudited £'000	Six months ended 31 August 2019 Unaudited £'000
Revenue	6,309	18,375
Operating expenses	(7,793)	(19,550)
Depreciation	(854)	(1,370)
Impairments	-	(8,474)
Net finance costs	(22)	(95)
Results from operating activities before tax	**(2,360)**	**(11,114)**
Loss on disposal	(9,349)	-
Loss before tax	**(11,709)**	**(11,114)**
Tax	120	-
Loss for the period from discontinued operations, net of tax	**(11,589)**	**(11,114)**

A summary of the discontinued operations recognised in the Condensed Consolidated Income Statement is as follows:

	Six months ended 31 August 2020 Unaudited £'000	Six months ended 31 August 2019 Unaudited £'000
Rail discontinued operations, net of tax	(11,589)	(11,114)
Propius discontinued operations, net of tax	-	2,567
	(11,589)	**(8,547)**

6 Stobart Air and Propius transaction

Whilst Propius was originally a subsidiary of the group it entered into the sale and leaseback of eight ATR72-600 aircraft to a third party in April 2017. 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 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 £54,977,000. The net liabilities recognised on the subsequent acquisition reflect this loss.

The Group re-acquired equity in Stobart Air Limited and Propius Limited on 27 April 2020 for initial cash consideration of £0.3m. There is a further £2.0m of deferred consideration to be paid by 15 December 2020, and deferred contingent consideration up to a maximum of £6.25m, 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. These businesses have been accounted for as 100% subsidiaries.

Stobart Group's Aviation Strategy has not changed as a result of this transaction the Group will work with Aer Lingus to identify a new financial partner to support the business for the future with Stobart Group exiting its involvement in a controlled way at the appropriate time. Although the Group has communicated its intention to sell, these businesses have not met the conditions to be presented as held for sale at the period end.

In the period between acquisition and 31 August 2020, Stobart Air and Propius contributed revenue of £5,169,000 and a loss before tax of £6,387,000 in the Condensed Consolidated Income Statement. If the acquisition had occurred on 1 March 2020, management estimates that Stobart Air and Propius' revenue would have been £12,129,000 and loss before tax would have been £10,283,000. 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
Contingent consideration	-
Total consideration transferred	**2,343**

Acquisition related costs

The Group incurred acquisition-related costs of £533,000 on legal and due diligence costs. These costs have been included in operating expenses in the Condensed Consolidated Income Statement.

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	30,295
Deferred tax asset	1,790
Trade and other payables	(35,447)
Current tax liability	(490)
Lease obligations	(64,708)
Provisions	(32,457)
Derivative financial instruments	(3,661)
Net identifiable assets and liabilities at fair value	**(62,259)**

Fair values measured on a provisional basis

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. 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 on the basis that there were no future plans to utilise the Embraer aircraft in the fleet. However, the fair value of, and accounting for, all inventory acquired is provisional.

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. This adjustment did not impact the liability as that is based on the contractual lease obligation.

The estimate of the right-of-use assets and lease liabilities is materially sensitive to the discount rate used.

Onerous lease contract provision
Stobart Group 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 Stobart Group Limited to settle this liability in cash and so the reversal of the provision has been reflected in the acquisition assessment.

	£'000
Cash and deferred consideration	2,343
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	(54,977)
Fair value of identifiable net liabilities	**(62,259)**

7 Finance costs and income

	Six months ended 31 August 2020 Unaudited £'000	**Restated Six months ended 31 August 2019 Unaudited £'000**
Bank loans	2,008	1,292
Interest on defined benefit pension scheme	33	40
Finance charges payable under leases	4,522	2,521
Amortisation of deferred issue costs	769	182
ESL dividend passed to exchangeable bondholders	-	1,985
Other interest	295	525
Foreign exchange losses	128	661
Total finance costs	**7,755**	**7,206**

	Six months ended 31 August 2020 Unaudited £'000	**Six months ended 31 August 2019 Unaudited £'000**
Bank interest receivable	-	12
Interest receivable from associates and joint ventures	-	2,174
Fair value of financial liabilities	2,378	-
Interest received from net investment in lease	674	564
Foreign exchange gains	2,027	5
Total finance income	**5,079**	**2,755**

The increase in finance charges payable under leases is primarily due to aircraft leases following the acquisition of Stobart Air and Propius. The increase in foreign exchange gains is due to favourable fluctuations in US Dollar and Euro exchange rates.

In the prior year the Group entered into a put option with fellow Connect Airways shareholder Cyrus Capital Partners (Cyrus). This agreement gave Cyrus the option to exchange £23m of second ranking six-year 8% RCF debt with Connect Airways, for equity shares in Stobart Group Limited. The Cyrus put option is valued using the Stobart Group share price and assumptions around legal probability and the creditworthiness of Connect Airways. This has been valued at £1,122,000 at 31 August 2020 (29 February 2020: £3,500,000) and the gain on revaluation is presented as fair value of financial liabilities within finance income.

8 Taxation

Taxation on profit on ordinary activities

Total tax in the Condensed Consolidated Income Statement from continuing and discontinued operations	Six months ended 31 August 2020 Unaudited £'000	Restated Six months ended 31 August 2019 Unaudited £'000
Corporation tax:		
Overseas corporation tax	-	(22)
Adjustments in respect of prior years	1,000	-
Total corporation tax	**1,000**	**(22)**
Deferred tax:		
Origination and reversal of temporary differences	(2,728)	(2,021)
Impact of change in rate	675	-
Adjustment in respect of prior years	-	(1,083)
Total deferred tax	**(2,053)**	**(3,104)**
Total credit in the income statement	**(1,053)**	**(3,126)**
Split between:		
Continuing	(933)	(3,182)
Discontinued	(120)	56

Included in the above tax charges are total current tax charge on continuing operations of £1,000,000 (2019: £nil) and a total deferred tax credit on continuing operations of £1,933,000 (2019: £3,182,000) giving a total tax credit on continuing operations in the Condensed Consolidated Income Statement of £933,000 (2019: £3,182,000). In addition, there is a current tax credit on discontinued operations of £nil (2019: £nil) in addition to a deferred tax credit on discontinued operations of £120,000 (2019: £56,000 charge) giving a total tax credit on continuing and discontinued operations in the Condensed Consolidated Income Statement of £1,053,000 (2019: £3,126,000).

The effective tax rate in the year was 1.3% which was driven by the loss on acquisition in the year being treated as disallowable for tax purposes and deferred tax assets not being recognised in respect of certain temporary differences in the year.

A change to the UK corporation tax rate was announced in the March 2020 Budget. This was substantively enacted on 17 March 2020 and the corporation tax rate now applicable from 1 April 2020 remains at 19% rather than the previously enacted reduction to 17%. As such, the deferred tax assets/liabilities as at 31 August 2020 have been recognised/provided at 19%.

9 Loss per share

The following table reflects the income and share data used in the basic and diluted earnings per share calculations:

	Six months ended 31 August 2020 Unaudited £'000	Restated Six months ended 31 August 2019 Unaudited £'000
Numerator		
Loss from continuing operations used for basic and diluted earnings	(76,509)	(12,337)
Denominator	**Number**	**Number**
Weighted average number of shares used in basic EPS	457,090,082	366,331,503
Effects of employee share options	-	-
Weighted average number of shares used in diluted EPS	**457,090,082**	**366,331,503**
Own shares held and therefore excluded from weighted average number	3,254,037	4,490,212

10 Dividends

There are no dividends payable for the current period. In the prior period a final dividend of 3.0p per share totalling £11,125,000 was declared on 29 May 2019 and was paid on 31 July 2019.

11 Property, plant and equipment

Additions and disposals

During the six months ended 31 August 2020, the Group acquired or developed property, plant and equipment assets with a cost of £2,222,000 (2019: £19,708,000). This included development work at London Southend Airport and processing plant equipment and trailers in the Energy division. Property, plant and equipment assets with a book value of £291,000 (2019: £2,537,000) were disposed of by the Group during the six months ended 31 August 2020, resulting in a profit on disposal of £24,000 (2019: £194,000). Following the acquisition of Stobart Air and Propius, property, plant and equipment with a net book value of £36,733,000, primarily relating to right-of-use aircraft assets, was recognised in the Condensed Consolidated Statement of Financial Position.

Capital commitments

At 31 August 2020, the Group had capital commitments of £331,000 (2019: £4,875,000), principally relating to ground handling equipment in the Aviation division.

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 and railway station ancillary operation. The CGU has been tested for impairment as the business suffered a loss before tax in the six-month period ended 31 August 2020 and because following COVID-19 there has been a material reduction in passenger numbers during the period.

The Group estimated the value-in-use of the CGU and determined that no charge for impairment was necessary. The pre-tax discount rate used in the value-in-use calculation was 10.1% based on the weighted average cost of capital, taking into account the cost of equity and debt for the CGU, and adjusting for risk specific to the CGU. The estimated value-in-use was based on estimates of the timing and extent of increases in the level of future passenger numbers, income per passenger, global logistics income and the discount rate.

The cash flows are based on internal financial forecasts for the 5 years ending February 2026. These forecasts are based on performance to date, industry data on the recovery period to pre-COVID-19 levels for an airport with similar characteristics and wider capacity constraints in the London airport market. Cash flows beyond this period are deemed to be in perpetuity but an annual growth rate of 2.0% is assumed in the calculations. The carrying value of PPE included in this CGU at 31 August 2020 was £160.2m and the headroom over and above the carrying amount of assets was £63.8m.

The calculation of the value-in-use is sensitive to the discount rate. In order for the estimated recoverable amount of the CGU to be equal to the carrying amount, the discount rate would need to be individually increased by 2.0 percentage points. The key source of estimation uncertainty is future cash flow, driven by passenger volumes and estimated airport spend per passenger, which will be determined by the Group’s ability to continue attracting new airlines and improving the customer experience in the terminal, post COVID-19 downturn. The current base case forecast is that passenger numbers in the year ending February 2022 will be 20% down on those of year ending February 2019, February 2023 forecast is slight above the February 2020 actuals and after this date steady growth is forecast taking passenger numbers to 4.4m in the year ending February 2026. If all cash flows in the impairment model were reduced by 23.6%, the estimated recoverable amount would equal the carrying amount.

COVID-19 has had a material impact on the revenue and cash flow generation of LSA during the period. The cash flows used in the value-in-use calculation are significant lower than those used in prior years before the impact of COVID-19 and capital expenditure has been scaled back and delayed where appropriate, however, the airport is still very well positioned to take advantage of the aviation market post COVID-19. The advantages held by LSA are the slot availability at peak times and its low cost of operation compared to other London airports. An example of the improved customer experience is the next generation baggage scanning equipment that is being installed and will maintain the efficient movement of passengers through the airport.

Should there be a severe long-term impact on the aviation industry as a result of COVID-19, the Directors are satisfied that the land LSA occupies has a significant underlying value that could be exploited through pursuing other non-passenger aviation related activities. In this scenario, the Directors are confident there would be no material impairment, however, no valuations have been performed as this is not the approach management intend to adopt to generate sufficient cash flows to support the carrying value of the asset.

12 Analysis of net debt

Loans and borrowings	31 August 2020 Unaudited £'000	29 February 2020 Audited £'000
Non-current		
Fixed rate:		
- Obligations under leases	23,129	24,371
Variable rate:		
- Obligations under leases	5,028	5,532
- Revolving credit facility (net of arrangements fees)	7,097	74,757
	35,254	**104,660**
Current		
Fixed rate:		
- Obligations under leases	9,381	8,647
- Exchangeable bonds*	51,822	51,689
Variable rate:		
- Obligations under leases	2,840	3,852
	64,043	**64,188**
Total loans and borrowings (excluding IFRS 16)	**99,297**	**168,848**
Cash	(10,109)	(9,802)
Net debt (excluding IFRS 16)	**89,188**	**159,046**
Non-current		
- IFRS 16 lease obligations	122,563	73,128
Current		
- IFRS 16 lease obligations	11,958	3,281
Net debt	**223,709**	**235,455**

* In accordance with IAS 1 it is necessary for the secured guaranteed exchangeable bonds (Bonds), issued on 3 May 2019, to be presented as a current liability because the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period. The bondholders have an unconditional right to require the group to settle the Bonds by giving the bondholders shares in Eddie Stobart Logistics plc at any time. The Group has no obligation to settle the Bonds in cash within 12 months of the balance sheet date.

The IFRS 16 lease obligations balance has increased mainly due to the acquisition of Stobart Air and Propius.

The obligations under leases are taken out with various lenders at fixed or variable interest rates prevailing at the inception of the contracts. A breakdown of cash and non-cash movements in leases is as follows:

	Six months ended 31 August 2020 Unaudited £'000	Six months ended 31 August 2019 Unaudited £'000
Obligations under leases		
Principal elements of lease payments	(7,897)	(9,720)
New leases entered into	1,894	13,476
Unwind of discount	74	74
Transition liability recognised	-	78,229
Non-cash interest accruals	1,967	138
Foreign exchange retranslation	(2,951)	-
Acquisition of subsidiary	64,708	-
Disposal of subsidiary	(1,707)	-
Movement in lease obligations	**56,088**	**82,197**

On 4 June 2020, the current bank lenders agreed to fund an additional £40m revolving credit facility (RCF). As a result of the new RCF, it has been necessary to renegotiate the existing RCF terms and has resulted in an increased cost of borrowing, made up of both arrangement fees and increased drawn and undrawn interest rates and revised/rebased certain covenants. The terms are now aligned for both the new and amended RCF. The new RCF will run concurrently with the amended RCF and both expire in January 2022. The renegotiation of the RCF led to the Group incurring legal and professional fees of £4,247,000. These fees have been capitalised and will be released over the life of the RCF.

The capital raise, see note 14, enabled the Group to repay certain amounts drawn under the RCF. The facility was drawn at £11,000,000 (Feb 2020: £75,000,000) at the period end.

The Group was in compliance with all financial covenants throughout both the current and prior periods.

13 Provisions

	Site restoration £'000	Onerous lease £'000	Corporation tax £'000	Litigation and claims £'000	Capital commitments £'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	-	-	-	(1,209)	-	(5,347)	(6,556)
Provisions made	-	-	1,000	28	-	518	1,546
Provisions utilised	-	(76)	-	(71)	-	-	(147)
Provisions reversed	-	(9,625)	-	-	-	-	(9,625)
Unwind of discount	37	9	-	-	-	-	46
Currency retranslation	-	2	-	31	14	(926)	(879)
Disposal of subsidiary	-	(560)	-	-	-	-	(560)
At 31 August 2020	**2,999**	**413**	**15,666**	**1,730**	**4,514**	**21,497**	**46,819**
Analysis of provisions							
Current	-	-	3,311	498	3,942	2,016	9,767
Non-current	2,999	413	12,355	1,232	572	19,481	37,052

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 Stobart Group Limited to settle this liability in cash and as such the provision has been released as part of the acquisition accounting, see note 6.

At the year ended 29 February 2020 the Group held provisions of £11,355,000 for number of tax enquiries across the Group which management is working with HMRC and professional advisers to satisfy and resolve. In the period a £3,300,000 increase has arisen on acquisition of Stobart Air and Propius and the Group has increased the total provision by £1,000,000. Management believes that the current provision is a reasonable estimate to cover the potential liabilities. The timing of cash outflows is currently uncertain, however management's best estimate is that no cash outflows will occur within the next 12 months.

Following the acquisition of Stobart Air and Propius maintenance reserve provisions of £27,252,000 relating to the maintenance of aircraft were added to the Group balance sheet.

14 Issue of ordinary shares

On 29 June 2020 the Group issued 250,273,461 ordinary shares in Stobart Group Limited at 40p per share raising £100.1m. The share capital increased by £25,027,000 and share premium increased by £66,043,000, net of costs.

15 Disposal of intangible assets

On 20 May 2020, the Group disposed of its Eddie Stobart and Stobart trademarks and designs, which were held for sale at 29 February 2020, to Eddie Stobart Logistics plc (ESL) for cash consideration of £10.0m. The consideration equalled the carrying value of the asset held for sale there was no gain or loss on disposal. Cash of £6.0m was received upon completion, a further £2.5m is to be paid by 1 December 2020 and £1.5m is to be paid 36 months after completion.

16 Fair values

Financial assets and liabilities

The carrying amounts of the following financial assets and financial liabilities are a reasonable approximation of their fair value: cash and cash equivalents, financial assets at fair value through other comprehensive income, investments in associates and joint ventures, trade and other receivables, trade and other payables, derivative financial assets/liabilities.

The book value and fair values of the remaining financial liabilities are as follows:

	Book Value 31 August 2020 Unaudited £'000	Fair Value 31 August 2020 Unaudited £'000
Financial Liabilities		
Bank loans	7,097	7,097
Exchangeable bonds	51,822	47,148
Lease obligations	174,899	163,336

	Book Value 29 February 2020 Audited £'000	Fair Value 29 February 2020 Audited £'000
Financial Liabilities		
Bank loans	74,757	74,757
Exchangeable bonds	51,689	46,389
Lease obligations	118,811	113,446

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 the exchangeable bonds includes an immaterial derivative instrument, valued using an option pricing model, and a debt component where the fair value has been calculated by discounting the expected future cashflows at prevailing interest rates.

Fair Value Hierarchy

The fair value hierarchy is explained in the statutory accounts for the year ended 29 February 2020.

Financial Assets measured at Fair Value

	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
As at 31 August 2020				
Other financial assets	3,422	3,352	-	70
As at 29 February 2020				
Other financial assets	4,776	4,706	-	70

Financial liabilities measured at Fair Value

	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
As at 31 August 2020				
Other financial liabilities	1,122	-	-	1,122
Swaps	2,086	-	2,086	-
As at 29 February 2020				
Other financial liabilities	3,500	-	-	3,500
Swaps	248	-	248	-

During the six months ended 31 August 2020, 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.

17 Cash used in operations

	Six months ended 31 August 2020 Unaudited £'000	Six months ended 31 August 2019 Unaudited £'000
Loss before tax	**(77,442)**	**(15,519)**
Adjustments to reconcile loss before tax to net cash flows:		
Loss in value of investment properties	-	879
Realised profit on sale of property, plant and equipment and investment properties	(24)	(194)
Share of post-tax profits of associates and joint ventures accounted for using the equity method	148	2,349
Depreciation of property, plant and equipment	14,446	9,984
Finance income	(2,378)	(2,755)
Finance costs	6,953	4,440
Release of grant income	(234)	(356)
Release of deferred premiums	(207)	(1,308)
Amortisation of intangibles	-	3,739
Loss on acquisition	54,977	-
(Credit)/charge for share-based payments	(8)	420
Movement in fair value of exchange derivative liability	-	124
Foreign exchange retranslation	(1,644)	-
Gain on fuel swaps mark to market valuation	(1,728)	(114)
Retirement benefits and other provisions	(1,776)	(2,174)
Working capital adjustments:		
Increase in inventories	(696)	(188)
Increase in trade and other receivables	(638)	(24,739)
Increase in trade and other payables	4,586	10,202
Cash payment for maintenance events	(5,347)	-
Cash used in continuing operations	**(11,012)**	**(15,210)**

18 Contingent liabilities

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 ESL 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 £58.5m, this has reduced by £18.8m following the renegotiation of one ESL property lease and the expiry of another.

Various claims have been made against our Energy and Aviation divisions. One of these claims is expected to reach a conclusion before the end of this financial year, following a hearing in October 2020. Stobart is vigorously defending all these claims and believes the risk of outflow to be low, however, the likelihood of a future outflow of economic benefit is no longer classified as remote. The maximum exposure under these claims is £12.0m.

Following the sale and leaseback of eight ATR72-600 aircraft in April 2017, the Group provided guarantees over the $15.4m annual rentals payable by Propius which were recognised as a contingent liability at 29 February 2020. Due to the acquisition of Propius during the period the leases are now recognised on the balance sheet under IFRS 16 and so are no longer contingent liabilities.

19 Related parties

During the period, the Group made sales of £2,706,000 (2019: £2,554,000) to its associate Mersey Bioenergy Limited (a subsidiary of Mersey Bioenergy Holdings Limited) relating to the sale of material. At 31 August 2020, £377,000 (29 February 2020: £535,000) was owed to the Group.

20 Glossary - Alternative performance measures (APMs)

In the reporting of financial information, the Directors have adopted various 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.

EBITDA

EBITDA is the key profitability measure used by management for performance review in the day-to-day operations of the Group.

EBITDA represents profit/(loss) before interest, tax, depreciation, amortisation and swaps. Refer to note 3 for reconciliation to statutory (loss)/profit before tax.

Loss per share from continuing operations

This APM is based on profit after tax from continuing operations which is loss for the period before discontinued operations (see note 9 for further details).

Independent Review Report to Stobart Group Limited

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 August 2020 which comprises the Condensed consolidated income statement, Condensed consolidated statement of comprehensive income, Condensed consolidated statement of financial position, Condensed statement of changes in equity, Condensed consolidated statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 August 2020 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Material uncertainty relating to going concern

We draw attention to note 1 to the condensed financial statements which describes uncertainties in respect of the substantial achievement of forecasts (including in particular the successful disposal of Stobart Air and Propius), the continued availability of existing facilities (including the waiver or amendment of any covenants that may be breached) and the renewal of the Group's existing RCF by January 2022. These events and conditions, along with the other matters explained in note 1, constitute a material uncertainty that may cast significant doubt on the ability of the Group and Company to continue as a going concern.

Our conclusion is not modified in respect of this matter.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

The annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Michael Froom
for and on behalf of KPMG LLP
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE
4 November 2020